TOWER Medical Insurance Limited

Financial Statements
For the Period Ended 30 June 2013

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Directors' Declaration

For the period ended 30 June 2013
TOWER Medical Insurance Limited

The Directors of TOWER Medical Insurance Limited present their report and financial statements of the Company for the period ended 30 June 2013.

During the year the Company undertook its principal activity of providing health insurance services.

The after tax profit for the year was $308k (2012: $13,249k). Accumulated Shareholders' equity at the end of the year totals $47,894k (2012: $63,886k). Directors consider the state of affairs of the Company to be satisfactory.

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 Act.

The Company has arranged Directors' liability insurance for directors and officers of the Company and its related companies which ensures that generally directors and those officers will incur no monetary losses as a result of actions undertaken by them in the course of their duties, other than conduct involving wilful breach of duty.

The Directors in office at the date of this report are:

- Harold Bentley
- Annette Carruthers
- Alan Clarke
- Mark Fitzgibbon
- Robert Hennin
- Christine McLoughlin

The Board of Directors authorised these financial statements, for issue on the date signed below.

For and on behalf of the Board

Alan Clarke
Director

Harold Bentley
Director

Auckland, New Zealand
16 August 2013

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Independent Auditors' Report

to the shareholders of TOWER Medical Insurance Limited

Report on the Financial Statements

We have audited the financial statements of TOWER Medical Insurance Limited on pages 7 to 37, which comprise the balance sheet as at 30 June 2013, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

We have no relationship with, or interests in, TOWER Medical Insurance Limited other than in our capacities as auditors and tax advisors. These services have not impaired our independence as auditors of the Company.

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Independent Auditors' Report
TOWER Medical Insurance Limited

Opinion
In our opinion, the financial statements on pages 7 to 37:

(i) comply with generally accepted accounting practice in New Zealand;

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Company as at 30 June 2013, and its financial performance and cash flows for the period then ended.

Report on Other Legal and Regulatory Requirements
We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the period ended 30 June 2013:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use
This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' 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 and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants
16 August 2013

Auckland

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Statement of Comprehensive Income

For the period ended 30 June 2013

TOWER Medical Insurance Limited

	Notes	9 Months 30 Jun 13 $000	Full Year 30 Sep 12 $000
Premium revenue	6	112,370	146,230
Net premium revenue		**112,370**	**146,230**
Claims expense		(77,326)	(97,199)
Decrease in premium payback liability	16	5,672	510
Claims handling expenses	7	(1,044)	-
Net claims incurred		**(72,698)**	**(96,689)**
Acquisition costs	7	(18,591)	(20,462)
Other underwriting expenses	7	(22,215)	(16,413)
Underwriting expenses		**(40,806)**	**(36,875)**
Underwriting result		**(1,134)**	**12,666**
Investment income	6	1,864	5,760
Investment expenses	7	(292)	(24)
Profit before income tax		**438**	**18,402**
Income tax expense	8	(130)	(5,153)
Comprehensive income for the period		**308**	**13,249**

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes

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Balance Sheet

As at 30 June 2013

TOWER Medical Insurance Limited

	Notes	As at 30 Jun 13 $000	As at 30 Sep 12 $000
ASSETS			
Current assets			
Cash and cash equivalents	9	15,805	13,257
Receivables	10	4,847	2,576
Financial assets at fair value through profit or loss	18	80,363	88,914
Derivative financial instruments	19	2,638	3,318
Deferred acquisition costs	11	11,881	16,261
Total current assets		**115,534**	**124,326**
Non-current assets			
Deferred acquisition costs	11	6,940	15,635
Deferred tax assets	21	7,848	5,585
Property, plant and equipment	12	1,370	-
Intangible assets	13	25	-
Total non-current assets		**16,183**	**21,220**
Total assets		**131,717**	**145,546**
LIABILITIES			
Current liabilities			
Payables	14	7,885	1,834
Derivative financial instruments		-	35
Outstanding claims liability	15	12,099	10,958
Unearned premium liability	17	15,156	15,439
Current tax payable	20	1,194	233
Premium payback liability	16	9,786	10,975
Total current liabilities		**46,120**	**39,474**
Non-current liabilities			
Premium payback liability	16	37,703	42,186
Total non-current liabilities		**37,703**	**42,186**
Total liabilities		**83,823**	**81,660**
Net assets		**47,894**	**63,886**
EQUITY			
Contributed equity	22	32,000	32,000
Retained profits	23	15,894	31,886
Total equity		**47,894**	**63,886**

The above Balance Sheet should be read in conjunction with the accompanying notes

Statement of Changes in Equity

For the period ended 30 June 2013

TOWER Medical Insurance Limited

	Notes	Contributed Equity $000	Retained Profits $000	Total Equity $000
Balance at 1 October 2011		**32,000**	**25,637**	**57,637**
Profit for the year		-	13,249	13,249
Total comprehensive income for the year		-	13,249	13,249
Transactions with owners in their capacity as owners:				
Dividends paid	24	-	(7,000)	(7,000)
Total transactions with owners		-	**(7,000)**	**(7,000)**
Balance at 30 September 2012		**32,000**	**31,886**	**63,886**
Balance at 1 October 2012		**32,000**	**31,886**	**63,886**
Profit for the period		-	308	308
Total comprehensive income for the period		-	**308**	**308**
Transactions with owners in their capacity as owners:				
Dividends paid	24	-	(16,300)	(16,300)
Total transactions with owners		-	**(16,300)**	**(16,300)**
Balance at 30 June 2013		**32,000**	**15,894**	**47,894**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes

Statement of Cash Flows

For the period ended 30 June 2013

TOWER Medical Insurance Limited

	Notes	9 Months 30-Jun-13 $000	Full Year 30-Sep-12 $000
Cash flows from operating activities			
Receipts from policyholders and customers		128,149	167,828
Payments to policyholders, suppliers and employees		(117,500)	(161,177)
Interest received		2,537	4,132
Income taxes paid		(1,431)	-
Net cash inflow from operating activities	9	**11,755**	**10,783**
Cash flows from investing activities			
Proceeds for disposal of financial assets at fair value through profit or loss		83,740	-
Payments for purchase of financial assets at fair value through profit or loss		(75,216)	(18,691)
Payments for property, plant and equipment and intangibles		(1,431)	-
Net cash (outflow) inflow from investing activities		**7,093**	**(18,691)**
Cash flows from financing activities			
Dividends paid to the company's shareholders	24	(16,300)	(7,000)
Net cash outflow from financing activities		**(16,300)**	**(7,000)**
Net increase (decrease) in cash and cash equivalents		2,548	(14,908)
Cash and cash equivalents at beginning of the period		13,257	28,165
Cash and cash equivalents at end of the period		**15,805**	**13,257**

The above Statement of Cash Flows should be read in conjunction with the accompanying notes

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been applied to all the periods presented, unless otherwise stated.

TOWER Medical Insurance Limited (the Company) is a profit-oriented company incorporated in New Zealand under the New Zealand Companies Act 1993. The Company is an issuer under the Financial Reporting Act 1993.

The Company was acquired by nib nzed limited on 30 November 2012. The Company has changed its year end to 30 June 2013 to align with the ultimate parent company, nib holdings limited in Australia. Hence the comparatives are not entirely comparable.

The principal activity of the Company is providing health insurance.

The financial statements were authorised for issue by the Board of Directors on 16 August 2013.

a) Basis of preparation of the report

The financial report of the Company has been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). It complies with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards, as appropriate for profit-oriented entities.

Compliance with International Financial Reporting Standards (IFRS)

The financial statements and notes of the Company comply with International Financial Reporting Standards (IFRS).

The financial statements have been prepared on a fair value basis with any exceptions noted in the accounting policies below.

b) Premium Revenue

Premium revenue is recognised in the period in which the premiums are earned during the term of the contract.

The proportion of premiums not earned in the Statement of Comprehensive Income at the reporting date is recognised in the Balance Sheet as unearned premium liability.

Premiums on unclosed business are brought to account using estimates based on the previous year's actual unclosed business with due allowance made for any changes in the pattern of new business and renewals.

c) Investment Revenue

Investment revenue is recognised as follows:

(i) Dividends and distributions
Revenue is recognised on an accrual basis when the right to receive payment is established.
(ii) Interest income
Interest income is recognised using the effective interest method.
(iii) Fair value gains and losses
Fair value gains and losses on financial assets at fair value through profit or loss are recognised through the Statement of Comprehensive Income in the period in which they arise.

d) Insurance claim expense

Claims expenses are recognised when claims are notified with the exception of claims incurred but not reported for which a provision is estimated (discussed in note 3).

e) Policy acquisition costs

The acquisition costs of establishing contracts for medical products are deferred. These costs are amortised over the periods of expected future benefits. Acquisition costs are initially recorded in the Statement of Comprehensive Income, with any amounts to be deferred then taken to the Balance Sheet as a Deferred Acquisition Cost (DAC). A comparison to recoverable value is carried out annually, with any variance below carrying value taken to the Statement of Comprehensive Income in that year.

Prior to 1 October 2012, policy acquisition costs comprise the costs of acquiring new business, including commission, advertising, policy issue and underwriting costs, agency expenses and other sales costs.

From 1 October 2012, the Company changed the accounting estimation to adopt the same accounting treatment as the ultimate parent company, nib holdings limited, and now only defers commission expenses.

f) Taxation

(i) Current tax
Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(ii) Deferred tax
Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the accounts and the corresponding tax base of those items.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities settled, based on the tax rates enacted. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences or unused tax losses can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of the other

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Taxation (continued)

assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(iii) Income tax expense
The income tax expense is the tax payable on taxable income for the current period, based on the income tax rate and adjusted for changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

(iv) GST
All revenues, expenses and certain assets are recognised net of goods and services taxes (GST) except where the GST is not recoverable. In these circumstances the GST is included in the related asset or expense. Receivables and payables are reported inclusive of GST. The net GST payable to or recoverable from the tax authorities as at balance date is included as a receivable or payable in the Balance Sheet.

Cash flows are presented on a gross basis. The amount of GST paid/received is included in the Statement of Cashflows, classified as receipts from policyholders and customers and payments to policyholders, suppliers and employees lines.

g) Foreign currency

(i) Functional and presentation currencies
The accounts of the Company are presented in the currency of the primary economic environment in which the entity operates. The accounts are presented in New Zealand dollars and rounded off to the nearest thousand dollars.

(ii) Transactions and balances
In preparing the accounts of the Company, transactions denominated in foreign currencies are translated into the reporting currency using the exchange rates in effect at the transaction dates. Monetary items receivable or payable in a foreign currency, including forward exchange contracts, are translated at reporting date at the closing exchange rate.

Translation differences on non-monetary items such as financial assets held at fair value through profit or loss are reported as part of their fair value gain or loss.

Exchange differences arising on the settlement or retranslation of monetary items at year end exchange rates are recognised in the Statement of Comprehensive Income.

h) Cash and cash equivalents

Cash and cash equivalents includes cash on hand and deposits held at call with financial institutions, other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within cash and cash equivalents on the Balance Sheet if the net position is an asset due to the Company's right to offset overdrafts within its banking facility.

i) Property, plant and equipment

Property, plant and equipment is initially recorded at cost including transaction costs and subsequently measured at cost less any subsequent accumulated depreciation and impairment losses.

Depreciation is calculated using the straight line method to allocate their cost or revalued amounts, net of any residual amounts, over their useful lives as below:

Plant and equipment 3-5 years

The assets' useful lives are reviewed and adjusted if appropriate at each balance date. An asset's carrying amount is written down immediately to its recoverable amount if it is considered that the carrying amount is greater than its recoverable amount.

j) Assets backing insurance liabilities

The Company has determined that all financial assets are held to back insurance liabilities.

As these assets are managed in accordance with agreed investment mandate agreements on a fair value basis and are reported to the Board on this basis. They have been measured at fair value through profit or loss wherever the applicable standard allows.

k) Financial assets

(i) Classification
The Company classifies its financial assets in the following categories: fair value through profit or loss; and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. The Company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the Balance Sheet. Loans and receivables are measured initially at fair value plus transactions costs and subsequently at amortised cost using the effective interest method less any impairment.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Financial assets (continued)

Financial assets at fair value through profit or loss comprise of financial assets that are either held for trading or designated on initial recognition at fair value through profit or loss. A financial

(i) Classification (continued)
asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Designation by management takes place when it is necessary to eliminate or significantly reduce measurement or recognition inconsistencies or if related financial assets or liabilities are managed and evaluated on a fair value basis.

(ii) Recognition and measurement
All purchases and sales of financial assets classified as fair value through profit or loss that require delivery within the timeframe established by regulation or market convention (regular way purchases and sales) are recognised at trade date, which is the date the Company commits to purchase or sell the assets. Loans and receivables are recognised at settlement date, which is the date that the assets are delivered or received.

(iii) Derivatives
Derivatives are categorised as held for trading unless they are designated as hedges.

(iv) Fair value
The fair value of the Company's financial assets and liabilities that are measured at fair value is determined based on available market prices or using appropriate valuation methods if these are not traded in an active market.

Fair value is determined as follows:
- cash assets and bank overdrafts are carried at face value which approximates fair value;
- shares, fixed interest securities, options and units in trusts listed on stock exchanges are valued at the quoted bid price of the instrument at Balance Sheet date;
- unlisted fixed interest securities are recorded at amounts based on valuations using rates of interest equivalent to the yields obtainable on comparable traded investments at balance date;
- unlisted unit trusts are recorded at fund managers' quoted redemption prices; and,
- receivables are carried at amortised cost less any impairment, which is approximately equal to fair value as they are settled within a short period.

(v) Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the Balance Sheet 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 asset and settle the liability simultaneously.

(vi) Derecognition
Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

l) Impairment of financial assets

Financial assets, with the exception of those measured at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired when there is objective evidence that the estimated future cash flows of the asset have been impacted as a result of one or more events that occurred after the initial recognition of the financial asset.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the assets' carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

For all financial assets, other than trade receivables, the carrying amount is reduced by the impairment loss directly. For trade receivables the carrying amount is reduced via an allowance account, against which an uncollectible trade receivable is written off.

A trade receivable is deemed to be uncollectible upon notification of insolvency of the debtor or upon receipt of similar evidence that the Company will be unable to collect the amount. Changes in the carrying amount of the allowance account are recognised in the Statement of Comprehensive Income.

A previously recognised impairment loss is reversed when, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was initially recognised.

In respect of financial assets carried at amortised cost, with the exception of trade receivables, the impairment loss is reversed through the Statement of Comprehensive Income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. Subsequent recoveries of trade receivables previously written off are recognised in the Statement of Comprehensive Income.

m) Impairment of non financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested bi-annually for impairment. Assets with a finite useful life are subject to amortisation and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unsettled. Payables are recognised initially at fair value net of transaction costs and subsequently measured at amortised cost using the effective interest method.

o) Provisions

Provisions are only recognised when the Company has a present legal or constructive obligation as a result of a past event or decision, and it is more likely than not that an outflow of resources will be required to settle the obligation. Provisions are recognised at the best estimate of future cash flows discounted to present value where the effect is material.

p) Employee benefits

Provision is made for employee entitlements for services rendered up to the balance date. This includes salaries, wages, bonuses, annual leave and long service leave, but excludes share-based payments. Liabilities arising in respect of employee entitlements expected to be settled within 12 months of the reporting date are measured at their nominal amounts. All other employee entitlements are measured at the present value of the estimated future cash outflows to be made in respect of services provided up to the balance date. In determining the present value of future cash outflows, discount rates used are based on the interest rates attaching to government securities which have terms to maturity approximating the terms of the related liability.

q) Outstanding claim liability

The liability for outstanding claims is measured as the central estimate of the expected future payments against claims incurred but not settled at the reporting date under insurance contracts issued by the company, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims reported but not yet paid and claims incurred but not yet reported, together with allowances for claims handling expenses. Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can be indirectly associated with claims, such as claims administration costs.

r) Liability adequacy tests

Liability adequacy testing is performed in order to recognise any deficiencies in the Statement of Comprehensive Income arising from the carrying amount of the unearned premium liability less any related deferred acquisition costs and intangible assets not meeting the estimated future claims under current insurance conditions. Liability adequacy testing is performed at a portfolio level of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

s) Premium payback liability

The premium payback liability represents the accrued amount of premium expected to be repaid to certain policyholders. As at 30 June 2013, this liability incorporates a risk margin to cover uncertainty in the central estimate to a probability of adequacy of approximately 95% (discussed in note 4b).

t) Contributed equity

Ordinary share capital
Ordinary shares issued by the Company are classified as equity and are recognised at fair value less direct issue costs.

u) Dividend distribution

Dividend distributions to the Company's parent company is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

v) Comparatives

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with the current year.

2. IMPACT OF AMENDMENTS TO NZ IFRS

Standards, amendments and interpretations to existing standards that have been issued are not yet effective and have not been early adopted by the Company.

The following standards, amendments and interpretations to existing standards have been published and are not mandatory for the Company's accounting periods beginning after 1 October 2012 or later periods, and the Company has not early adopted them.

(i) **NZ IFRS 9 'Financial Instruments' (effective from 1 January 2015).** NZ IFRS 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities.The Company is in the process of evaluating the potential effect of this standard and has not yet decided when to adopt NZ IFRS 9.

(ii) **NZ IFRS 13 'Fair value measurement' (effective from 1 January 2013). The standard replaces** the guidance on fair value measurement in existing IFRS literature with a single standard. The standard is not expected to have a material impact on the financial statements. This standard will be first applied in the annual reporting period ending 30 June 2014.

(iii) NZ IAS 32 'Offsetting Financial Assets and Financial Liabilities' (effective 1 January 2014) and **NZ IFRS** 7 'Disclosures – Offsetting financial assets and liabilities' (effective 1 January 2013). The amendments to the application guidance in NZ IAS 32 'Financial Instruments: Presentation', clarify some of the requirements for offsetting financial assets and financial liabilities in the balance sheet. These amendments are effective from 1 January 2014. They are unlikely to affect the accounting for any of the entity's current offsetting arrangements. However, the amendment to NZ IFRS 7 has also introduced more extensive disclosure requirements which will apply from 1 January 2013. When they become applicable, the Company will have to provide a number of additional disclosures in relation to its offsetting arrangements. The Company intends to apply the new disclosure requirements for the first time in the annual reporting period ending 30 June 2014 and the new application guidance from 1 July 2014.

(iv) Amendments to NZ IFRS arising from Annual Improvements 2009-2011 cycle (effective for annual periods beginning on or after 1 January 2013). In June 2012 a number of amendments were made to NZ IFRS as a result of the 2009-2011 annual improvements project. The Company will apply the amendments from 1 July 2013. The Company does not expect that any adjustments will be necessary as the result of applying the revised rules.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Company makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas where critical accounting estimates are applied are noted below.

a) The ultimate liability arising from claims made under insurance contracts

Provision is made at the period end for the liability for outstanding claims which is measured as the central estimate of the expected payments against claims incurred but not settled at the reporting date under private health insurance contracts issued by the Company. The expected future payments include those in relation to claims reported but not yet paid and claims incurred but not yet reported. This 'central estimate' of outstanding claims is an estimate which is intended to contain no intentional over or under estimation. For this reason the inherent uncertainty in the central estimate must also be considered and a risk margin is added. The estimated cost of claims includes allowances for claims handling expense. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

In calculating the estimated cost of unpaid claims the Company uses estimation techniques based upon statistical analysis of historical experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including changes in the Company's processes which might accelerate or slow down the payment of claims, compared with the statistics from previous periods.

The calculation is determined taking into account one month of actual post balance date claims.

The risk margin is based on an analysis of the past experience of the Company. This analysis examines the volatility of past payments that is not explained by the model adopted to determine the central estimate. This past volatility is assumed to be indicative of the future volatility.

Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in note 4.

b) Deferred acquisition costs

In accordance with *NZ IFRS 4 Insurance Contracts*, acquisition costs which lead to future benefits are recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the Statement of Comprehensive Income in subsequent reporting periods. These deferred acquisition costs are amortised systematically in accordance with the pattern of the incidence of risk under the related insurance contract.

The Company incurs up front commission costs that will give rise to future premium revenue and are able to be directly associated with a particular insurance contract. These costs are deferred and amortised over the life of the insurance contract.
There are two key assumptions required to recognise the acquisition costs over the life of the insurance contract:

i) The period of the insurance contract is assumed to be the average length of insurance for policyholders who are the subject of an upfront commission.

ii) The average length of insurance for the company's policyholders who are the subject of an upfront commission is calculated by extrapolating historical lapse rates for that group of policyholders.

c) Premium payback liabilities

Some policies issued by TMIL have a premium payback (PPB) feature. PPB policies entitle customers to receive a refund of premiums paid to the Company, less any claims made, once the policy has been in force for a specified period.

Provision is made at the period end for the liability for premium payback claims. It is calculated on a policy-by-policy basis, comparing premiums received and claims paid to date. The provision is discounted to allow for expected lapses and investment income, and GST recoveries.

A risk margin at 95% probability of sufficiency was estimated by assuming there are no future lapses. Most of the PPB reserve is held in respect of a group of customers where the historical lapse rate is already very low. Because the targeted probability of sufficiency is so high, assuming no lapses represents a reasonable approach.

Details of specific assumptions used in deriving the premium payback liability at period end are detailed in note 4.

4. ACTUARIAL ASSUMPTIONS AND METHODS

Assumptions adopted in calculation of outstanding claims and premium payback liabilities

Estimates of the outstanding claims and premium payback liabilities as at 30 June 2013 have been prepared by Jamie Reid, B.Sc, FIAA, FNZSA.

The actuarial assessments are in accordance with the standards of the New Zealand Society of Actuaries. The Appointed Actuary was satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability and premium payback liability.

The outstanding claims liability and premium payback liability are set at a level that is appropriate and sustainable to cover the Company's claims obligations after having regard to the prevailing market environment and prudent industry practice.

a) Outstanding claims

	30 Jun 13	30 Sep 12
The weighted average expected term to settlement of outstanding claims based on historical trends is:		
Short tail claims	1.64 months	2.11 months

Actuarial methods

In calculating the estimated cost of unpaid claims for the Company, two methods are used. For service months April 2013 and earlier, a chain ladder method is used; this assumes that the development pattern of the current claims will be consistent with historical experience. For the service months of May 2013 and June 2013 the Bornhuetter-Ferguson method is used, which progressively blends payment experience and prior forecasts of incurred costs.

For the 30 September 2012 accounts, a loss ratio method was used for the two most recent service months (August and September 2012) and the chain ladder method was used for July 2012 and earlier services months. The loss ratio estimates incurred costs as the product of the earned premium for the month and an assumed loss ratio, based on historical experience.

Actuarial assumptions

The following assumptions have been made in determining the outstanding claims liability as at 30 June 2013:

	30 June 2013		30 September 2012	
	Surgical	Medical	Surgical	Medical
	%	%	%	%
Assumed proportion paid to date	89.1%	77.8%	88.9%	79.4%
Expense rate	1.7%	1.7%	3.3%	3.3%
Risk margin	13.5%	13.5%	5.0%	5.0%

The risk margin (before diversification) of 13.5% of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% compared to 75% previously applied as at 30 September 2012.

As the result of the changes, an adjustment of $102,814 to outstanding claims reserve had been made and the effects of the changes have been included in Statement of Comprehensive Income.

4. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

a) Outstanding claims (continued)

Sensitivity analysis – outstanding claims

i) Summary

The Company conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the performance of the Company. The table below describes how a change in each assumption will affect the insurance liabilities.

Variable	Impact of movement in variable
Chain Ladder Development Factors	An increase or decrease in the chain ladder factors would lead to a higher or lower projection of the ultimate liability and a corresponding increase or decrease in claims expense respectively.
Bornhuetter-Ferguson Unpaid Factors	An increase or decrease in the assumed level of unpaid claims would lead to a higher or lower projection of the ultimate liability and a corresponding increase or decrease on claims expense respectively.
Expense rate	An estimate for the internal costs of handling claims is included in the outstanding claims liability. An increase or decrease in the expense rate assumption would have a corresponding impact on claims expense.
Risk margin	An estimate of the amount of uncertainty in the determination of the central estimate. An increase or decrease in the risk margin would have a corresponding impact on claims expense.

ii) Impact of key variables

			Profit 30 Jun 13 $000		Equity 30 Jun 13 $000
Recognised amounts in the financial statements			308		47,894
Variable	Movement in variable	Adjustments $000	Adjusted amounts $000	Adjustments $000	Adjusted amounts $000
Chain Ladder Development Factors	+0.5%	(244)	64	(244)	47,650
	-0.5%	247	555	247	48,141
Bornhuetter-Ferguson Unpaid Factors	+2.0%	(410)	(102)	(410)	47,484
	-2.0%	412	720	412	48,306
Expense rate	+1.0%	(91)	217	(91)	47,803
	-1.0%	95	403	95	47,989
Risk margin	+1.0%	(78)	230	(78)	47,816
	-1.0%	81	389	81	47,975

			Profit 30 Sep 12 $000		Equity 30 Sep 12 $000
Recognised amounts in the financial statements			13,249		63,886
Variable	Movement in variable	Adjustments $000	Adjusted amounts $000	Adjustments $000	Adjusted amounts $000
Chain Ladder Development Factors	+0.5%	(276)	12,973	(276)	63,610
	-0.5%	280	13,529	280	64,166
Loss ratio	+2.0%	(533)	12,716	(533)	63,353
	-2.0%	535	13,784	535	64,421
Expense rate	+1.0%	(73)	13,176	(73)	63,813
	-1.0%	73	13,322	73	63,959
Risk margin	+1.0%	(75)	13,174	(75)	63,811
	-1.0%	75	13,324	75	63,961

4. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

b) Premium payback liability

A number of the Company's insurance policies have a benefit whereby policyholders receive a proportion of premiums paid less claims received over the life of their policy, "premium payback", if certain conditions are met. This liability represents a long term health insurance contract liability. The liability was determined based on the discounted value of accumulated excess of premiums over claims at an individual policy level, adjusted for GST recoveries and expected future lapses.

Actuarial assumptions

The following assumptions have been made in determining the premium payback liability:

	30 Jun 13	30 Sep 12
Lapse rate until 3 years from premium payback date	2.0% - 10.0%	1.0%
Lapse rate within 3 years of premium payback date	0.0% - 1.0%	0.0% - 1.0%
Expense rate	0.0%	0.0%
Discount rate for succeeding and following year	3.0% - 3.5%	2.28%
Risk margin	6.8%	n/a

The risk margin has been estimated to equate to a 95% probability of sufficiency compared to nil previously applied as at 30 September 2012. The discount rates applied are gross of tax discount rate compared to net of tax previously applied as at 30 September 2012.

As the result of the change, a reduction of $0.85 million to premium payback liabilities had been made and the effects of the changes have been included in Decrease in premium payback liability within the Statement of Comprehensive Income.

Sensitivity analysis – premium payback liability

Variable	Impact of movement in variable
Lapse rate	Rate used in calculating the discounted provision to allow for expected lapses, based on historical experience. An increase or decrease in the lapse assumption would have a corresponding impact on profit.
Discount rate	Rate used in calculating the discounted provision to allow for expected investment income, based on the current yields on New Zealand government debt (risk free rates). An increase or decrease in the discount rate assumption would have a corresponding impact on profit.
Risk margin	An estimate of the amount of uncertainty in the determination of the central estimate. An increase or decrease in the risk margin would have an inverse impact on profit.

Impact of key variables

			Profit 30 Jun 13 $000		Equity 30 Jun 13 $000
Recognised amounts in the financial statements			308		47,894
Variable	**Movement in variable**	**Adjustments**	**Adjusted amounts**	**Adjustments**	**Adjusted amounts**
		$000	$000	$000	$000
Lapse Rate	+1.0%	856	1,164	856	48,750
	-1.0%	(924)	(616)	(924)	46,970
Discount Rate	+1.0%	1,410	1,718	1,410	49,304
	-1.0%	(1,555)	(1,247)	(1,555)	46,339
Risk margin	+1.0%	(325)	(17)	(325)	47,569
	-1.0%	325	633	325	48,219

4. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

b) Premium payback liability (continued)

	Profit 30 Sep 12 $000	Equity 30 Sep 12 $000
Recognised amounts in the financial statements	13,249	63,886

Variable	Movement in variable	Adjustments	Adjusted amounts	Adjustments	Adjusted amounts
			$000	$000	$000
Lapse Rate	+1.0%	1,071	14,320	1,071	64,957
	-1.0%	(1,351)	11,898	(1,351)	62,535
Discount Rate	+1.0%	1,276	14,525	1,276	65,162
	-1.0%	(1,512)	11,737	(1,512)	62,374
Risk margin	+1.0%	NA	NA	NA	NA
	-1.0%	NA	NA	NA	NA

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5. RISK MANAGEMENT POLICIES AND PROCEDURES

The financial condition and operation of the Company are affected by a number of key financial risks including insurance risk, market risk, liquidity risk and credit risk and non-financial risks including operational risk and strategic risk. The Company's policies and procedures in respect of managing the financial risks are set out in this note below.

a) Objectives in managing risks arising from insurance contracts and policies for mitigating those risks

The Company's objective is to satisfactorily manage these risks in line with the Board approved Risk & Compliance Framework Policy. Various procedures are put in place to identify, mitigate and monitor the risks faced by the Company. Business managers are responsible for understanding and managing their risks, including insurance and operational risks. The Company's exposure to all high and critical risks is reported quarterly to the Board and the Board Audit, Risk & Compliance Committee.

The Board has delegated to the Board Audit, Risk & Compliance Committee the responsibility to review the system of risk management, including:

(i) the effectiveness of the Company's risk management framework having regard to the Company's risk management culture;
(ii) the identification and assessment of the material risks facing the Company considered against the Company's risk appetite; and
(iii) the appropriate level of reporting on the performance and application of the risk management system throughout the Company.

The methods used to manage risks arising from insurance contracts include:

(i) adequate controls and guidelines covering insurance processes;
(ii) ongoing monitoring of the insurance market and identification of trends;
(iii) ensuring robust claims handling processes and controls which are well documented;
(iv) ongoing review of pricing models and retention levels;
(v) clearly defined underwriting processes and ongoing development of those involved in the underwriting process; and
(vi) robust new product development processes and controls to ensure that appropriate research and analysis has been done which ensure the anticipated claims liabilities are well understood.

b) Sensitivity to insurance risk

Insurance risk is the risk that inadequate or inappropriate underwriting, claims management, product design and pricing will expose the Company to financial loss from claims expenditure exceeding the amount implicit in premium income. The benefits provided under the insurance contract and the cost of providing those benefits are the key variables in claims expenditure. Refer to note 4 concerning the actuarial assumptions and methods and note 15 concerning the outstanding claim liabilities for further information on the assumptions that will affect the claims expenditure in the future.

The Company's insurance policies provide cover for expenses incurred in the private health sector. The extent of cover is dependent on the individual policy terms and conditions and the schedule of benefits. Several risks are not insured by the Company's policies, including (but not limited to) infectious diseases, accidents (which are generally covered by the Accident Compensation Corporation) and life.

Certain legacy policies have premium payback clauses that allow for the return of premiums after claim payments. These liabilities are matched with suitable assets.

c) Concentration of insurance risk

The Company does not have any material concentration of insurance risk. All insurance sold by the Company is sold to people in New Zealand, but there is no significant concentration in any specific region. The insurance sold by the Company primarily covers private medical expenses, but there is no significant concentration by any insured event.

d) Credit risk

The Company's exposure to credit risk is limited to deposits and investments held with banks and other financial institutions as well as credit exposure to amounts due from policyholders and brokers. For banks and financial institutions the minimum credit rating accepted by the Company is 'A-1'. For policyholders and brokers with no external ratings, internally developed minimum credit quality requirements are applied, which take into account financial position, past experience and other relevant factors. Overall exposure to credit risk is monitored on group basis in accordance with limits set by the Board.

The allowance for credit losses and impairment in relation to trade receivables is provided for based on estimated recoverable amounts determined by reference to current customer circumstances and past default experience. In determining the recoverability of a trade receivable the Company considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. The Company has provided fully for receivables over 120 days past due. Trade receivables between 60 and 120 days past due are provided for based on estimated irrecoverable amounts determined by reference to past due default experience.

5 RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

d) Credit risk (continued)

(i) Maximum exposure to credit risk

The Company's maximum exposure to credit risk without taking account of any collateral or any other credit enhancements, is as follows:

	Carrying Value	
	30 Jun 13	30 Sep 12
	$000	$000
Cash and cash equivalents	15,805	13,257
Premium receivable	2,321	2,521
Other receivables	2,699	331
Fixed interest securities	80,363	88,914
Derivative financial assets	2,638	3,318
Total credit risk	**103,826**	**108,341**

(ii) Credit quality of financial assets that are neither past due nor impaired

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

	30 Jun 13	30 Sep 12
Other Receivables	**$'000**	**$'000**
Counterparties without external credit rating		
Group 1 - new debtors (less than 6 months)	-	-
Group 2 - existing debtors (more than 6 months) with no defaults in the past	2,374	-
Group 3 - existing debtors (more than 6 months) with some defaults in the past. All defaults were fully recovered.	325	331
Total other receivables	**2,699**	**331**
Cash at Bank and short-term bank deposits		
A-1	15,805	13,257
Total cash at bank and short-term bank deposits	**15,805**	**13,257**
Financial assets at fair value through profit or loss		
Derivative financial instruments		
AA	2,638	3,318
Interest-bearing securities		
AAA	45,051	46,528
AA	35,312	41,386
A	-	999
Total financial assets at fair value through profit or loss	**83,001**	**92,231**

e) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. The Company manages liquidity risk by continuously monitoring forecast and actual cash flows and holds a high percentage of highly liquid investments. The bank overdraft comprises the closing positive balances of the bank account, adjusted for unpresented cheques and outstanding deposits. There are no overdraft facilities.

(i) Maturities of financial liabilities

The tables below analyse the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

5 RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

e) Liquidity risk (continued)

As at 30 June 2013	≤ 1 month $'000	1-3 months	3-12 months	1-5 years	> 5 years	Total Contractual Cash flows	Carrying amount
Financial Liabilities							
Trade creditors	1,896	1,215	92	-	-	3,203	3,203
Other payables	2,300	-	-	-	-	2,300	2,300
Intercompany payables	1,801	-	-	-	-	1,801	1,801
Total financial liabilities	**5,997**	**1,215**	**92**	**-**	**-**	**7,304**	**7,304**

As at 30 September 2012	≤ 1 month $'000	1-3 months	3-12 months	1-5 years	> 5 years	Total Contractual Cash flows	Carrying amount
Financial Liabilities							
Trade creditors	1,284	454	96	-	-	1,834	1,834
Derivative financial instruments	-	-	-	-	35	35	35
Total financial liabilities	**1,284**	**454**	**96**	**-**	**35**	**1,869**	**1,869**

f) Market risk

(i) Price risk

The Company is not exposed to equity securities price risk or commodity price risk.

(ii) Fair value interest rate risk

The Company does not have long-term borrowings. The Company's interest rate risks arise from financial assets at fair value through profit or loss, cash and cash equivalents, derivatives and premium payback liability. There is an interest bearing component of financial assets at fair value through profit or loss. The Company receives advice from its asset consultant, Tower Managed Funds Limited. The Company has adopted an investment strategy that delivers a diversified portfolio of defensive assets. Defensive assets consist of New Zealand and overseas fixed interest investments and cash and cash equivalents.

The interest rate swaps have the effect of converting risk from the Premium Payback Liability. Under the interest rate swaps, the Company agrees with other parties to exchange, at specified intervals (mainly monthly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

The table below summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk.

	30 Jun 13					30 Sep 12				
Interest Rate Risk		-100bps		+100bps			-100bps		+100bps	
	Carrying amount $000	Profit $000	Equity $000	Profit $000	Equity $000	Carrying amount $000	Profit $000	Equity $000	Profit $000	Equity $000
Financial assets										
Cash and cash equivalents	15,805	(114)	(114)	114	114	13,257	(93)	(93)	93	93
Financial assets at fair value through profit or loss	80,363	998	998	(952)	(952)	88,914	1,018	1,018	(975)	(975)
NZ Derivatives	2,638	325	325	(285)	(285)	3,283	644	644	(569)	(569)
Financial liabilities										
Premium payback Liability	47,489	(1,346)	(1,346)	1,073	1,073	53,161	(1,512)	(1,512)	1,276	1,276
Total Increase / (decrease)		(137)	(137)	(50)	(50)		57	57	(175)	(175)

5 RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

g) Fair value hierarchy

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

NZ IFRS 7 *Financial Instruments*: Disclosures require disclosure of fair value measurements by level of the following fair value measurement hierarchy:

a. quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
b. inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
c. inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following tables present the Company's **assets** and liabilities measured and recognised at fair value.

As at 30 June 2013	Level 1 $000	Total $000
Financial assets at fair value through profit or loss		
Derivative financial instruments	2,638	2,638
Fixed interest securities	80,363	80,363
Total assets	**83,001**	**83,001**

As at 30 September 2012	Level 1 $000	Total $000
Financial assets at fair value through profit or loss		
Derivative financial instruments	3,318	3,318
Fixed interest securities	88,914	88,914
Total assets	**92,232**	**92,232**
Financial Liabilities		
Derivative financial instruments	35	35
Total financial liabilities	**35**	**35**

6. REVENUE AND OTHER INCOME

	9 Months 30 Jun 13 $000	Full Year 30 Sep 12 $000
Premium revenue	112,370	146,230
Net premium revenue	**112,370**	**146,230**
Investment income		
Interest	3,028	3,929
Net realised (loss)/gain on financial assets at fair value through profit or loss	(369)	8,253
Net unrealised loss on financial assets at fair value through profit or loss	(795)	(6,422)
Total investment income	**1,864**	**5,760**

7. MANAGEMENT AND SALES EXPENSES

	9 Months 30 Jun 13 $000	Full Year 30 Sep 12 $000
Expenses by function		
Claims handling expenses[2]	1,044	-
Investment expenses	292	24
Acquisition costs[1]	18,591	20,462
Other underwriting expenses[2]	22,215	16,413
Total expenses (excluding direct claims expenses)	**42,142**	**36,899**
Expenses by nature		
Employee costs	6,106	-
Depreciation and amortisation	36	-
Financing costs	4	-
Operating lease rental expenses	276	-
Marketing expenses	571	-
Commissions	15,219	20,462
Consultancy fees	427	-
Legal expenses	104	-
Investment expenses	292	24
Release of prior deferred acquisition costs[3]	12,511	
Other [2]	6,596	16,413
Total expenses (excluding direct claims expenses)	**42,142**	**36,899**

[1]Acquisition costs for the 9 months to June 13 included commission, advertising, marketing and selling costs. Acquisition costs for the year to Sep 12 only include commission.
[2] Prior to 30 November 2012, the Company was charged a management fee relating to management expenses, included other underwriting expenses. The management fees included claims handling expenses and other acquisition costs.
[3] This reflects the change of accounting estimate noted in 1(e) on page 11.

8. INCOME TAX

	Notes	9 Months 30 Jun 13 $000	Full Year 30 Sep 12 $000
a) Income tax expense			
Recognised in the statement of comprehensive income			
Current tax expense	20	2,392	4,590
Deferred tax expense		(2,262)	563
		130	**5,153**
Income tax expense is attributable to:			
Profit from continuing operations		130	5,153
Income tax expense		**130**	**5,153**
Deferred income tax (revenue) expense included in income tax expense comprises:			
Decrease in deferred tax assets	21	1,398	132
(Decrease) increase in deferred tax liabilities	21	(3,661)	431
Net deferred tax (revenue) expense		**(2,263)**	**563**
b) Numerical reconciliation of income tax expense to prima facie tax payable			
Profit from continuing operations before income tax expense		**438**	**18,402**
Tax at the New Zealand tax rate of 28%		123	5,153
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
non deductible entertainment expense		7	-
Income tax expense		**130**	**5,153**

	30 Jun 13 $000	30 Sep 12 $000
c) Imputation credits		
Imputation credits available for use in subsequent reporting periods	1,542	-

The above amounts represent the balance of the imputation account as at the end of the reporting period, adjusted for:

(i) Imputation credits that will arise from the payment of the amount of the provision for income tax; and
(ii) Imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date.

These amounts include imputation credits that are available to the parent entity.

9. CASH AND CASH EQUIVALENTS

	30 Jun 13 $000	30 Sep 12 $000
Cash at bank and cash on hand	(576)	(715)
Short term deposits and deposits at call	16,381	13,972
Total cash and cash equivalents	**15,805**	**13,257**

The cash at bank comprises the closing positive balance of the bank account, adjusted for unpresented cheques and outstanding deposits.

a) Reconciliation of profit for the period to net cashflows from operating activities

	30 Jun 13 $000	30 Sep 12 $000
Profit for the period	308	13,249
Fair value loss on other financial assets through profit or loss	674	3,010
Depreciation and amortisation	36	-
Change in operating assets and liabilities		
Increase (decrease) in receivables	(2,271)	360
Decrease (increase) in deferred acquisition costs	13,075	(1,680)
Increase (decrease) in deferred tax assets	(2,263)	563
Increase (decrease) in current tax payable	959	(3,329)
Decrease in provisions	(4,824)	(1,377)
Increase (decrease) in payables	6,061	(13)
Net cash flow from operating activities	**11,755**	**10,783**

10. RECEIVABLES

	30 Jun 13 $000	30 Sep 12 $000
Current		
Premium receivable	2,321	2,521
Other receivables	2,699	331
Provision for impairment loss	(358)	(276)
Prepayments	185	-
Total current assets	**4,847**	**2,576**

Premium receivable and other receivables above are presented net of provision for impairment loss. Movement in the impairment during the reporting period was as follows:

	30 Jun 13 $000	30 Sep 12 $000
Opening balance	276	235
Provision for impairment recognised during the period	82	64
Receivables written off during the period as uncollectible	-	(23)
Total provision for impairment loss	**358**	**276**

	30 Jun 13 $000	30 Sep 12 $000
1 to 3 months	251	193
3 to 6 months	83	64
Over 6 months	24	19
Total provision for impairment loss	**358**	**276**

11. DEFERRED ACQUISITION COSTS

	30 Jun 13 $000	30 Sep 12 $000
Current		
Deferred acquisition costs	3,058	6,732
Deferred unearned commissions	8,823	9,529
Total current deferred acquisition costs	**11,881**	**16,261**
Non-current		
Deferred acquisition costs	6,940	15,635
Total non-current deferred acquisition costs	**6,940**	**15,635**
Total deferred acquisition costs	**18,821**	**31,896**

	30 Jun 13 $000	30 Sep 12 $000
Balance at beginning of period	31,896	30,358
Acquisition costs deferred during the period	7,744	10,260
Amortisation expense	(8,308)	(8,722)
Expensed of prior deferred acquisition costs	(12,511)	-
Total deferred acquisition costs	**18,821**	**31,896**

12. PROPERTY, PLANT AND EQUIPMENT

	Plant & Equipment $000	Total $000
Cost		
Balance at 1 October 2012	-	-
Additions	1,402	1,402
Balance at 30 June 2013	**1,402**	**1,402**
Depreciation and impairment losses		
Balance at 1 October 2012	-	-
Depreciation charge for the period	(32)	(32)
Balance at 30 June 2013	**(32)**	**(32)**
Carrying amounts		
At 30 Sep 2012	-	-
At 30 June 2013	**1,370**	**1,370**

13. INTANGIBLE ASSETS

	Software	Total
	$000	$000
Cost		
Balance at 1 October 2012	-	-
Additions	28	28
Balance at 30 June 2013	**28**	**28**
Amortisation and impairment losses		
Balance at 1 October 2012	-	-
Amortisation charge for the period	(3)	(3)
Balance at 30 June 2013	**(3)**	**(3)**
Carrying amounts		
At 30 Sep 2012	**-**	**-**
At 30 June 2013	**25**	**25**

14. PAYABLES

	30 Jun 13	30 Sep 12
	$000	$000
Trade creditors	3,203	1,834
Other payables	2,300	-
Intercompany payable	1,800	-
Employee benefits	582	-
Total payables	**7,885**	**1,834**

15. OUTSTANDING CLAIM LIABILITIES

	30 Jun 13 $000	30 Sep 12 $000
Outstanding claims - central estimate of the expected future payment for claims incurred	10,804	10,084
Risk Margin	1,111	522
Claims handling costs	184	352
Gross outstanding claims liability	**12,099**	**10,958**

	30 Jun 13 $000	30 Sep 12 $000
Gross outstanding claims at beginning of period	10,958	11,313
Claims handling costs	(352)	(191)
Risk margin	(522)	(539)
Central estimate at beginning of period	**10,084**	**10,583**
Change in claims incurred for prior periods	(1,406)	(1,934)
Claims paid in respect of prior periods	(8,443)	(8,578)
Claims incurred during the period (expected)	67,797	86,314
Claims paid during the period	(57,228)	(76,301)
Central estimate at end of period	**10,804**	**10,084**
Claims handling costs	184	352
Risk margin	1,111	522
Gross outstanding claims at end of period	**12,099**	**10,958**

Claims handling expense

The estimate of outstanding claims liabilities incorporates an allowance for the future cost of administrating the claims. This allowance is determined after analysing historical claim related expenses incurred by the classes of business.

Risk margin

The outstanding claim liability also includes a risk margin that relates to the inherent uncertainty in the central estimate of the future payments.

Risk margins are determined on a basis that reflects the Company's business. Regard is given to the robustness of the valuation models, the reliability and volume of available data, past experience of the insurer and the industry and the characteristics of the classes of business written.

The risk margins is intended to provide a 95% probability of sufficiency (2012: 75%).

Development of claims

The following table shows the expected run-off pattern of net undiscounted outstanding claims

	30 Jun 13 $000	30 Sep 12 $000
Expected claims run off		
Within 3 months	10,458	9,458
3 to 6 months	962	949
6 to 12 months	487	485
After 12 months	192	66
Total outstanding claims	**12,099**	**10,958**

15. OUTSTANDING CLAIM LIABILITIES (continued)

Liability Adequacy Test

Liability adequacy tests are performed to determine whether the unearned premium liability is sufficient to cover the present value of the expected cash flows arising from rights and obligations under current insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate. The future cash flows are future claims, associated claims handling costs and other administration costs relating to the business.

If the unearned premium liability less related deferred acquisition costs exceeds the present value of the expected future cash flows plus the additional risk margin to reflect the inherent uncertainty in the central estimate then the unearned premium liability is deemed to be sufficient. The risk margins applied to future claims were determined with the objective of achieving at least 95% (2012: 75%) probability of sufficiency of the unexpired risk liability using the same methodology as described above.

	30 Jun 13	30 Sep 12
Central estimate of the present value of expected future cash flows	60.66%	60.59%
Risk margin	9.00%	8.75%

Unearned premium liabilities as at 30 June 2013 were sufficient (September 2012: sufficient).

16. PREMIUM PAYBACK LIABILITY

A number of the Company's health insurance policies have a benefit whereby policyholders receive a proportion of premiums paid less claims received over the life of their policy, 'premium payback', if certain conditions are met. This liability represents a long term health insurance contract liability. The liability is determined based on the discounted value of the accumulated excess of premiums over claims at individual policy level. A liability adequacy test to cover uncertainty in the central estimate is also applied to confirm the sufficiency of the liability in aggregate.

The table below includes a reconciliation of the liability as at the reporting date

	30 Jun 13 $000	30 Sep 12 $000
Current		
Premium payback liability	9,786	10,975
Total current premium payback liability	**9,786**	**10,975**
Non current		
Premium payback liability	37,703	42,186
Total non-current premium payback liability	**37,703**	**42,186**
Total premium payback liability	**47,489**	**53,161**

	30 Jun 13 $000	30 Sep 12 $000
Opening balance	53,161	53,672
New funding	5,614	8,776
Benefits paid	(10,340)	(12,081)
Other	(946)	2,794
Balance at period end	**47,489**	**53,161**
New funding	5,614	8,776
Benefits paid	(10,340)	(12,081)
Other	(946)	2,794
Decrease in Statement of Comprehensive Income	**(5,672)**	**(511)**

16. PREMIUM PAYBACK LIABILITIES (continued)

(a) Liquidity risk and future net cash outflows

The table below shows the estimated timing of cash outflows resulting from premium payback liabilities.

	Total $000	Less than one year $000	One to two years $000	Two to three years $000	Three to five years $000	Over five years $000
30 Jun 13	47,489	9,786	5,915	4,479	7,994	19,314
30 Sep 12	53,161	11,976	5,940	4,703	7,578	22,964

Assumptions used in the calculation of the Liability Adequacy Test/cash flow projection:

	30 Jun 13	30 Sep 12
Discount rate for succeeding and following years	3.0% - 3.5% Gross of Tax	2.28% net of tax
Claims and Premium Inflation rate for succeeding and following years	9% p.a.	9% p.a.
Lapse rates including lapse rate at payback date:	0% to 25% p.a.	0% to 25% p.a.
GST rate	15%	15%
Income Tax rate	28%	28%
Administration expense per member:	$74.20	$74.20
Expense Inflation for succeeding and following years	2% p.a.	2% p.a.

No deficiency was identified as at 30 June 2013 and 30 September 2012 that resulted in an unexpired risk liability needing to be recognised.

17. UNEARNED PREMIUM LIABILITY

	30 Jun 13 $000	30 Sep 12 $000
Current		
Unearned premium liability	15,156	15,439
Total unearned premium liability	**15,156**	**15,439**

	30 Jun 13 $000	30 Sep 12 $000
Unearned premium liability as at beginning of period	15,439	15,959
Deferral of premiums on contracts written in the period	112,087	145,710
Earning of premiums written in previous periods	(112,370)	(146,230)
Unearned premium liability as at period ended	**15,156**	**15,439**

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets are designated at fair value through profit or loss and include the following:

	30 Jun 13 $000	30 Sep 12 $000
Interest-bearing securities	80,363	88,914
Total financial assets at fair value through profit or loss	**80,363**	**88,914**

19. DERIVATIVE FINANCIAL INSTRUMENTS

	30 Jun 13		30 Sep 12	
	Notional amount	Fair value	Notional amount	Fair value
	$000		$000	
Interest rate swaps	2,500	2,638	11,500	3,318
Interest rate swaps liabilities	-	-	(5,000)	(35)
Total derivative financial instruments	**2,500**	**2,638**	**6,500**	**3,283**

20. CURRENT TAX PAYABLE

	30 Jun 13 $000	30 Sep 12 $000
Total current period tax payable	2,392	4,590
Provisional tax paid during the period	(1,198)	(4,357)
Current tax payable	**1,194**	**233**

21. DEFERRED TAX

	30 Jun 13 $000	30 Sep 12 $000
Deferred tax assets		
The balance comprises temporary differences attributable to:		
Premium payback liabilities	12,854	14,439
Deferred tax on premium payback liabilities	**12,854**	**14,439**
Employee Provisions	164	-
Others	100	77
Sub-total other	**264**	**77**
Total deferred tax assets	**13,118**	**14,516**

	30 Jun 13 $000	30 Sep 12 $000
Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Deferred acquisition costs	2,800	6,263
Deferred unearned commission	2,470	2,668
Total deferred tax liabilities	**5,270**	**8,931**
Deferred tax liabilities to be settled within 12 months	3,327	4,553
Deferred tax liabilities to be settled after more than 12 months	1,943	4,378
Total deferred tax liabilities	**5,270**	**8,931**

21. DEFERRED TAX (continued)

	30 Jun 13 $000	30 Sep 12 $000
Net deferred tax assets	**7,848**	**5,585**
Deferred tax assets to be recovered within 12 months	2,999	(1,253)
Deferred tax assets to be recovered after more than 12 months	4,849	6,838
Net deferred tax assets	**7,848**	**5,585**

Movements	Employee benefits $000	Premium payback reserves $000	Others $000	Total $000
At 1 October 2011	-	14,582	66	14,648
(Charged)/credited to the Statement of Comprehensive Income	-	(143)	11	(132)
At 30 Sep 2012	-	**14,439**	**77**	**14,516**
At 1 October 2012	-	14,439	77	14,516
(Charged)/credited to the Statement of Comprehensive Income	164	(1,585)	23	(1,398)
At 30 June 2013	**164**	**12,854**	**100**	**13,118**

Movements	Deferred acquisition costs $000	Total $000
At 1 Oct 2011	8,500	8,500
Charged to the Statement of Comprehensive Income	431	431
At 30 Sep 2012	**8,931**	**8,931**
At 1 Oct 2012	8,931	8,931
Credited to the Statement of Comprehensive Income	(3,661)	(3,661)
At 30 June 2013	**5,270**	**5,270**

22. CONTRIBUTED EQUITY

	30 Jun 13 $000	30 Sep 12 $000
Ordinary shares		
Fully paid	32,000	32,000
Total contributed equity	32,000	32,000

The total authorised number of ordinary shares is 32 million (2012: 32 million). All issued share are fully paid. There is one class of ordinary share. All shares issued carry equal voting rights.

23. RETAINED PROFITS

	30 Jun 13 $000	30 Sep 12 $000
Balance at the beginning of the period	31,886	25,637
Net profit	308	13,249
Dividends	(16,300)	(7,000)
Balance at the end of the financial period	**15,894**	**31,886**

24. DIVIDENDS

	9 Months 30 Jun 13 $000	Full year 30 Sep 12 $000
Final dividend for the period ended 30 Sep 2012	-	7,000
Dividend paid 26 Dec 2012	9,600	-
Final dividend for the period ended 30 June 2013	6,700	-
Total dividends paid for the period	16,300	7,000

25. CONTINGENT LIABILITIES

The Company has no contingent liabilities as at reporting date. The Company is occasionally subject to claims and disputes as a commercial outcome of conducting its insurance business. Provisions are recorded for these claims or disputes when it is probable that an outflow of resources will be required to settle any obligations. Best estimates are included within claims reserves for any litigation that has arisen in the usual course of business.

26. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

From 1st December 2012, the company was acquired by nib nzed limited. During the year there have been transactions between the Company and its parent and ultimate parent, nib holdings limited which have been conducted in the normal course of business. All intercompany balances are current and repayable on demand. No debts have been written off or forgiven during the year.

Any previous amounts payable to or receivable by previous parent, TOWER Health and Life Limited and its ultimate parent, TOWER Limited has been transferred to trade creditor or other receivable.

a) Related party transactions

Transactions during the year included partial settlement of intercompany balances and intercompany dividends as shown below:

	30 Jun 13 $000	30 Sep 12 $000	Nature of Relationship	Type of Transactions
nib holding limited (AUS)	1,583	n/a	Ultimate parent	Management fees
nib holding limited (AUS)	217	n/a	Ultimate parent	Reimbursement of expenses
nib nzed limited	16,300	n/a	Parent	Dividends

b) Related party balances

Related party receivable and payable balances of the Company at the reporting date were as follows. They are interest free and are payable on demand.

Related party	30 Jun 13 $000	30 Sep 12 $000	Nature of Relationship	Type of Transactions
nib holding limited (AUS)	1,800	n/a	Ultimate parent	Management fees and expenses
nib nzed limited	(290)	n/a	Parent	Reimbursement of payments

26. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

a) Key management personnel compensation

The remuneration of key personnel during the period was as below

	30 Jun 2013	30 Sep 2012
	$	$
Salaries and short-term employee benefits	60	-
Independent directors fees	32	-
Total key management personnel compensation[1]	**92**	-

[1] Prior to 30 November 2012, the Company was charged a management fee relating to management expenses.

During the period ended 30 June 2013 some roles within Key Management Personnel were performed by employees of the ultimate parent company, nib holdings limited. Compensation for this was provided by the Group through the management fee paid to the ultimate parent disclosed above.

b) Loans to key management personnel

There have been no loans made to directors of the Company and other key management personnel.

c) Other transactions with key management personnel and directors

Key management also hold various policies with the Company. These are operated as on normal terms.

27. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There have not been any matters or circumstances that have arisen since the end of the reporting period that has significantly affected, or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

28. INSURER FINANCIAL STRENGTH RATING

The Company has an insurer financial strength rating of 'A-' (Excellent) issued by AM Best Company Inc. The rating has an effective date of 6 September 2012.

29. SOLVENCY AND CAPITAL MANAGEMENT

The Company is required to comply with the Solvency Standards for non life insurance business published by the Reserve Bank of New Zealand. The Solvency Standards were introduced in New Zealand under the Insurance (Prudential Supervision) Act 2010 and became effective from 31 December 2012. The Solvency Standards determine the Minimum Solvency Capital required. A requirement of the Company's insurance license is that it maintains capital above the Minimum Solvency Capital.

The Company has capital (net assets) of $47.894 million at 30 June 2013. After this capital is adjusted for deductions required under the Solvency Standard the Company has Solvency Capital of $22.294 million (2012: 28.668 million). This compares to a Minimum Solvency Capital required under the Solvency Standard of $10.068 million (2012: $11,931 million) equating to a Solvency Coverage Ratio of 2.21x (2012 2.40x).

The Company has a capital management plan which establishes a benchmark for capital held in excess of the Minimum Solvency Requirement; the aim is to keep a sufficient buffer in line with the Board's attitude to and tolerance for risk. The benchmark capital adequacy coverage ratio is 1.75x.

Any capital in excess of the benchmark, taking a 12 month forward looking view, will be reduced by way of dividend to nib nzed limited. The Company paid dividends to nib nzed limited of $9,600,000 in December 2012 and $6,700,000 in June 2013.

	30 Jun 2013 $000	30 Sep 2012 $000
Actual Solvency Capital	22,294	28,668
Minimum Solvency Capital	10,068	11,931
Solvency Capital	**12,226**	**16,737**
Solvency Coverage Ratio	2.21	2.40
Internal benchmark	1.75	1.75
Internal benchmark requirement	17,620	20,879
Surplus assets over internal benchmark	4,674	7,810

30. COMPANY DETAILS

TOWER Medical Insurance Limited is a profit-oriented company incorporated in New Zealand under the New Zealand Companies Act 1993, the address of its registered office is

Leve 3, 22 Fanshawe Street,
Auckland Central,
Auckland 1010 New Zealand.

9 August 2013

Mr Nick Cory
Chief Financial Officer
TOWER Medical Insurance Limited
Level 3, 22 Fanshawe Street
AUCKLAND 1141

Dear Nick

Review of Actuarial Information contained in the Financial Statements as at 30 June 2013

Finity Consulting Pty Limited (Finity) has been asked by TOWER Medical Insurance Limited (TMIL) to carry out a review of the 30 June 2013 actuarial information contained in the financial statements and provide an opinion as to its appropriateness. This letter sets out the findings of our review, as required under Section 78 of the Insurance (Prudential Supervision) Act 2010.

Jamie Reid is an employee of Finity and is the Appointed Actuary of TMIL. Jamie Reid and Finity have no relationship with TMIL apart from the Appointed Actuary role.

TMIL's policy is to seek and adopt the advice of the Appointed Actuary in respect of the actuarial information contained in the financial statements. We confirm that the financial statements as at 30 June 2013 have been prepared in accordance with this policy, and as such satisfy the requirements of the Act.

In my opinion and from an actuarial perspective:

- The actuarial information contained in the financial statements has been appropriately included in those statements
- The actuarial information used in the preparation of the financial statements has been used appropriately
- TMIL is maintaining the solvency margin that applies under a condition imposed under section 21(2)(b), noting that the required margin is $0.

No limitations were placed on me in performing my review, and all data requested was provided.

This report is being provided for the sole use of TMIL for the purpose stated above. It is not intended, nor necessarily suitable, for any other purpose and should only be relied on the purpose for which it is intended.

Yours sincerely

Jamie Reid

Jamie Reid
Appointed Actuary
Fellow of the New Zealand Society of Actuaries
Fellow of the Institute of Actuaries of Australia