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nib nz limited

Financial Statements
For the Year Ended 30 June 2016

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Directors' Declaration

For the year ended 30 June 2016
nib nz limited

The Directors of nib nz limited present their report and financial statements of the Company for the year ended 30 June 2016.

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

The after tax profit for the year was $15.3 million (2015: $9.5 million). Shareholders' equity at the end of the year totalled $86.2 million (2015: $66.2 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
- Anthony Ryall

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

For and on behalf of the Board

Anthony Ryall
Director

Harold Bentley
Director

18 August 2016

Independent Auditor's Report

to the shareholder of nib nz limited

Report on the Financial Statements

We have audited the financial statements of nib nz limited (the "Company") on pages 7 to 44, which comprise the balance sheet as at 30 June 2016, the statement of comprehensive income, the statement of changes in equity and the 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 and fair presentation of these financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). 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 and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 are independent of the Company. Our firm carries out other services for the Company in the areas of other assurance and taxation services. These services have not impaired our independence as auditor of the Company.

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Independent Auditor's Report

nib nz limited

Opinion

In our opinion, the financial statements on pages 7 to 44 present fairly, in all material respects, the financial position of the Company as at 30 June 2016, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.

Restriction on Use of our Report

This report is made solely to the Company's shareholder in accordance with the Companies Act 1993. Our audit work has been undertaken so that we might state 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
18 August 2016

Auckland

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Statement of Comprehensive Income

For the year ended 30 June 2016

nib nz limited

	Notes	30 Jun 16 $000	30 Jun 15 $000
Premium revenue	6	189,057	161,558
Outwards reinsurance premium expense	6	(6)	(1)
Net premium revenue	6	**189,051**	**161,557**
Claims expenses		(131,912)	(104,116)
Decrease/(increase) in premium payback liability	16	17,138	(2,002)
Claims handling expenses	7	(1,604)	(1,244)
Net claims incurred		**(116,378)**	**(107,362)**
Acquisition costs	7	(30,241)	(27,491)
Other underwriting expenses	7	(23,855)	(18,966)
Underwriting expenses		**(54,096)**	**(46,457)**
Underwriting result		**18,577**	**7,738**
Other income	6	191	49
Amortisation of intangible assets	7	(1,894)	(592)
Operating profit		**16,874**	**7,195**
Investment income	6	4,825	6,692
Investment expenses	7	(145)	(402)
Profit before income tax		**21,554**	**13,485**
Income tax expense	8	(6,242)	(3,969)
Profit for the year attributable to the owner of the Company		**15,312**	**9,516**
Total Comprehensive Income for the year attributable to:			
Owner of nib nz limited		**15,312**	**9,516**

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

Balance Sheet
As at 30 June 2016
nib nz limited

	Notes	30 Jun 16 $000	30 Jun 15 $000
ASSETS			
Current assets			
Cash and cash equivalents	9	10,930	18,730
Receivables	10	2,863	2,414
Deferred acquisition costs	11	14,333	12,984
Financial assets at fair value through profit or loss	18	85,670	94,783
Total current assets		**113,796**	**128,911**
Non-current assets			
Deferred acquisition costs	11	8,535	6,337
Property, plant and equipment	12	3,031	4,215
Intangible assets	13	36,571	3,960
Deferred tax assets	20	-	7,123
Total non-current assets		**48,137**	**21,635**
Total assets		**161,933**	**150,546**
LIABILITIES			
Current liabilities			
Payables	14	8,213	8,943
Outstanding claims liability	15	16,175	11,720
Premium payback liability	16	10,742	11,710
Unearned premium liability	17	17,892	15,484
Current tax payable	19	469	2,278
Total current liabilities		**53,491**	**50,135**
Non-current liabilities			
Deferred tax liabilities	20	4,060	-
Outstanding claims liability	15	139	159
Premium payback liability	16	17,897	34,067
Unearned premium liability	17	149	-
Total non-current liabilities		**22,245**	**34,226**
Total liabilities		**75,736**	**84,361**
Net assets		**86,197**	**66,185**
EQUITY			
Contributed equity	21	51,200	32,000
Retained profits	22	34,997	34,185
Total equity		**86,197**	**66,185**

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

Statement of Changes in Equity
For the year ended 30 June 2016
nib nz limited

	Notes	Contributed Equity $000	Retained Profits $000	Total Equity $000
Balance at 1 July 2015		**32,000**	**34,185**	**66,185**
New shares issued	21	**19,200**	**-**	**19,200**
Profit for the year		-	15,312	15,312
Total comprehensive income for the year		**-**	**15,312**	**15,312**
Transactions with owners in their capacity as owners:				
Dividends declared	23	-	(14,500)	(14,500)
Total transactions with owners		**-**	**(14,500)**	**(14,500)**
Balance at 30 June 2016		**51,200**	**34,997**	**86,197**

	Notes	Contributed Equity $000	Retained Profits $000	Total Equity $000
Balance at 1 July 2014		**32,000**	**26,669**	**58,669**
Profit for the year		-	9,516	9,516
Total comprehensive income for the year		**-**	**9,516**	**9,516**
Transactions with owners in their capacity as owners:				
Dividends paid	23	-	(2,000)	(2,000)
Total transactions with owners		**-**	**(2,000)**	**(2,000)**
Balance at 30 June 2015		**32,000**	**34,185**	**66,185**

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

Statement of Cash Flows
For the year ended 30 June 2016
nib nz limited

	Notes	30 Jun 16 $000	30 Jun 15 $000
Cash flows from operating activities			
Receipts from policyholders		219,996	185,555
Payments to policyholders		(147,855)	(119,403)
Payments to suppliers and employees		(68,418)	(57,464)
Interest received		4,092	4,818
Income taxes paid		(2,301)	(4,079)
Other receipts		89	1,044
Net cash inflow from operating activities	9	**5,603**	**10,471**
Cash flows from investing activities			
Proceeds from sale of financial assets at fair value through the profit and loss		66,829	72,239
Payments for purchase of financial assets at fair value through the profit and loss		(56,998)	(83,276)
Payments for property, plant and equipment and intangibles		(3,263)	(5,353)
Payments for acquisition of business combination	28	(24,670)	-
Proceeds from disposal of property, plant and equipment		(1)	-
Net cash outflow from investing activities		**(18,103)**	**(16,390)**
Cash flows from financing activities			
Proceeds from issued share capital		19,200	-
Dividends paid to the company's shareholders		(14,500)	-
Net cash inflow from financing activities		**4,700**	**-**
Net decrease in cash and cash equivalents		(7,800)	(5,919)
Cash and cash equivalents at beginning of the year		18,730	24,649
Cash and cash equivalents at end of the year	9	**10,930**	**18,730**

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

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. The principal activity of the Company is providing health insurance.

The financial statements were authorised for issue by the Board of Directors on 18 August 2016.

a) Basis of preparation of the report

nib nz limited (the Company) is a for profit company incorporated in New Zealand under the New Zealand Companies Act 1993. The Company has adopted Financial Market Conduct ("FMC") reporting requirements under part 7 of the Financial Markets Conduct Act 2013 as the Company is an insurance company and an FMC reporting entity. The financial statements of the Company have been prepared in accordance with the requirements of part 7 of the Financial Market Conduct Act 2013.

The Company has adopted External Reporting Board Standard A1 "Application of the Accounting Standards Framework ('XRB A1'). The Company applies Tier 1 as the Company is deemed to have public accountability as a 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 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 Company's accounting policies.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the 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 income

Investment income 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) Outwards reinsurance premiums

Premiums ceded to reinsurance contracts held by the Company are recognised as an outwards reinsurance expense and are recognised in the Statement of Comprehensive Income from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk ceded.

e) 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).

f) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, incurred but not reported (IBNR), and unexpired risk liabilities are recognised as revenue. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

g) 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.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

h) 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.

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.

i) 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.

j) 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.

k) 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
Leasehold improvements	3-6 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.

l) Intangible assets

(i) Goodwill
Goodwill arises on acquisition and represents the excess of the consideration transferred over the fair value of the Company's share of the net identifiable assets of the acquired business at the date of the acquisition. Goodwill on acquisitions of business combinations is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, and is carried at cost less accumulated impairment losses.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

(ii) Software
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 of materials and service and direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis over periods ranging from two and a half years to five years.

(iii) Customer contracts
Customer contracts acquired as part of a business combination are recognised separately from goodwill. The customer contracts are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of projected cash flows of the contracts over their estimated useful lives, which is approximately 10 to 15 years.

m) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the business acquired. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Company recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, over the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Company's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

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

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently re-measured to fair value with changes in fair value recognised in the Statement of Comprehensive Income.

n) Assets backing insurance liabilities

The Company has determined that all financial assets at fair value through profit or 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.

o) 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 premiums 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) 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.

(iii) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(iv) 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.

p) 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.

q) 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 premium receivables, the carrying amount is reduced by the impairment loss directly. For premium receivables the carrying amount is reduced via an allowance account, against which an uncollectible premium receivable is written off.

A premium 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 premium 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 premium receivables previously written off are recognised in the Statement of Comprehensive Income.

r) 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).

s) 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.

t) 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.

u) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

v) Share based payments

Share based compensation benefits are provided to eligible employees via the Employee Share Purchase Scheme, the nib Salary Sacrifice Plan and Matching Plan and the Short-Term Performance Incentive. Shares are acquired on-market and expensed. The fair value of performance rights granted to NZ employees under the nib holdings (ultimate Parent Company) Long-Term Incentive Plan are recognised as an expense. The nib holdings Long-Term Incentive Plan is administered by the nib Holdings Ltd Share Ownership Plan Trust. When the performance rights are exercised, the trust transfers the appropriate amount of shares to the employee. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. Information related to these plans is set out in note 26.

w) 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 risk margin is intended to provide 95% probability of sufficiency.

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.

x) 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.

y) 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).

z) Contributed equity

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

aa) Dividend distribution

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

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 30 June 2016 reporting periods. The Company has not early adopted them, and are not expected to be adopted until their effective dates.

(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 believes there is no significant impact on the financial statements.
(ii) NZ IFRS 15 'Revenue from Contracts with Customers' (effective from 1 January 2018). The new standard is based on the principle that revenue is recognised when control of goods or services transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The Company's premium revenue is recognised under NZ IFRS 4 Insurance Contracts which is out of scope of NZ IFRS 15.
(iii) NZ IFRS 16 'Leases' (effective from 1 January 2019). The new standard recognises all leases on the balance sheet except short term leases and leases of low value assets. The impact on the Company is being investigated.

There are no other standards that are expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future contracts.

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.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

b) Deferred acquisition costs (continued)

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.

d) Estimated impairment of goodwill

The Company tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 1(q). The recoverable amounts of cash-generating units have been determined based on a value-in-use calculation. Details of specific assumptions are include in note 13.

e) Customer contracts

Customer contracts are carried at fair value at date of acquisition less accumulated amortisation. The Company is required to test, on an annual basis, whether the customer contracts have suffered any impairment. The recoverable amount is determined based on recalculating the value of the contracts on the same basis as the original valuation, updated for latest forecasts. Assumptions used in determining value include lapse rate, premium inflation and claims ratios as a basis for the estimation of future cash flows and determination of a discount rate. Refer to note 13(b) for more information on carrying value.

Customer contracts acquired as part of a business combination are recognised separately from goodwill. The customer contracts are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of projected cash flows of the contracts over their estimated useful lives, which is approximately fifteen years.

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 2016 and 30 June 2015 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.

4. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

a) Outstanding claims

	30 Jun 16	30 Jun 15
The weighted average expected term to settlement of outstanding claims based on historical trends is:	1.55 months	1.65 months

Actuarial methods

In calculating the estimated cost of unpaid claims for the Company, two methods are used. For service months April 2016 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 2016 and June 2016, 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 Jun 16		30 Jun 15	
	Surgical	Medical	Surgical	Medical
NZ Health Insurance	%	%	%	%
Assumed proportion paid to date	87.5%	79.9%	89.3%	79.7%
Claims handling costs	2.0%	2.0%	1.8%	1.8%
Risk margin	8.2%	8.2%	9.9%	9.9%

The risk margin (before diversification) of 8.2% (2015: 9.9%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% (2015: 95%).

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 tables below describe 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.

4. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

a) Outstanding claims (continued)

Sensitivity analysis – outstanding claims (continued)

(ii) Impact of key variables

		Profit 30 Jun 16 $000		Equity 30 Jun 16 $000
Recognised amounts in the financial statements		15,312		86,197

Variable	Movement in variable	Adjustments	Adjusted amounts	Adjustments	Adjusted amounts
		$000	$000	$000	$000
Chain Ladder Development Factors	+0.5%	(352)	14,960	(352)	85,845
	-0.5%	400	15,712	400	86,597
Bornhuetter-Ferguson Unpaid Factors	+2.0%	(170)	15,142	(170)	86,027
	-2.0%	217	15,529	217	86,414
Claims handling costs	+1.0%	(118)	15,194	(118)	86,079
	-1.0%	118	15,430	118	86,315
Risk margin	+1.0%	(111)	15,201	(111)	86,086
	-1.0%	111	15,423	111	86,308

		Profit 30 Jun 15 $000		Equity 30 Jun 15 $000
Recognised amounts in the financial statements		9,516		66,185

Variable	Movement in variable	Adjustments	Adjusted amounts	Adjustments	Adjusted amounts
		$000	$000	$000	$000
Chain Ladder Development Factors	+0.5%	(289)	9,227	(289)	65,896
	-0.5%	289	9,805	289	66,474
Bornhuetter-Ferguson Unpaid Factors	+2.0%	(246)	9,270	(246)	65,939
	-2.0%	246	9,762	246	66,431
Claims handling costs	+1.0%	(86)	9,430	(86)	66,099
	-1.0%	86	9,602	86	66,271
Risk margin	+1.0%	(80)	9,436	(80)	66,105
	-1.0%	80	9,596	80	66,265

4. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

b) Premium payback liability

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

Impact of key variables

Actuarial assumptions

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

	30 Jun 16	30 Jun 15
Lapse rate up to 3 years from premium payback date	2.0% - 10.0%	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	2.0% - 2.0%	2.8% - 3.1%
Risk margin	3.8%	4.6%

The risk margin has been estimated to equate to a 95% probability of sufficiency (2015: 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 an inverse 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 an inverse 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 a corresponding impact on the premium payback liability.

		Profit 30 Jun 16 $000		Equity 30 Jun 16 $000
Recognised amounts in the financial statements		15,312		86,197

Variable	Movement in variable	Adjustments	Adjusted amounts	Adjustments	Adjusted amounts
		$000	$000	$000	$000
Lapse rate	+1.0%	612	15,924	612	86,809
	-1.0%	(661)	14,651	(661)	85,536
Discount rate	+1.0%	962	16,274	962	87,159
	-1.0%	(1,093)	14,219	(1,093)	85,104
Risk margin	+1.0%	(198)	15,114	(198)	85,999
	-1.0%	198	15,510	198	86,395

4. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

b) Premium payback liability (continued)

	Profit 30 Jun 15 $000	Equity 30 Jun 15 $000
Recognised amounts in the financial statements	**9,516**	**66,185**

Variable	Movement in variable	Adjustments	Adjusted amounts	Adjustments	Adjusted amounts
		$000	$000	$000	$000
Lapse rate	+1.0%	903	10,419	903	67,088
	-1.0%	(970)	8,546	(970)	65,215
Discount rate	+1.0%	1,335	10,851	1,335	67,520
	-1.0%	(1,583)	7,933	(1,583)	64,602
Risk margin	+1.0%	(319)	9,197	(319)	65,866
	-1.0%	319	9,835	319	66,504

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 below.

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

nib's Board of Directors determines the Company's overall risk appetite and approves the risk management strategies, policies and practices to ensure that risks are identified and managed within the context of this appetite.

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 nib's risk management framework having regard to nib's risk management culture;
(ii) the identification and assessment of the material risks facing nib considered against nib's risk appetite; and
(iii) the appropriate level of reporting on the performance and application of the risk management system throughout nib; and
(iv) the review of customer complaints having regard to the nature and reason for the complaints.

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 Company's Risk & Compliance Framework Policy is based on a three lines of defence model. The three lines of defence model provides defined risk ownership responsibilities with functionally independent oversight and assurance.

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 claims expenditure in the future.

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

5. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

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.

In addition to the risk management policies and procedures adopted to manage insurance risk the provision of private health is governed by the Insurance *(Prudential Supervision) Act 2010* which requires an insurer to be licenced and requires a licenced insurer to:

(i) Maintain and disclose a financial strength rating;
(ii) Maintain a fit and proper policy, which apply to Directors and other relevant officers;
(iii) Maintain a risk management program;
(iv) Have an appointed actuary and ensure the actuarial information contained in or used in the preparation of financial statements is reviewed by the appointed actuary; and
(v) Maintain a solvency margin over the minimum capital required under the solvency standards for non-life business issued by the Reserve Bank of New Zealand.

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.

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 180 days past due. Receivables between 30 and 180 days past due are provided for based on estimated irrecoverable amounts determined by reference to past due default experience.

5. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

(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:

	30 Jun 16 $000	30 Jun 15 $000
Cash and cash equivalents	10,930	18,730
Premium receivables	2,251	2,057
Other receivables	275	153
Intercompany receivables	9	-
Interest-bearing securities	85,670	94,783
Total credit risk	**99,135**	**115,723**

(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.

Premium & other receivables	30 Jun 16 $'000	30 Jun 15 $'000
Counterparties with external credit rating	176	-
Counterparties without external credit rating		
Group 1 - new debtors*	-	-
Group 2 - existing debtors with no defaults in the past**	2,257	2,113
Group 3 - existing debtors with some defaults in the past**	102	97
Total premium & other receivables	**2,535**	**2,210**

* new debtors are those where the relationship with nib nz is less than 6 months

** existing debtors are those where the relationship with nib nz is greater than 6 months

Cash at bank and short-term bank deposits		
AA-	10,930	-
AA	-	18,730
Total cash at bank and short-term bank deposits	**10,930**	**18,730**

Financial assets at fair value through profit or loss		
Interest-bearing securities		
AA-	45,979	-
AA	4,626	48,458
AA+	14,343	-
AAA	20,722	46,325
Total financial assets at fair value through profit or loss	**85,670**	**94,783**

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.

(i) Maturities of financial liabilities

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

5. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

As at 30 June 2016	≤ 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	779	-	-	-	-	779	779
Other payables	3,734	204	87	408	-	4,433	4,433
Intercompany payables	1,341	-	-	-	-	1,341	1,341
Employee benefits	77	1,301	282	-	-	1,660	1,660
Total financial liabilities	**5,931**	**1,505**	**369**	**408**	**-**	**8,213**	**8,213**

As at 30 June 2015	≤ 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	347	-	-	-	-	347	347
Other payables	3,596	436	111	506	-	4,649	4,649
Intercompany payables	2,495	-	-	-	-	2,495	2,495
Employee benefits	66	785	601	-	-	1,452	1,452
Total financial liabilities	**6,504**	**1,221**	**712**	**506**	**-**	**8,943**	**8,943**

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 and premium payback liability. There is an interest bearing component of financial assets at fair value through profit or loss. The Company received advice from its asset management consultant, Nikko Asset Management New Zealand Limited (2015: Fisher Funds Management 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 table below summarises the sensitivity of the Company's financial assets and financial liabilities to interest rate risk:

	30 Jun 16					30 Jun 15				
Interest rate risk		-100bps		+100bps			-100bps		+100bps	
	Carrying amount $000	Profit $000	Equity $000	Profit $000	Equity $000	Carrying amount $000	Profit $000	Equity $000	Profit $000	Equity $000
Financial assets										
Cash and cash equivalents	10,930	(79)	(79)	79	79	18,730	(135)	(135)	135	135
Financial assets at fair value through profit or loss	85,670	1,220	1,220	(1,172)	(1,172)	94,783	1,337	1,337	(1,284)	(1,284)
Financial liabilities										
Premium payback liability	28,639	(1,093)	(1,093)	962	962	45,777	(1,583)	(1,583)	1,335	1,335
Total increase / (decrease)		**48**	**48**	**(131)**	**(131)**		**(381)**	**(381)**	**186**	**186**

5. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

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 2016	Level 1 $000	Level 2 $000	Total $000
Financial assets at fair value through profit or loss			
Interest-bearing securities	73,125	12,545	85,670
Total assets	**73,125**	**12,545**	**85,670**

As at 30 June 2015	Level 1 $000	Level 2 $000	Total $000
Financial assets at fair value through profit or loss			
Interest-bearing securities	38,930	55,853	94,783
Total assets	**38,930**	**55,853**	**94,783**

There were no transfers between Level 1 and Level 2 during the year ended 30 June 2016.

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. 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.

The fair value of financial instruments traded in active markets (such as financial assets at fair value through profit or 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

	30 Jun 16 $000	30 Jun 15 $000
Premium revenue	189,057	161,558
Outwards reinsurance premiums	(6)	(1)
Net premium revenue	**189,051**	**161,557**
Investment income		
Interest	4,107	4,816
Net realised gain/(loss)on financial assets at fair value through profit or loss	1,372	(1,073)
Net unrealised (loss)/gain on financial assets at fair value through profit or loss	(654)	2,949
Total investment income	**4,825**	**6,692**
Other income		
Management fees income	76	44
Commission income	115	5
Total other income	**191**	**49**

7. EXPENSES

	30 Jun 16 $000	30 Jun 15 $000
Expenses by function		
Claims handling expenses	1,604	1,244
Investment expenses	145	402
Acquistion costs including marketing expenses	30,241	27,491
Other underwriting expenses	23,855	18,966
Amortisation of intangible assets	1,894	592
Total expenses (excluding direct claims expenses)	**57,739**	**48,695**
Expenses by nature		
Employee costs	15,266	13,892
Depreciation and amortisation	3,177	1,662
Net loss on disposal of property, plant and equipment	1	84
Operating lease rental expenses	899	810
Marketing expenses	5,946	5,259
Commissions	24,343	20,684
Consultancy fees	1,127	795
Legal expenses	357	387
Investment expenses	145	402
Foreign exchange losses	6	47
Administration fee	1,230	-
Other	5,242	4,673
Total expenses (excluding direct claims expenses)	**57,739**	**48,695**

8. INCOME TAX

	30 Jun 16 $000	30 Jun 15 $000
a) Income tax expense		
Recognised in the Statement of Comprehensive Income		
Current tax expense	492	3,875
Deferred tax expense	5,750	94
Income tax expense	**6,242**	**3,969**
Deferred income tax expense included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	4,681	(500)
Increase in deferred tax liabilities	1,069	594
Net deferred tax expense	**5,750**	**94**
b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	**21,554**	**13,485**
Tax at the New Zealand tax rate of 28%	6,035	3,776
Tax effect of amounts w hich are not deductible (taxable) in calculating taxable income:		
Other non-deductible expenses	207	193
Income tax expense	**6,242**	**3,969**
c) Imputation credits		
Imputation credits available for use in subsequent reporting periods	6,533	6,511
Total imputation credits available	**6,533**	**6,511**

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 16 $000	30 Jun 15 $000
Cash at bank and cash on hand	753	2,331
Short term deposits and deposits on call	10,177	16,399
Total cash and cash equivalents	**10,930**	**18,730**

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 16 $000	30 Jun 15 $000
Profit for the year	15,312	9,516
Loss on disposal of non-current assets	1	84
Fair value gain on financial assets through profit or loss	(718)	(1,876)
Depreciation and amortisation	3,177	1,662
Change in operating assets and liabilities		
Increase in receivables	(449)	(319)
Increase in deferred acquisition costs	(3,547)	(1,090)
Decrease in deferred tax assets	5,751	94
Decrease in current tax payable	(1,809)	(205)
(Decrease)/Increase in insurance provisions	(11,403)	2,701
Decrease in payables	(712)	(96)
Net cash flows from operating activities	**5,603**	**10,471**

10. RECEIVABLES

	30 Jun 16 $000	30 Jun 15 $000
Current		
Premium receivables	2,763	2,376
Other receivables	275	266
Provision for impairment loss	(512)	(432)
Prepayments	328	204
Intercompany receivable	9	-
Total receivables	**2,863**	**2,414**

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

	30 Jun 16 $000	30 Jun 15 $000
Opening balance beginning of the year	432	672
Provision for impairment recognised during the year	119	74
Receivables written off during the year as uncollectible	(28)	(179)
Unused amount reversed	(11)	(135)
Total provision for impairment at 30 June	**512**	**432**

10. RECEIVABLES (continued)

Impaired receivables

The ageing of impaired receivables is as below:

	30 Jun 16 $000	30 Jun 15 $000
1 to 3 months	262	235
3 to 6 months	130	91
Over 6 months	120	106
Total impaired receivables	**512**	**432**

11. DEFERRED ACQUISITION COSTS

	30 Jun 16 $000	30 Jun 15 $000
Current		
Deferred acquisition costs	3,779	3,056
Deferred unearned commissions	10,554	9,928
Total current deferred acquisition costs	**14,333**	**12,984**
Non-current		
Deferred acquisition costs	8,535	6,337
Total non-current deferred acquisition costs	**8,535**	**6,337**
Total deferred acquisition costs at 30 June	**22,868**	**19,321**

	30 Jun 16 $000	30 Jun 15 $000
Balance at beginning of the year	19,321	18,231
Acquisition costs deferred during the year	16,391	12,409
Amortisation expense	(12,844)	(11,319)
Total deferred acquisition costs at 30 June	**22,868**	**19,321**

12. PROPERTY, PLANT AND EQUIPMENT

	Plant & Equipment $000	Leasehold Improvements $000	Total $000
Cost			
Balance at 1 July 2015	4,302	1,428	5,730
Additions	116	-	116
Disposals	(43)	-	(43)
Balance at 30 June 2016	**4,375**	**1,428**	**5,803**
Depreciation and impairment losses			
Balance at 1 July 2015	(1,356)	(159)	(1,515)
Depreciation charge for the year	(1,045)	(238)	(1,283)
Disposals	26	-	26
Balance at 30 June 2016	**(2,375)**	**(397)**	**(2,772)**
Carrying amounts			
Balance at 30 June 2016	**2,000**	**1,031**	**3,031**

	Plant & Equipment $000	Leasehold Improvements $000	Total $000
Cost			
Balance at 1 July 2014	3,424	-	3,424
Additions	1,152	1,428	2,580
Disposals	(274)	-	(274)
Balance at 30 June 2015	**4,302**	**1,428**	**5,730**
Depreciation and impairment losses			
Balance at 1 July 2014	(609)	-	(609)
Depreciation charge for the year	(911)	(159)	(1,070)
Disposals	164	-	164
Balance at 30 June 2015	**(1,356)**	**(159)**	**(1,515)**
Carrying amounts			
Balance at 30 June 2015	**2,946**	**1,269**	**4,215**

13. INTANGIBLE ASSETS

	Note	Goodwill $000	Software $000	Customer Contracts $000	Total $000
Cost					
Opening balance as at 1 July 2015		-	4,740	-	4,740
Additions (internally developed)		-	2,686	-	2,686
Additions (externally purchased)		-	460	-	460
Acquisition of business	28	11,959	-	19,400	31,359
Balance at 30 June 2016		**11,959**	**7,886**	**19,400**	**39,245**
Amortisation and impairment losses					
Opening balance as at 1 July 2015		-	(780)	-	(780)
Amortisation charge for the year		-	(1,140)	(754)	(1,894)
Balance at 30 June 2016		**-**	**(1,920)**	**(754)**	**(2,674)**
Carrying amounts					
Balance at 30 June 2016		**11,959**	**5,966**	**18,646**	**36,571**

	Goodwill $000	Software $000	Customer Contracts $000	Total $000
Cost				
Balance at 1 July 2014	-	1,941	-	1,941
Additions (internally developed)	-	2,443	-	2,443
Additions (externally purchased)	-	356	-	356
Balance at 30 June 2015	**-**	**4,740**	**-**	**4,740**
Amortisation and impairment losses				
Balance at 1 July 2014	-	(188)	-	(188)
Amortisation charge for the year	-	(592)	-	(592)
Balance at 30 June 2015	**-**	**(780)**	**-**	**(780)**
Carrying amounts				
Balance at 30 June 2015	**-**	**3,960**	**-**	**3,960**

a) Impairment tests for goodwill

Goodwill is allocated to the Company's cash-generating units (CGUs) identified according to operating segments and there is one CGU for the Company.

The recoverable amount of a CGU is determined based on a value-in-use calculation, and the recoverable amount exceeds the carrying value of the goodwill. The value-in-use calculation uses cash flow projections based on financial budgets and forecast forward projections approved by management covering a three-year period.

b) Key assumptions used for value-in-use calculations

The assumption used for the cash flow projections for the first three years are in line with the current Board approved budget and forecast forward projections. Key assumptions include policyholder growth, claims ratio and the discount factor.

Policyholder growth is calculated by forecasting the number of sales each month based on budgeted advertising and promotions spend, less the number of expected lapses each month. Claims ratios are targeted that generate price increases that maintain price competitiveness, cover expected increases in claims costs, do not adversely affect the funds capital adequacy position and enable funding of future business growth.

13. INTANGIBLES (continued)

Cash flows beyond the three-year period are extrapolated to perpetuity assuming a growth factor of 3.0%. The Company has applied a post-tax discount rate to discount the forecast future attributable post tax cash flows.

The discount rate applied of 11.0% (2015: 11.1%) represents the 10 year New Zealand bond rate of 4.9% (2015: 5.1%) plus a risk adjustment of 6.1% (2015: 6.7%). The pre-tax discount rate is 15.0% (2015: 13.9%)

The following table shows the key assumptions for the CGU that has significant goodwill:

	30 Jun 16	30 Jun 15
Policyholder growth	10.9%	5.9%
Claims ratio	63.9%	63.9%
Growth rate	3.0%	3.0%
Discount rate	11.0%	11.1%

Management determined policyholder growth and claims ratios based on past performance and its expectations for the future.

14. PAYABLES

	30 Jun 16 $000	30 Jun 15 $000
Outwards reinsurance expense liability - premiums payable to reinsurers	2	1
Trade creditors	777	347
Other payables	4,433	4,648
Intercompany payable	1,341	2,495
Employee benefits	1,660	1,452
Total payables	**8,213**	**8,943**

15. OUTSTANDING CLAIMS LIABILITY

	30 Jun 16 $000	30 Jun 15 $000
Outstanding claims - central estimate of the expected future payment for claims incurred	15,115	10,873
Risk margin	897	810
Claims handling costs	302	196
Gross outstanding claims liability	**16,314**	**11,879**

	Note	30 Jun 16 $000	30 Jun 15 $000
Gross outstanding claims at acquisition of subsidiary		11,879	11,593
Claims handling costs		(196)	(170)
Risk margin		(810)	(777)
Central estimate at beginning of the year		**10,873**	**10,646**
Change in claims incurred for prior periods		(733)	(607)
Claims paid in respect of prior periods		(10,140)	(9,523)
Claims incurred during the period (expected)		109,625	94,953
Claims paid during the period		(95,767)	(84,596)
Acquisition of business	28	1,257	-
Central estimate at end of the year		**15,115**	**10,873**
Claims handling costs		302	196
Risk margin		897	810
Gross outstanding claims at 30 June		**16,314**	**11,879**

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 claims 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 adequacy (2015: 95%).

Development of claims

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

	30 Jun 16 $000	30 Jun 15 $000
Expected claims run off		
Within 3 months	14,193	10,179
3 to 6 months	1,350	972
6 to 12 months	632	569
After 12 months	139	159
Total outstanding claims as at 30 June	**16,314**	**11,879**

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% (2015: 95%) probability of sufficiency of the unexpired risk liability using the same methodology as described above.

	30 Jun 16	30 Jun 15
Central estimate of the present value of expected future cash flows	59.94%	59.42%
Risk margin	6.30%	9.00%

Unearned premium liabilities as at 30 June 2016 were sufficient (2015: 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 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. 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 16 $000	30 Jun 15 $000
Current		
Premium payback liability	10,742	11,710
Total current premium payback liability	**10,742**	**11,710**
Non current		
Premium payback liability	17,897	34,067
Total non-current premium payback liability	**17,897**	**34,067**
Total premium payback liability	**28,639**	**45,777**

	30 Jun 16 $000	30 Jun 15 $000
Balance at beginning of the year	45,777	43,775
Decrease in premium payback liability in the year represented by:		
New funding	2,969	7,071
Benefits paid	(22,686)	(8,833)
Other (see following table)	2,579	3,764
(Decrease)/increase in premium payback liability in Statement of Comprehensive Income	**(17,138)**	**2,002**
Balance at 30 June	**28,639**	**45,777**

16. PREMIUM PAYBACK LIABILITY (continued)

	30 Jun 16 $000	30 Jun 15 $000
Gross premium payback liability at beginning of the year	45,777	43,775
Adjustment to ensure reserve exceeds current payout on early lapse	(632)	(1,862)
Value of payments currently being processed	(1,120)	(1,110)
Risk margin	(1,513)	(1,242)
Central estimate at beginning of the year	**42,512**	**39,561**
New funding	2,969	7,071
Impact from unwinding discount rate	1,139	1,744
Interest rate movement impact	2,164	2,098
Premium payback payments	(22,686)	(8,833)
Others	680	871
Central estimate at 30 June	**26,778**	**42,512**
Adjustment to ensure reserve exceeds current payout on early lapse	35	632
Value of payments currently being processed	1,073	1,120
Risk margin	753	1,513
Total premium payback liability at 30 June	**28,639**	**45,777**

Premium payback early settlement offer

At their policy renewal, eligible premium payback customers have been offered a graduated early settlement based on the date they would become eligible for the full premium payback benefit, contingent on their claims history.

Customers received the settlement offer around two months before their policy renewal. The first settlement offers were made in mid-June 2015 for August 2015 policy renewals. The last settlement offers were made in May 2016 for July 2016 policy renewals, the offer expires on 31 August 2016. 100% of the available offers have been included in the current portion of the premium payback liability on the balance sheet. As customers may or may not accept the available premium payback settlement offer and recognising that 100% acceptance is unlikely, it's estimated for policyholders that accept the offer, $1.9 million of total premium payback liability could be settled within the next 2 months. This is in addition to $0.6 million of the premium payback liability that is expected to be settled within the next 2 months in the normal course of business.

Assumptions used in the calculation of the liability adequacy test:

	30 Jun 16	30 Jun 15
Discount rate for succeeding and following years	2.0% - 2.0% Gross of Tax	2.8 - 3.1% 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	$84.50	$82.78
Expense inflation for succeeding and following years	2% p.a.	2% p.a.

No deficiency was identified as at 30 June 2016 (2015: nil).

17. UNEARNED PREMIUM LIABILITY

	30 Jun 16 $000	30 Jun 15 $000
Current		
Unearned premium liability	17,892	15,484
Total current unearned premium liability	**17,892**	**15,484**
Non current		
Unearned premium liability	149	-
Total non-current unearned premium liability	**149**	**-**
Total unearned premium liability	**18,041**	**15,484**

	Note	30 Jun 16 $000	30 Jun 15 $000
Balance at beginning of the year		15,484	15,071
Acquisition of business	28	2,392	-
Deferral of premiums on contracts written in the year		189,222	161,971
Earnings of premiums written in previous and current year		(189,057)	(161,558)
Unearned premium liability at 30 June		**18,041**	**15,484**

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 16 $000	30 Jun 15 $000
Interest-bearing securities	85,670	94,783
Total financial assets at fair value through profit or loss	**85,670**	**94,783**

19. CURRENT TAX

	30 Jun 16 $000	30 Jun 15 $000
Balance at beginning of the year	2,278	2,483
Total tax payable during the current year	469	2,940
Tax paid during the year	(2,278)	(3,145)
Current tax payable at 30 June	**469**	**2,278**

20. DEFERRED TAX

	30 Jun 16 $000	30 Jun 15 $000
Deferred tax assets		
The balance comprises temporary differences attributable to:		
Premium payback liabilities	7,573	12,372
Deferred tax on premium payback liability	**7,573**	**12,372**
Other		
Employee benefits	482	387
Other	144	122
Sub-total other	**626**	**509**
Total deferred tax assets	**8,199**	**12,881**
Recovery of Total deferred tax assets:		
Deferred tax assets to be recovered within 12 months	3,365	3,322
Deferred tax assets to be recovered after more than 12 months	4,834	9,559
Total deferred tax assets	**8,199**	**12,881**

	Note	30 Jun 16 $000	30 Jun 15 $000
Deferred tax liabilities			
The balance comprises temporary differences attributable to:			
Depreciation		635	348
Deferred acquisition costs		3,237	2,630
Deferred unearned commission		2,955	2,780
Acquisition of business	28	5,432	-
Total deferred tax liabilities		**12,259**	**5,758**
Recovery of Total deferred tax liabilities:			
Deferred tax liabilities to be settled within 12 months		1,234	3,950
Deferred tax liabilities to be settled after more than 12 months		11,025	1,808
Total deferred tax liabilities		**12,259**	**5,758**
Net deferred tax (assets) / liabilities		**(4,060)**	**7,123**

Deferred tax movements during the year:

Movements - Deferred tax assets	Premium payback liabilites $000	Employee benefits $000	Other $000	Total $000
At 1 July 2015	12,372	387	122	12,881
(Charged)/credited to the Statement of Comprehensive Income	(4,799)	95	22	(4,682)
At 30 June 2016	**7,573**	**482**	**144**	**8,199**
At 1 July 2014	11,811	385	185	12,381
(Charged)/credited to the Statement of Comprehensive Income	561	2	(63)	500
At 30 June 2015	**12,372**	**387**	**122**	**12,881**

20. DEFERRED TAX (continued)

Movements - Deferred tax liabilities	Note	Depreciation	Deferred acquisition costs	Total
		$000	$000	$000
At 1 July 2015		348	5,410	5,758
Charged to the Statement of Comprehensive Income		287	782	1,069
Acquisition of business	28	-	5,432	5,432
At 30 June 2016		**635**	**11,624**	**12,259**
At 1 July 2014		99	5,065	5,164
Charged to the Statement of Comprehensive Income		249	345	594
At 30 June 2015		**348**	**5,410**	**5,758**

21. CONTRIBUTED EQUITY

	30 Jun 16	30 Jun 15
	$000	$000
Ordinary shares		
Fully paid	32,000	32,000
New shares issued (26 November 2015)	19,200	-
Total contributed equity	**51,200**	**32,000**

The total authorised number of ordinary shares is 51.2 million (2015: 32 million). 19,200,000 ordinary shares were issued and paid on 26 November 2015 at $1 per share. 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.

22. RETAINED PROFITS

	30 Jun 16	30 Jun 15
	$000	$000
Balance at the beginning of the year	34,185	26,669
Comprehensive Income	15,312	9,516
Dividends	(14,500)	(2,000)
Balance at 30 June	**34,997**	**34,185**

23. DIVIDENDS

	30 Jun 16	30 Jun 15
	$000	$000
Dividend paid for the year	14,500	2,000
Total dividends paid	**14,500**	**2,000**

$1.00 per fully paid ordinary share.

24. CONTINGENT LIABILITIES

The Company has no material 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.

25. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

The Company is controlled by nib nz holdings 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

nib health care services pty limited and WNG services pty limited are fellow subsidiaries of the ultimate Parent. 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 16 $000	30 Jun 15 $000	Nature of relationship	Type of Transactions
nib holdings limited (Australia)	103	1,165	Ultimate parent	Management fees paid
nib health funds (Australia)	1,196	-	Related party	Management fees paid
nib health funds (Australia)	1,398	871	Related party	Reimbursement of expenses paid
WNG Services Pty Limited (Australia)	(27)	-	Related party	Management fees income
nib health funds (Australia)	(48)	(44)	Related party	Management fees income
nib nz holdings limited	14,500	2,000	Parent	Dividend

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 16 $000	30 Jun 15 $000	Nature of relationship	Type of Transactions
nib holdings limited (Australia)	1,341	495	Ultimate parent	Management fees and expenses payable
WNG Services Pty Limited (Australia)	(9)	-	Related party	Management fees income

c) Key management personnel compensation

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

	30 Jun 16 $000	30 Jun 15 $000
Salaries and short-term employee benefits	716	540
Share-based payments	68	38
Independent Directors fees	209	192
Total key management compensation and Directors fees	**993**	**770**

Key management personnel may be entitled to equity instruments in the form of shares of nib holdings limited (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.

26. 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	Granted during the year	Exercised during the year	Forfeited during the year	Balance at the end of the year	Vested and exercisable at end of the year
			Number	Number	Number	Number	Number	Number
29/11/2013	1/09/2017	-	57,316	-	-	-	57,316	-
22/12/2014	1/09/2018	-	40,384	-	-	-	40,384	-
22/01/2016	1/09/2019	-	-	49,492	-	-	49,492	-
		-	97,700	49,492	-	-	147,192	-

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 14 June 2016, eligible employees were offered the opportunity to purchase $340 worth of fully paid ordinary shares of nib holdings limited (FY17 Scheme). Employees may elect not to participate in the scheme.

On 15 June 2015, eligible employees were offered the opportunity to purchase $1,000 worth of fully paid ordinary shares of nib holdings limited (FY16 Scheme). Employees may elect not to participate in the scheme.

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 16	30 Jun 15
Number of shares purchased on market under the plan to participating employees	7,672	4,837

The shares were allocated on 27 August 2015 and 6 March 2016 following nib holdings limited FY14 annual result and FY15 half year result presentation at a volume weighted average price of $3.31 (2015: $3.54) and the shares were settled in cash.

26. SHARE BASED PAYMENTS (continued)

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 14 June 2016, participating employees were allocated an aggregate market value up to $10,000 worth of fully paid ordinary shares of nib holdings limited (FY17 Scheme). Employees may elect not to participate in the scheme. The offer closed on 30 June 2016.

On 15 June 2015, participating employees were allocated an aggregate market value up to $10,000 worth of fully paid ordinary shares of nib holdings limited (FY16 Scheme). Employees may elect not to participate in the scheme. The offer closed on 30 June 2015.

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 16	30 Jun 15
Number of shares purchased on market under the plan to participating employees	2,132	2,751

The shares were allocated over the period at a volume weighted average price of $3.64 (2015: $3.31) and settled in cash.

d) Short-term performance incentive (STI)

All eligible employees have a STI opportunity. For the CEO the maximum target bonus opportunity is 50% 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.

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 16 $000	30 Jun 15 $000
Shares purchased on market under share based payments schemes	14	16
nib salary matching plan trust deed	65	6
Performance rights granted under LTIP	92	38
Total expenses arising from share-based payments transactions	**171**	**60**

27. OPERATING LEASE COMMITMENTS

	30 Jun 16 $000	30 Jun 15 $000
Commitments for minimum lease payments are payable as follows:		
- not longer than one year	1,091	1,102
- longer than one year and not longer than five years	3,272	4,409
- longer than five years	-	367
Total operating lease commitments	**4,363**	**5,878**

28. BUSINESS COMBINATION

On 1 December 2015, the Company acquired the medical insurance book of business, from OnePath Life (NZ) Limited, for $24.67 million, excluding GST. OnePath Life (NZ) Limited is owned by ANZ Bank New Zealand Limited. The acquisition will provide the Company with a solid platform for growing the New Zealand private health insurance market and its overall market share. Approximately 19,140 policies and 43,250 lives were acquired.

Details of the purchase consideration are:

	$000
Final purchase consideration	
Cash	24,670
Total final purchase consideration	**24,670**

The fair values of the assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value $000
Receivable from OnePath Life (NZ) Limited	2,392
Intangible assets - customer contracts	19,400
Unearned premium liability	(2,392)
Outstanding claims liability	(1,257)
Deferred tax liabilities - intangible assets	(5,432)
Net identifiable assets acquired	**12,711**
Add: Goodwill	11,959
Net assets acquired	**24,670**

The acquired business contributed revenues of $17.4 million and net profit before tax of $2.0 million to the Group for the period from 1 December 2015 to 30 June 2016. Acquisition related costs of $0.2 million are included in other expenses in the Statement of Comprehensive Income and in operating cash flows in the Statement of Cash Flows. $0.9m of acquisition related expenses were incurred in the prior year. Had the OnePath medical book been acquired from 1 July 2015 the consolidated Statement of Comprehensive Income would show estimated revenue of $203.5 million and estimated net profit before tax of $16.5 million. The goodwill arising from the acquisition reflects expected future synergies and the future profitability prospects of the OnePath medical insurance book of business.

Transfer of the day to day management of medical policies occurred in June 2016.

Actuarial results on the outstanding claims liability and solvency capital incorporate the acquired OnePath policies, however where information has not been able to be obtained, internal nib nz experience is used as a benchmark to derive assumptions.

An independent valuation of the identifiable intangible assets has been performed. However, the final valuation is subject to change based on finalisation of actuarial liabilities and final settlement arrangements, any changes to actuarial liabilities or final settlement arrangements would impact goodwill. Customer contracts are amortised over fifteen years.

29. 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 4 September 2015.

30. REMUNERATION OF AUDITORS

	30 Jun 16 $000	30 Jun 15 $000
1. Audit and review services		
Audit and half year review of financial report	196	161
Total remuneration for audit and review services	**196**	**161**
2. Audit-related services		
Assurance engagement over regulatory returns	12	12
Total remuneration for audit-related services	**12**	**12**
3. Non-audit related services		
Tax compliance services	37	36
Tax consulting services [1]	5	16
Other tax and accounting advice relating to one off transactions [2]	20	27
Total remuneration for non-audit related services	**62**	**79**
Total remuneration for non-audit services	**74**	**91**
Total remuneration for audit and non-audit services	**270**	**252**

[1] Tax consulting services comprises of a FBT reveiw
[2] Other tax and accounting advice relating to a transfer pricing review

31. CAPITAL MANAGEMENT AND SOLVENCY

The Company is required to comply with the Solvency Standard for Non-Life Insurance Business 2014 published by the Reserve Bank of New Zealand. 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 $86.197 million at 30 June 2016 (2015: $66.185 million). After this capital is adjusted for deductions required under the Solvency Standard, the Company has Actual Solvency Capital of $20.451 million (2015: $31.873 million). This compares to a Minimum Solvency Capital required under the Solvency Standard of $10.125 million (2015: $9.274 million) equating to a Solvency Ratio of 2.02x (2015: 3.44x).

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 a $14.5 million dividend to nib nz holdings limited for the year ended 30 June 2016 (2015: $2.0 million).

	30 Jun 16 $000	30 Jun 15 $000
Actual Solvency Capital	20,451	31,873
Minimum Solvency Capital	10,125	9,274
Solvency Capital	**10,326**	**22,599**
Solvency Coverage Ratio	2.02	3.44
Internal benchmark	1.75+$10m	1.75+$10m
Internal benchmark requirement	27,718	26,230
Surplus/(deficit) assets over internal benchmark	(7,267)	5,643

31. CAPITAL MANAGEMENT AND SOLVENCY (continued)

As part of its role as regulator of New Zealand insurance companies, the Reserve Bank of New Zealand (RBNZ) reviews solvency returns. The RBNZ has recently queried the manner in which certain matters have been dealt with in Company's FY15 solvency calculation. At the time of signing these financial statements, the Company is working with the RBNZ to resolve these queries.

While these discussions are not yet completed, the Company has made a change to its solvency calculations regarding the treatment of deferred tax. This change has been reflected in the current and prior year numbers disclosed above.

There is a possibility of further changes following the resolution of the remaining queries. At the date of signing of the financial statements, further changes (if any) are not expected to cause the Company to fall below the RBNZ's minimum solvency requirements.

The change to the treatment of deferred tax has resulted in a drop below our internal capital target. The internal target will be reviewed following completion of discussions with the RBNZ.

32. EVENTS OCCURING AFTER THE REPORTING PERIOD

There were no events occurring after the reporting period.

33. COMPANY DETAILS

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

Level 10, 48 Shortland Street,
Auckland Central,
Auckland 1010
New Zealand.

5 August 2016

Mr Nick Cory
Chief Financial Officer
nib nz limited
48 Shortland Street
AUCKLAND 1010

Dear Nick

Review of Actuarial Information contained in the Financial Statements as at 30 June 2016

Finity Consulting Pty Limited (Finity) has been asked by nib nz limited (nib nz) to carry out a review of the 30 June 2016 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 2016 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.

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

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