nib nz limited

Financial Statements
30 June 2019

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Statement of Comprehensive Income

For the year ended 30 June 2019
nib nz limited

	Notes	2019 $000	2018 $000
Premium revenue	5	229,783	214,894
Outwards reinsurance premium expense	5	(155)	(4)
Net premium revenue		**229,628**	**214,890**
Claims expense		(138,340)	(127,015)
Decrease (increase) in premium payback liability		(272)	4,287
Claims handling expenses	6	(1,762)	(2,090)
Net claims incurred		**(140,374)**	**(124,818)**
Acquisition costs	6	(40,031)	(38,885)
Other underwriting expenses	6	(26,922)	(24,778)
Underwriting expenses		**(66,953)**	**(63,663)**
Underwriting result		**22,301**	**26,409**
Other income	5	316	447
Amortisation of intangible assets	6	(4,178)	(3,839)
Operating profit		**18,439**	**23,017**
Investment income	5	4,110	3,606
Investment expenses	6	(123)	(103)
Profit before income tax		**22,426**	**26,520**
Income tax expense	7	(6,290)	(7,494)
Profit for the year		**16,136**	**19,026**
Total comprehensive income for the year attributable to:			
Owners of nib nz limited		16,136	19,026
		16,136	**19,026**

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 2019
nib nz limited

	Notes	2019 $000	2018 $000
ASSETS			
Current assets			
Cash and cash equivalents	8	16,382	11,290
Receivables	9	3,671	2,756
Financial assets at fair value through profit or loss	10	91,716	92,579
Deferred acquisition costs	11	19,367	18,918
Total current assets		**131,136**	**125,543**
Non-current assets			
Deferred acquisition costs	11	10,706	10,760
Property, plant and equipment	12	1,384	1,418
Intangible assets	13	34,989	36,529
Total non-current assets		**47,079**	**48,707**
Total assets		**178,215**	**174,250**
LIABILITIES			
Current liabilities			
Payables	14	9,179	9,341
Outstanding claims liability	15	16,326	15,238
Unearned premium liability	16	20,443	18,831
Premium payback liability	17	3,298	4,079
Current tax liabilities		2,660	2,336
Total current liabilities		**51,906**	**49,825**
Non-current liabilities			
Outstanding claims liability	15	153	253
Unearned premium liability	16	564	428
Premium payback liability	17	16,848	15,795
Deferred tax liabilities	7	7,434	7,575
Total non-current liabilities		**24,999**	**24,051**
Total liabilities		**76,905**	**73,876**
Net assets		**101,310**	**100,374**
EQUITY			
Contributed equity	18	51,200	51,200
Retained profits		50,110	49,174
Total equity		**101,310**	**100,374**

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 2019

nib nz limited

	Notes	Contributed Equity $000	Retained Profits $000	Total Equity $000
Balance at 1 July 2017		**51,200**	**43,348**	**94,548**
Profit for the year		-	19,026	19,026
Total comprehensive income for the year		-	**19,026**	**19,026**
Transactions with owners in their capacity as owners:				
Dividends paid	18	-	(13,200)	(13,200)
		-	**(13,200)**	**(13,200)**
Balance at 30 June 2018		**51,200**	**49,174**	**100,374**
Balance at 1 July 2018		**51,200**	**49,174**	**100,374**
Profit for the year		-	16,136	16,136
Total comprehensive income for the year		-	**16,136**	**16,136**
Transactions with owners in their capacity as owners:				
Dividends paid	18	-	(15,200)	(15,200)
		-	**(15,200)**	**(15,200)**
Balance at 30 June 2019		**51,200**	**50,110**	**101,310**

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 2019
nib nz limited

	Notes	2019 $000	2018 $000
Cash flows from operating activities			
Receipts from policyholders and customers		266,019	247,852
Payments to policyholders and customers		(158,116)	(145,130)
Payments to suppliers and employees		(83,152)	(80,305)
Interest received		3,498	3,464
Income taxes paid		(6,107)	(6,906)
Net cash inflow (outflow) from operating activities		**22,142**	**18,975**
Cash flows from investing activities			
Proceeds from disposal of financial assets at fair value through profit or loss		131,805	125,556
Payments for financial assets at fair value through profit or loss		(130,309)	(129,194)
Proceeds from sale of property, plant and equipment and intangible assets		14	30
Payments for property, plant and equipment and intangible assets	12,13	(3,360)	(3,855)
Net cash inflow (outflow) from investing activities		**(1,850)**	**(7,463)**
Cash flows from financing activities			
Dividends paid to the Company's shareholder	18	(15,200)	(13,200)
Net cash inflow (outflow) from financing activities		**(15,200)**	**(13,200)**
Net increase (decrease) in cash and cash equivalents		5,092	(1,688)
Cash and cash equivalents at the beginning of the year		11,290	12,978
Cash and cash equivalents at the end of the year		**16,382**	**11,290**
Reconciliation to Balance Sheet			
Cash and cash equivalents	8	16,382	11,290
		16,382	**11,290**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting entity

nib nz limited (the Company) is a for profit company incorporated in New Zealand under the *Companies Act 1993* and is a Financial Markets 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 9 August 2019.

(b) 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). They comply with 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. They also comply with International Financial Reporting Standards (IFRS). They have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct 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 2019 are audited by our independent auditor.

(c) 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.

iii) Comparatives

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

(d) New and amended standards adopted by the Company

The Company has adopted all of the new or amended accounting standards and interpretations issued by the External Reporting Board (XRB) that are mandatory for the current reporting year.

Any new or amended accounting standards or interpretations that are not yet mandatory have not been early adopted.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

i) NZ IFRS 9 Financial Instruments

The Company has adopted NZ IFRS 9 from 1 July 2018.

The standard introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A financial asset shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income (OCI).

Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch).

New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity.

New impairment requirements for financial assets measured at amortised cost use an 'expected credit loss' (ECL) model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

To conform with the requirements of NZ IFRS 9, the accounting policies relating to financial assets have been amended, while those related to financial liabilities remain unchanged. New accounting policies relating to the adoption of NZ IFRS 9 are detailed in Notes 9 and 10.

The adoption of NZ IFRS 9 had no impact to the amounts reported in the Company's financial statements.

ii) NZ IFRS 15 Revenue from Contracts with Customers

The Company has adopted NZ IFRS 15 from 1 July 2018.

The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduces a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

The Company's main revenue stream is within NZ IFRS 4, Insurance Contracts, and out of scope of NZ IFRS 15. Accordingly, the adoption of NZ IFRS 15 had an immaterial impact to the accounting policies of the Company and the amounts reported in the Company's financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(e) New accounting standards and interpretations not yet adopted

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 16 Leases	Amendments to 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. Applying the simplified approach, the Company expects to recognise right-of-use assets of approximately $6.4 million on 1 July 2019, lease liabilities of $8.7 million and deferred tax assets of $0.6 million. Overall net assets will be approximately $1.6 million lower. The Company expects that net profit after tax will decrease by approximately $0.2 million for the year ending 30 June 2020 as a result of adopting the new standard.	Mandatory for financial years commencing on or after 1 January 2019. The Company will adopt the standard from 1 July 2019.
NZ IFRS 17 Insurance Contracts	A new standard has been issued for the recognition of insurance contracts. NZ IFRS 17 Insurance Contracts will replace NZ IFRS 4 Insurance Contracts, and is expected to 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 Group, being the Ultimate Parent nib holdings limited and its subsidiaries, has formed a project team to assess the impact of this change on the operations and financial statements of the business. This assessment has identified that a number of key requirements of NZ IFRS 17 remain subject to interpretation. We note the ongoing potential for changes in interpretation of the standard and on 27 July 2019 the International Accounting Standards Board issued an Exposure Draft on the proposed amendments to IFRS 17. The International Accounting Standards Board continues to address challenges identified in relation to the practical implementation of the standard. Initial investigation into the application for the standard indicates it is likely that the Simplified Premium Allocation Approach will apply to the majority of the Group's insurance contracts.	Mandatory for financial years commencing on or after 1 January 2021. The Company does not intend to adopt the standard before its effective date.

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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 Capital management (see Note 19)
Non-financial risks	Operational risk including conduct and culture 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 Management Strategy. 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 Management Strategy 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.

(a) Insurance risk

Description	Exposure	Mitigation
Insurance risk is the risk that inadequate or inappropriate underwriting, claims management, product design and pricing will expose the Company to financial loss from claims expenditure exceeding the amount implicit in premium income.	The 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.	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.

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3. RISK MANAGEMENT continued

(a) 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.

(b) Financial risks

i) Interest rate risk

Description	Exposure	Mitigation
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.	The Company's main interest rate risk arises from financial assets at fair value through profit or loss, premium payback liability (refer Note 17) and cash and cash equivalents.	The Company has adopted an investment strategy that delivers a diversified portfolio of defensive assets. Defensive assets consist of New Zealand dollar denominated New Zealand overseas fixed interest investments and cash and cash equivalents. The Company received advice from its asset management consultant, Nikko Asset Management New Zealand Limited.

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

	2019					2018				
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	16,382	(118)	(118)	118	118	11,290	(81)	(81)	81	81
Financial assets at fair value through profit or loss	91,716	1,001	1,001	(960)	(960)	92,579	1,078	1,078	(1,039)	(1,039)
Total increase / (decrease)		**883**	**883**	**(842)**	**(842)**		**997**	**997**	**(958)**	**(958)**

3. RISK MANAGEMENT continued

(b) Financial risks continued

ii) Credit risk

Description	Exposure	Mitigation
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.	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.	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 nib nz holdings limited Group basis in accordance with limits set by the Group's Board. The allowance for credit losses and impairment in relation to premium and other receivables is provided for based on a lifetime expected credit loss allowance.

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

	2019 $000	2018 $000
Cash and cash equivalents	16,382	11,290
Premium receivables	2,833	2,357
Other receivables	336	180
Interest-bearing securities	91,716	92,579
Total credit risk	**111,267**	**106,406**

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	2019 $000	2018 $000
Counterparties without external credit rating		
Group 1 - new debtors (relationship less than 6 months)	-	-
Group 2 - existing debtors with no defaults in the past	3,043	2,357
Group 3 - existing debtors with some defaults in the past	126	180
Total premium and other receivables	**3,169**	**2,537**

Cash at bank and short-term bank deposits		
AA-	16,382	11,290
Total cash at bank and short-term bank deposits	**16,382**	**11,290**

Financial assets at fair value through profit or loss		
Interest-bearing securities		
AA-	63,436	68,990
AA	14,260	8,269
AA+	7,081	9,180
AAA	6,939	6,140
Total financial assets at fair value through profit or loss	**91,716**	**92,579**

3. RISK MANAGEMENT continued

(b) Financial risks continued

iii) Liquidity risk

Description	Exposure	Mitigation
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.	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.	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.

Company at 30 June 2019	≤ 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	958	-	-	-	-	958	958
Other payables	4,265	1,472	87	29	-	5,853	5,853
Intercompany payables	1,501	-	-	-	-	1,501	1,501
	6,724	**1,472**	**87**	**29**	**-**	**8,312**	**8,312**

Company at 30 June 2018	≤ 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	1,162	-	-	-	-	1,162	1,162
Other payables	4,540	1,369	87	146	-	6,142	6,142
Intercompany payables	762	-	-	-	-	762	762
	6,464	**1,369**	**87**	**146**	**-**	**8,066**	**8,066**

4. FAIR VALUE MEASUREMENT

(a) 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 Fair Value Measurement 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:

Company at 30 June 2019	Level 1 $000	Level 2 $000	Total $000
Assets			
Financial assets at fair value through profit or loss			
Interest-bearing securities	61,605	30,111	91,716
Total assets	**61,605**	**30,111**	**91,716**

Company at 30 June 2018	Level 1 $000	Level 2 $000	Total $000
Assets			
Financial assets at fair value through profit or loss			
Interest-bearing securities	74,224	18,355	92,579
Total assets	**74,224**	**18,355**	**92,579**

There were no transfers between Level 1 and Level 2 during the year ended 30 June 2019 or the year ended 30 June 2018.

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 fair value of Level 2 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.

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

	2019 $000	2018 $000
Net premium revenue		
Premium revenue	229,783	214,894
Outwards reinsurance premium expense	(155)	(4)
Total net premium revenue	**229,628**	**214,890**
Other income		
Net gain (loss) on disposal of property, plant and equipment	(42)	13
Management fees income	322	385
Travel insurance commission	-	54
Foreign exchange gain (loss)	36	(5)
Total other income	**316**	**447**
Investment income		
Interest income	3,477	3,487
Net realised gain (loss) on financial assets at fair value through profit or loss	(101)	(164)
Net unrealised gain (loss) on financial assets at fair value through profit or loss	734	283
Total investment income	**4,110**	**3,606**

(a) Accounting Policy

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:

i) 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.

ii) 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.

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

	2019 $000	2018 $000
Expenses by function		
Claims handling expenses	1,762	2,090
Acquisition costs	40,031	38,885
Other underw riting expenses	26,922	24,778
Other management expenses - amortisation	4,178	3,839
Investment expenses	123	103
Total expenses (excluding direct claims expenses)	**73,016**	**69,695**
Expenses by nature		
Depreciation and amortisation	4,878	4,781
Employee costs	17,771	18,427
Investment expenses	123	103
Information technology expenses	2,031	1,524
Management fee	5,046	2,100
Marketing expenses - excluding commissions	6,515	7,499
Marketing expenses - commissions	30,802	28,683
Operating lease rental expenses	1,039	952
Professional fees	2,301	2,655
Other	2,510	2,971
Total expenses (excluding direct claims expenses)	**73,016**	**69,695**

7. TAXATION

(a) Income tax

	2019 $000	2018 $000
i) Income tax expense		
Recognised in the Statement of Comprehensive Income		
Current tax expense	6,431	5,973
Deferred tax expense	(141)	1,521
	6,290	**7,494**
Deferred income tax expense included in income tax expense comprises:		
Decrease / (increase) in deferred tax assets	(46)	1,197
(Decrease) / increase in deferred tax liabilities	(95)	324
	(141)	**1,521**
ii) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax expense	**22,426**	**26,520**
Tax at the New Zealand tax rate of 28% (2018: 28%)	6,279	7,426
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Other non-deductible expenses	11	68
Income tax expense	**6,290**	**7,494**

(b) Imputation credits

	2019 $000	2018 $000
Imputation credits available for use in subsequent reporting periods	21,299	13,551

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.

7. TAXATION continued

(c) Deferred tax assets

	2019 $000	2018 $000
The balance comprises temporary differences attributable to:		
Premium payback liabilities	5,195	5,119
Doubtful debts	194	241
Employee benefits	595	578
Total deferred tax assets	**5,984**	**5,938**
Recovery of total deferred tax assets:		
Deferred tax assets to be recovered within 12 months	712	2,019
Deferred tax assets to be recovered after more than 12 months	5,272	3,919
	5,984	**5,938**

Movements	Employee benefits $000	Premium payback liabilities $000	Doubtful debts $000	Total $000
At 1 July 2017	532	6,319	284	7,135
(Charged) credited to the Statement of Comprehensive Income	46	(1,200)	(43)	(1,197)
At 30 June 2018	**578**	**5,119**	**241**	**5,938**
At 1 July 2018	578	5,119	241	5,938
(Charged) credited to the Statement of Comprehensive Income	17	76	(47)	46
At 30 June 2019	**595**	**5,195**	**194**	**5,984**

(d) Deferred tax liabilities

	2019 $000	2018 $000
The balance comprises temporary differences attributable to:		
Brands and trademarks and customer contracts	4,134	4,496
Deferred acquisition costs	8,420	8,310
Depreciation and amortisation	864	707
Total deferred tax liabilities	**13,418**	**13,513**
Recovery of total deferred tax liabilities:		
Deferred tax liabilities to be settled within 12 months	3,517	1,631
Deferred tax liabilities to be settled after more than 12 months	9,901	11,882
	13,418	**13,513**

7. TAXATION continued

(d) Deferred tax liabilities continued

Movements	Brands and trademarks and customer contracts $000	Deferred acquisition costs $000	Depreciation and amortisation $000	Total $000
At 1 July 2017	4,859	7,734	596	13,189
Charged (credited) to the Statement of Comprehensive Income	(363)	576	111	324
At 30 June 2018	**4,496**	**8,310**	**707**	**13,513**
At 1 July 2018	4,496	8,310	707	13,513
Charged (credited) to the Statement of Comprehensive Income	(362)	110	157	(95)
At 30 June 2019	**4,134**	**8,420**	**864**	**13,418**

(e) Accounting Policy

i) 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.

ii) 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).

iii) Deferred tax

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities settled, based on the tax rates enacted. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences or unused tax losses can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of the other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

8. CASH AND CASH EQUIVALENTS

	2019 $000	2018 $000
Cash at bank and cash on hand	10,889	10,611
Short term deposits and deposits at call	5,493	679
	16,382	**11,290**

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

	2019 $000	2018 $000
Profit for the year	16,136	19,026
Net (gain)/loss on disposal of property, plant and equipment	42	(13)
Fair value (gain)/loss on other financial assets through profit or loss	(633)	(119)
Depreciation and amortisation	4,878	4,782
Change in operating assets and liabilities		
Decrease (increase) in receivables	(915)	(212)
Decrease (increase) in deferred acquisition costs	(395)	(2,057)
Increase (decrease) in deferred tax liabilities	(141)	1,522
Increase (decrease) in current tax liabilities	324	(935)
Increase (decrease) in trade payables	826	773
Increase (decrease) in insurance liabilities	2,020	(3,792)
Net cash flow from operating activities	**22,142**	**18,975**

(b) Accounting Policy

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.

9. RECEIVABLES

	2019 $000	2018 $000
Premium receivables	3,525	3,217
Other receivables	336	180
Provision for loss allowance	(692)	(860)
Prepayments	502	219
	3,671	**2,756**

The loss allowance as at 30 June 2019 (on adoption of NZ IFRS 9) was determined for premium receivables and other receivables as follows:

Group at 30 June 2019		Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Total
Expected loss rate	%	7%	14%	33%	91%	
Gross carrying amount - premium receivables	$000	2,274	569	401	281	3,525
Gross carrying amount - other receivables	$000	265	20	10	41	336
Loss allowance	$000	**183**	**83**	**134**	**292**	**692**

The closing loss allowances for premium receivables and other receivables as at 30 June 2019 reconcile to the opening loss allowances as follows:

	Premium receivables 2019 $000	Other receivables 2018 $000
1 July - calculated under NZ IAS 39	**789**	**71**
Amounts restated through opening retained earnings	-	-
Opening loss allowance as at 1 July 2018 - calculated under NZ IFRS 9	**789**	**71**
Increase / (decrease) in loss allowance recognised in profit or loss during the year	(139)	-
Receivables written off during the year as uncollectible	-	(29)
At 30 June 2019 - calculated under NZ IFRS 9	**650**	**42**

(a) Accounting Policy

i) Premium receivables

Amounts due from policyholders are initially recognised at fair value, being the amounts due. They are subsequently measured at amortised cost which is approximated by taking this initially recognised amount and reducing it for an allowance for expected credit losses.

The Company has elected to apply the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, premium receivables have been
grouped based on payment frequency, days overdue, and considered a number of factors including cancellation rates and concentration risks.

The amount of expected credit losses is recognised in the Statement of Comprehensive Income.

ii) Other receivables

Other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Other receivables are generally due for settlement within 30 days.

The Company has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, other receivables have been grouped based on days overdue. The amount of expected credit losses is recognised in the Statement of Comprehensive Income.

When a receivable becomes uncollectible it is written off against the expected credit loss account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Statement of Comprehensive Income.

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9. RECEIVABLES continued

(b) Accounting policy applied until 30 June 2018

The Company has applied NZ IFRS 9 using modified retrospective approach with comparative information not restated. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

i) Premium receivables	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 Consolidated Statement of Comprehensive Income.
iii) 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 Consolidated 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 Consolidated Statement of Comprehensive Income.

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10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 $000	2018 $000
Interest-bearing securities	91,716	92,579
	91,716	**92,579**

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.

(a) Accounting Policy

i) Classification

The Company classifies its financial assets into the following measurement categories:

- those to be measured at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the relevant cash flows. The Company has determined that all financial assets are classified as fair value through profit or loss as they 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.

ii) Recognition and derecognition

A financial asset is recognised in the balance sheet when the Company becomes a party to the contractual provisions of the instrument, which is generally at trade date.

A financial asset is derecognised when the contractual cash flows from the asset expire or the rights to receive contractual cash flows are transferred in a transaction in which substantially all the risks and rewards of the ownership are transferred. Any interest in a transferred financial asset that is created or retained by the Company is recognised as a separate asset or liability.

iii) Measurement

Financial assets at fair value through profit or loss are recognised initially at fair value. All other financial assets are recognised initially at fair value plus directly attributable transaction costs.

Subsequent to the initial recognition, for financial assets measured at fair value through profit or loss, gains and losses are recorded in profit or loss.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS continued

(b) Accounting policy applied until 30 June 2018

The Company has applied NZ IFRS 9 retrospectively, but has elected to not restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

i) Investments	The Company classifies its investments into financial assets at fair value through profit or loss.
ii) 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.
iii) 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.

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11. DEFERRED ACQUISITION COSTS

	2019 $000	2018 $000
Current		
Deferred acquisition costs	5,284	5,025
Deferred unearned commissions	14,083	13,893
	19,367	**18,918**
Non-current		
Deferred acquisition costs	10,706	10,760
	10,706	**10,760**

Movements in deferred acquisition costs are as follows:

	2019 $000	2018 $000
Balance at the beginning of the year	29,678	27,621
Acquisition costs deferred during the year	17,143	18,605
Amortisation expense	(16,748)	(16,548)
	30,073	**29,678**

(a) Accounting Policy

Direct acquisition costs incurred in obtaining health insurance contracts, including broker commissions, are deferred and 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. This pattern of amortisation is in accordance the pattern of risk.

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.

(b) 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.

The recoverability of the related deferred acquisition costs is also considered through an assessment of the net present value of the future estimated cash flows for policies that are subject to commission, and as part of the liability adequacy test performed. As described in Note 16, the Company has no deficiency in the unearned premium liability at 30 June 2019.

12. PROPERTY, PLANT & EQUIPMENT

	Plant & Equipment $000	Leasehold Improvements $000	Total $000
At 1 July 2017			
Cost	4,665	1,428	**6,093**
Accumulated depreciation	(3,391)	(635)	**(4,026)**
Net book amount	**1,274**	**793**	**2,067**
Year ended 30 June 2018			
Opening net book amount	1,274	793	**2,067**
Additions	280	30	**310**
Disposals	(17)	-	**(17)**
Depreciation charge for the year	(703)	(239)	**(942)**
Closing net book amount	**834**	**584**	**1,418**
At 30 June 2018			
Cost	4,826	1,459	**6,285**
Accumulated depreciation	(3,992)	(875)	**(4,867)**
Net book amount	**834**	**584**	**1,418**
Year ended 30 June 2019			
Opening net book amount	834	584	**1,418**
Additions	671	-	**671**
Disposals	(5)	-	**(5)**
Depreciation charge for the year	(458)	(242)	**(700)**
Closing net book amount	**1,042**	**342**	**1,384**
At 30 June 2019			
Cost	5,252	1,459	**6,711**
Accumulated depreciation	(4,210)	(1,117)	**(5,327)**
Net book amount	**1,042**	**342**	**1,384**

(a) Accounting Policy

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.

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13. INTANGIBLE ASSETS

	Goodwill $000	Software $000	Customer Contracts $000	Total $000
At 1 July 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**
Year ended 30 June 2018				
Opening net book amount	11,959	7,511	17,353	**36,823**
Additions (internally developed)	-	2,515	-	**2,515**
Additions (externally acquired)	-	1,030	-	**1,030**
Disposals	-	-	-	**-**
Amortisation charge for the year	-	(2,546)	(1,293)	**(3,839)**
Closing net book amount	**11,959**	**8,510**	**16,060**	**36,529**
At 30 June 2018				
Cost	11,959	14,744	19,400	**46,103**
Accumulated amortisation	-	(6,234)	(3,340)	**(9,574)**
Net book amount	**11,959**	**8,510**	**16,060**	**36,529**
Year ended 30 June 2019				
Opening net book amount	11,959	8,510	16,060	**36,529**
Additions (internally developed)	-	2,113	-	**2,113**
Additions (externally acquired)	-	576	-	**576**
Disposals	-	(51)	-	**(51)**
Amortisation charge for the year	-	(2,884)	(1,294)	**(4,178)**
Closing net book amount	**11,959**	**8,264**	**14,766**	**34,989**
At 30 June 2019				
Cost	11,959	17,219	19,400	**48,578**
Accumulated amortisation	-	(8,955)	(4,634)	**(13,589)**
Net book amount	**11,959**	**8,264**	**14,766**	**34,989**

(a) Accounting Policy

i) 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.

ii) Software

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

13. INTANGIBLE ASSETS continued

(a) Accounting policy continued

iii) Customer contracts

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

iv) 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.

(b) 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.

(c) 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 2.5%. The Company has applied a post-tax discount rate to discount the forecast future attributable post tax cash flows.

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

	Policyholder growth		Claims ratio		Long term growth rate		Pre-tax discount rate	
	2019	2018	2019	2018	2019	2018	2019	2018
	%	%	%	%	%	%	%	%
nib nz limited	5.4	6.7	60.0	58.9	2.5	3.0	11.0	10.5

(d) Significant estimate: Impact of possible changes in key assumptions.

In both 2019 and 2018 there were no reasonably possible changes in any of the key assumptions that would have resulted in an impairment write down of goodwill.

14. PAYABLES

	2019 $000	2018 $000
Current		
Trade payables	958	1,162
Other payables	5,853	6,142
Intercompany payable	1,501	762
Annual leave payable	867	1,275
	9,179	**9,341**

(a) Accounting Policy

i) 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.
ii) Annual leave payable	Provision is made for annual leave for services rendered up to the balance date. Annual leave balances expected to be settled within 12 months of the reporting date are measured at their nominal amounts.

15. OUTSTANDING CLAIMS LIABILITY

	2019 $000	2018 $000
Outstanding claims - central estimate of the expected future payment for claims incurred	15,064	14,189
Risk margin	1,069	1,004
Claims handling costs	346	298
Gross outstanding claims liability	**16,479**	**15,491**

Movements in the gross outstanding claims are as follows:

	2019 $000	2018 $000
Gross outstanding claims at 1 July	15,491	14,675
Risk margin	(1,004)	(808)
Claims handling costs	(298)	(298)
Central estimate at 1 July	**14,189**	**13,569**
Change in claims incurred for the prior year	(824)	(3,151)
Claims paid in respect of the prior year	(13,256)	(10,195)
Claims incurred during the period (expected)	135,488	121,522
Claims paid in respect of the current period	(120,533)	(107,556)
Central estimate at 30 June	**15,064**	**14,189**
Risk margin	1,069	1,004
Claims handling costs	346	298
Gross outstanding claims at 30 June	**16,479**	**15,491**

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

	2019 $000	2018 $000
Expected claims run off:		
Within 3 months	13,925	13,050
3 to 6 months	1,494	1,257
6 to 12 months	907	931
After 12 months	153	253
Total outstanding claims at 30 June	**16,479**	**15,491**

	2019	2018
The weighted average expected term to settlement of outstanding claims based on historical trends is:	1.75 months	1.86 months

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15. OUTSTANDING CLAIMS LIABILITY continued

(a) 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 2019 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 2019 and June 2019 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:

	2019		2018	
	Surgical	Medical	Surgical	Medical
NZ Health Insurance	%	%	%	%
Assumed proportion paid to date	89.9%	85.9%	89.0%	85.1%
Claims handling costs	2.3%	2.3%	2.1%	2.1%
Risk margin	9.3%	9.3%	9.3%	9.3%

The risk margin is intended to provide approximately a 95% probability of adequacy (30 June 2018: 95%).

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15. OUTSTANDING CLAIMS LIABILITY continued

(b) 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 tables below provide 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 factors 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 (2018: 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

(b) Sensitivity analysis continued

Impact of key variables:

			Profit after tax 2019 $000		Equity 2019 $000
Recognised amounts in the consolidated financial statements			**16,136**		**101,310**
Variable	Movement in variable	Adjustments	Adjusted amounts	Adjustments	Adjusted amounts
		$000	$000	$000	$000
Chain Ladder Development Factors	+0.5%	(427)	15,709	(427)	100,883
	-0.5%	427	16,563	427	101,737
Bornhuetter-Ferguson Unpaid Factors	+2.0%	(392)	15,744	(392)	100,918
	-2.0%	392	16,528	392	101,702
Claims handling costs	+1.0%	(119)	16,017	(119)	101,191
	-1.0%	119	16,255	119	101,429
Risk margin	+1.0%	(111)	16,025	(111)	101,199
	-1.0%	111	16,247	111	101,421

			Profit after tax 2018 $000		Equity 2018 $000
Recognised amounts in the consolidated financial statements			**19,026**		**100,374**
Variable	Movement in variable	Adjustments	Adjusted amounts	Adjustments	Adjusted amounts
		$000	$000	$000	$000
Chain Ladder Development Factors	+0.5%	(388)	18,638	(388)	99,986
	-0.5%	389	19,415	389	100,763
Bornhuetter-Ferguson Unpaid Factors	+2.0%	(314)	18,712	(314)	100,060
	-2.0%	304	19,330	304	100,678
Claims handling costs	+1.0%	(112)	18,914	(112)	100,262
	-1.0%	112	19,138	112	100,486
Risk margin	+1.0%	(104)	18,922	(104)	100,270
	-1.0%	104	19,130	104	100,478

16. UNEARNED PREMIUM LIABILITY

	2019 $000	2018 $000
Current		
Unearned premium liability	20,443	18,831
	20,443	**18,831**
Non-current		
Unearned premium liability	564	428
	564	**428**

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:

	2019 $000	2018 $000
Unearned premium liability at 1 July	19,259	18,764
Deferral of premiums on contracts written in the year	231,532	215,389
Earning of premiums	(229,784)	(214,894)
Unearned premium liability at 30 June	**21,007**	**19,259**

(a) Unexpired risk liability

No deficiency was identified as at 30 June 2019 and 30 June 2018 that resulted in an unexpired risk liability needing to be recognised.

(b) Critical accounting judgements and estimates: Liability adequacy test

Actuarial methods

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.

This test is also extended beyond recognised unearned premium liability to include premiums renewable until the next pricing review.

	2019	2018
Central estimate of the present value of expected future claims ratio	60.9%	60.9%
Risk margin	7.5%	7.5%

17. PREMIUM PAYBACK LIABILITY

	2019 $000	2018 $000
Current		
Premium payback liability	3,298	4,079
	3,298	**4,079**
Non-current		
Premium payback liability	16,848	15,795
	16,848	**15,795**

Movements in the premium payback liability are as follows:

	2019 $000	2018 $000
Gross premium payback liability at 1 July	19,874	24,161
Adjustment to ensure reserve exceeds current pay out on early lapse	(18)	(74)
Value of payments currently being processed	(695)	(922)
Risk margin	(506)	(623)
Central estimate at 1 July	**18,655**	**22,542**
Funding/new accrued	2,652	2,900
Unwind discount rate	335	518
Interest rate movement impact	859	482
Premium payback payments	(3,543)	(7,723)
Others	(91)	(64)
Central estimate at 30 June	**18,867**	**18,655**
Adjustment to ensure reserve exceeds current pay out on early lapse	-	18
Value of payments currently being processed	738	695
Risk margin	541	506
Total premium payback liability at 30 June	**20,146**	**19,874**

17. PREMIUM PAYBACK LIABILITY continued

(a) 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:

	2019	2018
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 years	1.2% - 1.3%	1.8% - 2.2%
Risk margin	3.7%	3.5%

The risk margin has been estimated to equate to a probability of adequacy of approximately 95% (30 June 2018: 95%).

(b) 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:

	2019	2018
Discount rate for succeeding and following years	1.2% - 1.3%	1.8% - 2.2%
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	$88.80	$87.06
Expense inflation for succeeding and following years	2% p.a.	2% p.a.

No deficiency was identified as at 30 June 2019 and 30 June 2018 that resulted in an unexpired risk liability needing to be recognised.

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17. PREMIUM PAYBACK LIABILITY continued

(c) Sensitivity analysis

i) Summary

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 allow for expected lapses, based on historical experience.	An increase or decrease in the lapse assumption would have an inverse impact on the premium payback liability and 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.

ii) Impact of key variables:

			Profit after tax 2019 $000		Equity 2019 $000
Recognised amounts in the consolidated financial statements			16,136		101,310
Variable	Movement in variable	Adjustments	Adjusted amounts	Adjustments	Adjusted amounts
		$000	$000	$000	$000
Lapse Rate	+1.0%	409	16,545	409	101,719
	-1.0%	(441)	15,695	(441)	100,869
Discount Rate	+1.0%	687	16,823	687	101,997
	-1.0%	(761)	15,375	(761)	100,549
Risk margin	+1.0%	(145)	15,991	(145)	101,165
	-1.0%	145	16,281	145	101,455

			Profit after tax 2018 $000		Equity 2018 $000
Recognised amounts in the consolidated financial statements			19,026		100,374
Variable	Movement in variable	Adjustments	Adjusted amounts	Adjustments	Adjusted amounts
		$000	$000	$000	$000
Lapse Rate	+1.0%	390	19,416	390	100,764
	-1.0%	(418)	18,608	(418)	99,956
Discount Rate	+1.0%	642	19,668	642	101,016
	-1.0%	(717)	18,309	(717)	99,657
Risk margin	+1.0%	(152)	18,874	(152)	100,222
	-1.0%	152	19,178	152	100,526

18. SHARE CAPITAL AND DISTRIBUTIONS

(a) Share capital

	2019 $000	2018 $000
Ordinary shares		
Fully paid	51,200	51,200
Total contributed equity	**51,200**	**51,200**

The total authorised number of ordinary shares is 5,001,000 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.

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

(b) Distributions

	2019 $000	2018 $000
Dividends paid during the year	**15,200**	**13,200**

i)	***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 Board.

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 to it's 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 the shareholders, returning capital to the 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.

nib nz limited's internal solvency benchmark is 2.00x MSC. 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. On 9 August 2019 nib nz limited declared a gross dividend of $6,800,000 to be paid to the Company's parent entity nib nz holdings limited. The solvency table below excludes the dividend. After the dividend, nib nz maintains surplus assets over internal benchmark of greater than zero.

	2019 $000	2018 $000
Actual Solvency Capital	33,095	30,883
Minimum Solvency Capital	11,677	11,401
Solvency Margin	**21,418**	**19,482**
Solvency Ratio	2.83	2.71
Internal benchmark	2.00xMSC	2.00xMSC
Internal benchmark requirement	23,354	22,801
Surplus assets over internal benchmark	9,741	8,082

20. OPERATING LEASES

	2019 $000	2018 $000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
- not longer than one year	923	1,035
- longer than one year and not longer than five years	311	1,509
	1,234	**2,544**

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. As part of the lease, a $951,000 bank guarantee was required.

21. CONTINGENT LIABILITIES

The Company has no material contingent liabilities as at the reporting date (30 June 2018: 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

(a) Dividend declared

On 9 August 2019 the Directors of the nib nz limited declared a gross dividend of $6,800,000. The cash dividend will be paid in August to the Company's parent entity nib nz holdings limited.

In accordance with NZ IFRS, the dividend declared on 9 August 2019 is not provided for in the financial statements as at 30 June 2019.

23. REMUNERATION OF AUDITOR

	2019 $000	2018 $000
a) PricewaterhouseCoopers New Zealand		
1. Audit services		
Audit and half year review of financial report	239	168
Total remuneration for audit services	**239**	**168**
2. Non-audit services		
Audit-related services		
Assurance engagement over regulatory return	13	13
Total remuneration for audit-related services	**13**	**13**
Taxation services		
Tax compliance services	-	28
Tax consulting services	-	12
Total remuneration for taxation services	**-**	**40**
Total remuneration for non-audit services	**13**	**53**
Total remuneration of PricewaterhouseCoopers New Zealand	**252**	**221**

24. RELATED PARTY TRANSACTIONS AND BALANCES

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

The following transactions were carried out with related parties:

(a) 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:

	2019 $000	2018 $000	Nature of Relationship	Type of Transactions
nib holdings Limited (Australia)	63	61	Ultimate Parent	Management fees paid
nib health funds Limited (Australia)	4,725	1,779	Related party	Management fees paid
nib health funds Limited (Australia)	676	1,404	Related party	Reimbursement of expenses paid
nib health funds (Australia)	(155)	-	Related party	Reimbursement of expenses incurred
WNG Services Pty Limited (Australia)	-	(39)	Related party	Reimbursement of expenses paid
WNG Services Pty Limited (Australia)	-	(198)	Related party	Management fees income
WNG Services Pty Limited (Australia)	386	87	Related party	Travel insurance expense incurred
nib health funds Limited (Australia)	-	(190)	Related party	Management fees income
nib nz holdings limited	15,200	13,200	Parent	Dividend declared and paid

(b) 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.

	2019 $000	2018 $000	Nature of Relationship	Type of Balance
nib holdings Limited (Australia)	15	16	Ultimate Parent	Management fees paid
nib health funds Limited (Australia)	1,408	706	Related party	Management fees and reimbursement of expenses paid
WNG Services Pty Limited (Australia)	79	40	Related party	Management fees income and expenses

(c) Key management personnel compensation

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

	2019 $000	2018 $000
Salaries and short-term employee benefits	709	972
Share-based payments	271	130
Independent Directors fees	231	221
	1,211	1,323

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

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24. RELATED PARTY TRANSACTIONS AND BALANCES continued

(d) Loans to key management personnel

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

(e) Other transactions with key management personnel and Directors

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

25. SHARE-BASED PAYMENTS

(a) Expenses arising from share-based payments transactions

	2019 $000	2018 $000
Shares purchased on market under nib salary sacrifice plan and matching plan and salary sacrifice (NZ) rules and matching plan (NZ)	54	156
Performance rights granted under LTIP	95	215
Shares purchased on market under STI	156	117
	305	488

(b) 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 Group'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
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	-	56,624	-	-	-	56,624	-
15/12/2017	1/09/2021	-	42,252	-	-	-	42,252	-
23/11/2018	1/09/2022	-	-	40,324	-	-	40,324	-
			188,752	40,324	(40,384)	-	188,692	-

(c) Short-Term Incentive (STI)

Eligible employees have a STI opportunity. For the CEO, the maximum target bonus opportunity is 100% (2018: 80%) 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 in the Ultimate Parent annual 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

(d) 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 FY19 and FY18 ESPS, participating employees were allocated an aggregate market value up to NZ$1,000 worth of fully paid ordinary shares in nib holdings limited each financial year. In the FY17 ESPS employees were offered the opportunity to apply for NZ$340 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.

	2019	2018
Number of shares purchased on market under the plan to participating employees	4,503	19,840

The FY19 ESPS shares were allocated on 22 August 2018 following nib's FY18 full year results presentation at a volume weighted average price of $6.42. The remaining tranche of shares were allocated on 20 February 2019 following nib's FY19 half year results presentation at a volume weighted average price of $5.57.

(e) 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 Group. 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.

	2019	2018
Number of shares purchased on market under the plan to participating employees	4,097	4,725

(f) Accounting Policy - LTIP

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 intercompany payables.

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-' (Strong) issued by S&P Global Ratings Australia Pty Ltd. The rating was issued in June 2019.

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

Directors' Declaration

For the year ended 30 June 2019
nib nz limited

The Directors of nib nz limited present their report and financial statements of the Company for the year ended 30 June 2019.

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

The after tax profit for the year was $16.1 million (30 June 2018: $19.0 million). Shareholders' equity at the end of the year totalled $101.3 million (30 June 2018: $100.4 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:

- Alan Clarke
- Mark Fitzgibbon
- Robert Hennin
- Hanne Janes
- Anne Loveridge
- Anthony Ryall

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

For and on behalf of the Board

AJ Loveridge

Anthony Ryall
Director

Anne Loveridge
Director

9 August 2019

Independent auditor's report

To the shareholder of nib nz limited

We have audited the financial statements which comprise:

- the statement of financial position as at 30 June 2019;
- 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 2019, 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 another service for the Company in relation to assurance over the regulatory solvency return. The provision of this other service has not impaired our independence as auditor of the Company. Partners and employees of our firm may also deal with the Company on normal terms within the ordinary course of trading activities of the business of the Company.

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Our audit approach

Overview

An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall materiality: $1.2 million, which represents approximately 5% of the average profit before tax for the past three financial reporting years.

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured by users, and is a generally accepted benchmark. In our judgement, a three year average of profit before tax provides a more stable basis for calculating materiality, allowing for possible volatility in claims experience.

We have determined that there are three key audit matters:

- Valuation of outstanding claims liability
- Valuation of premium payback liability
- Amortisation and recoverability of deferred acquisition costs.

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of outstanding claims liability of \$16.5 million (2018: \$15.5 million) Refer to note 15 of the financial statements. The liability is an estimate of expected payments to customers for unsettled insurance claims. This includes an estimate for known and reported claims as well as incurred but not yet reported claims. We focused on the valuation of the outstanding claims liability because of the complexity and judgements involved. These judgements relate to future events, both internal and external to the business, for which small changes in assumptions can result in a material impact to the estimate. The Company has an external appointed actuary who provides an estimate of the outstanding claims liability based on data provided by the Company. A central estimate is determined based on a number of factors including: • historical claims rates, • timeliness of reporting of claims • evidence around any change in the cost of claims, and • payment speed assumptions. In addition to the central estimate a risk margin is applied. The risk margin increases the liability and attempts to reduce the impact of the inherent estimation uncertainty. The valuation also relies on the quality of the underlying data, including historical claims data and July 2019 claims payment data.	We evaluated the design effectiveness, implementation and operating effectiveness of key controls over claims payments and claims notified, including the review of key reconciliations supporting the data used in the valuation process. We were assisted by actuarial experts to understand and evaluate the Company's actuarial practices and the provisions established, including the review of the work of the external appointed actuary. Our audit procedures included the following: • Evaluating whether the Company's actuarial methodologies were consistent with accepted industry practice and prior periods. • Assessing and challenging the appropriateness of key actuarial assumptions, including the claims payment patterns and claims handling costs, and the risk margin by comparing them with our expectations based on the Company's historical experience, current observable trends and our own industry knowledge. • Tested the underlying data used in the valuation by: - Reconciling a sample of claims data used in the calculation of the valuation to the policyholder system - Testing of claims paid to supporting documentation on a sample basis. We have no matters to report from the procedures performed.
Valuation of premium payback liability - \$20.1 million (2018: \$19.9 million) Refer to note 17 of the financial statements. The Company has two types of hospital cover policies that include a payback feature (payback policies). These are historical products that are no longer marketed or sold. Customers holding these payback policies, subject to certain conditions, are entitled to receive a refund of their premiums paid to the Company less any claims made against their policy.	We evaluated the design effectiveness, implementation and operating effectiveness of key controls over premiums received and claims paid and reviewed key reconciliations supporting the data used in the valuation process. We were assisted by actuarial experts to understand and evaluate the Company's actuarial practices and the provisions established for the premium payback liability, including the review of the work of the external appointed actuary. Our audit procedures included the following: • Evaluating whether the Company's actuarial methodology is consistent with accepted industry practice and prior periods.

The valuation of the premium payback liability is a key audit matter because of the complexity and judgement involved in the estimation process given the long term nature of the products and the assumptions made in relation to lapse rates, risk margin, claims costs and discount rates. The valuation also relies on the quality of underlying data, including historical premium and claims data. The Company has an external appointed actuary who provides an estimate of the premium payback liability, based on data provided by the Company.	• Assessing and challenging the appropriateness of key assumptions, including the lapse rates, risk margin, claims costs and discount rates, by comparing them with our expectations based on the Company's historical experience, current observable trends, market data and industry knowledge. • Reconciling a sample of policyholder data used in the calculation of the valuation to the policyholder system. We have no matters to report from the procedures performed.
Amortisation and recoverability of deferred acquisition costs (DAC) $12.6million, ($1.4million current and $11.2million non-current) (2018:$11.4 million) Refer to note 11 of the financial statements. The Company recognises DAC for the up-front commission paid to brokers on signing new customers. The DAC is amortised over the expected life of the insurance contract. This component of DAC is a key audit matter because of the judgement involved in determining the run-off period being the average length of insurance for policyholders who are the subject of an up-front commission. The Company is required to assess the recoverability of the asset. This assessment considers the net present value of the future estimated cash flows for those policies that are subject to the up-front commission. If the net present value is higher than the DAC balance, the asset is considered to be recoverable. In addition, the liability adequacy test in note 16 over the insurance liabilities (outstanding claims reserves and unearned premium reserve) also provides the Company with an indication on the recoverability of the DAC as the test considers sufficiency of the liabilities for claims against the unearned premium liability net of associated DAC.	We assessed the processes employed by the Company to determine the DAC run-off period and recoverability of the balance. Our audit procedures included: • Reviewing that methodology and assumptions used in the DAC calculation were consistent with prior periods • Reviewing the reconciliation of data used in the DAC calculation to the policyholder system • Testing the accuracy of the amortisation calculation by recalculating the amortisation on a sample of policies • Assessing the methodology and assumptions used by management to assess the net present value of future cash flows. We were assisted by actuarial experts to evaluate the Company's liability adequacy test performed to assess the appropriateness of the assumptions and methodology. We have no matters to report from the procedures performed.

Information other than the financial statements and auditor's report

The Directors are responsible for the Directors' Declaration. Our opinion on the financial statements does not cover the other information included in the Directors' Declaration and we do not and will not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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/assurance-standards/auditors-responsibilities/audit-report-2/

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
9 August 2019

Auckland

Actuarial and Insurance Consultants

9 August 2019

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 2019

Finity Consulting Pty Limited (Finity) has been asked by nib nz limited (nib nz) to carry out a review of the 30 June 2019 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 2019 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
Appointed Actuary
Fellow of the New Zealand Society of Actuaries
Fellow of the Institute of Actuaries of Australia