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nib nz limited
(Formerly TOWER Medical Insurance Limited)

Financial Statements
For the Year Ended 30 June 2014

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Directors' Declaration

For the year ended 30 June 2014
nib nz limited

The Directors of nib nz limited present their report and financial statements of the Company for the year ended 30 June 2014.

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

The after tax profit for the year was $10.8 million (2013: $0.3 million for 9 months). Shareholders' equity at the end of the year totalled $58.7 million (2013: $47.9 million). The 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 provide protection for Directors and Officers 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

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
14 August 2014

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Independent Auditors' Report

to the shareholder of nib nz limited

Report on the Financial Statements

We have audited the financial statements of nib nz limited on pages 7 to 40, which comprise the balance sheet as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year 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, nib nz limited other than in our capacities as auditors, providers of other assurance services and tax advisors. These services have not impaired our independence as auditors of the Company.

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
T: +64 9 355 8000, F: +64 9 355 8001, pwc.co.nz

Independent Auditors' Report

nib nz limited

Opinion

In our opinion, the financial statements on pages 7 to 40:

(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 2014, and its financial performance and cash flows for the year 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 year ended 30 June 2014:

(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 Use

This report is made solely to the Company's shareholder, 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 shareholder 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 shareholder, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants
14 August 2014

Auckland

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Statement of Comprehensive Income

For the year ended 30 June 2014
nib nz limited

	Notes	12 Months 30 Jun 14 $000	9 Months 30 Jun 13 $000
Premium revenue	6	**153,819**	**112,370**
Claims expenses		(99,129)	(77,326)
Decrease in premium payback liability	16	3,714	5,672
Claims handling expenses	7	(1,218)	(1,044)
Net claims incurred		**(96,633)**	**(72,698)**
Acquisition costs	7	(29,084)	(18,591)
Other underwriting expenses	7	(16,696)	(22,215)
Underwriting expenses		**(45,780)**	**(40,806)**
Underwriting result		**11,406**	**(1,134)**
Investment income	6	3,863	1,864
Other income	6	134	-
Investment expenses	7	(383)	(292)
Profit before income tax		**15,020**	**438**
Income tax expense	8	(4,245)	(130)
Profit after income tax		**10,775**	**308**
Comprehensive income for the period		**10,775**	**308**

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 2014
nib nz limited

	Notes	As at 30 Jun 14 $000	As at 30 Jun 13 $000
ASSETS			
Current assets			
Cash and cash equivalents	9	24,649	15,805
Receivables	10	2,095	3,207
Deferred acquisition costs	11	12,070	11,881
Financial assets at fair value through profit or loss	18	79,641	80,363
Derivative financial instruments	19	2,229	2,638
Total current assets		**120,684**	**113,894**
Non-current assets			
Deferred acquisition costs	11	6,161	6,940
Property, plant and equipment	12	2,815	1,370
Intangible assets	13	1,753	25
Deferred tax assets	21	7,217	7,848
Total non-current assets		**17,946**	**16,183**
Total assets		**138,630**	**130,077**
LIABILITIES			
Current liabilities			
Payables	14	7,039	6,245
Outstanding claims liability	15	11,453	11,907
Premium payback liability	16	8,053	9,786
Unearned premium liability	17	15,071	15,156
Current tax payable	20	2,483	1,194
Total current liabilities		**44,099**	**44,288**
Non-current liabilities			
Outstanding claims liability	15	140	192
Premium payback liability	16	35,722	37,703
Total non-current liabilities		**35,862**	**37,895**
Total liabilities		**79,961**	**82,183**
Net assets		**58,669**	**47,894**
EQUITY			
Contributed equity	22	32,000	32,000
Retained profits	23	26,669	15,894
Total equity		**58,669**	**47,894**

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

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Statement of Changes in Equity

For the year ended 30 June 2014
nib nz limited

	Notes	Contributed Equity $000	Retained Profits $000	Total Equity $000
Balance at 1 July 2013		**32,000**	**15,894**	**47,894**
Profit for the year		-	10,775	10,775
Total comprehensive income for the year		**-**	**10,775**	**10,775**
Transactions with owners in their capacity as owners:				
Dividends paid	24	-	-	-
Total transactions with owners		**-**	**-**	**-**
Balance at 30 June 2014		**32,000**	**26,669**	**58,669**
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

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Statement of Cash Flows

For the year ended 30 June 2014
nib nz limited

	Notes	12 Months 30 Jun 14 $000	9 Months 30 Jun 13 $000
Cash flows from operating activities			
Receipts from policyholders		177,125	128,149
Payments to policyholders		(114,580)	(87,614)
Payments to suppliers and employees		(52,407)	(29,886)
Interest received		4,437	2,537
Income taxes paid		(2,327)	(1,431)
Net cash inflow from operating activities	9	**12,248**	**11,755**
Cash flows from investing activities			
Proceeds from sale of financial assets at fair value through the profit and loss		30,562	83,740
Payments for purchase of financial assets at fair value through profit or loss		(30,008)	(75,216)
Payments for property, plant and equipment and intangibles		(3,958)	(1,431)
Net cash (outflow)/inflow from investing activities		**(3,404)**	**7,093**
Cash flows from financing activities			
Dividends paid to shareholders	24	-	(16,300)
Net cash outflow from financing activities		**-**	**(16,300)**
Net increase in cash and cash equivalents		8,844	2,548
Cash and cash equivalents at beginning of the period		15,805	13,257
Cash and cash equivalents at end of the period		**24,649**	**15,805**

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 statements are set out below. These policies have been applied to all the periods presented, unless otherwise stated.

nib nz 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 nz holdings limited (formerly nib nzed limited) on 30 November 2012. The Company changed its year end to 30 June 2013 to align with the ultimate parent company, nib holdings limited in Australia. Therefore the comparatives are for a 9 month period. On 30 September 2013 the Company changed its name from TOWER Medical Insurance Limited to nib nz limited.

The principal activity of the Company is providing health insurance. The financial statements were authorised for issue by the Board of Directors on 14 August 2014.

a) Basis of preparation of the report

The Company has adopted External Reporting Board Standard A1 "Accounting Standards Framework (For-profit Entities Update)" ('XRB A1'). The Company applies Tier 1 as the Company is deemed to have public accountability as result of being an insurance company.

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

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

The financial statements are presented in New Zealand dollars and rounded to the nearest thousand dollars.

b) Premium Revenue

Premium revenue comprises premiums from private health insurance contracts held by policyholders. Premium revenue is recognised when it has been earned. Premium revenue is recognised from the attachment date over the period of the contract. The attachment date is the date from when the insurer accepts the risk from the insured under the insurance contract. Revenue is recognised in accordance with the pattern of the incidence of risk expected over the term of the contract.

The proportion of the premium received or receivable not earned in the Statement of Comprehensive Income at the reporting date is recognised in the balance sheet as an unearned premium liability.

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 claims expenses

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

e) Acquisition costs

The acquisition costs of establishing health insurance contracts 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.

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 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 and the corresponding tax base of those items.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Taxation (continued)

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 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 and received is included in the Statement of Cash Flows, classified as receipts from policyholders and payments to policyholders, suppliers and employees lines.

g) Foreign currency

(i) Functional and presentation currency
The accounts of the Company are presented in the currency of the primary economic environment in which the entity operates.

(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 unit trusts 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 the assets' cost or revalued amounts, net of any residual amounts, over the assets' 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) Intangible assets

Costs incurred in developing products or systems and costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software. Costs capitalised include external direct costs or materials and service and direct payroll and payroll related costs of employees' time spent on projects. Amortisation is calculated on a straight-line basis over periods ranging from 2.5 years to 5 years.

k) Assets backing insurance liabilities

The Company has determined that all financial assets at fair value through profit and loss are held to back insurance liabilities.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Financial assets

(i) Classification
The Company classifies its financial assets in the following categories: at fair value through profit or loss; or 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.

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

(iii) Recognition and measurement
All purchases and sales of financial assets classified as at 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.

(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 unit 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) 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.

m) 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.

n) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested 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).

p) 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.

q) 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.

r) 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.

s) Share based payments

Share based compensation benefits are provided to eligible employees via the Employee Share Acquisition (tax exempt) Plan, the nib Salary Sacrifice Plan and Matching Plan. Information relating to these plans is set out in note 27.

Under the nib Salary Sacrifice Plan and Matching Plan, shares are acquired on-market and expensed.

t) Outstanding claims 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.

u) 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.

v) Premium payback liability

The premium payback liability represents the accrued amount of premium expected to be repaid to certain policyholders. This liability incorporates a risk margin to cover uncertainty in the central estimate to a probability of adequacy of approximately 95% (refer to note 4b).

w) Contributed equity

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

x) 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.

y) Comparatives

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

2. IMPACT OF AMENDMENTS TO NZ IFRS

a) 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 July 2013 or later periods, and the Company has not early adopted them.

(i) NZ IFRS 9 'Financial Instruments' (effective from 1 January 2018). NZ IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. It replaces the parts of NZ IAS 39 that relate to the classification and measurement of financial instruments and hedge accounting. 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.

b) Standards, amendments and interpretations to existing standards effective for the year ended 30 June 2014 or early adopted by the Company.

(i) 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 revised standard has not had a material impact on the financial statements.

(ii) 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. These changes have not significantly affected the accounting for any of the Company's current offsetting arrangements. However, the amendment to NZ IFRS 7 has also introduced more extensive disclosure requirements in relation to offsetting arrangements which have been incorporated into these financial statements where applicable.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Company makes estimates and judgements 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 year end for the liability for outstanding claims. This 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 upfront 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 the Company have a premium payback (PPB) feature. PPB policies entitle policyholders 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 year end for the liability for PPB 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, 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.

Deferred tax assets are recognised in relation to PPB liability to the extent it is probable that taxable profits will be available in future periods. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised based on the likely timing and quantum of future taxable profits.

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 2014 and 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 Company's 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 14	30 Jun 13
The weighted average expected term to settlement of outstanding claims based on historical trends is:	1.59 months	1.64 months

Actuarial methods

In calculating the estimated cost of unpaid claims for the Company, two methods are used. For service months April 2014 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 2014 and June 2014, the Bornhuetter-Ferguson method is used, which progressively blends payment experience and prior forecasts of incurred costs.

Actuarial assumptions

The following assumptions have been made in determining the outstanding claims liability:

	30 June 2014		30 June 2013	
	Surgical	Medical	Surgical	Medical
	%	%	%	%
Assumed proportion paid to date	88.9%	78.5%	89.1%	77.8%
Claims handling costs	1.6%	1.6%	1.7%	1.7%
Risk margin	9.9%	9.9%	13.5%	13.5%

The risk margin (before diversification) of 9.9% (2013:13.5%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% (2013: 95%). The impact of the risk margin % change recognised in the Statement of Comprehensive Income is $0.3 million after tax.

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 in claims expense respectively.
Claims handling costs	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	Equity
	30 Jun 14	30 Jun 14
	$000	$000
Recognised amounts in the financial statements	**10,775**	**58,669**

Variable	Movement in variable	Adjustments	Adjusted amounts	Adjustments	Adjusted amounts
		$000	$000	$000	$000
Chain Ladder Development Factors	+0.5%	(298)	10,477	(298)	58,371
	-0.5%	298	11,073	298	58,967
Bornhuetter-Ferguson Unpaid Factors	+2.0%	(260)	10,515	(260)	58,409
	-2.0%	260	11,035	260	58,929
Claims handling costs	+1.0%	(84)	10,691	(84)	58,585
	-1.0%	84	10,859	84	58,753
Risk margin	+1.0%	(78)	10,697	(78)	58,591
	-1.0%	78	10,853	78	58,747

4. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

a) Outstanding claims (continued)

Sensitivity analysis – outstanding claims (continued)

(ii) Impact of key variables (continued)

	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
Claims handling costs	+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

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 14	30 Jun 13
Lapse rate up to 3 years from premium payback date	2.0% - 13.0%	2.0% - 10.0%
Lapse rate within 3 years of premium payback date	0.0% - 1.0%	0.0% - 1.0%
Claims handling costs	0.0%	0.0%
Discount rate for succeeding and following year	3.8% - 4.2%	3.0% - 3.5%
Risk margin	4.0%	6.8%

The risk margin has been estimated to equate to a 95% probability of sufficiency (2013: 95%).

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 the premium payback liability and the risk margin.
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 the premium payback liability.
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 the premium payback liability.

4. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

b) Premium payback liability (continued)

Impact of key variables

			Profit 30 Jun 14 $000		Equity 30 Jun 14 $000
Recognised amounts in the financial statements			**10,775**		**58,669**
Variable	Movement in variable	Adjustments $000	Adjusted amounts $000	Adjustments $000	Adjusted amounts $000
Lapse rate	+1.0%	762	11,537	762	59,431
	-1.0%	(814)	9,961	(814)	57,855
Discount rate	+1.0%	1,058	11,833	1,058	59,727
	-1.0%	(1,269)	9,506	(1,269)	57,400
Risk margin	+1.0%	(223)	10,552	(223)	58,446
	-1.0%	223	10,998	223	58,892

			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
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

5. RISK MANAGEMENT POLICIES AND PROCEDURES

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

The Company's objective is to satisfactorily manage the Company's risks in line with the Board approved Risk & Compliance Framework Policy. Various procedures are 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.

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 liability for further information on the assumptions that will affect the future claims expenditure.

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 benefits that allow for the return of premiums after claim payments. These liabilities are matched with suitable assets.

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.

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 on any insured event.

Financial risk

The Company is exposed to a range of financial risks, including credit risk, liquidity risk and market risk. The following section summarises the Company's key risk exposures and the primary policies and process used by the Company to manage its exposures to these risks.

a) 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 a group basis in accordance with limits set by the Board.

5 RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

a) Credit risk (continued)

The allowance for credit losses and impairment in relation to premium and other 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 receivable, the Company considers any change in the credit quality of the 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. Receivables between 60 and 120 days past due are provided for based on estimated irrecoverable amounts determined by reference to past due default experience.

(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 14	30 Jun 13
	$000	$000
Cash and cash equivalents	24,649	15,805
Premium receivables	1,665	2,015
Other receivables	86	1,006
Fixed interest securities	79,641	80,363
Derivative financial assets	2,229	2,638
Total credit risk	**108,270**	**101,827**

There is no collateral or other credit enhancements for June 2014 (2013: nil).

(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 14	30 Jun 13
Premium & 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	1,671	2,749
Group 3 - existing debtors (more than 6 months) with some defaults in the past. All defaults were fully recovered	80	272
Total premium & other receivables	**1,751**	**3,021**
Cash at Bank and short-term bank deposits		
AA	24,649	15,805
Total cash at bank and short-term bank deposits	**24,649**	**15,805**
Financial assets at fair value through profit or loss		
Derivative financial instruments		
AA	2,229	2,638
Interest-bearing securities		
AAA	45,098	45,051
AA	34,543	35,312
A	-	-
Total financial assets at fair value through profit or loss	**81,870**	**83,001**

b) 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 holding a high percentage of highly liquid investments.

5 RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

b) Liquidity risk (continued)

(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.

As at 30 June 2014	≤ 1 month $000	1-3 months $000	3-12 months $000	1-5 years $000	> 5 years $000	Total Contractual Cash flows $000	Carrying amount $000
Financial liabilities							
Trade creditors	23	-	-	-	-	23	23
Other payables	3,576	1,068	14	-	-	4,658	4,658
Intercompany payables	350	-	-	-	-	350	350
Employee benefits	633	995	380	-	-	2,008	2,008
Total financial liabilities	**4,582**	**2,063**	**394**	**-**	**-**	**7,039**	**7,039**

As at 30 June 2013	≤ 1 month $000	1-3 months $000	3-12 months $000	1-5 years $000	> 5 years $000	Total Contractual Cash flows $000	Carrying amount $000
Financial liabilities							
Trade creditors	6	-	-	-	-	6	6
Other payables	2,168	594	91	-	-	2,853	2,853
Intercompany payables	1,800	-	-	-	-	1,800	1,800
Employee benefits	499	767	320	-	-	1,586	1,586
Total financial liabilities	**4,473**	**1,361**	**411**	**-**	**-**	**6,245**	**6,245**

Refer to note 15 and note 16 for liquidity risk associated with outstanding claims liability and premium payback liability.

c) Market risk

(i) Price risk

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

(ii) 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 management consultant, Fisher Funds Management Limited (formerly named 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 hedging 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.

As at the end of the reporting period, the Company had the following interest rate swap contracts outstanding:

	30 Jun 14		30 Jun 13	
	Weighted average interest rate %	Balance $000	Weighted average interest rate %	Balance $000
Financial (liabilities)/assets				
Interest rate swaps (notional principal amount - net)	5.7%	(1,500)	5.7%	2,500
Net exposure to cash flow interest rate risk		**(1,500)**		**2,500**

5 RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

c) Market risk (continued)

(ii) Interest rate risk (continued)

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

	30 Jun 14					30 Jun 13				
Interest Rate Risk		-100bps		+100bps			-100bps		+100bps	
	Carrying amount	Profit	Equity	Profit	Equity	Carrying amount	Profit	Equity	Profit	Equity
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Financial assets										
Cash and cash equivalents	24,649	(177)	(177)	177	177	15,805	(114)	(114)	114	114
Financial assets at fair value through profit or loss	79,641	1,006	1,006	(967)	(967)	80,363	998	998	(952)	(952)
New Zealand derivatives	2,229	256	256	(220)	(220)	2,638	325	325	(285)	(285)
Financial liabilities										
Premium payback liability	43,775	(1,058)	(1,058)	1,269	1,269	47,489	(1,346)	(1,346)	1,073	1,073
Total increase/(decrease)		**27**	**27**	**259**	**259**		(137)	(137)	(50)	(50)

d) 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 13 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 2014	Level 1 $000	Level 2 $000	Total $000
Financial assets at fair value through profit or loss			
Derivative financial instruments	-	2,229	2,229
Interest-bearing securities	38,454	41,187	79,641
Total assets	**38,454**	**43,416**	**81,870**

As at 30 June 2013	Level 1 $000	Level 2 $000	Total $000
Financial assets at fair value through profit or loss			
Derivative financial instruments	-	2,638	2,638
Interest-bearing securities	45,869	34,494	80,363
Total assets	**45,869**	**37,132**	**83,001**

There were no transfers between Level 1 and Level 2 during the year ended 30 June 2014. However, there is a reclassification between the levels. The classification of some of the derivatives, bonds and securities which have historically been disclosed as 'Level 1' have been revised to 'Level 2' on the basis that, whilst there is a quoted price, the price of the security is based on valuation techniques using market observable inputs. The comparatives have been amended for consistency with current year presentation.

The fair value of bonds and securities is based on prices supplied by Thomson Reuters, an independent specialist international valuer of financial securities. Thomson Reuters uses a pricing methodology based on market data supplied by institutions such as banks and brokers that are significant traders in the bonds, securities and swaps markets. The fair value of swaps is calculated using a discounted cash flow method based on swap yields provided by third party data suppliers. This measurement basis falls within Level 2 of the fair value hierarchy as all significant inputs used to calculate the fair value are based on observable market data.

There is no offsetting between financial assets and financial liabilities.

5 RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

d) Fair value hierarchy (continued)

The fair value of financial instruments traded in active markets (such as financial assets at fair value through profit and loss) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in Level 1.

The carrying value less impairment provision of other receivables and payables are assumed to approximate to their fair value due to their short-term nature. The carrying value of cash and cash equivalents are assumed to approximate to their fair value due to their short-term nature.

6. REVENUE AND OTHER INCOME

	12 Months 30 Jun 14 $000	9 Months 30 Jun 13 $000
Premium revenue	**153,819**	**112,370**
Investment income		
Interest	4,437	2,762
Net realised gain/(loss) on financial assets at fair value through profit or loss	177	(1,113)
Net unrealised (loss)/gain on financial assets at fair value through profit or loss	(751)	215
Total investment income	**3,863**	**1,864**
Other income		
Foreign exchange gains	134	-
Total other income	**134**	**-**

7. EXPENSES

	12 Months 30 Jun 14 $000	9 Months 30 Jun 13 $000
Expenses by function		
Claims handling expenses	1,218	1,044
Investment expenses	383	292
Acquisition costs including marketing expenses	29,084	18,591
Other underwriting expenses	16,696	22,215
Total expenses (excluding direct claims expenses)	**47,381**	**42,142**
Expenses by nature		
Employee costs	12,683	6,106
Depreciation and amortisation	762	36
Financing costs	-	4
Net loss on disposal of property, plant and equipment	29	-
Operating lease rental expenses	519	276
Marketing expenses	6,279	571
Commissions	20,611	15,219
Consultancy fees	808	427
Legal expenses	242	104
Investment expenses	383	292
Release of prior deferred acquisition costs	-	12,511
Other	5,065	6,596
Total expenses (excluding direct claims expenses)	**47,381**	**42,142**

8. INCOME TAX

	Notes	12 Months 30 Jun 14 $000	9 Months 30 Jun 13 $000
a) Income tax expense			
Recognised in the Statement of Comprehensive Income			
Current tax expense		3,614	2,393
Deferred tax expense/(credit)		631	(2,263)
Income tax expense		**4,245**	**130**
Deferred income tax expense/(credit) included in income tax expense comprises:			
Decrease in deferred tax assets	21	836	1,398
Decrease in deferred tax liabilities	21	(205)	(3,661)
Net deferred tax expense/(credit)		**631**	**(2,263)**
b) Reconciliation of income tax expense to prima facie tax payable			
Profit from continuing operations before income tax expense		**15,020**	**438**
Tax at the New Zealand tax rate of 28%		4,206	123
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
Non-deductible entertainment expense		39	7
Income tax expense		**4,245**	**130**
c) Imputation credits			
Imputation credits available for use in subsequent reporting periods		3,998	1,542
		3,998	**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.

9. CASH AND CASH EQUIVALENTS

	30 Jun 14 $000	30 Jun 13 $000
Cash at bank and cash on hand	1,465	(576)
Short term deposits and deposits on call	23,184	16,381
Total cash and cash equivalents	**24,649**	**15,805**

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

Reconciliation of profit to net cash flows from operating activities

	30 Jun 14 $000	30 Jun 13 $000
Profit for the period	10,775	308
Loss on disposal of non-current assets	29	-
Fair value loss on other financial assets through profit or loss	572	674
Depreciation and amortisation	762	36
Change in operating assets and liabilities		
Decrease/(increase) in receivables	1,112	(2,271)
Decrease in deferred acquisition costs	590	13,075
Decrease/(increase) in deferred tax assets	630	(2,263)
Increase in current tax payable	1,289	959
Decrease in provisions	(4,220)	(4,824)
Increase in payables	709	6,061
Net cash flows from operating activities	**12,248**	**11,755**

10. RECEIVABLES

	30 Jun 14 $000	30 Jun 13 $000
Current		
Premium receivables	1,999	2,321
Other receivables	424	1,059
Provision for impairment loss	(672)	(358)
Prepayments	344	185
Total current assets	**2,095**	**3,207**

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

	30 Jun 14 $000	30 Jun 13 $000
Balance at beginning of period	358	276
Provision for impairment recognised during the period	314	82
Total provision for impairment loss at 30 June	**672**	**358**

Impaired receivables

The ageing of impaired receivables is as below:

	30 Jun 14 $000	30 Jun 13 $000
1 to 3 months	276	251
3 to 6 months	74	83
Over 6 months	322	24
Total impaired receivables	**672**	**358**

11. DEFERRED ACQUISITION COSTS

	30 Jun 14 $000	30 Jun 13 $000
Current		
Deferred acquisition costs	3,008	3,058
Deferred unearned commissions	9,062	8,823
Total current deferred acquisition costs	**12,070**	**11,881**
Non-current		
Deferred acquisition costs	6,161	6,940
Total non-current deferred acquisition costs	**6,161**	**6,940**
Total deferred acquisition costs	**18,231**	**18,821**

	30 Jun 14 $000	30 Jun 13 $000
Balance at beginning of period	18,821	31,896
Acquisition costs deferred during the period	10,705	7,744
Amortisation expense	(11,295)	(8,308)
Prior deferred acquisition costs expensed	-	(12,511)
Total deferred acquisition costs at 30 June	**18,231**	**18,821**

12. PROPERTY, PLANT AND EQUIPMENT

	Plant & Equipment $000	Total $000
Cost		
Balance at 1 July 2013	1,402	1,402
Additions	2,099	2,099
Disposals	(77)	(77)
Balance at 30 June 2014	**3,424**	**3,424**
Depreciation and impairment losses		
Balance at 1 July 2013	(32)	(32)
Depreciation charge for the year	(600)	(600)
Disposals	23	23
Balance at 30 June 2014	**(609)**	**(609)**
Carrying amounts		
At 30 June 2014	**2,815**	**2,815**

12 PROPERTY, PLANT AND EQUIPMENT (continued)

	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 June 2013	**1,370**	**1,370**

13. INTANGIBLE ASSETS

	Software $000	Total $000
Cost		
Balance at 1 July 2013	28	28
Additions	1,913	1,913
Balance at 30 June 2014	**1,941**	**1,941**
Amortisation and impairment losses		
Balance at 1 July 2013	(3)	(3)
Amortisation charge for the year	(185)	(185)
Balance at 30 June 2014	**(188)**	**(188)**
Carrying amounts		
At 30 June 2014	**1,753**	**1,753**

	Software $000	Total $000
Cost		
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 June 2013	**25**	**25**

14. PAYABLES

	30 Jun 14 $000	30 Jun 13 $000
Trade creditors	23	6
Other payables	4,658	2,853
Intercompany payable	350	1,800
Employee benefits	2,008	1,586
Total payables	**7,039**	**6,245**

15. OUTSTANDING CLAIMS LIABILITY

	30 Jun 14 $000	30 Jun 13 $000
Outstanding claims - central estimate of the expected future payment for claims incurred	10,646	10,804
Risk Margin	777	1,111
Claims handling costs	170	184
Gross outstanding claims liability	**11,593**	**12,099**

	30 Jun 14 $000	30 Jun 13 $000
Gross outstanding claims at beginning of period	12,099	10,958
Claims handling costs	(184)	(352)
Risk margin	(1,111)	(522)
Central estimate at beginning of period	**10,804**	**10,084**
Change in claims incurred for prior periods	(1,250)	(1,406)
Claims paid in respect of prior periods	(9,218)	(8,443)
Claims incurred during the period (expected)	89,633	67,797
Claims paid during the period	(79,323)	(57,228)
Central estimate at end of period	**10,646**	**10,804**
Claims handling costs	170	184
Risk margin	777	1,111
Gross outstanding claims at 30 June	**11,593**	**12,099**

Claims handling costs
The estimate of outstanding claims liability 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 margin is intended to provide a 95% probability of sufficiency (2013: 95%).

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

	30 Jun 14 $000	30 Jun 13 $000
Expected claims run off		
Within 3 months	10,116	10,458
3 to 6 months	850	962
6 to 12 months	487	487
After 12 months	140	192
Total outstanding claims at 30 June	**11,593**	**12,099**

15. OUTSTANDING CLAIMS LIABILITY (continued)

Liability adequacy test

A liability adequacy test is 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 of claims 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% (2013: 95%) probability of sufficiency of the unexpired risk liability using the same methodology as described above.

	30 Jun 14	30 Jun 13
Central estimate of the present value of expected future cash flows	59.02%	60.66%
Risk margin	9.00%	9.00%

Unearned premium liabilities as at 30 June 2014 were sufficient (2013: 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 14 $000	30 Jun 13 $000
Current		
Premium payback liability	8,053	9,786
Total current premium payback liability	**8,053**	**9,786**
Non current		
Premium payback liability	35,722	37,703
Total non-current premium payback liability	**35,722**	**37,703**
Total premium payback liability	**43,775**	**47,489**

	30 Jun 14 $000	30 Jun 13 $000
Balance at beginning of period	47,489	53,161
Decrease in premium payback liability in the period represented by:		
New funding	6,499	5,614
Benefits paid	(10,796)	(10,340)
Other	583	(946)
Decrease in premium payback liability in Statement of Comprehensive Income	**(3,714)**	**(5,672)**
Balance at 30 June	**43,775**	**47,489**

16. PREMIUM PAYBACK LIABILITY (continued)

	30 Jun 14 $000	30 Jun 13 $000
Gross premium payback liability at beginning of period	47,489	53,161
Adjustment to ensure reserve exceeds current payout on early lapse	(1,407)	(160)
Value of payments currently being processed	(1,377)	(1,306)
Risk margin	(2,308)	-
Central estimate at beginning of period	**42,397**	**51,695**
New funding	6,499	5,614
Impact from unwinding discount rate	1,943	1,112
Interest rate movement impact	(1,321)	(1,159)
Premium payback payments	(10,796)	(10,340)
Others	839	(4,525)
Central estimate at 30 June	**39,561**	**42,397**
Adjustment to ensure reserve exceeds current payout on early lapse	1,862	1,407
Value of payments currently being processed	1,110	1,377
Risk margin	1,242	2,308
Gross outstanding claims at 30 June	**43,775**	**47,489**

(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	< 1 year $000	1-2 years $000	2-3 years $000	3-5 years $000	> 5 years $000
30 Jun 14	43,775	8,053	5,228	5,080	7,613	17,801
30 Jun 13	47,489	9,786	5,916	4,479	7,994	19,314

Assumptions used in the calculation of the liability adequacy test/cash flow projection:

	30 Jun 14	30 Jun 13
Discount rate for succeeding and following years	3.8 - 4.2% Gross of Tax	3.0 - 3.5% Gross of Tax
Claims and Premium Inflation rate for succeeding and following years	9% p.a.	9% p.a.
Lapse rates	0% to 25% p.a.	0% to 25% p.a.
GST rate	15%	15%
Income Tax rate	28%	28%
Administration expense per customer	$77.10	$74.20
Expense Inflation for succeeding and following years	2% p.a.	2% p.a.

No deficiency was identified as at 30 June 2014 (2013: nil).

17. UNEARNED PREMIUM LIABILITY

	30 Jun 14 $000	30 Jun 13 $000
Current		
Unearned premium liability	15,071	15,156
Total unearned premium liability	**15,071**	**15,156**

	30 Jun 14 $000	30 Jun 13 $000
Balance at beginning of period	15,156	15,439
Deferral of premiums on contracts written in the period	153,734	112,087
Earning of premiums written in previous & current periods	(153,819)	(112,370)
Unearned premium liability as at 30 June	**15,071**	**15,156**

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	30 Jun 14 $000	30 Jun 13 $000
Interest-bearing securities	79,641	80,363
Total financial assets at fair value through profit or loss	**79,641**	**80,363**

19. DERIVATIVE FINANCIAL INSTRUMENTS

	30 Jun 14 Fair value $000	30 Jun 13 Fair value $000
Interest rate swaps (net)	2,229	2,638
Total derivative financial instruments	**2,229**	**2,638**

20. CURRENT TAX

	30 Jun 14 $000	30 Jun 13 $000
Total tax payable during the current period	4,160	2,392
Provisional tax paid during the period	(1,677)	(1,198)
Current tax payable at 30 June	**2,483**	**1,194**

21. DEFERRED TAX

	30 Jun 14 $000	30 Jun 13 $000
Deferred tax assets		
The balance comprises temporary differences attributable to:		
Premium payback liability	11,811	12,854
Deferred tax on premium payback liability	**11,811**	**12,854**
Employee Provisions	385	164
Others	86	100
Sub-total other	**471**	**264**
Total deferred tax assets	**12,282**	**13,118**
Deferred tax assets to be recovered within 12 months	2,725	3,004
Deferred tax assets to be recovered after more than 12 months	9,557	10,114
Total deferred tax assets	**12,282**	**13,118**

21. DEFERRED TAX (continued)

	30 Jun 14 $000	30 Jun 13 $000
Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Deferred acquisition costs	2,567	2,800
Deferred unearned commission	2,498	2,470
Total deferred tax liabilities	**5,065**	**5,270**
Deferred tax liabilities to be recovered within 12 months	3,340	3,327
Deferred tax liabilities to be recovered after more than 12 months	1,725	1,943
Total deferred tax liabilities	**5,065**	**5,270**
Net deferred tax assets	**7,217**	**7,848**

Deferred tax movements during the period:

Movements	Employee benefits $000	Premium payback reserves $000	Others $000	Total $000
Balance at 1 July 2013	164	12,854	100	13,118
(Charged)/credited to the Statement of Comprehensive Income	221	(1,043)	(14)	(836)
At 30 June 2014	**385**	**11,811**	**86**	**12,282**
Balance 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
Balance at 1 July 2013	5,270	5,270
Credited to the Statement of Comprehensive Income	(205)	(205)
At 30 June 2014	**5,065**	**5,065**
Balance at 1 October 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 14 $000	30 Jun 13 $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 (2013: 32 million). All issued shares are fully paid. There is one class of ordinary share. All shares issued carry equal voting rights. Ordinary shares have no par value.

23. RETAINED PROFITS

	30 Jun 14 $000	30 Jun 13 $000
Balance at beginning of period	15,894	31,886
Comprehensive income	10,775	308
Dividends	-	(16,300)
Balance at 30 June	**26,669**	**15,894**

24. DIVIDENDS

	30 Jun 14 $000	30 Jun 13 $000
Interim dividend - 2014: Nil (2013: 26 December 2012)	-	9,600
Final dividend - 2014: Nil (2013: 30 June 2013)	-	6,700
Total dividends paid for the period	**-**	**16,300**

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 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

The Company is controlled by nib nz holdings limited (formerly nib nzed limited) which owns 100% of the Company's shares. During the year there have been transactions between the Company and its parent and ultimate parent, nib holdings limited (incorporated in Australia) 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.

a) Related party transactions

The Company enters into transactions with its related parties in the normal course of business. No debts have been written off or forgiven during the year. Transactions during the year are shown below:

	30 Jun 14 $000	30 Jun 13 $000	Nature of Relationship	Type of Transactions
nib holdings limited (Australia)	1,014	1,583	Ultimate parent	Management fees paid
nib holdings limited (Australia)	302	217	Ultimate parent	Reimbursement of expenses paid
nib nz holdings limited	-	16,300	Parent	Dividends paid

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.

	30 Jun 14 $000	30 Jun 13 $000	Nature of Relationship	Type of Transactions
nib holdings limited (Australia)	350	1,800	Ultimate parent	Management fees and expenses payable
nib nz holdings limited	-	(290)	Parent	Reimbursement of payments receivable

26. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

c) Key management personnel compensation

The remuneration of key management personnel, including Directors, during the period was as below:

	12 Months 30 Jun 2014 $000	9 Months 30 Jun 2013 $000
Salaries and short-term employee benefits	543	60
Share-based payments	21	-
Independent directors fees	197	96
Total key management compensation[1] and directors fees	**761**	**156**

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

Key management personnel may be entitled to equity instruments in the form of shares of nib holdings limited (refer to note 27a)

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 (refer to note 26a).

d) Loans to key management personnel

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

e) Other transactions with key management personnel and Directors

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

27. SHARE BASED PAYMENTS

a) Long-term incentive plan (LTIP)

Performance rights to acquire shares in nib holdings limited are granted to Executives under the Long Term Incentive Plan (LTIP). The nib LTIP is designed to align the interests of executives and shareholders and to assist nib in the attraction, motivation and retention of executives.

The LTIP participants are granted performance rights which enable the Executives to acquire shares in nib holdings limited for nil consideration if performance conditions are met and the employees are still employed by the nib group at the end of the vesting period. The vesting date may be accelerated at the nib holdings limited Board's discretion in the event of death of a participant, cessation of employment for other reasons; including total and permanent disablement, redundancy and retirement. The vesting date will also be accelerated on winding up, delisting, change of control and reconstruction or amalgamation.

Participation in the plan is at the nib holdings limited Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

The nib Holdings Ltd Share Ownership Plan Trust administers the whole Group's Executive management Short-Term and Long-Term Incentive Share Plans. The Trust has been consolidated in the ultimate parent (nib holdings limited) annual financial statements.

Set out below is a summary of performance rights granted under the plan:

Grant date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at the end of the year Number	Vested and exercisable at end of the year Number
29/11/2013	1/09/2017	-	-	57,316	-	-	57,316	-

27. SHARE BASED PAYMENTS (continued)

b) Employee share purchase scheme (ESPS)

The ESPS plan rules were adopted on 7 November 2013. On 9 December 2013, eligible employees were offered the opportunity to receive part of their salary in the form of shares of nib holdings limited. All full time and permanent part-time employees who were an employee as at 9 December 2013 and the date shares were allocated to employees were eligible to participate in the scheme. Employees may elect not to participate in the scheme.

ESPS is administered by the Board of nib holdings limited. Shares granted to the employees by the nib holdings limited Board were acquired on-market via a third party trustee plan company.

Under the ESPS plan, participating employees were allocated an aggregate market value up to $1,000 worth of fully paid ordinary shares in nib holdings limited. Subsequent offers under ESPS are at the nib holdings limited Board's discretion.

On 20 June 2014, eligible employees were offered the opportunity to purchase $1,000 worth of fully paid ordinary shares of nib holdings limited (FY15 Scheme). Employees may elect not to participate in the scheme.

Shares issued under the scheme may not be sold until the earlier of three years after issue or cessation of employment. In all other respects shares rank equally with other fully-paid ordinary shares on issue.

	30 Jun 14	30 Jun 13
Number of shares purchased on market under the plan to participating employees	42,126	-

The shares were allocated on 26 February 2014 following nib holdings limited FY14 half year result presentation at a volume weighted average price of $2.58 and the shares were settled in cash.

c) Salary sacrifice plan (NZ) rules and matching plan (NZ)

The plan rules were adopted on 28 October 2013. On 9 December 2013, business unit managers were offered the opportunity to receive part of their salary in the form of nib holdings limited shares, with an additional amount of shares contributed by the Company. Employees may elect not to participate in the scheme.

The plan is administered by the Board of nib holdings limited. Shares granted to the employees by the nib holdings limited Board were acquired on-market via a third party trustee plan company.

Under the plan, participating employees were allocated an aggregate market value up to $10,000 worth of fully paid ordinary shares in nib holdings limited, made up of $5,000 salary sacrifice and $5,000 matching company component. Subsequent offers under the plan are at the Board's discretion.

On 20 June 2014, participating employees were allocated an aggregate market value up to $10,000 worth of fully paid ordinary shares of nib holdings limited (FY15 Scheme). Employees may elect not to participate in the scheme. The offer closed on 30 June 2014.

Shares issued under the scheme may not be sold until the earlier of three or seven years after issue, or cessation of employment. In all other respects shares rank equally with other fully-paid ordinary shares on issue.

	30 Jun 14	30 Jun 13
Number of shares purchased on market under the plan to participating employees	2,938	-

The shares were allocated over the period at a volume weighted average price of $2.81 and settled in cash.

d) Short-term performance incentive (STI)

Eligible employees have a STI opportunity. For the CEO the maximum target bonus opportunity is 40% of the base remuneration package with 30% of the calculated entitlement deferred into shares for one year.

The nib Holdings Ltd Share Ownership Plan Trust administers the Group's Executive management Short-Term Incentive and Long-Term Incentive Share Plans. The Trust has been consolidated into nib holdings limited financial statements.

27. SHARE BASED PAYMENTS (continued)

d) Short-term performance incentive (STI) (continued)

Shares issued by the trust to the employees are acquired on-market prior to the issue. Shares held by the trust and not yet issued to employees at the end of the reporting period are shown as treasury shares in nib holdings limited financial statements.

Shares were purchased on market and brokerage fees are borne by nib health funds limited.

e) Expenses arising from share-based payments transactions

	30 Jun 14	30 Jun 13
	$000	$000
Shares purchased on market under share based payments schemes	119	-
nib salary matching plan trust deed	9	-
Total expenses arising from share-based payments transactions	**128**	**-**

28. OPERATING LEASE COMMITMENTS

	30 Jun 14	30 Jun 13
	$000	$000
Commitments for minimum lease payments are payable as follows:		
- not longer than one year	827	-
- longer than one year and not longer than five years	4,685	-
- longer than five years	1,102	-
Total operating lease commitments	**6,614**	**-**

The Company entered into an agreement to lease new Auckland premises for a lease term of 6 years commencing 1st November 2014. The agreement to lease provides for a rent review every 3 years based on prevailing market value rates at the time of review.

29. 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 have 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.

30. INSURER FINANCIAL STRENGTH RATING

The Company has an insurer financial strength rating of 'A-' (Excellent) issued by A.M. Best Company Inc. The rating has an effective date of 5 September 2013.

31. REMUNERATION OF AUDITORS

	30 Jun 14 $000	30 Jun 13 $000
1. Audit and review services		
Audit and half year review of financial report	156	193
Total remuneration for audit and review services	**156**	**193**
2. Audit-related services		
Audit of regulatory returns	12	19
Total remuneration for audit-related services	**12**	**19**
Taxation services		
Tax compliance services	68	80
Total remuneration for taxation services	**68**	**80**
Total remuneration for non-audit services	**80**	**99**
Total remuneration for audit and non-audit services	**236**	**292**

32. CAPITAL MANAGEMENT AND SOLVENCY

The Company is required to comply with the Solvency Standard 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 $58.669 million at 30 June 2014 (2013: $47.894 million). After this capital is adjusted for deductions required under the Solvency Standard, the Company has Solvency Capital of $31.813 million (2013: $22.294 million). This compares to a Minimum Solvency Capital required under the Solvency Standard of $8.404 million (2013: $10.068 million) equating to a Solvency Coverage Ratio of 3.79x (2013: 2.21x).

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 plus $10 million.

Capital in excess of the benchmark, taking a 12 month forward looking view, will be reduced by way of dividend to nib nz holdings limited, unless management decide to retain funds for strategic purposes. The Company paid no dividends to nib nz holdings limited for the year ended 30 June 2014 (2013: $16.3 million).

	30 Jun 2014 $000	30 Jun 2013 $000
Actual solvency capital	31,813	22,294
Minimum solvency capital	8,404	10,068
Solvency Capital	**23,409**	**12,226**
Solvency coverage ratio	3.79	2.21
Internal benchmark	1.75+$10m	1.75
Internal benchmark requirement	24,707	17,620
Surplus assets over internal benchmark	7,106	4,674

33. COMPANY DETAILS

The Company changed its legal name from TOWER Medical Insurance Limited to nib nz limited as of 30 September 2013.

nib nz limited is a profit-oriented company incorporated in New Zealand under the New Zealand Companies Act 1993. The address of its registered office is:

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

finity

5 August 2014

Mr Nick Cory
Chief Financial Officer
nib nz limited
Level 3, 22 Fanshawe Street
AUCKLAND 1141

Dear Nick

Review of Actuarial Information contained in the Financial Statements as at 30 June 2014

Finity Consulting Pty Limited (Finity) has been asked by nib nz limited (nib nz) to carry out a review of the 30 June 2014 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 nib nz. Jamie Reid and Finity have no relationship with nib nz apart from the Appointed Actuary role.

nib nz'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 2014 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
- nib nz 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.

Finity Consulting Pty Limited
ABN 89 111 470 270
www.finity.com.au
www.finityconsulting.co.nz

Sydney
Level 7, 155 George Street
The Rocks NSW 2000
Ph + 61 2 8252 3300
Fax + 61 2 8252 3399

Melbourne
Level 3, 30 Collins Street
Melbourne VIC 3000
Ph + 61 3 8080 0900
Fax + 61 3 8080 0999

Auckland
Level 27, 188 Quay Street
Auckland 1010
Ph + 64 9 363 2894
Fax + 64 9 363 2895

finity

This report is being provided for the sole use of nib nz 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