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27 September 2012

The Manager
Company Announcements
ASX Limited
Level 4, Bridge Street
Sydney NSW 2000

2012 Annual Report – nib holdings limited

Please find attached nib's 2012 Annual Report which was distributed to nib shareholders today.

The Annual Report can also be viewed online at nib.com.au/shareholders.

Yours sincerely,

M McPherson

Michelle McPherson
Chief Financial Officer & Company Secretary

nib
60years
young

ANNUAL REPORT 2012

Contents

2012 ANNUAL GENERAL MEETING

The Annual General Meeting of nib holdings limited will be held at The Westin, 1 Martin Place, Sydney at 1pm on Tuesday, 30 October 2012.

Directors' Report

for the year ended 30 June 2012

The Directors of nib holdings limited (Company) present their report on the consolidated entity (hereafter as the Group) consisting of nib holdings limited and the entities it controlled at the end of, or during, the year ended 30 June 2012.

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:

- Steve Crane
- Harold Bentley
- Philip Gardner
- Mark Fitzgibbon
- Annette Carruthers
- Christine McLoughlin

Keith Lynch was Chairman and a Director from the beginning of the financial year until his retirement on 30 September 2011.

Steve Crane was appointed Chairman on 1 October 2011.

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*.

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.

A feature of our results for the 12 months was ongoing strong underwriting profitability and active capital management.

The consolidated profit of the Group for the year, after income tax expense, was $67.6 million (2011: $65.5 million). The consolidated profit includes a strong pre-tax underwriting result of $70.7 million (net margin 6.3%), constituting an increase of 15.0% on 2011. The underwriting profit increase of $9.2 million is partially offset by a reduction in net investment income of $6.5 million due mainly to lower invested capital as a result of management initiatives.

The underwriting result for FY12 has benefited from the deferral of commissions of $8.2 million. Without this deferral, commission expense in FY12 would be $11.3 million (FY11: $5.5 million) and the pre-tax underwriting result would have been $62.5 million.

Return on equity (ROE) was 21.7% (FY11: 16.5%) and earnings per share (EPS) was up 8% to 14.8 cps.

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.

At 30 June 2012, the Group had net assets of $301.6 million (June 2011: $411.8 million) and a return on equity of 21.7%, using average shareholders' equity over a rolling 12-month period (2011: 16.5%).

Significant capital management activities during the year were the Capital Return to shareholders of $75.0 million on 21 July 2011, the special FY11 final dividend of $23.3 million and the on-market share buy-back of $41.0 million.

			Change	
($m)	**FY12**	**FY11**	**$m**	**%**
HIB Policyholder growth	4.7%	6.0%		
Premium revenue	1,123.8	1,007.8	116.0	11.5
Gross margin[1]	174.6	159.1	15.5	9.7
	15.5%	15.8%		
Management Expense[2]	(103.8)	(97.6)	(6.2)	(6.4)
	9.2%	9.7%		
Underwriting result[3]	70.7	61.5	9.2	15.0
	6.3%	6.1%		
Net investment return	25.6	32.1	(6.5)	(20.2)
	6.0%	6.6%		
Other income	3.6	5.7	(2.1)	(36.8)
Other expenses	(4.3)	(7.5)	3.2	42.7
Profit before tax	95.6	91.9	3.7	4.0
Tax	(28.0)	(26.5)	(1.5)	(5.7)
NPAT	67.6	65.5	2.1	3.2
EPS (cps)	14.8	13.7	1.1	8.0
ROE[4] (%)	21.7%	16.5%		
Operating cash flow	134.6	88.3	46.3	52.4

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 handling, 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 CONTINUED

At 30 June 2012, the Group had surplus capital of $13.3 million above our internal benchmark (after allowing for the payment of a final dividend of 5.0 cents per share, totalling $22.0 million, in October 2012). Refer to Note 25(f) for basis of calculations.

DIVIDENDS

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

	2012 $000	2011 $000
Final dividend for the year ended 30 June 2011 of 9.0 cents made up of 4.0 cps ordinary dividend and 5.0 cps special dividend (2010: 5.0 cents) per fully paid share paid on 30 September 2011	42,006	24,772
Interim dividend for the year ended 30 June 2012 of 4.25 cents (2011: 4.0 cents) per fully paid share paid 8 April 2012	18,912	18,670
	60,918	43,442

In addition to these dividends, since the end of the financial year the Directors have recommended the payment of a final dividend of $22.0 million (5.0 cps ordinary dividend) to be paid on 5 October 2012 out of retained profits at 30 June 2012.

Subject to franking credit availability, the Board's position is that future dividends will reflect a dividend payout ratio of 60% to 70% of earnings with additional capacity to pay special dividends as part of future capital management.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no other significant changes in the nature of activities conducted by the Group during the year.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No matter or circumstance has arisen since 30 June 2012 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 FROM OPERATIONS

Further information on likely developments in the operations of the Group has not been included in this Annual 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	
Steve Crane *BCommerce, FAICD, SF Fin*	**Chairman, Independent Non-Executive Director** *Experience and expertise* A Director since 28 September 2010, appointed Chairman on 1 October 2011. 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, APA Group and the Taronga Conservation Society Australia. He is also Chairman of Global Valve Technology Limited. *Former directorships in the last three years* Director of APA Ethane Limited. *Special responsibilities* Chairman of the Board. *Interests in shares and performance rights* Indirect: 115,157 ordinary shares in nib holdings limited held by Depeto Pty Limited.
Mark Fitzgibbon *MBA, MA, ALCA, FAICD*	**Managing Director/Chief Executive Officer** *Experience and expertise* Joined nib health funds limited in October 2002 as Chief Executive Officer (CEO). Previously CEO of the national and peak industry bodies for licensed clubs. Before that, 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* Director of the Newcastle Knights Rugby League Football Club and Australian Health Services Alliance. *Special responsibilities* Managing Director/Chief Executive Officer. *Interests in shares and performance rights* Direct: 709,542 ordinary shares in nib holdings limited. Indirect: 551,600 ordinary shares in nib holdings limited held by Fitz Family fund. 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. 217,546 performance rights under FY12-FY15 Long-Term Incentive Plan which may vest from 1 September 2015.
Harold Bentley *MA Hons, FCA, FCIS, FCSA*	**Independent Non-Executive Director** *Experience and expertise* A Director since 7 November 2007. Has over 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 and the Risk and Reputation 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, GradDipAppFin*	**Independent Non-Executive Director** *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 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 Aged Care Investment Services (the Trustee for the AMP Managed Aged Care Investment Trusts), Hunter Infrastructure and Investment Advisory Board and the NSW Board of the Medical Board of Australia. *Former directorships in the last three years* Director of National Heart Foundation of Australia (NSW Division), National Heart Foundation of Australia and Haematology and Oncology Clinics of Australia. *Special responsibilities* Chairman of the Risk and Reputation Committee. Member of Audit Committee and the People and Remuneration Committee. *Interests in shares and performance rights* Direct: 1,000 ordinary shares in nib holdings limited. Indirect: 71,500 ordinary shares in nib holdings limited held by Carruthers Future Fund Pty Ltd.
Philip Gardner *B.Comm, CPA, CCM, FAICD, JP*	**Independent Non-Executive Director** *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. 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* Chairman of the Investment Committee. Member of the Audit Committee and the People and Remuneration Committee. *Interests in shares and performance rights* Indirect: 108,000 ordinary shares in nib holdings limited held by Sutton Gardner Pty Ltd.
Christine McLoughlin *BA/LLB (Hons) FAICD*	**Independent Non-Executive Director** *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. *Other current directorships* A Director of nib health funds limited and IMAN Australian Health Plans Pty Limited. Director of Whitehaven Coal Limited, Westpac's Life and General Insurance Business (Australia/New Zealand), The Australian Nuclear Science and Technology Organisation (ANSTO) and St James Ethics Centre. Deputy Chairman of The Smith Family. *Former directorships in the last three years* Director of the AMP Foundation and TAC (Transport Accident Commission). *Special responsibilities* Chairman of the People and Remuneration Committee. Member of the Risk and Reputation Committee and the Audit Committee. *Interests in shares and performance rights* Indirect: 57,500 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 2012, and the numbers of meetings attended by each Director were:

	Board		Audit Committee		Risk and Reputation Committee		People and Remuneration Committee		Investment Committee	
NAME	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
S Crane[1]	11	11	8	8	4	3	6	5	–	–
M Fitzgibbon[1]	11	11	8	8	4	4	6	5	5	1
H Bentley[2]	11	10	8	8	4	3	6	2	5	5
A Carruthers	11	11	8	7	4	4	6	6	–	–
P Gardner	11	11	8	8	1	1	6	5	5	5
C McLoughlin	11	10	8	8	4	4	6	6	–	–
K Lynch[3]	4	4	–	–	–	–	–	–	–	–

1. Attendance at Committee meetings in an ex-officio capacity.
2. Attendance at People and Remuneration Committee meetings in an ex-officio capacity.
3. 100% attendance until retirement.

REMUNERATION REPORT

Message from the Board

The Board remains committed to ensuring that nib's remuneration practices are properly aligned with shareholder value creation over the short and long-term, and that these practices work to appropriately motivate, reward and retain executives.

Dear Shareholder,

We are pleased to present our 2012 Remuneration Report (Report) which covers the remuneration arrangements for our executives for the financial year ending 30 June 2012 and summarises some of the changes we are proposing to make for the coming year. The People and Remuneration Committee (Committee) has continued to monitor our remuneration frameworks, policies and practices to ensure they align with the Group's strategic objectives, market expectations and regulatory requirements.

Financial Year Ended 30 June 2012

In this year's Report we have improved the clarity and presentation of our remuneration policies, practices and outcomes. This includes a table (page 10) showing actual remuneration awarded to the Managing Director/Chief Executive Officer (MD/CEO) and executives during the 2012 financial year. This supplements the statutory disclosures we are required to make.

There were no changes to the remuneration framework in FY12 from FY11.

2012 saw nib produce a sound result in a challenging competitive environment and this is reflected in the remuneration of our executives, notably:

- STI awards determined against set performance indicators were below last year; the MD/CEO STI award was 42.2% and for the other executives an average of 39.1% reflecting the overall performance of the Group over the year;
- The FY10 to FY12 LTI performance rights vesting at 100% as a result of cumulative growth in EPS in excess of 25% over the last three years; and
- TSR over the last three years has been top quartile.

Recognising that performance rights have been awarded in each year under the LTIP, it should be noted that in 2010 the duration of the LTI was increased from three years to four years and as a consequence there will be no vesting event for executives in FY14.

The Upcoming Financial Year (FY13)

Consistent with our normal process, during the year the Board appointed independent remuneration consultants, Aon Hewett, to assist with a review of the Group's short-term and long-term incentive programs, and benchmarking our executive and Non-Executive Director remuneration to a defined comparator group (page 10).

As a result of the remuneration review the following key changes have been made to executive and Non-Executive Director remuneration for FY13:

- The MD/CEO's contractual and remuneration arrangements have been varied to be more aligned with market practice and the benchmarking we have done. In particular, we have changed his contract from a fixed term, which would have ended in June 2013, to be an open contract. We have also sought to start to close the gap in his total remuneration, which is currently below the market median, by increasing his Total Fixed Remuneration by 8% and monetising his car allowance referable to motor vehicle operating costs (now $55,000). His LTI will be increased to 80% of TFR (from 55%) and this combination brings his overall package in line with the benchmark median. We will seek shareholder approval at the upcoming AGM for his LTI Grant. We have also included clawback arrangements for the benefit of the Group along the lines proposed by the Corporations Act in his contract;
- The DCEO/CFO's contract has also been changed from a fixed-term contract to be an open contract with similar provision to the MD/CEO, including clawback arrangements;
- Key Performance Indicators for STI for all executives will include a clearly defined customer satisfaction indicator in addition to the other financial performance indicators directly linked to nib's strategy. For FY13 the STI metrics are:
  - 20% for a leadership component; and
  - 80% linked to the following key performance indicators:
    - Consolidated premium revenue.
    - Consolidated underwriting profit.
    - International business underwriting profit.
    - Net promoter score (NPS), a measure of customer satisfaction.
    - Earnings per share.

- 30% of STI payments to executives will be deferred into shares for one year to focus executives on sustained group performance, and serve as a retention mechanism;
- The LTI performance hurdles for FY13 will still be EPS and TSR linked. Amendments made to LTI arrangements to:
  - enable participants who are "good leavers" to continue to hold a pro rata number of unvested performance rights following cessation of their employment which will vest subject to testing against performance hurdles on the applicable vesting date;
  - provide the Board with the right to lapse unvested performance rights of executives who breach an ongoing confidentiality or non-compete obligation they owe nib.

  We will seek approval at the 2012 AGM for participation of the MD/CEO in the LTI.
- Non-Executive Directors will be required to hold a minimum of 50% of the total annual base Director's fee as shares to be accumulated within three years of appointment based on the share price and fees at the date of joining the Board.

As Chairman of our People and Remuneration Committee, I will continue to consider all aspects of the Group's remuneration framework to ensure it meets the expectations of our external stakeholders, while continuing to motivate and reward our employees. We will continue to engage with our key stakeholders regarding remuneration. As always, we welcome your feedback on our progress.

Yours sincerely,

Christine McLoughlin

Christine McLoughlin
People and Remuneration Committee Chairman

REMUNERATION REPORT CONTINUED

Contents

Key terms used in this report

FY11	financial year ended 30 June 2011
FY12	financial year ended 30 June 2012
FY13	financial year ended 30 June 2013
Group	nib holdings limited consolidated entity
KMP	key management personnel (those Directors and executives who have responsibility for planning, directing and controlling the activities of nib, either directly or indirectly)
KPI	key performance indicator
LTIP	long-term incentive plan
NPAT	net profit after tax
STI	short-term incentive
TFR	total fixed remuneration
TSR	total shareholder return

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.

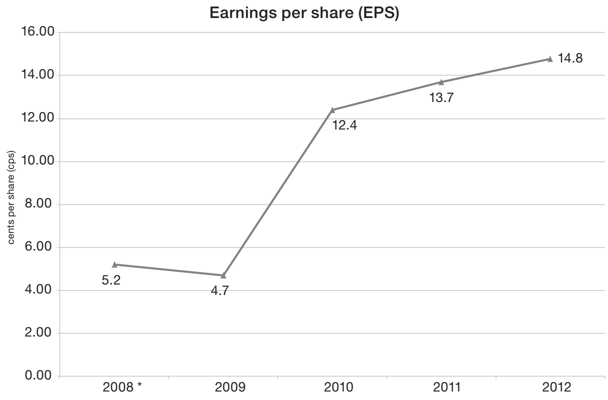
Executive Director	
Mark Fitzgibbon	Managing Director/Chief Executive Officer (MD/CEO)
Other Executives	
Matthew Henderson	Group Executive Corporate and International Business (GECIB)
Melanie Kneale	Chief Operating and Technology Officer (COTO) (to 1/6/2012)
Rhoderic McKensey	Chief Customer Officer (CCO)
Michelle McPherson	Deputy Chief Executive Officer/Chief Financial Officer (DCEO/CFO)
Brendan Mills	Chief Information Officer (CIO) (from 1/6/2012 to 30/6/2012)
Non-Executive Directors	
Steve Crane	Chairman, Independent Non-Executive Director
Harold Bentley	Chairman Audit Committee, Independent Non-Executive Director
Annette Carruthers	Chairman Risk and Reputation Committee, Independent Non-Executive Director
Philip Gardner	Chairman Investment Committee, Independent Non-Executive Director
Christine McLoughlin	Chairman People and Remuneration Committee, Independent Non-Executive Director

Performance drives remuneration at nib

The Remuneration Report demonstrates the linkage between nib's actual performance and payments to KMP. Across a range of metrics nib has outperformed relevant benchmarks since listing and has consistently achieved policyholder growth ahead of industry average.

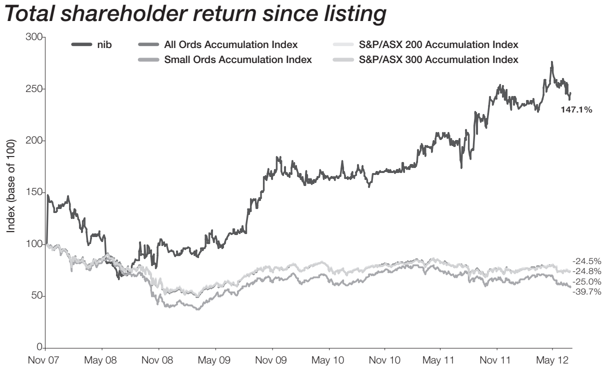
Sustained growth in underwriting profit combined with effective capital management has seen strong performance in the key metrics of EPS and TSR as reflected in the graphs below.

Earnings per share since listing



* 2008 underwriting result normalised for demutualisation and listing costs.

Total shareholder return since listing



Source: IRESS (as at 29 June 2012).
Note: Assumes capital returns and dividends are re-invested at the payout date.

Key features of our remuneration for the financial year ended 30 June 2012

There were no significant changes to FY12 remuneration. Changes to remuneration for FY13 reflect the evolution of nib's remuneration arrangements to continue to align with current best practice.

For the majority of executives, total fixed remuneration increased by approximately 3.3%, in line with CPI. The exception to this was the increase awarded to the CCO, Rhod McKensey, following an organisational restructure that occurred in May 2011 and resulted in an increase in responsibility for the CCO.

	FY11 TFR $	FY 12 Increase in TFR	FY12 TFR $
Rhoderic McKensey (CCO)	296,250	26.6%	375,000

In addition to the changes in total fixed remuneration, the DCEO/CFO was awarded an increase in target STI opportunity from 40% to 60% in recognition of the responsibilities of the combined role.

FY12 STI awards to executives included the use of discretion in determining the FY12 STI awarded to Melanie Kneale on redundancy following an organisational restructure. That STI was fully paid in cash, and represented an estimate at the time paid.

Our remuneration governance

The People and Remuneration Committee has been established by the Board and reviews and makes recommendations to the Board on the remuneration strategy for the Group. The Committee seeks advice from external remuneration consultants and specialists.

The Committee has responsibilities in the areas of remuneration, diversity and human resources strategy. The Committee Charter is available on the nib website. The Committee is comprised of independent, Non-Executive Directors only.

In fulfilling its duties, the Committee engages an independent remuneration consultant every second year to provide benchmarking of market remuneration levels for executives and Non-Executive Directors. Aon Hewitt was engaged to conduct the most recent review in May 2012 and as a result the Board is recommending changes to remuneration from July 2012.

REMUNERATION REPORT CONTINUED

In summary, the scope of the work undertaken by Aon Hewitt included:

- Undertaking a review and market benchmarking of Non-Executive Directors fees and remuneration arrangements for senior executives against relevant peer group;
- Working with the Board to define a relevant peer group for comparison. The principles used for the updated peer group selection, were:
  - By Sector – focus on financial services, healthcare, consumer discretionary, as well as technology based services and commercial services. This filter eliminated sectors such as resources, materials and manufacturing companies.
  - Financial Metrics:
    - Market capitalisation of approximately half and twice the size of nib.
    - Revenues – for companies that fell within the above market capitalisation ranges but with revenues more than two times nib revenues were excluded.
  - This resulted in a peer group comprising 28 companies.
- Conducting a review of nib's remuneration structure to provide advice on the design and operation of Short and Long-Term Incentive Plans (STI, LTI) in light of recent legal and governance changes and market trends. The review considered the guidelines and expectations of both retail and institutional investors

The fees paid to Aon Hewitt for the work undertaken total $34,874.

Actual remuneration received for the financial year ended 30 June 2012

LTI granted in FY09 fully vested on achieving performance hurdles. Only partial STI was paid reflecting operating result as measured against KPIs for the year.

Executive KMP remuneration details prepared in accordance with statutory requirements and accounting standards are contained in the Detailed disclosure of executive remuneration (statutory tables) (page 16) of this report.

The diagram below outlines the remuneration structure for the executives covered in this report for FY12.

Total potential reward

Total fixed remuneration (cash salary plus benefits) + Short-term incentive (STI), being cash and shares held in escrow + Long-term incentive (LTI) being performance rights = Total potential reward

Fixed | **Variable**

The table below shows the key elements of total reward in FY12 as the cash elements actually available to each executive in FY12 as well as the value of equity held in escrow (not subject to forfeiture conditions), and equity from former years that vested in FY12 and which was originally reported under accounting standards in the year it was granted.

		STI applicable to the FY12 year[2]			
	Total fixed remuneration[1] $	**Cash $**	**Shares held in escrow[2] $**	**LTI vested in FY12[3] $**	**Total reward (received or available) $**
Mark Fitzgibbon	570,526	101,040	43,303	586,565	1,301,434
Matthew Henderson	294,405	28,734	7,183	–	330,322
Melanie Kneale (to 1/6/12)[4]	361,213	94,875	–	307,852	763,940
Rhoderic McKensey	375,000	40,500	10,125	126,721	552,346
Michelle McPherson	395,817	71,564	17,891	182,902	668,174
Brendan Mills	201,682	20,382	500	–	222,564
	2,198,643	357,095	79,002	1,204,040	3,838,780

1. Total fixed remuneration comprises Cash Salaries and fees and superannuation.
2. STI accrued relating to the FY12 year.
3. Value of shares issued during the year on exercise of performance rights. Reflects a movement in share price from $0.77 (at grant date) to $1.44 (at vesting) at 100% vesting.
4. STI based on estimate at time of redundancy and fully paid in cash.

Executive reward at nib

nib's executive reward is designed to reward and motivate executives, and align their interests with shareholders.

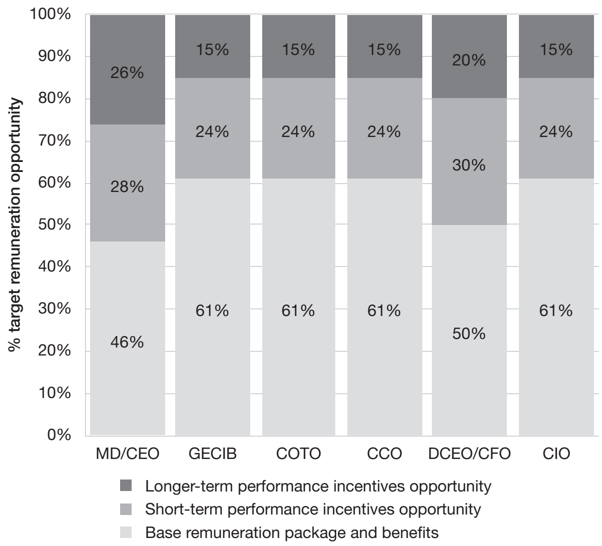
The objective of executive remuneration arrangements is to ensure that nib's remuneration practices are properly aligned with shareholder value creation over the short and long-term, and that these practices work to appropriately motivate, reward and retain executives.

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

- fixed remuneration, comprising base remuneration package, benefits and superannuation;
- short-term incentives, based on predetermined Key Performance Indicator (KPI) targets established by the Board and an assessment of leadership; and
- longer-term incentives, based on predetermined TSR and EPS performance established by the Board.

Our remuneration mix

The FY12 target remuneration mix was as follows:



As part of nib's ongoing remuneration review process this has been revised for the upcoming financial year (FY13).

Variations in target remuneration mix between the executive roles are reflective of the responsibilities of the roles.

Fixed remuneration

Fixed remuneration for executives is determined with reference to a benchmarking process and consideration of the expertise of the individual in the role.

The fixed remuneration may be delivered as a combination of cash, vehicle capital allowance, other allowances and benefits (inclusive of FBT, if appropriate) and superannuation. 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. For FY13, consistent with the results of the benchmarking, TFRs have been adjusted to compensate for this allowance as no vehicle operating costs will be reimbursed from 1 July 2012 onwards.

REMUNERATION REPORT CONTINUED

Short-term incentives for the financial year ended 30 June 2012

Two-thirds of the STI was determined with reference to verifiable financial performance and one-third referable to a leadership assessment for each executive.

The Board is responsible for assessing the performance of the MD/CEO and the MD/CEO is responsible for assessing the performance of the other executives (with approval of the resulting STIs by the Board following a recommendation from the Committee).

The actual level of STI paid to each executive is determined at the end of the financial year based on the executives' achievement of specific KPIs and an annual performance review. The cash component of the bonuses is payable on or before 15 September each year in respect of the prior financial year.

Each executive has a target STI opportunity. A portion of the awarded STI each year must be held in escrow for one year as performance shares.

	FY12 Maximum potential STI as a % of TFR	Proportion of actual FY12 STI to be held in escrow for one year
Mark Fitzgibbon	60%	30%
Matthew Henderson	40%	20%
Melanie Kneale[1]	40%	20%
Rhoderic McKensey	40%	20%
Michelle McPherson	60%	20%
Brendan Mills	40%	20%

1. FY12 STI paid on redundancy for Melanie Kneale was awarded 100% as cash. No portion was issued as performance shares.

The specific KPIs and weighting for FY12 for each executive are:

	Mark Fitzgibbon (MD/CEO)	Matthew Henderson (GECIB)	Melanie Kneale (COTO)	Rhoderic McKensey (CCO)	Michelle McPherson (DCEO/CFO)	Brendan Mills (CIO)
Consolidated underwriting profit	70%	40%	50%	50%	70%	60%
Consolidated premium revenue	20%	na	na	na	na	na
EPS	10%	10%	10%	10%	20%	10%
Policyholder growth	na	na	20%	40%	10%	20%
Gross margin HIB	na	na	20%	na	na	na
International business underwriting profit	na	50%	na	na	na	10%

The short-term performance incentives may be adjusted up or down in line with under or over achievement against the target performance levels.

The percentage of the maximum STI that was awarded and the percentage that was unrealised are set out below.

	FY12 STI Bonus		FY11 STI Bonus	
	Awarded %	Forfeited %	Awarded %	Forfeited %
Mark Fitzgibbon	42.2%	57.8%	89.5%	10.5%
Matthew Henderson	30.5%	69.5%	83.8%	16.2%
Melanie Kneale[1]	63.3%	36.7%	75.7%	24.3%
Rhoderic McKensey	33.8%	66.2%	80.0%	20.0%
Michelle McPherson	37.7%	62.3%	88.3%	11.7%
Brendan Mills	30.5%	69.5%	99.2%	0.8%
	39.6%	**60.4%**	**86.1%**	**13.9%**

1. Based on estimate at time of redundancy and fully paid in cash.

Long-term incentives for the financial year ended 30 June 2012

LTIs focus executives on sustained EPS and TSR performance. LTIs granted in FY09 will fully vest in September 2012 as performance hurdles were met.

The nib LTIP is designed to align the interests of executives and shareholders and to assist nib in the attraction, motivation and retention of executives.

LTIP participants are granted performance rights, which enable the executive to acquire shares in nib for nil consideration if performance conditions are met and the employees are still employed by nib 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.

As allowed for by the LTIP Rules, the Board exercised its discretion in respect of Melanie Kneale to determine that vesting of the FY10 to FY12 performance rights be accelerated based on expected results for FY12, and that performance rights in respect of FY11 to FY14 and FY12 to FY15 lapse as a result of redundancy on 1 June 2012.

Recognising that performance rights have been awarded in each year under the LTIP, it should be noted that the change made in 2010 saw the duration of the LTI move from three years to four years and as a consequence there will be no vesting event in FY14.

Performance rights prior to 1 July 2010

The FY10 to FY12 LTI is the last tranche of the three year LTIs.

These rights are subject to earnings per share growth targets (EPS Hurdle) over a three year period as determined by the Board. 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 (CAGR) is below 10%. There is no re-testing of performance.

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

EPS Hurdle CAGR from base EPS	Percentage of performance rights vesting	FY10–FY12 LTIP
Base EPS		4.7 cps
25% CAGR	100%	9.2 cps
20% CAGR	75%	8.1 cps
15% CAGR	50%	7.1 cps
10% CAGR	25%	6.3 cps
Nil to less than 10% CAGR	0%	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

Significant changes made to the LTIP from 1 July 2010 were:

- introducing of a relative total shareholder return (TSR) which applies to half of the LTI allocation;
- extending the performance period to four years; and
- the requirement for 50% of the LTI to have a two year escrow period which extends beyond termination.

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 applies to half of the LTI allocation. The TSR Hurdle measures the growth in the price of nib securities plus nib cash distributions 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	Performance 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%

REMUNERATION REPORT CONTINUED

EPS Hurdle (Tranche 2)

The EPS Hurdle applies to 50% of the LTI allocation. Vesting of performance rights is subject to nib holdings limited EPS hurdle as follows:

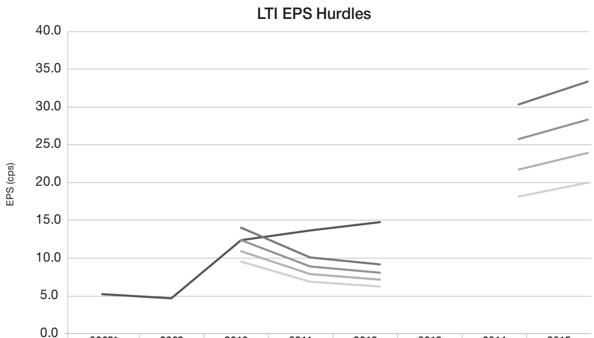
EPS Hurdle CAGR from base EPS	Percentage of performance rights vesting	FY11–FY14 LTIP	FY12–FY15 LTIP
Base EPS		12.4 cps	13.7 cps
25% CAGR	100%	30.3 cps	33.4 cps
20% CAGR	75%	25.7 cps	28.4 cps
15% CAGR	50%	21.7 cps	23.9 cps
10% CAGR	25%	18.2 cps	20.0cps
Nil to less than 10% CAGR	0%	nil	nil

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%.

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.

One half 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.

The graph below shows the EPS hurdles for all LTIPs since nib's listing.



	2008*	2009	2010	2011	2012	2013	2014	2015
EPS	5.2	4.7	12.4	13.7	14.8			
100% vesting			14.0	10.1	9.2		30.3	33.4
75% vesting			12.4	8.9	8.1		25.7	28.4
50% vesting			10.9	7.9	7.1		21.7	23.9
25% vesting			9.6	6.9	6.3		18.2	20.0

There is no vesting event in respect of the FY13 result reflecting the move from three year LTI targets to four year LTI targets.

For the FY13 LTI grant the EPS hurdles will be recalibrated to more closely align with general market conditions.

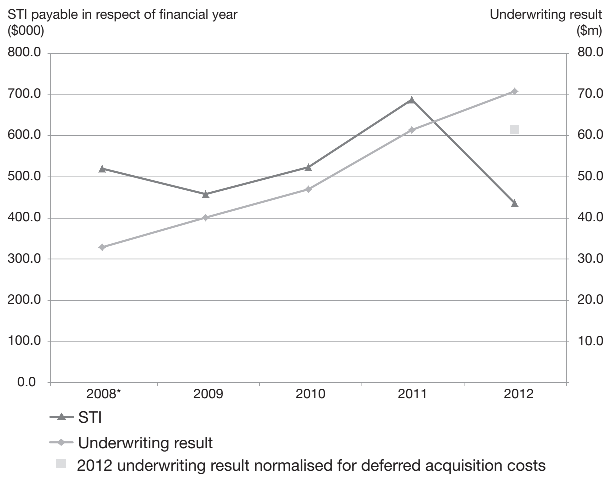
How reward was linked to performance this year

The components of remuneration that are linked to performance are the STI and the LTIP. Two-thirds of the STI are determined with reference to verifiable financial performance and one-third referable to a leadership assessment for each executive.

Results against verifiable financial performance KPIs are detailed in the table below.

KPI	Result
Consolidated underwriting profit	No award for this KPI as target did not include benefit of deferred acquisition costs accounting treatment or allowance for restructure costs. Actual consolidated underwriting results reflected a challenging competitive environment
Consolidated premium revenue	FY12 consolidated premium revenue up 11.5% on FY11
EPS	Award reflects performance at both a profitablity and capital management level.
Policyholder growth HIB	No award for this KPI with net HIB policyholder growth at 4.7% in challenging competitive environment
Gross margin HIB	FY12 gross margin HIB up 6.3% on FY11
International business underwriting result	No award for this KPI primarily due to impact of $1.4m loss on international students business

The graph below illustrates the link between payments made under the STI plan and growth in the underwriting result.



* 2008 underwriting result normalised for demutualisation and listing costs.

Terms of executive contracts

nib executives currently have fixed-term contracts. The Board has varied the MD/CEO and CFO contract so they are no longer fixed-term (effective 17 August 2012). It is proposed to progressively migrate other executive contracts to open contracts in line with market best practice.

Executive contracts summarise employment terms and conditions, including remuneration arrangements and compensation.

The table below provides a summary of the agreements.

	Service agreement effective	Term of agreement	Termination provision
Mark Fitzgibbon (MD/CEO)	1 July 2010	Open contract with notice period	The agreement may be terminated early by nib health funds limited giving notice with immediate effect or by the relevant executive giving three months notice
Michelle McPherson (DCEO/CFO)	1 July 2010	Open contract with notice period	
Brendan Mills (CIO)	1 June 2012	Open contract with notice period	
Matthew Henderson (GECIB)	1 May 2011	1 May 2011 to 30 June 2014	
Rhoderic McKensey (CCO)	4 March 2011	Three years ending 30 June 2014	

Termination payments

Up until 30 June 2012, executives were 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. For those executives with open contracts the Group may terminate the executive's contract with 12 months written notice and may make a payment in lieu of all or part of the notice period.

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 Board'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 LTIP are to be vested upon termination.

The Group received member approval at the 2011 Annual General Meeting of the Group for the payment of termination benefits which may exceed the 12 month salary limit on termination benefits under the *Corporations Act 2001 (Cth)*. The Board has determined that this approval will only be relied upon for people who were executives at the date of approval.

REMUNERATION REPORT CONTINUED

Detailed disclosure of executive remuneration (statutory tables)

Details of the remuneration of the executives of the nib holdings Group are set out in the following tables.

	Short-term employee benefits				Post-employment benefits		Long-term benefits	Termination benefits	Share-based payments		
Executives	Cash salary and fees $	Cash bonus $	Motor vehicle and insurance benefits $	Other non-monetary benefits[3] $	Super-annuation $	Retirement benefits $	Long service leave $	Termination benefits $	Bonus[4] $	Performance rights $	Total $
2012											
Mark Fitzgibbon	520,559	103,747	37,318	94,337	50,000	–	9,527	–	44,392	442,898	1,302,778
Matthew Henderson	295,621	28,723	14,349	4,998	15,775	–	–	–	7,176	7,312	373,954
Melanie Kneale (to 1/6/2012)	330,067	85,780	12,882	5,709	15,775	–	–	375,578	(1,979)	166,604	990,416
Rhoderic McKensey	361,541	37,340	15,456	2,732	25,000	–	6,264	–	9,319	97,855	555,507
Michelle McPherson	382,684	71,564	12,074	2,973	21,314	–	6,610	–	17,868	143,115	658,202
Brendan Mills[1]	194,527	32,212	2,248	2,217	15,775	–	3,655	–	500	–	251,134
	2,084,999	359,366	94,327	112,966	143,639	–	26,056	375,578	77,276	857,784	4,131,991
2011											
Mark Fitzgibbon	510,797	192,238	53,390	44,976	50,000	–	9,197	–	118,201	310,784	1,289,583
Matthew Henderson[2]	225,070	41,908	2,807	3,696	15,199	–	–	–	3,175	918	292,773
Melanie Kneale	343,578	85,603	13,466	25,665	15,199	–	–	–	24,204	108,374	616,089
Rhoderic McKensey	291,304	73,875	10,385	6,081	15,199	–	4,935	–	19,750	54,559	476,088
Michelle McPherson	343,251	101,653	23,598	1,100	20,738	–	6,381	–	41,191	117,971	655,883
	1,714,000	495,277	103,646	81,518	116,335	–	20,513	–	206,521	592,606	3,330,416

1. Brendan Mills was appointed Chief Information Officer on 1 June 2012. Before this appointment he was the company's Information Technology Manager. Amounts shown above include all Mr Mills' remuneration during the reporting period, whether as an executive officer or as Information Technology Manager. Amounts received in his position as Chief Information Officer amounted to $25,649, made up of cash salary of $21,230, cash bonus of $2,000, non-monetary benefits of $232, superannuation of $1,315, long service leave of $372, and share-based bonus of $500.
2. 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.
3. Other non-monetary benefits includes the cost of corporate entertainment attended by executives on behalf of the Group plus associated Fringe Benefits Tax payable by the Group in relation to these items.
4. Includes bonus share rights. Refer to Share-based compensation. Negative amounts result from the overaccrual of bonuses in 2011.

Details of current LTI allocations

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

	FY09 to FY11 LTIP	FY10 to FY12 LTIP	FY11 to FY14 LTIP	FY12 to FY15 LTIP	Total
Grant date[1]	30 June 2009	28 January 2010	27 May 2011	21 Dec 2011	
Vesting and exercise date	1 Sep 2011 (FY12)	1 Sep 2012 (FY13)	1 Sep 2014 (FY15)	1 Sep 2015 (FY16)	
Expiry date	31 Dec 2013	31 Dec 2014	1 Sep 2014	1 Sep 2015	
Exercise price	nil	nil	nil	nil	
Value per performance right and grant date	0.7687	1.1279	1.1235	1.1313	
Performance achieved and % vested	100%	100% for Melanie Kneale, to be determined for all other KMPs	0% for Melanie Kneale, to be determined for all other KMPs	0% for Melanie Kneale, to be determined for all other KMPs	
% fortified	0%	0% for Melanie Kneale, to be determined for all other KMPs	100% for Melanie Kneale, to be determined for all other KMPs	100% for Melanie Kneale, to be determined for all other KMPs	
Number of performance rights yet to vest at the end of the financial year	–	416,516	467,878	443,333	1,327,727
Vesting hurdle (refer table on page 13 and 14)	100% 3yr EPS	100% 3yr EPS	50% 4yr EPS / 50% 4yr TSR	50% 4yr EPS / 50% 4yr TSR	

	Number	$	Number	$	Number	$	Number	$	Number	$
Mark Fitzgibbon										
Number of performance rights yet to vest at 1 July 2011	360,629		270,280		235,952		–		866,861	
Number and value at grant date of performance rights granted during the year[2]	–		–		–		217,546	246,110	217,546	
Number of performance rights vested during the year[4]	(360,629)		–		–		–		(360,629)	
Number of performance rights forfeited during the year	–		–		–		–		–	
Number of performance rights and maximum total value yet to vest at 30 June 2012[3]	–	–	270,280	454,900	235,952	397,124	217,546	325,231	723,778	1,177,255
Date of exercise of performance rights	2 Sep 2011		n/a		n/a		n/a			
Number of shares issued and value on exercise of performance rights during the year[4]	405,997	586,565	n/a	n/a	n/a	n/a	n/a	n/a	405,997	586,565
Matthew Henderson										
Number of performance rights yet to vest at 1 July 2011	–		–		55,344		–		55,344	
Number and value at grant date of performance rights granted during the year[2]	–		–		–		51,026	57,726	51,026	
Number of performance rights vested during the year[4]	–		–		–		–		–	
Number of performance rights forfeited during the year	–		–		–		–		–	
Number of performance rights and maximum total value yet to vest at 30 June 2012[3]	–	–	–	–	55,344	93,148	51,026	76,284	106,370	169,432
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[4]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

1. Performance rights granted under the plan carry no dividend or voting rights.
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.
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 30 June 2012 of $1.495. For the FY12 to FY15 LTIP the maximum value is calculated as the number of performance rights multiplied by the share price.
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

	FY09 to FY11 LTIP		FY10 to FY12 LTIP		FY11 to FY14 LTIP		FY12 to FY15 LTIP		Total	
	Number	$	Number	$	Number	$	Number	$	Number	$
Melanie Kneale										
Number of performance rights yet to vest at 1 July 2011	106,549		81,859		70,503		–		258,911	
Number and value at grant date of performance rights granted during the year[2]	–		–		–		64,995	73,529	64,995	
Number of performance rights vested during the year[4]	(106,549)		(81,859)		–				(188,408)	
Number of performance rights forfeited during the year	–		–		(70,503)		(64,995)		(135,498)	
Number of performance rights and maximum total value yet to vest at 30 June 2012[3]	–	–	–	–	–	–	–	–	–	–
Date of exercise of performance rights	2 Sep 2011		10 July 2012		n/a		n/a			
Number of shares issued and value on exercise of performance rights during the year[4]	119,953	173,303	92,157	134,549	n/a	n/a	n/a	n/a	212,110	307,852
Rhoderic McKensey										
Number of performance rights yet to vest at 1 July 2011	77,910		59,851		57,529		–		195,290	
Number and value at grant date of performance rights granted during the year[2]	–		–		–		64,995	73,529	64,995	
Number of performance rights vested during the year[4]	(77,910)		–		–		–		(77,910)	
Number of performance rights forfeited during the year	–		–		–		–		–	
Number of performance rights and maximum total value yet to vest at 30 June 2012[3]	–	–	59,851	100,733	57,529	96,825	64,995	97,168	182,375	294,726
Date of exercise of performance rights	2 Sep 2011		n/a		n/a		n/a			
Number of shares issued and value on exercise of performance rights during the year[4]	87,711	126,721	n/a	n/a	n/a	n/a	n/a	n/a	87,711	126,721
Michelle McPherson										
Number of performance rights yet to vest at 1 July 2011	112,451		86,385		119,053		–		317,889	
Number and value at grant date of performance rights granted during the year[2]	–		–		–		109,766	124,178	109,766	
Number of performance rights vested during the year[4]	(112,451)		–		–		–		(112,451)	
Number of performance rights forfeited during the year	–		–		–		–		–	
Number of performance rights and maximum total value yet to vest at 30 June 2012[3]	–	–	86,385	145,392	119,053	200,375	109,766	164,100	315,204	509,867
Date of exercise of performance rights	2 Sep 2011		n/a		n/a		n/a			
Number of shares issued and value on exercise of performance rights during the year[4]	126,598	182,902	n/a	n/a	n/a	n/a	n/a	n/a	126,598	182,902

1. Performance rights granted under the plan carry no dividend or voting rights.
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.
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 30 June 2012 of $1.495. For the FY12 to FY15 LTIP the maximum value is calculated as the number of performance rights multiplied by the share price.
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.

Non-Executive Director remuneration

Fees and payments to Non-Executive Directors reflect the responsibilities of the position and market comparisons.

Non-Executive Director fees

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

Non-Executive Directors' fees are determined within the $1,100,000 aggregate Directors fee pool limit, which was approved by shareholders in September 2007. 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:

	2012 $	2011 $
Base fees		
Chairman	196,270	190,000
Other Non-Executive Directors	89,871	87,000
Additional fees*+		
Committee – Chairman	26,660	20,000
Committee – member	10,330	10,000

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

+ No fees are paid to any Non-Executive Director for membership of the Nomination Committee.

From 1 July 2012, Directors' fees have increased by an average of 4% and Chairman's fee has been increased to $215,000.

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

Share ownership by Non-Executive Directors

Non-Executive Directors do not receive share options. Historically, 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 until 30 June 2012 was 20% of base fees (excluding the superannuation component) in nib holdings limited shares.

The requirement to take a portion of annual Directors' fees in shares was calculated as a cumulative amount, having regard to nib shares acquired by Directors directly or indirectly. All current Non-Executive Directors comply with this requirement as at 30 June 2012.

From 1 July 2012, the share ownership requirement for Non-Executive Directors has been changed. Going forward, Directors will be required to hold a minimum of 50% of the total annual base Director's fee to be accumulated within three years of appointment based on the share price and fees at the date of joining the Board.

Retirement allowances for Directors

There are no retirement allowances for Non-Executive Directors other than for Directors appointed by nib health funds limited before 24 November 2005.

Dr A. Carruthers is the only current Non-Executive Director that is eligible for a retirement allowance.

Dr A. Carruthers is entitled to a lump sum retirement benefit based on number of years of service. The benefit 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 factor based on years of service was frozen at 24 November 2005. The factor for Dr A. Carruthers is 0.71.

At 30 June 2012 the following retirement benefits were provided for:

Annette Carruthers	$66,134

REMUNERATION REPORT CONTINUED

Detailed disclosure of the non-executive remuneration (statutory tables)

Details of the remuneration of the Directors of the nib holdings Group are set out in the following tables.

	Short-term employee benefits				Post-employment benefits		Long-term benefits	Termination benefits	Share-based payments		
Non-Executive Directors	Cash salary and fees $	Cash bonus $	Motor vehicle and insurance benefits $	Other non-monetary benefits $	Superannuation $	Retirement benefits $	Long service leave $	Termination benefits $	Bonus $	Performance rights $	Total $
2012											
Keith Lynch (to 30/9/2011)	45,016	–	–	6,363	4,051	3,752	–	–	–	–	59,182
Harold Bentley	77,748	–	–	–	50,000	–	–	–	–	–	127,748
Annette Carruthers	100,435	–	–	5,149	30,756	2,965	–	–	–	–	139,305
Steve Crane	162,769	–	–	–	14,649	–	–	–	–	–	177,418
Philip Gardner	120,359	–	–	–	10,832	–	–	–	–	–	131,191
Christine McLoughlin	117,200	–	–	–	10,548	–		–	–	–	127,748
	623,527	–	–	11,512	120,836	6,717	–	–	–	–	762,592
2011											
Keith Lynch	140,000	–	–	2,720	50,000	18,349	–	–	–	–	211,069
Harold Bentley	67,000	–	–	–	50,000	–	–	–	–	–	117,000
Annette Carruthers	96,590	–	–	2,905	30,410	4,653	–	–	–	–	134,558
Steve Crane	82,444	–	–	–	7,420	–	–	–	–	–	89,864
Philip Gardner	116,514	–	–	–	10,486	–	–	–	–	–	127,000
Brian Keane	34,502	–	–	–	3,220	–	–	–	–	–	37,722
Christine McLoughlin	30,136	–	–	–	2,712	–	–	–	–	–	32,848
	567,186	–	–	5,625	154,248	23,002	–	–	–	–	750,061

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
28 January 2010	31 December 2014	nil	416,516
27 May 2011	1 September 2014	nil	467,878
21 December 2011	1 September 2015	nil	443,333

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.

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 disclosed in Note 31 – Remuneration of Auditors.

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;
- none of the services undermine the general principles relating to auditor independence as set out in *APES 110 Code of Ethics for Professional Accountants.*

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 wilful 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 23.

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 and financial report. Amounts in the Directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

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

On behalf of the Board,

Steve Crane
Director

Harold Bentley
Director

Newcastle, NSW
17 August 2012

pwc

Auditor's Independence Declaration

As lead auditor for the audit of nib holdings limited for the year ended 30 June 2012, 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

Newcastle
17 August 2012

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PricewaterhouseCoopers Centre, 26 Honeysuckle Drive, PO Box 798, NEWCASTLE NSW 2300
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Corporate Governance Statement

for the year ended 30 June 2012

This Corporate Governance Statement for nib holdings limited (**nib**) sets out details of nib's corporate governance practices for the year ended 30 June 2012 (FY12).

The nib Board and management are committed to achieving and demonstrating the highest standards of corporate governance and ensuring compliance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

Further information about nib's governance policies and practices are available from the corporate governance information section on the nib shareholder website, nib.com.au/shareholders

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

1.1 Functions reserved to the Board and delegations to management.

The nib Board has a number of important responsibilities under the Corporations Act, ASX Listing Rules and nib's Constitution.

The responsibilities of the nib Board and management are identified in the following ways:

Board Charter

The nib Board is responsible for the governance of the nib Group. The Board Charter sets out the role and responsibilities of the Board, the responsibilities that have been delegated to committees of the Board or to management, as well as the membership and the operation of the Board.

Specifically, the Charter reserves the following specific responsibilities to the Board:

- **Strategy** – overseeing the development of nib'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 MD/CEO, the Chief Financial Officer and Company Secretary, approving senior executive remuneration policies and practices and monitoring performance.
- **Shareholders** – facilitating the effective exercise of shareholder rights, and effective communication with shareholders and reporting to shareholders.
- **Other stakeholders** – establishing and monitoring policies governing nib'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 nib Directors and employees in meeting standards of practice necessary to maintain confidence in nib's integrity.
- **Oversight of financial and capital management** – reviewing and approving nib's annual and half yearly financial reports, establishing and overseeing nib's accounting and financial management systems, capital management and the dividend policy.
- **Compliance and risk management** – establishing and overseeing nib's system for compliance and risk management.

The Board Charter is available on our website, nib.com.au

Board Committee Charters

The nib Board currently has five standing committees (Audit Committee, People and Remuneration Committee, Nomination Committee, Risk and Reputation Committee and the Investment Committee). The Board has delegated certain responsibilities to these standing committees. The details of their responsibilities are set out in the Committee Charters.

The Committee Charters are available on our website, nib.com.au

Delegation of Authority

The MD/CEO of nib is responsible for the day to day management of the business and its operations, with the Board delegating authority to the MD/CEO to perform this function. The MD/CEO has, in turn, approved sub-delegations of authority for nib management. Any matters that fall outside of the delegations of authority must be brought to the Board for approval.

1.2 nib has, in this statement, set out the process for evaluating the performance 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 MD/CEO is evaluated and assessed by the Board, assisted by the People and Remuneration Committee, each year. This process was followed in FY12.

- The MD/CEO conducts performance reviews of nib senior executives (Key Management Personnel) 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. This process was followed for FY12.

1.3 nib provides the information indicated in the Guide to reporting on Principle 1.

nib complies with Recommendations 1.1, 1.2 and 1.3.

The following information is available on our website, nib.com.au:

- Board Charter;
- Committee Charters for the Audit Committee, People and Remuneration Committee, Risk and Reputation Committee, Nomination Committee and Investment Committee.

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

2.1 nib's Board comprises a majority of independent Directors.

There are currently six Directors on nib's Board; five Non-Executive Directors, all of whom are independent, and one Executive Director, being the nib CEO, who is also appointed as the Managing Director. The Board Charter requires that all Directors should bring an independent judgment to bear on all Board decisions.

At the date of this report, the Board comprises:

Mr Steven Crane (Chairman; Non-Executive Director/Independent)
Appointed: 28 September 2010
Appointed as Chairman: 1 October 2011

Mr Mark Fitzgibbon (Managing Director/CEO)
Appointed: 28 May 2007

Mr Harold Bentley (Non-Executive Director/Independent)
Appointed: 7 November 2007

Dr Annette Carruthers (Non-Executive Director/Independent)
Appointed: 20 September 2007

Mr Philip Gardner (Non-Executive Director/Independent)
Appointed: 28 May 2007

Ms Christine McLoughlin (Non-Executive Director/Independent)
Appointed: 20 March 2011

The Director's profiles appear at page 3 of this Annual Report.

Directors' Independence

In accordance with the ASX Corporate Governance Principles and Recommendations, the Board is comprised of a majority of independent, Non-Executive Directors. As noted previously, the Board Charter requires that all Directors 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 or an officer of, or otherwise associated directly with, a substantial shareholder of nib;
- is, or has been employed in, an executive capacity by nib 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 or any other group member, or an employee materially associated with the service provided is a material supplier or customer of nib of any other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; or
- has a material contractual relationship with nib or another group member other than as a Director of nib.

A professional adviser, consultant, supplier or customer will be considered to have a material contractual relationship with nib if:

- from the perspective of a nib Director, the business relationship is significant (directly or indirectly) to their own circumstances.
- from the perspective of nib, the relationship is one that has the potential, if disrupted, to have a significant impact on nib's business operations as assessed by the other Directors.

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 and keep this 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 nib and the Group in accordance with the approved criteria for assessing independence.

Conflicts of interest

Directors must avoid conflicts of interest except in those circumstances permitted by the 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.

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE CONTINUED

2.2 nib's Chairman is an independent Director.

The nib Board Charter requires the Chairman to be an independent Non-Executive Director. Mr Steven Crane, who is an independent Non-Executive Director, was appointed Chairman of nib on 1 October 2011.

The Chairman's specific responsibilities include (as set out in the Charter):

- 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's 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 with the Company Secretary and reporting on those matters to the Board.

2.3 At nib, the role of the Chairman and CEO is not exercised by the same individual.

As previously noted, Mr Steven Crane is the Chairman and Mr Mark Fitzgibbon is the MD/CEO.

2.4 The nib Board has established a Nomination Committee.

The Nomination Committee is a standing committee of the nib Board. The Nomination Committee includes all Non-Executive Directors. The Nomination Committee assists the Board and makes recommendations on the selection and appointment of Directors, the process of evaluating Director performance, the composition of the Board, and succession planning for the Board. The Committee ensures that Directors bring a variety of perspectives, experiences, skills and diversity in the best interests of nib.

2.5 nib discloses in its Nomination Charter and in this statement, the process for evaluating the performance of the Board, its committees and individual Directors.

The Nomination Charter sets out the responsibilities, composition, structure, membership requirements and procedures for appointing members to the Board.

Selection and appointment of Directors

When a vacancy on the Board arises, the Nomination Committee identifies candidates with appropriate skills, experience and expertise and makes recommendations to the Board. When the Board considers that a suitable candidate has been found, that person is appointed by the Board, either to fill a casual vacancy or as an addition to the Board, in accordance with nib's Constitution. The Director must stand for election by shareholders at the next annual general meeting (AGM).

Non-Executive Directors receive 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 since the previous AGM. Retiring Directors are eligible for re-election. A Director must retire from office at least every three years.

Before each AGM, the Board will assess the performance of any Director standing for re-election and will determine their recommendation to shareholders on the re-election of the Director. The Board (excluding the Chairman) conducts the review of the Chairman.

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 FY12 was conducted in-house. 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 committee structure of nib. The Risk and Reputation Committee undertook a self-assessment in FY12. As part of this exercise, each committee also sought the input of management and external stakeholders who regularly attend committee meetings.

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 nib's expense and have the right of access to all relevant information in relation to nib and to senior executives. At the time of appointment, each Director enters into a Deed of Access, Insurance and Indemnity with nib.

2.6 nib provides the information indicated in the Guide to reporting on Principle 2.

nib complies with Recommendations 2.1, 2.2, 2.3, 2.4, 2.5 and 2.6.

The following information is available on our website, nib.com.au:

- Board Charter;
- Committee Charters for the Audit Committee, People and Remuneration Committee, Risk and Reputation Committee, Nomination Committee and Investment Committee.

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 behaviour in their relationships with the Group's stakeholders. A summary of the Group's core codes and policies, which apply to all employees, are set out in this corporate governance statement. These policies and codes are available on the nib website, nib.com.au.

3.1 nib has a Code of Conduct in place and discloses the code on our website.

nib has adopted a Code of Conduct which applies to all Directors, officers, employees, contractors, consultants and associates of nib 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. The Code of Conduct is reviewed annually and was updated on 14 February 2012. The Code of Conduct is available on our website, nib.com.au.

3.2 nib has a Diversity Policy in place and discloses the Diversity Policy on our website, nib.com.au. The Diversity Policy includes the requirement for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.

nib's Diversity Policy sets out our 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.

3.3 The nib Board has set measureable objectives for achieving gender diversity in accordance with its Diversity Policy and discloses progress towards achieving them.

The Board of nib is committed to achieving diversity in accordance with its Diversity Policy. Set out below are the measureable objectives set by the Board for achieving gender diversity.

Objective	Details	Timeframe	Results as at 30 June 2012
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.	Ongoing	In line with our recruitment policy, all candidates are selected based on merit and interviewed by a diverse selection panel including human resources, the recruitment managers and team leaders. Recruitment vacancies are advertised through seek.com.au, local and national publications, industry websites, nib.com.au and where necessary through recruitment agencies.

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING CONTINUED

Objective	Details	Timeframe	Results as at 30 June 2012
Representation	Set goals, timeframes and succession plans to improve the number of women in management roles in the business. At a minimum: ■ 40% of managers and team leaders; ■ 30% of business unit managers; ■ 30% of executives; ■ Two Non-Executive Directors; and ■ One member of the People and Remuneration Committee.	June 2014	■ 55.6% of managers and team leaders are women; ■ 15% of business unit managers are women; ■ 20% of executives are women; ■ Two female Non-Executive Directors on the Board; and ■ Two female Non-Executive Directors are on the People 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 and executive roles.	June 2012	A mentoring program has been designed, however, not yet implemented. The program will be used as a development tool for the purposes of sharing knowledge, experience and insight with respect to a particular area of expertise. Employee professional career development is discussed and documented within their individual performance review and plan. We provide a number of programs in our Learning Curriculum to help develop employees, and source external training to develop specific skills and knowledge. Employees also have access to Education Assistance which provides financial support towards formal education to broaden job-related knowledge or to obtain professional certification. As part of nib's professional career development in FY12, nib awarded scholarships to three women to undertake a research program of their own choice.
Flexible work practice	Develop a flexible work practices policy and engender a culture of support for flexible work practices where possible and required; Educate managers on strategies for supporting and managing flexible work arrangements successfully.	June 2012	We offer the ability for flexible work arrangements to employees, including part-time hours (either on a permanent or temporary basis), the ability to change start and finish times to meet domestic requirements and, where possible, working from home.
		October 2012	The flexibility provided by the remote agent workforce (RAW) meets the needs of a diverse workforce both in terms of working hours and environment.

3.4 nib has in this statement, set out the proportion of women employees across the whole of the organisation, women in senior executive positions and women on the Board.

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

At 30 June 2012, 74.6% of nib's total workforce was female.

3.5 nib provides the information indicated in the Guide to reporting on Principle 3.

nib complies with Recommendations 3.1, 3.2, 3.3, 3.4 and 3.5.

The following information is available from our website, nib.com.au:

- Code of Conduct;
- Diversity Policy.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

4.1 The Board of nib has established an Audit Committee.

The Audit Committee is a standing committee of the nib Board. The Audit Committee operates in accordance with its Charter. The Audit Committee Charter is available on our website, nib.com.au.

4.2 nib's Audit Committee:

- **consists only of Non-Executive Directors;**
- **consists only of independent Directors;**
- **is chaired by an independent Director, who is not Chairman of the Board.**

The Audit Committee includes members who have appropriate financial experience and understanding of the private health insurance industry. There are currently three members of the Audit Committee: Mr Harold Bentley (Committee Chairman), Dr Annette Carruthers and Mr Philip Gardner. Ms Christine McLoughlin served on the Audit Committee from 20 March 2011 to 30 June 2012. The Board Chairman is not a member of the Committee and attends meetings in an ex-officio capacity.

Details of the skills, experience and expertise of the Audit Committee members is set out on pages 3 and 4 of this report.

The Audit committee held eight meetings in FY12.

4. nib's Audit Committee has a formal charter.

The Audit Committee Charter sets out the role and responsibility of the Audit Committee.

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

- the appointment, remuneration, independence, competence and performance of nib's external audit function;
- the integrity of nib's financial statements and other material regulatory documents;
- compliance with relevant financial reporting standards and ASX listing obligations and accounting policies adopted by nib;
- the propriety of related party transactions (if any); and
- monitoring compliance with nib'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 that the MD/CEO and the 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.

The Audit Committee Charter is available on our website, nib.com.au.

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

5.1 nib has written policies designed to ensure compliance with the ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclosure those policies or summary of those policies.

nib 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 has established a Disclosure Committee which is responsible for managing nib's disclosure obligations under the ASX Listing Rules. The Disclosure Committee comprises the MD/CEO, CFO, Company Secretary, Corporate Affairs and Investor Relations Manager, and Legal Counsel.

nib 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, nib 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.

nib's Company Secretary has been nominated as the person responsible for communications with the ASX.

5.2 nib provides the information indicated in the Guide to reporting on Principle 5.

nib complies with Recommendations 5.1 and 5.2.

The following information is available on our website, nib.com.au:

- nib's Disclosure and Communication Policy;
- Disclosure and Materiality Guidelines.

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

6.1 nib has a Disclosure and Communication Policy in place for promoting effective communication with shareholders and encouraging their participation at general meetings. The Disclosure and Communication Policy is available on our website, nib.com.au.

nib's Disclosure and Communication Policy sets out the way in which nib communicates to 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 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 the shareholder website soon after release to the market by the ASX.

Shareholder participation

The Board of nib is committed to communicating effectively with shareholders and making it easy to participate in general meetings. Shareholders may elect to receive information electronically as it is posted on nib's shareholder website (the website provides information about how to make this election). Alternatively, a shareholder may elect to receive company reports and shareholder documents, such as the Notice of Annual General Meeting, by post.

Shareholders are encouraged to attend the AGM and use the opportunity to ask questions at the meeting. If a shareholder is unable to attend the AGM, the shareholder can appoint a proxy to attend and vote on their behalf/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. nib responds in writing to any shareholder who submits a written question. 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 places Notices of General Meetings and accompanying explanatory material on the nib website. In 2011, shareholders were also able to view the AGM via a webcast available on nib's website. Shareholders will be able to watch and listen to the business of the 2012 AGM by webcast from the nib website.

6.2 nib provides the information indicated in the Guide to reporting on Principle 6.

nib complies with Recommendations 6.1 and 6.2.

nib's Disclosure and Communication Policy is available on our website, nib.com.au.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

7.1 nib has established policies for the oversight and management of material business risks. The Risk Policy is available on our website, nib.com.au.

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 to the Board Committees section on page 3) and the committee's role includes reviewing and making recommendations to the Board in respect of nib's system of risk management.

nib's Risk Policy 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's Risk Policy and Risk Management Framework is based on the Australian/New Zealand Standard (AS/NZS ISO 31000:2009) for risk management and also 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 assessments 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's ability to deliver its strategic objectives. At a high level these are:

- **Financial Risk** – the risks associated with achieving nib'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.

7.2 nib's Board has required management to design and implement the risk management and internal control systems to manage nib's material business risks and to report to the Board on whether those risks are being managed effectively.

The Board and the Risk and Reputation Committee receive regular reports on key enterprise risks that may impede nib in meeting its business objectives. During FY12, 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 as they apply to financial reporting, financial management systems, accounting and business policies to minimise any financial risks.

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

The MD/CEO and CFO provide annual formal statements to the Board to the effect that:

- nib'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 and are in accordance with relevant accounting standards; and
- nib's practices are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and nib's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

Internal audit

nib has a dedicated internal audit function that assists with the identification and control of key enterprise risks. The internal audit function for FY12 was performed by Deloitte Touche Tohmatsu. The internal auditor provides an independent and objective internal audit review of nib's risks and key controls and how nib's processes and technology are operated and managed to provide the best outcomes for nib.

The nib 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 the Risk and Reputation Committee and 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.

Internal audit reports in relation to key enterprise risks are also considered at meetings of the Risk and Reputation Committee. Representatives from the internal auditors regularly attend meetings of the Risk and Reputation Committee to present internal audit report and answer questions from the committee.

7.3 nib's Board has received assurance from the Chief Executive Officer and Chief Financial Officer that a declaration in accordance with s295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to reporting financial risks.

In August 2012, the Board of nib received a statement in relation to FY12 full year report and results from the MD/CEO and the CFO covering the matters set out in section 295A of the Corporations Act and in accordance with Recommendation 7.3.

7.4 nib provides the information indicated in the Guide to reporting on Principle 7.

nib complies with Recommendations 7.1, 7.2, 7.3 and 7.4. The Board and its standing committees have received reports from management in accordance with Recommendations 7.2 and 7.3.

nib's Risk Policy is available on our website, nib.com.au.

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

8.1 The nib Board has established a People and Remuneration Committee.

The People and Remuneration Committee is a standing committee of the nib Board. The People and Remuneration Committee operates in accordance with its charter. The People and Remuneration Committee Charter is available on our website, nib.com.au.

8.2 nib's People and Remuneration Committee is structured so that it consists only of Non-Executive independent Directors, has an independent Chairman and has at least three members.

The People and Remuneration Committee includes members who have appropriate experience and understanding of the private health insurance industry. There are three members of the People and Remuneration Committee: Ms Christine McLoughlin (Committee Chairman), Dr Annette Carruthers and Mr Philip Gardner.

Details of the skills, experience and expertise of the People and Remuneration Committee members is set out on page 3 of this Annual Report.

The People and Remuneration Committee held six meetings in FY12.

8.3 nib clearly distinguishes the structure of Non-Executive Directors' remuneration from that of executive Directors and senior executives.

The People and Remuneration Committee reviews remuneration of senior executives and Non-Executive Directors every year. Every second year, the committee engages an independent remuneration consultant in relation to executive remuneration and market rates to assist it in making recommendations to the Board for nib's remuneration practices and the structure of Non-Executive Directors' remuneration and the remuneration of senior executives.

The remuneration of senior executives (who are Key Management Personnel), including the MD/CEO, have the following remuneration components:

- base salary;
- statutory entitlements (including superannuation and long service leave, as applicable);
- a short-term incentive (subject to performance thresholds); and
- a long-term incentive (subject to performance thresholds).

The terms of the Long-Term Incentive Plan were amended by the Board in FY11 to incorporate a four year vesting period. In August 2012 the Board adopted new LTIP rules to include good leaver provisions. Further information in relation to nib's remuneration practices for executives is provided as part of the Remuneration Report (page 6 of this Annual Report).

Remuneration for Non-Executive Directors is fixed. Board and Committee fee rates are reviewed by the People and Remuneration Committee and approved by the Board. The total annual remuneration paid to Non-Executive Directors must not exceed the fee pool set by shareholders at the AGM. The current maximum annual remuneration was set at $1.1 million by shareholders in September 2007. Further information in relation to nib's remuneration practices for Non-Executive Directors is provided as part of the Remuneration Report (page 6 of this Annual Report).

8.4 nib provides the information indicated in the Guide to reporting on Principle 8.

nib complies with Recommendations 8.1, 8.2, 8.3 and 8.4.

The following documents are available from our website, nib.com.au:

- People and Remuneration Committee Charter;
- nib Trading Policy.

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 2012, and the income statement, 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, ABN 52 780 433 757
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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 the consolidated entity's financial position as at 30 June 2012 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 20 of the directors' report for the year ended 30 June 2012. 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 2012, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

John Campion
Partner

Newcastle
17 August 2012

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Directors' Declaration
for the year ended 30 June 2012

In the Director's opinion:

a. the financial statements and notes set out on pages 36 to 89 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 2012 and of its performance for the financial year ended on that date; and

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

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

The Directors have been given declarations by the Chief Executive Officer and 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,

Steve Crane
Director

Harold Bentley
Director

Newcastle, NSW
17 August 2012

Financial Report
for the year ended 30 June 2012

CONTENTS

Consolidated Income Statement

for the year ended 30 June 2012

	Notes	2012 $000	2011 $000
Premium revenue	6	1,123,808	1,007,848
Claims expense		(765,436)	(693,162)
RETF levy		(159,980)	(132,744)
State levies		(23,823)	(22,874)
Claims handling expenses	7	(17,390)	(16,134)
Net claims incurred		(966,629)	(864,914)
Acquisition costs	7	(36,080)	(36,611)
Other underwriting expenses	7	(50,368)	(44,821)
Underwriting expenses		(86,448)	(81,432)
Underwriting result		70,731	61,502
Investment income	6	26,500	33,453
Other income	6	3,556	5,750
Investment expenses	7	(860)	(1,327)
Other expenses	7	(4,270)	(7,462)
Profit before income tax		95,657	91,916
Income tax expense	8	(28,017)	(26,453)
Profit for the year		67,640	65,463

		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company			
Basic earnings per share	39	14.8	13.7
Diluted earnings per share	39	14.8	13.7
Earnings per share for profit attributable to the ordinary equity holders of the company			
Basic earnings per share	39	14.8	13.7
Diluted earnings per share	39	14.8	13.7

The above Consolidated Income Statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2012

	Notes	2012 $000	2011 $000
Profit for the year		67,640	65,463
Other comprehensive income			
Revaluation of land and buildings	27(b)	1,245	83
Change in fair value of available for sale financial assets	27(b)	–	706
Income tax related to components of other comprehensive income	8(c)	(374)	(237)
Other comprehensive income for the year, net of tax		871	552
Total comprehensive income for the year attributable to equity holders of nib holdings limited		68,511	66,015

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

Consolidated Balance Sheet

as at 30 June 2012

	Notes	2012 $000	2011 $000
ASSETS			
Current assets			
Cash and cash equivalents	9	86,673	160,772
Receivables	10	70,208	49,469
Financial assets at fair value through profit or loss	11	356,774	319,293
Deferred acquisition costs	12	2,140	–
Total current assets		515,795	529,534
Non-current assets			
Receivables	10	10,000	20,000
Deferred acquisition costs	12	6,711	–
Available-for-sale financial assets	13	2,206	2,206
Deferred tax assets	14	2,124	6,554
Property, plant and equipment	15	42,104	41,858
Intangible assets	16	38,905	39,098
Total non-current assets		102,050	109,716
Total assets		617,845	639,250
LIABILITIES			
Current liabilities			
Payables	17	86,690	77,230
Borrowings	18	2,594	3,603
Outstanding claims liability	19	74,993	65,883
Unearned premium liability	20	135,867	65,202
Current tax liabilities	22	6,884	10,894
Provision for employee entitlements	23	2,144	3,657
Total current liabilities		309,172	226,469
Non-current liabilities			
Unearned premium liability	20	5,799	–
Provision for employee entitlements	23	1,276	991
Total non-current liabilities		7,075	991
Total liabilities		316,247	227,460
Net assets		301,598	411,790
EQUITY			
Contributed equity	25	27,581	42,193
Retained profits	26	271,954	367,595
Reserves	27	2,063	2,002
Total equity		301,598	411,790

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 2012

	Notes	Contributed Equity $000	Retained Profits $000	Reserves $000	Total Equity $000
Balance at 1 July 2010		42,437	347,358	1,606	391,401
Profit for the year	26	–	65,463	–	65,463
Changes in fair value of available-for-sale financial assets, net of tax	27(b)	–	–	494	494
Revaluation of property, net of tax	27(b)	–	–	58	58
Total comprehensive income for the year		–	65,463	552	66,015
Transactions with owners in their capacity as owners:					
Share buy-back	25(b)	(244)	(1,784)	–	(2,028)
Share buy-back – performance rights and bonus share rights	27(b)	–	–	(552)	(552)
Employee performance rights – value of employee services	27(b)	–	–	396	396
Dividends paid	28(a)	–	(43,442)	–	(43,442)
		(244)	(45,226)	(156)	(45,626)
Balance at 30 June 2011		42,193	367,595	2,002	411,790
Balance at 1 July 2011		42,193	367,595	2,002	411,790
Profit for the year	26	–	67,640	–	67,640
Revaluation of property, net of tax	27(b)	–	–	871	871
Total comprehensive income for the year		–	67,640	871	68,511
Transactions with owners in their capacity as owners:					
Capital return and transaction costs net of tax	25(b)	(9,123)	(66,288)	–	(75,411)
Share buy-back	25(b)	(4,964)	(36,075)	–	(41,039)
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust	25(d)	(525)			(525)
Share buy-back – performance rights and bonus share rights	27(b)	–	–	(1,069)	(1,069)
Employee performance rights – value of employee services	27(b)	–	–	259	259
Dividends paid	28(a)	–	(60,918)	–	(60,918)
		(14,612)	(163,281)	(810)	(178,703)
Balance at 30 June 2012		27,581	271,954	2,063	301,598

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 2012

	Notes	2012 $000	2011 $000
Cash flows from operating activities			
Receipts from policyholders and customers (inclusive of goods and services tax)		1,189,656	1,024,410
Payments to policyholders, suppliers and employees (inclusive of goods and services tax)		(1,048,789)	(942,516)
		140,867	81,894
Dividends received		37	28
Interest received		12,714	9,373
Distributions received		8,816	16,172
Transactions costs relating to acquisition of business		–	(1,056)
Interest paid		(8)	(2)
Income taxes paid		(27,795)	(18,129)
Net cash inflow (outflow) from operating activities	32(b)	134,631	88,280
Cash flows from investing activities			
Proceeds from disposal of other financial assets at fair value through the profit and loss		134,116	322,666
Payments for other financial assets at fair value through the profit and loss		(167,265)	(373,393)
Proceeds from sale of investment properties		10,000	–
Proceeds from sale of property, plant and equipment and intangibles		44	7
Payments for property, plant and equipment and intangibles	15,16	(5,730)	(5,230)
Proceeds from sale of Eye Care business		250	250
Payment for acquisition of business		–	(23,211)
Net cash (outflow) inflow from investing activities		(28,585)	(78,911)
Cash flows from financing activities			
Payments for share buy-back	25(b)	(41,039)	(2,028)
Payments for capital return	25(b)	(75,585)	–
Payments for employee performance & bonus share rights	27(b)	(1,069)	(552)
Payments for shares acquired by the nib Holdings Ltd Share Ownership Plan Trust	25(d)	(525)	–
Dividends paid to the company's shareholders	28(a)	(60,918)	(43,442)
Net cash inflow (outflow) from financing activities		(179,136)	(46,022)
Net increase (decrease) in cash and cash equivalents		(73,090)	(36,653)
Cash and cash equivalents at beginning of the year		157,169	193,822
Cash and cash equivalents at end of the year	32(a)	84,079	157,169
Reconciliation to Consolidated Balance Sheet			
Cash and cash equivalents		86,673	160,772
Borrowings		(2,594)	(3,603)
		84,079	157,169

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 2012

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 and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. nib holdings limited is a for-profit entity for the purpose of preparing the financial statements.

i. 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).

ii. 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.

iii. 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.

iv. Functional and presentation currency

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

v. 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 2012 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.

ii. Employee Share Trust

The Group has formed a trust to administer the Group's executive management short-term incentive and long-term incentive share plans. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group.

Shares held by the nib Holdings Ltd Share Ownership Plan Trust are disclosed as treasury shares and deducted from contributed equity.

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 CEO/MD.

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. Premium revenue is recognised from the attachment date over the period of the contract. The attachment date is from when the insurer accepts the risk from the insured under the insurance contract. Revenue is recognised in accordance with the pattern of the incidence of risk expected over the term of the contract.

The proportion of the premium received or receivable not earned in the 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 health insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the consolidated income statement in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

nib holdings limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

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.

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.

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 which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered 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. Investments 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(p)).

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 purpose of the presentation in the consolidated statement of cash flows, 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.

Investments 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 are 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

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 the purpose of the presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. 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 de-recognition.

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. 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 asset 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.

q. 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 are 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.

r. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

s. 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.

t. Employee benefits

i. Short-term obligations

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. Other long-term employee benefit obligations

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 has 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.

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. 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 37.

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.

The nib holdings Long-Term Incentive Plan is administered by the nib Holdings Ltd Share Ownership Plan Trust; see Note 1(b)(ii). When the performance rights are exercised, the trust transfers the appropriate amount of shares to the employee.

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.

u. 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.

v. 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.

w. Earnings per share

i. Basic earnings per share

Basic earnings per share are 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.

x. 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.

y. 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.

z. Parent entity financial information

The financial information for the parent entity, nib holdings limited, disclosed in Note 40 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 standalone 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The amounts receivable/payable under the tax funding agreement is 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 2012 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.

iii. AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The company has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

iv. AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income (effective 1 July 2012)

In September 2011, the AASB made an amendment to AASB 101 Presentation of Financial Statements which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The Group intends to adopt the new standard from 1 July 2012.

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.

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, including 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 16 for details of these assumptions.

Deferred acquisition costs

In accordance with AASB 1023 General Insurance Contracts, acquisition costs which lead to future benefits are recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the income statement in subsequent reporting periods.

These deferred acquisition costs are amortised systematically in accordance with the pattern of the incidence of risk under the related insurance contract.

nib incurs up front commission costs that will give rise to future premium revenue and are able to be directly associated with a particular insurance contract. These costs are deferred and amortised over the life of the insurance contract.

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

1. The period of the insurance contract is assumed to be the average length of insurance for nib policyholders who are the subject of an upfront commission.
2. The average length of insurance for nib policyholders who are the subject of an upfront commission is calculated by extrapolating historical lapse rates for that group of policyholders.

In order to allow for the inherent distortion created by extrapolating historical data the extrapolated life of policyholders used to determine the average contract life has been truncated to 10 years.

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 2012 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 2012 and June 2012 the Bornhuetter-Ferguson method is used, which progressively blends payment experience and prior forecasts of incurred costs.

For International Students Business (ISB), the Bornhuetter-Ferguson method is used for all service months for hospital and medical, and the chain ladder method for general treatment.

A chain ladder method is used for all service months for the International Workers Business (IWB) valuation of the cost of unpaid claims.

Actuarial assumptions

The following assumptions have been made in determining the outstanding claims liability for claims incurred 12 months to the following dates:

	2012			2011		
	Hospital	Medical	Ancillary	Hospital	Medical	Ancillary
Health Insurance						
Assumed proportion paid to date	91.8%	88.4%	95.8%	92.1%	88.4%	95.7%
Expense rate	2.2%	2.2%	2.2%	2.5%	2.5%	2.5%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk equalisation rate	32.6%	32.6%	0.0%	29.5%	29.5%	0.0%
Risk margin	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
International Students						
Assumed proportion paid to date	85.2%	83.6%	95.5%	92.1%	88.4%	95.7%
Expense rate	2.2%	2.2%	2.2%	2.5%	2.5%	2.5%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
International Workers						
Assumed proportion paid to date	85.8%	86.8%	83.6%	84.1%	84.7%	81.1%
Expense rate	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	10.0%	10.0%	10.0%	7.5%	7.5%	7.5%

The risk margin of 5.0% (2011: 5.0%) for HIB and ISB, and 10% (2011: 7.5%) for IWB of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% (2011: 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 incurred claims to be paid by development month is selected based on observations from the historical development. This “unpaid proportion” is then multiplied by a prior forecast of incurred claims for each service month to determine the outstanding claims estimate.

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 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 and in respect of high cost claims. This is the 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 2011: 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 describe how a change in each assumption will affect the insurance liabilities.

Variable	Impact of movement in variable
Chain Ladder Development Factors	An increase or decrease in the chain ladder factors would lead to a higher or lower projection of the ultimate liability and a corresponding increase or decrease in claims expense respectively.
Bornhuetter-Ferguson Unpaid Factors	An increase or decrease in the level of unpaid would lead to a higher or lower projection of the ultimate liability and a corresponding increase or decrease on claims expense respectively.
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.

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2012

3. ACTUARIAL ASSUMPTIONS AND METHODS CONTINUED

ii. Impact of key variables

			Profit		Equity
			2012 $000		2012 $000
Recognised amounts in the financial statements			**67,640**		**301,598**

Variable	Movement in variable	Profit Adjustments $000	Profit Adjusted amounts $000	Equity Adjustments $000	Equity Adjusted amounts $000
Chain Ladder Development Factors	+0.5%	(3,452)	64,188	(3,452)	298,146
	-0.5%	3,452	71,092	3,452	305,050
Bornhuetter-Ferguson Unpaid Factors	+2.0%	(2,368)	65,272	(2,368)	299,230
	-2.0%	2,368	70,008	2,368	303,966
Expense rate	+1.0%	(586)	67,054	(586)	301,012
	-1.0%	586	68,226	586	302,184
Risk equalisation allowance	+2.5%	(1,147)	66,493	(1,147)	300,451
	-2.5%	1,147	68,787	1,147	302,745
Risk margin	+1.0%	(713)	66,927	(713)	300,885
	-1.0%	713	68,353	713	302,311

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 as they relate to the integrity of the Group's financial statements and other material regulatory documents.
  - 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.
- And 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.

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

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 International Students Cover (ISB) and International Workers Cover (IWB) 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 ISB, but not to IWB.
- **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 all health insurance business (CHIP) but does not apply to ISB or IWB.
- **Coverage Requirements:** The Act limits the types of treatments that private health insurers can offer as part of their health insurance business (CHIP). ISB products coverage requirements are set out in a Deed between the insurer and the Commonwealth, while the health services offered under IWB cover are largely at the discretion of the insurer.
- **Premium Approval:** Under the Act, insurers can only increase CHIP premiums with the approval of the Minister. 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. ISB 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 Ageing. IWB 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 is 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 payable in three instalments on 9 July 2011, 9 July 2012 and 9 July 2013, with $20 million outstanding at 30 June 2012. 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.

Other Receivables	**2012 $000**	**2011 $000**
Counterparties without external credit rating		
Group 1 – new debtors (less than six months)	4	402
Group 2 – existing debtors (more than six months) with no defaults in the past	26,805	34,831
Group 3 – existing debtors (more than six months) with some defaults in the past. All defaults were fully recovered.	–	–
Total Other Receivables	26,809	35,233

Cash at Bank and short-term bank deposits		
A-1	86,673	160,772
	86,673	160,772

Financial assets at fair value through profit or loss		
Short term deposits		
A-1	100,000	80,000
Interest-bearing securities		
AAA	105,527	103,698
AA	44,815	51,630
A	39,530	33,349
BBB	10,985	11,348
Sub Inv Grade	4,909	4,049
Unclassified	843	831
	306,609	284,905

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

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 2012	≤ 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	4,873	–	–	–	–	4,873	4,873
Other payables	34,951	2,140	–	–	–	37,091	37,091
Borrowings	2,594	–	–	–	–	2,594	2,594
	42,418	2,140	–	–	–	44,558	44,558

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

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 59 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.

Summarised sensitivity analysis

The table 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 2012	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	86,673	(607)	(607)	607	607	–	–	–	–
Other receivables	26,809	(188)	(188)	188	188	–	–	–	–
Financial assets at fair value through profit or loss	356,774	2,458	2,458	(2,458)	(2,458)	(3,512)	(3,512)	3,512	3,512
Unlisted equity securities	2,206	–	–	–	–	–	(154)	–	154
Total Increase/(decrease)		1,663	1,663	(1,663)	(1,663)	(3,512)	(3,666)	3,512	3,666
Group at 30 June 2011									
Financial assets									
Cash and cash equivalents	160,772	(1,125)	(1,125)	1,125	1,125	–	–	–	–
Other receivables	35,233	(247)	(247)	247	247	–	–	–	–
Financial assets at fair value through profit or loss	319,293	2,357	2,357	(2,357)	(2,357)	(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

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. 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 or equity as their unit price changes.

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

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 following tables present the Group's assets and liabilities measured and recognised at fair value at 30 June 2012 and 30 June 2011.

Group at 30 June 2012	**Level 1 $000**	**Level 2 $000**	**Level 3 $000**	**Total $000**
Assets				
Cash and cash equivalents and deposits at call	86,673	–	–	86,673
Financial assets at fair value through profit or loss				
Short term deposits	100,000	–	–	100,000
Securities	256,062	712	–	256,774
Available-for-sale financial assets				
Unlisted equity securities	–	2,206	–	2,206
Total assets	442,735	2,918	–	445,653

Group at 30 June 2011				
Assets				
Cash and cash equivalents and deposits at call	160,772	–	–	160,772
Financial assets at fair value through profit or loss				
Short term deposits	80,000	–	–	80,000
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

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 use 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.

5. 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 – International Students Business (ISB) and International Workers Business (IWB).

nib entered the ISB market on 4 January 2010 and commenced reporting overseas student health cover as a separate segment for management purposes in July 2010. The IWB segment was established following the acquisition of the business and assets of IMAN International Pty Ltd on 30 September 2010.

Although the ISB segment does not meet the quantitative thresholds required by AASB 8, management has concluded that the segment should be reported, as it is closely monitored by the MD/CEO as a potential growth segment and is 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 is as follows:

	2012				2011			
	Health Insurance $000	**International Students $000**	**International Workers $000**	**Total $000**	**Health Insurance $000**	**International Students $000**	**International Workers $000**	**Total $000**
Premium revenue	1,095,640	3,010	25,158	1,123,808	991,306	550	15,992	1,007,848
Claims expense	(751,942)	(2,876)	(10,618)	(765,436)	(685,294)	(241)	(7,627)	(693,162)
RETF levy	(159,980)	–	–	(159,980)	(132,744)	–	–	(132,744)
State levies	(23,823)	–	–	(23,823)	(22,874)	–	–	(22,874)
Claims handling expenses	(15,860)	(74)	(1,456)	(17,390)	(14,922)	(118)	(1,094)	(16,134)
Net claims incurred	(951,605)	(2,950)	(12,074)	(966,629)	(855,834)	(359)	(8,721)	(864,914)
Acquisition costs	(33,471)	(891)	(1,718)	(36,080)	(35,328)	(458)	(825)	(36,611)
Other underwriting expenses	(45,947)	(521)	(3,900)	(50,368)	(40,364)	(784)	(3,673)	(44,821)
Underwriting expenses	(79,418)	(1,412)	(5,618)	(86,448)	(75,692)	(1,242)	(4,498)	(81,432)
Underwriting result	64,617	(1,352)	7,466	70,731	59,780	(1,051)	2,773	61,502
Depreciation and amortisation	5,519	–	1,720	7,239	5,105	–	1,719	6,824

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:

	2012 $000	**2011 $000**
Segment underwriting result	70,731	61,502
Investment income	26,500	33,453
Other income	3,556	5,750
Investment expenses	(860)	(1,327)
Other expenses	(4,270)	(7,462)
Profit before income tax from continuing operations	95,657	91,916

No information regarding segment assets and liabilities is provided to the MD/CEO with the exception of Outstanding Claims Liabilities.

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2012

6. REVENUE AND OTHER INCOME

	2012 $000	2011 $000
Premium revenue	1,123,808	1,007,848
Investment income		
Rent received	–	69
Interest	12,455	11,914
Net realised gain/(loss) on financial assets at fair value through profit or loss	9,908	21,987
Net unrealised gain/(loss) on financial assets at fair value through profit or loss	4,100	(545)
Dividends	37	28
	26,500	33,453
Other income		
Sundry income	3,556	2,218
Trust distribution from nib demutualisation overseas policyholders and unverified policyholders trust	–	3,532
	3,556	5,750

7. EXPENSES

	2012 $000	2011 $000
Expenses by function		
Claims handling expenses	17,390	16,134
Investment expenses	860	1,327
Acquisition costs	36,080	36,611
Other underwriting expenses	50,368	44,821
Other expenses	4,270	7,462
Total expenses (excluding direct claims expenses)	108,968	106,355
Expenses by nature		
Employee costs	50,517	44,698
Depreciation and amortisation	7,263	6,838
Net loss on disposal of property, plant and equipment and investment properties	68	220
(Appreciation)/impairment of property, plant and equipment	(454)	(2,236)
Operating lease rental expenses	2,667	2,610
Marketing expenses	21,416	21,943
Marketing expenses – commissions	3,063	5,546
Merger and acquisition costs	25	3,117
Electronic claims processing fees	3,435	3,235
Consultancy fees	2,789	1,949
Legal expenses	555	562
Share registry expenses	1,541	1,507
Investment expenses	860	1,327
Other	15,223	15,039
Total expenses (excluding direct claims expenses)	108,968	106,355

8. INCOME TAX

	Notes	2012 $000	2011 $000
a. Income tax expense			
Recognised in the income statement			
Current tax expense		23,859	24,868
Deferred tax expense		4,230	1,544
Under (over) provided in prior years		(72)	41
		28,017	26,453
Income tax expense is attributable to:			
Profit from continuing operations		28,017	26,453
Aggregate income tax expense/(benefit)		28,017	26,453
Deferred income tax (revenue) expense included in income tax expense comprises:			
Decrease (increase) in deferred tax assets	14	3,258	1,476
(Decrease) increase in deferred tax liabilities	24	972	68
		4,230	1,544

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

	Notes	2012 $000	2011 $000
Profit from continuing operations before income tax expense		95,657	91,916
Tax at the Australian tax rate of 30% (2011: 30%)		28,697	27,575
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
Net assessable trust distributions		132	–
Non-assessable income		–	(184)
Other deductible expenses		(397)	(420)
Other non-deductible expenses		164	406
Adjustments for current tax of prior periods		(72)	41
Imputation credits and foreign tax credits		(507)	(965)
Income tax expense		28,017	26,453

c. Tax expense relating to items of other comprehensive income

	Notes	2012 $000	2011 $000
Gain on revaluation of land and buildings	27(b)	374	25
Change in value of available for sale financial assets	27(b)	–	212
		374	237

d. Amounts recognised directly to equity

	Notes	2012 $000	2011 $000
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:			
Net deferred tax – debited (credited) directly to equity	25(a)	(174)	–
		(174)	–

9. CASH AND CASH EQUIVALENTS

	2012 $000	2011 $000
Cash at bank and cash on hand	36,181	59,784
Short-term deposits and deposits at call	50,492	100,988
	86,673	160,772

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.

10. RECEIVABLES

	2012 $000	2011 $000
Current		
Premium receivable	4,405	4,542
Health Insurance Contribution (HIC) rebate receivable	47,434	27,770
Other receivables	16,809	15,233
Provision for impairment loss	(366)	(240)
Prepayments	1,926	2,164
	70,208	49,469
Non-Current		
Other receivables	10,000	20,000
	10,000	20,000

The Health Insurance Contribution (HIC) rebate has abnormally increased as a result of a high level of prepayments of premium revenue in May and June 2012.

A deferred settlement arrangement is in place for the sale of the Newcastle Private Hospital for $30 million payable in three instalments on 9 July 2011, 9 July 2012 and 9 July 2013, with $20 million outstanding at 30 June 2012.

a. Impaired receivables

As at 30 June 2012 current receivables of the Group with a nominal value of $0.366 million (2011: $0.240 million) were impaired. The individually impaired receivables relate to premium receivables.

The ageing of these receivables is as follows:

	2012 $000	2011 $000
1 to 3 months	267	240
3 to 6 months	62	–
Over 6 months	37	–
	366	240

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

	2012 $000	2011 $000
At 1 July 2011	240	241
Provision for impairment recognised during the year	126	–
Receivables written off during the year as uncollectible	–	–
Unused amount reversed	–	(1)
	366	240

b. Past due but not impaired

As of 30 June 2012 and 2011 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 current receivables, their carrying amount is assumed to approximate their fair value.

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

	2012		2011	
	Carrying Amount $000	Fair Value $000	Carrying Amount $000	Fair Value $000
Other receivables	10,000	10,000	20,000	20,000
	10,000	10,000	20,000	20,000

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above.

e. Risk exposure

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 mortgage over the property for the deferred settlement of the Newcastle Private Hospital. Refer to Note 4 for more information on the risk management policy of the Group and the credit quality of the Group's receivables.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	2012 $000	2011 $000
Equity securities	50,165	34,388
Interest-bearing securities	206,609	204,905
Short term deposits	100,000	80,000
	356,774	319,293

Changes in fair values of financial assets at fair value through profit or loss are recorded in investment income in profit or loss in Note 6.

a. Risk exposure

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

12. DEFERRED ACQUISITION COSTS

	2012 $000	2011 $000
Current		
Deferred acquisition costs	2,140	–
	2,140	–
Non-current		
Deferred acquisition costs	6,711	–
	6,711	–

Movements in the deferred acquisition costs are as follows:

	2012 $000	2011 $000
Balance at beginning of year	–	–
Acquisition costs deferred during the year	9,599	–
Amortisation expense	(748)	–
	8,851	–

Acquisition costs incurred in prior years were not deferred as they were not material. See Note 1(g) for more information.

Acquisition costs deferred during the year includes costs relating to the abnormal increase in prepayments of premium revenue in May and June 2012 of $647,750.

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	2012 $000	2011 $000
Unlisted equity securities	2,206	2,206

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 2012.

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.

14. DEFERRED TAX ASSETS

	Notes	2012 $000	2011 $000
The balance comprises temporary differences attributable to:			
Depreciation		289	432
Share issue expenses		–	505
Employee benefits		1,684	1,632
Outstanding claims		418	416
Demutualisation costs		–	1,034
Unrealised losses on investments		277	1,526
		2,668	5,545
Other			
Doubtful debts		104	72
Asset revaluation		240	613
Provisions		731	881
Merger & acquisition costs		377	467
Sub-total other		1,452	2,033
Total deferred tax assets		4,120	7,578
Set-off of deferred tax liabilities pursuant to set-off provisions	24	(1,996)	(1,024)
Net deferred tax assets		2,124	6,554
Deferred tax assets to be recovered within 12 months		2,275	6,498
Deferred tax assets to be recovered after more than 12 months		1,845	1,080
		4,120	7,578

Movements	Depreciation $000	Share issue expenses $000	Employee benefits $000	Outstanding claims $000	Demutual-isation costs $000	Unrealised losses on investments $000	Other $000	Total $000
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	(1,272)	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
At 1 July 2011	432	505	1,632	416	1,034	1,526	2,033	7,578
(Charged)/credited to the income statement	(143)	(505)	52	2	(1,034)	(1,249)	(381)	(3,258)
(Charged)/credited directly to equity	–	–	–	–	–	–	(200)	(200)
At 30 June 2012	289	–	1,684	418	–	277	1,452	4,120

15. PROPERTY, PLANT AND EQUIPMENT

	Land & Buildings $000	Plant & Equipment $000	Leasehold Improvements $000	Total $000
Fair value/Cost				
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**
Balance at 1 July 2011	38,415	8,445	2,660	49,520
Additions	–	1,500	181	1,681
Disposals	–	(321)	(180)	(501)
Revaluations	(209)	–	–	(209)
Balance at 30 June 2012	**38,206**	**9,624**	**2,661**	**50,491**
Depreciation and impairment losses				
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)**
Balance at 1 July 2011	(642)	(5,335)	(1,685)	(7,662)
Depreciation charge for the year	(1,297)	(1,343)	(385)	(3,025)
Disposals	–	220	173	393
Revaluations	1,907	–	–	1,907
Balance at 30 June 2012	**(32)**	**(6,458)**	**(1,897)**	**(8,387)**
Carrying amounts				
At 30 June 2011	**37,773**	**3,110**	**975**	**41,858**
At 30 June 2012	**38,174**	**3,166**	**764**	**42,104**

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 18 June 2012. 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 2012.

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:

	2012 $000	2011 $000
Cost	41,479	41,479
Accumulated depreciation	(4,901)	(3,645)
Net book amount	**36,578**	**37,834**

16. INTANGIBLE ASSETS

	Goodwill $000	Software $000	Brands and Trandemarks $000	Customer Contracts $000	Total $000
Fair value/Cost					
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**
Balance at 1 July 2011	25,447	24,426	4,044	3,093	57,010
Additions	–	4,049	–	–	4,049
Disposals	–	(15)	–	–	(15)
Balance at 30 June 2012	**25,447**	**28,460**	**4,044**	**3,093**	**61,044**
Amortisation and impairment losses					
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)**
Balance at 1 July 2011	–	(16,752)	–	(1,160)	(17,912)
Amortisation charge for the year	–	(3,272)	–	(966)	(4,238)
Disposals	–	11	–	–	11
Balance at 30 June 2012	**–**	**(20,013)**	**–**	**(2,126)**	**(22,139)**
Carrying amounts					
At 30 June 2011	**25,447**	**7,674**	**4,044**	**1,933**	**39,098**
At 30 June 2012	**25,447**	**8,447**	**4,044**	**967**	**38,905**

a. Impairment tests for goodwill

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

Goodwill	Health Insurance Business $000	International Students Business $000	International Workers Business $000	Total $000
At 30 June 2012	7,067	–	18,380	25,447
At 30 June 2011	7,067	–	18,380	25,447

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.

16. 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 zero. The Group has applied a post-tax discount rate to discount the forecast future attributable post tax cash flows. The discount rate applied of 8.18% represents the 10 year Australian bond rate of 2.98% plus a risk adjustment of 5.2%. This equates to a pre-tax discount rate of 11.22%.

17. PAYABLES

	2012 $000	2011 $000
Trade creditors	4,873	4,651
Other payables	37,091	34,710
RETF payable*	41,384	34,501
Annual leave payable	3,342	3,368
	86,690	77,230

* 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.

	2012 $000	2011 $000
Annual leave obligation expected to be settled after 12 months	599	563

18. BORROWINGS

	2012 $000	2011 $000
Bank overdraft	2,594	3,603

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

The Group has a line-of-credit facility for corporate credit cards issued to nib employees for a total of $2.0 million. Outstanding amounts as at 30 June 2012 are included in Current Liabilities – Payables under Trade Creditors.

19. OUTSTANDING CLAIMS LIABILITY

a. Outstanding claims liability

	2012 $000	2011 $000
Outstanding claims – central estimate of the expected future payment for claims incurred	55,780	49,894
Risk Margin	2,941	2,594
Claims handling costs	1,320	1,317
Gross outstanding claims liability	60,041	53,805
Outstanding claims – expected payment to the *RETF in relation to the central estimate	14,240	11,502
Risk Margin	712	576
Net outstanding claims liability	74,993	65,883

* 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% (2011: 5.0%) for HIB and ISB, and 10% (2011: 7.5%) for IWB of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% (2011: 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 margins have 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.

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 2012 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 2012 and June 2012 the Bornhuetter-Ferguson method is used, which progressively blends payment experience and prior forecasts of incurred costs.

For ISB, the Bornhuetter-Ferguson method is used for all service months for hospital and medical, and the chain ladder method for general treatment.

A chain ladder method is used for all service months for the IWB 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.

19. OUTSTANDING CLAIMS LIABILITY CONTINUED

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

	2012 $000	2011 $000
Gross outstanding claims at beginning of period	53,805	50,698
Administration component	(1,317)	(1,178)
Risk margin	(2,594)	(2,414)
Central estimate at beginning of period	49,894	47,106
Change in claims incurred for the prior year	(666)	(3,259)
Claims paid in respect of the prior year	(49,228)	(43,847)
Claims incurred during the year (expected)	765,926	695,924
Claims paid during the year	(710,146)	(646,030)
Central estimate at end of period	55,780	49,894
Administration component	1,320	1,317
Risk margin	2,941	2,594
Gross outstanding claims at end of period	60,041	53,805

20. UNEARNED PREMIUM LIABILITY

	2012 $000	2011 $000
Current		
Unearned premium liability	135,867	65,202
	135,867	65,202
Non-current		
Unearned premium liability	5,799	–
	5,799	–

Movements in the unearned premium liability are as follows:

	2012 $000	2011 $000
Unearned premium liability as at 1 July	65,202	54,443
Deferral of premiums on contracts written in the period	141,666	65,202
Earning of premiums written in previous periods	(65,202)	(54,443)
Unearned premium liability as at 30 June	141,666	65,202

Unearned premium liability has abnormally increased as a result of a high level of prepayments of premium revenue in May and June 2012.

21. UNEXPIRED RISK LIABILITY

No deficiency was identified as at 30 June 2012 and 2011 that resulted in an unexpired risk liability needing to be recognised.

22. CURRENT TAX LIABILITIES

	2012 $000	2011 $000
Current tax payable	6,884	10,894

23. PROVISION FOR EMPLOYEE ENTITLEMENTS

	2012 $000	2011 $000
Current		
Long service leave	1,475	1,695
Termination benefits	603	1,216
Retirement benefits	66	746
	2,144	3,657
Non-current		
Long service leave	1,276	991
	1,276	991

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.

	2012 $000	2011 $000
Long service leave obligation expected to be settled after 12 months	1,223	1,351
Retirement benefit obligation expected to be settled after 12 months	66	63
	1,289	1,414

24. DEFERRED TAX LIABILITIES

	Notes	2012 $000	2011 $000
The balance comprises temporary differences attributable to:			
Prepayments		11	9
Deferred acquisition costs		1,435	–
Income receivables		260	435
Customer contracts		290	580
Total deferred tax liabilities		1,996	1,024
Set-off of deferred tax liabilities to set-off provisions	14	(1,996)	(1,024)
Net deferred tax liabilities		–	–
Deferred tax liabilities to be settled within 12 months		411	1,024
Deferred tax liabilities to be settled after more than 12 months		1,585	–
		1,996	1,024

Movements	Prepayments $000	Deferred acquisition costs $000	Income receivable $000	Customer contracts $000	Total $000
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
At 1 July 2011	9	–	435	580	1,024
(Charged)/credited to the income statement	2	1,435	(175)	(290)	972
(Charged)/credited directly to equity	–	–	–	–	–
At 30 June 2012	11	1,435	260	290	1,996

25. CONTRIBUTED EQUITY

a. Share capital

	2012 $000	2011 $000
Ordinary shares		
Fully paid	28,106	42,193
Other equity securities		
Treasury shares	(525)	–
Total contributed equity	27,581	42,193

b. Movements in share capital

Date	Details	No of shares	Price $	$000
1 July 2010	Opening 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
21 July 2011	Capital return	–	$0.16	(75,004)
	Transactions costs arising on capital return	–		(581)
	Deferred tax credit recognised directly to equity	–		174
	Reverse acquisition adjustment for capital return	–		66,288
Jan 2012	Shares bought back on-market and cancelled	(230,155)	$1.49	(344)
Feb 2012	Shares bought back on-market and cancelled	(8,508,479)	$1.48	(12,593)
Mar 2012	Shares bought back on-market and cancelled	(14,000,000)	$1.46	(20,420)
Apr 2012	Shares bought back on-market and cancelled	(4,990,294)	$1.54	(7,682)
	Reverse acquisition adjustment for share buy-back			36,075
30 June 2012	**Balance**	439,004,182		28,106

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.

25. CONTRIBUTED EQUITY CONTINUED

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. Treasury shares

Treasury shares are shares in nib holdings limited that are held by the nib Holdings Ltd Share Ownership Plan Trust (trust) for the purpose of issuing shares under the Group's executive management STI and LTIPs. See Note 36 for more information.

Date	Details	No. of shares	$000
1 July 2011	Opening balance	–	–
	Acquisition of shares by the Trust	338,000	525
	Employee share issue	–	–
30 June 2012	**Balance**	338,000	525

e. Share buy-back

During the financial year, the company cancelled 27,728,928 ordinary shares purchased on-market as part of the Group's capital management initiatives announced in the 2008 Annual Report. This has been finalised. The shares were acquired for $41,039,234 at an average price of $1.49 per share, with prices ranging from $1.44 to $1.54. Of the total cost of $41,039,234, $4,964,727 was deducted from ordinary share equity and the remaining $36,074,507 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.

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 fund 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 is 1.3x (2011: 1.3x).

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 $12,000,000 and $14,200,000 to nib holdings limited in December 2011 and June 2012 respectively.

The surplus assets over benchmark at 30 June 2012 and 30 June 2011 were as follows:

	2012 $000	2011 $000
Total Assets nib health funds limited	556,392	431,891
Capital Adequacy Requirement	419,691	320,262
Surplus Assets for Capital Adequacy	136,701	111,629
Capital Adequacy Coverage Ratio	1.33	1.35
Internal benchmark	1.30	1.30
Internal benchmark requirement	545,598	416,341
Surplus assets over internal benchmark	10,794	15,550

On 2 July 2012 the Private Health Insurance Administration Council released proposed changes to their regulatory capital requirements for industry consultation. The Group is currently reviewing the proposed changes.

nib holdings limited

The Group is targeting a ROE of 15%, and the ROE as at 30 June 2012 is 21.7% (2011: 16.5%). While improvement to ROE 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:

- a Capital Return of $75.0 million was approved at a General Meeting on 5 July 2011 and paid on 21 July 2011.
- the on-market buy-back announced on 29 August 2008 was finalised under which nib holdings during the year purchased and subsequently cancelled 27,728,928 shares at a total cost of $41.039 million.

At 30 June 2012 the Group had surplus capital of $13.3 million above our internal benchmark (after allowing for the payment of a final dividend of 5.0 cents per share, totalling $22.0 million, in October 2012).

Below is a reconciliation of total assets to surplus capital as at 30 June 2012:

		2012 $m
Total assets		617.8
Less:	Health fund capital required (based on projection over next 12 months)	(557.1)
	International Workers intangibles	(24.5)
	Other liabilities	(0.9)
	Final dividend	(22.0)
Surplus capital		13.3

26. RETAINED PROFITS

	2012 $000	2011 $000
Balance at the beginning of the financial year	367,595	347,358
Net profit	67,640	65,463
Transfer from share capital	(102,363)	(1,784)
Dividends	(60,918)	(43,442)
Balance at the end of the financial year	**271,954**	**367,595**

27. RESERVES

a. Reserve comprises

	2012 $000	2011 $000
Revaluation surplus – property, plant and equipment	1,763	892
Available-for-sale financial assets	494	494
Share-based payments	625	872
Share-based payments exercised	(819)	(256)
	2,063	2,002

b. Movements in reserves

	Notes	2012 $000	2011 $000
Revaluation surplus – property, plant and equipment			
Balance at the beginning of the year		892	834
Transfer to retained profits on sale of property		–	–
Property revaluation – gross		1,245	83
Deferred tax	14	(374)	(25)
Balance at the end of the financial year		1,763	892
Available-for-sale financial assets			
Balance at the beginning of the year		494	–
Revaluation – gross		–	706
Deferred tax	14	–	(212)
Balance at the end of the financial year		494	494
Share-based payments			
Balance at the beginning of the year		872	772
Performance right expense		259	396
Bonus share rights expense		–	–
Transfer to share-based payments exercised reserve on exercise of performance rights		(506)	(228)
Transfer to share-based payments exercised reserve on exercise of bonus share rights		–	(68)
Balance at the end of the financial year		625	872
Share-based payments exercised			
Balance at the beginning of the year		(256)	–
Transfer from share-based payments reserve on exercise of performance rights		506	228
Transfer from share-based payments reserve on exercise of bonus share rights		-	68
Exercise of performance rights		(1,069)	(442)
Exercise of bonus share rights		–	(110)
Balance at the end of the financial year		(819)	(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(q).

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(p). 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 share based payments reserve and cost of exercising the rights.

28. DIVIDENDS

a. Ordinary shares

	2012 $000	2011 $000
Final dividend for the year ended 30 June 2011 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) paid on 30 September 2011		
Fully franked based on tax paid @ 30%	42,006	24,772
Interim dividend for the year ended 30 June 2012 of 4.25 cents (2011: 4.0 cents) paid on 8 April 2012		
Fully franked based on tax paid @ 30%	18,912	18,670
Total dividends provided for or paid	60,918	43,442

b. Dividends not recognised at year end

	2012 $000	2011 $000
In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend of 5.0 cents per fully paid ordinary share, made up of 5.0 cps ordinary dividend (2011: 9.0 cps, made up of 4.0 cps ordinary dividend and 5.0 cps special dividend) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 5 October 2012 out of retained profits at 30 June 2012, but not recognised as a liability at year end, is	21,950	42,006

28. DIVIDENDS CONTINUED

c. Franked dividends

The franked portion of the final dividends recommended after 30 June 2012 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 2012.

	2012 $000	2011 $000
Franking credits available for subsequent financial years to equity holders of parent entity based on a tax rate of 30%	16,499	18,365

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.

29. COMMITMENTS FOR EXPENDITURE

a. Operating lease commitments

	2012 $000	2011 $000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
– not longer than one year	2,211	2,051
– longer than one year and not longer than five years	4,113	3,535
– longer than five years	1,056	1,236
	7,380	6,822

b. Capital expenditure commitments

	2012 $000	2011 $000
Payable:		
– not longer than one year	260	712
	260	712

c. Remuneration commitments

	2012 $000	2011 $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	2,084	1,880
	2,084	1,880

30. 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. 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 17 August 2012, 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. The trust was wound up and all trust funds were distributed during the 2011 financial year.

nib holdings limited has provided a guarantee and indemnity to the National Australia bank on behalf of IMAN Australian Health Plans Pty Limited in respect of transactional banking services. Liability under the indemnity is limited to $3,028,885.

31. REMUNERATION OF AUDITORS

	2012 $	2011 $
1. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial report and other audit work under the *Corporations Act 2001*	341,200	367,400
Total remuneration for audit services	341,200	367,400
2. Non-audit services		
Audit-related services		
PricewaterhouseCoopers Australian firm:		
Audit of regulatory returns	42,300	56,300
Total remuneration for audit-related services	42,300	56,300
Taxation services		
PricewaterhouseCoopers Australian firm:		
Tax compliance services	105,660	371,629
Total remuneration for taxation services	105,660	371,629
Other services		
PricewaterhouseCoopers Australian firm:		
Accounting advice and support	21,000	58,700
Review of regulatory returns	20,045	10,000
Total remuneration for other services	41,045	68,700
Total remuneration for non-audit services	189,005	496,629
Total remuneration for audit and non-audit services	530,205	864,029

32. NOTES TO THE STATEMENT OF CASHFLOWS

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	2012 $000	2011 $000
Cash and cash equivalents	9	86,673	160,772
Bank overdraft	18	(2,594)	(3,603)
		84,079	157,169

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

	2012 $000	2011 $000
Profit for the year	67,640	65,463
Net (gain)/loss on disposal of non-current assets	68	220
Fair value (gain)/loss on other financial assets through profit or loss	(4,331)	(4,157)
Impairment loss on property, plant and equipment	(454)	(2,236)
Non-cash employee benefits expense – share-based payments	259	396
Depreciation and amortisation	7,263	6,838
Change in operating assets and liabilities, net of effect from purchase of controlled entity		
Decrease (increase) in receivables	(20,989)	(8,085)
Decrease (increase) in deferred acquisition costs	(8,851)	–
Decrease (increase) in deferred tax assets	4,231	1,755
Increase (decrease) in trade payables and unearned premium liability	85,924	17,116
Increase (decrease) in current tax payable	(4,011)	6,569
Increase (decrease) in provisions	7,882	4,401
Net cash flow from operating activities	134,631	88,280

Unearned premium liability has abnormally increased as a result of a high level of prepayments of premium revenue in May and June 2012.

33. 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	**2012 %**	**2011 %**
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

nib holdings limited also controls the following trusts:

- nib Holdings Ltd Share Ownership Plan Trust
- nib salary sacrifice plan and matching plan trust

34. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

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.

35. 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 2012 and 2011.

36. KEY MANAGEMENT PERSONNEL DISCLOSURES

a. Key Management Personnel compensation

	2012 $	2011 $
Short-term employee benefits	3,286,697	2,967,252
Post-employment benefits	271,192	293,585
Other long-term benefits	26,056	20,513
Termination benefits	375,578	–
Share-based payments	935,060	799,127
	4,894,583	4,080,477

Detailed remuneration disclosures are provided in the Remuneration Report on pages 6 to 20.

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 20.

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.

2012	Balance at start of the year	Granted as compensation	Exercised	Other forfeitures	Balance at the end of the year	Vested and exercisable	Unvested
Mark Fitzgibbon	866,861	217,546	(360,629)	–	723,778	–	723,778
Matthew Henderson	55,344	51,026	–	–	106,370	–	106,370
Melanie Kneale	258,911	64,995	(188,408)	(135,498)	–	81,859	–
Rhoderic McKensey	195,290	64,995	(77,910)	–	182,375	–	182,375
Michelle McPherson	317,889	109,766	(112,451)	–	315,204	–	315,204
Brendan Mills	–	–	–	–	–	–	–
Total	1,694,295	508,328	(739,398)	(135,498)	1,327,727	81,859	1,327,727

2011	Balance at start of the year	Granted as compensation	Exercised	Other forfeitures	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

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.

2012	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[1,2]	125,951	–	(125,951)	–
Harold Bentley	70,000	–	–	70,000
Annette Carruthers	58,200	–	14,300	72,500
Steve Crane	100,000	–	15,157	115,157
Philip Gardner	104,862	–	3,138	108,000
Christine McLoughlin	37,500	–	20,000	57,500
Other Key Management Personnel of the Group				
Mark Fitzgibbon	843,130	468,012	(50,000)	1,261,142
Matthew Henderson	–	2,210	–	2,210
Melanie Kneale[2]	60,910	135,456	(196,366)	–
Rhoderic McKensey	13,823	100,925	–	114,748
Michelle McPherson	189,247	145,470	–	334,717
Brendan Mills	–	–	24,852	24,852

1. Keith Lynch retired as a Chairman and Director on 30 September 2011.
2. Other changes represent that at 30 June 2012 they are no longer a KMP.

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[2,3]	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

2. Other changes represent that at 30 June 2012 they are no longer a KMP.
3. Brian Keane retired as a Director on 26 October 2010.

37. SHARE-BASED PAYMENTS

a. Long-Term Incentive Plan (LTIP)

Performance rights to acquire shares in nib holdings limited are granted to executives under the Long-Term Incentive Plan (LTIP). Information relating to the LTIP is included in the Remuneration Report on pages 6 to 20.

On 18 May 2012 the nib Holdings Ltd Share Ownership Plan Trust was formed to administer the Group's executive management short-term incentive and long-term incentive share plans. This Trust has been consolidated in accordance with Note 1(b)(ii).

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

2012

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
30/06/09	31/12/13	–	657,539	–	(657,539)	–	–	–
28/01/10	31/12/14	–	498,375	–	(81,859)	–	416,516	81,859
27/05/11	1/09/14	–	538,381	–	–	(70,503)	467,878	–
21/12/11	1/09/15	–	–	508,328	–	(64,995)	443,333	–
		–	1,694,295	508,328	(739,398)	(135,498)	1,327,727	81,859

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	1/09/14	–	–	538,381	–	–	538,381	–
		–	1,623,228	538,381	(350,486)	(116,828)	1,694,295	–

b. 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.

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 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.

	2012	2011
Number of shares purchased on market under the plan to participating employees	81,887	88,782

The shares were allocated in two periods. 50% were allocated on 30 August 2011 after nib's FY11 results presentation at a volume weighted average price of $1.48. The remaining 50% were allocated on 27 February 2012 after nib's FY12 half year results announcement at a volume weighted average price of $1.47.

c. nib Salary Sacrifice Plan and Matching Plan

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.

	2012	2011
Number of shares purchased on market under the plan to participating employees	111,794	95,434

d. 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 the CFO the maximum target bonus opportunity is 60% of the base remuneration package with 20% 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.

On 18 May 2012 the nib Holdings Ltd Share Ownership Plan Trust was formed to administer the Group's executive management short-term incentive and long-term incentive share plans. This Trust has been consolidated in accordance with Note 1(b)(ii).

Shares issued by the trust to the employees are acquired on-market prior to the issue. Shares held by the trust and not yet issued to employees at the end of the reporting period are shown as treasury shares in financial statements; see Note 25(d).

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

e. Expenses arising from share-based payments transactions

	2012 $000	2011 $000
Shares purchased on market under employee share scheme	121	118
Performance rights granted under LTIP	259	396
Shares purchased on market under STI	160	157
nib salary sacrifice plan and matching plan trust deed	164	138
	704	809

38. SOLVENCY AND CAPITAL ADEQUACY RESERVES

nib health funds limited Solvency Reserve, as per the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is $100.112 million. Total Health Benefits Fund Assets are $556.392 million, representing a surplus of $141.074 million over the sum of the Solvency Reserve and total Health Benefits Fund Liabilities ($315.206 million). This equates to a solvency coverage ratio of 1.34x and a solvency/capital risk multiple of 2.41.

nib health funds limited Capital Adequacy Reserve, as per the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is $104.486 million. Total Health Benefits Fund Assets are $556.392 million, representing a surplus of $136.700 million over the Capital Adequacy Reserve and total Health Benefits Fund Liabilities ($315.206 million). This equates to a capital adequacy coverage ratio of 1.33x and a capital adequacy/risk multiple of 2.31.

39. EARNINGS PER SHARE

a. Basic earnings per share

	2012 Cents	2011 Cents
Profit from continuing operations attributable to the ordinary equity holders of the company	14.8	13.7
Profit from discontinued operations	–	–
Profit attributable to the ordinary equity holders of the company	**14.8**	**13.7**

b. Diluted earnings per share

	2012 Cents	2011 Cents
Profit from continuing operations attributable to the ordinary equity holders of the company	14.8	13.7
Profit from discontinued operations	–	–
Profit attributable to the ordinary equity holders of the company	**14.8**	**13.7**

c. Reconciliations of earnings used in calculating earnings per share

	2012 $000	2011 $000
Basic earnings per share		
Profit from continuing operations	67,640	65,463
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**67,640**	**65,463**
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	67,640	65,463
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	**67,640**	**65,463**

d. Weighted average number of shares used as the denominator

	2012	2011
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	458,305,148	478,458,990
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	**458,305,148**	**478,458,990**

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 36.

The total 1,327,727 performance rights granted (2011 – 1,694,295) 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 2012. These performance rights could potentially dilute basic earnings per share in the future.

40. PARENT ENTITY FINANCIAL INFORMATION

a. Summary financial information.

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

	2012 $000	2011 $000
Balance Sheet		
ASSETS		
Current assets	42,340	194,913
Total assets	458,834	612,580
LIABILITIES		
Current liabilities	7,026	11,435
Total liabilities	7,026	11,435
NET ASSETS	451,808	601,145
EQUITY		
Share Capital	297,178	413,628
Share-based payments	(194)	616
Retained Profits	154,824	186,901
Total Equity	451,808	601,145
Profit or loss for the year	28,841	91,197
Total comprehensive income	28,841	91,197

b. Contingent liabilities of the parent entity

Refer to Note 30.

41. 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 Annual Report was authorised for issue by the Directors on 17 August 2012. The company has the power to amend and reissue the Annual Report.

Shareholder Information

as at 30 June 2012

The shareholder information set out below was applicable as at 31 August 2012.

A. DISTRIBUTION OF EQUITY SECURITIES

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

	Class of equity security
1 – 1,000	67,902
1,001 – 5,000	84,953
5,001 – 10,000	11,585
10,001 – 100,000	621
100,001 and over	49
	165,110

There were 16,170 holders of less than a marketable parcel of ordinary shares.

B. EQUITY SECURITY HOLDERS

The 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
J P Morgan Nominees Australia Limited	30,144,603	6.87%
RBC Investor Services Australia Nominees Pty Limited <PI Pooled A/C>	20,907,258	4.76%
National Nominees Limited	13,820,139	3.15%
Citicorp Nominees Pty Limited	12,556,151	2.86%
HSBC Custody Nominees (Australia) Limited	7,977,674	1.82%
BNP Paribas Noms Pty Ltd <Master Cust DRP>	7,702,253	1.75%
JP Morgan Nominees Australia Limited <Cash Income A/C>	3,625,380	0.83%
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	2,985,315	0.68%
RBC Investor Services Australia Nominees Pty Limited <GSAM A/C>	2,633,395	0.60%
M F Custodians Ltd	2,425,319	0.55%
Bond Street Custodians Limited <Celeste Concentrated Fund>	1,530,000	0.35%
Suncorp Custodian Services Pty Limited <SGAEAT>	1,014,251	0.23%
UBS Nominees Pty Ltd	1,010,471	0.23%
Bond Street Custodians Ltd <Macquarie Smaller Co's A/C>	717,928	0.16%
RBC Investor Services Australia Nominees Pty Limited <Piselect>	706,751	0.16%
Woodross Nominees Pty Ltd	692,007	0.16%
Mr Mark Anthony Fitzgibbon	567,344	0.13%
UBS Wealth Management Australia Nominees Pty Ltd	544,000	0.12%
Skeet Nominees Pty Ltd	500,000	0.11%
Fitzy(NSW) Pty Ltd <Fitz Family Fund A/C>	483,600	0.11%
	112,543,839	25.64%

Unquoted equity securities

	Number on issue	Number of holders
Performance rights issued under the nib holdings Long-Term Incentive Plan	1,327,727	4

C. SUBSTANTIAL HOLDERS

The only shareholder with a substantial shareholding as at 31 August 2012 is Perpetual Limited which held shares representing 9.28% of the ordinary shares on issue or 40,730,914 shares (by notice dated 23 August 2012).

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 short-term incentive bonus held in escrow are detailed below:

Class of equity security	Date escrow period ends	Number on issue
Ordinary shares	2 September 2012	111,814

Corporate Directory
for the year ended 30 June 2012

DIRECTORS

Chairman
Steven Crane

Managing Director/Chief Executive Officer
Mark Fitzgibbon

Harold Bentley
Annette Carruthers
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 Customer Officer
Rhoderic McKensey

Chief Information Officer
Brendan Mills

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 The Westin, Sydney at 1pm (AEDT) on Tuesday, 30 October 2012.

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 Jacques
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