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nib nz limited

Financial Statements
30 June 2017

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Statement of Comprehensive Income
For the year ended 30 June 2017
nib nz limited

	Notes	2017 $000	2016 $000
Premium revenue	5	210,927	189,057
Outwards reinsurance premium expense	5	(11)	(6)
Net premium revenue		**210,916**	**189,051**
Claims expense		(127,955)	(131,912)
Decrease (increase) in premium payback liability		4,478	17,138
Claims handling expenses	6	(2,137)	(1,604)
Net claims incurred		**(125,614)**	**(116,378)**
Acquisition costs	6	(38,807)	(32,461)
Other underwriting expenses	6	(21,119)	(21,628)
Underwriting expenses		**(59,926)**	**(54,089)**
Underwriting result		**25,376**	**18,584**
Other income	5	177	184
Amortisation of intangible assets	6	(3,081)	(1,894)
Operating profit		**22,472**	**16,874**
Investment income	5	3,123	4,825
Investment expenses	6	(106)	(145)
Profit before income tax		**25,489**	**21,554**
Income tax expense	7	(7,238)	(6,242)
Profit for the year		**18,251**	**15,312**
Total Comprehensive Income for the year attributable to:			
Owners of nib nz limited		18,251	15,312
		18,251	**15,312**

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

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Statement of Financial Position
As at 30 June 2017
nib nz limited

	Notes	2017 $000	2016 $000
ASSETS			
Current assets			
Cash and cash equivalents	8	12,978	10,930
Receivables	9	2,559	2,863
Financial assets at fair value through profit or loss	10	88,822	85,670
Deferred acquisition costs	11	17,679	14,333
Total current assets		**122,038**	**113,796**
Non-current assets			
Deferred acquisition costs	11	9,942	8,535
Property, plant and equipment	12	2,067	3,031
Intangible assets	13	36,823	36,571
Total non-current assets		**48,832**	**48,137**
Total assets		**170,870**	**161,933**
LIABILITIES			
Current liabilities			
Payables	14	9,398	8,213
Outstanding claims liability	15	14,435	16,175
Unearned premium liability	16	18,399	17,892
Premium payback liability	17	9,944	10,742
Current tax liabilities		3,270	469
Total current liabilities		**55,446**	**53,491**
Non-current liabilities			
Outstanding claims liability	15	240	139
Unearned premium liability	16	365	149
Premium payback liability	17	14,217	17,897
Deferred tax liabilities	7	6,054	4,060
Total non-current liabilities		**20,876**	**22,245**
Total liabilities		**76,322**	**75,736**
Net assets		**94,548**	**86,197**
EQUITY			
Contributed equity	18	51,200	51,200
Retained profits		43,348	34,997
Total equity		**94,548**	**86,197**

The above Statement of Financial Position should be read in conjunction with the accompanying notes

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Statement of Changes in Equity
For the year ended 30 June 2017
nib nz limited

	Notes	Contributed Equity $000	Retained Profits $000	Total Equity $000
Balance at 1 July 2015		**32,000**	**34,185**	**66,185**
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:				
New shares issued	18	19,200	-	19,200
Dividends paid	18	-	(14,500)	(14,500)
		19,200	**(14,500)**	**4,700**
Balance at 30 June 2016		**51,200**	**34,997**	**86,197**
Balance at 1 July 2016		**51,200**	**34,997**	**86,197**
Profit for the year		-	18,251	18,251
Total Comprehensive Income for the year		**-**	**18,251**	**18,251**
Transactions with owners in their capacity as owners:				
New shares issued	18	-	-	-
Dividends paid	18	-	(9,900)	(9,900)
		-	**(9,900)**	**(9,900)**
Balance at 30 June 2017		**51,200**	**43,348**	**94,548**

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 2017
nib nz limited

	Notes	2017 $000	2016 $000
Cash flows from operating activities			
Receipts from policyholders and customers		244,236	220,085
Payments to policyholders and customers		(149,033)	(147,855)
Payments to suppliers and employees		(76,989)	(68,418)
Interest received		3,719	4,092
Income taxes paid		(2,443)	(2,301)
Net cash inflow (outflow) from operating activities	8	**19,490**	**5,603**
Cash flows from investing activities			
Proceeds from disposal of other financial assets at fair value through profit or loss		63,311	66,829
Payments for other financial assets at fair value through profit or loss		(67,056)	(56,998)
Proceeds from sale of property, plant and equipment and intangibles		-	(1)
Payments for property, plant and equipment and intangibles		(3,797)	(3,263)
Payments for acquisition of business combination		-	(24,670)
Net cash inflow (outflow) from investing activities		**(7,542)**	**(18,103)**
Cash flows from financing activities			
Proceeds from issue of shares		-	19,200
Dividends paid to the Company's shareholders		(9,900)	(14,500)
Net cash inflow (outflow) from financing activities		**(9,900)**	**4,700**
Net increase (decrease) in cash and cash equivalents		2,048	(7,800)
Cash and cash equivalents at the beginning of the year		10,930	18,730
Cash and cash equivalents at the end of the year	8	**12,978**	**10,930**

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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

nib nz limited (the Company) is a for profit company incorporated in New Zealand under the *New Zealand Companies Act 1993* and is a Financial Market Conduct reporting entity under part 7 of the *Financial Markets Conduct Act 2013*.

The principal activity of the Company is providing health insurance.

The financial statements were authorised for issue by the Board of Directors on 11 August 2017.

Basis of preparation

The Company has adopted External Reporting Board Standard A1 "Application of the Accounting Standards Framework" ('XRB A1'). The Company applies Tier 1 as it 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 that apply NZ IFRS. It also complies with International Financial Reporting Standards (IFRS) and in accordance with the requirements of Part 7 of the Financial Markets Authority Act 2013.

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 the notes to the financial statements.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through profit or loss. They are presented in New Zealand dollars, which is the Company's functional and presentation currency, and are rounded to the nearest thousand dollars.

The financial statements for the year ended 30 June 2017 are audited by our independent auditor.

Accounting policies

Accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements. Other relevant policies are provided as follows:

(i) 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 Statement of Financial Position.

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, suppliers and employees and payments to policyholders, suppliers and employees lines.

(ii) Foreign exchange

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 are translated at reporting date at the closing exchange rate.

Translation differences on non-monetary items 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Comparatives

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

New standards, amendments and interpretations

The Company has not applied any new standards or amendments during the annual reporting period commencing 1 July 2016.

Certain new accounting standards and interpretations have been published but are not yet effective and have not been adopted early by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below.

Title of Standard	Nature of change and impact	Mandatory application date
NZ IFRS 9 Financial Instruments	NZ IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, and introduces new rules for hedge accounting. While the Company is yet to undertake a detailed assessment, it does not expect any significant impact from this standard.	Mandatory for financial years commencing on or after 1 January 2018. At this stage, the Company does not intend to adopt the standard before its effective date.
NZ IFRS 15 Revenue from Contracts with Customers	A new standard has been issued for the recognition of revenue. This will replace NZ IAS 18 Revenue which covers contracts for goods and services, and NZ IAS 11 Construction Contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The majority of the Company's revenue is recognised under NZ IFRS 4 Insurance Contracts, which is not impacted by NZ IFRS 15. While the Company is yet to undertake a detailed assessment, it does not expect any significant impact from this standard.	Mandatory for financial years commencing on or after 1 January 2018. At this stage, the Company does not intend to adopt the standard before its effective date.
NZ IFRS 16 Leases	NZ IFRS 16 will primarily affect the accounting of leases by lessees, and will result in the recognition of almost all leases in the Statement of Financial Position. The standard removes the current distinction between operating and financing leases and requires the recognition of an asset, the right to use the leased item, and a financial liability to pay rentals, for almost all lease contracts. The Statement of Comprehensive Income will also be impacted, as the total lease related expense is typically higher in the earlier years of a lease and lower in later years. In addition, operating lease expense will be replaced with lease interest and depreciation. As at the reporting date, the Company has non-cancellable operating lease commitments of $3.4 million (see Note 20). The Company is currently undertaking a detailed assessment of this standard.	Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Company does not intend to adopt the standard before its effective date.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

New standards, amendments and interpretations continued

IFRS 17 Insurance Contracts	On 18 May 2017, the International Accounting Standard Board issued IFRS 17 Insurance Contracts. The standard will replace NZ IFRS 4 Insurance Contracts. IFRS 17 will fundamentally change the accounting for insurance contracts by the Company. The standard introduces three new measurement approaches for accounting for insurance contracts. These include the Building Block Approach for long term contracts, the Premium Allocation Approach for short term contracts and a Variable Fee Approach for direct participating products. The Company has formed a project team to assess the impact of this change on the operations and financial statements of the Company. Disclosure changes and possible impacts on the profit and loss are expected.	Mandatory for financial years commencing on or after 1 January 2021. At this stage, the Company does not intend to adopt the standard before its effective date.

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of financial statements 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 Company makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key areas in which critical estimates are applied are:

Note 11	Deferred acquisition costs
Note 13	Goodwill impairment
Note 15	Outstanding claims liability
Notes 16 and 17	Liability adequacy test
Note 17	Premium payback liability

3. RISK MANAGEMENT

The financial condition and operation of the Company are affected by a number of key risks including:

Insurance risk	Insurance risk
Financial risks	Interest rate risk (market risk) Credit risk Liquidity risk
Non-financial risks	Operational risk Strategic risk

The Company'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:

- the effectiveness of the Company's risk management framework having regard to the Company's risk management culture;
- the identification and assessment of the material risks facing the Company considered against the Company's risk appetite;
- the appropriate level of reporting on the performance and application of the risk management system throughout the Company; and
- reviews 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. Management are responsible for understanding and managing risks, including insurance and non-financial risks. The Company's exposure to all high and critical risks, and other Key Enterprise Risks, is reported quarterly to 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

Nature of 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.

Exposure

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 cover. Certain legacy policies also have premium payback benefits that allow for the return of premiums after claim payments.

Risk management

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

- adequate controls and guidelines covering insurance processes;
- ongoing monitoring of the insurance market and identification of trends;
- ensuring robust claims handling processes and controls which are well documented;
- ongoing review of pricing models and retention levels;
- clearly defined underwriting processes and ongoing development of those involved in the underwriting process; and
- 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.

3. RISK MANAGEMENT continued

Insurance risk continued

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

- maintain and disclose a financial strength rating;
- maintain a fit and proper policy, which apply to Directors and other relevant officers;
- maintain a risk management programme;
- 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
- maintain a solvency margin over the minimum solvency capital required under the solvency standard for non-life business issued by the Reserve Bank of New Zealand.

Financial risks

(i) Interest rate risk

Nature of risk

Interest rate risk is the risk that fluctuations in interest rates impact the Company's financial performance or the fair value of its financial instruments.

Exposure

The Company's main interest rate risk arises from financial assets at fair value through profit or loss, premium payback liability and cash and cash equivalents.

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. 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.

Risk management

The Company has adopted an investment strategy that delivers a diversified portfolio of defensive assets. Defensive assets consist of New Zealand dollar denominated overseas fixed interest investments and cash and cash equivalents.

Sensitivity to interest rate movements

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

	2017					2016				
Interest Rate Risk		-100bps		+100bps			-100bps		+100bps	
	Carrying amount	Profit	Equity	Profit	Equity	Carrying amount	Profit	Equity	Profit	Equity
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Financial assets										
Cash and cash equivalents	12,978	(93)	(93)	93	93	10,930	(79)	(79)	79	79
Financial assets at fair value through profit or loss	88,822	944	944	(911)	(911)	85,670	1,220	1,220	(1,172)	(1,172)
Financial liabilities										
Premium payback liability	(24,161)	(730)	(730)	837	837	(28,639)	(1,093)	(1,093)	962	962
Total increase / (decrease)		**121**	**121**	**19**	**19**		**48**	**48**	**(131)**	**(131)**

3. RISK MANAGEMENT continued

Financial risks continued

(ii) Credit risk

Nature of risk

Credit risk is the risk that a counterparty will default on its contractual obligations, or from the decline in the credit quality of a financial instrument, resulting in financial loss to the Company.

Exposure

The Company's exposure to credit risk arises from cash and cash equivalents, financial assets and deposits with banks and financial institutions, as well as credit exposure to policyholders or other counterparties. The Company's maximum exposure to credit risk without taking account of any collateral or any other credit enhancements, is as follows:

	2017 $000	2016 $000
Cash and cash equivalents	12,978	10,930
Premium receivables	1,990	2,251
Other receivables	342	275
Intercompany receivables	15	9
Interest-bearing securities	88,822	85,670
Total credit risk	**104,147**	**99,135**

Risk management

For banks and financial institutions, the minimum credit rating accepted by the Company is 'AA-'. For policyholders 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.

Credit quality of financial assets

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 rate.

Premium and other receivables	2017 $000	2016 $000
Counterparties with external credit rating	-	176
Counterparties without external credit rating		
Group 1 - new debtors (relationship less than 6 months)	-	-
Group 2 - existing debtors with no defaults in the past	2,005	2,257
Group 3 - existing debtors with some defaults in the past	342	102
Total premium and other receivables	**2,347**	**2,535**

3. RISK MANAGEMENT continued

Financial risks continued

Cash at bank and short-term bank deposits	2017 $'000	2016 $'000
AA-	12,978	10,930
Total cash at bank and short-term bank deposits	**12,978**	**10,930**

Financial assets at fair value through profit or loss		
Interest-bearing securities		
AA-	60,162	45,979
AA	5,305	4,626
AA+	6,995	14,343
AAA	16,360	20,722
Total financial assets at fair value through profit or loss	**88,822**	**85,670**

(iii) Liquidity risk

Nature of risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due, because of lack of liquid assets or access to funding on acceptable terms.

Exposure

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

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 payables	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
	5,931	**1,505**	**369**	**408**	**-**	**8,213**	**8,213**

As at 30 June 2017	≤ 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 payables	1,935	-	-	-	-	1,935	1,935
Other payables	4,114	231	87	263	-	4,695	4,695
Intercompany payables	844	-	-	-	-	844	844
Employee benefits	58	1,621	245	-	-	1,924	1,924
	6,951	**1,852**	**332**	**263**	**-**	**9,398**	**9,398**

3. RISK MANAGEMENT continued

Financial risks continued

Risk management

Prudent liquidity risk management requires maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. The Company manages liquidity risk by continuously monitoring forecast and actual cash flows and holds a high percentage of highly liquid investments.

4. FAIR VALUE MEASUREMENT

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 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	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 3	Inputs for the asset or liability that are not based on observable market data

The following tables present the Company's assets measured and recognised at fair value:

As at 30 June 2016	Level 1 $000	Level 2 $000	Total $000
Assets			
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 2017	Level 1 $000	Level 2 $000	Total $000
Assets			
Financial assets at fair value through profit or loss			
Interest-bearing securities	71,740	17,082	88,822
Total assets	**71,740**	**17,082**	**88,822**

There were no transfers between Level 1 and Level 2 during the year ended 30 June 2017 or 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.

5. REVENUE AND OTHER INCOME

	2017 $000	2016 $000
Net premium revenue		
Premium revenue	210,927	189,057
Outwards reinsurance premium expense	(11)	(6)
Total net premium revenue	**210,916**	**189,051**
Other income		
Net gain (loss) on disposal of property, plant and equipment	(129)	(1)
Management fees income	186	76
Travel insurance commission	163	115
Foreign exchange gain (loss)	(43)	(6)
Total other income	**177**	**184**
Investment income		
Interest income	3,716	4,107
Net realised gain (loss) on financial assets at fair value through profit or loss	71	1,372
Net unrealised gain (loss) on financial assets at fair value through profit or loss	(664)	(654)
Total investment income	**3,123**	**4,825**

Recognition and measurement

Revenue is measured at the fair value of the consideration received or receivable.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below. The Company bases its estimates on historical results, taking into account the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

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 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 Statement of Financial Position as an unearned premium liability.

Investment income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Net realised/unrealised value gains or 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.

6. EXPENSES

	2017 $000	2016 $000
Expenses by function		
Claims handling expenses	2,137	1,604
Investment expenses	106	145
Marketing expenses and other acquisition costs	38,807	32,461
Other underwriting expenses	21,119	21,628
Amortisation of intangible assets	3,081	1,894
Total expenses (excluding direct claims expenses)	**65,250**	**57,732**
Expenses by nature		
Employee costs	16,226	15,266
Depreciation and amortisation	4,380	3,177
Operating lease rental expenses	902	899
Marketing expenses	8,257	5,946
Commissions	27,518	24,343
Consultancy fees	1,750	1,127
Legal expenses	348	357
Investment expenses	106	145
Administration fees	-	1,230
Other	5,763	5,242
Total expenses (excluding direct claims expenses)	**65,250**	**57,732**

7. TAXATION

Income tax

	2017 $000	2016 $000
i) Income tax expense		
Recognised in the Statement of Comprehensive Income		
Current tax expense	5,244	492
Deferred tax expense	1,994	5,750
	7,238	**6,242**
Deferred income tax expense included in income tax expense comprises:		
Increase in deferred tax assets	1,064	4,681
Decrease in deferred tax liabilities	930	1,069
	1,994	**5,750**
ii) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax expense	**25,489**	**21,554**
Tax at the New Zealand tax rate of 28% (2016: 28%)	7,137	6,035
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Other non-deductible expenses	101	207
Income tax expense	**7,238**	**6,242**

Imputation credits

	2017	2016
Imputation credits available for use in subsequent reporting periods	8,543	6,533

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

- imputation credits that will arise from the payment of the amount of the provision for income tax; and
- 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 Company.

Recognition and measurement

Income tax expense	The income tax expense is the tax payable on taxable income for the reporting 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.
Current tax	Current tax is calculated by reference to the amount of income tax 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 the 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).

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7. TAXATION continued

Deferred tax assets

	2017 $000	2016 $000
The balance comprises temporary differences attributable to:		
Premium payback liabilities	6,319	7,573
Doubtful debts	284	144
Employee benefits	532	482
Total deferred tax assets	**7,135**	**8,199**
Recovery of total deferred tax assets:		
Deferred tax assets to be recovered within 12 months	2,069	3,365
Deferred tax assets to be recovered after more than 12 months	5,066	4,834

Deferred tax liabilities

	2017 $000	2016 $000
The balance comprises temporary differences attributable to:		
Customer contracts	4,859	5,432
Deferred acquisition costs	7,734	6,192
Depreciation and amortisation	596	635
Total deferred tax liabilities	**13,189**	**12,259**
Recovery of total deferred tax liabilities:		
Deferred tax liabilities to be settled within 12 months	1,481	1,234
Deferred tax liabilities to be settled after more than 12 months	11,708	11,025
Net deferred tax (assets) / liabilities	**6,054**	**4,060**

Deferred tax assets movement

Movements	Employee benefits $000	Premium payback liabilities $000	Doubtful debts $000	Total $000
At 1 July 2015	387	12,372	122	12,881
(Charged) credited to the Statement of Comprehensive Income	95	(4,799)	22	(4,682)
At 30 June 2016	**482**	**7,573**	**144**	**8,199**
At 1 July 2016	482	7,573	144	8,199
(Charged) credited to the Statement of Comprehensive Income	50	(1,254)	140	(1,064)
At 30 June 2017	**532**	**6,319**	**284**	**7,135**

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7. TAXATION continued

Deferred tax liabilities movement

Movements	Customer contracts	Deferred acquisition costs	Depreciation and amortisation	Total
	$000	$000	$000	$000
At 1 July 2015	-	5,410	348	5,758
Charged (credited) to the Statement of Comprehensive Income	-	782	287	1,069
Acquisition of business	5,432	-	-	5,432
At 30 June 2016	**5,432**	**6,192**	**635**	**12,259**
At 1 July 2016	5,432	6,192	635	12,259
Charged (credited) to the Statement of Comprehensive Income	(573)	1,542	(39)	930
At 30 June 2017	**4,859**	**7,734**	**596**	**13,189**

Recognition and measurement

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.

8. CASH AND CASH EQUIVALENTS

	2017 $000	2016 $000
Cash at bank and cash on hand	2,127	753
Short term deposits and deposits at call	10,851	10,177
	12,978	**10,930**

Recognition and measurement

Cash and cash equivalents, and bank overdrafts are carried at face value of the amounts deposited or drawn. For the purpose of the presentation in the Statement of Cash Flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

Reconciliation of profit after income tax to net cash inflow from operating activities

	2017 $000	2016 $000
Profit for the year	18,251	15,312
Net (gain) loss on disposal of property, plant and equipment	129	1
Fair value (gain) loss on other financial assets through profit or loss	593	(718)
Depreciation and amortisation	4,380	3,177
Change in operating assets and liabilities		
Decrease (increase) in receivables	312	(449)
Decrease (increase) in deferred acquisition costs	(4,753)	(3,547)
Decrease (increase) in deferred tax assets	1,994	5,751
Increase (decrease) in current tax liabilities	2,801	(1,809)
Increase (decrease) in payables	(462)	(712)
Increase (decrease) in insurance liability	(3,755)	(11,403)
Net cash flow from operating activities	**19,490**	**5,603**

9. RECEIVABLES

	2017 $000	2016 $000
Current		
Premium receivable	3,004	2,763
Other receivables	342	275
Provision for impairment loss	(1,014)	(512)
Prepayments	212	328
Intercompany receivable	15	9
	2,559	**2,863**

The ageing of impaired receivables is as follows:

	2017 $000	2016 $000
1 to 3 months	329	262
3 to 6 months	640	130
Over 6 months	45	120
	1,014	**512**

Movements in the provision for impairment of receivables are as follows:

	2017 $000	2016 $000
At 1 July	512	432
Provision for impairment recognised during the year	655	119
Receivables written off during the year as uncollectible	(17)	(28)
Unearned provision write-back	(136)	(11)
	1,014	**512**

Recognition and measurement

Premium receivable

Amounts due from policyholders are initially recognised at fair value, being the amounts due. They are subsequently measured at fair value which is approximated by taking this initially recognised amount and reducing it for impairment as appropriate. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the value of estimated future cash flows. The impairment charge is recognised in the Statement of Comprehensive Income.

Other receivables

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Collectability of other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. A provision for impairment is used where there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

The amount of the impairment loss is recognised in Statement of Comprehensive Income against premium income and commission expense. When a receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the provision for impairment account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Statement of Comprehensive Income.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 $000	2016 $000
Interest-bearing securities	88,822	85,670
	88,822	**85,670**

Changes in fair values of financial assets at fair value through profit or loss are recorded as investment income in the Statement of Comprehensive Income.

Recognition and measurement

Investments	The Company classifies its investments into financial assets at fair value through profit or loss.
Financial assets and liabilities	Interest bearing securities are measured at fair value through profit or loss, as they are managed and their performance is evaluated on a fair value basis, in accordance with a documented investment policy, and information is provided internally on that basis to the entity's key management personnel. Initial recognition is at fair value, being acquisition cost, in the balance sheet and subsequent measurement is at fair value with any resultant fair value gains or losses recognised in the Statement of Comprehensive Income. Fixed interest securities are initially recognised at cost and the subsequent fair value adjustment is taken as the quoted bid price of the instrument at the reporting date. All purchases and sales of financial assets that require delivery of the asset within the timeframe established by regulation or market convention ("regular way" transactions) are recognised at trade date, being the date on which the Company commits to buy or sell the asset. In cases where the point between trade and settlement exceeds this time frame, the transaction is recognised at settlement date. Financial assets are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and the Company has transferred substantially all the risks and rewards of ownership.
Assets backing private health 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.

11. DEFERRED ACQUISITION COSTS

	2017 $000	2016 $000
Current		
Deferred acquisition costs	4,484	3,779
Deferred unearned commissions	13,195	10,554
	17,679	**14,333**
Non-current		
Deferred acquisition costs	9,942	8,535
	9,942	**8,535**

Movements in deferred acquisition costs are as follows:

	2017 $000	2016 $000
Balance at the beginning of the year	22,868	19,321
Acquisition costs deferred during the year	19,726	16,391
Amortisation expense	(14,973)	(12,844)
	27,621	**22,868**

Critical accounting judgements and estimates: 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. The Company does not capitalise the indirect administration costs associated with acquiring new members due to the difficulty in identifying and associating those indirect costs with acquiring particular insurance contracts.

There are two key assumptions required to recognise the acquisition costs over the life of the insurance contract:

- the period of the insurance contract is assumed to be the average length of insurance for nib nz limited policyholders who are the subject of an upfront commission; and
- the average length of insurance for nib nz limited policyholders who are the subject of an upfront commission is calculated by extrapolating historical lapse rates for that group of policyholders.

12. PROPERTY, PLANT & EQUIPMENT

	Plant & Equipment $000	Leasehold Improvements $000	Total $000
At 1 July 2015			
Cost	4,302	1,428	**5,730**
Accumulated depreciation	(1,356)	(159)	**(1,515)**
Net book amount	**2,946**	**1,269**	**4,215**
Year ended 30 June 2016			
Opening net book amount	2,946	1,269	**4,215**
Additions	116	-	**116**
Disposals	(17)	-	**(17)**
Depreciation charge for the year	(1,045)	(238)	**(1,283)**
Closing net book amount	**2,000**	**1,031**	**3,031**
At 30 June 2016			
Cost	4,375	1,428	**5,803**
Accumulated depreciation	(2,375)	(397)	**(2,772)**
Net book amount	**2,000**	**1,031**	**3,031**
Year ended 30 June 2017			
Opening net book amount	2,000	1,031	**3,031**
Additions	345	-	**345**
Disposals	(10)	-	**(10)**
Depreciation charge for the year	(1,061)	(238)	**(1,299)**
Closing net book amount	**1,274**	**793**	**2,067**
At 30 June 2017			
Cost	4,665	1,428	**6,093**
Accumulated depreciation	(3,391)	(635)	**(4,026)**
Net book amount	**1,274**	**793**	**2,067**

Recognition and measurement

Items of property, plant and equipment are initially recorded at cost including transaction costs. Items are then subsequently measured at cost less any subsequent accumulated depreciation.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Plant and equipment	3 to 5 years
Leasehold improvements	3 to 6 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the Statement of Comprehensive Income.

13. INTANGIBLE ASSETS

	Goodwill $000	Software $000	Customer Contracts $000	Total $000
At 1 July 2015				
Cost	-	4,740	-	**4,740**
Accumulated amortisation	-	(780)	-	**(780)**
Net book amount	**-**	**3,960**	**-**	**3,960**
Year ended 30 June 2016				
Opening net book amount	-	3,960	-	**3,960**
Additions (internally developed)	-	2,686	-	**2,686**
Additions (externally acquired)	11,959	460	19,400	**31,819**
Amortisation charge for the year	-	(1,140)	(754)	**(1,894)**
Closing net book amount	**11,959**	**5,966**	**18,646**	**36,571**
At 30 June 2016				
Cost	11,959	7,886	19,400	**39,245**
Accumulated amortisation	-	(1,920)	(754)	**(2,674)**
Net book amount	**11,959**	**5,966**	**18,646**	**36,571**
Year ended 30 June 2017				
Opening net book amount	11,959	5,966	18,646	**36,571**
Additions (internally developed)	-	3,240	-	**3,240**
Additions (externally acquired)	-	234	-	**234**
Disposals	-	(141)	-	**(141)**
Amortisation charge for the year	-	(1,788)	(1,293)	**(3,081)**
Closing net book amount	**11,959**	**7,511**	**17,353**	**36,823**
At 30 June 2017				
Cost	11,959	11,199	19,400	**42,558**
Accumulated amortisation	-	(3,688)	(2,047)	**(5,735)**
Net book amount	**11,959**	**7,511**	**17,353**	**36,823**

Recognition and measurement

Goodwill	Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries 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.
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 generally ranging from two and a half years to five years.

13. INTANGIBLE ASSETS continued

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 ten to fifteen years.

Impairment

Goodwill and intangible assets that have an indefinite useful life and are not subject to amortisation, are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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 inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment tests for goodwill and indefinite life intangibles	Goodwill and indefinite life intangibles are allocated to a cash generating unit (CGU) which may be at a level lower than operating segments. Goodwill is allocated at an operating segment level to a CGU or group of CGUs. The recoverable amount of a CGU is determined based on a value-in-use calculation. 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. The recoverable amount exceeds the carrying value of the goodwill or indefinite life intangibles.

Critical accounting judgements and estimates: Key assumptions used for value-in-use calculations

The assumptions 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 fund's capital adequacy position, and enable funding of future business growth.

Cash flows beyond the three-year period are extrapolated in 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 represents the 10 year New Zealand bond rate of 4.5% (2016: 4.9%) plus a risk adjustment of 6.4% (2016: 6.1%). The pre-tax discount rate is 14.1% (2016: 15.0%).

The following table summarises the key assumptions for the CGU that has significant goodwill and indefinite life intangibles:

	2017	2016
Policyholder growth	9.2%	10.9%
Claims ratio	60.8%	63.9%
Growth rate	3.0%	3.0%
Discount rate	10.9%	11.0%

14. PAYABLES

	2017 $000	2016 $000
Current		
Outwards reinsurance expense liability - premiums payable to reinsurers	1	2
Trade payables	1,934	777
Other payables	4,695	4,433
Intercompany payable	844	1,341
Employee benefits	1,924	1,660
	9,398	**8,213**

Recognition and measurement

Payables	These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid. Payables are recognised initially at fair value net of transaction costs and subsequently measured at amortised cost using the effective interest method. 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 as the best estimate of future cash flows discounted to present value where the effect is material.
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.

15. OUTSTANDING CLAIMS LIABILITY

	2017 $000	2016 $000
Outstanding claims - central estimate of the expected future payment for claims incurred	13,569	15,115
Risk margin	808	897
Claims handling costs	298	302
Gross outstanding claims liability	**14,675**	**16,314**

Movements in the gross outstanding claims are as follows:

	2017 $000	2016 $000
Gross outstanding claims at 1 July	16,314	11,879
Risk margin	(897)	(810)
Claims handling costs	(302)	(196)
Central estimate at 1 July	**15,115**	**10,873**
Change in claims incurred for the prior year	(700)	(733)
Claims paid in respect of the prior year	(14,287)	(10,140)
Claims incurred during the year (expected)	121,889	109,625
Claims paid during the year	(108,448)	(95,767)
Acquisition of business	-	1,257
Central estimate at 30 June	**13,569**	**15,115**
Risk margin	808	897
Claims handling costs	298	302
Gross outstanding claims at 30 June	**14,675**	**16,314**

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

	2017 $000	2016 $000
Expected claims run off		
Within 3 months	12,487	14,193
3 to 6 months	1,285	1,350
6 to 12 months	663	632
After 12 months	240	139
Total outstanding claims at 30 June	**14,675**	**16,314**

	2017	2016
The weighted average expected term to settlement of outstanding claims based on historical trends is:	1.76 months	1.55 months

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15. OUTSTANDING CLAIMS LIABILITY continued

Critical accounting judgements and estimates: Outstanding claims liability

Actuarial methods

Provision is made at the reporting date for the liability for outstanding claims which is measured as the central estimate of the expected payments against claims incurred but not settled at the reporting date under private health insurance contracts issued by the Company. The expected future payments include those in relation to claims reported but not yet paid and claims incurred but not yet reported. This 'central estimate' of outstanding claims is an estimate which is intended to contain no intentional over or under estimation. For this reason the inherent uncertainty in the central estimate must also be considered and a risk margin is added. The estimated cost of claims includes allowances for claims handling expenses. 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 development and/or recording of paid or incurred 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 are not explained by the model adopted to determine the central estimate. This past volatility is assumed to be indicative of the future volatility.

In calculating the estimated cost of unpaid claims, two methods are used. For months April 2017 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 months of May 2017 and June 2017 the Bornhuetter-Ferguson method is used, which progressively blends payment experience and prior forecasts of incurred costs.

Estimates of the outstanding claims liability and premium payback liability as at period end 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.

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

	2017		2016	
	Surgical	Medical	Surgical	Medical
NZ Health Insurance	%	%	%	%
Assumed proportion paid to date	88.8%	84.2%	87.5%	79.9%
Claims handling costs	2.2%	2.2%	2.0%	2.0%
Risk margin	8.2%	8.2%	8.2%	8.2%

15. OUTSTANDING CLAIMS LIABILITY continued

Sensitivity analysis

The Company conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying actuarial assumptions. The movement in any key variable will impact the performance and equity of the Company. The table below provides a description of the processes used to determine these assumptions, as well as how a change in each assumption will affect the insurance liabilities.

Key variable	Description	Impact of movement in variable
Chain Ladder Development Factors	Chain ladder development factors were selected based on observations of historical claim payment experience. Particular attention was given to the development of the most recent 12 months.	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	Bornhuetter-Ferguson Unpaid Factors were selected based on historical patterns of payment (by development) to ultimate incurred claims. That is, the proportion of ultimate incurred claims to be paid by development month is selected based on observations from the historical development. This "unpaid proportion" is then multiplied by a prior forecast of incurred claims for each service month to determine the outstanding claims estimate.	An increase or decrease in the level of unpaid would lead to a higher or lower projection of the ultimate liability and a corresponding increase or decrease on claims expense respectively.
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.	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	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 approximately a 95% probability of adequacy (2016: 95%).	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.
Discount rate	As claims are generally settled within one year, no discounting of claims is applied as the difference between the undiscounted value of claims payments and the present value of claims payments is not likely to be material.	

15. OUTSTANDING CLAIMS LIABILITY continued

Sensitivity analysis continued

Impact of key variables:

Variable	Movement in variable	Adjustments	Profit after tax 2016 $000	Adjustments	Equity 2016 $000
Recognised amounts in the financial statements			**15,312**		**86,197**
		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

Variable	Movement in variable	Adjustments	Profit after tax 2017 $000	Adjustments	Equity 2017 $000
Recognised amounts in the financial statements			**18,251**		**94,548**
		Adjustments	Adjusted amounts	Adjustments	Adjusted amounts
		$000	$000	$000	$000
Chain Ladder Development Factors	+0.5%	(334)	17,917	(334)	94,214
	-0.5%	334	18,585	334	94,882
Bornhuetter-Ferguson Unpaid Factors	+2.0%	(267)	17,984	(267)	94,281
	-2.0%	271	18,522	271	94,819
Claims handling costs	+1.0%	(106)	18,145	(106)	94,442
	-1.0%	106	18,357	106	94,654
Risk margin	+1.0%	(100)	18,151	(100)	94,448
	-1.0%	100	18,351	100	94,648

16. UNEARNED PREMIUM LIABILITY

	2017 $000	2016 $000
Current		
Unearned premium liability	18,399	17,892
	18,399	**17,892**
Non-current		
Unearned premium liability	365	149
	365	**149**

The unearned premium liability reflects premiums billed in advance, which averages between one and two months of prepayments.

Movements in the unearned premium liability are as follows:

	2017 $000	2016 $000
Unearned premium liability at 1 July	18,041	15,484
Acquisition of business	-	2,392
Deferral of premiums on contracts written in the year	211,650	189,222
Earning of premiums	(210,927)	(189,057)
Unearned premium liability at 30 June	**18,764**	**18,041**

Critical accounting judgements and estimates: 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. Any deficiency is recorded in the Statement of Comprehensive Income and an unexpired risk liability created. The Company applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability, refer to Note 15.

	2017	2016
Central estimate of the present value of expected future cash flows	60.90%	59.94%
Risk margin	6.30%	6.30%

Unexpired risk liability

No deficiency was identified as at 30 June 2017 and 2016 that resulted in an unexpired risk liability needing to be recognised.

17. PREMIUM PAYBACK LIABILITY

	2017 $000	2016 $000
Current		
Premium payback liability	9,944	10,742
	9,944	**10,742**
Non-current		
Premium payback liability	14,217	17,897
	14,217	**17,897**

Movements in the premium payback liability are as follows:

	2017 $000	2016 $000
Gross premium payback liability at 1 July	28,639	45,777
Adjustment to ensure reserve exceeds current pay out on early lapse	(35)	(632)
Value of payments currently being processed	(1,073)	(1,120)
Risk margin	(753)	(1,513)
Central estimate at 1 July	**26,778**	**42,512**
Funding/new accrued	3,140	2,969
Unwind discount rate	729	1,139
Interest rate movement impact	(711)	2,164
Premium payback payments	(7,322)	(22,686)
Others	(72)	680
Central estimate at 30 June	**22,542**	**26,778**
Adjustment to ensure reserve exceeds current pay out on early lapse	74	35
Value of payments currently being processed	922	1,073
Risk margin	623	753
Total premium payback liability at 30 June	**24,161**	**28,639**

Critical accounting judgments and estimates: Premium payback liability

Actuarial methods

A number of policies have a benefit where policyholders receive a proportion of premiums paid less claims received over the life of their policy, "premium payback", if certain conditions are met. The premium payback liability represents the accrued amount of premium expected to be repaid to certain policyholders. 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.

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

	2017	2016
Lapse rate until 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%
Expense rate	0.0%	0.0%
Discount rate for succeeding and following period	2.0% - 2.7%	2.0% - 2.0%
Risk margin	3.7%	3.8%

The risk margin has been estimated to equate to a probability of adequacy of approximately 95% (30 June 2016: 95%).

17. PREMIUM PAYBACK LIABILITY continued

Critical accounting judgments and estimates: Premium payback liability continued

Liability adequacy test

A liability adequacy test to cover uncertainty in the central estimate is also applied to confirm the sufficiency of the liability in aggregate.

Assumptions used in the calculation of the liability adequacy test:

	2017	2016
Discount rate for succeeding and following years (gross of tax)	2.0% - 2.7%	2.0% - 2.0%
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.
Administration expense per customer	$85.35	$84.50
Expense inflation for succeeding and following years	2% p.a.	2% p.a.

No deficiency was identified as at 30 June 2017 and 2016 that resulted in an unexpired risk liability needing to be recognised.

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 receive the settlement offer around two months before their policy renewal. The first settlement offers were made in March 2017 for May 2017 policy renewals. 100% of the available offers have been included in the current portion of the premium payback liability in the Statement of Financial Position. As customers may or may not accept the available premium payback settlement offer and recognising that 100% acceptance is unlikely, it is estimated for policyholders that accept the offer, $2.8 million of the total premium payback liability could be settled within the next 12 months. This is in addition to $1.3 million of the premium payback liability that is expected to be settled within the next 12 months in the normal course of business.

Sensitivity analysis

The Company conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying actuarial assumptions. The movement in any key variable will impact the performance and equity of the Company. The table below provides a description of the processes used to determine these assumptions, as well as how a change in each assumption will affect the insurance liabilities.

Key variable	Description	Impact of movement in variable
Lapse rate	Rate used in calculating the discounted provision to allowed 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 risk margin.
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.
Discount rate	Rate used in calculating the discounted provision to allow for expected investment income, based on 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.

17. PREMIUM PAYBACK LIABILITY continued

Sensitivity analysis continued

Impact of key variables:

			Profit after tax 2016 $000		Equity 2016 $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

			Profit after tax 2017 $000		Equity 2017 $000
Recognised amounts in the financial statements			**18,251**		**94,548**
Variable	**Movement in variable**	**Adjustments**	**Adjusted amounts**	**Adjustments**	**Adjusted amounts**
		$000	**$000**	**$000**	**$000**
Lapse Rate	+1.0%	462	18,713	462	95,010
	-1.0%	(495)	17,756	(495)	94,053
Discount Rate	+1.0%	730	18,981	730	95,278
	-1.0%	(837)	17,414	(837)	93,711
Risk margin	+1.0%	(168)	18,083	(168)	94,380
	-1.0%	168	18,419	168	94,716

18. SHARE CAPITAL AND DISTRIBUTIONS

Share capital

	2017 $000	2016 $000
Ordinary shares		
Fully paid	51,200	32,000
New shares issued (26 November 2015)	-	19,200
Total contributed equity	**51,200**	**51,200**

The total authorised number of ordinary shares is 51.2 million with a par value of 100 cents 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.

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

Distributions

	2017 $000	2016 $000
Dividends paid during the year	**9,900**	**14,500**

$1.00 per fully paid ordinary share.

Dividends	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.

19. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company has a number of levers, including adjusting the amount of dividends paid to shareholders, returning capital to shareholders, issuing new shares, selling assets, or raising or reducing debt.

The Company is required to comply with the *Solvency Standard for Non-Life Insurance Business (2014)* published by the Reserve Bank of New Zealand (RBNZ). The Solvency Standard determines the Minimum Solvency Capital (MSC) required. A requirement of nib nz limited's insurance licence is that it maintains capital above the MSC.

The overriding objective underpinning the capital management approach is to operate with a level of capital judged to be commercially prudent and within the bounds of the Board's risk appetite, which achieves a balance between:	Maintaining a buffer above the RBNZ MSC for the Company;
	Maintaining a level of capital that supports an appropriate financial strength rating; and
	Avoiding holding an excessive level of capital, which would otherwise act to reduce returns on capital for the Company.

Following a review of the Company's capital levels by the Appointed Actuary, the internal solvency benchmark has been revised to 2.00x MSC (2016: 1.75x MSC plus $NZ10 million).

Any 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.

	2017 $000	2016 $000
Actual Solvency Capital	25,569	20,451
Minimum Solvency Capital	10,666	10,125
Solvency Margin	**14,903**	**10,326**
Solvency Ratio	2.40	2.02
Internal benchmark	2.00xMSC	1.75xMSC+$10m
Internal benchmark requirement	21,333	27,718
Surplus/(deficit) assets over internal benchmark	4,236	(7,267)

All outstanding discussions with the RBNZ disclosed in the financial statements for the year ended 30 June 2016 have now been resolved. No further adjustments have been made to the Company's solvency returns in the years ended 30 June 2015 or 30 June 2016 as a result.

20. OPERATING LEASES

	2017 $000	2016 $000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
- not longer than one year	986	1,091
- longer than one year and not longer than five years	2,444	3,272
	3,430	**4,363**

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

21. CONTINGENT LIABILITIES

The Company has no material contingent liabilities as at the reporting date (30 June 2016: nil). 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.

22. EVENTS OCCURRING AFTER THE REPORTING PERIOD

Premium payback early settlement offer

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

For eligible premium payback customers with renewal dates in September, early settlement offers have been sent in July.

The value of early settlement offers issued in July is $1.7 million.

23. REMUNERATION OF AUDITORS

	2017 $000	2016 $000
a) PricewaterhouseCoopers New Zealand		
1. Audit services		
Audit and half year review of financial report	168	196
Total remuneration for audit services	**168**	**196**
2. Non-audit services		
Audit-related services		
Assurance engagement over regulatory returns	12	12
Total remuneration for audit-related services	**12**	**12**
Taxation services		
Tax compliance services	37	37
Tax consulting services	40	5
Other tax and accounting advice relating to one off transactions	-	20
Total remuneration for taxation services	**77**	**62**
Other		
Cyber security consulting services	28	-
Total remuneration for other services	**28**	**-**
Total remuneration for non-audit services	**117**	**74**
Total remuneration of PricewaterhouseCoopers New Zealand	**285**	**270**

Tax consulting services comprised a GST review in the current year, and an FBT review in the prior year.
Other tax and accounting advice comprised a Transfer Pricing review in the prior year.

24. RELATED PARTY TRANSACTIONS AND BALANCES

The Company is controlled by nib holdings limited (incorporated in Australia), the "Ultimate Parent", which owns 100% of the Company's shares.

The following transactions were carried out with related parties:

Related party transactions

nib health funds pty limited and WNG Services Pty Limited are fellow subsidiaries of the Ultimate Parent. The Company entered 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:

	2017 $000	2016 $000	Nature of Relationship	Type of Transactions
nib holdings Limited (Australia)	69	103	Ultimate Parent	Management fees paid
nib health funds Limited (Australia)	1,690	1,196	Related party	Management fees paid
nib health funds Limited (Australia)	1,430	1,398	Related party	Reimbursement of expenses paid
WNG Services Pty Limited (Australia)	(91)	-	Related party	Reimbursement of expenses paid
WNG Services Pty Limited (Australia)	(176)	(27)	Related party	Management fees income
nib health funds Limited (Australia)	(9)	(48)	Related party	Management fees income
nib nz holdings limited	9,900	14,500	Parent	Dividend declared and paid

Related party balances

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

	2017 $000	2016 $000	Nature of Relationship	Type of Balance
nib holdings Limited (Australia)	14	557	Ultimate Parent	Management fees paid
nib health funds Limited (Australia)	830	785	Related party	Reimbursement of expenses paid
WNG Services Pty Limited (Australia)	(15)	(9)	Related party	Management fees income

Key management personnel compensation

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

	2017 $000	2016 $000
Salaries and short-term employee benefits	865	716
Share-based payments	121	68
Independent Directors fees	216	209
	1,202	**993**

Key management personnel may be entitled to equity instruments in the form of shares of nib holdings limited refer to Note 25.

Loans to key management personnel

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

Other transactions with key management personnel and Directors

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

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25. SHARE-BASED PAYMENTS

Expenses arising from share-based payments transactions

	2017 $000	2016 $000
Shares purchased on market under nib salary sacrifice plan and matching plan and salary sacrifice (NZ) rules and matching plan (NZ)	22	14
Performance rights granted under LTIP	123	65
Shares purchased on market under STI	119	92
	264	**171**

Long-term incentive plan (LTIP)

Performance rights to acquire shares in nib holdings limited are granted to executives under the LTIP. The 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 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 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 Company's Executive management Short-Term Incentive and LTIP. The Trust has been consolidated in the Ultimate Parent annual financial statements.

Performance rights granted under the plan:

Grant date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at the end of the year Number	Vested and exercisable at end of the year Number
29/11/2013	1/09/2017	-	57,316	-	-	-	57,316	-
22/12/2014	1/09/2018	-	40,384	-	-	-	40,384	-
22/01/2016	1/09/2019	-	49,492	-	-	-	49,492	-
5/12/2016	1/09/2020	-	-	56,623	-	-	56,623	-
			147,192	56,623	-	-	203,815	-

Short-Term Incentive (STI)

Eligible employees have a STI opportunity. For the CEO, the maximum target bonus opportunity is 60% of the base remuneration package with half of the calculated entitlement deferred into shares for one year.

The nib Holdings Ltd Share Ownership Plan Trust administers the Company's Executive management STI and LTIP. 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.

25. SHARE BASED PAYMENTS continued

Employee Share Purchase Scheme (ESPS)

Eligible New Zealand employees are offered the opportunity to receive part of their salary in the form of shares. All permanent employees who are an employee at the date the offer is made are eligible to participate in the scheme. Employees may elect not to participate in the scheme.

ESPS is administered by the Board. Shares granted to the employees by the Board are acquired on-market via a third party trustee plan company.

Under the FY17 ESPS, participating employees were allocated an aggregate market value up to NZ$340 worth of fully paid ordinary shares in nib holdings limited. In the FY15 and FY16 ESPS, employees were offered the opportunity to apply for NZ$1,000 worth of nib shares. Due to New Zealand tax legislation, the ESPS Rules require that each employee's contributions are not more than NZ$2,340 in total in any three-year period. This limit applies to contributions made by the employee, not the value of the shares received. Another requirement of the Rules is that all employees must be eligible to participate equally in the scheme. Subsequent offers under ESPS are at the Board's discretion.

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.

	2017	2016
Number of shares purchased on market under the plan to participating employees	2,409	7,672

The shares were allocated in two tranches. The first tranche of shares were for allocated on 26 August 2016 following nib's FY16 full year results presentation at a volume weighted average price of $4.57. The remaining tranche of shares were allocated on 24 February 2017 following nib's FY17 half year results presentation at a volume weighted average price of $5.31.

Salary Sacrifice Plan and Matching Plan

Eligible New Zealand business unit head employees are offered the opportunity to receive part of their salary in the form of shares, with an additional amount of shares contributed by the Company. Employees may elect not to participate in the plan.

The plan is administered by the Board. Shares granted to the employees by the Board are acquired on-market via a third party trustee plan company.

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

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.

	2017	2016
Number of shares purchased on market under the plan to participating employees	1,650	2,132

Recognition and measurement

The fair value of performance rights granted under the nib holdings LTIP is recognised as an employee benefit expense. The total amount to be expensed is determined by reference to the fair value of the performance rights granted, which includes any market performance conditions but excludes the impact of any service and non-market performance vesting conditions and the impact of any non-vesting conditions. Non-market vesting conditions are included in assumptions about the number of performance rights that are expected to vest. 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. At the end of each period, the Company revises its estimate of the number of performance rights that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the Statement of Comprehensive Income, with a corresponding adjustment to equity.

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

26. INSURER FINANCIAL STRENGTH RATING

nib nz limited has an insurer financial strength rating of 'A-' (Excellent) issued by A.M. Best Company Inc. The rating has an effective date of 2 September 2016.

27. COMPANY DETAILS

nib nz limited is a 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.

The Directors of nib nz limited present their report and financial statements of the Company for the year ended 30 June 2017.

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

The after tax profit for the year was $18.3 million (30 June 2016: $15.3 million). Shareholders' equity at the end of the period totalled $94.6 million (30 June 2016: $86.2 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
- Alan Clarke
- Mark Fitzgibbon
- Robert Hennin
- Hanne Janes
- 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

11 August 2017

Independent auditor's report

To the shareholder of nib nz limited

The financial statements comprise:

- the statement of financial position as at 30 June 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements of nib nz limited (the Company), present fairly, in all material respects, the financial position of the Company as at 30 June 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Company in the areas of assurance over regulatory returns, cyber security consulting and tax compliance and consulting. The provision of these other services has not impaired our independence as auditor of the Company.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-6/

This description forms part of our auditor's report.

Who we report to

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

The engagement partner on the audit resulting in this independent auditor's report is Richard Day.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
11 August 2017

Auckland

Actuarial and Insurance Consultants

3 August 2017

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 2017

Finity Consulting Pty Limited (Finity) has been asked by nib nz limited (nib nz) to carry out a review of the 30 June 2017 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 2017 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.

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

Yours sincerely

Jamie Reid

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