2011 Financial Report

Contents

Almost 600 dedicated employees come together each day to create one nib. We are proud to feature many of our people in this year's Shareholder Review and Financial Report.

2011 Annual General Meeting

The Annual General Meeting (AGM) of nib holdings limited will be held on Wednesday, 26 October, 2011 at 1pm (Australian Eastern Daylight Saving time) at Fort Scratchley Multipurpose Centre, 1 Nobbys Road, Newcastle NSW 2300

Directors' Report

year ended 30 June 2011

The Directors of nib holdings limited present their report on the consolidated entity (hereafter the Group) consisting of nib holdings limited and the entities it controlled at the end of, or during, the year ended 30 June 2011.

DIRECTORS

The following persons were Directors of nib holdings limited during the whole of the financial year and up to the date of this report:

- Keith Lynch
- Mark Fitzgibbon
- Harold Bentley
- Annette Carruthers
- Philip Gardner

Brian Keane was a Director from the beginning of the financial year until his retirement on 26 October 2010.

Steve Crane and Christine McLoughlin were appointed as Directors on 28 September 2010 and 20 March 2011 respectively and continue in office at the date of this report.

On 24 June 2011 nib announced that Keith Lynch would be retiring on 30 September 2011 and that Steve Crane would become the Chairman on 1 October 2011. Steve Crane is an independent non-executive Director who joined the Board in September 2010.

PRINCIPAL ACTIVITIES

During the year the principal continuing activities of the Group consisted of operating as a private health insurer under the Private Health Insurance Act 2007.

On 30 September 2010 nib holdings limited acquired the business and assets of IMAN International Pty Ltd, a specialist provider of health cover for temporary migrant workers in Australia.

REVIEW OF OPERATIONS

nib's vision is to be a leading financier of the nation's healthcare spending with a reputation for innovative products, value for money, outstanding customer service, corporate social responsibility and strong shareholder returns.

The 2011 result saw continued underlying profitability with some new revenue streams.

nib again grew faster than the industry, with net policyholder growth of 6% in the domestic health insurance business being well ahead of the industry average of 3.2%. This represents the eighth consecutive year that nib's growth has outstripped overall system growth and reflects nib's successful brand positioning, product development and focus on customer service.

Organic growth continues to be a driver of earnings accretion, with pre-tax underwriting profit up 31% to $61.5 million. The investment in newer and higher margin revenue streams, in particular our Overseas Visitors business, has also contributed to nib's continued double-digit underlying earnings growth.

A stable investment return of $32.1 million or 6.6%, contributed to a net profit after tax of $65.5 million, compared to $61.5 million last year.

Earnings per share was 13.7 cents with a return on equity of 16.5% and operating cash flow of $88.3 million.

The Group achieved a strong operating result with key performance indicators shown below:

			Change	
($m)	**FY11**	**FY10**	**$m**	**%**
Policyholder growth	6.0%	5.9%		
Premium revenue	1,007.8	901.4	106.4	11.8
Gross margin[1]	159.1	133.5	25.6	19.2
	15.8%	14.8%		
Management expense[2]	(97.6)	(86.4)	11.2	13.0
	9.7%	9.6%		
Underwriting result[3]	61.5	47.1	14.4	30.6
	6.1%	5.2%		
Net investment return	32.1	44.5	(12.4)	(27.9)
	6.6%	10.5%		
Other income	5.7	1.3	4.4	338.5
Other expenses	(7.5)	(5.9)	(1.6)	(27.1)
Profit before tax	91.9	87.0	4.9	5.6
Tax	(26.5)	(25.5)	(1.0)	(3.9)
NPAT	65.5	61.5	4.0	6.5
EPS (cps)	13.7	12.4	1.3	10.3
ROE[4] (%)	16.5%	16.3%		
Operating cash flow	88.3	66.3	22.0	33.2

1. Gross margin is calculated as premium revenue less sum of claims expense, RETF levy and state levies.
2. Management expense is calculated as sum of claims handing, acquisition costs and other underwriting expenses.
3. Underwriting result is calculated as gross margin less management expenses.
4. Using average shareholders' equity over rolling 12 month period.

CAPITAL MANAGEMENT

Capital management was a key focus during the year, as nib seeks to balance the competing goals of optimising capital and retaining funds for funding potential investments via mergers and acquisitions.

The most significant capital management activity during the year was the cancellation of 27,078,540 shares held in the nib Overseas Policyholders and Unverified Policyholders Trust on 26 November 2010. This represented 5.5% of nib's issued share capital. The cancellation was approved by nib shareholders at the Annual General Meeting held on 26 October 2010.

At 30 June 2011 the Group had net assets of $411.8 million (2010: $391.4 million) and a return on equity of 16.5%, using average shareholders' equity over a rolling 12-month period (2010: 16.3%).

As part of the regular review of capital management, the Board has determined that the internal capital adequacy target be revised from a capital adequacy ratio of 1.4x (or a Capital/Risk Multiple of 2.35x) to a capital adequacy ratio of 1.3x (or a Capital/Risk Multiple of 2.00x).

At 30 June 2011 the Group had surplus capital of $138.0 million above our revised internal benchmark (after allowing for the payment of a final dividend of 9.0 cents per share, totaling $42.0 million, on 30 September 2011).

A capital return of $75.0 million was approved at a General Meeting on 5 July 2011 and paid on 21 July 2011.

The Board currently intends to continue to undertake the on-market buy-back of up to 10% of issued shares at the time of commencement of the on-market buy-back, or 51,786,969 shares, in compliance with the applicable laws and the ASX Listing Rules as surplus capital and other capital management initiatives permit. To date, 24,058,041 shares have been bought back since 31 October 2008.

DIVIDENDS

Dividends paid to shareholders during the financial year were as follows:

	2011 $000	2010 $000
Final dividend for the year ended 30 June 2010 of 5.0 cents (2009: 4.4 cents) per fully paid share paid on 27 September 2010	24,772	21,823
Interim dividend for the year ended 30 June 2011 of 4.0 cents (2010: 2.0 cents) per fully paid share paid on 8 April 2011	18,670	9,918
	43,442	31,741

In addition to these dividends, since the end of the financial year the Directors have recommended the payment of a final dividend of $42.0 million (9.0 cents per fully paid share, made up of 4.0 cps ordinary dividend and 5.0 cps special dividend) to be paid on 30 September 2011 out of retained profits at 30 June 2011. Therefore, dividends paid in respect of the 2011 financial year are $60.7 million, which is 92.7% of profit after tax of $65.5 million.

Subject to franking credit availability, the Board's position is that future dividends will reflect a dividend payout ratio of 50% to 60% of earnings with additional capacity to pay special dividends as part of further capital management.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 30 September 2010 nib holdings limited acquired the business and assets of IMAN International Pty Ltd, a specialist provider of health cover for temporary migrant workers in Australia for $23.2 million. Refer to Note 36 Business Combination for details of the transaction.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

A capital return of $75.0 million was approved at a General Meeting on 5 July 2011 and paid on 21 July 2011.

No other matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect:

a. the Group's operations in future financial years; or
b. the results of those operations in future financial years; or
c. the Group's state of affairs in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Further information on likely developments in the operations of the Group have not been included in this annual financial report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

ENVIRONMENTAL REGULATION

The Group is not subject to any specific environmental regulation and has not breached any general legislation regarding environmental matters.

INFORMATION ON DIRECTORS

Details of the qualifications, experience, special responsibilities and interests in shares and performance rights of the Directors are as follows:

Name and qualifications	
Keith Lynch *BSc (Tech) UNSW, MAICD*	**Chair Independent Non-Executive Director. Age 69.** *Experience and expertise* A Director since 28 May 2007. Previously held senior executive positions with several Hunter-based engineering firms. Formerly a Director of Newcastle Grammar School and CW Pope and Associates Pty Ltd. *Other current directorships* Chair of nib health funds limited since 2001 and a Director since 1982; Director of IMAN Australian Health Plans Pty Limited, The Heights Private Hospital Pty Limited and nib servicing facilities pty limited. *Former directorships in the last three years* None. *Special responsibilities* Chairman of Board and the Nomination and Remuneration Committee. Member of the Investment Committee. *Interests in shares and performance rights* Direct: 100,951 ordinary shares in nib holdings limited. Indirect: 25,000 ordinary shares in nib holdings limited held by "Lynch Murison Pty Ltd".
Mark Fitzgibbon *MBA, MA, ALCA, FAICD*	**Managing Director/Chief Executive Officer. Age 51.** *Experience and expertise* Joined nib health funds limited in 2002 as Chief Executive Officer (CEO). Previously CEO of the national and peak industry bodies for licensed clubs and also held several CEO positions in local government, including General Manager of Bankstown Council between 1995 and 1999. *Other current directorships* A Director of nib health funds limited, nib health care services pty limited, nib servicing facilities pty limited and IMAN Australian Health Plans Pty Limited. A Director of the Australian Health Insurance Association Ltd. *Former directorships in the last three years* Newcastle Knights Rugby League Football Club and the Australian Health Services Alliance. *Special responsibilities* Managing Director/Chief Executive Officer. *Interests in shares and performance rights* Direct: 429,530 ordinary shares in nib holdings limited. Indirect: 413,600 ordinary shares in nib holdings limited held by Fitz Family fund. 360,629 performance rights under FY09-FY11 Long-Term Incentive Plan which may vest from 1 September 2011. 270,280 performance rights under FY10-FY12 Long-Term Incentive Plan which may vest from 1 September 2012. 235,952 performance rights under FY11-FY14 Long-Term Incentive Plan which may vest from 1 September 2014.
Harold Bentley *MA Hons, FCA, FCIS*	**Independent Non-Executive Director. Age 63.** *Experience and expertise* A Director since 7 November 2007. Has more than 20 years experience in the insurance sector. Formerly the Chief Financial Officer of Promina Group Ltd and an Audit Manager of PricewaterhouseCoopers specialising in finance and insurance companies. *Other current directorships* A Director of nib health funds limited and IMAN Australian Health Plans Pty Limited. *Former directorships in the last three years* None. *Special responsibilities* Chairman of the Audit Committee. Member of the Investment Committee. *Interests in shares and performance rights* Indirect: 70,000 ordinary shares in nib holdings limited held by Sushi Sake Pty Limited.

INFORMATION ON DIRECTORS continued

Name and qualifications	
Dr Annette Carruthers *MBBS (Hons), FRACGP, FAICD, GradCertAppFin*	**Independent Non-Executive Director. Age 56.** *Experience and expertise* A Director since 20 September 2007. A general medical practitioner with comprehensive experience in patient care and clinical risk management. Directorships and representative positions in a range of national, state and regional health care organisations. Conjoint senior lecturer in the School of Medicine and Public Health at the University of Newcastle. Member of the NSW Medical Experts Committee Avant Pty Ltd. *Other current directorships* A Director of nib health funds limited since 2003, nib health care services pty limited, IMAN Australian Health Plans Pty Limited and The Heights Private Hospital Pty Limited. A Director of the National Heart Foundation of Australia (NSW Division). *Former directorships in the last three years* Director of National Heart Foundation of Australia and the Haematology and Oncology Clinics of Australia. *Special responsibilities* Chair of the Risk and Reputation Committee. Member of Audit Committee and the Nomination and Remuneration Committee. *Interests in shares and performance rights* Direct: 1,000 ordinary shares in nib holdings limited. Indirect: 57,200 ordinary shares in nib holdings limited held by Carruthers Future Fund Pty Ltd.
Steve Crane *BCommerce, FAICD, SF Fin*	**Chair Elect Independent Non-Executive Director. Age 58.** *Experience and expertise* A Director since 28 September 2010. Approximately 40 years of financial market experience, as well as an extensive background in publicly-listed companies. Previously the Chief Executive of BZW Australia and ABN AMRO. Member of the RBS Group (Australia) Advisory Council. *Other current directorships* A Director of nib health funds limited and IMAN Australian Health Plans Pty Limited. Director of Transfield Services Limited, Bank of Queensland Limited and APA Group. He is also Chairman of Global Valve Technology Limited and a Director of the Taronga Conservation Society Australia. *Former directorships in the last three years* Chairman of Investa Property Group and a Trustee of Australian Reward Investment Alliance, APA Ethane Limited. *Special responsibilities* Member of the Nomination and Remuneration Committee, the Risk and Reputation Committee and the Audit Committee. *Interests in shares and performance rights* Indirect: 100,000 ordinary shares in nib holdings limited held by Depeto Pty Limited.
Philip Gardner *B.Comm, CPA, CCM, FAICD, JP*	**Independent Non-Executive Director. Age 53.** *Experience and expertise* A Director since 28 May 2007. Current Chief Executive Officer of The Wests Group Australia and an adjunct lecturer in the Faculty of Business and Law at the University of Newcastle. *Other current directorships* A Director of nib health funds limited since 2005 and a Director of IMAN Australian Health Plans Pty Limited. A Director of Newcastle Airport Limited. *Former directorships in the last three years* None. *Special responsibilities* Chair of the Investment Committee. Member of the Audit Committee and the Risk and Reputation Committee. *Interests in shares and performance rights* Direct: 16,862 ordinary shares in nib holdings limited. Indirect: 88,000 ordinary shares in nib holdings limited held by Sutton Gardner Pty Ltd.

Name and qualifications	
Christine McLoughlin *BA/LLB (Hons) FAICD*	**Independent Non-Executive Director. Age 48.** *Experience and expertise* A Director since 20 March 2011. Over 25 years experience as a financial services and legal executive with iconic brands in financial services (AMP and IAG), telecommunications (Optus) and professional services industries in Australia, the UK and Asia. Executive roles have ranged from Group Legal Counsel and Company Secretary at AMP Ltd to more recently Group Executive People, Strategy and Communications at IAG Ltd. *Other current directorships* A Director of nib health funds limited and IMAN Australian Health Plans Pty Limited. Company Director of Westpac's Life and General Insurance business, The Australian Nuclear Science and Technology Organisation (ANSTO) and the TAC (Transport Accident Commission). *Former directorships in the last three years* Director of the AMP Foundation. *Special responsibilities* Member of the Nomination and Remuneration Committee, the Risk and Reputation Committee and the Audit Committee. *Interests in shares and performance rights* Indirect: 37,500 shares in nib holdings ltd held by Dundas Street Investments Pty Ltd.

Company Secretary

The Company Secretary is Mrs Michelle McPherson BBUS (Accounting) (UTS), CA, GAICD. Mrs McPherson was appointed to the position of Company Secretary on 1 September 2008. She is currently the Chief Financial Officer and Deputy Chief Executive Officer of the Group, a Director of the Newcastle Port Corporation and the Hunter Valley Research Foundation, and a member of the Advisory Board to the Faculty of Business and Law at the University of Newcastle.

Meetings of Directors

The number of meetings of the Group's Board of Directors and of each Board committee held during the year ended 30 June 2011, and the numbers of meetings attended by each Director were:

	Board*		Audit Committee		Risk & Reputation Committee		Nomination & Remuneration Committee		Investment Committee	
NAME	**Held**	**Att**	**Held**	**Att**	**Held**	**Att**	**Held**	**Att**	**Held**	**Att**
K Lynch	14	14	10	10	–	–	3	3	6	5
M Fitzgibbon	14	13	10	10	7	5	3	3	6	6
P Gardner	14	14	10	10	7	6	–	–	6	5
B Keane**	5	5	4	4	2	2	1	1	–	–
H Bentley	14	14	10	10	–	–	–	–	6	6
A Carruthers	14	14	10	10	7	7	3	3	–	–
S Crane***	11	11	6	6	4	4	2	2	–	–
C McLoughlin***	4	4	2	2	2	2	2	2	–	–

* 2 of the Board meetings that took place were unscheduled meetings

** 100% attendance until retirement

*** 100% attendance since appointment

REMUNERATION REPORT

Contents

About this report

This report forms part of the Directors' Report and has been audited in accordance with the *Corporations Act 2001*.

Who this report covers

This report presents the remuneration arrangements for nib's Key Management Personnel (including non-executive Directors) and five highest paid Group executives.

Non-executive Directors	
Keith Lynch	Chairman, Independent non-executive Director
Harold Bentley	Independent non-executive Director
Annette Carruthers	Independent non-executive Director
Steve Crane	Independent non-executive Director (from 28 September 2010)
Philip Gardner	Independent non-executive Director
Brian Keane	Independent non-executive Director (from 1 July 2010 to 26 October 2010)
Christine McLoughlin	Independent non-executive Director (from 20 March 2011)
Executive Director	
Mark Fitzgibbon	Managing Director/Chief Executive Officer (MD/CEO)
Other Executives	
Matthew Henderson	Group Executive Corporate and International Business (GECIB) (from 1 May 2011)
Melanie Kneale	Chief Operating and Technology Officer (COTO)
Rhoderic McKensey	Chief Marketing Officer (CMO)
Michelle McPherson	Deputy Chief Executive Officer/Chief Financial Officer (DCEO/CFO)
Wendy Phelps[1]	General Manager IMAN Australia Health Plans (from 30 September 2010 to 31 May 2011)

1. Included in this report as one of the five highest paid executives of the Group

Our approach to remuneration governance

The objective of the Group's non-executive Directors and executive remuneration arrangements is to ensure the Group is able to attract and retain key personnel with requisite skills and experience to ensure the future success of the Group in achieving strategic goals and meeting shareholder expectations.

The remuneration arrangements are designed to motivate and reward superior performance and align non-executive Director and executive's interests with those of shareholders.

nib's Nomination and Remuneration Committee (the Committee) is comprised of independent, non-executive Directors only. The Committee Charter is available on the nib website.

The Committee will engage an external remuneration consultant every second year to provide information on market remuneration levels for non-executive Directors and executives.

Non-executive Director remuneration

Fees and payments to non-executive Directors reflect the responsibilities of the position and market comparisons. Non-executive Chairman and Directors' fees are reviewed annually by the Committee and approved by the Board.

Share ownership by non-executive Directors

Non-executive Directors do not receive share options. To promote alignment with shareholders, the Board resolved to apply a minimum shareholding requirement in nib shares for non-executive Directors. The current minimum shareholding requirement is 20% of base fees (excluding the superannuation component) in nib holdings limited shares.

A Non-Executive Director Share Plan (NEDSAP) exists to facilitate non-executive Directors meeting this requirement. Non-executive Directors may express a preference to receive up to 90% of their annual Director's fee in the form of shares under the NEDSAP. Shares applied for under the NEDSAP are acquired on market. The requirement to take a portion of annual Directors' fees in shares is calculated as a cumulative amount, having regard to nib shares acquired by Directors directly or indirectly and whether via the NEDSAP or other means. All current non-executive Directors comply with this requirement as at 30 June 2011.

Non-executive Director fees

Non-executive Directors' fees are determined within an aggregate Directors fee pool limit, which is periodically recommended for approval by the shareholders. The fee pool limit currently stands at $1,100,000. Directors fees and superannuation are paid out of this pool. Additional compensation of travel allowances, non-monetary benefits and retirement benefits are not included in this pool.

The following fees have applied:

	2011	2010
Base fees		
Chairman	$190,000	$184,100
Other non-executive Directors	$87,000	$84,160
Additional fees*		
Committee – Chairman	$20,000	$18,936
Committee – member	$10,000	$9,468

* The Chairman of the Board does not receive additional fees for involvement in committees.

Refer to Principle 2 in the Corporate Governance Statement for committee membership.

Retirement allowances for Directors

On 24 November 2005, the Board of nib health funds limited resolved to remove retirement allowances for non-executive Directors appointed on or after that date.

Non-executive Directors employed before 24 November 2005 are entitled to a lump sum retirement benefit based on number of years service.

The benefit for each Director is calculated based on 80% of the average Director's fee (paid from any company in the Group) for the last three years multiplied by a factor based on years of service. The factors based on years of service were frozen at 24 November 2005. The factors for the Directors that remain in office as at the date of this report are 5.00 for K. Lynch and 0.71 for A. Carruthers.

At 30 June 2011 the following retirement benefits were provided for:

- Keith Lynch $682,813
- Annette Carruthers $63,169

On 24 June 2011 nib announced that Keith Lynch would be retiring on 30 September 2011.

The retirement benefit expected to be paid at that date is $691,835.

Executive reward at nib

The objective of the Group's executive remuneration is to ensure the Group is able to attract and retain key personnel, reward superior performance and align executive and shareholder interests.

The framework provides a mix of fixed and variable remuneration with a blend of short-term and long-term incentives. There are three components:

- base remuneration package and benefits, inclusive of superannuation (i.e. total fixed remuneration);
- short-term performance incentives having regard for competency in the position and predetermined Key Performance Indicator (KPI) targets established by the Board; and
- longer-term performance incentives having regard for predetermined KPI targets established by the Board.

The combination of these components comprises the executive's total remuneration.

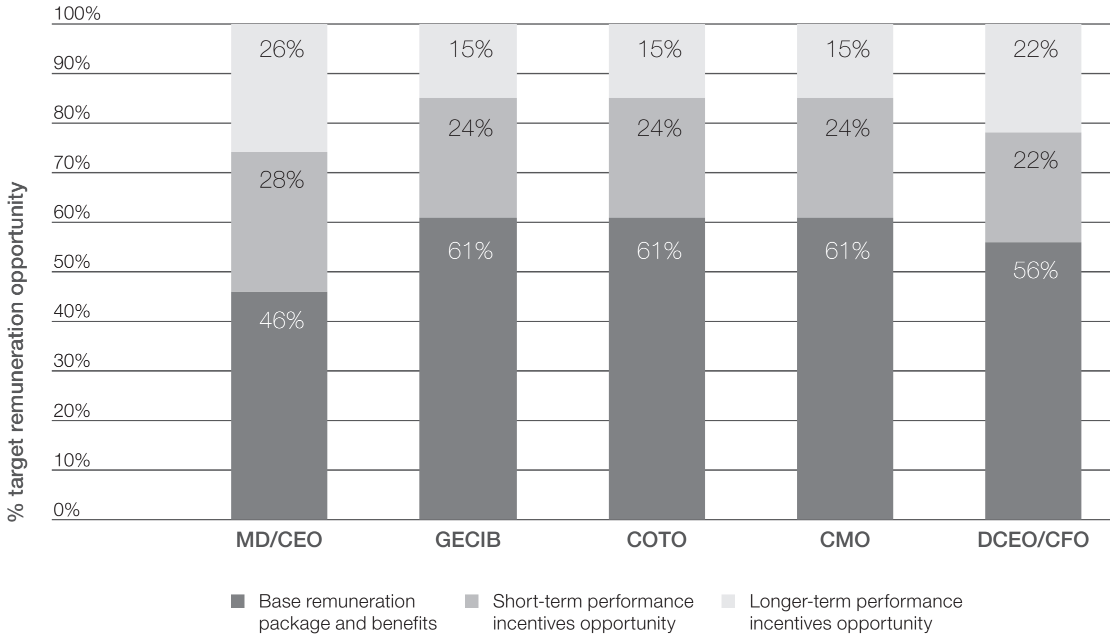
In determining the quantum and relativity of each of these components, the Board, through the Nomination and Remuneration Committee, commission information from an expert consultant every second year, unless increases are determined to be at or below CPI, in which case information is sought on a less frequent basis. The most recent information was received in June 2010 and was taken into consideration in determining the executive remuneration for the financial year ended 30 June 2011.

The expert consultant is asked to undertake a market benchmarking analysis and provide findings for each executive role. The market analysis considers the target total remuneration opportunity as well as its core components and the mix of those components. In addition, the information also contains perspective on market and emerging trends in executive remuneration structures and the mix of fixed and performance based remuneration arrangements.

REMUNERATION REPORT continued

Executive reward at nib continued

The target remuneration mix is as follows:



Total fixed remuneration

The base remuneration package and benefits may be delivered as a combination of cash, vehicle capital allowance, other allowances and benefits (inclusive of FBT if appropriate) and superannuation (which must meet the superannuation guarantee charge minimum set by legislation). In addition to the above remuneration the Group incurs operating costs and FBT for executive vehicles given frequent required use of the vehicles for business purposes.

Short-term performance incentives

Based upon an annual performance review and success in meeting or exceeding targets, the cash component of the bonuses is payable on or before 15 September each year in respect of the prior financial year.

The Board is responsible for assessing the performance of the Managing Director (MD)/Chief Executive Officer (CEO) and the MD/CEO is responsible for assessing the performance of the other executives (with approval by the Committee).

Each executive has a target short-term incentive (STI) opportunity. For the MD/CEO the maximum target bonus opportunity is 60% of total fixed remuneration with 30% of the calculated entitlement awarded as performance shares to be held in escrow for one year. For other executives, the maximum entitlement is 40% of the remuneration package with 20% of the calculated entitlement awarded as performance shares to be held in escrow for one year.

One-third of the executive's STI entitlement is linked to an assessment of personal competency and two-thirds linked to specific pre-determined performance targets (KPIs). The specific KPIs for each executive are:

	Policyholder growth %	Consolidated profit %	Consolidated management expense ratio %	Gross margin %	Retention %	Non-PHI revenue %	ROE %	Product "buy-up" %
Mark Fitzgibbon	25	25	25	25	n/a	n/a	n/a	n/a
Matthew Henderson	40	20	n/a	10	10	10	n/a	10
Melanie Kneale	30	20	20	10	10	n/a	n/a	10
Rhoderic McKensey	40	20	n/a	10	10	10	n/a	10
Michelle McPherson	10	40	20	10	n/a	n/a	20	n/a

The short-term performance incentives may be adjusted up or down in line with under or over achievement against the target performance levels. This is at the discretion of the Board, through the Nomination and Remuneration Committee. The STI target annual amount is reviewed annually.

Included in the financial statements for the year ended 30 June 2011 is a provision based on a preliminary assessment of performance against the STI criteria for the year and any adjustment on final payment of the STI in respect of the prior year. The final bonus amount is subject to determination by the Board, with the FY11 evaluation to occur on 25 August 2011.

The percentage of the maximum STI that was provided for and the percentage that was unrealised is set out below.

	2011		2010	
	STI Bonus Provided %	STI Bonus expected to be forfeited %	STI Bonus Paid %	STI Bonus forfeited %
Key management personnel				
Mark Fitzgibbon	88.3	11.7	63.5	36.5
Matthew Henderson (from 1 May 2011)[1]	83.3	16.7	n/a	n/a
Melanie Kneale	83.3	16.7	66.7	33.3
Rhoderic McKensey	83.3	16.7	73.3	26.7
Michelle McPherson	88.3	11.7	77.5	22.5
	86.5	13.5	69.5	30.5

1. Matthew Henderson commenced as Group Executive Corporate and International Business on 1 May 2011

Longer-Term Performance Incentives

Long-Term Performance Incentives (LTIs) are provided to certain employees via the nib Long-Term Incentive Plan (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.

Under the LTIP, participants are granted performance rights which enable the executive to acquire shares in nib for nil consideration if certain performance conditions are met and the employees are still employed by the 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, retirement. The vesting date will also be accelerated on separation; and takeover, reconstruction or amalgamation.

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

The Board at its discretion may suspend or cancel the plan, amend all or any of the provisions of the plan rules, and in certain circumstances make a determination that unvested rights have lapsed.

Performance rights prior to 1 July 2010

The performance hurdle for the vesting of performance rights is Earnings Per Share growth targets (EPS Hurdle) over a three-year period as determined by the Board. The EPS Hurdle has been chosen by the Board to focus management attention on three-year strategic and financial objectives as well as shareholder alignment. For the MD/CEO the maximum target bonus opportunity is 55% of total fixed remuneration. For other executives the maximum entitlement is 25%.

The principle used in setting the EPS Hurdles is to use the prior financial year's normalised EPS as a base and apply a range of compound annual growth rates in EPS from 10% to 25%, which in turn determines the percentage of Performance Rights that will vest on 1 September following the end of the relevant three year period. No Performance Rights will vest if the compound annual growth rate is below 10%. There is no re-testing of performance.

REMUNERATION REPORT continued

Executive reward at nib continued

Longer-term performance incentives continued

Vesting of performance rights is subject to nib holdings limited EPS hurdle as follows:

EPS Hurdle	Percentage of performance rights vesting %	FY09-FY11 LTIP	FY10-FY12 LTIP
Base EPS		$0.0520	$0.0470
Compound annual growth rate of 25% from base EPS	100	$0.1009	$0.0917
Compound annual growth rate of 20% from base EPS	75	$0.0893	$0.0811
Compound annual growth rate of 15% from base EPS	50	$0.0786	$0.0714
Compound annual growth rate of 10% from base EPS	25	$0.0688	$0.0625
Compound annual growth rate of Nil% from base EPS	0	nil	nil

For the purpose of the calculation, 25% to 50% will be discrete thresholds, with performance above the 50% entitlement calculated on a pro rata basis to a maximum entitlement of 100%

Once vested, these performance rights granted remain exercisable for a period of two years and four months.

Performance rights from 1 July 2010

The significant changes implemented by the Board for the most recent LTI allocation are:

- the introduction of a second performance hurdle of relative total shareholder return (TSR) which applies to 50% of the LTI allocation;
- extending the performance period to four years; and
- for the MD/CEO the maximum target bonus opportunity is 55% of total fixed remuneration, for the DCEO/CFO the maximum entitlement is 40% and for other executives the maximum entitlement is 25%.

The performance rights will vest in accordance with the achievement of the following vesting conditions:

Vesting Condition 1	Vesting Condition 2
50% of the performance rights (Tranche 1)	50% of the performance rights (Tranche 2)
Total shareholder return targets (TSR Hurdle) for the relevant performance period are met	Earnings per share growth targets (EPS Hurdle) for the relevant performance period are met

TSR Hurdle (Tranche 1)

The TSR Hurdle measures the growth in the price of nib securities plus nib cash distributions (notionally reinvested in securities) and compares this to the shareholder returns from the peer group of companies. In order for the Tranche 1 performance rights to vest, the TSR of nib will be compared to companies in the S&P/ASX 300 (the peer group) over the performance period.

The percentage of Tranche 1 performance rights that vest is determined as follows:

nib's TSR performance compared to the relevant peer group	Percentage of Tranche 1 performance rights vesting
≥ 75th percentile	100%
≥ 50th percentile to 74th percentile	Pro-rata straight line vesting between 50% and 100%
< 50th percentile	0%

EPS Hurdle (Tranche 2)

For performance rights from 1 July 2010, the EPS Hurdle has been retained for 50% of the LTI allocation. Vesting of performance rights is subject to nib holdings limited EPS hurdle as follows:

EPS Hurdle	Percentage of performance rights vesting %	FY11-FY14 LTIP
Base EPS		$0.1240
Compound annual growth rate of 25% from base EPS	100	$0.3030
Compound annual growth rate of 20% from base EPS	75	$0.2573
Compound annual growth rate of 15% from base EPS	50	$0.2171
Compound annual growth rate of 10% from base EPS	25	$0.1817
Compound annual growth rate of nil% from base EPS	0	nil

For performance rights granted from 1 July 2010, if vesting conditions are met, the performance rights will vest on 1 September following the end of the measurement period. On the vesting date, holders will be either issued or transferred shares in nib for each vested performance right. There is no re-testing of performance.

A total of 50% of any shares awarded will be required to be held in escrow for a period of two years even if termination of employment occurs during that period.

REMUNERATION REPORT continued

Statutory remuneration tables

Details of the remuneration of the Directors, the key management personnel of the group and the five highest paid executives of the nib holdings group are set out in the following tables.

	Short-term employee benefits		
	Cash salary and fees $	Cash bonus $	Non-monetary benefits $
2011			
Keith Lynch	140,000	–	2,720
Harold Bentley	67,000	–	–
Annette Carruthers	96,590	–	2,905
Steve Crane	82,444	–	–
Philip Gardner	116,514	–	–
Brian Keane	34,502	–	–
Christine McLoughlin	30,136	–	–
Sub-total non-executive Directors	567,186	–	5,625
Mark Fitzgibbon*	510,797	192,238	98,366
Matthew Henderson†	225,070	41,908	6,503
Melanie Kneale*	343,578	85,603	39,131
Rhoderic McKensey*	291,304	73,875	16,466
Michelle McPherson*	343,251	101,653	24,698
Sub-total executives	1,714,000	495,277	185,164
Total key management personnel compensation	**2,281,186**	**495,277**	**190,789**
Other group executives			
Wendy Phelps*	187,555	–	–
2010			
Keith Lynch	100,320	–	672
Harold Bentley	62,564	–	–
Annette Carruthers	92,032	–	2,100
Philip Gardner	111,956	–	–
Brian Keane	72,740	–	–
Sub-total non-executive Directors	439,612	–	2,772
Mark Fitzgibbon*	515,585	92,282	64,782
Melanie Kneale*	341,377	106,490	14,407
Rhoderic McKensey*	245,731	89,404	9,682
Michelle McPherson*	352,702	124,199	25,334
Sub-total executives	1,455,395	412,375	114,205
Total key management personnel compensation	**1,895,007**	**412,375**	**116,977**
Other group executives			
Mark Bishop*^	128,388	–	1,922

† Matthew Henderson was appointed Group Executive Corporate and International Business on 1 May 2011. Before this appointment he was the company's Channels Manager. Amounts shown above include all Mr Henderson's remuneration during the reporting period, whether as an executive officer or as Channels Manager. Amounts received in his position as Group Executive Corporate and International Business amounted to $68,848, made up of cash salary of $48,938, cash bonus of $12,702, non-monetary benefits of $582, superannuation of $2,533, share based bonus of $3,175 and performance right of $918.

* Denotes one of the five highest paid executives of the Group, as required to be disclosed under the *Corporations Act 2001*.

Includes bonus share rights. Refer to share-based compensation.

^ Termination benefits include a total permanent disability payment made under the Group Life insurance policy and an exgratia payment.

Post-employment benefits		Long-term benefits	Termination benefits	Share-based payments			
Super-annuation $	Retirement benefits $	Long service leave $	Termination benefits $	Salary and fees $	Bonus# $	Performance rights $	Total $
50,000	18,349	–	–	–	–	–	211,069
50,000	–	–	–	–	–	–	117,000
30,410	4,653	–	–	–	–	–	134,558
7,420	–	–	–	–	–	–	89,864
10,486	–	–	–	–	–	–	127,000
3,220	–	–	–	–	–	–	37,722
2,712	–	–	–	–	–	–	32,848
154,248	23,002	–	–	–	–	–	750,061
50,000	–	9,197	–	–	118,201	310,784	1,289,583
15,199	–	–	–	–	3,175	918	292,773
15,199	–	–	–	–	24,204	108,374	616,089
15,199	–	4,935	–	–	19,750	54,559	476,088
20,738	–	6,381	–	–	41,191	117,971	655,883
116,335	–	20,513	–	–	206,521	592,606	3,330,416
270,583	23,002	20,513	–	–	206,521	592,606	4,080,477
40,667	–	–	510,283	–	–	–	738,505
50,000	50,887	–	–	33,780	–	–	235,659
50,000	–	–	–	–	–	–	112,564
30,000	6,853	–	–	–	–	–	130,985
10,076	–	–	–	–	–	–	122,032
39,824	–	–	–	–	–	–	112,564
179,900	57,740	–	–	33,780	–	–	713,804
14,461	–	8,759	–	–	147,052	297,949	1,140,870
14,461	–	–	–	–	–	76,470	553,205
14,461	–	21,474	–	–	–	44,527	425,279
20,000	–	6,157	–	–	6,482	80,703	615,577
63,383	–	36,390	–	–	153,534	499,649	2,734,931
243,283	57,740	36,390	–	33,780	153,534	499,649	3,448,735
14,461	–	2,791	681,557	–	–	–	829,119

REMUNERATION REPORT continued

Statutory remuneration tables continued

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

	Fixed remuneration		At risk – STI/Other bonuses		At risk – LTI*	
	2011 %	2010 %	2011 %	2010 %	2011 %	2010 %
Other key management personnel of the Group						
Mark Fitzgibbon	51.8	65.1	24.1	24.9	24.1	10.0
Matthew Henderson	84.3	–	15.4	–	0.3	–
Melanie Kneale	64.6	76.3	17.8	18.2	17.6	5.5
Rhoderic McKensey	68.9	76.5	19.7	17.8	11.4	5.7
Michelle McPherson	60.2	78.0	21.8	16.8	18.0	5.2
Other Group executives						
Wendy Phelps	100.0	–	–	–	–	–

* Since the long-term incentives are provided exclusively by way of performance rights, the percentages disclosed also reflect the value of remuneration consisting of performance rights, based on the value of the performance rights expensed during the year.

Executive contracts

On appointment, all executives enter into a service agreement with nib health funds limited. The agreement summarises employment terms and conditions, including compensation, relevant to the executive's position. Each of these agreements provide for the provision of performance-related short-term performance incentives and other entitlements.

	Other key management personnel				
	Mark Fitzgibbon	Matthew Henderson	Melanie Kneale	Rhoderic McKensey	Michelle McPherson
Service agreement effective	1 July 2010	1 May 2011	4 March 2011	4 March 2011	1 July 2010
Term of Agreement	3 years ending 30 June 2013	1 May 2011 to 30 June 2014	3 years ending 30 June 2014	3 years ending 30 June 2014	3 years ending 30 June 2013
Termination Provision*	The agreement may be terminated early by nib health funds limited giving notice with immediate effect or by Mark Fitzgibbon giving three months notice	The agreement may be terminated early by nib health funds limited giving notice with immediate effect or by Matthew Henderson giving three months notice	The agreement may be terminated early by nib health funds limited giving notice with immediate effect or by Melanie Kneale giving three months notice	The agreement may be terminated early by nib health funds limited giving notice with immediate effect or by Rhoderic McKensey giving three months notice	The agreement may be terminated early by nib health funds limited giving notice with immediate effect or by Michelle McPherson giving three months notice

* Termination payments

Executives are entitled to a payout of the remaining term of their service agreements upon termination (other than for gross misconduct), up to a maximum of 12 months total fixed remuneration.

The executive may also receive the following benefits upon termination:

- a pro rata STI payment based on the period of the financial year during which the executive worked and the Nomination and Remuneration Committee's assessment of the executive's performance against the key performance indicators as at the date of termination.
- the Board may determine that all or a portion of unvested performance rights of a participant of the Long-Term Incentive Plan are to be vested upon termination.

The Company intends to seek member approval at the 2011 Annual General Meeting of the Company for the payment of termination benefits which may exceed the 12 month salary limit on termination benefits under the *Corporations Act 2001*.

Details of current LTI allocations

The details of the performance rights affecting remuneration in this reporting period are below:

	Note	FY08 to FY10 LTIP		FY09 to FY11 LTIP		FY10 to FY12 LTIP		FY11 to FY14 LTIP		Total	
		Number	$	Number	$	Number	$	Number	$	Number	$
Grant date	Note 1	24 Jun 2008 for KMP excluding Mark Fitzgibbon and 30 Jun 2009 for Mark Fitzgibbon		30 Jun 2009		28 Jan 2010		27 May 2011			
Vesting and exercise date		1 Sep 2010 (FY11)		1 Sep 2011 (FY12)		1 Sep 2012 (FY13)		1 Sep 2014 (FY15)			
Expiry date		31 Dec 2012		31 Dec 2013		31 Dec 2014		1 Sep 2014			
Exercise price		nil		nil		nil		nil			
Value per performance right at grant date		0.4903 (24 Jun 2008) 0.7687 (30 Jun 2009)		0.7687		1.1279		1.1235			
Performance achieved and % vested		75%		to be determined		to be determined		to be determined			
% forfeited		25%		to be determined		to be determined		to be determined			
Number of performance rights yet to vest at the end of the financial year		–		657,539		498,375		538,381		1,694,295	
Vesting hurdle	Refer to tables on pages 10 and 11	100% 3yr EPS		100% 3yr EPS		100% 3yr EPS		50% 4yr EPS/ 50% 4yr TSR			
Mark Fitzgibbon											
Number of performance rights yet to vest at 1 July 2010		270,441		360,629		270,280		–		901,350	
Number and value at grant date of performance rights granted during the year	Note 2	–		–		–		235,952	265,092	235,952	
Number of performance rights vested during the year	Note 4	202,831		–		–		–		202,831	
Number of performance rights forfeited during the year		67,610		–		–		–		67,610	
Number of performance rights and maximum total value yet to vest at 30 June 2011	Note 3	–	–	360,629	529,825	270,280	397,087	235,952	346,653	866,861	1,273,565
Date of exercise of performance rights		1 Dec 2010		n/a		n/a		n/a			
Number of shares issued and value on exercise of performance rights during the year	Note 4	202,831	255,670	n/a	n/a	n/a	n/a	n/a	n/a	202,831	255,670

REMUNERATION REPORT continued

Details of current LTI allocations continued

	Note	FY08 to FY10 LTIP		FY09 to FY11 LTIP		FY10 to FY12 LTIP		FY11 to FY14 LTIP		Total	
		Number	$	Number	$	Number	$	Number	$	Number	$
Matthew Henderson											
Number of performance rights yet to vest at 1 July 2010		–		–		–		–		–	
Number and value at grant date of performance rights granted during the year	Note 2							55,344	62,179	55,344	
Number of performance rights vested during the year	Note 4							–		–	
Number of performance rights forfeited during the year		–		–		–		–		–	
Number of performance rights and maximum total value yet to vest at 30 June 2011	Note 3	–	–	–	–	–	–	55,344	81,310	55,344	81,310
Date of exercise of performance rights		n/a		n/a		n/a		n/a			
Number of shares issued and value on exercise of performance rights during the year	Note 4	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Melanie Kneale											
Number of performance rights yet to vest at 1 July 2010		79,903		106,549		81,859		–		268,311	
Number and value at grant date of performance rights granted during the year	Note 2	–		–		–		70,503	79,210	70,503	
Number of performance rights vested during the year	Note 4	59,927		–		–		–		59,927	
Number of performance rights forfeited during the year		19,976		–		–		–		19,976	
Number of performance rights and maximum total value yet to vest at 30 June 2011	Note 3	–	–	106,549	156,538	81,859	120,265	70,503	103,581	258,911	380,384
Date of exercise of performance rights		1 Dec 2010		n/a		n/a		n/a			
Number of shares issued and value on exercise of performance rights during the year	Note 4	59,927	75,538	n/a	n/a	n/a	n/a	n/a	n/a	59,927	75,538
Rhoderic McKensey											
Number of performance rights yet to vest at 1 July 2010		16,320		77,910		59,851		–		154,081	
Number and value at grant date of performance rights granted during the year	Note 2	–		–		–		57,529	64,634	57,529	
Number of performance rights vested during the year	Note 4	12,240		–		–		–		12,240	
Number of performance rights forfeited during the year		4,080		–		–		–		4,080	
Number of performance rights and maximum total value yet to vest at 30 June 2011	Note 3	–	–	77,910	114,463	59,851	87,931	57,529	84,520	195,290	286,914
Date of exercise of performance rights		1 Dec 2010		n/a		n/a		n/a			
Number of shares issued and value on exercise of performance rights during the year	Note 4	12,240	15,429	n/a	n/a	n/a	n/a	n/a	n/a	12,240	15,429
Michelle McPherson											
Number of performance rights yet to vest at 1 July 2010		84,329		112,451		86,385		–		283,165	
Number and value at grant date of performance rights granted during the year	Note 2	–		–		–		119,053	133,756	119,053	
Number of performance rights vested during the year	Note 4	63,247		–		–		–		63,247	
Number of performance rights forfeited during the year		21,082		–		–		–		21,082	
Number of performance rights and maximum total value yet to vest at 30 June 2011	Note 3	–	–	112,451	165,210	86,385	126,914	119,053	174,909	317,889	467,033
Date of exercise of performance rights		1 Dec 2010		n/a		n/a		n/a			
Number of shares issued and value on exercise of performance rights during the year	Note 4	63,247	79,723	n/a	n/a	n/a	n/a	n/a	n/a	63,247	79,723

Note 1 – Performance rights granted under the plan carry no dividend or voting rights.

Note 2 – The value at grant date calculated in accordance with AASB 2 Share-based payment of performance rights granted during the year as part of remuneration.

Note 3 – The maximum value of performance rights yet to vest has been determined as the amount of the performance rights multiplied by the number of shares that each vested performance right will convert to (1.1258) by the share price at 4 August 2011 of $1.305.

Note 4 – Shares will be issued or transferred on exercise of performance rights within 15 business days after the exercise date. Shares may be issued or acquired on-market at the election of the company.

REMUNERATION REPORT continued

Details of current LTI allocations continued

The assessed fair value at grant date of performance rights granted to individuals is allocated equally over the period from grant date to vesting date, and the amount for key management personnel is included in the remuneration table above.

Fair values at grant date are independently determined in accordance with AASB 2 based on the relevant market price at the grant date, expected dividends, the details of the performance rights and other market-consistent assumptions. The valuation methodology inputs for performance rights granted during the year ended 30 June 2011 are detailed in the table above.

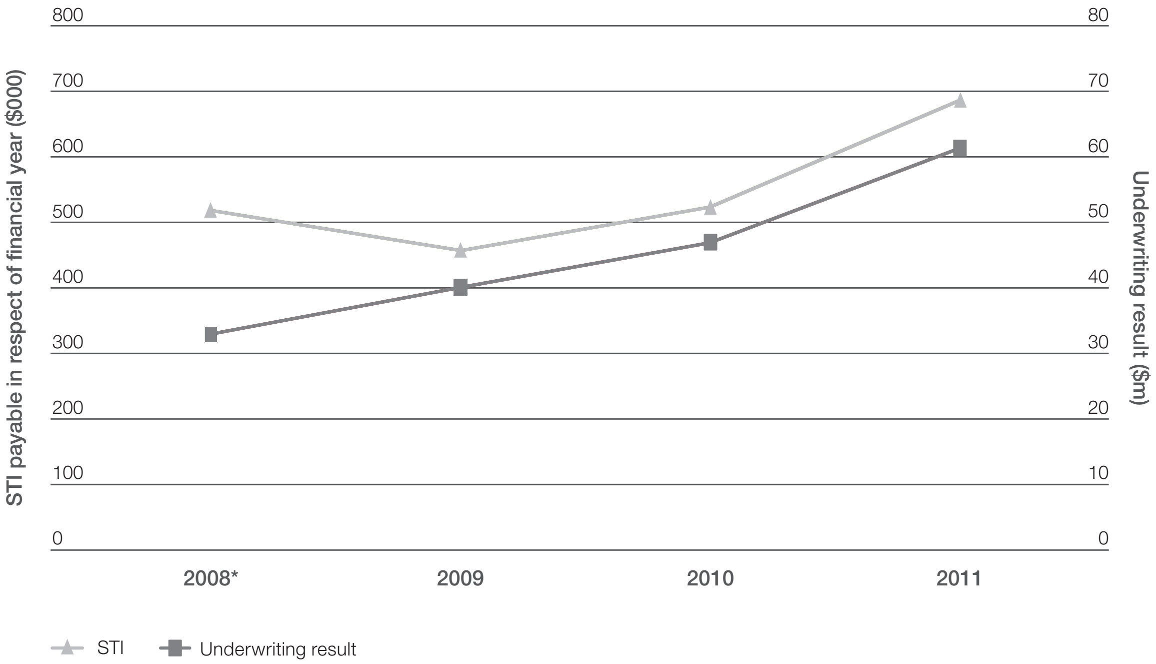
Shares provided on exercise of bonus share rights granted for shares held in escrow issued as part of transaction bonus

Details of ordinary shares in the company provided as a result of the exercise of bonus share rights granted for shares in escrow issued as part of the transaction bonus are set out below.

	Date of exercise of bonus share rights	Number of ordinary share issued on exercise of bonus share rights during the year	Value at exercise date $
Mark Fitzgibbon	7 December 2010	62,500	78,570
Michelle McPherson	7 December 2010	25,000	31,428

Performance of nib holdings limited

The components of remuneration that are linked to company performance are the two-thirds of the STI based on achievement of Group performance KPI's and the long-term incentive plan. The graph below illustrates the link between payments made under the STI plan and EPS growth.



* 2008 underwriting result normalised for demutualisation and listing costs

The first Long-Term Incentive Plan for the period FY08-FY10 vested during the financial year. The value of shares issued to executives under this plan was $426,360. The cumulative average growth in EPS over the equivalent term was 54%.

This is the end of the remuneration report.

SHARES UNDER PERFORMANCE RIGHTS

Unissued ordinary shares of nib holdings limited under performance rights at the date of this report are as follows:

Date performance rights granted	Expiry date	Issue price of shares	Number under performance right
30 June 2009	31 December 2013	nil	657,539
28 January 2010	31 December 2014	nil	498,375
23 May 2011	1 September 2014	nil	538,381

Shares may be issued or acquired on-market at the election of the company.

No performance right holder has any right under the performance rights to participate in any other share issue of the company or any other entity.

BONUS SHARE RIGHTS

There are no unissued ordinary shares of nib holdings limited under bonus share rights at the date of this report.

NON-AUDIT SERVICES

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services during the year are set out below.

The Board of Directors has considered the position and, in accordance with advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure that they did not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

NON-AUDIT SERVICES continued

During the year the following fees were paid or payable for services provided by the auditor of the Group, its related practices and non-related audit firms:

	2011 $	2010 $
1. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial report and other audit work under the *Corporations Act 2001*	367,400	312,700
Total remuneration for audit services	367,400	312,700
2. Non-audit services		
Audit-related services		
PricewaterhouseCoopers Australian firm:		
Audit of regulatory returns	56,300	31,800
Due diligence on potential mergers and acquistions	–	20,000
Total remuneration for audit-related services	56,300	51,800
Taxation services		
PricewaterhouseCoopers Australian firm:		
Due diligence on potential mergers and acquistions	–	83,500
Tax compliance services	371,629	70,800
Total remuneration for taxation services	371,629	154,300
Other services		
PricewaterhouseCoopers Australian firm:		
Accounting advice and support	58,700	–
Review of regulatory returns	10,000	21,486
Total remuneration for other services	68,700	21,486
Total remuneration for non-audit services	496,629	227,586
Total remuneration for audit and non-audit services	864,029	540,286

INSURANCE OF OFFICERS

During the financial year, the Group paid a premium in respect of a contract insuring the Directors and officers of the Group against liability incurred as such a Director or officer, other than conduct involving willful breach of duty in relation to the Group, to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 21.

CHIEF EXECUTIVE OFFICER/CHIEF FINANCIAL OFFICER DECLARATION

The Chief Executive Officer and the Chief Financial Officer have given the declarations to the Board concerning the Group's financial statements required under section 295A(2) of the *Corporations Act 2001* and Recommendation 7.3 of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

ROUNDING OF AMOUNTS

The company is of a kind referred to in ASIC Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of the Directors.

On behalf of the Board

Keith Lynch
Director

Harold Bentley
Director

Newcastle, NSW
19 August 2011

Auditor's Independence Declaration

year ended 30 June 2011

PricewaterhouseCoopers
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Facsimile +61 2 4925 1199
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Auditor's Independence Declaration

As lead auditor for the audit of nib holdings limited for the year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of nib holdings limited and the entities it controlled during the period.

John Campion
Partner
PricewaterhouseCoopers

19 August 2011

Corporate Governance Statement

year ended 30 June 2011

This report sets out the Group's annual statement on its corporate governance framework for the year ending 30 June 2011.

The Board and management of the Group are committed to achieving and demonstrating the highest standards of corporate governance and following the ASX Governance Council Corporate Governance Principles and Recommendations 2007 (***ASXCGC* Recommendations**). In addition, the Board and management have made significant progress in the transition to the ASX Governance Council Corporate Governance Principles and Recommendations with 2010 amendments (***ASXCGC Recommendations 2010***) as reflected in the content of this report.

As part of this process, the Board and management regularly review the Group's policies and practices to ensure that they meet the interests of stakeholders and that the Group continues to maintain and improve its governance standards. In the last 12 months the Board has adopted a Diversity Policy and reviewed and updated the Travel Policy (related to Directors and Executives), Trading Policy, Code of Conduct and Risk Policy. In addition, upon review and recommendations from the respective committees, the Board approved updates to the Audit Committee Charter (April 2011) and the Nomination and Remuneration Committee Charter (May 2011). The Board also approved an updated Board Charter in April 2011.

Full details of how nib holdings applies each ASXCGC Recommendation are contained in the corporate governance information section within the nib shareholder website. This website also contains copies of all charters and policies and can be found at nib.com.au/shareholders

A description of the Group's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year and comply with the ASXCGC Recommendations and the majority of the new requirements under the ASXCGC Recommendation 2010.

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Role of the Board

The Board operates in accordance with the principles set out in its Board Charter, which can be downloaded from the corporate governance section of the nib website. The charter details the roles and responsibilities of the Board, as well as the membership and operation of the Board.

The Board provides overall strategic guidance for nib holdings and effective oversight of management. The Board ensures that the activities of nib holdings comply with its constitution and with all legal and regulatory requirements.

The Board has reserved to itself the following specific responsibilities:

- **Strategy** – overseeing the development of nib holdings limited's corporate strategy, reviewing and approving strategy plans and performance objectives consistent with the corporate strategy, reviewing the assumptions and rationale underlying the strategy plans and performance objectives, and monitoring the implementation of the strategy plans;
- **Oversight of management** – appointment, and, if appropriate, removal of senior executives, including the Managing Director/Chief Executive Officer, the Chief Financial Officer and Company Secretary, approving senior executive remuneration policies and practices and monitoring their performance;
- **Shareholders** – facilitating the effective exercise of shareholders rights, and effective communication with and reporting to shareholders, and establishing and maintaining environmental, employment and occupational, health and safety policies;
- **Other stakeholders** – establishing and monitoring policies governing nib holdings limited's relationship with other stakeholders and the broader community;
- **Ethics** – actively promoting ethical decision making, and establishing and maintaining a code of conduct to guide Directors and all employees of nib holdings limited in practices necessary to maintain confidence in nib holdings limited's integrity;
- **Oversight of financial management** – reviewing and approving nib holdings limited's annual and half yearly financial reports, establishing and overseeing nib holdings limited's accounting and financial management systems, capital management and the dividend policy;
- **Compliance and risk management** – establishing and overseeing nib holdings' system for compliance and risk management.

The Board Charter provides further detail in respect of each of these specific areas of responsibility.

Meetings of the Board

The Board meets on a scheduled basis 11 times per year moving forward, and whenever necessary between scheduled meetings. During the year the Board held 12 scheduled and two unscheduled Board meetings and an additional corporate strategy workshop in March 2011. The number of meetings attended by each Director is disclosed in the Directors' report on page 5.

All Directors are expected to prepare adequately, attend and participate at each Board meeting.

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT continued

Delegation

In accordance with Clause 4 of the Board Charter, the Board has delegated a number of its responsibilities to its committees and the Managing Director. The responsibilities of the committees are set out in the Board Committees section of this governance statement.

The Board has delegated to the Managing Director the authority to manage the day to day affairs of nib holdings limited and the authority to control the affairs of nib holdings limited other than those specifically reserved to itself in the Board Charter and the Board delegations of authority. The Managing Director has the authority to sub-delegate and is accountable to the Board for the authority that is delegated by the Board.

Performance review of senior executives

In accordance with Clause 2.3 of the Board Charter, the Board regularly monitors the performance of senior executives and the implementation of strategy against measurable and qualitative indicators. The performance of the Managing Director is evaluated and assessed by the Board, assisted by the Nomination and Remuneration Committee, in August each year, with the FY11 evaluation to occur on 25 August 2011.

The Managing Director conducts performance reviews of the senior executives by comparing performance against agreed measures, examining the effectiveness and quality of the individual both as a divisional leader and in their individual capacity and assessing whether various expectations of stakeholders have been met. These reviews occur annually in August/September.

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

Board size and composition

At the date of signing the Directors' report the nib holding limited's Board comprises six non-executive Directors, all of whom are deemed independent under the principles set out below, and one executive Director, being the Managing Director of nib holdings limited. The Directors determine the size of the Board which, under nib holdings limited's constitution, is set at a maximum of 10 Directors and a minimum of three Directors.

nib holdings limited seeks to have Directors with an appropriate range of skills, expertise and experience and an understanding of and competence to deal with current and emerging issues of nib holdings limited's business. The Nomination and Remuneration Committee assists and makes recommendations to the Board on Director selection and appointment to achieve this objective.

Details of the members of the Board, their experience, expertise, qualifications, term of office and independent status are set out in the Director's report under the heading "Information on Directors".

Directors' independence

In accordance with the ASXCGC Recommendations the Board is comprised of a majority of independent non-executive Directors. In addition, the Board Charter requires that all Directors should bring an independent judgment to bear on all Board decisions.

The Board has adopted specific principles in relation to directors' independence, which are set out in the Board Charter. These state that when determining independence, a Director must be a non-executive and the Board should consider whether the Director:

- is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's independent exercise of their judgment;
- is a substantial shareholder of nib holdings limited or an officer of, or otherwise associated directly with, a substantial shareholder of nib holdings limited;
- is, or has been employed in, an executive capacity by nib holdings limited or any other Group member within three years before commencing to serve on the Board;
- within the last three years has been a principal of a material professional adviser or a material consultant to nib holdings limited or any other Group member, or an employee materially associated with the service provided;
- is a material supplier or customer of nib holdings limited of any other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; and
- has a material contractual relationship with nib holdings limited or another Group member other than as a Director of nib holdings limited.

On appointment, each Director is required to provide information for the Board, to assess their independence as part of their consent to act as a Director. The Board regularly assesses the independence of each Director in light of the interests disclosed by them. Each independent Director must provide the Board with all relevant information for this and keep such information up to date. The Board has determined that all current non-executive Directors, including the Chairman, are independent and free of any relationship which may conflict with the interests of the Group.

Corporate Governance Statement continued

year ended 30 June 2011

Conflicts of interest

Directors must avoid conflicts of interest except in those circumstances permitted by the *Corporations Act 2001* (Corporations Act). Directors are required to disclose any conflicts of interest in matters considered by the Board and unless the Board resolves otherwise, must not participate in Board discussions or vote on the matter.

The Chairman

The Chairman is appointed by the Board and must be an independent and non-executive Director. The Chairman of the Board is independent of the role of the Managing Director of nib holdings. The Chairman's responsibilities include:

- leading the Board in reviewing and discussing Board matters;
- ensuring the efficient organisation and conduct of the Board's function;
- overseeing that membership of the Board is skilled and appropriate for nib holdings' needs;
- promoting constructive relations between Board members and between the Board and management;
- ensuring that independent Directors meet separately at least annually to consider, among other things, management's performance; and
- reviewing corporate governance matters.

The current Chairman, Keith Lynch, is an independent non-executive Director. He has been a Director of nib health funds limited since 1982 and Chairman of nib health funds limited since 2001. He is also the Chairman of the Nomination and Remuneration Committee.

On 24 June 2011 nib announced that Keith Lynch would be retiring on 30 September 2011 and that Steve Crane would become the Chairman on 1 October 2011. Steve Crane is an independent non-executive Director who joined the Board in September 2010.

Nomination and Remuneration Committee

The Group has a Nomination and Remuneration Committee. The duties and membership of the committee are set out in the Board committees section on page 25.

Selection and appointment of directors

When a vacancy on the Board arises, the Nomination and Remuneration Committee identifies candidates with appropriate skills, experience and expertise and recommends those to the Board. When the Board considers that a suitable candidate has been found, that person is appointed by the Board to fill a casual vacancy in accordance with nib holdings limited's constitution, but must stand for election by shareholders at the next Annual General Meeting (AGM).

Non-executive Directors are engaged by a letter of appointment setting out the terms and conditions of their appointment. Directors are expected to participate in any induction or orientation programs on appointment, and any continuing education or training arranged for them.

Appointment and re-election of Directors

At each AGM there must be an election of Directors and at least one Director (excluding the Managing Director) must retire, including any Director who has been appointed during the year. Retiring Directors may be eligible for re-election. A Director must retire from office at least every three years. Before each AGM, the Chairman of the Board will assess the performance of any Director standing for re-election and the Board will determine their recommendation to shareholders on the re-election of the Director (in the absence of the Director involved). The Board (excluding the Chairman) conducts the review of the Chairman.

At the 2011 AGM, Harold Bentley will offer himself for re-election as a Director and Christine McLoughlin having been appointed in March 2011 will stand for election.

Evaluation of Board and committee performance

The Board undertakes an annual self-assessment of its collective performance, the performance of the Chairman, individual Directors and of its committees. The performance assessment process conducted in the past financial year was facilitated by an independent third party and included interviews with Directors. The Chairman formally discusses the results of the review with the individual Directors. At that meeting the Chairman and the individual Director also discuss the effectiveness of the Board and its contribution to the Group, Board discussion, and the composition of the Board and committees.

Each of the Board's committees reviews their performance from time to time, or whenever there are major changes to the management structure of nib holdings limited. Both the Audit Committee and the Risk and Reputation Committee undertook a self-assessment in 2011. As part of this exercise each committee also sought the input of management and external stakeholders who regularly attend committee meetings (i.e. the external auditor and the internal auditor).

Independent professional advice and access to company information

Following consultation with the Chairman, Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the expense of nib holdings limited and have the right of access to all relevant information in relation to nib holdings limited and the senior executives. At the time of appointment each Director enters into a Deed of Access, Insurance and Indemnity with nib holdings limited.

BOARD COMMITTEES

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the Nomination and Remuneration Committee, the Audit Committee, the Risk and Reputation Committee and the Investment Committee. Each is comprised entirely of non-executive Directors. Management regularly attends the committee meetings at the invitation of the relevant committee.

Membership of each committee is set out in the table below:

Committee	Keith Lynch	Philip Gardner	Annette Carruthers	Harold Bentley	Brian Keane (retired)	Steve Crane	Christine McLoughlin
Audit		✓	✓	✓ Chair	✓	✓	✓
Risk and Reputation		✓	✓ Chair		✓	✓	✓
Nomination and Remuneration	✓ Chair		✓		✓	✓	✓
Investment	✓	✓ Chair		✓			

Attendances of Directors at committee meetings are set out on page 5 of the Directors' report.

Each committee has its own written charter setting out its roles and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed from time to time. All matters determined by committees are submitted to the Board as recommendations for Board approval.

Minutes of committee meetings are provided to the relevant committee and the Board and the Chair of each committee reports back on the committee meeting to the Board at the next full Board meeting.

Nomination and Remuneration Committee

The role of the Nomination and Remuneration Committee is to make recommendations to the Board on Director selection and appointment practices, Director performance evaluation processes and criteria, Board composition, and succession planning for the Board and senior executives. The committee also assists and makes recommendations to the Board on remuneration policies for the Board, senior executives and other employees.

The nomination responsibilities include:

- the assessment of the necessary and desirable competencies of Board members;
- developing processes for selection and removal of Directors;
- developing induction procedures for new appointees and continuing education measures for existing Directors; and
- overseeing the implementation of the process of performance evaluation of Directors.

The remuneration responsibilities include developing, reviewing and making recommendations to the Board on:

- the remuneration framework for the Chairman and non-executive Directors;
- the Group's policy on senior executive remuneration; and
- incentive schemes and equity based plans, if appropriate.

The committee also reviews and makes recommendations to the Board on matters relating to the recruitment, retention and termination policies and procedures of the Managing Director/Chief Executive Officer and senior executives. This process of review was undertaken during the reporting year.

Details of how the performance evaluation process is undertaken in respect of the Managing Director/Chief Executive Officer and other senior executives are set out in the Remuneration Report commencing on page 6.

In fulfilling its roles and responsibilities, the Nomination and Remuneration Committee:

- receives regular reports from management and external consultants, if required;
- assess actual performance against agreed Key Performance Indicators for short and long term incentives;
- receives reports and considers application for the Group of relevant guidance frameworks and notes.

Audit Committee

The Audit Committee operates in accordance with its charter, which was updated in April 2011. The updated charter is available on the nib website.

The Audit Committee includes members who have appropriate financial experience and understanding of the private health insurance industry. The Chair of the Audit Committee is an independent non-executive Director who is not the Chairman of the Board. Currently there are five members of the Audit Committee.

Corporate Governance Statement continued

year ended 30 June 2011

The role of the Audit Committee is to assist the Board by reviewing and making recommendations on:

- the appointment, remuneration, independence, competence and performance of nib holdings limited's external audit function;
- the integrity of nib holdings limited's financial statements and other material regulatory documents;
- compliance with relevant financial reporting standards and ASX listing obligations and accounting policies adopted by nib holdings limited;
- the propriety of related party transactions; and
- monitoring compliance with the Group's Capital Management Plan.

In fulfilling its role, the Audit Committee:

- receives regular reports from management, the external auditors, the Appointed Actuary and, if required, the internal auditors;
- meets with external auditors and the Appointed Actuary on a regular basis and has issued a standing invitation to the external auditor to attend all meetings of the Audit Committee;
- reviews the processes the Managing Director/CEO and CFO have in place to support their certifications to the Board;
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved;
- meets separately with the external auditors and the Appointed Actuary at least twice a year without the presence of management; and
- provides the external auditors and the Appointed Actuary with a clear line of direct communication at any time to either the Chairman of the Audit Committee or the Chairman of the Board.

The Audit Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party, including the Appointed Actuary.

Risk and Reputation Committee

The Risk and Reputation Committee operates in accordance with its charter, which was updated in December 2009. The updated charter is available on the nib website. The Chair of the Risk and Reputation Committee is an independent non-executive Director who is not the Chairman of the Board.

The role of the Risk and Reputation Committee is to review and make recommendations to the Board on the internal audit function, the system of risk management and matters relating to the social, environmental and ethical impacts of the Group's business.

The Risk and Reputation Committee makes recommendations on:

- the appointment, remuneration, independence, and competence of the internal auditors;
- the internal audit plan;
- matters raised by internal audit and management's response to those issues;
- the effectiveness of nib holdings limited's risk management framework and the policies and procedures that support that framework;
- the identification, assessment, monitoring and reporting of material risks facing nib holdings limited considered against nib holdings limited's risk appetite; and
- the systems and procedures for ensuring compliance with applicable laws.

In fulfilling its role, the Risk and Reputation Committee:

- receives regular reports from management and the internal auditors;
- meets with the internal auditors on a regular basis and has issued a standing invitation to the internal auditor to attend all meetings of the Risk and Reputation Committee;
- meets separately with the internal auditors without management at least twice a year; and
- provides the internal auditors with a clear line of direct communications at any time to either the Chair of the Risk and Reputation Committee or the Chairman of the Board.

Investment Committee

The Investment Committee operates in accordance with its charter, which was updated in December 2009. The updated charter is available on the nib website.

The Investment Committee includes members who have appropriate financial experience and understanding of the private health insurance industry. The Chair of the Investment Committee is an independent non-executive Director who is not the Chairman of the Board.

The role of the Investment Committee is to assist the Board to oversee the investment activities of nib holdings limited and all entities within the nib Group. The committee reviews and provides recommendations to the Board on:

- investment strategy, including allocations of asset classes;
- the selection and appointment of external investment advisors and asset managers;
- the selection of performance benchmarks and investment mandates;
- investment performance and outlook; and
- compliance with the investment component of the Group's Capital Management Plans and investment policy statements.

BOARD COMMITTEES continued

In fulfilling its role, the Investment Committee:

- receives regular reports from management and the appointed external investment advisors and asset managers on investment performance and options; and
- meets with external investment advisors and asset managers, with or without management present, as required.

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

All employees, including the Board and senior management, are expected to uphold the highest levels of integrity and professional behavior in their relationships with the Group's stakeholders. Below is a summary of the Group's core codes and policies that apply to all employees. Each named policy or code is available on the nib website.

Code of Conduct

nib holdings limited has adopted a Code of Conduct which applies to all Directors, officers, employees, contractors, consultants and associates of nib holdings limited and all entities within the Group. The Code of Conduct sets out ethical standards and rules of the Group and provides a framework to guide compliance with legal and other obligations to stakeholders. In March 2011 an updated version of the Code of Conduct was approved by the Board.

The Code of Conduct rules include:

- the avoidance of conflicts of interest or disclosure of conflict of interest if one occurs;
- the appropriate use of corporate opportunities and other benefits;
- ensuring the integrity and security of confidential information;
- compliance with the Privacy Act (Cth) 1988;
- dealing fairly with all parties;
- no discrimination;
- compliance with laws and regulations;
- responsibilities to shareholders; and
- no insider trading.

Trading Policy

nib holdings limited has adopted a Trading Policy that applies to all Directors, officers, the senior executive and other employees of nib holdings limited and all entities within the Group. The policy provides that where a person possesses inside information concerning nib holdings limited's securities, that person must not deal in the securities of nib holdings limited, procure another person to deal in those securities or pass on the inside information to another person.

In December 2010 an updated Trading Policy was approved by the Board.

In addition, for Directors and those employees, who, because of seniority or nature of their position, come into contact with key financial or strategic information about nib holdings limited (key management personnel), further restrictions apply. Those restrictions set out closed periods during which key management personnel must not trade in the securities of nib holdings limited.

The periods in which the Directors and key management personnel cannot trade in the securities of nib holdings limited (**closed periods**) are the period from the close of trading on 31 December each year, up to 24 hours after the nib Group's half-year results announcement is released to the market following its lodgement with ASX, and the period from the close of trading on 30 June each year, up to 24 hours after the nib Group's annual results announcement is released to the market following its lodgement with ASX.

Where exceptional circumstances exist, permission can be obtained for Directors and key management personnel to trade during the closed periods. In all circumstances any trading remains subject to legal obligations not to trade while in possession of inside information pursuant to the *Corporations Act*.

The Trading Policy prohibits key management personnel from hedging their holdings in nib's securities.

All Directors and employees are asked to sign an acknowledgement that they have read, understood and agree to comply with and be bound by the Code of Conduct and the Trading Policy. Regular updated training is provided for all employees on the Code of Conduct and the Trading Policy as part of ongoing compliance training.

Whistleblower Policy

nib holdings limited, through its Whistleblower Policy, encourages all employees to report any genuine matters or behaviour that they honestly believe contravene nib holdings limited's policies or the law including:

- dishonest behaviour;
- fraudulent activity;
- corrupt practices;
- illegal activities;
- unethical behavior, including a breach of the Code of Conduct;
- other serious improper conduct;
- an unsafe work-practice; or
- any other conduct which may cause financial or non-financial loss to nib or be otherwise detrimental to the interests of nib.

Corporate Governance Statement continued

year ended 30 June 2011

The Whistleblower Policy was last updated by the Board in December 2009 and is available on the nib website.

Diversity Policy

On 26 May 2011 nib holdings limited adopted a Diversity Policy that sets out nib's approach to diversity in the workplace and provides a framework to achieve nib's diversity goals.

The Board and management believe that nib's commitment to this policy contributes to achieving nib's corporate objectives and embeds the importance and value of diversity within the culture of nib.

nib believes that the promotion of diversity on the Board, in senior management and within all levels of the nib Group:

- broadens the pool for recruitment of high quality Directors and employees;
- is likely to support employee retention;
- through the inclusion of a variety of skill-sets, is likely to encourage greater innovation and improve the quality of decision-making, productivity and teamwork;
- enhances customer service and market reputation through a workforce that respects and reflect the diversity of our customers; and
- is in line with best practice corporate governance responsibilities.

nib's commitment to diversity is reflected in the composition of the current Board and executive management.

The measurable objectives identified and the results against these at 30 June 2011 are set out in the table below.

Objective	Details	Timeframe	Results as at 30 June 2011
Recruitment and selection	Ensure that employees and Directors are selected from diverse candidate pools. A shortlist will be compiled for all management, executive and Board positions with at least one serious female candidate to be present on every shortlist. If this is not possible, there must be objective reasons to support this. Candidates will be interviewed by a diverse group of people through the process.	June 2011	In place
Representation	Set goals, timeframes and succession plans to improve the number of women in management roles in the business. At a minimum: ■ 40% of manager and team leaders; ■ 30% of business unit managers; ■ 30% of executives; ■ Two non-executive Directors; and ■ One member of the Nomination and Remuneration Committee.	June 2014	■ 72% of managers and team leaders are women ■ 25% of business unit managers are women ■ 40% of executives are women ■ Two non-executive Directors on the Board ■ Two female non-executive Directors are on the Nomination and Remuneration Committee
Development and Succession	Introduce mentoring, coaching and succession programs that support and encourage women to expand their skills as part of their professional development and to prepare them to take on management or executive roles.	January 2012	Currently in the development and planning stage.

Objective	Details	Timeframe	Results as at 30 June 2011
Flexible work practices	Develop a flexible work practices policy and engender a culture of support for flexible work practices where possible and required.	June 2011	In December 2010, nib recruited a new work-from-home team to support our call centre operation. This innovative new concept was introduced to help manage unplanned and seasonal fluctuations in call volumes. It also allowed nib to tap into the growing market of skilled workers seeking flexibility in their working conditions. Employees are employed on a casual basis and can book themselves in to work as many hours they wish per week based on the shifts available. nib now has 43 Remote Call Centre Agents working from home. Among these employees we have people that run their own businesses and need a second income, people that live remotely and would like to avoid travel time, parents that want to work around the hours of their children and some that already work-from-home for other organisations. Of our work from home employees 39 are female. nib continues to offer employees flexible working hours upon their return to work including gradual return from parental leave (including in certain circumstances the ability to work from home), part-time hours and job share arrangements. Over the past 12 months, 12 employees have taken maternity (including accessing nib's 12-week paid parental allowance), all of which have returned to part-time working arrangements (either their previous part-time hours or by request reducing from full-time to part-time). nib continues to offer flexible working arrangements through part-time and casual employment. As at the end of 30 June 2011 nib had 138 part-time employees and 56 casual employees working across all areas of the business. nib is working to develop an overarching flexible work practices policy that further engenders a culture of support for flexible work practices where possible and required.

At 30 June 2011, 77% of nib's total workforce were female.

Corporate Social Responsibility Principles

nib holdings limited has adopted a set of corporate social responsibility principles designed to support nib in maintaining the appropriate ethical standards and rules that will guide nib in dealing with its many stakeholders. These principles enable nib to deliver on our business responsibilities of growth and value to our customers, shareholders, employees, stakeholders, local communities and the broader environment. nib focuses its corporate responsibility efforts in a number of areas:

- **Corporate Governance** – nib's aim is to maintain the highest standards of corporate governance.
- **Our Employees** – nib's belief is that nib's growth is dependent on our ability to grow with our people.
- **Our Customers** – nib wants to make our health cover easy to understand, easy to claim on and affordable. nib supports the Private Health Insurance Industry codes of practice. nib respects our customers' privacy and will protect the personal information they entrust with nib. Where differences arise between our customers and ourselves, nib will ensure our customers have ready access to a clear and fair complaints resolution process.
- **Our Suppliers** – nib believes that our suppliers play a key role in ensuring nib can have a positive impact on our stakeholders and the environment. nib requires suppliers to comply with applicable laws and generally accepted standards of business ethics, health and safety and environmental protection.

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING
continued

- **Community Involvement** – nib believes that we have a responsibility to the communities around us. nib has a long and proud history of supporting a large range of community programs, partners and community activities, including nib foundation.
- **The Environment** – nib will constantly seek to identify opportunities to minimise the negative environmental impact of our operations. nib's head office building has a 5 star Green Star rating for efficient energy usage, a 4 star Green Star rating for fit out and a 4 star Green Star rating for the base building construction and management systems.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORT

Audit Committee

An Audit Committee is in place for the Group to assist the Board to safeguard integrity in the Group's financial reporting. The duties and membership of the committee are set out in the Board committees section on page 25.

External auditors

nib holdings limited's policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually by the Audit Committee and the Board, and applications for proposal for external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. The last request for proposal process occurred in 2008 for the financial years 2009-2011.

PricewaterhouseCoopers (**PwC**) was appointed as the external auditor of nib holdings limited in October 2007, and was approved by shareholders at the 2008 AGM in accordance with section 327B(1) of the Corporations Act. It is PwC's policy to rotate audit engagement partners on listed companies at least every five years in line with Corporations Act requirements. Wayne Russell was the engagement partner from October 2007 until completion of the 30 June 2009 audit. The current engagement partner for nib holdings limited is John Campion.

An analysis of fees paid to the external auditors, including a break down of fees for non-audit services, is provided on page 19 of the Directors' report and in Note 32 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Board and the Audit Committee and this is included with this report on page 21.

The external auditor will attend the AGM and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

nib holdings limited is committed to providing relevant up-to-date information to its shareholders and other stakeholders in accordance with its obligations under the ASX Listing Rules and the Corporations Act. In meeting its continuous disclosure obligations imposed by law, nib holdings limited works to ensure that its announcements are presented in a factual, clear and balanced way and that all shareholders have equal and timely access to material information concerning nib holdings limited.

nib holdings limited has a Disclosure and Communication Policy, and Disclosure and Materiality guidelines, which are provided to all officers and relevant employees upon appointment and are available on the nib website. nib holdings limited has established a Disclosure Committee that is responsible for managing nib holdings limited's disclosure obligations. The committee comprises the Managing Director, Chief Financial Officer, nib holdings limited's Company Secretary, the Corporate Affairs and Investor Relations Manager, and Legal Counsel.

nib holdings limited's Company Secretary has been nominated as the person responsible for communications with the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules.

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

The Board and management aim to ensure that shareholders are informed of all information necessary to fully assess the performance of the Group. nib holdings limited has a dedicated shareholder website that can be found at nib.com.au/shareholders. This website provides relevant information for shareholders in a dedicated place and in an easy to navigate manner. All information disclosed to the ASX is posted on nib holdings limited shareholder website as soon as it is disclosed to the ASX. When analysts are briefed on aspects of the Group's operations, the material used in the presentation is released to the ASX and posted on nib holdings limited shareholder website.

nib holdings limited is committed to communicating effectively with shareholders and making it easy for them to participate in General Meetings. Shareholders may elect to receive information electronically as it is posted on nib holdings limited shareholder website, which provides information about how to make this election. nib holdings limited will communicate by post with shareholders who have not elected to receive information electronically.

Shareholders are encouraged to attend the AGM and use the opportunity to ask questions. If unable to attend the AGM, shareholders can vote on the motions proposed by appointing a proxy or using any other means included in the Notice of Meeting. Questions can be lodged prior to the AGM by completing the relevant form accompanying the Notice of Meeting. Notices of Meeting and accompanying explanatory notes aim to clearly, concisely and accurately set out the nature of the business to be considered at the meeting. nib holdings limited places Notices of General Meetings and accompanying explanatory material on its website. In 2010 shareholders were also able to view the AGM via a webcast available on nib's website.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

At nib holdings limited, risk management is an ongoing process. Management is responsible for designing, implementing and reporting on the adequacy of nib's risk management and internal control system. The Board has established a Risk and Reputation Committee (refer Board Committees section on page 26) who's role includes reviewing and making recommendations to the Board on the Group's system of risk management.

nib holdings limited's risk policies and risk management framework have been developed to enable the Board to have reasonable assurance that:

- established corporate and business strategies and objectives are achieved;
- risk exposures are identified and adequately monitored and managed;
- significant financial managerial and operating information is accurate, relevant, timely and reliable; and
- there is an adequate level of compliance with policies, standards, procedures and applicable laws, regulations and licences.

nib holding limited's Risk Policy and risk management framework was updated in December 2010, based on the Australian/New Zealand Standard (AS/NZS ISO 31000:2009) for risk management and the internationally-recognised Committee of Sponsoring Organisations of the Treadway Commission (COSO) Enterprise Risk Management Framework.

The Board and senior management consider and set nib's strategic and operational objectives as part of the annual strategy and budget planning review. As part of the strategy setting, the Board and senior management consider these obligations in the context of nib's risk appetite – the acceptable balance of growth, risk and return for nib. There may be a number of different strategies designed to achieve desired growth and return goals, each having different risks.

As a means of informing the business of the outcomes expected from the strategy, the Board and senior management develop key performance indicators and risk assessment for each objective. These are intended to provide the Board with greater assurance that nib remains within its strategy and risk appetite and provides guidance about nib's ability to achieve its objectives.

The risk management framework includes the Board's statement of risk appetite for the four main types of risk that are likely to affect nib holdings limited's ability to deliver its strategic objectives. At a high level these are:

- **Financial Risk** – the risks associated with achieving nib holdings limited's financial targets, including revenue and income growth, and capital management targets. These risks include model risk, credit risk, liquidity risk, market risk, investment risk, pricing risk and claims risk;
- **Operational Risk** – the risk that arises from normal operations, project management, inadequate or failed internal processes, people, systems, fraud or from external events;
- **Strategic Risk** – the risk of changing government policies and new legislation on nib's business (sovereign risk), strategic plan risk, reputation risk and product design;
- **Regulatory and Compliance Risk** – the risk of failing to comply with nib's legal and regulatory requirements and nib's internal policies and procedures.

The Board and Risk and Reputation Committee receive regular reports on key enterprise risks that may impede nib holdings limited meeting its business objectives. During the year, management provided reports to support the Risk and Reputation Committee's and the Board's assessment of the effectiveness of nib's risk management framework and the management of material business risks. In addition the Audit Committee monitors the Group's financial risks and reports to the Board on the adequacy of the Group's internal controls, financial management systems and accounting and business policies to minimise any financial risks.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

In addition to monthly compliance statements, quarterly internal control questionnaires are completed by all divisional and business unit managers. The quarterly reports are reviewed by nib holding limited's finance division as part of nib holding limited's six monthly and annual reporting and to achieve compliance with section 295A of the Corporations Act and Recommendation 7.3 of the ASXCGC Recommendations.

The Managing Director/ Chief Executive Officer and Chief Financial Officer provide annual formal statements to the Board that:

- nib holdings limited's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of nib holdings limited and are in accordance with relevant accounting standards; and
- the above statement is founded on a sound system of risk management, and internal compliance and control, which implements the policies adopted by the Board and that nib holdings limited's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

Internal audit

The Group has an internal audit function that assists with the identification and control of key enterprise risks. nib holdings limited's internal audit function is currently performed by Deloitte. The internal auditor provides an independent and objective internal audit review of nib holdings limited's risks and how the key controls, processes and technology are operated and managed to provide the best outcomes for nib holdings limited. The annual internal audit plan is approved by the Board based on recommendation from the Risk and Reputation Committee.

The nib holdings limited Strategic Internal Audit Plan for the year is developed using a risk-based approach. The annual cycle includes a risk assessment from which the annual plan is developed by the internal auditors in conjunction with nib management to ensure alignment with identified key enterprise risks. An Assurance Map that links key risks with the relevant assurance providers forms the basis of the internal audit plan, and internal audit reviews performed ensure nib identifies opportunities for process improvement. The Risk and Reputation Committee have oversight of reports and agreed management actions

Internal Audit reports are considered at the Risk and Reputation Committee. Representatives from Deloitte regularly attend meetings of the Risk and Reputation Committee to present internal audit report and answer questions from the committee.

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

The Board has established a Nomination and Remuneration Committee as set out in the Board Committees section on page 25.

The Nomination and Remuneration Committee reviews remuneration of senior executives and non-executive Directors every year. Every second year the committee commissions information from an expert with respect to executive remuneration and market rates (unless increases are determined to be at or below CPI) to help it provide recommendations and direction to the Board for nib holdings limited's remuneration practices and the structure of non-executive Directors remuneration and the remuneration of senior executives.

The senior executives participate in a Long-Term Performance Incentive Plan, that has been updated to incorporate the Australian Shareholders Association guidelines for long term performance incentives. For further details on this see the Remuneration Report on page 6.

The total annual remuneration paid to non-executive Directors may not exceed the limit set by the shareholders at the AGM. For further details in relation to Director and senior executive remuneration see the Remuneration Report on page 6.

Independent Auditor's Report

to the members of nib holdings limited

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Independent auditor's report to the members of nib holdings limited

Report on the financial report

We have audited the accompanying financial report of nib holdings limited (the company), which comprises the balance sheet as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the nib holdings limited group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards.*

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

PRICEWATERHOUSECOOPERS

Independent auditor's report to the members of nib holdings limited (continued)

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001.*

Auditor's opinion

In our opinion:

(a) the financial report of nib holdings limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 6 to 17 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of nib holdings limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

John Campion

John Campion
Partner

Newcastle
19 August 2011

Directors' Declaration

year ended 30 June 2011

In the Directors' opinion:

a. the financial statements and notes set out on pages 36 to 83 are in accordance with the *Corporations Act 2001*, including:

   i. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

   ii. giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and

b. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer required by Section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

On behalf of the Board

Keith Lynch
Director

Harold Bentley
Director

Newcastle, NSW
19 August 2011

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2011

	Notes	2011 $000	2010 $000
Premium revenue	5	1,007,848	901,370
Claims expense		(693,162)	(635,929)
RETF levy		(132,744)	(109,898)
State levies		(22,874)	(22,045)
Claims handling expenses	6	(16,134)	(14,407)
Net claims incurred		(864,914)	(782,279)
Acquisition costs	6	(36,611)	(32,512)
Other underwriting expenses	6	(44,821)	(39,514)
Underwriting expenses		(81,432)	(72,026)
Underwriting result		61,502	47,065
Investment income/(loss)	5	33,453	45,794
Other income	5	5,750	1,291
Investment expenses	6	(1,327)	(1,344)
Other expenses	6	(7,462)	(5,840)
Profit before income tax		91,916	86,966
Income tax expense	7	(26,453)	(25,441)
Profit from continuing operations		65,463	61,525
Other comprehensive income			
Revaluation of land and buildings		83	–
Change in fair value of available for sale financial assets		706	–
Income tax related to components of other comprehensive income	7(c)	(237)	–
Other comprehensive income for the year, net of tax		552	–
Total comprehensive income for the year attributable to equity holders of nib holdings limited		66,015	61,525

		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company			
Basic earnings per share	42	13.7	12.4
Diluted earnings per share	42	13.7	12.4
Earnings per share for profit attributable to the ordinary equity holders of the company			
Basic earnings per share	42	13.7	12.4
Diluted earnings per share	42	13.7	12.4

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

as at 30 June 2011

	Notes	2011 $000	2010 $000
ASSETS			
Current assets			
Cash and cash equivalents	8	240,772	197,415
Receivables	9	49,469	31,812
Financial assets at fair value through profit or loss	10	239,293	264,408
		529,534	493,635
Assets classified as held for sale	11	–	30,000
Total current assets		529,534	523,635
Non-current assets			
Receivables	12	20,000	250
Available-for-sale financial assets	13	2,206	1,500
Deferred tax assets	14	6,554	9,127
Investment properties	15	–	–
Property, plant and equipment	16	41,858	41,033
Intangible assets	17	39,098	12,437
Total non-current assets		109,716	64,347
Total assets		639,250	587,982
LIABILITIES			
Current liabilities			
Payables	18	77,230	68,543
Borrowings	19	3,603	3,593
Outstanding claims liability	20	65,883	62,119
Unearned premium liability	21	65,202	54,443
Current tax liabilities	23	10,894	4,325
Provision for employee entitlements	24	3,657	2,690
Total current liabilities		226,469	195,713
Non-current liabilities			
Provision for employee entitlements	24	991	868
Total non-current liabilities		991	868
Total liabilities		227,460	196,581
Net assets		411,790	391,401
EQUITY			
Contributed equity	26	42,193	42,437
Retained profits	27	367,595	347,358
Reserves	28	2,002	1,606
Total equity		411,790	391,401

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2011

	Notes	Contributed Equity $000	Reserves $000	Retained Profits $000	Total Equity $000
Balance at 1 July 2009		42,528	1,458	317,897	361,883
Profit for the year	27	–	–	61,525	61,525
Transfer to retained profits on sale of property	27,28(b)	–	(379)	379	–
Total comprehensive income for the year		–	(379)	61,904	61,525
Transactions with owners in their capacity as owners:					
Share buy-back		(91)	–	(702)	(793)
Employee performance rights - value of employee services	28(b)	–	504	–	504
Employee bonus share rights - value of employee services	28(b)	–	23	–	23
Dividends paid	29(a)	–	–	(31,741)	(31,741)
		(91)	527	(32,443)	(32,007)
Balance at 30 June 2010		42,437	1,606	347,358	391,401
Balance at 1 July 2010		42,437	1,606	347,358	391,401
Profit for the year	27	–	–	65,463	65,463
Change in fair value of available for sale financial assets, net of tax	28(b)	–	494	–	494
Revaluation of property, net of tax	28(b)	–	58	–	58
Total comprehensive income for the year		–	552	65,463	66,015
Transactions with owners in their capacity as owners:					
Share buy-back	26(d)	(244)	–	(1,784)	(2,028)
Share buy-back - performance rights and bonus share rights	28(b)	–	(552)	–	(552)
Employee performance rights - value of employee services	28(b)	–	396	–	396
Dividends paid	29(a)	–	–	(43,442)	(43,442)
		(244)	(156)	(45,226)	(45,626)
Balance at 30 June 2011		42,193	2,002	367,595	411,790

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

for the year ended 30 June 2011

	Notes	2011 $000	2010 $000
Cash flows from operating activities			
Receipts from policyholders and customers (inclusive of goods and services tax)		1,024,410	912,444
Payments to policyholders, suppliers and employees (inclusive of goods and services tax)		(942,516)	(844,003)
		81,894	68,441
Dividends received		28	20
Interest received		9,373	8,945
Distributions received		16,172	4,817
Transactions costs relating to acquisition of business	36(a)(i)	(1,056)	(79)
Interest (paid)/refunded		(2)	1
Income taxes paid		(18,129)	(15,969)
Net cash inflow (outflow) from operating activities	33(b)	88,280	66,176
Cash flows from investing activities			
Proceeds from disposal of other financial assets at fair value through the profit and loss		322,666	8
Payments for other financial assets at fair value through the profit and loss		(293,393)	(4,729)
Proceeds from sale of property, plant and equipment and intangibles		7	340
Payments for property, plant and equipment and intangibles		(5,230)	(4,770)
Proceeds from sale of subsidiary, net of cash disposed		–	2,265
Proceeds from sale of Eye Care and Dental businesses		250	250
Payment for acquisition of business	36(b)	(23,211)	–
Net cash (outflow) inflow from investing activities		1,089	(6,636)
Cash flows from financing activities			
Payments for share buy-back	26(d)	(2,028)	(793)
Payments for employee performance and bonus share rights		(552)	–
Dividends paid to the company's shareholders	29(a)	(43,442)	(31,741)
Proceeds from finance lease		–	82
Net cash inflow (outflow) from financing activities		(46,022)	(32,452)
Net increase (decrease) in cash and cash equivalents		43,347	27,088
Cash and cash equivalents at beginning of the year		193,822	166,734
Cash and cash equivalents at end of the year	33(a)	237,169	193,822

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of nib holdings limited and its subsidiaries.

a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

The consolidated financial statements of nib holdings limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, certain classes of property, plant and equipment and investment properties.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

Functional and presentation currency

The consolidated financial statements are presented in Australian dollars, which is nib holdings limited's functional and presentation currency.

Comparative information

When the presentation or classification of items in the financial statements is amended, comparative amounts have been reclassified.

b) Principles of consolidation

i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of nib holdings limited (parent entity) as at 30 June 2011 and the results of all subsidiaries for the year then ended. nib holdings limited and its subsidiaries together are referred to in this financial report as the Group.

Subsidiaries are all entities over which the parent has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to Note 1(j)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group.

c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to executive management. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer/Managing Director.

d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of amounts collected on behalf of third parties.

The Group 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 Group's activities as described below. The Group 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 and 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 income statement at the reporting date is recognised in the balance sheet as an unearned premium liability.

Premiums on unclosed business are brought to account using estimates based on payment cycles nominated by the policyholder.

ii) Investment income

Net fair value gains or losses on financial assets classified as at fair value through profit or loss are recognised in the period.

Rental revenue from leasing of investment properties is recognised in the period in which it is receivable, as this represents the pattern of service rendered through the provision of the properties.

iii) Interest income

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

e) Unexpired risk liability

At each reporting date, the adequacy of the unearned premium liability is assessed by considering current estimates of all expected future cash flows relating to future claims against current private health insurance contracts.

If the sum of the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability, less related intangible assets and related deferred acquisition costs, then the unearned premium is deemed to be deficient, with the deficiency being recorded in the income statement. 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 1(f)).

f) Outstanding claims liability

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

The expected future payments include those in relation to claims reported but not yet paid and claims incurred but not yet reported, together with allowances for Risk Equalisation Trust Fund consequences and claims handling expenses.

g) Acquisition costs

Acquisition costs incurred in obtaining private health insurance contracts are expensed as incurred. Acquisition costs are not deferred because the life of the policy is short in nature.

h) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

h) Income tax continued

i) Investment allowance

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

ii) Tax consolidation legislation

nib holdings limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 October 2007. The head entity, nib holdings limited, and the controlled entities in the tax consolidated Group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated Group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, nib holdings limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated Group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

i) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risk and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is the lessor is recognised in the profit or loss on a straight-line basis over the lease term.

j) Business combinations

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

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

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

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

k) Impairment of assets

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. These 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 an impairment are reviewed for possible reversal of the impairment at each reporting date.

l) Assets backing private health insurance liabilities

As part of the investment strategy the Group actively manages its investment portfolio to ensure that a portion of its investments mature in accordance with the expected pattern of future cash flows arising from private health insurance liabilities.

With the exception of property, plant and equipment, and the investment in unlisted equity securities, the Group has determined that all assets of nib health funds limited are held to back private health insurance liabilities and their accounting treatment is described below.

i) Investment and other financial assets

The Group classifies its financial assets into financial assets at fair value through profit or loss and available for sale financial assets, (refer to Note 1(y)).

a) Financial assets at fair value through profit or loss

Financial assets are designated at fair value through profit or loss. 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 profit or loss.

Details of fair value for the different types of financial assets and liabilities are listed below:

1. Cash and cash equivalents, and bank overdrafts are carried at face value of the amounts deposited or drawn. The carrying amounts of cash assets and bank overdrafts approximate their fair value. For the purposes of the cash flow statement, cash includes cash on hand, deposits held at call with financial institutions, net of bank overdrafts;

2. Shares, fixed interest securities, options and units in trusts listed on stock exchanges are initially recognised at cost and the subsequent fair value adjustment is taken as the quoted bid price of the instrument at the balance sheet 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 Group has transferred substantially all the risks and rewards of ownership.

Investment and other financial assets of nib holdings limited are also designated as at fair value through the 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.

ii) Investment properties

Certain freehold land and buildings have been classified as investment properties where they are held for the purposes of resale or where they are leased to external parties.

Investment properties are initially recorded at fair value being acquisition cost. Costs incurred subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the Group.

Subsequent to initial recognition as assets and once completed, investment properties are revalued to fair value as determined by external independent valuers, on a periodic basis, but at least every three years. Investment properties are maintained at a high standard and, as permitted by accounting standards, the properties are not depreciated.

Changes in fair value are recognised in the profit or loss as part of investment income.

iii) Amounts due from policyholders

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

l) Assets backing private health insurance liabilities continued

A provision for impairment of receivables is established when there is objective evidence that nib health funds limited 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 profit or loss.

m) Cash and cash equivalents other than those included in assets backing private health insurance liabilities

For cash flow statement presentation purposes, 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. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

n) Receivables other than those included in assets backing private health insurance liabilities

Trade and 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 trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment) is used where there is objective evidence that the Group 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 profit or loss within other expenses. When a receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

o) Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets on the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities on the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations, and is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of comprehensive income.

p) Property, plant and equipment

Land and buildings (except for investment properties – refer to Note 1(l)(ii)) are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of a replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Increases in the carrying amounts arising on the revaluation of land and buildings are credited, net of tax, to other reserves in the shareholders' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first charged against the revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged to profit or loss.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Buildings 25 to 40 years
- Plant and equipment 3 to 20 years
- Leasehold improvements 3 to 5 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 (see Note 1(k)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

q) Intangible assets

i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group'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.

iii) Brands and trademarks

Brands and trademarks have an infinite useful life and are carried at cost less accumulated impairment losses.

iv) 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 four years.

r) Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. These amounts are unsecured and are usually paid within 30 days of recognition.

s) Employee benefits

i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave are recognised in payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rate paid or payable.

ii) Long service leave

The liability for long service leave is the amount of the future benefit that employees have earned in return for their service in the current and prior periods. The liability is calculated using expected future increases in wage and salary rates and expected settlement dates, and is discounted using the rates attached to Commonwealth Government Bonds at the balance sheet date which have the maturity dates approximating to the terms of nib's obligations.

iii) Bonus plans

A liability for employee benefits in the form of bonus plans is recognised in other creditors when at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit; or
- the amounts to be paid are determined before the time of completion of the financial report; or
- past practice gives clear evidence of the amount of the obligation.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

s) Employee benefits continued

iv) Retirement benefit obligations

Directors' retirement benefits are provided for in the financial statements. Non-executive Directors of nib health funds limited employed before 24 November 2005 are entitled to a lump sum retirement benefit based on number of years service, after five years service. Non-executive Directors commencing after 24 November 2005 are not entitled to retirement benefits.

v) Termination benefits

Liabilities for termination benefits, not in connection with the acquisition of an entity or operation, are recognised when a detailed plan for the terminations has been developed and a valid expectation has been raised with those employees affected that the terminations will be carried out without possibility of withdrawal. The liabilities for termination benefits are recognised as current provisions, as liabilities for termination benefits are expected to be settled within 12 months of reporting date.

vi) Share-based payments

Share-based compensation benefits are provided to employees via the nib holdings limited Long-term Incentive Plan, the Employee Share Acquisition (Tax Exempt) Plan, the nib Salary Sacrifice Plan and Matching Plan and the Short-Term Performance Incentive. Information relating to these plans is set out in Note 39.

The fair value of performance rights granted under the nib holdings Long-term Incentive Plan is recognised as an employee benefit expense with a corresponding increase in equity. 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 Group 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 profit or loss, with a corresponding adjustment to equity.

Under the Employee Share Acquisition (Tax Exempt) Plan, the nib Salary Sacrifice Plan and Matching Plan and the Short-Term Performance Incentive, shares are acquired on-market and expensed.

t) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

If the entity reacquires its own equity instruments, for example, as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental cost (net of income taxes) is recognised directly in equity.

u) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

v) Earnings per share

i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares;
- by the weighted average number of ordinary shares outstanding during the financial year.

ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

w) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

x) Reverse acquisition accounting policy

Post demutualisation, the formation of the Group has been accounted for as a business combination. AASB 3 *Business Combinations* deals with the bringing together of separate businesses into one reporting entity. When a new entity (legal entity) is formed to effect a business combination, an entity that existed before the combination must be identified as the acquirer. This is commonly referred to as a reverse acquisition.

nib health funds limited has been deemed to be the accounting acquirer of nib holdings limited (the legal parent).

Accordingly, under the reverse acquisition requirements of AASB 3, the consolidated financial statement of nib holdings limited are the continuing accounts of nib health funds limited as accounting acquirer of the legal parent.

The financial information incorporates the assets and liabilities of all entities deemed to be acquired by nib health funds limited, including nib holdings limited and the results of these entities for the period from which those entities are accounted for as being acquired by nib health funds limited. The assets and liabilities of the entities acquired by nib health funds limited were recorded at fair value and the assets and liabilities of nib health funds limited were maintained at their book value. The impact of transactions between entities in the Group is eliminated in full.

y) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated as available-for-sale if they do not have fixed maturities and management intends to hold them for the medium-to-long-term.

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 other comprehensive income. When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

The group assesses at the end of each reporting period whether there is objective evidence that a financial assets or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss.

z) Parent entity financial information

The financial information for the parent entity, nib holdings limited, disclosed in Note 43 has been prepared on the same basis as the consolidated financial statements, except as set out below.

i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of nib holdings limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

ii) Tax consolidation legislation

nib holdings limited and its wholly-owned Australian controlled entities have implemented the tax consolidated legislation.

The head entity, nib holdings limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, nib holdings limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate nib holdings limited for any current tax payable assumed and are compensated by nib holdings limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to nib holdings limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

z) Parent entity financial information continued

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

aa) Rounding of amounts

The company is of a kind referred to in Class order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class order to the nearest thousand dollars, or in certain cases, the nearest dollar.

bb) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess its full impact. However, initial indications are that it may affect the Group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. The Group has not yet decided when to adopt AASB 9.

(ii) AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013)

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The Corporations Act requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

NOTE 2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Group makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgments 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 described below.

The ultimate liability arising from claims made under private health insurance contracts

Provision is made at the period end for the liability for outstanding claims which is measured as the central estimate of the expected payments against claims incurred but not settled at the reporting date under private health insurance contracts issued by the Group. 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 Risk Equalisation Trust Fund (RETF) consequences and claims handling expense. The Group 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 Group 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. This includes changes in the Group'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 Group. This analysis examines the volatility of past payments that is not explained by the model adopted to determine the central estimate. This past volatility is assumed to be indicative of the future volatility. The central estimates are calculated gross of any risk equalisation recoveries. A separate estimate is made of the amounts that will be recoverable from or payable to the RETF based upon the gross provision.

Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in Note 3.

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 1(k). The recoverable amounts of cash-generating units have been determined based on value-in-use calculation. These calculations require the use of assumptions. Refer to Note 17 for details of these assumptions and the potential impact of changes to the assumptions.

NOTE 3. ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial methods

The outstanding claims estimate is derived based on three valuation classes, namely Hospital and Prostheses services combined, Medical services, and General Treatment. This analysis is supplemented by more granular analysis within classes as appropriate.

In calculating the estimated cost of unpaid claims for the Health Insurance Business (HIB), two methods are used. For service months April 2011 and earlier for hospital and medical, and for all months for general treatment, a chain ladder method is used; this assumes that the development pattern of the current claims will be consistent with historical experience. For hospital and medical, for the service months of May 2011 and June 2011, the paid Bornhuetter-Ferguson method is used, which progressively blends payment experience and prior forecasts of incurred costs.

For Overseas Students Cover, the Bornhuetter-Ferguson method is used for all service months using the same developments assumptions as HIB.

A chain ladder method is used for all service months for the Overseas Visitors Cover valuation of the cost of unpaid claims.

Actuarial assumptions

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

	2011			2010		
Health Insurance	Hospital %	Medical %	Ancillary %	Hospital %	Medical %	Ancillary %
Assumed proportion paid to date	92.1	88.4	95.7	91.7	88.1	95.6
Expense rate	2.5	2.5	2.5	2.5	2.5	2.5
Discount rate	0.0	0.0	0.0	0.0	0.0	0.0
Risk equalisation rate	29.5	29.5	0.0	28.5	28.5	0.0
Risk margin	5.0	5.0	5.0	5.0	5.0	5.0
Overseas Students						
Assumed proportion paid to date	92.1	88.4	95.7	n/a	n/a	n/a
Expense rate	2.5	2.5	2.5	n/a	n/a	n/a
Discount rate	0.0	0.0	0.0	n/a	n/a	n/a
Risk margin	5.0	5.0	5.0	n/a	n/a	n/a

The risk margin of 5.0% (June 2010: 5.0%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% (June 2010: 95%).

Overseas Visitors	Hospital %	Medical %	Ancillary %	Hospital %	Medical %	Ancillary %
Assumed proportion paid to date	84.1	84.7	81.1	n/a	n/a	n/a
Expense rate	8.0	8.0	8.0	n/a	n/a	n/a
Discount rate	0.0	0.0	0.0	n/a	n/a	n/a
Risk margin	7.5	7.5	7.5	n/a	n/a	n/a

The risk margin of 7.5% of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95%.

Process used to determine assumptions

A description of the processes used to determine these assumptions is provided below:

i) 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.

ii) 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 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.

iii) Expense rate

Claims handling expenses were calculated by reference to past experience of total claims handling costs as a percentage of total past payments.

iv) Discount rate

As claims for health funds are generally settled within one year, no discounting of claims is usually applied as the difference between the undiscounted value of claims payments and the present value of claims payments is not likely to be material.

v) Risk equalisation allowance

In simplified terms, each organisation is required to contribute to the risk equalisation pool or is paid from the pool to equalise their hospital claims exposure to members aged over 55 years of age or in respect of high cost claims. This is an allowance made in respect of the claims incurred but not yet paid.

vi) Risk margin

The risk margin has been based on an analysis of the past experience of the Group. This analysis examined the volatility of past payments that has not been explained by the model adopted to determine the central estimate. This past volatility has been assumed to be indicative of the future volatility and has been set at a level estimated to equate to a probability of adequacy of 95% (June 2010: 95%).

Sensitivity analysis – insurance contracts

i) Summary

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

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

ii) Impact of key variables

		Profit		Equity	
			2011 $000		2011 $000
Recognised amounts in the financial statements			65,463		411,790
Variable	**Movement in variable %**	**Adjustments**	**Adjusted amounts**	**Adjustments**	**Adjusted amounts**
Chain Ladder Development Factors	+0.5	(3,105)	62,358	(3,105)	408,685
	-0.5	3,105	68,568	3,105	414,895
Bornhuetter-Ferguson Unpaid Factors	+2.0	(2,329)	63,134	(2,329)	409,460
	-2.0	2,329	67,792	2,329	414,119
Expense rate	+1.0	(511)	64,952	(511)	411,279
	-1.0	511	65,974	511	412,300
Risk equalisation allowance	+2.5	(1,024)	64,439	(1,024)	410,766
	-2.5	1,024	66,487	1,024	412,814
Risk margin	+1.0	(613)	64,850	(613)	411,176
	-1.0	613	66,077	613	412,403

NOTE 4. PRIVATE HEALTH INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES

The financial condition and operation of the Group are affected by a number of key financial risks including insurance risk, interest rate risk, credit risk, market risk, liquidity risk, financial risk and fiscal risk, and non financial risks including sovereign risk, operational risk, regulatory and compliance risk. Notes on the Group's policies and procedures in respect of managing the financial risks are set out in this note below.

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

nib's Board of Directors determines the Group'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 Group's risk management framework manages risks through:

- The establishment of the Audit Committee and the Risk and Reputation Committee to assist the Board in the execution of its responsibilities:
  - The Audit Committee's responsibilities include:
    - reviewing the annual reports and other financial information distributed externally;
    - recommending the appointment and remuneration of the external auditor;
    - reviewing the performance and independence of the external auditor; and
    - reviewing the Group's systems and procedures for compliance with legal and regulatory requirements other than those monitored by the Risk and Reputation Committee.
  - The Risk and Reputation Committee's responsibilities include:
    - assisting the Board to review the effectiveness of the Group's system of internal control;
    - recommending the appointment and remuneration of the internal auditor;
    - reviewing the performance and independence of the internal auditor;
    - monitoring the risk management system; and
    - reviewing the Group's systems and procedures for compliance with legal and regulatory requirements other than those monitored by the Audit Committee.
- The Group's internal policies and procedures designed to mitigate such risks:
  - The maintenance and use of management information systems which provide up to date, reliable data on the risks which the business is exposed to at any point in time.
  - Actuarial models, using information from the management information systems, are used to calculate premiums and monitor claims patterns. Past experience and statistical methods are used as part of the process.
  - A rigorous approach to product design to mitigate the risk of the Group being exposed to adverse selection.
  - Maintenance of reserves in excess of solvency and capital adequacy regulatory requirements.
  - An investment strategy which delivers a diversified portfolio with a heavier weighting to defensive assets versus growth assets.
- Internal audit which provides independent assurance to senior management and Directors regarding the adequacy of controls over activities where the risks are perceived to be high;
- Regular risk and compliance reporting;
- The application of standards for solvency and capital adequacy legislated under division 140 and 143 of the *Private Health Insurance Act 2007 (the Act)*:
  - The Solvency and Capital Adequacy Standards are established under the Act, and are an integral component of the prudential reporting and management regime for registered private health insurers.
  - These standards impose a two tier capital requirement on private health insurers with each tier considering the capital requirements in a different set of circumstances.
  - **The first tier** – solvency – is intended to ensure the basic solvency of the fund (that is, in the unlikely event of a wind-up); at any time on a run-off, the fund's financial position is such that the insurer will be able to meet, out of the fund's assets, all liabilities incurred for the purposes of the fund as those liabilities become due.
  - **The second tier** – capital adequacy – is intended to secure the financial soundness of the health benefits fund on a going concern basis, in particular its ability to remain solvent for at least the next three years. It is expected that in most circumstances this second tier will provide an additional buffer of capital above the minimum solvency requirement.

b) Insurance risk

The provision of private health insurance in Australia is governed by the Act. Private health insurance business (HIB) is the primary focus of the Act which governs the provision of Complying Health Insurance Products (CHIP). Under the Act, Registered Private Health Insurers may also provide health-related business as prescribed, and nib provides Overseas Students Health Cover (OSHC) and Overseas Visitors Cover (OVC) in this respect. The industry is shaped by a number of regulatory factors:

- **Community Rating** – The principle of community rating prevents private health insurers from improperly discriminating between people who are or who wish to become insured, on the basis of their health status, age, race, gender, religious beliefs, sexuality, frequency of need of health care, lifestyle or claims history. Community rating applies to CHIP and OSHC, but not to OVC.
- **Risk Equalisation** – The risk equalisation scheme seeks to share the risks among all registered health insurers by averaging out the cost of hospital treatment across the industry. Money is then transferred from private health insurers with younger healthier members with lower average claims payments (such as nib) to those insurers with older and less healthy membership and which have higher average claims payments. The scheme applies to CHIP but does not apply to OSHC or OVC.
- **Coverage Requirements** – The Act limits the types of treatments that private health insurers can offer as part of their CHIP. Overseas Students products coverage requirements are set out in a Deed between the insurer and the Commonwealth, while the health services offered under OVC are largely at the discretion of the insurer.
- **Premium Approval** – Under the Act, insurers can only increase CHIP premiums with the approval of the Federal Minister for Health and Ageing. The Minister must approve the amounts unless she is satisfied that the change would be contrary to the public interest. Insurers can ordinarily only seek one premium increase per annum. OSHC products can raise premiums in line with the requirements set out in the Deed, which is also ordinarily annually and requires notification to the Department of Health and Aging. OVC product premiums are not regulated by the Act or under any Deed with the Commonwealth.

c) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, financial assets and deposits with banks and financial institutions, as well as credit exposures to policyholders, Medicare Australia (Health Insurance Contribution (HIC) rebate) and entities that have purchased discontinued operations under deferred settlement terms. nib only deals with major banks in Australia which are independently rated with a minimum rating of 'A-1'. nib receives advice from its asset consultant, MLC Implemented Consulting, who provide a rating of investment managers to nib as part of their advice. Credit risk for premium receivables are minimal due to the diversification of policyholders. The HIC rebate receivable is due from a Government organisation under legislation.

A deferred settlement arrangement is in place for the sale of the Newcastle Private Hospital for $30 million which is payable in three instalments on 9 July 2011, 9 July 2012 and 9 July 2013. Current receivables and non-current receivables have increased by $10 million and $20 million respectively since June 2010 as a result of this deferred settlement arrangement. The deferred settlement arrangement is covered by a mortgage over the property. Other deferred settlement credit risks are covered by bank guarantees from the purchaser. The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date is the carrying amount, net of any provisions for impairment loss, as disclosed in the balance sheet and notes to the financial statements. The Group does not have any material credit risk to any single debtor or group of debtors under financial instruments entered into.

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

NOTE 4. PRIVATE HEALTH INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES continued

c) Credit risk continued

	2011 $'000	2010 $'000
Other Receivables		
Counterparties without external credit rating*		
Group 1	402	–
Group 2	34,831	1,852
Group 3	–	–
Total Other Receivables	35,233	1,852

* Group 1 - new debtors (less than six months)
Group 2 - existing debtors (more than six months) with no defaults in the past
Group 3 - existing debtors (more than six months) with some defaults in the past. All defaults were fully recovered.

	2011 $'000	2010 $'000
Cash at Bank and short-term bank deposits		
A-1	240,772	197,415
	240,772	197,415

	2011 $'000	2010 $'000
Financial assets at fair value through profit or loss		
Interest-bearing securities		
AAA	103,698	113,757
AA	51,630	19,461
A	33,349	21,821
BBB	11,348	11,800
Sub Inv Grade	4,049	16,277
Unclassified	831	–
	204,905	183,116

d) Liquidity risk

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

Borrowings in the balance sheet refer to the bank overdraft. The bank overdraft comprises the closing positive balances of the bank account, adjusted for unpresented cheques and outstanding deposits. There are no overdraft facilities.

Maturities of financial liabilities

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

Group at 30 June 2011	≤ 1 month $000	1-3 months $000	3-12 months $000	1-5 years $000	>5 years $000	Total Contractual Cashflows $000	Carrying amount $000
Financial Liabilities							
Trade creditors	4,651	–	–	–	–	4,651	4,651
Other payables	32,422	2,288	–	–	–	34,710	34,710
Borrowings	3,603	–	–	–	–	3,603	3,603
	40,676	2,288	–	–	–	42,964	42,964

Group at 30 June 2010	≤ 1 month $000	1-3 months $000	3-12 months $000	1-5 years $000	>5 years $000	Total Contractual Cashflows $000	Carrying amount $000
Financial Liabilities							
Trade creditors	4,004	–	–	–	–	4,004	4,004
Other payables	29,825	1,666	–	–	–	31,491	31,491
Borrowings	3,593	–	–	–	–	3,593	3,593
	37,422	1,666	–	–	–	39,088	39,088

e) Market risk

i) Price risk

The Group is exposed to equity securities price risk. This arises from investments held by the Group and classified on the balance sheet as either available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk.

To manage its price risk the Group has adopted an investment strategy which delivers a diversified portfolio with a heavier weighting to defensive assets versus growth assets.

Post-tax profit for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as available-for-sale.

Refer to the table on page 56 that summarises the sensitivity of the Group's financial assets and financial liabilities to price risk and interest rate risk.

ii) Fair value interest rate risk

The Group does not have long-term borrowings. The Group's interest rate risks arise from receivables, financial assets at fair value through profit and loss and cash and cash equivalents. Receivables arising from the deferred settlement of discontinued operations sold are subject to 90 day bank bill rates. All other receivables are non-interest bearing. There is an interest-bearing component of financial assets at fair value through profit and loss. nib receives advice from its asset consultant, MLC Implemented Consulting. The Group has adopted an investment strategy that delivers a diversified portfolio with a heavier weighting to defensive assets versus growth assets. Defensive assets consist of Australian and overseas fixed interest investments and cash and cash equivalents.

NOTE 4. PRIVATE HEALTH INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES continued

e) Market risk continued

Summarised sensitivity analysis

The tables below summarises the sensitivity of the Group's financial assets to interest rate risk and other price risk.

		Interest Rate Risk				Other Price Risk			
		-100bps		+100bps		-10% unit price		+10% unit price	
Group at 30 June 2011	**Carrying amount $000**	**Profit $000**	**Equity $000**	**Profit $000**	**Equity $000**	**Profit $000**	**Equity $000**	**Profit $000**	**Equity $000**
Financial assets									
Cash and cash equivalents	240,772	(1,685)	(1,685)	1,685	1,685	–	–	–	–
Other receivables	35,233	(247)	(247)	247	247	–	–	–	–
Financial assets at fair value through profit or loss	239,293	2,917	2,917	(2,917)	(2,917)	(2,407)	(2,407)	2,407	2,407
Unlisted equity securities	2,206	–	–	–	–	–	(154)	–	154
Total Increase/(decrease)		985	985	(985)	(985)	(2,407)	(2,561)	2,407	2,561

		Interest Rate Risk				Other Price Risk			
		-100bps		+100bps		-10% unit price		+10% unit price	
Group at 30 June 2010	**Carrying amount $000**	**Profit $000**	**Equity $000**	**Profit $000**	**Equity $000**	**Profit $000**	**Equity $000**	**Profit $000**	**Equity $000**
Financial assets									
Cash and cash equivalents	197,415	(1,382)	(1,382)	1,382	1,382	–	–	–	–
Other receivables	1,851	(4)	(4)	4	4	–	–	–	–
Financial assets at fair value through profit or loss	264,408	5,042	5,042	(5,042)	(5,042)	(5,690)	(5,690)	5,690	5,690
Unlisted equity securities	1,500	–	–	–	–	(105)	(105)	–	105
Total Increase/(decrease)		3,656	3,656	(3,656)	(3,656)	(5,795)	(5,795)	5,690	5,795

Methods and assumptions used in preparing sensitivity analysis

The post-tax effect on profit and equity of movements in both interest rate and price has been calculated using 'reasonably possible' changes in the risk variables, based on recent interest rate and market movements.

An interest rate change of 100 basis points will directly affect interest received on cash and cash equivalents and other receivables and will directly affect the unit price of cash enhanced products as these products are primarily floating rate accounts. An interest rate change of 100 basis points will inversely affect the unit price of fixed interest investments, this change has been calculated by multiplying the average duration of underlying investments in each portfolio by the interest rate change. All other investments are not directly affected by interest rate changes but would be revalued through profit or loss as their unit price changes.

f) Fair value measurement

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

AASB7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

a. quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

b. inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and

c. inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The tables below present the Group's assets and liabilities measured and recognised at fair value at 30 June 2011 and 30 June 2010.

Group at 30 June 2011	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Assets				
Cash and cash equivalents	240,772	–	–	240,772
Financial assets at fair value through profit or loss				
Securities	238,485	808	–	239,293
Available-for-sale financial assets				
Unlisted equity securities	–	2,206	–	2,206
Total assets	479,257	3,014	–	482,271

Group at 30 June 2010	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Assets				
Cash and cash equivalents	197,415	–	–	197,415
Financial assets at fair value through profit or loss				
Securities	263,470	938	–	264,408
Available-for-sale financial assets				
Unlisted equity securities	–	1,500	–	1,500
Total assets	460,885	2,438	–	463,323

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

The fair value of financial instruments that are not traded in active markets (for example available-for-sale financial assets) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. These instruments are included in level 2.

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

NOTE 5. REVENUE AND OTHER INCOME

	2011 $000	2010 $000
Premium revenue	1,007,848	901,370
Investment income		
Rent received	69	1,819
Interest	11,914	8,642
Net realised gain/(loss) on financial assets at fair value through profit or loss	21,987	12,089
Net unrealised gain/(loss) on financial assets at fair value through profit or loss	(545)	23,224
Dividends	28	20
	33,453	45,794
Other income		
Sundry income	2,218	1,291
Trust distribution from nib demutualisation overseas policyholders and unverified policyholders trust	3,532	–
	5,750	1,291

NOTE 6. EXPENSES

	2011 $000	2010 $000
Expenses by function		
Claims handling expenses	16,134	14,407
Investment expenses	1,327	1,344
Acquisition costs	36,611	32,512
Other underwriting expenses	44,821	39,514
Other expenses	7,462	5,840
Total expenses (excluding direct claims expenses)	106,355	93,617
Expenses by nature		
Employee costs	44,698	37,782
Depreciation and amortisation	6,838	4,751
Net loss on disposal of property, plant and equipment and investment properties	220	225
(Appreciation)/impairment of property, plant and equipment	(2,236)	1,000
Operating lease rental expenses	2,610	2,694
Marketing expenses	21,943	19,371
Merger and acquisition costs	3,117	781
Consultancy fees	1,949	2,828
Legal expenses	562	726
Share registry expenses	1,507	2,475
Other	25,147	20,984
Total expenses (excluding direct claims expenses)	106,355	93,617

NOTE 7. INCOME TAX

a) Income tax expense

	Note	2011 $000	2010 $000
Recognised in the income statement			
Current tax expense		24,868	14,826
Deferred tax expense		1,544	10,560
Under (over) provided in prior years		41	55
		26,453	25,441
Income tax expense is attributable to:			
Profit from continuing operations		26,453	25,441
Aggregate income tax expense		26,453	25,441
Deferred income tax (revenue) expense included in income tax expense comprises:			
Decrease (increase) in deferred tax assets	14	1,476	11,072
(Decrease) increase in deferred tax liabilities	25	68	(512)
		1,544	10,560

b) Numerical reconciliation of income tax expense to prima facie tax payable

	2011 $000	2010 $000
Profit from continuing operations before income tax expense	91,916	86,966
	91,916	86,966
Tax at the Australian tax rate of 30% (2010: 30%)	27,575	26,091
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-assessable income	(184)	(27)
Other deductible expenses	(420)	(497)
Other non-deductible expenses	406	350
Adjustments for current tax of prior periods	41	55
Imputation credits and foreign tax credits	(965)	(531)
Income tax expense	26,453	25,441

c) Tax expense relating to items of other comprehensive income

	2011 $000	2010 $000
Gain on revaluation of land and buildings (Note 28)	25	–
Change in value of available for sale financial assets (Note 28)	212	–
	237	–

NOTE 8. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	2011 $000	2010 $000
Cash at bank and cash on hand	59,784	21,415
Short-term deposits and deposits at call	180,988	176,000
	240,772	197,415

a) Risk exposure

The Group's exposure to interest rate risk is discussed in Note 4. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

NOTE 9. CURRENT ASSETS – RECEIVABLES

	2011 $000	2010 $000
Premium receivable	4,542	4,579
Health Insurance Contribution (HIC) rebate receivable	27,770	24,423
Other receivables	15,233	1,602
Provision for impairment loss	(240)	(241)
Prepayments	2,164	1,449
	49,469	31,812

Refer to Note 12 for commentary.

NOTE 9. CURRENT ASSETS – RECEIVABLES continued

a) Impaired receivables

As at 30 June 2011 current receivables of the Group with a nominal value of $0.240 million (2010: $0.241 million) were impaired. The individually impaired receivables relate to premium receivables.

The ageing of these receivables is as follows:

	2011 $000	2010 $000
1 to 3 months	240	241
3 to 6 months	–	–
Over 6 months	–	–
	240	241

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

	2011 $000	2010 $000
At 1 July	241	250
Provision for impairment recognised during the year	–	–
Receivables written off during the year as uncollectible	–	–
Unused amount reversed	(1)	(9)
	240	241

Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

b) Past due but not impaired

As of 30 June 2011 and 2010 no receivables were past due but not impaired.

c) Interest rate risk

Information about the Group's exposure to interest rate risk in relation to other receivables is provided in Note 4.

d) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to Note 4 for more information on the risk management policy of the Group and the credit quality of the Group's receivables.

Refer to Note 12(c) for further commentary regarding risk exposure.

NOTE 10. CURRENT ASSETS – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	2011 $000	2010 $000
Equity securities	34,388	81,292
Interest-bearing securities	204,905	183,116
	239,293	264,408

Changes in fair values of financial assets at fair value through profit or loss are recorded in investment income in profit or loss (Note 5).

a) Risk exposure

Information about the Group's exposure to price risk and interest rate risk is provided in Note 4.

NOTE 11. CURRENT ASSETS - ASSETS CLASSIFIED AS HELD FOR SALE

	2011 $000	2010 $000
Investment properties	–	30,000
	–	30,000

The Group completed a share sale agreement on 31 May 2007 to sell Newcastle Private Hospital pty limited. nib health funds limited entered into an agreement to lease the land and buildings that house the operations of Newcastle Private Hospital to Healthscope Limited for a term of up to 13 years. Healthscope had within that lease an option to acquire the land and buildings, which was able to be exercised within the initial three years of the lease. Healthscope exercised the option in May 2010.
The sale completed on 9 July 2010 (Refer Note 4(c)).

NOTE 12. NON-CURRENT ASSETS - RECEIVABLES

	2011 $000	2010 $000
Other receivables	20,000	250
	20,000	250

A deferred settlement arrangement is in place for the sale of the Newcastle Private Hospital for $30 million which is payable in three instalments on 9 July 2011, 9 July 2012 and 9 July 2013. Current receivables and non-current receivables have increased by $10 million and $20 million respectively since June 2010 as a result of this deferred settlement arrangement.

a) Impaired receivables and receivables past due

None of the non-current receivables are impaired or past due but not impaired.

b) Fair values

The fair values and carrying values of non-current receivables are as follows:

	2011		2010	
Group	**Carrying amount $000**	**Fair value $000**	**Carrying amount $000**	**Fair value $000**
Other receivables	20,000	20,000	250	250
	20,000	20,000	250	250

c) Risk exposure

Information about the Group's exposure to credit risk is provided in Note 4. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above. The Group holds a $0.25 million bank guarantee for the deferred settlement of the sale of the Eye Care and Dental businesses, and a mortgage over the property for the deferred settlement of the Newcastle Private Hospital.

NOTE 13. NON-CURRENT ASSETS – AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets include the following classes of financial assets:

	2011 $000	2010 $000
Unlisted equity securities	2,206	1,500
	2,206	1,500

a) Unlisted securities

Unlisted securities are traded in inactive markets. Their fair value is determined based on valuation techniques and the price of shares traded, where available, during the financial year ended 30 June 2011.

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2011

NOTE 13. NON-CURRENT ASSETS – AVAILABLE-FOR-SALE FINANCIAL ASSETS continued

b) Impairment and risk exposure

None of the financial assets are either past due or impaired.

All available-for-sale assets are denominated in Australian currency. For an analysis of the sensitivity of available-for-sale financial assets to price risk refer to Note 4.

NOTE 14. NON-CURRENT ASSETS – DEFERRED TAX ASSETS

	2011 $000	2010 $000
The balance comprises temporary differences attributable to:		
Depreciation	432	1,120
Share issue expenses	505	1,179
Employee benefits	1,632	1,337
Outstanding claims	416	371
Demutualisation costs	1,034	2,306
Unrealised losses on investments	1,526	1,363
	5,545	7,676
Other		
Doubtful debts	72	72
Asset revaluation	613	825
Provisions	881	582
Merger and acquisition costs	467	–
Sub-total other	2,033	1,479
Total deferred tax assets	7,578	9,155
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 25)	(1,024)	(28)
Net deferred tax assets	6,554	9,127
Deferred tax assets to be recovered within 12 months	6,498	5,671
Deferred tax assets to be recovered after more than 12 months	1,080	3,484
	7,578	9,155

Movements	Depreciation $'000	Share issue expenses $'000	Employee benefits $'000	Outstanding claims $'000	Demutualisation costs $'000	Unrealised losses on investments $'000	Other $'000	Total $'000
At 1 July 2009	411	1,684	1,154	–	3,330	12,055	1,593	20,227
(Charged)/credited to the income statement	709	(505)	183	371	(1,024)	(10,692)	(114)	(11,072)
(Charged)/credited directly to equity	–	–	–	–	–	–	–	–
At 30 June 2010	1,120	1,179	1,337	371	2,306	1,363	1,479	9,155
At 1 July 2010	1,120	1,179	1,337	371	2,306	1,363	1,479	9,155
(Charged)/credited to the income statement	(663)	(674)	159	45	(1,271)	163	766	(1,476)
(Charged)/credited directly to equity	(25)	–	–	–	–	–	(212)	(237)
Acquisition of subsidiary	–	–	136	–	–	–	–	136
At 30 June 2011	432	505	1,632	416	1,034	1,526	2,033	7,578

NOTE 15. NON-CURRENT ASSETS – INVESTMENT PROPERTIES

	2011 $000	2010 $000
At fair value		
Opening balance at 1 July	–	30,000
Classified as held for sale or disposal	–	(30,000)
Closing balance at 30 June	–	–

a) Amounts recognised in profit and loss for investment properties

	2011 $000	2010 $000
Rental income	69	1,819
Direct operating expenses from property that generated rental income	(214)	(197)
	(145)	1,622

Valuation basis

The basis of the valuation of investment properties is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. The valuation above represents the agreed sale price of the land and buildings under the option contained in the lease agreement between nib health funds limited and Healthscope Limited (refer to Note 11).

b) Leasing arrangements

On completion of the Share Sale Agreement on 31 May 2007, nib health funds limited entered into an agreement to lease the land and buildings that house the operations of Newcastle Private Hospital to Healthscope Limited for a term of up to 13 years. Healthscope had within that lease an option to acquire the land and buildings, which was able to be exercised within the initial three years of the lease. Healthscope exercised the option in May 2010. The sale was completed on 9 July 2010.

A deferred settlement arrangement is in place for the sale of the Newcastle Private Hospital for $30 million which is payable in 3 instalments on 9 July 2011, 9 July 2012 and 9 July 2013. Current receivables and non-current receivables have increased by $10 million and $20 million respectively since June 2010 as a result of this deferred settlement arrangement. The deferred settlement arrangement is covered by a mortgage over the property.

c) Contractual obligations

There are no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance or enhancements.

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2011

NOTE 16. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	Land & Buildings $000	Plant & Equipment $000	Leasehold Improvements $000	Total $000
Fair value/Cost				
Balance at 1 July 2009	39,960	7,911	3,752	51,623
Additions	190	880	326	1,396
Disposals	–	(1,112)	(860)	(1,972)
Revaluations	(2,677)	–	–	(2,677)
Balance at 30 June 2010	37,473	7,679	3,218	48,370
Balance at 1 July 2010	37,473	7,679	3,218	48,370
Additions	36	890	294	1,220
Acquisition of IMAN	–	115	–	115
Disposals	–	(239)	(852)	(1,091)
Revaluations	906	–	–	906
Balance at 30 June 2011	38,415	8,445	2,660	49,520
Depreciation and impairment losses				
Balance at 1 July 2009	(940)	(4,494)	(2,437)	(7,871)
Depreciation charge for the year	(1,461)	(1,031)	(408)	(2,900)
Disposals	–	1,090	667	1,757
Revaluations	1,677	–	–	1,677
Balance at 30 June 2010	(724)	(4,435)	(2,178)	(7,337)
Balance at 1 July 2010	(724)	(4,435)	(2,178)	(7,337)
Depreciation charge for the year	(1,331)	(1,128)	(358)	(2,817)
Disposals	–	228	851	1,079
Revaluations	1,413	–	–	1,413
Balance at 30 June 2011	(642)	(5,335)	(1,685)	(7,662)
Carrying amounts				
At 30 June 2010	36,749	3,244	1,040	41,033
At 30 June 2011	37,773	3,110	975	41,858

a) Valuations of land and buildings

The valuation basis of land and buildings is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition. Freehold land and buildings at 22 Honeysuckle Drive was valued by a member of the Australian Property Institute as at 31 December 2010. Other freehold land and buildings were independently valued by a member of the Australian Property Institute as at 31 December 2010. It is the opinion of the Directors that these valuations represent the fair value of the properties at 30 June 2011.

b) Carrying amounts that would have been recognised if land and buildings were stated at cost

If freehold land and buildings were stated at cost on an historical cost basis, the amounts would be as follows:

	2011 $000	2010 $000
Cost	41,479	41,443
Accumulated depreciation	(3,645)	(2,392)
Net book amount	37,834	39,051

NOTE 17. NON-CURRENT ASSETS – INTANGIBLE ASSETS

	Goodwill $000	Software $000	Brands and Trademarks $000	Customer Contracts $000	Total $000
Fair value/Cost					
Balance at 1 July 2009	7,067	17,277	–	–	24,344
Additions	–	3,373	–	–	3,373
Disposals	–	(14)	–	–	(14)
Balance at 30 June 2010	7,067	20,636	–	–	27,703
Balance at 1 July 2010	7,067	20,636	–	–	27,703
Additions	–	4,010	–	–	4,010
Acquisition of IMAN	18,380	1,156	4,044	3,093	26,673
Disposals	–	(1,376)	–	–	(1,376)
Balance at 30 June 2011	25,447	24,426	4,044	3,093	57,010
Amortisation and impairment losses					
Balance at 1 July 2009	–	(13,429)	–	–	(13,429)
Amortisation charge for the year	–	(1,851)	–	–	(1,851)
Disposals	–	14	–	–	14
Balance at 30 June 2010	–	(15,266)	–	–	(15,266)
Balance at 1 July 2010	–	(15,266)	–	–	(15,266)
Amortisation charge for the year	–	(2,862)	–	(1,160)	(4,022)
Disposals	–	1,376	–	–	1,376
Balance at 30 June 2011	–	(16,752)	–	(1,160)	(17,912)
Carrying amounts					
At 30 June 2010	7,067	5,370	–	–	12,437
At 30 June 2011	25,447	7,674	4,044	1,933	39,098

a) Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to operating segments.

	Health Insurance Core Product $000	Overseas Students $000	Overseas Visitors $000	Total $000
2011				
Goodwill	7,067	–	18,380	25,447
2010				
Goodwill	7,067	–	–	7,067

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

NOTE 17. NON-CURRENT ASSETS – INTANGIBLE ASSETS continued

b) 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 membership growth, claims ratio and the discount factor.

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

Cash flows beyond the three-year period are extrapolated to 10 years assuming a conservative growth factor of 0. The Group has applied a post tax discount rate to discount the forecast future attributable post tax cash flows. The discount rate applied of 10.1% represents the 10 year Australian bond rate of 5.22% plus a risk adjustment of 4.88%. This equates to a pre tax discount rate of 16.25%.

NOTE 18. CURRENT LIABILITIES – PAYABLES

	2011 $000	2010 $000
Trade creditors	4,651	4,004
Other payables	34,710	31,491
RETF payable*	34,501	30,028
Annual leave payable	3,368	3,020
	77,230	68,543

* Risk Equalisation Trust Fund (RETF) Levy represents expenses incurred under Risk Equalisation Trust Fund arrangements which are provided for within the legislation to support the principle of community rating.

a) Amounts not expected to be settled within the next 12 months

Annual leave payable is accrued annual leave. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken within the next 12 months.

	2011 $000	2010 $000
Annual leave obligation expected to be settled after 12 months	563	569

NOTE 19. CURRENT LIABILITIES – BORROWINGS

	2011 $000	2010 $000
Bank overdraft	3,603	3,593

The bank overdraft comprises the closing positive balances of the bank account, adjusted for unpresented cheques and outstanding deposits.

nib has a line-of-credit facility for corporate credits cards issued to nib employees for a total of $2.0 million. Outstanding amounts as at 30 June 2011 are included in Current Liabilities – Payables under Trade Creditors.

NOTE 20. CURRENT LIABILITIES – OUTSTANDING CLAIMS LIABILITY

a) Outstanding claims liability

	2011 $000	2010 $000
Outstanding claims - central estimate of the expected future payment for claims incurred	49,894	47,106
Risk Margin	2,594	2,414
Claims handling costs	1,317	1,178
Gross outstanding claims liability	53,805	50,698
Outstanding claims - expected payment to the *RETF in relation to the central estimate	11,502	10,877
Risk Margin	576	544
Net outstanding claims liability	65,883	62,119

* Risk Equalisation Trust Fund (RETF) Levy represents expenses incurred under Risk Equalisation Trust Fund arrangements which are provided for within the legislation to support the principle of community rating.

b) Risk margin

The risk margin of 5.0% for HIB (June 2010: 5.0%) and OSHC, and the risk margin of 7.5% for OVC, of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% (June 2010: 95%).

The central estimate of outstanding claims (including those that have been reported but not yet settled and which have been incurred but not yet reported) is an estimate which contains no intentional over or under estimation. For this reason the inherent uncertainty in the central estimate must also be considered.

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

The outstanding claims estimate is derived based on three valuation classes, namely Hospital and Prostheses services combined, Medical services, and General Treatment. This analysis is supplemented by more granular analysis within classes as appropriate.

In calculating the estimated cost of unpaid claims for the HIB, two methods are used. For service months April 2011 and earlier for hospital and medical, and for all months for general treatment, a chain ladder method is used; this assumes that the development pattern of the current claims will be consistent with historical experience. For hospital and medical, for the service months of May 2011 and June 2011, the paid Bornhuetter-Ferguson method is used, which progressively blends payment experience and prior forecasts of incurred costs.

For OHSC, the Bornhuetter-Ferguson method is used for all service months using the same developments assumptions as HIB.

A chain ladder method is used for all service months for the OVC valuation of the cost of unpaid claims.

As claims for health funds are generally settled within one year, no discounting of claims is usually applied as the difference between the undiscounted value of claims payments and the present value of claims payments is not likely to be material. Accordingly, reasonable changes in assumptions would not have a material impact on the outstanding claims balance.

NOTE 20. CURRENT LIABILITIES – OUTSTANDING CLAIMS LIABILITY continued

b) Risk margin continued

Changes in the gross outstanding claims can be analysed as follows:

	2011 $000	2010 $000
Gross outstanding claims at beginning of period	50,698	47,693
Administration component	(1,178)	(1,323)
Risk margin	(2,414)	(2,272)
Central estimate at beginning of period	47,106	44,098
Change in claims incurred for the prior year	(3,259)	(1,092)
Claims paid in respect of the prior year	(43,847)	(43,013)
Claims incurred during the year (expected)	695,924	636,512
Claims paid during the year	(646,030)	(589,399)
Central estimate at end of period	49,894	47,106
Administration component	1,317	1,413
Change in administration component assumptions		(235)
Risk margin	2,594	2,414
Change in risk margin assumption	–	–
Gross outstanding claims at end of period	53,805	50,698

NOTE 21. CURRENT LIABILITIES – UNEARNED PREMIUM LIABILITY

	2011 $000	2010 $000
Unearned premium liability as at 1 July	54,443	49,888
Deferral of premiums on contracts written in the period	65,202	54,443
Earning of premiums written in previous periods	(54,443)	(49,888)
Unearned premium liability as at 30 June	65,202	54,443

NOTE 22. CURRENT LIABILITIES – UNEXPIRED RISK LIABILITY

No deficiency was identified as at 30 June 2011 and 2010 that resulted in an unexpired risk liability needing to be recognised.

NOTE 23. CURRENT LIABILITIES – CURRENT TAX LIABILITIES

	2011 $000	2010 $000
Current tax payable	10,894	4,325

NOTE 24. PROVISIONS FOR EMPLOYEE ENTITLEMENTS

	2011 $000	2010 $000
CURRENT		
Employee benefits		
Long service leave	1,695	1,577
Termination benefits	1,216	390
Retirement benefits	746	723
	3,657	2,690
NON-CURRENT		
Employee benefits		
Long service leave	991	868
	991	868

a) Amounts not expected to be settled within the next 12 months

The current provision for long service leave and retirement benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of the provision or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

	2011 $000	2010 $000
Long service leave obligation expected to be settled after 12 months	1,351	1,420
Retirement benefit obligation expected to be settled after 12 months	63	723
	1,414	2,143

NOTE 25. CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

	2011 $000	2010 $000
The balance comprises temporary differences attributable to:		
Prepayments	9	11
Income receivable	435	17
Customer contracts	580	–
Total deferred tax liabilities	1,024	28
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 14)	(1,024)	(28)
Net deferred tax liabilities	–	–
Deferred tax liabilities to be settled within 12 months	1,024	28
Deferred tax liabilities to be settled after more than 12 months	–	–
	1,024	28

Movements	Prepayments $'000	Income Receivable $'000	Customer Contracts $'000	Capital allowances $'000	Total $'000
At 1 July 2009	13	102	–	425	540
(Charged)/credited to the income statement	(2)	(85)	–	(425)	(512)
At 30 June 2010	11	17	–	–	28
At 1 July 2010	11	17	–	–	28
(Charged)/credited to the income statement	(2)	418	(348)	–	68
Acquisition of subsidiary			928		928
At 30 June 2011	9	435	580	–	1,024

NOTE 26. CONTRIBUTED EQUITY

a) Share Capital

	2011 $000	2010 $000
Ordinary shares		
Fully paid	42,193	42,437

NOTE 26. CONTRIBUTED EQUITY continued

b) Movements in share capital

Date	Details	No of shares	Price[1]	$000
1 July 2009	Opening balance	496,111,559		42,528
July-Sept 2009	Shares bought back on-market and cancelled	(186,058)	$0.96	(178)
March-May 2010	Shares bought back on-market and cancelled	(494,074)	$1.24	(615)
	Reverse acquisition adjustment for share buy-back			702
30 June 2010	**Balance**	495,431,427		42,437
Oct 2010	Shares bought back on-market and cancelled	(137,105)	$1.24	(170)
26 Nov 2010	Overseas and Unverified Shareholders Trust shares cancelled	(27,078,540)		–
Dec 2010	Shares bought back on-market and cancelled	(1,450,030)	$1.25	(1,812)
June 2011	Shares bought back on-market and cancelled	(32,642)	$1.40	(46)
	Reverse acquisition adjustment for share buy-back			1,784
30 June 2011	**Balance**	466,733,110		42,193

1. Average price of shares purchased through on-market buy-back.

Reverse acquisition accounting policy

Post demutualisation, the formation of the Group has been accounted for as a business combination. AASB 3 *Business Combinations* deals with the bringing together of separate businesses into one reporting entity. When a new entity (legal entity) is formed to effect a business combination, an entity that existed before the combination must be identified as the acquirer. This is commonly referred to as a reverse acquisition where nib health funds limited has been deemed to be the accounting acquirer of nib holdings limited (the legal parent).

Accordingly, under the reverse acquisition requirements of AASB 3, the consolidated financial statement of nib holdings limited are the continuing accounts of nib health funds limited as accounting acquirer of the legal parent.

The financial information incorporates the assets and liabilities of all entities deemed to be acquired by nib health funds limited, including nib holdings limited and the results of these entities for the period from which those entities are accounted for as being acquired by nib health funds limited. The assets and liabilities of the entities acquired by nib health funds limited were recorded at fair value and the assets and liabilities of nib health funds limited were maintained at their book value. The impact of transactions between entities in the Group is eliminated in full.

c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

d) Share buy-back

During the financial year, the company cancelled 1,619,777 ordinary shares purchased on-market as part of the group's capital management initiatives announced in the 2008 annual report. The shares were acquired for $2,028,608 at an average price of $1.25 per share, with prices ranging from $1.24 to $1.40. Of the total cost of $2,028,608, $244,333 was deducted from ordinary share equity and the remaining $1,784,275 was deducted from retained profits representing the portion of shares assumed to be purchased from policyholders under the reverse acquisition requirements of AASB 3 *Business Combinations.*

nib currently intends to continue to undertake the buy-back in compliance with applicable laws and the ASX Listing Rules.

e) Cancellation of shares held in the nib Overseas Policyholders and Unverified Policyholders Trust

On 26 November 2010, the company cancelled 27,078,540 share held in the nib Overseas Policyholders and Unverified Policyholders Trust. The cancellation was approved by nib shareholders at the Annual General Meeting held on 26 October 2010.

f) Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

nib health funds limited

nib health funds limited is required to comply with the Solvency and Capital Adequacy Standards under Schedule 2 and 3 of the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, the Rules are made for the purposes of Part 4-4 of the *Private Health Insurance Act 2007*.

To comply with the capital adequacy standard nib health funds limited must ensure that at all times the value of capital equals or exceeds the capital adequacy requirement (Section 5.1 of the Capital Adequacy Standard), failure to do so represents a breach of the *Private Health Insurance Act 2007*.

nib health funds limited has a capital management plan which establishes a benchmark for capital held in excess of the regulatory requirement; the aim is to keep a sufficient buffer in line with the Board's attitude to and tolerance for risk. The benchmark capital adequacy coverage ratio was reduced to from 1.4x to 1.3x at 31 December 2010.

Any capital in excess of the benchmark, taking a 12 month forward looking view, will be reduced by way of dividend to nib holdings limited. nib health funds limited paid dividends of $14,900,000 and $26,500,000 to nib holdings limited in December 2010 and June 2011 respectively. A special dividend of $40,900,000 was paid in February 2011 as a result of the reduction in the capital adequacy coverage ratio.

The surplus assets over benchmark at 30 June 2011 and 30 June 2010 were as follows:

	2011 $000	2010 $000
Total Assets nib health funds limited	431,891	423,991
Capital Adequacy Requirement	320,262	289,930
Surplus Assets for Capital Adequacy	111,629	134,061
Capital Adequacy Coverage Ratio	*1.35*	*1.46*
Internal benchmark	*1.30*	*1.40*
Internal benchmark requirement	416,341	405,902
Surplus assets over internal benchmark	15,550	18,089

nib holdings limited

The group is targeting a return on equity of 15%, and the return on equity as at 30 June 2011 is 16.5%. (2010: 16.3%). While improvement to return on equity can be made through increased profitability, it is also important that capital be managed appropriately, therefore, if funds are not required for strategic reasons the Group will consider a range of capital management initiatives.

Capital management initiatives undertaken during the financial year included:

- the on-market buy-back announced on 29 August 2008 under which nib holdings purchased and subsequently cancelled 1,619,777 shares at a total cost of $2.029 million; and
- the cancellation of 27,078,540 shares held in the nib Overseas Policyholders and Unverified Policyholders Trust on 26 November 2010.

A capital return of $75.0 million was approved at a General Meeting on 5 July 2011 and paid on 21 July 2011.

NOTE 27. RETAINED PROFITS

	2011 $000	2010 $000
Balance at beginning of the financial year	347,358	317,897
Net profit	65,463	61,525
Realised revaluation reserve	–	379
Transfer to share capital	(1,784)	(702)
Dividends	(43,442)	(31,741)
Balance at the end of the financial year	367,595	347,358

NOTE 28. RESERVES

a) Reserves comprise:

	2011 $000	2010 $000
Revaluation surplus – property, plant and equipment	892	834
Available-for-sale financial assets	494	–
Share-based payments	872	772
Share-based payments exercised	(256)	–
	2,002	1,606

b) Movements in reserves

	2011 $000	2010 $000
Revaluation surplus - property, plant and equipment		
Balance at the beginning of the year	834	1,213
Transfer to retained profits on sale of property	–	(379)
Property revaluation - gross	83	–
Deferred tax (Note 14)	(25)	–
Balance at the end of the financial year	892	834
Available-for-sale financial assets		
Balance at the beginning of the year	–	–
Revaluation - gross	706	–
Deferred tax (Note 14)	(212)	–
Balance at the end of the financial year	494	–
Share-based payments		
Balance at the beginning of the year	772	245
Performance right expense	396	504
Bonus share rights expense	–	23
Transfer to share-based payments exercised reserve on exercise of performance rights	(228)	–
Transfer to share-based payments exercised reserve on exercise of bonus share rights	(68)	–
Balance at the end of the financial year	872	772
Share-based payments exercised		
Balance at the beginning of the year	–	–
Transfer from share-based payments reserve on exercise of performance rights	228	–
Transfer from share-based payments reserve on exercise of bonus share rights	68	–
Exercise of performance rights	(442)	–
Exercise of bonus share rights	(110)	–
Balance at the end of the financial year	(256)	–

c) Nature and purpose of reserves

Revaluation surplus – property, plant and equipment

The property, plant and equipment revaluation surplus is used to record increments and decrements on the revaluation of non-current assets as described in Note 1(p).

Available-for-sale financial assets

Changes in the fair value of investments, such as equities, classified as available-for-sale financial assets, are taken to the available-for-sale revaluation reserve as described in Note 1(y). Amounts are recognised in profit and loss when the associated assets are sold or impaired.

Share-based payments

The share-based payments reserve is used to recognise the fair value of performance rights and bonus share rights issued to employees but not exercised.

Share-based payments exercised

The share-based payments exercised reserve is used to recognise the difference between fair value of performance rights and bonus share rights accumulated in the shares based payments reserve and cost of exercising the rights.

NOTE 29. DIVIDENDS

a) Ordinary shares

	2011 $000	2010 $000
Final dividend for the year ended 30 June 2010 of 5.0 cents (2009: 4.4 cents) per fully paid share paid on 27 September 2010 (2009: 9 October 2009)		
Fully franked based on tax paid @ 30%	24,772	21,823
Interim dividend for the year ended 30 June 2011 of 4.0 cents (2010: 2.0 cents) per fully paid share paid on 8 April 2011 (2010: 8 April 2010)		
Fully franked based on tax paid @ 30%	18,670	9,918
Total dividends provided for or paid	43,442	31,741

b) Dividends not recognised at year end

	2011 $000	2010 $000
In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend of 9.0 cents per fully paid ordinary share, made up of 4.0 cps ordinary dividend and 5.0 cps special dividend (2010 – 5.0 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 27 September 2011 out of retained profits at 30 June 2011, but not recognised as a liability at year end, is	42,006	24,772

c) Franked dividends

The franked portion of the final dividends recommended after 30 June 2011 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2011.

	2011 $000	2010 $000
Franking credits available for subsequent financial years to equity holders of parent entity based on a tax rate of 30% (2010 – 30%)	18,365	11,155

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

a. Franking credits that will arise from the payment of the amount of the provision for income tax;

b. Franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and

c. Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

NOTE 30. COMMITMENTS FOR EXPENDITURE

a) Operating lease commitments

	2011 $000	2010 $000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
– not longer than one year	2,051	1,985
– longer than one year and not longer than five years	3,535	3,490
– longer than five years	1,236	1,488
	6,822	6,963

b) Capital expenditure commitments

	2011 $000	2010 $000
Payable:		
– not longer than one year	712	283
	712	283

NOTE 30. COMMITMENTS FOR EXPENDITURE continued

c) Remuneration commitments

	2011 $000	2010 $000
Commitments for the payment of salaries, wages and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities.		
– not longer than one year	1,880	1,503
	1,880	1,503

NOTE 31. CONTINGENT LIABILITIES

nib health funds limited has given an undertaking to extend financial support to nib servicing facilities pty limited and nib health care services pty limited by subordinating repayment of debts owed by the entities to nib health funds limited, in favour of all other creditors. nib holdings limited has given an undertaking to extend financial support to IMAN Australian Health Plans Pty Limited by subordinating repayment of debts owed by the entities to nib holdings limited, in favour of all other creditors. This undertaking has been provided as a result of each of these subsidiaries experiencing deficiencies of capital and reserves, and is intended to enable the entities to continue their operations and fulfil all financial obligations now and in the future. The undertaking is provided for a minimum period of 12 months from 19 August 2011, or if earlier, to the date of sale of the entities should this occur.

nib holdings limited and nib health funds limited have indemnified the trustee under the nib demutualisation Overseas Policyholders and Unverified Policyholders Trust deed dated 19 July 2007, in respect of all liabilities, costs and expenses incurred in execution of the trust. All trust funds were distributed during the financial year and net assets were nil at 30 June 2011.

nib holdings limited has provided a guarantee and indemnity to the National Australia bank on behalf of IMAN Australian Health Plans Pty Limited is respect of transactional banking services. Liability under the indemnity is limited to $1,953,950.

NOTE 32. REMUNERATION OF AUDITORS

	2011 $	2010 $
1. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial report and other audit work under the *Corporations Act 2001*	367,400	312,700
Total remuneration for audit services	367,400	312,700
2. Non-audit services		
Audit-related services		
PricewaterhouseCoopers Australian firm:		
Audit of regulatory returns	56,300	31,800
Due diligence on potential mergers and acquistions	–	20,000
Total remuneration for audit-related services	56,300	51,800
Taxation services		
PricewaterhouseCoopers Australian firm:		
Due diligence on potential mergers and acquistions	–	83,500
Tax compliance services	371,629	70,800
Total remuneration for taxation services	371,629	154,300
Other services		
PricewaterhouseCoopers Australian firm:		
Accounting advice and support	58,700	–
Review of regulatory returns	10,000	21,486
Total remuneration for other services	68,700	21,486
Total remuneration for non-audit services	496,629	227,586
Total remuneration for audit and non-audit services	864,029	540,286

NOTE 33. NOTES TO THE STATEMENT OF CASH FLOWS

a) Reconciliation of cash

For the purpose of the statement of cash flows, cash includes cash on hand and in banks net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items on the balance sheet as follows:

	Note	2011 $000	2010 $000
Cash and cash equivalents	8	240,772	197,415
Bank overdraft	19	(3,603)	(3,593)
		237,169	193,822

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

	2011 $000	2010 $000
Profit for the year	65,463	61,525
Net (gain)/loss on disposal of non-current assets	220	225
Fair value (gain)/loss on other financial assets through profit or loss	(4,157)	(29,411)
Impairment loss on property, plant and equipment	(2,236)	1,000
Non-cash employee benefits expense – share-based payments	396	527
Depreciation and amortisation	6,838	4,751
Change in operating assets and liabilities, net of effect from purchase of controlled entity		
Decrease (increase) in receivables	(8,085)	(2,089)
Decrease (increase) in deferred tax assets	1,755	10,560
Increase (decrease) in trade payables	17,116	14,002
Increase (decrease) in current tax payable	6,569	(1,091)
Increase (decrease) in provisions	4,401	6,177
Net cash flow from operating activities	88,280	66,176

NOTE 34. CONTROLLED ENTITIES

The consolidated financial statements incorporate the assets, liabilities and results of the following controlled entities in accordance with the accounting policy described in Note 1(b):

		Percentage of shares held	
	Place of Incorporation	2011 %	2010 %
nib holdings limited	Australia		
nib health funds limited	Australia	100	100
nib servicing facilities pty limited	Australia	100	100
nib health care services limited	Australia	100	100
The Heights Private Hospital pty limited	Australia	100	100
IMAN Australian Health Plans pty limited	Australia	100	100

NOTE 35. SEGMENT REPORTING

a) Description of segments

Management has determined the operating segments based on the reports reviewed by the MD/CEO that are used to make strategic decisions.

The MD/CEO considers the business from a product perspective and has identified three reportable segments. Health Insurance consists of nib's core product offering within the Australian private health insurance industry. Health Related consists of two separate segments – Overseas Students Health Cover and Overseas Visitors Health Cover.

nib entered the Overseas Students Health Cover market on 4 January 2010 and commenced reporting Overseas Student Health Cover as a separate segment for management purposes in July 2010. The Overseas Visitors segment was established following the acquisition of the business and assets of IMAN International Pty Ltd on 30 September 2010.

Although the Overseas Visitors and Overseas Students segments do not meet the quantitative thresholds required by AASB 8, management has concluded that these segments should be reported, as they are closely monitored by the MD/CEO as potential growth segments and are expected to contribute to group revenue in the future.

b) Segment information provided to executive management

The segment information provided to the MD/CEO for the reportable segments for the year ended 30 June 2011 is as follows:

	Health Insurance $000	Overseas Students $000	Overseas Visitors $000	Total $000
Premium revenue	991,306	550	15,992	1,007,848
Claims expense	(685,294)	(241)	(7,627)	(693,162)
RETF levy	(132,744)	–	–	(132,744)
State levies	(22,874)	–	–	(22,874)
Claims handling expenses	(14,922)	(118)	(1,094)	(16,134)
Net claims incurred	(855,834)	(359)	(8,721)	(864,914)
Acquisition costs	(35,328)	(458)	(825)	(36,611)
Other underwriting expenses	(40,364)	(784)	(3,673)	(44,821)
Underwriting expenses	(75,692)	(1,242)	(4,498)	(81,432)
Underwriting result	59,780	(1,051)	2,773	61,502
Depreciation and amortisation	5,105	–	1,719	6,824

No comparative information is shown as the Group previously operated predominantly only within the Australian private health insurance industry and did not report segment information to executive management.

The MD/CEO assesses the performance of the operating segments based on net margin. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as integration costs. Furthermore, investment income and expenditure are not allocated to segments as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

A reconciliation of segment underwriting result to operating profit before income tax is provided as follows:

	2011 $000
Segment underwriting result	61,502
Investment income	33,453
Other income	5,750
Investment expenses	(1,327)
Other expenses	(7,462)
Profit before income tax from continuing operations	91,916

No information regarding segment assets and liabilities is provided to the MD/CEO.

NOTE 36. BUSINESS COMBINATION

a) Summary of acquisition

On 30 September 2010 IMAN Australian Health Plans Pty Limited, a subsidiary of nib holdings limited acquired the IMAN business and assets from IMAN International Ltd, a specialist provider of health cover for temporary migrant workers in Australia.

Purchase consideration

Details of the purchase consideration are as follows:

	$000
Purchase consideration	
Cash	23,211
Total purchase consideration	23,211

The purchase consideration consists of an agreed price of $26.0m for the business and assets, less $2.8m of assumed liabilities.

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

	Fair value $000
Property, plant and equipment	115
Intangible assets - software	1,156
Intangible assets - brand and trademarks	4,044
Intangible assets - customer contracts	3,093
Deferred tax assets	136
Unearned premium liability	(2,332)
Provision for employee entitlements	(453)
Deferred tax liabilities	(928)
Net identifiable assets acquired	4,831
Add: Goodwill	18,380
	23,211

The goodwill is attributable to IMAN's strong position and profitability in the temporary migrant workers health cover market, and synergies expected to arise after the acquisition. None of the goodwill is expected to be deductible for tax purposes.

(i) Acquisition-related costs

Consultancy fees, legal fees and stamp duty of $1,055,782 relating to the acquisition are included in other expenses in profit or loss and in operating cash flows in the statement of cash flows.

(ii) Revenue and profit contribution

The acquired business contributed revenues of $15,991,893 and net profit of $2,772,304 to the group for the period 30 September 2010 to 30 June 2011. If the acquisition had occurred on 1 July 2010, consolidated revenue and consolidated profit for the year ended 30 June 2011 would have been $21,322,524 and $3,696,405 respectively.

b) Purchase of consideration – cash outflow

	2011 $000	2010 $000
Outflow of cash to acquire subsidiary		
Cash consideration	23,211	
	23,211	–
Outflow of cash - investing activities	23,211	–

NOTE 37. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

A capital return of $75.0 million was approved at a General Meeting on 5 July 2011 and paid on 21 July 2011.

With the exception of the Capital Return, there have not been any matters or circumstances that have arisen since the end of the financial year that has significantly affected, or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

NOTE 38. RELATED PARTIES

a) Related party transactions with key management personnel

There were no related party transactions during the year, as there were no transactions where either party had the presence of control, joint or significant influence to affect the financial and operating policies of the either entity.

b) Transactions with associated companies

There were no associated company transactions during the years ended 30 June 2011 and 2010.

NOTE 39. KEY MANAGEMENT PERSONNEL DISCLOSURES

a) Key management personnel compensation

	2011 $	2010 $
Short-term employee benefits	2,967,252	2,424,359
Post-employment benefits	293,585	301,023
Other long-term benefits	20,513	36,390
Termination benefits	–	–
Share-based payments	799,127	686,963
	4,080,477	3,448,735

Detailed remuneration disclosures are provided in the Remuneration Report on pages 6 to 17.

b) Equity instrument disclosures relating to key management personnel

i) Performance rights provided as remuneration and shares issued on exercise of such performance rights

Details of performance rights provided as remuneration and shares issued on the exercise of such performance rights, together with terms and conditions of the performance rights, can be found in the Remuneration Report on pages 6 to 17.

ii) Performance rights holdings

The numbers of performance rights over ordinary shares in the company held during the financial year by each executive of nib holdings limited are set out below.

2011	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at the end of the year	Vested and exercisable	Unvested
Mark Fitzgibbon	901,351	235,952	(202,831)	(67,611)	866,861	–	866,861
Matthew Henderson	–	55,344	–	–	55,344	–	55,344
Melanie Kneale	268,311	70,503	(59,927)	(19,976)	258,911	–	258,911
Rhoderic McKensey	154,081	57,529	(12,240)	(4,080)	195,290	–	195,290
Michelle McPherson	283,165	119,053	(63,247)	(21,082)	317,889	–	317,889
Total	1,606,908	538,381	(338,245)	(112,749)	1,694,295	–	1,694,295

2010	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at the end of the year	Vested and exercisable	Unvested
Mark Fitzgibbon	631,071	270,280	-	-	901,351	-	901,351
Melanie Kneale	186,452	81,859	-	-	268,311	-	268,311
Rhoderic McKensey	94,230	59,851	-	-	154,081	-	154,081
Michelle McPherson	196,780	86,385	-	-	283,165	-	283,165
Total	1,108,533	498,375	-	-	1,606,908	-	1,606,908

iii) Share holdings

The number of shares in the company held during the financial year by each Director of nib holdings limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares received during the reporting period on the exercise of performance rights.

2011	Balance at the start of the year	Granted during the year as compensation	Other changes during the year	Balance at the end of the year
ORDINARY SHARES				
Directors of nib group				
Keith Lynch	100,951	–	25,000	125,951
Harold Bentley	70,000	–	–	70,000
Annette Carruthers	58,200	–	–	58,200
Steve Crane	–		100,000	100,000
Philip Gardner	104,862	–	–	104,862
Brian Keane[1]	61,300	–	(61,300)	–
Christine McLoughlin	–	–	37,500	37,500
Other key management personnel of the Group				
Mark Fitzgibbon	530,904	312,226	–	843,130
Matthew Henderson	–	–	–	–
Melanie Kneale	983	59,927	–	60,910
Rhoderic McKensey	1,583	12,240	–	13,823
Michelle McPherson	101,000	88,247	–	189,247

1. Brian Keane retired as a Director on 26 October 2010.

2010	Balance at the start of the year	Granted during the year as compensation	Other changes during the year	Balance at the end of the year
ORDINARY SHARES				
Directors of nib group				
Keith Lynch	72,035	28,916	–	100,951
Harold Bentley	50,000	–	20,000	70,000
Annette Carruthers	51,000	–	7,200	58,200
Philip Gardner	84,862	–	20,000	104,862
Brian Keane	41,300	–	20,000	61,300
Other key management personnel of the Group				
Mark Fitzgibbon	464,338	58,566	8,000	530,904
Melanie Kneale	983	–	–	983
Rhoderic McKensey	1,583	–	–	1,583
Michelle McPherson	101,000	–	–	101,000

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2011

NOTE 40. SHARE-BASED PAYMENTS

a) Long-Term Incentive Plan (LTIP)

Performance rights to acquire shares in nib holdings limited are granted to executive and selected business unit managers under the Long-Term Incentive Plan (LTIP). Information relating to the LTIP is included in the Remuneration Report on pages 6 to 17.

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

2011 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
24/06/08	31/12/12	–	196,872	–	(147,655)	(49,217)	–	–
30/06/09	31/12/12	–	270,442	–	(202,831)	(67,611)	–	–
30/06/09	31/12/13	–	657,539	–	–	–	657,539	–
28/01/10	31/12/14	–	498,375	–	–	–	498,375	–
23/05/11	01/09/14	–	–	538,381	–	–	538,381	–
Total			1,623,228	538,381	(350,486)	(116,828)	1,694,295	–

2010 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
24/06/08	31/12/12	–	196,872	–	–	–	196,872	–
30/06/09	31/12/12	–	270,442	–	–	–	270,442	–
30/06/09	31/12/13	–	657,539	–	–	–	657,539	–
28/01/10	31/12/14	–	–	498,375	–	–	498,375	–
Total			1,124,853	498,375	–	–	1,623,228	–

b) Non-Executive Director Share Plan (NEDSAP)

The Board has resolved that non-executive Directors will hold a minimum of 20% of their annual Directors' fees in the form of shares. The NEDSAP has been introduced to encourage non-executive Directors share ownership to align the interests of non-executive Directors and shareholders. Non-executive Directors may express a preference to receive up to 90% of their annual Directors' fee in the form of shares under the NEDSAP.

Under the Plan shares will be acquired on market with the number of shares allocated being determined on the basis of volume weighted average price of shares traded on the Australian Stock Exchange for five trading days up to and including the relevant allocation date. The volume weighted average price may be above or below current or future market prices.

Non-executive Directors who acquire shares under the NEDSAP may not sell, transfer, or dispose of any shares acquired for a period of 10 years from the date that the shares are allocated.

The requirement to take a portion of annual Directors' fees in shares is calculated as a cumulative amount, having regard to nib shares acquired by Directors outside of the NEDSAP.

c) Employee Share Acquisition (Tax Exempt) Plan (ESAP)

The Plan rules were adopted on 11 January 2008 and amended on 3 December 2009. On 6 September 2010 eligible employees were offered the opportunity to receive part of their salary in the form of shares. All permanent employees who were an employee as at 6 September 2010 and the date shares were allocated to employees were eligible to participate in the scheme. Employees may elect not to participate in the scheme.

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

Under the Plan, participating employees were allocated an aggregate market value up to $1,000 worth of fully paid ordinary shares in nib holdings limited. Subsequent offers under the ESAP 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.

	2011	2010
Number of shares purchased on market under the plan to participating employees	88,782	86,580
	88,782	86,580

The shares were allocated in two periods. 50% were allocated on 2 November 2010 after nib's 2010 Annual General Meeting at a volume weighted average price of $1.2517. The remaining 50% were allocated on 22 February 2011 after nib's FY11 half year results announcement at a volume weighted average price of $1.4145.

d) nib Salary Sacrifice Plan and Matching Plan Trust Deed

The Plan Rules were adopted on 1 February 2011. On 3 December 2009 business unit managers were offered the opportunity to receive part of their salary in the form of shares, with an additional amount of shares contributed by the company. Employees may elect not to participate in the scheme.

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

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

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.

	2011	2010
Number of shares purchased on market under the plan to participating employees	95,434	–
	95,434	–

e) Short-term Performance Incentive (STI)

All eligible employees have a STI opportunity. For the MD/CEO the maximum target bonus opportunity is 60% of the base remuneration package with 30% of the calculated entitlement awarded as performance shares to be held in escrow for one year. For other executives the maximum entitlement is 40% of the remuneration package with 20% of the calculated entitlement awarded as performance shares to be held in escrow for one year.

In 2010 at management's discretion, business unit managers were offered the opportunity to receive 100% of their respective STI in the form of performance shares to be held in escrow for one year. Business unit managers that elected to receive their STI as shares received an additional 2% of their base remuneration package in performance shares. No offers were made in 2011.

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

f) Expenses arising from share-based payments transactions

	2011 $000	2010 $000
Shares purchased on market under employee share scheme	118	110
Performance rights granted under LTIP	396	504
Bonus share rights granted	–	23
Shares purchased on market under STI	157	123
nib Salary Sacrifice Plan and Matching Plan Trust Deed	138	–
	809	760

NOTE 41. SOLVENCY AND CAPITAL ADEQUACY RESERVES

nib health funds limited Solvency Reserve, as per the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is $81.334 million. Total Health Benefits Fund Assets are $431.891 million, representing a surplus of $121.446 million over the sum of the Solvency Reserve and total Health Benefits Fund Liabilities ($229.111 million). This equates to a solvency coverage ratio of 1.39x and a solvency/capital risk multiple of 2.49.

nib health funds limited Capital Adequacy Reserve, as per the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is $91.151 million. Total Health Benefits Fund Assets are $431.891 million, representing a surplus of $111.629 million over the Capital Adequacy Reserve and total Health Benefits Fund Liabilities ($229.111 million). This equates to a capital adequacy coverage ratio of 1.35x and a capital adequacy/ risk multiple of 2.22.

NOTE 42. EARNINGS PER SHARE

a) Basic earnings per share

	2011 Cents	2010 Cents
Profit from continuing operations attributable to the ordinary equity holders of the company	13.7	12.4
Profit from discontinued operations	–	–
Profit attributable to the ordinary equity holders of the company	13.7	12.4

b) Diluted earnings per share

	2011 Cents	2010 Cents
Profit from continuing operations attributable to the ordinary equity holders of the company	13.7	12.4
Profit from discontinued operations	–	–
Profit attributable to the ordinary equity holders of the company	13.7	12.4

c) Reconciliations of earnings used in calculating earnings per share

	2011 $000	2010 $000
Basic earnings per share		
Profit from continuing operations	65,463	61,525
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	65,463	61,525
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	65,463	61,525
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	65,463	61,525

d) Weighted average number of shares used as the denominator

	2011 Number	2010 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	478,458,990	495,845,697
Adjustments for calculation of diluted earnings per share:		
Performance rights and bonus share rights	–	–
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	478,458,990	495,845,697

e) Information concerning the classification of shares

i) Performance rights

Performance rights granted to employees under the nib holdings Long-Term Incentive Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The performance rights have not been included in the determination of basic earnings per share. Details relating to the performance rights are set out in Note 39.

The total 1,694,295 performance rights granted (2010 – 1,623,228) are not included in the calculation of diluted earnings per share because they are contingently issuable ordinary shares and conditions were not satisfied at 30 June 2011. These performance rights could potentially dilute basic earnings per share in the future.

NOTE 43. PARENT ENTITY FINANCIAL INFORMATION

a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2011 $'000	2010 $'000
Balance sheet		
ASSETS		
Current assets	194,913	165,386
Total assets	612,580	561,206
LIABILITIES		
Current liabilities	11,435	5,632
Total liabilities	11,435	5,632
NET ASSETS	601,145	555,574
EQUITY		
Share Capital	413,628	415,656
Reserves		
Share-based payments	616	772
Retained Profits	186,901	139,146
TOTAL EQUITY	601,145	555,574
Profit or loss for the year	91,197	40,573
Total comprehensive income	91,197	40,573

b) Contingent liabilities of the parent entity

Refer to Note 31.

NOTE 44. COMPANY DETAILS

nib holdings limited is a company limited by shares, incorporated and domiciled in Australia. The registered office of the company is:

22 Honeysuckle Drive
NEWCASTLE NSW 2300

The financial report was authorised for issue by the Directors on 19 August 2011. The company has the power to amend and reissue the financial report.

Shareholder Information

30 June 2011

The shareholder information set out below was applicable as at 31 August 2011.

A. DISTRIBUTION OF EQUITY SECURITIES

Analysis of numbers of equity security holders by size of holding:

	Class of equity security
	Ordinary shares
1 – 1,000	68,961
1,001 – 5,000	87,084
5,001 – 10,000	11,576
10,001 – 100,000	318
100,001 and over	40
	167,979

There were 16,308 holders of less than a marketable parcel of ordinary shares.

B. EQUITY SECURITY HOLDERS

20 largest quoted equity security holders

The names of the 20 largest holders of quoted equity securities are listed below:

	Ordinary shares	
Name	Number held	Percentage of issued shares %
RBC Dexia Investor Services Australia Nominees P/L (pipooled a/c)	30,303,139	6.49
J P Morgan Nominees Australia Limited	30,071,868	6.44
Citicorp Nominees Pty Limited	27,339,271	5.86
National Nominees Limited	19,696,197	4.22
Cogent Nominees Pty Limited	9,825,331	2.11
HSBC Custody Nominees (Australia) Limited	5,450,918	1.17
Citigroup Nominees Pty Limited (Colonial First State Inv a/c)	3,057,762	0.66
J P Morgan Nominees Australia Limited (Cash Income a/c)	2,915,861	0.62
M F Custodians Ltd	2,315,319	0.50
RBC Dexia Investor Services Australia Nominees P/L (GSAM a/c)	2,237,218	0.48
Suncorp Custodian Services Pty Limited (AET)	2,014,547	0.43
Bond Street Custodians Limited (Macquarie Smaller Co's a/c)	1,919,000	0.41
AMP Life Limited	1,595,330	0.34
Bond Street Custodians Limited (Celeste Concentrated Fund)	1,559,430	0.33
RBC Dexia Investor Services Australia Nominees P/L (piselect a/c)	1,361,364	0.29
UBS Nominees Pty Limited	694,011	0.15
Aust Executor Trustees NSW Ltd (Ironbark Karara Small Co)	668,196	0.14
Vanward Investments Limited	500,000	0.11
UBS Wealth Management Australia Nominees Pty Limited	429,284	0.09
Fitzy (NSW) Pty Ltd (Fitz Family Fund a/c)	413,600	0.09
	144,367,646	30.93

Unquoted equity securities

	Number on issue	Number of holders
Performance rights issued under the nib holdings Long-term Incentive Plan	1,694,295	5

C. SUBSTANTIAL HOLDERS

Substantial holders in the company are set out below:

	Number held	Percentage of issued shares %
RBC Dexia Investor Services Australia Nominees P/L (pipooled a/c)	30,303,139	6.49
J P Morgan Nominees Australia Limited	30,071,868	6.44
Citicorp Nominees Pty Limited	27,339,271	5.86

D. VOTING RIGHTS

The voting rights attaching to each class of equity securities are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Performance rights

No voting rights.

E. SECURITIES SUBJECT TO VOLUNTARY ESCROW

Shares taken as part of the transaction bonus and short-term incentive bonus held in escrow are detailed below:

Number on issue	Class of equity security	Date escrow period ends
45,379	Ordinary shares	31 August 2011
1,516	Ordinary shares	1 September 2011

Corporate Directory

year ended 30 June 2011

DIRECTORS

Chairman
Keith Lynch

Managing Director/Chief Executive Officer
Mark Fitzgibbon

Harold Bentley
Annette Carruthers
Steve Crane
Philip Gardner
Christine McLoughlin

COMPANY SECRETARY

Michelle McPherson

EXECUTIVE MANAGEMENT

Managing Director/Chief Executive Officer
Mark Fitzgibbon

Deputy Chief Executive Officer and Chief Financial Officer
Michelle McPherson

Chief Operating and Technology Officer
Melanie Kneale

Chief Marketing and Business Development Officer
Rhoderic McKensey

Group Executive Corporate and International Business
Matthew Henderson

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of nib holdings limited will be held at Fort Scratchley Multipurpose Centre, Nobbys Road, Newcastle NSW 2300 at 1pm on Wednesday 26 October, 2011

A formal Notice of the Meeting is being distributed with the annual report.

SHARE REGISTER

Computershare Investor Services Pty Limited
Level 3
60 Carrington Street
Sydney NSW 2000

1300 664 316

STOCK EXCHANGE LISTING

nib holdings limited shares (nhf) are listed on the Australian Securities Exchange.

PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

22 Honeysuckle Drive
Newcastle NSW 2300

13 14 63

AUDITOR

PricewaterhouseCoopers
PricewaterhouseCoopers Centre
26 Honeysuckle Drive
Newcastle NSW 2300

LEGAL ADVISERS

Mallesons Stephen Jaques
Level 61, Governor Philip Tower
1 Farrer Place
Sydney NSW 2000

BANKERS

St George Bank
4-16 Montgomery Street
Kogarah NSW 2217

WEBSITE ADDRESS

nib.com.au

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