

nib

**2013
Annual
Report**

Operating and Financial Review

For the year ended 30 June 2013

MESSAGE FROM THE BOARD

FY13 was another solid year for the Group. Consolidated premium revenue grew 14.8%. EPS was 15.3 cps compared to 14.8 cps in the previous year with our return on equity an impressive 21.6%. And of course we made a significant acquisition which expanded our operations into New Zealand.

Yet the year was not without its challenges especially in our Australian Residents Health Insurance (arhi) business. While policyholder growth was an impressive 4.6%, high claims inflation and a lower than required premium increase saw our net profit margin decline to 5.0% from 5.9% the previous year. Coupled with a series of unhelpful policy and regulatory changes, it was generally a much tougher year within arhi.

The relative earnings weakness in our arhi business margin has long been anticipated given underlying claims inflation and the regulatory restrictions we have upon our pricing. This environment largely explains our past and ongoing determination to diversify into related businesses such as international workers and students, new markets such as New Zealand and adjacent insurance product lines such as life and travel insurance. Together these non-arhi businesses contributed 24.0% of our operating profit for FY13, up from 10.9% the previous year.

Our financial performance has allowed the Board to declare dividends totalling 10.0 cents per share (fully franked) for the year. This represents a payout ratio of 65% of FY13 earnings. The final dividend of 5.0 cents per share will be paid to shareholders on 4 October 2013.

While growing and enhancing our arhi business remains our top priority, we plan to continue to invest in these newer businesses and explore other opportunities. There are assets and capabilities within the nib Group that we are confident of leveraging further to grow enterprise value. We're particularly interested in exploiting some of the big trends within healthcare such as the accelerating growth of cross international border medical treatment.

Since our listing we have achieved a cumulative average growth rate of 20.8% in our underwriting earnings. However we are now operating in a different context. The market is more mature, competition more intense and as I've already mentioned, regulatory pricing constraints make margin accretion problematic. Strategically, it means we must continue to innovate and pursue new earnings streams if we are to recreate that steep earnings trajectory.

As part of our commitment to growth, during the year we decided to add to our senior Executive strength. Three new Executive roles were created being CEO New Zealand, Group Manager Benefits and Provider Relations and Group Manager International and New Business. Two of these Executives have already commenced and are having a positive impact with the third expected to commence in late 2013.

I would like to thank my fellow Directors, our Executive Management team and our many employees, both in Australia and New Zealand, for their dedication and contribution to another successful year for our business.

Yours sincerely,



Steve Crane
Chairman

Operating and Financial Review continued

For the year ended 30 June 2013

INTRODUCTION

This report has been prepared in accordance with ASIC Regulatory Guide 247 Effective disclosure in an operating and financial review.

REVIEW OF GROUP OPERATIONS

Operations and underlying drivers of performance

(\$m)	2013	2012	Change	
			\$m	%
Net premium revenue	1,290.4	1,123.8	166.6	14.8
Net claims incurred	(1,089.6)	(949.2)	(140.4)	(14.8)
Gross margin	200.8	174.6	26.2	15.0
	15.6%	15.5%		
Management expense	(127.0)	(103.8)	(23.2)	(22.4)
	9.8%	9.2%		
Underwriting result	73.8	70.7	3.1	4.3
	5.7%	6.3%		
Other income	3.1	3.6	(0.5)	(12.9)
Other expenses	(7.6)	(4.3)	(3.3)	(78.3)
Operating profit	69.3	70.0	(0.7)	(1.1)
Net investment return	28.8	25.6	3.2	12.3
	5.8%	6.0%		
Finance costs	(1.4)	0.0	(1.4)	–
Profit before tax	96.7	95.7	1.0	1.0
Tax	(29.5)	(28.0)	(1.5)	(5.4)
NPAT	67.2	67.6	(0.4)	(0.7)
EPS (cps)	15.3	14.8	0.5	3.4
ROE (%)	21.6%	21.7%		
Operating cash flow	20.0	134.6	(114.6)	(85.1)

For the nib Group, FY13 was a year of strong top line growth, disciplined cost control, improved earnings per share, stable return on equity at 21.6% and success in broadening our business operations into New Zealand.

Group highlights included:

- We now provide health and medical insurance to more than one million people.
- Premium revenue up 14.8% to \$1.3 billion.
- Acquisition of TOWER Medical Insurance Limited (TOWER Medical) in New Zealand for \$80.6 million (including \$7.9 million in surplus capital), with acquisition costs of \$3.4 million.
- Pre-tax underwriting result of \$73.8 million versus \$70.7 million in FY12.
- Consolidated net profit of \$67.2 million versus \$67.6 million in FY12.
- Earnings per share of 15.3 cps.
- Return on equity of 21.6% in line with 21.7% in FY12.
- Operating cash flow of \$20.0 million down from \$134.6 million due to significant impact of premium prepayments in FY12.
- Full year dividend: 10.0 cps, up 8.1%.

At a Group level, our Australian Resident Health Insurance (arhi) business remains our primary economic driver and for FY13 while policyholder growth was an impressive 4.6%, resulting in premium revenue growth of 8.4%, high claims inflation and a lower than required 2012 premium increase saw our net profit margin decline to 5.0% from 5.9% the previous year. Coupled with a series of unhelpful policy and regulatory changes, it was generally a much tougher year within arhi.

Group net underwriting profit of \$73.8 million was up 4.3% from FY12, reflecting arhi net profit decline, more than offset by the contribution of the improved performance of International Workers Health Insurance (iwhi) and International Students Health Insurance (ishi), combined with the results for the seven months following the acquisition of TOWER Medical.

The improved performance of our international workers and students businesses, our acquisition of TOWER Medical in New Zealand and adjacent insurance product lines such as life and travel insurance together contributed 8.1% of our operating earnings for FY13 up from 2.6% the previous year.

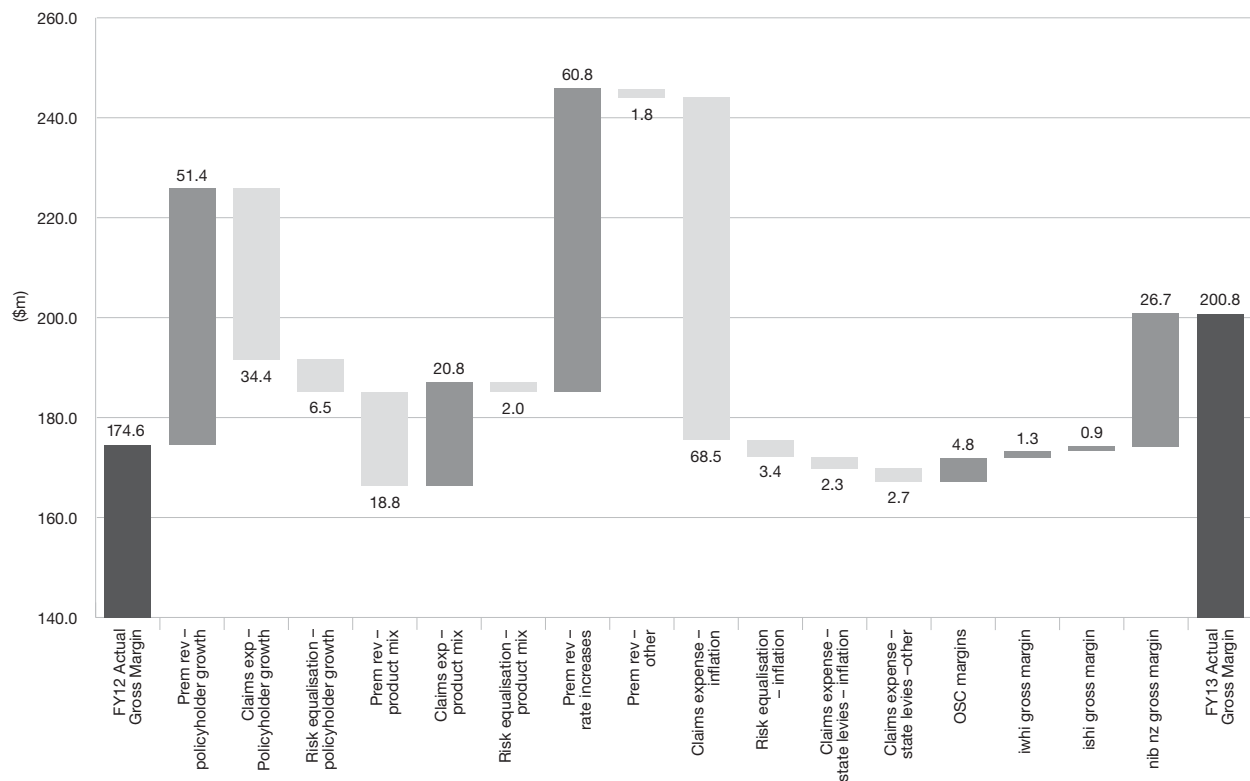
The performance of these adjacent businesses is consistent with our business strategy to diversify future earnings. We expect these operations will continue to make a material contribution to Group earnings in future years.

During the year, life and travel commissions increased to \$1.9 million from \$1.5 million. We continue to see an increase in the number of our customers seeking to purchase complementary products from nib including general life and travel plans, funeral fund, income protection and bill relief.

nib has announced it is looking to further broaden its business operations with the facilitation of access to cosmetic treatment. Known as nib options, nib will leverage the brand and distribution to support and grow the market for cosmetic, dental and surgical treatment both overseas and here in Australia. nib options expects to launch during FY14.

Delivering continued profitable growth for the business will remain a focus in FY14.

Gross profit drivers



nib New Zealand has been included for the first time (acquisition was completed November 2012), with amounts shown being a seven month result.

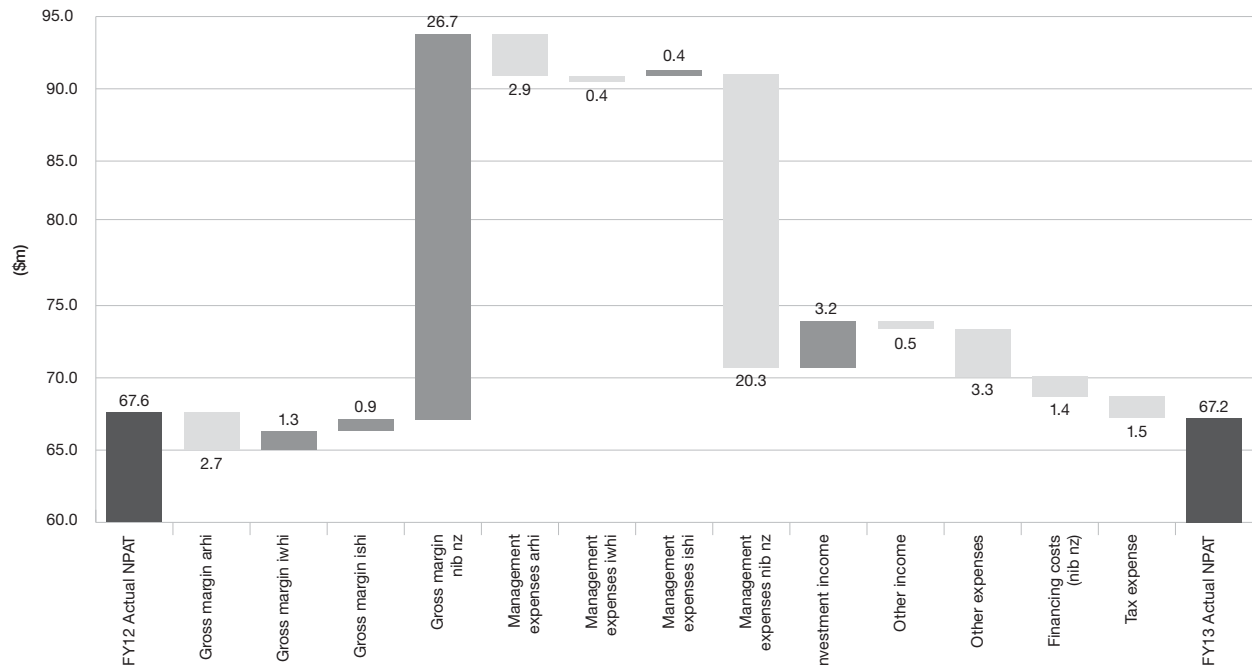
arhi claims and risk equalisation expenses are not fully covered by rate increases due to lower than preferred 2012 rate increase (5.5%) and higher than expected claims inflation. The 2013 premium increase of 6.5% (effective 1 April 2013) should correct for this however the rate of claims inflation was driven by increased utilisation and remains a concern.

Operating and Financial Review continued

For the year ended 30 June 2013

REVIEW OF GROUP OPERATIONS continued

NPAT Summary



FY13 NPAT was impacted by pre-tax costs associated with the TOWER Medical Insurance acquisition, including \$3.4 million of acquisition costs (one-off cost) and \$1.4 million of finance costs (seven months) associated with debt facility.

Financial Position

(\$m)	Change			
	2013	2012	\$m	%
Assets				
Cash and cash equivalents	143.1	86.7	56.4	65.1
Receivables	53.7	80.2	(26.5)	(33.0)
Financial assets at fair value through profit or loss	351.8	356.8	(5.0)	(1.4)
Deferred acquisition costs	27.2	8.9	18.3	205.6
Property, plant and equipment	41.7	42.1	(0.4)	(0.9)
Intangible assets	91.3	38.9	52.4	134.6
Other assets	5.3	4.3	1.0	23.3
Total assets	714.1	617.8	96.3	15.6
Liabilities				
Payables	101.0	86.7	(14.3)	(16.5)
Borrowings	62.4	2.6	(59.8)	(2,300.0)
Outstanding claims liability	81.4	75.0	(6.4)	(8.6)
Unearned premium liability	93.4	141.7	48.3	34.1
Premium payback liability	40.2	0.0	(40.2)	-
Other liabilities	9.5	10.3	0.8	7.8
Total liabilities	387.9	316.2	(71.7)	(22.7)
Net assets	326.2	301.6	24.6	8.1
Total equity	326.2	301.6	24.6	8.1

Capital management through a combination of special dividends, a \$75 million Capital Return, and an on-market share buy-back in the period from listing saw available capital at a low of \$13.3 million at 30 June 2012. During FY13, the acquisition of TOWER Medical funded through a combination of debt and available capital, combined with full year dividends of 10.0 cps sees available capital at 30 June 2013 at \$14.8 million above our internal prudential targets.

Our investment portfolio delivered returns above our internal benchmarks for the year, primarily on the back of strong equity market performance. Despite our exposure to equities being only approximately 7% of our entire portfolio, net investment return for the 12 months was \$28.8 million or 5.8%. As at 30 June 2013, our total investment assets were \$529.6 million (including head office building).

Group net profit after tax (NPAT) was \$67.2 million, compared to \$67.6 million last year. Our continued solid underwriting performance and strong investment earnings delivered earnings per share of 15.3 cents and return on equity of 21.6%.

Our strong financial performance has allowed the Board to declare FY13 full year dividends of 10.0 cents per share, fully franked. This compared with 9.25 cents per share for FY12. The FY13 full year dividend represents a payout ratio of 65% of full year NPAT, and is consistent with our dividend policy of paying fully franked dividends representing 60% to 70% of full year NPAT.

Operating cash flow decreased to \$20 million for the year ended 30 June 2013 (30 June 2012: \$134.6 million), due to the high number of policyholders prepaying their premiums in FY12 associated with income testing of the Australian Government Rebate. To maintain their Australian Government Rebate, nib customers could elect to prepay their health insurance premiums for up to 13 months. This resulted in approximately 26,000 nib policyholders prepaying their premiums prior to 1 July 2012. Cash flow from financing decreased to \$10.5 million (FY12: \$179.1 million), reflecting less capital management initiatives and an increase in proceeds from borrowings associated with the TOWER Medical acquisition.

AUSTRALIAN RESIDENTS HEALTH INSURANCE

Financial performance and business review

(\$m)	2013	2012	Change	
			\$m	%
Policyholder growth	4.6%	4.7%		
Net premium revenue	1,187.2	1,095.6	91.6	8.4
Net claims incurred	(1,030.0)	(935.7)	(94.2)	(10.1)
Gross margin	157.2	159.9	(2.7)	(1.7)
	13.2%	14.6%		
Management expense	(98.2)	(95.3)	(2.9)	(3.1)
	8.3%	8.7%		
Underwriting result	59.0	64.6	(5.6)	(8.6)
	5.0%	5.9%		

arhi highlights:

- Annual net policyholder growth of 4.6% (industry: 3.1%).
- Premium revenue growth up 8.4% to \$1,187 million.
- Launched new product range allowing customers to tailor their health cover.
- Management expenses up just 3.1%, equating to a MER of 8.3%, lowest since ASX listing.
- Net underwriting profit of \$59.0 million down 8.6% on FY12 on the back of high claims inflation.

FY13 was challenging for our arhi business. While policyholder growth was an impressive 4.6%, high claims inflation and a lower than required 2012 premium increase saw our net profit margin decline to 5.0% from 5.9% the previous year. Coupled with a series of unhelpful policy and regulatory changes, it was generally a much tougher year within arhi.

The relative earnings weakness in our arhi business margin has long been anticipated given underlying claims inflation and the regulatory restrictions we have upon our pricing.

A higher than forecast claims expense which was not fully covered by our 1 April 2012 price increase, as well as one-off state levy expenses (\$2.3 million), all had an impact on our FY13 arhi net underwriting profit of \$59.0 million. This result compared to \$64.6 million in the previous year. Despite this challenging backdrop, arhi's FY13 net underwriting margin of 5.0% was at the bottom end of our target net underwriting margin range of 5% to 5.5%. The premium pricing increase nib had approved this year of 6.5%, effective 1 April 2013, will again see arhi at the bottom end of this range in FY14.

Operating and Financial Review continued

For the year ended 30 June 2013

AUSTRALIAN RESIDENTS HEALTH INSURANCE continued

Financial performance and business review continued

arhi net policyholder growth was 4.6%, compared to the industry average of 3.1%. This was the 12th consecutive year arhi policyholder growth exceeded the industry average. With just under 8% market share, our focus on organic growth continues to yield results, with nib accounting for 11.3% of overall industry expansion for the year. While much of our organic growth strategy in recent years has been to target customers aged under 40 years, we have also invested heavily in marketing and product design to target customers aged 55 years and over. This focus and investment yielded positive results with 11.8% of all policyholder sales in FY13 being in this target group (over 55 years of age), compared to 7.4% in FY12.

Product design and innovation has been the cornerstone of nib's strategy in recent years. During March 2013, nib launched a new product range that allows customers to tailor their health cover and benefits they wish to receive. The early results show that average premium income per policyholder, policyholder migration, and new customer sales have improved since the launch of the new product range, compared to the same period last year.

The amount of money we spend to acquire customers has increased over the last three years, primarily as a result of increased competition. During this period we have seen a continuing trend for consumers to use retail brokers. During FY13, 31.8% of all our sales were through retail brokers. Retail brokers will remain a key part of our distribution strategy, particularly in new markets and niche segments.

Policyholder lapse remains a key focus for the business. Our lapse trend remains a concern and for FY13 our lapse rate was 10.1%, up from 9.6% in FY12. In an effort to arrest our lapse trend we have implemented a number of specific actions including investing in an outbound call centre team to focus on high risk customers.

Claims expenses for our arhi business continued to grow for FY13 as a function of health and medical inflation and policyholder growth. Claims expenses and levies totalled \$862.6 million for the year; an increase of 11.2%. The rate of growth in our contribution to the Risk Equalisation Trust Fund, a system that requires all health insurers to share the costs associated with older and high cost customers slowed significantly during the year. This is due to a lower rate of growth in the overall pool, increase in amount nib claimed from the pool and reduction in risk equalisation margin in outstanding claims provision. In FY13, our Risk Equalisation expense was \$167.4 million; an increase of 4.7% on FY12.

During FY13 we have also seen our hospital and ancillary expense inflation track higher than expectations. In terms of hospital costs, inflation has been largely driven by an increase in utilisation and service costs associated with private hospitals and day facilities. Ancillary claims inflation appears predominantly driven by an increase in dental utilisation following the Federal Government's scrapping of the Chronic Disease Dental Scheme in December 2012. This increase has been an industry-wide trend.

Monitoring and managing costs as well as continually improving operational efficiencies remain priorities to ensure we maintain our price competitiveness and achieve our target net underwriting margin. For FY13, our management expense ratio of 8.3% was the lowest since listing on the ASX in 2007. This was achieved despite an increased investment in marketing activity to support our organic growth strategy, which is reflected in our above-industry net policyholder growth for the year.

For FY14 and beyond, our strategy is to grow the arhi business at approximately 10% annual premium revenue growth through building a national brand presence and with an emphasis on targeting those under 40 and those over 55, improving our policyholder retention as well as other tactical niche opportunities such as Western Australia.

INTERNATIONAL STUDENTS HEALTH INSURANCE

Financial performance and business review

(\$m)	2013	2012	Change	
			\$m	%
Policyholder growth	173.9%	132.4%		
Net premium revenue	4.4	3.0	1.4	45.7
Net claims incurred	(3.4)	(2.9)	(0.5)	(18.0)
Gross margin	1.0	0.1	0.9	641.8
	22.7%	4.5%		
Management expense	(1.1)	(1.5)	0.4	27.8
	24.5%	49.4%		
Underwriting result	(0.1)	(1.4)	1.3	94.2
	(1.8%)	(44.9%)		

ishi highlights:

- International student fundamentals strong with market expected to grow.
- Success with upstream distribution strategy.
- Very strong policyholder sales (FY13 net policyholder growth of 5,787 or 174%) means we are approaching critical mass for the business.
- New pricing and product design strategy has improved claims experience.

Over the past three years we have been organically building our ishi business. As at 30 June 2013, nib provided health insurance to more than 9,000 international student policies in Australia; up 174% on the previous year. Strong policyholder sales during the year have been driven by targeting education agents, cultural missions and embassies.

We also made changes during the year to product pricing and developed a new product design strategy, which have resulted in an improved ishi claims experience.

Overall this resulted in a small underwriting loss of \$0.1 million for FY13, compared to a loss of \$1.4 million in FY12.

With Australia being one of the world's largest international student destinations and health insurance a prerequisite for student visa entry, when combined with recent distribution strategy success, this is expected to grow and further generate earnings and improve profitability in future years.

INTERNATIONAL WORKERS HEALTH INSURANCE

Financial performance and business review

(\$m)	2013	2012	Change	
			\$m	%
Policyholder growth	9.7%	18.6%		
Net premium revenue	27.6	25.2	2.4	9.9
Net claims incurred	(11.8)	(10.6)	(1.2)	(11.0)
Gross margin	15.9	14.5	1.4	9.0
	57.4%	57.5%		
Management expense	(7.4)	(7.1)	(0.3)	(5.0)
	26.9%	28.2%		
Underwriting result	8.4	7.5	0.9	12.8
	30.5%	29.8%		

iwhi highlights:

- Policyholder growth of 9.7%.
- Premium revenue up 9.9% to \$27.6 million.
- Net margin of 30.5%, still viewed as sustainable.
- Contributed 11.4% of Group net underwriting profit.

Operating and Financial Review continued

For the year ended 30 June 2013

INTERNATIONAL WORKERS HEALTH INSURANCE continued

Our iwhi business continues to perform well, highlighted by strong policyholder and revenue growth along with disciplined cost control.

As at 30 June 2013, nib provided health cover to approximately 18,000 migrant worker policies in Australia, which is an increase of 9.7% on the previous year. Despite a weakening Australian labour market and an uncertain domestic economic outlook, as at 30 June 2013 there were approximately 107,000 "457 visa" holders or skilled migrant workers in Australia. According to recent Federal Government Department of Immigration and Citizenship forecasts, Australia's "457 visa" intake is expected to grow by 2% to 4% for FY14 and FY15.

iwhi's earnings have continued to make a material contribution to our pre-tax underwriting result. In FY13 iwhi's net underwriting result of \$8.4 million accounted for more than 11% of our Group net underwriting result. As competition in the domestic arhi market continues to intensify, we will continue to invest and grow the iwhi business to diversify Group earnings.

NEW ZEALAND HEALTH INSURANCE

Financial performance and business review

(\$m)	2013 7 months	2012	Change	
			\$m	%
Net premium revenue	71.1	–	71.1	–
Net claims incurred	(44.4)	–	(44.4)	–
Gross margin	26.7	–	26.7	–
	37.5%			
Management expense	(20.3)	–	(20.3)	–
	28.5%			
Underwriting result	6.4	–	6.4	–
	9.0%			

nib New Zealand highlights:

- nib acquired TOWER Medical in November 2012.
- New Board and Management team structure in place.
- Separation and transition of business going smoothly.
- Contributed \$6.4 million (or 8.7%) to Group underwriting result in just seven months.
- EPS accretive year one (excluding acquisition costs and amortisation).

In line with our strategy of growing international earnings, nib acquired TOWER Medical in November 2012. The purchase price of \$80.6 million included \$7.9 million in surplus capital. nib funded the acquisition through a combination of surplus capital and debt. Our current gearing of 16.1% (debt to debt plus equity) is well below our internal capital target of not more than 30%, with a tendency to a lower 20% level.

nib has been investigating opportunities in New Zealand for some time, and the acquisition of TOWER Medical met our strict investment criteria in terms of strategic rationale and return on investment.

With market share of approximately 13%, TOWER Medical is New Zealand's second largest health fund, and provides nib with an opportunity to emulate the success we have achieved in Australia in recent years through brand building, product design and outstanding customer service.

Since acquiring the business, nib has appointed a nib New Zealand Board, chaired by Alan Clarke, who has more than 30 years experience in various senior management and board positions with a range of New Zealand and Australian-based health and medical companies. In May, Rob Hennin was appointed as Chief Executive Officer New Zealand. Rob was the former Vice President, Consumer Products, Acquisition, Insurance (Australia) for American Express and has more than 15 years of experience in the finance and insurance sectors, which also includes senior management roles with Visa International and Unilever.

A key priority has been the separation and transition of the business to nib. This critical post-acquisition work stream is going smoothly and includes transferring employees and key management personnel, IT systems and customer information, as well as nurturing and enhancing nib's relationship with advisor and group customer distribution arrangements.

An extensive market research project was undertaken earlier this year to inform and further refine our business and organic growth strategy for nib New Zealand. This research has strengthened our view of the potential to increase private health insurance participation in New Zealand, which is currently 30% compared to Australia with 48%, and significantly grow market share. Similar to the organic growth strategy nib led in Australia in 2006, this program will focus on brand investment, product and online innovation, as well as a customer-centric culture, with a launch date set for late calendar 2013.

In addition to organic growth, opportunities exist in the New Zealand to further grow market share through merger and acquisitions, as well as other product “white labelling”.

With the acquisition completed on 30 November 2012, the business contributed a seven-month result to FY13 Group earnings consisting of premium revenue of \$71.1 million and a net underwriting result of \$6.4 million.

FY14 will be a year of significant investment in brand building and marketing to build the foundations for strong value creation in future years.

BUSINESS STRATEGIES AND PROSPECTS

nib's Business Strategy sets out seven key levers which we believe will increase earnings and grow enterprise value.

1. Grow our arhi business organically at circa 10% annual premium growth (4-5% per annum policyholder growth) through building national brand presence and with an emphasis on <40 market (Virgin Green), >55 market (Virgin Silver), other tactical niche opportunities (e.g. Western Australia) and improved policyholder retention.
2. Position and develop our new business in New Zealand as a challenger and grow the market and our market share.
3. Grow our inbound international workers and students business and create a new product for insuring outbound long stay Australians and New Zealanders.
4. Build a new business “nib options” to capture and commercialise burgeoning demand in Australia and Asia for medical travel including cosmetic surgery.
5. Ensure across the nib Group that the design, payment and management of benefits better meets our strategic and commercial objectives.
6. Pursue increased customer satisfaction, productivity and efficiency through continual process improvement and ongoing investment in technology.
7. Actively develop a high performance organisational culture and the engagement of our people.

Aligned to nib's Business Strategy, our key performance targets are:

- Consolidated premium growth.
- Net consolidated underwriting profit.
- Overseas and new business earnings.
- Net promoter score.
- Earnings per share.
- Return on equity.
- Total shareholder return.

Operating and Financial Review continued

For the year ended 30 June 2013

BUSINESS STRATEGIES AND PROSPECTS continued

Principal risks and uncertainties

nib has established policies for the oversight and management of material business risks. Further information regarding how nib recognises and manages risk is detailed in Principle 7 of our Corporate Governance Statement (pages 42 to 44). In addition nib's Risk Policy is available on our website at nib.com.au.

Principal risks and uncertainties include:

General economic conditions	nib's performance is impacted by Australian economic conditions such as inflation, interest rates, consumer and business spending and employment rates which are outside nib's control. nib cannot predict the impact of future economic conditions on its business and profitability. The environment in which nib operates may experience challenging conditions as a result of general uncertainty about future Australian and international economic conditions.
Investment market performance	A substantial proportion of nib's profits are generated from its investment portfolio. Consequently, investment performance significantly affects nib's profits and financial position.
Competition in the health insurance industry	The industry in which nib operates is competitive. The actions of competitors could result in a reduction in the rate of growth of nib, a decline in the number of people insured by nib and/or declining profit margins.
Pricing risk	Australian health insurance premiums are required to be approved by the Minister for Health. Historically, nib and other health funds have only raised premiums once a year. There is a risk that nib's application for a change in its premium rates may only receive approval at a level lower than originally requested, or may be rejected by the Minister. Such an amendment or rejection may have a negative impact on nib's operating and financial performance.
Risk equalisation trust fund arrangements	Since 1 April 2007 risk equalisation arrangements have applied to the registered health insurance industry in Australia. These arrangements replaced the previous reinsurance arrangements. Under these arrangements all registered health insurers effectively provide reinsurance support so that the industry as a whole shares the hospital costs of high risk groups irrespective of whether those claims are attributable to a policyholder of a particular fund.
Changes in government policy or legislation	<p>The business environment in which nib operates is heavily regulated. The Australian Federal Government currently provides a number of regulatory incentives to encourage participation by the public in private health insurance including:</p> <ul style="list-style-type: none"> a. Federal Government Rebate; b. Lifetime Health Cover; and c. Medicare Levy Surcharge. <p>The Federal Government has and may in the future change these regulatory incentives from time to time through changes to such things as policy and legislation. There is a risk that such changes may have a negative impact on the private health insurance industry and nib.</p>
Merger or acquisition opportunities	nib has a business strategy of pursuing merger and acquisition opportunities. The pursuit of merger and acquisition opportunities carries with it risks and there is no guarantee that such a strategy will be successful.

Compliance with regulation	<p>nib is subject to a high degree of regulation concerning how private health insurers conduct their health insurance business. Private health insurers must be registered and must comply with a variety of obligations in relation to the conduct of that business including a requirement to have appointed actuaries, compliance with prudential, solvency and capital adequacy standards, exclusion of disqualified persons from management and a number of reporting and notification obligations.</p> <p>If nib does not comply with the regulatory requirements that apply to it, it may suffer a penalty, such as a fine or an obligation to pay compensation. In some cases, a regulator may cancel or suspend its authority to conduct business. A significant failure to comply with regulatory requirements may also give rise to adverse comment by the press and other industry commentators, negatively affecting nib's financial performance.</p>
Estimation of claims provisions	nib maintains provisions for claims incurred but not settled including claims reported but not yet paid and claims incurred but not yet reported. Although nib seeks to maintain claims provisions at a level to ensure a relatively high probability of sufficiency, the establishment of appropriate provisions is an inherently uncertain process.
Operational risk	nib is exposed to a variety of operational and general business risks. Exposure to unexpected financial and non financial losses arising from the way in which nib conducts its business operations may have an adverse effect on earnings and assets of nib as well as its reputation.
Loss of key personnel	nib's success depends largely on its key personnel, including senior management. The inability to access and retain services of a significant number of such employees could disrupt nib's business.
Tax treatment	The Federal or State Governments may introduce further or increase taxes, duties (including stamp duty on insurance policies) or other imposts or introduce amendments to existing legislation which may result in an adverse impact on nib and the health insurance industry.
Technology	The health insurance industry relies increasingly on technology to conduct an efficient and cost effective business. nib faces the risk, in common with other participants, that further technology changes will be required which could result in an increase in costs. In addition, information technology systems risks include complete or partial systems failure, lack of systems capacity, inadequacy to meet changing business requirements, inappropriate or unauthorised systems access and unsuccessful systems integrations. Any major failure or inadequacy in the information technology systems could materially affect nib's business.
Litigation and legal action	At any time, nib could be involved in civil proceedings in courts of various jurisdictions. nib may also be exposed to litigation in the future over claims which may affect its business. To the extent that these risks are not covered by nib's insurance policies, litigation or the costs of responding to these legal actions or suggested legal action could have a material adverse impact on nib's financial position, earnings and share price.
Future events	It is not possible to predict or identify all future events which may impact adversely on nib's profitability or financial position.

Operating and Financial Review continued

For the year ended 30 June 2013

BUSINESS STRATEGIES AND PROSPECTS continued

FIVE YEAR SUMMARY

(\$m)	2013 \$m	2012 \$m	2011 \$m	2010 \$m	2009 \$m	
Consolidated Income Statement						
Net premium revenue	1,290.4	1,123.8	1,007.8	901.4	829.5	
Net claims incurred	(1,089.6)	(949.2)	(848.7)	(767.9)	(707.5)	
Gross margin	200.8	174.6	159.1	133.5	122.0	
Management expenses	(127.0)	(103.8)	(97.6)	(86.4)	(81.9)	
Underwriting result	73.8	70.7	61.5	47.1	40.2	
Other income	3.1	3.6	5.8	1.3	1.2	
Other expenses	(7.6)	(4.3)	(7.5)	(5.8)	(7.9)	
Operating profit	69.3	70.0	59.8	42.5	33.4	
Net investment return	28.8	25.6	32.1	44.5	(1.8)	
Finance costs	(1.4)	0.0	0.0	0.0	0.0	
Profit before tax	96.7	95.7	91.9	87.0	31.6	
Tax	(29.5)	(28.0)	(26.5)	(25.4)	(7.8)	
NPAT	67.2	67.6	65.5	61.5	23.8	
Consolidated Balance Sheet						
Total assets	714.1	617.8	639.3	588.0	536.5	
Equity	326.2	301.6	411.8	391.4	361.9	
Debt	59.1	0.0	0.0	0.0	0.0	
Share Performance						
Number of shares	m	439.0	439.0	466.7	495.4	496.1
Weighted average number of shares – basic	m	439.0	458.3	478.5	495.8	506.7
Weighted average number of shares – diluted	m	439.0	458.3	478.5	495.8	506.7
Basic earnings per share	cps	15.3	14.8	13.7	12.4	4.7
Diluted earnings per share	cps	15.3	14.8	13.7	12.4	4.7
Share price at year end	\$	2.13	1.50	1.45	1.25	0.92
Dividend per share – ordinary	cps	10.0	9.25	8.0	7.0	2.4
Dividend per share – special	cps	0.0	0.0	5.0	0.0	5.0
Dividend payout ratio	%	65.0%	60.0%	92.7%	56.4%	154.8%
Other financial data						
ROE (%)		21.6%	21.7%	16.5%	16.3%	6.6%
Operating cash flow		20.0	134.6	88.3	66.3	44.2

Directors' Report

For the year ended 30 June 2013

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 2013.

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	Mark Fitzgibbon
Harold Bentley	Annette Carruthers
Philip Gardner	Christine McLoughlin

PRINCIPAL ACTIVITIES

The principal continuing activities of the Group consisted of operating as an Australian private health insurer under the *Private Health Insurance Act 2007*.

During the year, the Group commenced operating as a New Zealand private health insurer following the acquisition of TOWER Medical Insurance Limited (TOWER Medical) by nib nzed limited (a wholly owned subsidiary of nib holdings limited) effective 30 November 2012.

REVIEW OF OPERATIONS

Information on the operations and financial position of the Group and its business strategies and prospects is set out in the Operating and Financial Review on pages 1 to 12 of this Annual Report.

DIVIDENDS

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

	2013 \$000	2012 \$000
Final dividend for the year ended 30 June 2012 of 5.0 cents per fully paid ordinary share, made up of 5.0 cps ordinary dividend (2011: 9.0 cents made up of 4.0 cps ordinary dividend and 5.0 cps special dividend) per fully paid share paid on 5 October 2012	21,949	42,006
Interim dividend for the year ended 30 June 2013 of 5.0 cents (2012: 4.25 cents) per fully paid share paid 5 April 2013	21,950	18,912
	43,899	60,918

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 4 October 2013 out of retained profits at 30 June 2013.

Subject to franking credit availability, the Board's position is that future ordinary 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

Significant changes in the state of the affairs of the Group during the financial year were as follows:

On 30 November 2012, nib nzed limited (a wholly owned subsidiary of nib holdings limited, incorporated on 31 October 2012) acquired 100% of the issued share capital of TOWER Medical, New Zealand's second largest private health insurer for \$80.6 million. The acquisition was funded through a combination of available capital and a NZD\$70 million (AUD\$55.0 million) senior debt facility.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Since 30 June 2013, nib has announced it is looking to further broaden its business operations with the facilitation of access to cosmetic treatment. Known as nib options, nib will leverage the brand and distribution to support and grow the market for cosmetic, dental and surgical treatment both overseas and here in Australia. nib options expects to launch in FY14.

Except for the new acquisition discussed above, no other matter or circumstance has arisen since 30 June 2013 that has significantly affected, or may significantly affect:

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS FROM OPERATIONS

Additional comments on expected results on operations of the Group are included in this Annual Report under Operating and Financial Review on pages 1 to 12.

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

Directors' Report continued

For the year ended 30 June 2013

INFORMATION ON DIRECTORS

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

Steve Crane <i>BCommerce, FAICD, SF Fin</i>	Chairman, Independent Non-Executive Director <i>Experience and expertise</i> 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 CIMB (Australia) Advisory Council. <i>Other current directorships</i> A 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. <i>Former directorships in the last three years</i> Director of APA Ethane Limited. <i>Subsidiary boards and special responsibilities</i> Chairman of the Board. A Director of nib health funds limited and IMAN Australian Health Plans Pty Limited. <i>Interests in shares and performance rights</i> Indirect: 200,000 ordinary shares in nib holdings limited held by Depeto Pty Limited.
Mark Fitzgibbon <i>MBA, MA, ALCA, FAICD</i>	Managing Director/Chief Executive Officer <i>Experience and expertise</i> 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. <i>Other current directorships</i> A Director of the Australian Health Insurance Association Ltd. <i>Former directorships in the last three years</i> Director of the Newcastle Knights Rugby League Football Club and Australian Health Services Alliance. <i>Subsidiary boards and special responsibilities</i> Managing Director/Chief Executive Officer. A Director of nib health funds limited, nib nzed limited, nib health care services pty limited, nib servicing facilities pty limited, TOWER Medical Insurance Limited, IMAN Australian Health Plans Pty Limited, nib options pty limited and RealSurgeons Pty Ltd. <i>Interests in shares and performance rights</i> Direct: 893,930 ordinary shares in nib holdings limited. Indirect: 568,621 ordinary shares in nib holdings limited held by Fitz Family fund. 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. 331,765 performance rights under FY13-FY16 Long-Term Incentive Plan which may vest from 1 September 2016.
Harold Bentley <i>MA Hons, FCA, FCIS, FCSA</i>	Independent Non-Executive Director <i>Experience and expertise</i> 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. <i>Other current directorships</i> None <i>Former directorships in the last three years</i> None. <i>Subsidiary boards and special responsibilities</i> A Director of nib health funds limited, nib nzed limited, TOWER Medical Insurance Limited and IMAN Australian Health Plans Pty Limited. Chairman of the Audit Committee. Member of the Investment Committee and the Risk and Reputation Committee. Chairman of the nib nzed limited Audit Committee. Chairman of the TOWER Medical Insurance Limited Board, Audit, Risk and Compliance Committee. <i>Interests in shares and performance rights</i> Indirect: 100,000 ordinary shares in nib holdings limited held by Sushi Sake Pty Limited.

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 & Public Health at the University of Newcastle. Member NSW Medical Experts Committee Avant Pty Ltd.

Other current directorships

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.

Subsidiary boards and special responsibilities

A Director of nib health funds limited (since 2003), nib health care services pty limited, nib nzed limited, TOWER Medical Insurance Limited, IMAN Australian Health Plans Pty Limited, The Heights Private Hospital Pty Limited and nib options pty limited. Chairman of the Risk and Reputation Committee. Member of Audit Committee and the People and Remuneration Committee. Member of the Tower Medical Insurance Limited Board, Audit, Risk and Compliance 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.

Other current directorships

A Director of Newcastle Airport Limited.

Former directorships in the last three years

None.

Subsidiary boards and special responsibilities

A Director of nib health funds limited (since 2005) and IMAN Australian Health Plans Pty Limited. 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

BAVLLB (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

Director of Whitehaven Coal Limited, Westpac's Insurance Businesses and St James Ethics Centre. Deputy Chairman of The Smith Family.

Former directorships in the last three years

Director of the AMP Foundation, TAC (Transport Accident Commission) and The Australian Nuclear Science and Technology Organisation (ANSTO).

Subsidiary boards and special responsibilities

A Director of nib health funds limited, nib nzed limited, TOWER Medical Insurance Limited and IMAN Australian Health Plans Pty Limited. Chairman of the People and Remuneration Committee. Member of the Risk and Reputation Committee. Member of the Tower Medical Insurance Limited Board, Audit, Risk and Compliance Committee.

Interests in shares and performance rights

Indirect: 77,500 shares in nib holdings limited held by Dundas Street Investments Pty Ltd.

Directors' Report continued

For the year ended 30 June 2013

COMPANY SECRETARIES

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, the Hunter Valley Research Foundation and Hunter Valley Grammar School, a member of the advisory board to the Faculty of Business and Law at the University of Newcastle and a member of the University of Newcastle Foundation Advisory Board.

Ms Roslyn Toms BA (Hons) (UCAN,UTS)/ LLB (UNSW)) also serves as a Company Secretary. Ms Toms was appointed as a Company Secretary on 29 April 2013. She is currently General Counsel of the Group and is also responsible for Risk & Compliance and serves as a Company Secretary of other nib Group companies. Ms Toms has over ten years' experience as a lawyer in business, government and private practice.

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 2013, and the numbers of meetings attended by each Director were:

NAME	Board ¹		Audit Committee		Risk and Reputation Committee		People and Remuneration Committee		Investment Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
S Crane ²	16	16	9	9	4	4	6	6	–	–
M Fitzgibbon ²	16	16	9	9	4	4	6	6	6	5
H Bentley	16	14	9	9	4	4	–	–	6	6
A Carruthers	16	16	9	9	4	4	6	6	–	–
P Gardner	16	16	9	9	–	–	6	6	6	6
C McLoughlin	16	15	–	–	4	4	6	6	–	–

1. Seven of the Board meetings that took place were unscheduled meetings.

2. Attendance at Committee meetings in an ex-officio capacity.

nib's Non-Executive Directors participated in a number of site visits, work related functions and staff events during the course of the year in Newcastle, Sydney and Auckland.

REMUNERATION REPORT

The Remuneration Report is set out on pages 19 to 34 of the Annual Report and forms part of this Report.

ENVIRONMENTAL REGULATION

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

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
27 May 2011	1 September 2014	nil	412,534
21 December 2011	1 September 2015	nil	392,307
19 November 2012	1 September 2016	nil	553,236

Shares may be issued or acquired on-market at the election of the Company. It is anticipated the performance rights will be satisfied through on-market share purchases administered by the nib Holdings Ltd Share Ownership Plan Trust.

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 33 – 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 in Note 33, 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 18.

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

Newcastle
23 August 2013



Harold Bentley
Director

Auditor's Independence Declaration

For the year ended 30 June 2013



Auditor's Independence Declaration

As lead auditor for the audit of nib holdings limited for the year ended 30 June 2013, 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.

A handwritten signature in black ink that reads 'John Campion' in a cursive script.

John Campion
Partner
PricewaterhouseCoopers

Newcastle
23 August 2013

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Remuneration Report

For the year ended 30 June 2013

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. The Board has taken into account shareholder feedback in continuing to ensure our practices work to appropriately attract, motivate, reward and retain executives.

Dear Shareholder,

We are pleased to present our 2013 Remuneration Report (Report) which covers the remuneration arrangements for our Executives for the financial year ending 30 June 2013 (FY13) 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, recent acquisition in New Zealand, planned growth in adjacent businesses, market expectations and regulatory requirements. Being open to engaging with our shareholders and taking account of shareholder feedback is an important part of this process.

Financial Year Ended 30 June 2013

As with our 2012 Report, to help shareholders understand how we remunerate our senior executives we have again included a table (page 24) showing actual remuneration awarded to the Managing Director & Chief Executive Officer (MD/CEO) and Executives during FY13. This supplements our statutory disclosures shown on page 30.

During the year, we implemented the changes detailed in last year's Remuneration Report. In summary:

- The MD/CEO's contractual and remuneration arrangements were varied to be more aligned with market benchmarks of companies of comparable market capitalisation and revenue. Total Fixed Remuneration (TFR) was increased by 8% and long-term incentives (LTI) to 80% of TFR (from 55%) bringing his overall package in line with the benchmark median. Over the longer term we plan to move his total remuneration closer to the 75th percentile of the benchmark reflecting the expansion of the business due to a number of strategic initiatives, including the recent acquisition of TOWER Medical Insurance Limited (TOWER Medical) in New Zealand. We will again seek shareholder approval at the upcoming AGM for the MD/CEO's LTI Grant for the coming year.
- The Key Performance Indicators (KPIs) for all Executives included 20% for a measurable leadership component and 80% linked to:
 - Consolidated premium revenue.
 - Consolidated underwriting profit.
 - International business underwriting profit.
 - Net promoter score (NPS), a measure of customer satisfaction.
 - Earnings per share (EPS).
- 30% of STI payments for the FY13 year to Executives will be deferred into shares for one year to focus Executives on sustained Group performance. This also serves as a retention mechanism.
- The LTI performance hurdles continued to be linked to EPS and TSR.

For the nib Group, FY13 was a year of strong top line growth, disciplined cost control, improved earnings per share, stable return on equity at 21.6% and success in broadening our business operations into New Zealand. Overall, FY13 saw nib produce a solid result in a challenging competitive environment and this is reflected in the remuneration of our Executives, notably:

- STI awards as a percentage of maximum are determined against set performance indicators were above last year; the MD/CEO STI award was 41.5% and for the other Executives an average of 45.5% reflecting the overall performance of the Group over the year (refer to page 26).
- The duration of the LTI was altered from three to four years in the FY11 grant in recognition of changing market practice. This results in there being no vesting of LTI for Executives in FY14, with the FY11 grant eligible for vesting in FY15. Eligible Executives received shares in September 2012 following vesting of the FY10-FY12 LTI.
- The Board amended targets for the key financial indicators to have consideration of the acquisition of TOWER Medical midway through the financial year. This included assessment of the key New Zealand integration performance metrics in the leadership component of the MD/CEO and other relevant Executives.
- The acquisition of TOWER Medical resulted in three current nib Non-Executive Directors taking on additional roles as Directors of the Group's New Zealand subsidiaries. While these Directors serve on these international boards, they will receive additional fees. These are outlined on page 33.

Remuneration Report continued

For the year ended 30 June 2013

MESSAGE FROM THE BOARD continued

The Upcoming Financial Year (FY14)

In light of the growth of nib's business, the acquisition of TOWER Medical in New Zealand and our longer term strategy to grow adjacent business we have strengthened our Executive team by creating three new senior Executive roles being CEO New Zealand, Group Manager Benefits and Provider Relations and Group Manager International and New Business. For these Executives to achieve an STI award, they will each be required to meet KPIs that are tailored to align with enterprise value creation.

For the FY14 LTI grants we will make three key changes:

- Measuring the TSR performance against the ASX200 (previously ASX300) to reflect the Board's expectations of performance, the company's size and shareholder feedback.
- Setting long term EPS hurdles annually (as flagged last year).
- Amending the LTI Plan Rules to allow for board discretion to be used in a change of control scenario rather than automatic vesting.

Shareholders at the 2013 AGM will have the opportunity to vote on the proposed FY14 LTI grant for the MD/CEO and the proposed increase in the Non-Executive Director (NED) fee pool from \$1.1 million to \$1.5 million. The increase in the NED pool will provide sufficient scope for possible Board expansion and ongoing flexibility over the next five years.

We last conducted an independent remuneration review and benchmarking exercise in 2012 and we will do this again in 2014 to review the Group's short term and long term incentive programs, and benchmarking our Executive and Non-Executive Director remuneration to a defined comparator group. The principles in defining the relevant peer group used in our last review are set out on page 23.

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, retain 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

People and Remuneration Committee Chairman

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KEY TERMS USED IN THIS REPORT

FY12	financial year ended 30 June 2012
FY13	financial year ended 30 June 2013
FY14	financial year ended 30 June 2014
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
LTI	long-term incentive
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.

Executive Director

Mark Fitzgibbon	Managing Director/Chief Executive Officer (MD/CEO)
-----------------	--

Other Executives

Michelle McPherson	Deputy Chief Executive Officer/Chief Financial Officer (DCEO/CFO)
Rhod McKensy	Group Manager Australian Residents Health Insurance (GMARHI)
Rob Hennin	Chief Executive Officer – New Zealand (CEO NZ) (commenced 6/5/2013)
Brendan Mills	Chief Information Officer (CIO)
Matthew Henderson	Group Executive Corporate & International Business (GECIB) (to 8/2/2013)
Justin Vaughan	Group Manager Benefits & Provider Relations (commenced 1/8/2013, after the end of the financial year)

Independent Non-Executive Directors

Steve Crane	Chairman
Harold Bentley	Chairman Audit Committee, Chairman Board Audit Risk and Compliance Committee New Zealand, Director New Zealand subsidiaries
Annette Carruthers	Chairman Risk and Reputation Committee, Director New Zealand subsidiaries
Philip Gardner	Chairman Investment Committee
Christine McLoughlin	Chairman People and Remuneration Committee, Director New Zealand subsidiaries

Remuneration Report continued

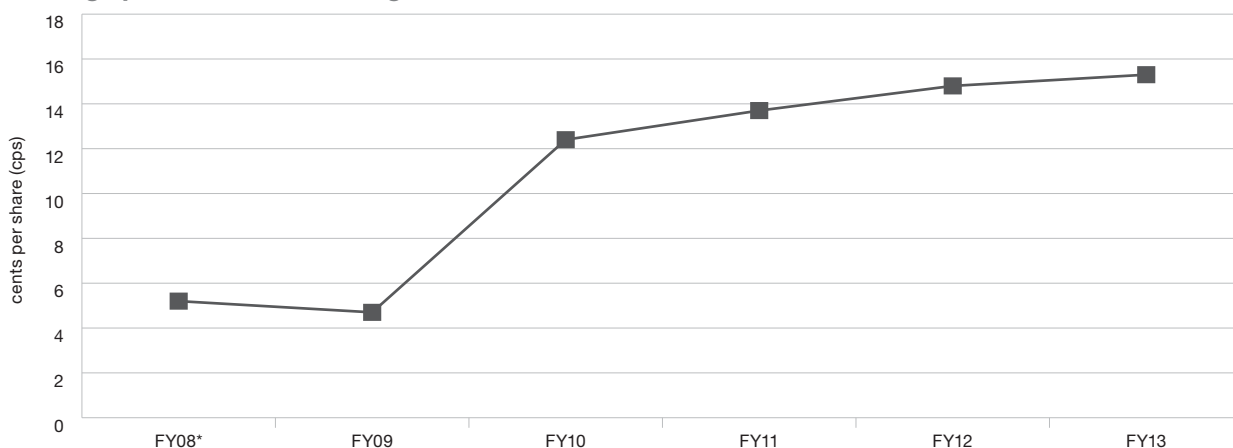
For the year ended 30 June 2013

PERFORMANCE DRIVES REMUNERATION AT nib

The Remuneration Report shows how nib's actual performance is linked to the payments to our Executives. Across a range of metrics nib has performed strongly and consistently since listing and has achieved sustained 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 9 August 2013).

Since nib's listing on ASX in November 2007, the Total Shareholder Return (TSR) of the S&P/ASX All Ordinaries, S&P/ASX 200 and S&P/ASX 300 indices have performed broadly in line with each other (S&P/ASX All Ordinaries: -4.1%, S&P/ASX 200: -2.4%, S&P/ASX 300: -3.7%), compared to nib (TSR of 275.3%). Assumes capital returns and dividends are re-invested at the payout date.

KEY FEATURES OF OUR REMUNERATION FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013

In FY13, we implemented the changes that we set out in our FY12 Remuneration Report. We believe that nib's remuneration arrangements are now more aligned with current best practice.

The following changes were made to Executive remuneration for FY13:

- MD/CEO – Increased Total Fixed Remuneration (TFR) by 8%, monetised car allowance (\$55,000) and increased LTI from 55% to 80% of TFR to bring in line with the benchmark median.
- CFO/DCEO – Increased TFR by 4% and monetised car allowance (\$25,000).
- GMARHI – Increased TFR by 4%, monetised car allowance (\$15,000), increased STI from 40% to 50% of TFR and increased LTI from 25% to 30% of TFR.

Executives are required to use their personal motor vehicles for business purposes and our past practice was to reimburse motor vehicle operating expenses (a car allowance). This allowance has now been incorporated into Total Fixed Remuneration and no separate reimbursement of motor vehicle operating expenses is paid.

The Board determined a pro-rata FY13 STI award for Matthew Henderson on redundancy based on an assessment of performance at the time. The STI was fully paid in cash on a pro-rata basis and represented an estimate at the time paid.

OUR REMUNERATION GOVERNANCE

The People and Remuneration Committee (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, human resources strategy, succession planning and employee engagement. 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. No remuneration recommendations were made by external advisors during FY13, due to the two year review cycle.

A key element of the benchmarking process is the identification of the relevant peer group.

Details of the principles used in determining the peer group when we conducted our last review in 2012 were as follows:

- 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 between approximately half and twice the size of nib.
 - Revenues – companies that fell within the above market capitalisation ranges with revenue more than twice nib's revenue were excluded.
- This resulted in a peer group comprising 28 companies.

nib will again look to define the most relevant peer group, in light of our size and business mix, when the FY14 review is undertaken.

Remuneration Report continued

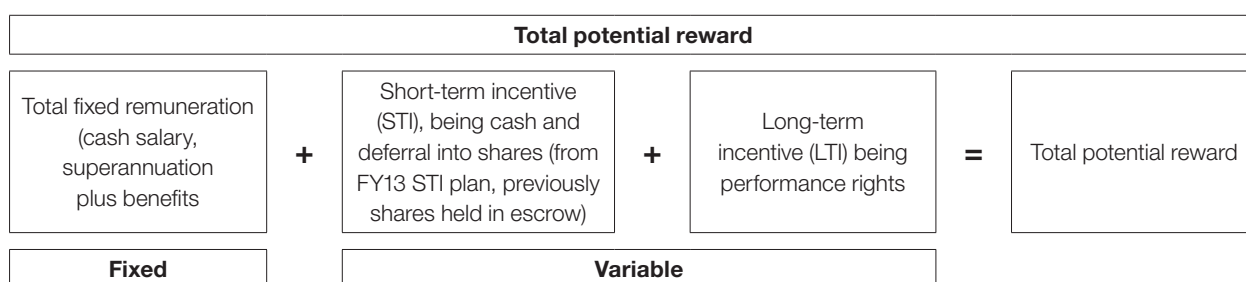
For the year ended 30 June 2013

ACTUAL REMUNERATION RECEIVED FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013

Actual remuneration paid during FY13 included vesting of the FY10 LTI grant and payment of the FY12 STI. The LTI granted in FY10 fully vested on achieving EPS performance hurdles. Only a partial FY12 STI was paid reflecting the 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 30) of this Report.

The diagram below outlines the remuneration structure for the Executives covered in this Report for FY13.



The table below shows the key elements of total reward in FY13 as the cash elements actually received by each Executive in FY13 as well as the value of equity held in escrow (not subject to forfeiture conditions), and equity from former years that vested in FY13 and which was originally reported under accounting standards in the year it was granted.

	Total fixed remuneration ¹	STI applicable to the FY12 year paid in Sept 2012 (FY13) ²		LTI vested in FY13 ³	Total reward (received or available)
		Cash	Shares held in escrow		
	\$	\$	\$	\$	\$
Mark Fitzgibbon	671,700	101,039	43,303	485,709	1,301,751
Michelle McPherson	436,800	71,564	17,891	155,239	681,494
Rhod McKensy	405,000	40,500	10,125	107,555	563,180
Rob Hennin (from 6/5/13)	44,926	–	–	–	44,926
Brendan Mills ⁴	250,000	26,127	500	–	276,627
Matthew Henderson (to 8/2/13) ⁵	256,257	63,847	7,183	–	327,287
	2,064,683	303,076	79,002	748,503	3,195,265

1. Total fixed remuneration comprises Cash Salaries and fees and superannuation.

2. FY12 STI paid in the FY13 year.

3. Value of shares issued during the year on exercise of performance rights. Reflects a movement in share price from \$1.13 (at grant date) to \$1.60 (at vesting) at 100% vesting.

4. FY12 Cash STI paid in FY13 for Brendan Mills in relation to his position as Chief Information Officer was \$2,000.

5. Includes FY13 STI based on estimate at time of redundancy and fully paid in cash.

EXECUTIVE REWARD AT nib

nib's Executive reward is designed to attract, reward and motivate Executives, as well as align their interests with shareholders.

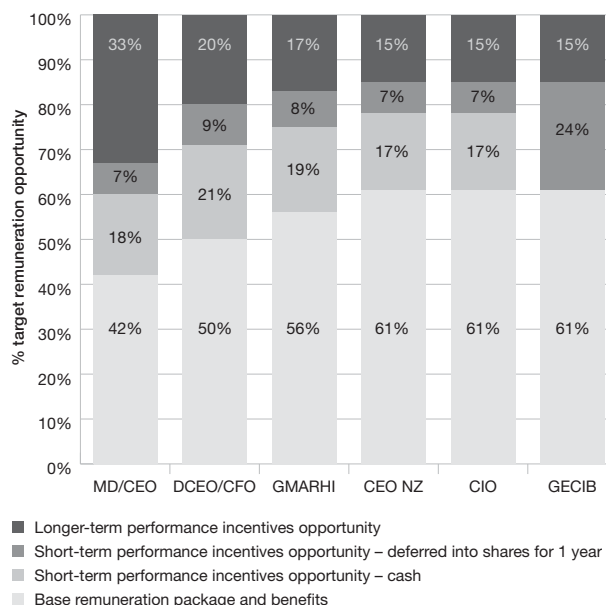
The objective of Executive remuneration arrangements is to ensure that nib's remuneration practices are properly aligned with shareholder value creation over the short and long term, and that these practices work to appropriately motivate, reward and retain executives.

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 FY13 target remuneration mix was as follows:



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.

Fixed remuneration includes cash salary, superannuation and benefits. The fixed remuneration may be salary packaged at no additional cost to the company.

Short-term incentives for the financial year ended 30 June 2013

20% referable to a leadership assessment for each executive and 80% of the STI was determined with reference to verifiable financial and NPS (customer advocacy) performance.

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 STI awards 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. From FY13, 30% of the awarded STI each year must be deferred into shares for one year.

	FY13 Maximum potential STI as a % of TFR	Proportion of actual FY13 STI to be deferred into shares for 1 year
Mark Fitzgibbon	60%	30%
Michelle McPherson	60%	30%
Rhod McKensy	50%	30%
Rob Hennin ¹	40%	30%
Brendan Mills	40%	30%
Matthew Henderson ²	40%	0%

1. FY13 STI will be paid as part of a 14 month FY14 STI

2. FY13 STI paid on redundancy for Matthew Henderson was awarded 100% as cash. No portion was issued as performance shares.

The specific KPIs and weighting for FY13 for the MD/CEO and DCEO/CFO which constitutes 80% of their total STI are:

KPI	Mark Fitzgibbon (MD/CEO)	Michelle McPherson (DCEO/CFO)
Consolidated premium revenue	10%	10%
Consolidated underwriting profit	50%	50%
International business underwriting profit	10%	10%
NPS	10%	10%
EPS	20%	20%

Remuneration Report continued

For the year ended 30 June 2013

EXECUTIVE REWARD AT nib continued

Short-term incentives for the financial year ended 30 June 2013 continued

The weighting for each of the other KMP has been determined by the MD/CEO and approved by the Committee.

The short-term performance targets for verifiable financial performance nominate three levels of award (25%, 75%, 100%) with pro-rata awards occurring where results fall between these levels.

Following the acquisition of TOWER Medical during the year, Rob Hennin was appointed as Chief Executive Officer, New Zealand on 6 May 2013. Given less than two months remaining in the FY13 year at the date of appointment, it was determined that the first STI measurement period for Mr Hennin would be from 6 May 2013 to 30 June 2014.

The percentage of the maximum STI that was awarded and the percentage that was unrealised is set out below. A more detailed description of performance against STI KPIs is shown on page 28 in How reward was linked to performance in FY13.

	FY13 STI Bonus		FY12 STI Bonus	
	Awarded %	Forfeited %	Awarded %	Forfeited %
Mark Fitzgibbon	41.5%	58.5%	42.2%	57.8%
Michelle McPherson	41.5%	58.5%	37.7%	62.3%
Rhod McKensey	54.4%	45.6%	33.8%	66.2%
Brendan Mills	42.8%	57.3%	30.5%	69.5%
Matthew Henderson ¹	43.5%	56.5%	30.5%	69.5%
	44.7%	55.3%	39.6%	60.4%

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

Long-term incentives for the financial year ended 30 June 2013

LTI focus executives on sustained EPS and TSR performance. LTIs granted in FY10 fully vested 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 and retirement. The vesting date will also be accelerated on winding up, delisting, change of control and reconstruction or amalgamation. The LTIP rules

were updated on 25 July 2013 to move away from automatic vesting for LTIP offers from FY14 onwards.

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.

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 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 peer group will be the S&P/ASX 200 for grants from 1 July 2013 to reflect the Board's expectations of performance, the company's size and shareholder feedback.

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

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

EPS Hurdle (Tranche 2)

The EPS Hurdle applies to 50% of the LTI allocation. Vesting of performance rights in relation to the FY11 and FY12 LTIP 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	20.0 cps
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%

For the FY13-FY16 LTIP the EPS CAGR hurdles were updated to reflect the strategy and maturity of the business. As flagged last year the EPS hurdles and performance levels for future LTI grant will be set annually.

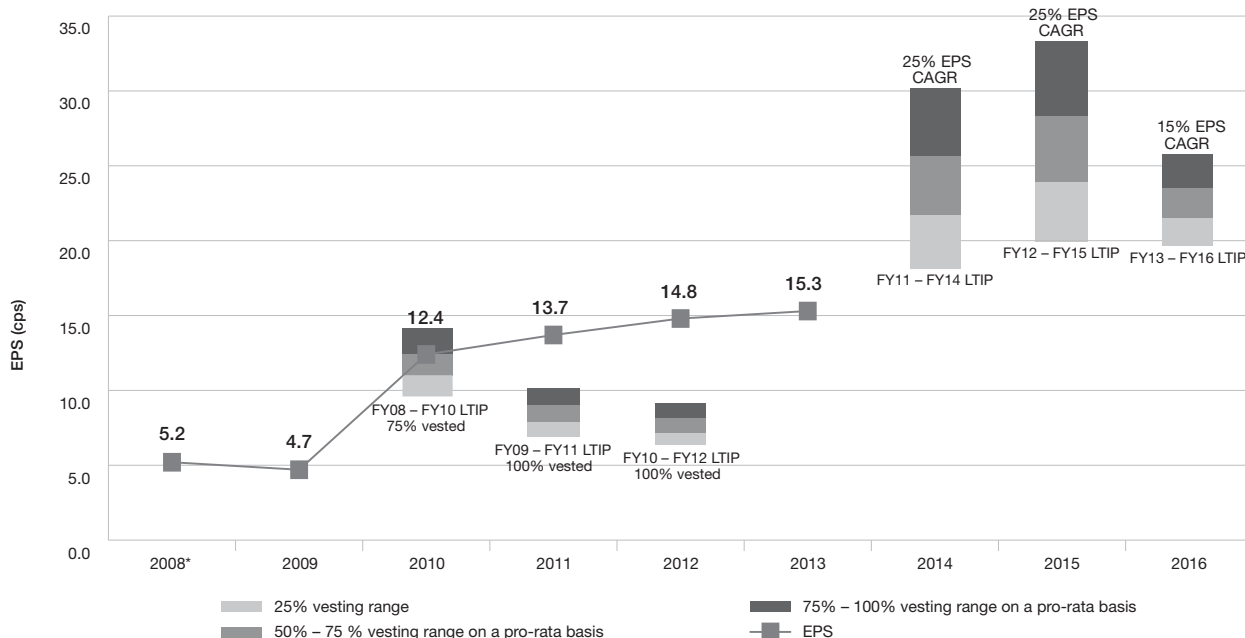
EPS Hurdle: CAGR from base EPS	Percentage of performance rights vesting	FY13-FY16 LTIP
Base EPS		14.8 cps
15% CAGR	100%	25.8 cps
12.5% CAGR	75%	23.6 cps
10% CAGR	50%	21.6 cps
7.5% CAGR	25%	19.7 cps
Nil to less than 7.5% CAGR	0%	nil

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%

If vesting conditions are met, the performance rights will vest on 1 September following the end of the measurement period. On the vesting date, executives who hold vested performance rights 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 performance of nib since listing, and demonstrates how challenging the future EPS targets are for grants of LTI made in FY11, FY12 and FY13, and were updated to reflect the strategy and maturity of the business.



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

Remuneration Report continued

For the year ended 30 June 2013

HOW REWARD WAS LINKED TO PERFORMANCE THIS YEAR

The components of remuneration that are linked to performance are the STI and the LTI plan. 80% of the STI award is determined with reference to verifiable financial and NPS performance and 20% referable to a leadership assessment for each Executive.

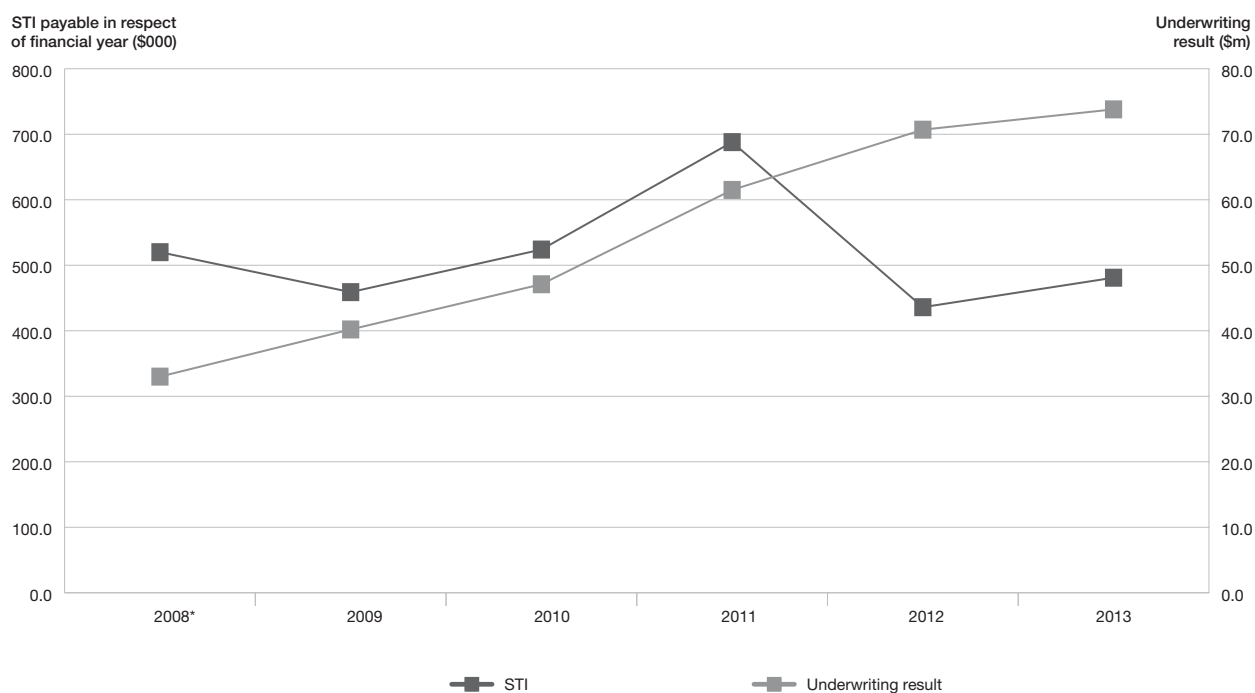
The following table shows key performance indicators for the Group over the last five years:

Financial results		2013 \$m	2012 \$m	2011 \$m	2010 \$m	2009 \$m
Consolidated premium revenue		1,290.4	1,123.8	1,007.8	901.4	829.5
Consolidated underwriting profit		73.8	70.7	61.5	47.1	40.2
International business underwriting profit		14.7	6.1	1.7	0.0	0.0
NPS	%	16.9	12.4	–	–	–
EPS	cps	15.3	14.8	13.7	12.4	4.7
ROE	%	21.6%	21.7%	16.5%	16.3%	6.6%
Share price at year end	\$	2.13	1.50	1.45	1.25	0.92
Dividend per share	cps	10.0	9.25	13.0	7.0	7.4
Dividend payout ratio	%	65.0%	60.0%	92.7%	56.4%	154.8%

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

KPI	Result
Consolidated premium revenue	FY13 consolidated premium revenue up 14.8% on FY12.
Consolidated underwriting profit	No award for this KPI with arhi result impacted by higher than forecast dental claims, an unsatisfactory 1 April 2012 price increase and a one-off state levy payment and iwhi result impacted by lower than forecast "457 visa" intake.
International business underwriting result	No award for this KPI with International Workers Health Insurance result impacted by lower than forecast "457 visa" intake.
NPS	Award reflects the solid progress we have made in creating a customer-focused culture.
EPS	Reward reflects profitability performance.

The graph below illustrates the relationship between payments made under the STI plan and growth in the underwriting result and reflects lower STI awards as growth in the underwriting result has slowed in the FY12 and FY13 years.



* 2008 underwriting result normalised for demutualisation and listing costs

TERMS OF EXECUTIVE CONTRACTS

The Board are progressively migrating nib Executives from historic fixed term contracts to open contracts in line with market best practice. The one remaining Executive on a fixed term contract will be migrated to an open contract during FY14.

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 contract	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	
Rhod McKensley (GMARHI)	4 March 2011	3 years ending 30 June 2014	
Rob Hennin (CEO NZ)	6 May 2013	Open contract with notice period	
Brendan Mills (CIO)	1 June 2012	Open contract with notice period	

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 Australian 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. In the case of a New Zealand Executive, the Group may terminate the Executive's contract with nine 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 has discretion to 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*. The Board has since determined that this approval will only be relied upon for people who were Executives at the date of approval. The only current Executives this approval would be applicable to are Mark Fitzgibbon, Michelle McPherson and Rhod McKensley.

Remuneration Report continued

For the year ended 30 June 2013

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.

Executives	Short-term employee benefits				Post-employment benefits			Long-term benefits	Termination benefits	Share-based payments		Total
	Cash salary and fees ¹	Cash bonus	Insurance and motor vehicle benefits ⁵	Other non-monetary benefits ⁶	Super-annuation	Retirement benefits	Long service leave	Termination benefits	Bonus ⁷	Performance rights		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
2013												
Mark Fitzgibbon ²	641,494	117,076	7,548	97,935	25,000	-	11,188	-	-	50,176	275,118	1,225,535
Michelle McPherson	359,351	76,134	4,909	9,527	22,009	-	7,275	-	-	32,629	91,096	602,930
Rhod McKensy	386,969	77,112	4,551	7,979	25,000	-	6,746	-	-	33,048	61,781	603,186
Rob Hennin (from 6/5/2013) ³	46,302	12,180	-	-	2,617	-	-	-	-	5,220	-	66,319
Brendan Mills	217,845	35,670	2,809	306	16,470	-	4,520	-	-	12,825	7,261	297,706
Matthew Henderson (to 8/2/2013)	180,047	35,114	4,406	10,622	16,470	-	-	323,551	-	-	(8,230)	561,980
	1,832,008	353,286	24,223	126,369	107,566	-	29,729	323,551	133,898	427,026	857,784	4,131,991
2012												
Mark Fitzgibbon	520,559	103,747	37,318	94,337	50,000	-	9,527	-	-	44,392	442,898	1,302,778
Michelle McPherson	382,684	71,564	12,074	2,973	21,314	-	6,610	-	-	17,868	143,115	658,202
Melanie Kneale (to 1/6/2012)	330,067	85,780	12,882	5,709	15,775	-	-	375,578	-	(1,979)	166,604	990,416
Rhod McKensy	361,541	37,340	15,456	2,732	25,000	-	6,264	-	-	9,319	97,855	555,507
Matthew Henderson	295,621	28,723	14,349	4,998	15,775	-	-	-	-	7,176	7,312	373,954
Brendan Mills ⁴	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	

1. Includes cash salary and fees and short-term compensated absences, such as annual leave entitlements accrued but not taken during the year. The 2013 amount for Michelle McPherson has been reduced by a decrease in annual leave entitlement of \$55,440.

2. Cash salary and fees for Mark Fitzgibbon increased from 2012 due to an 8% increase in Total Fixed Remuneration, monetised car allowance (\$55,000) and decrease in salary sacrifice superannuation (\$25,000).

3. Rob Hennin was appointed CEO New Zealand on 6 May 2013.

4. 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.

5. Insurance and motor vehicle benefits for 2013 only includes insurance benefits due to motor vehicle benefits being monetised as part of Total Fixed Remuneration in 2013.

6. Other non-monetary benefits includes the cost of corporate entertainment attended by executives on behalf of the Group to represent and promote nib to key stakeholders, with no personal benefit being received. Plus associated Fringe Benefits Tax payable by the Group in relation to these items.

7. Includes bonus share rights. Refer to Share-based compensation. Negative amounts result from the overaccrual of bonuses in 2011.

Remuneration Report continued

For the year ended 30 June 2013

DETAILED DISCLOSURE OF EXECUTIVE REMUNERATION (STATUTORY TABLES) continued

Details of current LTI allocations continued

	FY10 to FY12 LTIP		FY11 to FY14 LTIP		FY12 to FY15 LTIP		FY13 to FY16 LTIP		Total	
	Number	\$	Number	\$	Number	\$	Number	\$	Number	\$
Rhod McKensey										
Number of performance rights yet to vest at 1 July 2012	59,851		57,529		64,995		-		182,375	
Number and value at grant date of performance rights granted during the year ²	-		-		-		75,013	15,798	75,013	
Number of performance rights vested during the year ⁴	(59,851)		-		-		-		(59,581)	
Number of performance rights forfeited during the year	-		-		-		-		-	
Number of performance rights and maximum total value yet to vest at 30 June 2013 ³	-		57,529	137,952	64,995	138,439	75,013		197,537	436,169
Date of exercise of performance rights	7 Sep 2012		n/a		n/a		n/a			
Number of shares issued and value on exercise of performance rights during the year ⁴	67,380	107,555	n/a	n/a	n/a	n/a	n/a	n/a	67,380	107,555
Brendan Mills										
Number of performance rights yet to vest at 1 July 2012	-		-		-		-		-	
Number and value at grant date of performance rights granted during the year ²	-		-		-		38,587	59,567	38,587	
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 2013 ³	-		-		-		38,587	82,190	38,587	82,190
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		
Matthew Henderson										
Number of performance rights yet to vest at 1 July 2012	-		55,344		51,026		-		106,370	
Number and value at grant date of performance rights granted during the year ²	-		-		-		49,515	76,436	49,515	
Number of performance rights vested during the year ⁴	-		-		-		-		-	
Number of performance rights forfeited during the year ⁵	-		(55,344)		(51,026)		(49,515)		(155,885)	
Number of performance rights and maximum total value yet to vest at 30 June 2013 ³	-		-		-		-		-	
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		

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

2. The value at grant date calculated in accordance with AASE 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 calculated as the number of performance rights multiplied by the share price. For the FY11 to FY14 LTIP the maximum value is 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.

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.

5. 100% of performance rights for Matthew Henderson were forfeited during the year.

NON-EXECUTIVE DIRECTOR REMUNERATION

Fees and payments to Non-Executive Directors reflect the responsibilities of the position, market comparisons, and the objective of the company to attract highly skilled and experienced Non-Executive Directors. All Non-Executive Directors are required to hold shares in the company to align with shareholders' interests.

Non-Executive Director fees

Fees and payments to Non-Executive Directors reflect the responsibilities of the position and market comparisons. Some nib holdings Directors are also paid fees for sitting on the New Zealand subsidiary boards which includes additional work unique to that regulatory environment and additional travel. Non-Executive Directors' fees are reviewed annually by the Committee and approved by the Board. Every second year there is an external review, last done in 2012.

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.

It is proposed that the Non-Executive Director fee pool increase from \$1.1 million to \$1.5 million to provide sufficient scope for possible board expansion and flexibility over the next five years. The 2013 AGM will provide shareholders with the opportunity to vote on this proposal.

The following fees (inclusive of superannuation) for the Australian boards and committees have applied:

	2013 \$	2012 \$
Base fees		
Chairman	215,000	196,270
Other Non-Executive Directors	93,500	89,871
Additional fees**		
Audit Committee		
Chairman	22,000	20,600
Member	11,000	10,330
Investment Committee		
Chairman	15,000	20,600
Member	9,000	10,330
Risk and Reputation Committee		
Chairman	22,000	20,600
Member	11,000	10,330
People and Remuneration Committee		
Chairman	22,000	20,600
Member	11,000	10,330

* 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.

The following fees (inclusive of superannuation) for the New Zealand boards and committees have applied:

	2013 \$	2012 \$
NZ Base fees		
Chairman	56,693	–
Member	32,369	–
NZ Board, Audit, Risk and Compliance Committee		
Chairman	8,156	–
Member	–	–

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

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

Share ownership by Non-Executive Directors

Directors are 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. All current Non-Executive Directors comply with this requirement as at 30 June 2013, with four Non-Executive Directors, including the Chairman, holding shares with a value of more than 100% of the total annual base Director's fee.

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.

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

Annette Carruthers is entitled to a lump sum retirement. 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 A Carruthers is 0.71.

At 30 June 2013, the following retirement benefits were provided for:

Annette Carruthers \$68,624

Remuneration Report continued

For the year ended 30 June 2013

DETAILED DISCLOSURE OF NON-EXECUTIVE REMUNERATION (STATUTORY TABLES)

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

Non-Executives Directors	Short-term employee benefits			Post-employment benefits			Long-term benefits	Termination benefits	Share-based payments			Total
	Cash salary and fees ¹	Cash bonus	Insurance and motor vehicle benefits ⁵	Other non-monetary benefits ³	Super-annuation	Retirement benefits			Long service leave	Termination benefits	Bonus	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
2013												
Steve Crane	197,248	-	-	-	17,752	-	-	-	-	-	-	215,000
Harold Bentley ¹	134,309	-	-	-	25,000	-	-	-	-	-	-	159,309
Annette Carruthers ¹	143,597	-	-	11,529	12,924	2,490	-	-	-	-	-	170,540
Philip Gardner	119,725	-	-	2,979	10,775	-	-	-	-	-	-	133,479
Christine McLoughlin ²	128,547	-	-	-	11,569	-	-	-	-	-	-	140,116
	723,426	-	-	14,508	78,020	2,490	-	-	-	-	-	818,444
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

1. Appointed as Director of New Zealand subsidiary boards from 30 November 2012. Refer to table on page 33 detailing Board and committee fees.

2. Appointed as Director of New Zealand subsidiary boards from 31 January 2013. Refer to table on page 33 detailing Board and committee fees.

3. Other non-monetary benefits includes the cost of corporate entertainment attended by Directors on behalf of the Group to represent and promote nib to key stakeholders, with no personal benefit being received. Plus associated Fringe Benefits Tax payable by the Group in relation to these items.

Corporate Governance Statement

For the year ended 30 June 2013

This Corporate Governance Statement for nib holdings limited (nib) sets out details of nib's corporate governance practices for the year ended 30 June 2013 (FY13).

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 Chief Executive Officer (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.

Following the acquisition of TOWER Medical Insurance Limited (TOWER Medical) in November 2012, three current Non-Executive Directors of nib were appointed as Directors of the Group's New Zealand subsidiaries.

The governance requirements for the New Zealand operations require that TOWER Medical's Board comprises a majority of independent Non-Executive Directors, including one New Zealand resident.

A further governance requirement for TOWER Medical is that TOWER Medical establish an audit committee. Accordingly, the Board of TOWER Medical has one standing committee, the Board Audit, Risk and Compliance Committee (BARCC). The details of the responsibilities of BARCC are detailed in its charter.

Delegation of Authority

The Managing Director & CEO of nib is responsible for the day to day management of the business and its operations, with the Board delegating authority to the Managing Director & CEO to perform this function. The Managing Director & 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 Managing Director & CEO is evaluated and assessed by the Board, assisted by the People and Remuneration Committee, each year. This process was followed in FY13.

Corporate Governance Statement continued

For the year ended 30 June 2013

- The Managing Director & 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 FY13.

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 Steve 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 14 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 Director 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 to 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 2001*. 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.

2.2 nib's Chairman is an independent Director.

The nib Board Charter requires the Chairman to be an independent Non-Executive Director. Mr Steve 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;
- chairing Board meetings and other shareholder meetings;
- ensuring the efficient organisation and conduct of the Board's function;
- briefing all Directors in relation to issues arising at Board meetings;
- facilitating effective contribution by all Directors and monitoring Board performance;
- 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 Steve Crane is the Chairman and Mr Mark Fitzgibbon is the Managing Director & 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 FY13 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 Audit Committee, People and Remuneration Committee and Risk and Reputation Committee all undertook a self-assessment in 2013. As part of this exercise, each committee also sought the input of management and external stakeholders who regularly attend committee meetings.

Corporate Governance Statement continued

For the year ended 30 June 2013

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.com.au.

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 last amended on 25 July 2013. 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 measurable 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 are the measurable objectives set by the Board for achieving gender diversity.

Objective	Details	Timeframe	Results as at 30 June 2013
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	<p>Our recruitment team are focused on providing guidance to hiring managers throughout the process to ensure diversity is considered with particular focus on Management level positions.</p> <p>Upon review of the recruitment statistics for the quarter, it shows that we have had higher levels of female applicants, females interviewed and females successful in positions excluding team leader and manager levels.</p> <p>An equal amount of males and females were successful at the team leader and manager level.</p> <p>At the executive level in the period since the last annual report to the date of this report, two executive appointments have been made with the Chief Executive Officer New Zealand commencing on 6 May 2013 and the Group Manager Benefits and Provider Relations commencing on 1 August 2013. The recruitment process for these two positions saw the following demographics:</p> <p>Chief Executive Officer and Group Manager Benefits and Provider Relations</p> <ul style="list-style-type: none"> ■ Overall Candidates – 13 male (86%), two female (14%) – 15 in total ■ Shortlist for interview – four male (80%), one female (20%)
Flexible work practices	Develop a flexible work practices policy and engender a culture of support for flexible work practices where possible and required.	June 2012	<p>The Flexible Work Practices Policy was developed and rolled out to the business during FY13.</p> <p>Further to the formal Individual Flexible Arrangements (IFAs) in place with employees, a number of strategies are in place to support flexible working arrangements for employees including:</p> <ul style="list-style-type: none"> ■ Working from home either on a permanent or intermittent basis. ■ Flexible working hours (start/finish time) to cater for child care responsibilities, sporting commitments, changes in family circumstances etc. ■ Tertiary study and exam leave. ■ Shift and rostering preferences. ■ Gradual return from parental leave.
	Educate managers on strategies for supporting and managing flexible work arrangements successfully.	October 2012	Rollout of the Flexible Work Practices Policy included education for managers on supporting and managing flexible work arrangements successfully.

Corporate Governance Statement continued

For the year ended 30 June 2013

Measurable objectives set by the Board for achieving gender diversity continued

Objective	Details	Timeframe	Results as at 30 June 2013
Representation	<p>Set goals, timeframes and succession plans to improve the number of women in management roles in the business. At a minimum:</p> <ul style="list-style-type: none"> ■ 40% of manager 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 2016	<ul style="list-style-type: none"> ■ 59% of managers and team leaders are women; ■ 28% 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. <p>The strengthening of our executive resulting in one additional Executive during FY13 and two further Executives in FY14 will result in nib not achieving the target of 30% of executives being female by June 2014.</p> <p>The recruitment process for these roles adhered to our approach set out under recruitment and selection, however based on merit the female candidates were not the preferred candidates.</p> <p>The Board remains committed to this target for executives and has identified a revised timeframe of June 2016.</p>
Development and Succession	<p>Introduce mentoring, coaching and succession programs that support and encourage women to expand their skills as part of their professional development and to prepare them to take on management or executive roles.</p>	June 2012	<p>With the introduction of formal succession planning we have identified a number of women as potential successors for key management positions. We are currently assessing and/or implementing development plans for these employees.</p> <p>A formal mentoring program was rolled out in 2010 and continues on a more informal basis. Individual performance plans include mentoring as a development tool. We are looking at how we can continue to support mentoring with a review and update of formal mentoring program.</p> <p>Employee professional career development is discussed and documented within their individual performance review and plans and we continue a number of programs on our Learning Curriculum to help develop employees and source external training to develop specific skills and knowledge.</p> <p>Employees also have access to Education Assistance which provided financial support towards formal education to broaden job-related academic knowledge or obtain professional certification.</p>

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 2013, 72.3% 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. 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 page 14 of this Report.

The Audit committee held nine meetings in FY13.

4.3 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 Managing Director & CEO and the Chief Financial Officer 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.

TOWER Medical's BARCC Charter sets out the roles and responsibilities of BARCC. The role of the BARCC is to assist the Board in relation to:

- the appointment, remuneration, independence, competence and performance of nib's external and internal audit function;
- the integrity of nib's financial statements and other material regulatory documents;
- TOWER Medical's systems and procedures for compliance with relevant legal and regulatory requirements;
- the monitoring of solvency and compliance with TOWER Medical's Capital Management plan; and
- the propriety of related party transactions (if any).

Corporate Governance Statement continued

For the year ended 30 June 2013

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 of 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 Managing Director & CEO, Chief Financial Officer, General Counsel & Company Secretary, Corporate Affairs & Investor Relations Manager.

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 Secretaries have been nominated as the persons 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'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 2012, 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 2013 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 and the committee's role includes reviewing and making recommendations to the Board in respect of nib's system of risk management.

There are three members of the Risk and Reputation Committee: Dr Annette Carruthers (Committee Chairman), Harold Bentley and Ms Christine McLoughlin. Details of the skills, experience and expertise of the Risk and Reputation Committee members is set out on page 14 of this Annual Report.

The Risk and Reputation Committee held four meetings in FY13.

The key risks as identified and managed by nib are detailed at pages 10 to 11 of the Operating and Financial Review.

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 FY13, 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 Managing Director & CEO and Chief Financial Officer 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 FY13 was performed by Lawler Partners. 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

Corporate Governance Statement continued

For the year ended 30 June 2013

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 2013, the Board of nib received a statement in relation to FY13 full year report and results from the Managing Director & CEO and the Chief Financial Officer 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 of only of independent Non-Executive 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 14 of this Annual Report.

The People and Remuneration Committee held six meetings in FY13.

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 Managing Director & 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).

Further information in relation to nib's remuneration practices for Executives is provided as part of the Remuneration Report (page 25 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 33 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.

Financial Report

For the year ended 30 June 2013

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Consolidated Income Statement

For the year ended 30 June 2013

	Notes	2013 \$000	2012 \$000
Premium revenue	6	1,291,111	1,123,808
Outwards reinsurance premium expense	6	(708)	–
Net premium revenue		1,290,403	1,123,808
Claims expense		(896,985)	(765,436)
Reinsurance and other recoveries revenue		333	–
RETF levy		(167,430)	(159,980)
State levies		(28,811)	(23,823)
Decrease / (increase) in premium payback liability	25	3,266	–
Claims handling expenses	7	(16,497)	(17,390)
Net claims incurred		(1,106,124)	(966,629)
Acquisition costs	7	(52,237)	(36,080)
Other underwriting expenses	7	(58,267)	(50,368)
Underwriting expenses		(110,504)	(86,448)
Underwriting result		73,775	70,731
Other income	6	3,098	3,556
Other expenses	7	(7,615)	(4,270)
Operating profit		69,258	70,017
Finance costs	7	(1,382)	–
Investment income	6	29,983	26,500
Investment expenses	7	(1,199)	(860)
Profit before income tax		96,660	95,657
Income tax expense	8	(29,503)	(28,017)
Profit for the year		67,157	67,640
		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company			
Basic earnings per share	42	15.3	14.8
Diluted earnings per share	42	15.3	14.8
Earnings per share for profit attributable to the ordinary equity holders of the company			
Basic earnings per share	42	15.3	14.8
Diluted earnings per share	42	15.3	14.8

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 2013

	Notes	2013 \$000	2012 \$000
Profit for the year		67,157	67,640
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations	29(b)	1,347	–
Change in fair value of available for sale financial assets	29(b)	530	–
Income tax related to these items	29(b)	(271)	–
<i>Items that will not be reclassified to profit or loss</i>			
Revaluation of land and buildings	29(b)	153	1,245
Income tax related to these items	29(b)	(46)	(374)
Other comprehensive income for the year, net of tax		1,713	871
Total comprehensive income for the year attributable to equity holders of nib holdings limited		68,870	68,511

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

Consolidated Balance Sheet

Ast at 30 June 2013

	Notes	2013 \$000	2012 \$000
ASSETS			
Current assets			
Cash and cash equivalents	9	143,056	86,673
Receivables	10	53,672	70,208
Financial assets at fair value through profit or loss	11	351,786	356,774
Reinsurance and other recoveries receivable	12	81	–
Deferred acquisition costs	13	11,778	2,140
Total current assets		560,373	515,795
Non-current assets			
Receivables	10	–	10,000
Deferred acquisition costs	13	15,448	6,711
Available-for-sale financial assets	14	2,735	2,206
Deferred tax assets	15	2,529	2,124
Property, plant and equipment	16	41,722	42,104
Intangible assets	17	91,270	38,905
Total non-current assets		153,704	102,050
Total assets		714,077	617,845
LIABILITIES			
Current liabilities			
Payables	18	100,953	86,690
Borrowings	19	3,300	2,594
Outstanding claims liability	20	81,406	74,993
Unearned premium liability	21	90,092	135,867
Current tax liabilities	23	3,669	6,884
Provision for employee entitlements	24	2,090	2,144
Premium payback liability	25	8,287	–
Total current liabilities		289,797	309,172
Non-current liabilities			
Borrowings	19	59,149	–
Deferred tax liabilities	26	2,501	–
Unearned premium liability	21	3,333	5,799
Provision for employee entitlements	24	1,217	1,276
Premium payback liability	25	31,927	–
Total non-current liabilities		98,127	7,075
Total liabilities		387,924	316,247
Net assets		326,153	301,598
EQUITY			
Contributed equity	27	27,906	27,581
Retained profits	28	295,212	271,954
Reserves	29	3,035	2,063
Total equity		326,153	301,598

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 2013

	Notes	Contributed Equity \$000	Retained Profits \$000	Reserves \$000	Total Equity \$000
Balance at 1 July 2012		42,193	367,595	2,002	411,790
Profit for the year		–	67,640	–	67,640
Revaluation of property, net of tax		–	–	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		(9,123)	(66,288)	–	(75,411)
Share buy-back		(4,964)	(36,075)	–	(41,039)
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust		(525)	–	–	(525)
Share buyback – performance rights and bonus share rights		–	–	(1,069)	(1,069)
Employee performance rights – value of employee services		–	–	259	259
Dividends paid		–	(60,918)	–	(60,918)
		(14,612)	(163,281)	(810)	(178,703)
Balance at 30 June 2012		27,581	271,954	2,063	301,598
Balance at 1 July 2012		27,581	271,954	2,063	301,598
Profit for the year	28	–	67,157	–	67,157
Gain on revaluation of land and buildings, net of tax		–	–	107	107
Revaluation of available for sale financial assets, net of tax	29(b)	–	–	371	371
Movement in foreign currency translation, net of tax	29(b)	–	–	1,235	1,235
Total comprehensive income for the year		–	67,157	1,713	68,870
Transactions with owners in their capacity as owners:					
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust	27(d)	(628)	–	–	(628)
Issue of shares held by nib Holdings Ltd Share Ownership Plan Trust to employees	27(d)	953	–	(877)	76
Employee performance rights – value of employee services	29(b)	–	–	136	136
Dividends paid	30(a)	–	(43,899)	–	(43,899)
		325	(43,899)	(741)	(44,315)
Balance at 30 June 2013		27,906	295,212	3,035	326,153

The above Consolidated Statement of Change in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 30 June 2013

	Notes	2013 \$000	2012 \$000
Cash flows from operating activities			
Receipts from policyholders and customers (inclusive of goods and services tax)		1,271,741	1,189,656
Payments to policyholders, suppliers and employees (inclusive of goods and services tax)		(1,239,834)	(1,048,789)
		31,907	140,867
Dividends received		79	37
Interest received		11,597	12,714
Distributions received		9,789	8,816
Transactions costs relating to acquisition of subsidiary		(3,422)	–
Interest paid		(1,481)	(8)
Income taxes paid		(28,433)	(27,795)
Net cash inflow from operating activities	34(b)	20,036	134,631
Cash flows from investing activities			
Proceeds from disposal of other financial assets at fair value through profit and loss		229,963	134,116
Payments for other financial assets at fair value through profit and loss		(171,741)	(167,265)
Proceeds from sale of investment properties		10,000	10,000
Proceeds from sale of property, plant and equipment and intangibles		–	44
Payments for property, plant and equipment and intangibles	16,17	(8,946)	(5,730)
Proceeds from sale of Eye Care business		–	250
Payment for acquisition of subsidiary, net of cash acquired	38(b)	(35,293)	–
Net cash inflow (outflow) from investing activities		23,983	(28,585)
Cash flows from financing activities			
Proceeds from borrowings		55,013	–
Payments for share buy-back		–	(41,039)
Payments for capital return		–	(75,585)
Payments for employee performance & bonus share rights		–	(1,069)
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust	27(d)	(628)	(525)
Dividends paid to the company's shareholders	30(a)	(43,899)	(60,918)
Net cash inflow (outflow) from financing activities		10,486	(179,136)
Net increase (decrease) in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		84,079	157,169
Effects of exchange rate changes on cash and cash equivalents		1,172	–
Cash and cash equivalents at the end of the year		139,756	84,079
Reconciliation to Consolidated Balance Sheet			
Cash and cash equivalents	34(a)	143,056	86,673
Borrowings – overdraft	34(a)	(3,300)	(2,594)
		139,756	84,079

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 2013

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. 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 2013 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(o)).

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 Chief Executive Officer/Managing Director.

d. Foreign currency translation

i. Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is nib holdings limited's functional and presentation currency.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs.

Notes to the Consolidated Financial Statements continued

For the year ended 30 June 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

iii. Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

e. 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.

f. 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 Group 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(h).

g. Outwards reinsurance

Premiums ceded to reinsurers under insurance contracts held by the Group are recognised as an outwards reinsurance expense and are recognised in the income statement from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk ceded.

h. 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.

i. Premium payback liability

For health premium payback business an additional unearned premium liability has been established representing the accrued amount of premium expected to be repaid to certain New Zealand health insurance policyholders. This liability is discounted at the risk-free rate and a liability adequacy test has been performed incorporating a risk margin on some components to cover uncertainty in the central estimate.

j. Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, incurred but not reported (IBNR), and unexpired risk liabilities are recognised as revenue.

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

k. 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.

l. Risk equalisation trust fund levy

The Risk Equalisation Trust Fund Levy is accrued based on the industry survey of eligible paid claims to be submitted to PHIAC. If a Private Health insurer notifies PHIAC of a material variation in paid claims which can be quantified, the Group adjusts the risk equalisation expense.

m. Income tax

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

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

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

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

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

nib holdings limited and its wholly-owned Australian controlled entities implemented the tax consolidation. 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.

Notes to the Consolidated Financial Statements continued

For the year ended 30 June 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

i. Investment allowance

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

n. 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 are 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.

o. 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.

p. 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.

q. 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.

Following the acquisition of TOWER Medical, with the exception of property, plant and equipment, and the investment in unlisted equity securities, the Group has determined that all financial assets of nib health funds limited and TOWER Medical are held to back private health insurance liabilities.

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(v)).

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.
3. Derivatives are categorised as held for trading unless they are designated as hedges.

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 Group 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.

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 the Group 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.

r. Derivative financial instruments

Derivatives are initially recognised at fair value, being generally the transaction price on the date a derivative contract is entered into, and are subsequently remeasured to their fair value at the end of each reporting period. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged. Derivatives which are not part of a hedging relationship are valued at fair value through profit or loss, and are included in investment income.

For derivatives traded in an active market, the fair value of derivatives presented as assets is determined by reference to published closing bid price quotations and the fair value of derivatives presented as liabilities is determined by reference to published closing ask price quotations. For derivatives that are not traded or which are traded in a market that is not sufficiently active, fair value is determined using generally accepted valuation techniques.

All derivatives entered into by the Group are classified as held for trading as the Group does not apply hedge accounting.

s. 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.

Notes to the Consolidated Financial Statements continued

For the year ended 30 June 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

t. 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.

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

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

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

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

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

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

v. 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.

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.

w. Property, plant and equipment

Land and buildings (except for investment properties – refer to Note 1(q)(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(p)).

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.

x. 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 acquired with IMAN have an infinite useful life and are carried at cost less accumulated impairment losses.

Brands and trademarks acquired with TOWER Medical Insurance Limited (TOWER Medical) have a useful life of two years and are carried at their fair value at the date of acquisition less accumulated amortisation and 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 for IMAN and 10 years for TOWER Medical.

y. 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.

z. Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as non-current liabilities as the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Notes to the Consolidated Financial Statements continued

For the year ended 30 June 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

aa. 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 have the maturity dates approximating to the terms of nib's obligations.

iii. Bonus plans

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

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

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

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 40.

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.

bb. 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.

cc. 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.

dd. Earnings per share

i. Basic earnings per share

Basic earnings per share is calculated by dividing:

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

ii. Diluted earnings per share

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

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

ee. 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.

ff. 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.

gg. Parent entity financial information

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

i. Investments in subsidiaries, associates and joint venture entities

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

ii. Tax consolidation legislation

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

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

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.

Notes to the Consolidated Financial Statements continued

For the year ended 30 June 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

hh. 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.

ii. New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2013 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 2015)

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 2015 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 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements, AASB 128 Investments in Associates and Joint Ventures, AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards and AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments (effective for years beginning on or after 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also

new guidance on participating and protective rights and on agent/principal relationships. The Group does not expect the new standard to have a significant impact on its composition.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. As the Group is not party to any joint arrangements, this standard will not have any impact on its financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the company’s investments.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a “partial disposal” concept. The Group is still assessing the impact of these amendments.

The Group will adopt the new standards from their operative date. They will therefore be applied in the financial statements for the annual reporting period ending 30 June 2014.

iii. AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective for years beginning on or after 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.

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

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.

For the arhi business 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.

Premium payback liabilities

Some policies issued by the Group have a premium payback (PPB) feature. PPB policies entitle customers to receive a refund of premiums paid to the Group, less any claims made, once the policy has been in force for a specified period. Provision is made at the period end for the liability for premium payback claims. It is calculated on a policy-by-policy basis, comparing premiums received and claims paid to date. The provision is discounted to allow for expected lapses and investment income, and GST recoveries.

A risk margin at 95% probability of sufficiency was estimated by assuming there are no future lapses. Most of the PPB reserve is held in respect of a group of customers where the historical lapse rate is already very low. Details of specific assumptions used in deriving the premium payback liability at year end are detailed in Note 3.

Notes to the Consolidated Financial Statements continued

For the year ended 30 June 2013

3. ACTUARIAL ASSUMPTIONS AND METHODS

a. Outstanding Claims

Actuarial methods

The outstanding claims estimate for Australian segments is derived based on three valuation classes, namely hospital and prostheses services combined, Medical services, and General Treatment. For the New Zealand segment the outstanding claims estimate is derived based on two valuation classes, surgical and medical. This analysis is supplemented by more granular analysis within classes as appropriate.

In calculating the estimated cost of unpaid claims for the Australian Residents Health Insurance (arhi), two methods are used. For service months April 2013 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 2013 and June 2013 the Bornhuetter-Ferguson method is used, which progressively blends payment experience and prior forecasts of incurred costs.

For International Workers Health Insurance (iwhi) and International Students Health Insurance (ishi) a chain ladder method is used for all service months for the valuation of the cost of unpaid claims.

In calculating the estimated cost of unpaid claims for the New Zealand Health Insurance Business (nib nzed), two methods are used. For service months April 2013 and earlier, a chain ladder method is used; this assumes that the development pattern of the current claims will be consistent with historical experience. For the service months of May 2013 and June 2013 the Bornhuetter-Ferguson method is used, which progressively blends payment experience and prior forecasts of incurred costs.

Actuarial assumptions

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

	2013			2012		
	Hospital %	Medical %	Ancillary %	Hospital %	Medical %	Ancillary %
Australian Residents Health Insurance						
Assumed proportion paid to date	93.3%	88.4%	96.1%	91.8%	88.4%	95.8%
Expense rate	1.8%	1.8%	1.8%	2.2%	2.2%	2.2%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk equalisation rate	30.8%	30.8%	0.0%	32.6%	32.6%	0.0%
Risk margin	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
International Students Health Insurance						
Assumed proportion paid to date	76.5%	84.2%	98.7%	85.2%	83.6%	95.5%
Expense rate	1.8%	1.8%	1.8%	2.2%	2.2%	2.2%
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 Health Insurance						
Assumed proportion paid to date	89.3%	86.9%	87.0%	85.8%	86.8%	83.6%
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%	10.0%	10.0%	10.0%
NZ Health Insurance						
	Surgical %	Medical %		Surgical %	Medical %	
Assumed proportion paid to date	89.1%	77.8%		N/A	N/A	
Expense rate	1.7%	1.7%		N/A	N/A	
Discount rate	0.0%	0.0%		N/A	N/A	
Risk margin	13.5%	13.5%		N/A	N/A	

The risk margin of 5.0% for arhi and ishi (2012: 5.0%), 10% for iwhi (2012: 10%) and 13.5% for nib nzed of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% for each individual segment. This equates to a probability of adequacy for the Group of greater than 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 2012: 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 2013

3. ACTUARIAL ASSUMPTIONS AND METHODS continued

ii. Impact of key variables

	Profit 2013 \$000	Equity 2013 \$000
Recognised amounts in the financial statements	67,157	326,153

Variable	Movement in variable	Adjustments \$000	Adjusted amounts \$000	Adjustments \$000	Adjusted amounts \$000
Chain Ladder Development Factors	+0.5%	(4,003)	63,154	(4,003)	322,150
	-0.5%	4,006	71,163	4,006	330,159
Bornhuetter-Ferguson Unpaid Factors	+2.0%	(3,061)	64,096	(3,061)	323,092
	-2.0%	3,063	70,220	3,063	329,216
Expense rate	+1.0%	(644)	66,513	(644)	325,509
	-1.0%	647	67,804	647	326,800
Risk equalisation allowance	+2.5%	(1,086)	66,071	(1,086)	325,067
	-2.5%	1,086	68,243	1,086	327,239
Risk margin	+1.0%	(743)	66,414	(743)	325,410
	-1.0%	746	67,903	746	326,899

b. Premium payback liability

Actuarial methods

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

Actuarial assumptions

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

	2013
Lapse rate until three years from premium payback date	2.0% – 10.0%
Lapse rate within three years of premium payback date	0.0% – 1.0%
Expense rate	0.0%
Discount rate for succeeding and following year	3.0% – 3.5%
Risk margin	6.8%

The risk margin has been estimated to equate to a 95% probability of adequacy.

Sensitivity analysis – premium payback liability

i. Summary

Variable	Impact of movement in variable
Lapse rate	Rate used in calculating the discounted provision to allow for expected lapses, based on historical experience. An increase or decrease in the lapse assumption would have a corresponding impact on profit.
Discount rate	Rate used in calculating the discounted provision to allow for expected investment income, based on the current yields on New Zealand government debt (risk free rates). An increase or decrease in the discount rate assumption would have a corresponding impact on profit.
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 an inverse impact on profit.

ii. Impact of key variables

	Profit 2013 \$000	Equity 2013 \$000
Recognised amounts in the financial statements	67,157	326,153

Variable	Movement in variable	Adjustments \$000	Adjusted amounts \$000	Adjustments \$000	Adjusted amounts \$000
Lapse rate	+1.0%	725	67,882	725	326,878
	-1.0%	(782)	66,375	(782)	325,371
Discount rate	+1.0%	1,194	68,351	1,194	327,347
	-1.0%	(1,317)	65,840	(1,317)	324,836
Risk margin	+1.0%	(275)	66,882	(275)	325,878
	-1.0%	275	67,432	275	326,428

Notes to the Consolidated Financial Statements continued

For the year ended 30 June 2013

4. RISK MANAGEMENT

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.
 - The maintenance of defined underwriting processes where applicable.
- Internal audit which provides independent assurance to senior management and Directors regarding the adequacy of controls over activities where the risks are perceived to be high.
- Regular risk and compliance reporting.

- The application of standards for solvency and capital adequacy legislated under division 140 and 143 of the *Private Health Insurance Act 2007 (the Act)*:
 - The Solvency and Capital Adequacy Standards are established under the Act, and are an integral component of the prudential reporting and management regime for registered private health insurers.
 - These standards impose a two tier capital requirement on private health insurers with each tier considering the capital requirements in a different set of circumstances.
 - The first tier – solvency – is intended to ensure the basic solvency of the fund (that is, in the unlikely event of a wind-up); at any time on a run-off, the fund's financial position is such that the insurer will be able to meet, out of the fund's assets, all liabilities incurred for the purposes of the fund as those liabilities become due.
 - The second tier – capital adequacy – is intended to secure the financial soundness of the health benefits fund on a going concern basis, in particular its ability to remain solvent for at least the next three years. It is expected that in most circumstances this second tier will provide an additional buffer of capital above the minimum solvency requirement.
- The New Zealand business is subject to the application of solvency standards for non life business issued by the Reserve Bank of New Zealand which require a margin to be maintained over minimum solvency capital as a condition of TOWER Medical's insurance license.

b. Insurance risk

In addition to the risk management policies and procedures adopted to manage insurance risk set out in Note 4(a) the provision of private health insurance in Australia is governed by the Act. Private health insurance business (arhi) is the primary focus of the Act which governs the provision of Complying Health Insurance Products (CHIPs). Under the Act, Registered Private Health Insurers may also provide health-related business as prescribed, and nib provides International Students Cover (ishi) and International Workers Cover (iwhi) in this respect. The industry in Australia, 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 (arhi) and ishi, but not to iwhi.
- **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 ishi or iwhi.
- **Coverage Requirements:** The Act limits the types of treatments that private health insurers can offer as part of their health insurance business (CHIP). ishi products coverage requirements are set out in a Deed between the insurer and the Commonwealth, while the health services offered under iwhi 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 they are satisfied that the change would be contrary to the public interest. Insurers can ordinarily only seek one premium increase per annum. ishi 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. iwhi product premiums are not regulated by the Act or under any Deed with the Commonwealth.

In New Zealand, private health insurance is governed by the Insurance (Prudential Supervision) Act 2010 which requires an insurer to be licensed and requires a licensed insurer to:

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

Notes to the Consolidated Financial Statements continued

For the year ended 30 June 2013

4. RISK MANAGEMENT continued

c. Market risk

i. Fair value interest rate risk

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk if the borrowings are carried at fair value. The Group's borrowings at variable rate were denominated in New Zealand Dollars.

The interest rate swaps have the effect of converting risk from the Premium Payback Liability. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly monthly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

As at the end of the reporting period, the Group had the following variable rate borrowings and interest rate swap contracts outstanding:

	2013		2012	
	Weighted average interest rate %	Balance \$000	Weighted average interest rate %	Balance \$000
Bank loans	4.1%	59,149	–	–
Interest rate swaps (notional principal amount)	5.7%	(2,117)	–	–
Net exposure to cash flow interest rate risk		57,032		–

An analysis by maturities is provided at Note 4(e).

The Group's other 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, JANA Implemented Consulting and TOWER Asset Management Limited. 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.

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

Interest Rate Risk	2013					2012				
	Carrying amount \$000	-100bps		+100bps		Carrying amount \$000	-100bps		+100bps	
Profit \$000		Equity \$000	Profit \$000	Equity \$000	Profit \$000		Equity \$000	Profit \$000	Equity \$000	
Financial assets										
Cash and cash equivalents	143,056	(1,001)	(1,001)	1,001	1,001	86,673	(607)	(607)	607	607
Other receivables	17,151	(120)	(120)	120	120	26,809	(188)	(188)	188	188
Financial assets at fair value through profit or loss	351,786	3,544	3,544	(3,492)	(3,492)	356,774	2,458	2,458	(2,458)	(2,458)
Unlisted equity securities	2,735	–	–	–	–	2,206	–	–	–	–
Financial liabilities										
Bank loans	(59,149)	414	414	(414)	(414)	–	NA	NA	NA	NA
Premium payback liability	(40,214)	(1,140)	(1,140)	909	909	–	NA	NA	NA	NA
Total Increase / (decrease)		1,697	1,697	(1,876)	(1,876)		1,663	1,663	(1,663)	(1,663)

ii. Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from foreign currency translation risk through its subsidiaries located in New Zealand. Foreign exchange gains or losses arising on translation of the Group's foreign operations to the Group's Australian dollar presentation currency are recognised directly in equity in accordance with the policy set out in Note 1(d). The Group does not hedge this risk.

The table below summarises the sensitivity of the Group's equity to a 10% strengthening and weakening of the Australian dollar against the New Zealand dollar, with all other variables held constant.

Foreign Exchange Risk	2013			2012		
	Exposure \$000	Equity \$000		Exposure \$000	Equity \$000	
		-10%	+10%		-10%	+10%
Shareholders equity exposure	8,029	(803)	803	-	-	-
Loan from parent entity to nib rized limited	17,518	(1,752)	1,752	-	-	-
Total Increase / (decrease)	25,547	(2,555)	2,555	-	-	-

iii. 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. As the fair value of the available-for-sale financial assets would still be above cost, no impairment loss would be recognised in profit and loss as a result of the decrease in the unit price.

The table below summarises the sensitivity of the Group's financial assets to price risk.

Other Price Risk	2013					2012				
	Carrying amount \$000	-10% unit price		+10% unit price		Carrying amount \$000	-10% unit price		+10% unit price	
		Profit \$000	Equity \$000	Profit \$000	Equity \$000		Profit \$000	Equity \$000	Profit \$000	Equity \$000
Financial assets										
Financial assets at fair value through profit or loss	351,786	(2,744)	(2,744)	1,754	1,754	356,774	(3,512)	(3,512)	3,512	3,512
Unlisted equity securities	2,735	-	(191)	-	191	2,206	-	(154)	-	154
Total Increase / (decrease)		(2,744)	(2,935)	1,754	1,945		(3,512)	(3,666)	3,512	3,666

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 as their unit price changes.

Notes to the Consolidated Financial Statements continued

For the year ended 30 June 2013

4. RISK MANAGEMENT continued

d. 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, favourable derivative financial instruments, 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 and New Zealand which are independently rated with a minimum rating of 'A-1'. nib receives advice from its asset consultants, JANA Implemented Consulting, who provide a rating of investment managers to nib as part of their advice. Credit risk for premium receivables are minimal due to the diversification of policyholders. The HIC rebate receivable is due from a government organisation under legislation.

A deferred settlement arrangement is in place for the sale of the Newcastle Private Hospital for \$30 million payable in three instalments on 9 July 2011, 9 July 2012 and 9 July 2013, with \$10 million outstanding at 30 June 2013. 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.

	2013 \$000	2012 \$000
Other Receivables		
Counterparties without external credit rating		
Group 1 – new debtors (less than 6 months)	211	4
Group 2 – existing debtors (more than 6 months) with no defaults in the past	16,665	26,805
Group 3 – existing debtors (more than 6 months) with some defaults in the past. All defaults were fully recovered.	275	–
Total Other Receivables	17,151	26,809
Cash at Bank and short-term bank deposits		
A-1	143,056	86,673
	143,056	86,673
Financial assets at fair value through profit or loss		
Short term deposits		
A-1	49,700	100,000
Derivative financial instruments		
AA	2,234	–
Interest-bearing securities		
AAA	115,197	105,527
AA	78,013	44,815
A	46,955	39,530
BBB	15,643	10,985
Sub Inv Grade	4,139	4,909
Unclassified	697	843
	312,578	306,609

e. 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.

The bank overdraft within borrowings comprises the closing positive balances of the bank account, adjusted for unrepresented 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 2013	≤ 1 month \$000	1 – 3 months \$000	3 – 12 months \$000	1 – 5 years \$000	>5 years \$000	Total Contractual Cash flows \$000	Carrying amount \$000
Financial Liabilities							
Trade creditors	3,575	–	–	–	–	3,575	3,575
Other payables	48,747	3,258	77	–	–	52,082	52,082
Borrowings	3,300	614	1,822	66,591	–	72,327	62,449
	55,622	3,872	1,899	66,591	–	127,984	118,106

Group at 30 June 2012

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

Notes to the Consolidated Financial Statements continued

For the year ended 30 June 2013

4. RISK MANAGEMENT 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:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- 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
- 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 2013 and 30 June 2012.

Group at 30 June 2013	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Assets				
Cash and cash equivalents and deposits at call	143,056	–	–	143,056
Financial assets at fair value through profit or loss				
Short term deposits	49,700	–	–	49,700
Derivative financial instruments	2,234	–	–	2,234
Securities	299,135	717	–	299,852
Available-for-sale financial assets				
Unlisted equity securities	–	2,735	–	2,735
Total assets	494,125	3,452	–	497,577

Group at 30 June 2012

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
Derivative financial instruments	–	–	–	–
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

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 both a geographic and product perspective and has identified four reportable segments. Health Insurance consists of nib's core product offering within the Australian private health insurance industry (arhi). Health Related consists of two separate segments – International Students Health Insurance (ishi) and International Workers Health Insurance (iwhi). On 30 November 2012, nib entered the New Zealand market after acquiring TOWER Medical Insurance Limited (TOWER Medical), New Zealand's second-largest private health insurer.

Although the ishi 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:

	2013				Total \$000
	Health Insurance Australia \$000	International Students Australia \$000	International Workers Australia \$000	Health Insurance New Zealand 7 months \$000	
Premium revenue	1,187,237	4,387	28,348	71,139	1,291,111
Outwards reinsurance premium expense	–	–	(708)	–	(708)
Net premium revenue	1,187,237	4,387	27,640	71,139	1,290,403
Claims expense	(833,754)	(3,393)	(12,119)	(47,719)	(896,985)
Reinsurance and other recoveries revenue	–	–	333	–	333
RETF levy	(167,430)	–	–	–	(167,430)
State levies	(28,811)	–	–	–	(28,811)
Decrease / (increase) in premium payback liability	–	–	–	3,266	3,266
Claims handling expenses	(14,682)	(38)	(1,118)	(659)	(16,497)
Net claims incurred	(1,044,677)	(3,431)	(12,904)	(45,112)	(1,106,124)
Acquisition costs	(37,466)	(807)	(2,760)	(11,204)	(52,237)
Other underwriting expenses	(46,054)	(228)	(3,551)	(8,434)	(58,267)
Underwriting expenses	(83,520)	(1,035)	(6,311)	(19,638)	(110,504)
Underwriting result	59,040	(79)	8,425	6,389	73,775
Depreciation and amortisation	5,820	–	1,048	2,183	9,051
Total segment assets		518,872		146,284	665,156
Total segment liabilities		253,766		68,200	321,966
Insurance liabilities					
Outstanding claims liability		71,160		10,246	81,406
Unearned premium liability		80,591		12,834	93,425
Premium payback liability		–		40,214	40,214
Total		151,751		63,294	215,045

Notes to the Consolidated Financial Statements continued

For the year ended 30 June 2013

5. SEGMENT REPORTING continued

b. Segment information provided to Executive management continued

	2012				
	Health Insurance Australia \$000	International Students Australia \$000	International Workers Australia \$000	Health Insurance New Zealand \$000	Total \$000
Premium revenue	1,095,640	3,010	25,158	–	1,123,808
Outwards reinsurance premium expense	–	–	–	–	–
Net premium revenue	1,095,640	3,010	25,158	–	1,123,808
Claims expense	(751,942)	(2,876)	(10,618)	–	(765,436)
Reinsurance and other recoveries revenue	–	–	–	–	–
RETF levy	(159,980)	–	–	–	(159,980)
State levies	(23,823)	–	–	–	(23,823)
Decrease / (increase) in premium payback liability	–	–	–	–	–
Claims handling expenses	(15,860)	(74)	(1,456)	–	(17,390)
Net claims incurred	(951,605)	(2,950)	(12,074)	–	(966,629)
Acquisition costs	(33,471)	(891)	(1,718)	–	(36,080)
Other underwriting expenses	(45,947)	(521)	(3,900)	–	(50,368)
Underwriting expenses	(79,418)	(1,412)	(5,618)	–	(86,448)
Underwriting result	64,617	(1,352)	7,466	–	70,731
Depreciation and amortisation	5,519	–	1,720	–	7,239
Total segment assets		578,282		–	578,282
Total segment liabilities		309,161		–	309,161
Insurance liabilities					
Outstanding claims liability		74,993		–	74,993
Unearned premium liability		141,666		–	141,666
Premium payback liability		–		–	–
Total		216,659		–	216,659

c. Other segment information

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, and other income and expenses including financing costs, 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.

No information regarding assets and liabilities for individual Australian segments is provided to the MD/CEO.

i. Segment underwriting result

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

	2013 \$000	2012 \$000
Segment underwriting result	73,775	70,731
Other income	3,098	3,556
Other expenses	(7,615)	(4,270)
Finance costs	(1,382)	–
Investment income	29,983	26,500
Investment expenses	(1,199)	(860)
Profit before income tax from continuing operations	96,660	95,657

ii. Segment assets

Assets backing insurance liabilities have been included in segment assets reported. Assets held in nib holdings limited and nib nzed limited are not allocated to segments.

Reportable segments' assets are reconciled to total assets as follows:

	2013 \$000	2012 \$000
Segment assets	665,156	578,282
Unallocated assets:		
Cash and cash equivalents	43,511	34,410
Receivables	78	755
Available for sale financial assets	2,735	2,206
Deferred tax assets	2,529	2,124
Plant, property and equipment	68	68
Total assets as per the balance sheet	714,077	617,845

iii. Segment liabilities

The Group's borrowings are not considered to be segment liabilities but rather managed by the treasury function.

Reportable segments' liabilities are reconciled to total liabilities as follows:

	2013 \$000	2012 \$000
Segment liabilities	321,966	309,161
Unallocated liabilities:		
Payables	639	202
Bank loans	59,149	–
Current tax liabilities	3,669	6,884
Deferred tax liabilities	2,501	–
Total liabilities as per the balance sheet	387,924	316,247

Notes to the Consolidated Financial Statements continued

For the year ended 30 June 2013

6. REVENUE AND OTHER INCOME

	2013 \$000	2012 \$000
Premium revenue	1,291,111	1,123,808
Outwards reinsurance premiums	(708)	–
Net premium revenue	1,290,403	1,123,808
Other Income		
Sundry income	3,098	3,556
	3,098	3,556
Investment income		
Interest	9,811	12,455
Net realised gain on financial assets at fair value through profit or loss	15,365	9,908
Net unrealised gain on financial assets at fair value through profit or loss	4,728	4,100
Dividends	79	37
	29,983	26,500

7. EXPENSES

	2013 \$000	2012 \$000
Expenses by function		
Claims handling expenses	16,497	17,390
Acquisition costs	52,237	36,080
Other underwriting expenses	58,267	50,368
Other expenses	7,615	4,270
Finance costs	1,382	–
Investment expenses	1,199	860
Total expenses (excluding direct claims expenses)	137,197	108,968
Expenses by nature		
Employee costs	56,366	50,517
Depreciation and amortisation	9,072	7,263
Finance costs	1,382	–
Net loss on disposal of property, plant and equipment	3	68
(Appreciation)/impairment of property, plant and equipment	–	(454)
Operating lease rental expenses	2,938	2,667
Marketing expenses	22,456	21,416
Marketing expenses - commissions	13,855	3,063
Merger and acquisition costs	3,566	25
Electronic claims processing fees	3,607	3,435
Consultancy fees	2,703	2,789
Legal expenses	403	555
Share registry expenses	1,684	1,541
Investment expenses	1,199	860
Other	17,963	15,223
Total expenses (excluding direct claims expenses)	137,197	108,968

8. INCOME TAX

	Notes	2013 \$000	2012 \$000
a. Income tax expense			
Recognised in the income statement			
Current tax expense		25,136	23,859
Deferred tax expense		4,348	4,230
Under (over) provided in prior years		19	(72)
		29,503	28,017
Income tax expense is attributable to:			
Profit from continuing operations		29,503	28,017
Aggregate income tax expense		29,503	28,017
Deferred income tax expense included in income tax expense comprises:			
Decrease in deferred tax assets	15	301	3,258
Increase in deferred tax liabilities	26	4,047	972
		4,348	4,230
b. Numerical reconciliation of income tax expense to prima facie tax payable			
Profit from continuing operations before income tax expense		96,660	95,657
Tax at the Australian tax rate of 30% (2012: 30%)		28,998	28,697
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
Differences in foreign tax rates		(104)	–
Net assessable trust distributions		149	132
Other deductible expenses		(263)	(397)
Non-deductible merger and acquisition costs		1,070	16
Non-deductible entertainment expenses		101	62
Other non-deductible expenses		46	86
Adjustments for current tax of prior periods		19	(72)
Imputation credits and foreign tax credits		(513)	(507)
Income tax expense		29,503	28,017
c. Tax expense relating to items of other comprehensive income			
Foreign currency translations	29(b)	112	–
Gain on revaluation of land and buildings	29(b)	46	374
Change in value of available for sale financial assets	29(b)	159	–
		317	374
d. Amounts recognised directly to equity			
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	27(a)	–	(174)
		–	(174)

Notes to the Consolidated Financial Statements continued

For the year ended 30 June 2013

9. CASH AND CASH EQUIVALENTS

	2013 \$000	2012 \$000
Cash at bank and cash on hand	57,408	36,181
Short term deposits and deposits at call	85,648	50,492
	143,056	86,673

a. Risk exposure

The Group's exposure to interest rate risk is discussed in Note 4(c)(i). 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

	2013 \$000	2012 \$000
Current		
Premium receivable	5,940	4,405
Health Insurance Contribution (HIC) rebate receivable	29,292	47,434
Other receivables	17,151	16,809
Provision for impairment loss	(938)	(366)
Prepayments	2,227	1,926
	53,672	70,208
Non-Current		
Other receivables	–	10,000
	–	10,000

The Health Insurance Contribution (HIC) rebate abnormally increased in the prior year 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 \$10 million outstanding at 30 June 2013.

a. Impaired receivables

As at 30 June 2013 current receivables of the Group with a nominal value of \$0.938 million (2012: \$0.366 million) were impaired. The individually impaired receivables relate to premium receivables.

The ageing of these receivables is as follows:

	2013 \$000	2012 \$000
1 to 3 months	451	267
3 to 6 months	127	62
Over 6 months	360	37
	938	366

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

	2013 \$000	2012 \$000
At 1 July 2012	366	240
Provision for impairment acquired with subsidiary	173	–
Provision for impairment recognised during the year	399	126
Receivables written off during the year as uncollectible	–	–
Unused amount reversed	–	–
	938	366

b. Past due but not impaired

As of 30 June 2013 and 2012 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:

	2013		2012	
	Carrying Amount \$000	Fair Value \$000	Carrying Amount \$000	Fair Value \$000
Other receivables	–	–	10,000	10,000
	–	–	10,000	10,000

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:

	2013 \$000	2012 \$000
Equity securities	39,207	50,165
Interest-bearing securities	260,645	206,609
Short term deposits	49,700	100,000
Derivative financial instruments – interest rate swap contracts	2,234	–
	351,786	356,774

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. REINSURANCE AND OTHER RECOVERIES RECEIVABLE

	2013 \$000	2012 \$000
Expected future reinsurance recoveries undiscounted		
on claims paid	102	–
on outstanding claims	(21)	–
Reinsurance and other recoveries receivable on incurred claims	81	–

Notes to the Consolidated Financial Statements continued

For the year ended 30 June 2013

13. DEFERRED ACQUISITION COSTS

	2013 \$000	2012 \$000
Current		
Deferred acquisition costs	11,778	2,140
	11,778	2,140
Non-current		
Deferred acquisition costs	15,448	6,711
	15,448	6,711

Movements in the deferred acquisition costs are as follows:

	Notes	2013 \$000	2012 \$000
Balance at beginning of year		8,851	–
Deferred acquisition costs acquired with subsidiary	38	7,628	–
Acquisition costs deferred during the year		18,080	9,599
Amortisation expense		(7,894)	(748)
Exchange differences		561	–
		27,226	8,851

See Note 1(k) for more information.

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	2013 \$000	2012 \$000
Unlisted equity securities	2,735	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 2013.

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.

15. DEFERRED TAX ASSETS

	Notes	2013 \$000	2012 \$000						
The balance comprises temporary differences attributable to:									
Depreciation		143	289						
Employee benefits		2,006	1,684						
Outstanding claims		337	418						
Unrealised losses on investments		–	277						
Premium payback liabilities		10,882	–						
		13,368	2,668						
<i>Other</i>									
Doubtful debts		163	104						
Asset revaluation		35	240						
Provisions		1,808	731						
Merger and acquisition costs		175	377						
Sub-total other		2,181	1,452						
Total deferred tax assets		15,549	4,120						
Set-off of deferred tax liabilities pursuant to set-off provisions	26	(13,020)	(1,996)						
Net deferred tax assets		2,529	2,124						
Deferred tax assets to be recovered within 12 months		5,444	2,275						
Deferred tax assets to be recovered after more than 12 months		10,105	1,845						
		15,549	4,120						
Movements									
	Depreciation \$000	Share issue expenses \$000	Employee benefits \$000	Outstanding claims \$000	Demutual- isation costs \$000	Unrealised losses on investments \$000	Premium payback reserves \$000	Other \$000	Total \$000
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
At 1 July 2012	289	–	1,684	418	–	277	–	1,452	4,120
(Charged)/credited to the income statement	(146)	–	230	(81)	–	(277)	(909)	882	(301)
(Charged)/credited directly to other comprehensive income	–	–	8	–	–	–	789	(201)	596
Acquisition of subsidiary	–	–	84	–	–	–	11,002	48	11,134
At 30 June 2013	143	–	2,006	337	–	–	10,882	2,181	15,549

Notes to the Consolidated Financial Statements continued

For the year ended 30 June 2013

16. PROPERTY, PLANT & EQUIPMENT

	Land & Buildings \$000	Plant & Equipment \$000	Leasehold Improvements \$000	Total \$000
Fair value/Cost				
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
Balance at 1 July 2012	38,206	9,624	2,661	50,491
Additions	53	2,012	179	2,244
Acquisition of subsidiary	–	206	–	206
Disposals	–	(106)	(188)	(294)
Revaluations	99	–	–	99
Exchange differences	–	19	–	19
Balance at 30 June 2013	38,358	11,755	2,652	52,765
Depreciation and impairment losses				
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)
Balance at 1 July 2012	(32)	(6,458)	(1,897)	(8,387)
Depreciation charge for the year	(1,179)	(1,488)	(333)	(3,000)
Disposals	–	103	188	291
Revaluations	54	–	–	54
Exchange differences	–	(1)	–	(1)
Balance at 30 June 2013	(1,157)	(7,844)	(2,042)	(11,043)
Carrying amounts				
At 30 June 2012	38,174	3,166	764	42,104
At 30 June 2013	37,201	3,911	610	41,722

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 30 June 2013. It is the opinion of the Directors that these valuations represent the fair value of the properties at 30 June 2013.

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:

	2013 \$000	2012 \$000
Cost	41,529	41,479
Accumulated depreciation	(6,133)	(4,901)
Net book amount	35,396	36,578

17. INTANGIBLE ASSETS

	Goodwill \$000	Software \$000	Brands and Trademarks \$000	Customer Contracts \$000	Total \$000
Fair value/Cost					
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
Balance at 1 July 2012	25,447	28,460	4,044	3,093	61,044
Additions	–	6,707	–	–	6,707
Acquisition of subsidiary	25,189	2,341	2,360	18,262	48,152
Disposals	–	–	–	–	–
Exchange differences	1,879	188	176	1,363	3,606
Balance at 30 June 2013	52,515	37,696	6,580	22,718	119,509
Amortisation and impairment losses					
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)
Balance at 1 July 2012	–	(20,013)	–	(2,126)	(22,139)
Amortisation charge for the year	–	(3,729)	(732)	(1,615)	(6,076)
Disposals	–	–	–	–	–
Exchange differences	–	(3)	(8)	(13)	(24)
Balance at 30 June 2013	–	(23,745)	(740)	(3,754)	(28,239)
Carrying amounts					
At 30 June 2012	25,447	8,447	4,044	967	38,905
At 30 June 2013	52,515	13,951	5,840	18,964	91,270

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 Australia \$000	International Students Australia \$000	International Workers Australia \$000	Health Insurance New Zealand \$000	Total \$000
At 30 June 2013	7,067	–	18,380	27,068	52,515
At 30 June 2012	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.

Notes to the Consolidated Financial Statements continued

For the year ended 30 June 2013

17. 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 9.0% represents the 10-year Australian bond rate of 3.74% plus a risk adjustment of 5.26%. This equates to a pre-tax discount rate of 12.05%.

18. PAYABLES

	2013 \$000	2012 \$000
Outwards reinsurance expense liability – premiums payable to reinsurers	230	–
Trade creditors	3,575	4,873
Other payables	52,082	37,091
RETF payable*	41,215	41,384
Annual leave payable	3,851	3,342
	100,953	86,690

* 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.

	2013 \$000	2012 \$000
Annual leave obligation expected to be settled after 12 months	506	599

19. BORROWINGS

	2013 \$000	2012 \$000
Current		
Bank overdraft	3,300	2,594
	3,300	2,594
Non-current		
Bank loans (secured)	59,149	–
	59,149	–

The bank overdraft comprises the closing positive balance of the bank account, adjusted for unrepresented 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 2013 are included in Current Liabilities – Payables under Trade Creditors.

a. Secured liabilities

nib nzed limited, a wholly owned subsidiary of nib holdings limited, has a NZ\$70 million variable rate term loan facility in relation to the acquisition of TOWER Medical Insurance Limited with maturity and repayment at the end of three years being 30 November 2015.

The bank loan is secured by the shares in nib nzed limited and a negative pledge that imposes the following covenants on the Group. The negative pledge states that the Group will ensure that the following financial ratios are met:

- i. The Group Gearing Ratio will not be more than 35%.
- ii. The Group Net Tangible Assets will not be less than \$180,000,000.

As at 30 June 2013 the Group Gearing Ratio was 16.1% and the Group Net Tangible Assets were \$234.9 million.

nib holdings limited has provided a guarantee and indemnity to the ANZ Bank New Zealand on behalf of nib nzed limited in respect of the NZD\$70 million term loan facility.

nib holdings limited has subordinated any amounts owing to it from nib nzed limited and TOWER Medical in favour of all other creditors of these companies.

b. Risk exposure

Information on the sensitivity of the Group's profit and equity to interest rate risk on borrowings is provided in Note 4.

Notes to the Consolidated Financial Statements continued

For the year ended 30 June 2013

20. OUTSTANDING CLAIMS LIABILITY

a. Outstanding claims liability

	2013 \$000	2012 \$000
Outstanding claims – central estimate of the expected future payment for claims incurred	63,048	55,780
Risk Margin	3,771	2,941
Claims handling costs	1,220	1,320
Gross outstanding claims liability	68,039	60,041
Outstanding claims – expected payment to the *RETF in relation to the central estimate	12,731	14,240
Risk Margin	636	712
Net outstanding claims liability	81,406	74,993

* 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% (2012: 5.0%) for Australian Residents Health Insurance (arhi), and International Students Health Insurance (ishi), and 10% (2012: 10%) for International Workers Health Insurance (iwhi) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% (2012: 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 for Australian segments is derived based on three valuation classes, namely hospital and prostheses services combined, Medical services, and General Treatment. For the New Zealand segment the outstanding claims estimate is derived based on two valuation classes, surgical and medical. This analysis is supplemented by more granular analysis within classes as appropriate.

In calculating the estimated cost of unpaid claims for the arhi, two methods are used. For service months April 2013 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 2013 and June 2013 the Bornhuetter-Ferguson method is used, which progressively blends payment experience and prior forecasts of incurred costs.

For iwhi and ishi a chain ladder method is used for all service months for the valuation of the cost of unpaid claims.

In calculating the estimated cost of unpaid claims for the New Zealand Health Insurance Business (nib nzed), two methods are used. For service months April 2013 and earlier, a chain ladder method is used; this assumes that the development pattern of the current claims will be consistent with historical experience. For the service months of May 2013 and June 2013 the Bornhuetter-Ferguson method is used, which progressively blends payment experience and prior forecasts of incurred costs.

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.

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

	2013 \$000	2012 \$000
Gross outstanding claims at beginning of period	60,041	53,805
Administration component	(1,320)	(1,317)
Risk margin	(2,941)	(2,594)
Central estimate at beginning of period	55,780	49,894
Change in claims incurred for the prior year	(2,056)	(666)
Claims paid in respect of the prior year	(62,869)	(49,228)
Claims incurred during the year (expected)	893,219	765,926
Claims paid during the year	(831,088)	(710,146)
Outstanding claims acquired with subsidiary	9,400	–
Effect of changes in foreign exchange rates	662	–
Central estimate at end of period	63,048	55,780
Administration component	1,220	1,320
Risk margin	3,771	2,941
Gross outstanding claims at end of period	68,039	60,041

21. UNEARNED PREMIUM LIABILITY

	2013 \$000	2012 \$000
Current		
Unearned premium liability	90,092	135,867
	90,092	135,867
Non-current		
Unearned premium liability	3,333	5,799
	3,333	5,799

Movements in the unearned premium liability are as follows:

	Notes	2013 \$000	2012 \$000
Unearned premium liability as at 1 July		141,666	65,202
Unearned premium liability acquired with subsidiary	38	12,566	–
Deferral of premiums on contracts written in the period		80,859	141,666
Earning of premiums written in previous periods		(141,666)	(65,202)
Unearned premium liability as at 30 June		93,425	141,666

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

22. UNEXPIRED RISK LIABILITY

No deficiency was identified as at 30 June 2013 and 2012 that resulted in an unexpired risk liability needing to be recognised.

Notes to the Consolidated Financial Statements continued

For the year ended 30 June 2013

23. CURRENT TAX LIABILITIES

	2013 \$000	2012 \$000
Current tax payable	3,669	6,884

24. PROVISION FOR EMPLOYEE ENTITLEMENTS

	2013 \$000	2012 \$000
Current		
Long service leave	1,878	1,475
Termination benefits	143	603
Retirement benefits	69	66
	2,090	2,144
Non-Current		
Long service leave	1,217	1,276
	1,217	1,276

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.

	2013 \$000	2012 \$000
Long service leave obligation expected to be settled after 12 months	1,686	1,223
Retirement benefit obligation expected to be settled after 12 months	69	66
	1,755	1,289

25. PREMIUM PAYBACK LIABILITY

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

	2013 \$000	2012 \$000
Current		
Premium payback liability	8,287	–
	8,287	–
Non current		
Premium payback liability	31,927	–
	31,927	–

Movements in the premium payback liability are as follows:

	Notes	2013 \$000	2012 \$000
Premium payback liability acquired with subsidiary	38	40,545	–
New funding		3,512	–
Benefits paid		(6,563)	–
Other		(169)	–
Exchange differences		2,889	–
Balance at 30 June		40,214	–

See Note 1(i) for more information for accounting policies in relation to premium payback liability.

a. Risk exposure

For information on actuarial assumptions and methods and sensitivity to profit and equity refer to Note 3(b).

Information about the Group's exposure to interest rate risk in relation to premium payback liability is provided in Note 4(c)(i).

Notes to the Consolidated Financial Statements continued

For the year ended 30 June 2013

26. DEFERRED TAX LIABILITIES

	Notes	2013 \$000	2012 \$000
The balance comprises temporary differences attributable to:			
Prepayments		7	11
Deferred acquisition costs		7,528	1,435
Income receivables		96	260
Customer contracts		6,444	290
Unrealised gains on investments		1,139	-
Unrealised foreign exchange gains		271	-
Borrowing costs		36	-
Total deferred tax liabilities		15,521	1,996
Set-off of deferred tax liabilities to set-off provisions	15	(13,020)	(1,996)
Net deferred tax liabilities		2,501	-
Deferred tax liabilities to be settled within 12 months		3,572	411
Deferred tax liabilities to be settled after more than 12 months		11,949	1,585
		15,521	1,996

Movements	Prepayments \$000	Deferred acquisition costs \$000	Income receivable \$000	Customer contracts \$000	Unrealised gains on investments \$000	Unrealised foreign exchange gains \$000	Borrowing costs \$000	Total \$000
At 1 July 2011	9	-	435	580	-	-	-	1,024
(Charged)/credited to the income statement	2	1,435	(175)	(290)	-	-	-	972
At 30 June 2012	11	1,435	260	290	-	-	-	1,996
At 1 July 2012	11	1,435	260	290	-	-	-	1,996
(Charged)/credited to the income statement	(4)	3,805	(164)	(748)	1,139	(17)	36	4,047
(Charged)/credited directly to other comprehensive income	-	152	-	473	-	288	-	913
Acquisition of subsidiary	-	2,136	-	6,429	-	-	-	8,565
At 30 June 2013	7	7,528	96	6,444	1,139	271	36	15,521

27. CONTRIBUTED EQUITY

a. Share capital

	2013 \$000	2012 \$000
Ordinary shares		
Fully paid	28,106	28,106
Other equity securities		
Treasury shares	(200)	(525)
Total contributed equity	27,906	27,581

b. Movements in share capital

Date	Details	No of shares	Price \$	\$000
1 July 2011	Opening 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
		–		–
30 June 2013	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.

Notes to the Consolidated Financial Statements continued

For the year ended 30 June 2013

27. 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 Short-Term Incentive and Long-Term Incentive share plans. See Note 40 for more information.

Date	Details	No. of shares	\$000
1 July 2011	Opening balance	–	–
	Acquisition of shares by the Trust	338,000	525
30 June 2012	Balance	338,000	525
Jul 2012	Acquisition of shares by the Trust	169,000	254
Aug 2012	Acquisition of shares by the Trust	125,000	208
Sep 2012	Employee share issue – LTIP	(561,070)	(877)
Sep 2012	Employee share issue – STI	(49,492)	(76)
Feb 2013	Acquisition of shares by the Trust	14,744	33
Mar 2013	Acquisition of shares by the Trust	14,744	33
Apr 2013	Acquisition of shares by the Trust	14,744	33
May 2013	Acquisition of shares by the Trust	14,744	36
Jun 2013	Acquisition of shares by the Trust	14,744	31
30 June 2013	Balance	95,158	200

e. Share buy-back

During 2012, 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 (2012: 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 \$16,000,000 in November 2012, \$26,500,000 in December 2012 and \$26,500,000 in June 2013 to nib holdings limited.

The surplus assets over benchmark at 30 June 2013 and 30 June 2012 were as follows:

	2013 \$000	2012 \$000
Total Assets nib health funds limited	497,127	556,392
Capital Adequacy Requirement	375,880	419,691
Surplus Assets for Capital Adequacy	121,247	136,701
Capital Adequacy Coverage Ratio	1.32	1.33
Internal benchmark	1.30	1.30
Internal benchmark requirement	488,644	545,598
Surplus assets over internal benchmark	8,483	10,794

Refer to Note 36 regarding proposed changes to their regulatory capital requirement.

TOWER Medical Insurance Limited

TOWER Medical Insurance Limited (TOWER Medical) is required to comply with the Solvency Standards for non life insurance business published by the Reserve Bank of New Zealand. The Solvency Standards were introduced in New Zealand under the Insurance (Prudential Supervision) Act 2010 and became effective from 31 December 2012. The Solvency Standards determine the Minimum Solvency Capital required. A requirement of TOWER Medical's insurance license is that it maintains capital above the Minimum Solvency Capital.

TOWER Medical has a capital management plan which establishes a benchmark for capital held in excess of the Minimum Solvency Requirement; the aim is to keep a sufficient buffer in line with the Board's attitude to and tolerance for risk. The benchmark capital adequacy coverage ratio is 1.75x.

Any capital in excess of the benchmark, taking a 12-month forward looking view, will be reduced by way of dividend to nib nzed limited. TOWER Medical paid dividends of \$7,618,560 in December 2012 and \$5,610,580 in June 2013 to nib nzed limited.

The surplus assets over benchmark at 30 June 2013 is as follows:

	2013 \$000	2012 \$000
Actual Solvency Capital	18,879	-
Minimum Solvency Capital	8,526	-
Solvency Capital	10,353	-
Capital Adequacy Coverage Ratio	2.21	-
Internal benchmark	1.75	-
Internal benchmark requirement	14,921	-
Surplus assets over internal benchmark	3,958	-

Notes to the Consolidated Financial Statements continued

For the year ended 30 June 2013

27. CONTRIBUTED EQUITY continued

nib holdings limited

The Group is targeting a return on equity of 15%, and the return on equity as at 30 June 2013 is 21.6%. (2012: 21.7%). While improvement to return on equity can be made through increased profitability, it is also important that capital be managed appropriately, therefore, if funds are not required for strategic reasons the Group will consider a range of capital management initiatives.

On 30 November 2012 nib nzed limited (a wholly owned subsidiary of nib holdings limited, incorporated on 31 October 2012) acquired 100% of the issued share capital of TOWER Medical Insurance Limited (TOWER Medical), New Zealand's second largest private health insurer for \$80.6 million. The acquisition was funded through a combination of available capital and a NZD\$70 million (AUD\$55.0 million) senior debt facility.

At 30 June 2013, the Group had available capital of \$14.8 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 2013).

Below is a reconciliation of total assets to available capital as at 30 June 2013:

	2013 \$000
Total assets	714.1
Less: nib health fund capital required (based on projection over next 12 months)	(505.4)
TOWER Medical capital required	(102.0)
TOWER Medical intangibles	(41.6)
International Workers intangibles	(24.2)
Other liabilities	(4.1)
Final dividend	(22.0)
Available capital	14.8

28. RETAINED PROFITS

	2013 \$000	2012 \$000
Balance at the beginning of the year	271,954	367,595
Net profit	67,157	67,640
Transfer to share capital	–	(102,363)
Dividends	(43,899)	(60,918)
Balance at the end of the financial year	295,212	271,954

29. RESERVES

a. Reserve comprises

	2013 \$000	2012 \$000
Revaluation surplus - property, plant and equipment	1,870	1,763
Available-for-sale financial assets	865	494
Share-based payments	204	625
Share-based payments exercised	(1,139)	(819)
Foreign currency translation	1,235	-
	3,035	2,063

b. Movements in reserves

	Notes	2013 \$000	2012 \$000
Revaluation surplus – property, plant and equipment			
Balance at the beginning of the year		1,763	892
Property revaluation – gross		153	1,245
Deferred tax	15	(46)	(374)
Balance at the end of the financial year		1,870	1,763
Available-for-sale financial assets			
Balance at the beginning of the year		494	494
Revaluation – gross		530	-
Deferred tax	15	(159)	-
Balance at the end of the financial year		865	494
Share-based payments			
Balance at the beginning of the year		625	872
Performance right expense		136	259
Transfer to share-based payments exercised reserve on exercise of performance rights		(557)	(506)
Balance at the end of the financial year		204	625
Share-based payments exercised			
Balance at the beginning of the year		(819)	(256)
Transfer from share-based payments reserve on exercise of performance rights		557	506
Exercise of performance rights		-	(1,069)
Issue of shares held by nib Holdings Ltd Share Ownership Plan Trust to employees		(877)	-
Balance at the end of the financial year		(1,139)	(819)
Foreign currency translation			
Balance at the beginning of the year		-	-
Currency translation differences arising during the year – gross		1,347	-
Deferred tax	15	(112)	-
Balance at the end of the financial year		1,235	-

Notes to the Consolidated Financial Statements continued

For the year ended 30 June 2013

29. RESERVES continued

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(w).

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(v). 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.

Foreign currency translation

Exchange rate differences arising on translation of foreign controlled entities are recognised in other comprehensive income as described in Note 1(d) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

30. DIVIDENDS

a. Ordinary shares

	2013 \$000	2012 \$000
Final dividend for the year ended 30 June 2012 of 5.0 cents per fully paid ordinary share, made up of 5.0 cps ordinary dividend (2012: 9.0 cents per fully paid ordinary share, made up of 4.0 cps ordinary dividend and 5.0 cps special dividend) paid on 5 October 2012 Fully franked based on tax paid @ 30%	21,949	42,006
Interim dividend for the year ended 30 June 2013 of 5.0 cents (2012: 4.25 cents) paid on 2 April 2013 Fully franked based on tax paid @ 30%	21,950	18,912
Total dividends provided for or paid	43,899	60,918

b. Dividends not recognised at year end

	2013 \$000	2012 \$000
In addition to the above dividends, since the end of the year the Directors have recommended the payment of an ordinary interim dividend of 5.0 cents per fully paid ordinary share (2012: 5.0 cents ordinary dividend), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 4 October 2013 out of retained profits at 30 June 2013, but not recognised as a liability at the end of the year, is	21,950	21,950

c. Franked dividends

The franked portion of the final dividends recommended after 30 June 2013 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 2013.

	2013 \$000	2012 \$000
Franking credits available for subsequent financial years to equity holders of parent entity based on a tax rate of 30%	22,157	16,499

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

- Franking credits that will arise from the payment of the amount of the provision for income tax;
- Franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

31. COMMITMENTS FOR EXPENDITURE

a. Operating lease commitments

	2013 \$000	2012 \$000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
– not longer than one year	2,242	2,211
– longer than one year and not longer than five years	3,277	4,113
– longer than five years	1,004	1,056
	6,523	7,380

b. Capital expenditure commitments

	2013 \$000	2012 \$000
Payable:		
– not longer than one year	421	260
	421	260

c. Remuneration commitments

	2013 \$000	2012 \$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	2,419	2,084
	2,419	2,084

32. CONTINGENT LIABILITIES

nib holdings limited has provided a guarantee and indemnity to the ANZ Bank New Zealand on behalf of nib nzed limited in respect of the NZD\$70 million term loan facility.

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.

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 twelve months from 23 August 2013, 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.

Notes to the Consolidated Financial Statements continued

For the year ended 30 June 2013

33. REMUNERATION OF AUDITORS

	2013 \$000	2012 \$000
a. PricewaterhouseCoopers Australia		
1. Audit services		
Audit and review of financial report and other audit work under the <i>Corporations Act 2001</i>	435,450	341,200
Total remuneration for audit services	435,450	341,200
2. Non-audit services		
Audit-related services		
Audit of regulatory returns	31,210	42,300
Total remuneration for audit-related services	31,210	42,300
Taxation services		
Tax compliance services	95,684	105,660
International tax consulting and tax advice on mergers and acquisitions	21,524	–
Total remuneration for taxation services	117,208	105,660
Other services		
Accounting advice and support	13,000	21,000
Review of regulatory returns	13,862	20,045
Total remuneration for other services	26,862	41,045
Total remuneration for non-audit services	175,280	189,005
Total remuneration of PricewaterhouseCoopers Australia	610,730	530,205
b. Network firms of PricewaterhouseCoopers Australia		
1. Audit services		
Audit and review of financial report and other audit work under the <i>Corporations Act 2001</i>	166,622	–
Total remuneration for audit services	166,622	–
2. Non-audit services		
Taxation services		
Tax compliance services	36,978	–
International tax consulting and tax advice on mergers and acquisitions	168,291	–
Total remuneration for taxation services	205,269	–
Other services		
Review of regulatory returns	9,424	–
Total remuneration for other services	9,424	–
Total remuneration for non-audit services	214,693	–
Total remuneration of network firms of PricewaterhouseCoopers	381,315	–
Total auditors' remuneration	992,045	530,205

34. NOTES TO THE STATEMENT OF CASH FLOWS

a. Reconciliation of cash

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

	Notes	2013 \$000	2012 \$000
Cash and cash equivalents	9	143,056	86,673
Bank overdraft	19	(3,300)	(2,594)
		139,756	84,079

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

	2013 \$000	2012 \$000
Profit for the year	67,157	67,640
Net (gain)/loss on disposal of non-current assets	3	68
Fair value (gain)/loss on other financial assets through profit or loss	(8,840)	(4,331)
Impairment loss on property, plant and equipment	–	(454)
Non-cash employee benefits expense – share-based payments	136	259
Depreciation and amortisation	9,072	7,263
Amortisation of borrowing costs	29	–
Net exchange differences	43	–
Change in operating assets and liabilities, net of effect from purchase of controlled entity		
Decrease (increase) in receivables	20,766	(20,989)
Decrease (increase) in reinsurance receivables	(81)	–
Decrease (increase) in deferred acquisition costs	(10,178)	(8,851)
Decrease (increase) in deferred tax assets	11,067	4,231
Increase (decrease) in trade payables and unearned premium liability	(51,238)	85,924
Increase (decrease) in premium payback liability	(3,356)	–
Increase (decrease) in current tax payable	(3,224)	(4,011)
Increase (decrease) in deferred tax liabilities	(6,703)	–
Increase (decrease) in provisions	(4,617)	7,882
Net cash flow from operating activities	20,036	134,631

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

Notes to the Consolidated Financial Statements continued

For the year ended 30 June 2013

35. 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):

	Place of Incorporation	Percentage of shares held	
		2013 %	2012 %
nib holdings limited	Australia		
nib health funds limited	Australia	100	100
nib servicing facilities pty limited	Australia	100	100
nib health care services pty limited	Australia	100	100
The Heights Private Hospital pty limited	Australia	100	100
IMAN Australian Health Plans Pty Limited	Australia	100	100
nib nzed limited	New Zealand	100	N/A
Tower Medical Insurance Limited	New Zealand	100	N/A

nib holdings limited also controls the following trusts:

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

36. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

In July 2012, the Private Health Insurance Administration Council (PHIAC) released proposed changes to their regulatory capital requirements for industry consultation. An updated proposed standard for a second round of consultation was issued by PHIAC in June 2013. The Group submitted a response to the proposed standard in July 2013 and is awaiting further information from PHIAC.

Since 30 June 2013, nib has announced it is looking to further broaden its business operations with the facilitation of access to cosmetic treatment. Known as nib options, nib will leverage the brand and distribution to support and grow the market for cosmetic, dental and surgical treatment both overseas and here in Australia. nib options expects to launch in FY14.

There have not been any other 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.

37. 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 either entity.

b. Transactions with associated companies

There were no associated company transactions during the years ended 30 June 2013 and 2012.

38. BUSINESS COMBINATION

On 30 November 2012 nib nzed limited (a wholly owned subsidiary of nib holdings limited, incorporated on 31 October 2012) acquired 100% of the issued share capital of TOWER Medical Insurance Limited (TOWER Medical), New Zealand's second largest private health insurer.

a. Purchase consideration

Details of the purchase consideration are as follows:

	\$000
Purchase consideration	
Cash	80,648
Total purchase consideration	80,648

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

	Fair value \$000
Cash and cash equivalents	45,355
Receivables	3,936
Deferred acquisition costs	7,628
Financial assets at fair value through profit and loss: Interest-bearing securities	37,079
Financial assets at fair value through profit and loss: Derivative financial assets	2,556
Deferred tax assets	2,569
Property, plant and equipment	206
Intangible assets: customer contracts	18,262
Intangible assets: brand names	2,360
Intangible assets: software	2,341
Payables	(3,092)
Unearned premium liability	(12,566)
Outstanding claims liability	(10,222)
Premium payback liability	(40,545)
Provision for employee entitlements	(408)
Net identifiable assets acquired	55,459
Add: Goodwill	25,189
Net assets acquired	80,648

The goodwill is attributable to the high profitability of the acquired business. None of the goodwill is expected to be deductible for tax purposes.

There were no acquisitions in the year ending 30 June 2012.

i. Acquisition related costs

Acquisition related costs of \$3,421,887 relating to the acquisition are included in other expenses in profit or loss and in operating cash flows in the statement of cash flows.

ii. Revenue and profit contribution

The acquired business contributed to revenues of \$71,138,724 and net profit of \$6,138,551 to the Group for the period from 30 November 2012 to 30 June 2013.

If the acquisition had occurred on 1 July 2012, consolidated revenue and profit for the year ended 30 June 2013 are estimated to have been \$1,338,423,724 and \$70,797,184 respectively, based on historical TOWER Medical management accounts.

iii. Acquired receivables

The fair value of acquired receivables is \$3,936,182. The gross contractual amount for trade receivables due is \$4,109,584, of which \$173,402 is expected to be uncollectible and has been fully provided for at acquisition.

Notes to the Consolidated Financial Statements continued

For the year ended 30 June 2013

38. BUSINESS COMBINATION continued

b. Purchase of consideration – cash outflow

	\$000
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	80,648
Less: Cash balances acquired	(45,355)
Outflow of cash – investing activities	35,293

39. KEY MANAGEMENT PERSONNEL DISCLOSURES

a. Key management personnel compensation

	2013 \$000	2012 \$000
Short-term employee benefits	3,073,817	3,286,697
Post-employment benefits	188,077	271,192
Other long-term benefits	29,729	26,056
Termination benefits	323,551	375,578
Share-based payments	560,924	935,060
	4,176,098	4,894,583

Detailed remuneration disclosures are provided in the Remuneration Report on pages 19 to 34.

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 19 to 34.

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.

2013	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	723,778	331,765	(270,280)	–	785,263	–	785,263
Michelle McPherson	315,204	107,871	(86,385)	–	336,690	–	336,690
Rhod McKensley	182,375	75,013	(59,851)	–	197,537	–	197,537
Rob Hennin	–	–	–	–	–	–	–
Brendan Mills	–	38,587	–	–	38,587	–	38,587
Matthew Henderson	106,370	49,515	–	(155,885)	–	–	–
Total	1,327,727	602,751	(416,516)	(155,885)	1,358,077	–	1,358,077

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
Michelle McPherson	317,889	109,766	(112,451)	–	315,204	–	315,204
Melanie Kneale	258,911	64,995	(188,408)	(135,498)	–	81,859	–
Rhod McKensley	195,290	64,995	(77,910)	–	182,375	–	182,375
Matthew Henderson	55,344	51,026	–	–	106,370	–	106,370
Brendan Mills	–	–	–	–	–	–	–
Total	1,694,295	508,328	(739,398)	(135,498)	1,327,727	81,859	1,327,727

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.

2013	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 Group				
Harold Bentley	70,000	–	30,000	100,000
Annette Carruthers	72,500	–	–	72,500
Steve Crane	115,175	–	84,825	200,000
Philip Gardner	108,000	–	–	108,000
Christine McLoughlin	57,500	–	20,000	77,500
Other Key Management Personnel of the Group				
Mark Fitzgibbon	1,261,142	331,409	(130,000)	1,462,551
Michelle McPherson	334,717	108,460	(30,000)	413,177
Rhod McKensey	114,748	73,723	–	188,471
Rob Hennin	–	–	–	–
Brendan Mills	24,852	313	–	25,165
Matthew Henderson ¹	2,210	4,500	(6,710)	–

1. Other changes represent that at 30 June 2013 they are no longer a KMP.

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 Group				
Keith Lynch ¹	125,951	–	(125,951)	–
Harold Bentley	70,000	–	–	70,000
Annette Carruthers	58,200	–	14,300	72,500
Steve Crane	100,000	–	15,175	115,175
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
Michelle McPherson	189,247	145,470	–	334,717
Melanie Kneale ²	60,910	135,456	(196,366)	–
Rhod McKensey	13,823	100,925	–	114,748
Matthew Henderson	–	2,210	–	2,210
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.

Notes to the Consolidated Financial Statements continued

For the year ended 30 June 2013

40. 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 19 to 34.

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:

2013								Vested and exercisable at end of the year Number
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	
28/01/2010	31/12/2014	–	416,516	–	(416,516)	–	–	–
27/05/2011	1/09/2014	–	467,878	–	–	(55,344)	412,534	–
21/12/2011	1/09/2015	–	443,333	–	–	(51,026)	392,307	–
19/11/2012	1/09/2016	–	–	602,751	–	(49,515)	553,236	–
		–	1,327,727	602,751	(416,516)	(155,885)	1,358,077	–

2012								Vested and exercisable at end of the year Number
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	
30/06/2009	31/12/2012	–	657,539	–	(657,539)	–	–	–
28/01/2010	31/12/2014	–	498,375	–	(81,859)	–	416,516	81,859
27/05/2011	1/09/2014	–	538,381	–	–	(70,503)	467,878	–
21/12/2011	1/09/2015	–	–	508,328	–	(64,995)	443,333	–
			1,694,295	508,328	(739,398)	(135,498)	1,327,727	81,859

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.

	2013	2012
Number of shares purchased on market under the plan to participating employees	288,712	81,887

The shares were allocated on 11 October 2012 after nib's FY12 results presentation at a volume weighted average price of \$1.71.

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.

	2013	2012
Number of shares purchased on market under the plan to participating employees	64,210	111,794

d. Short-Term Performance Incentive (STI)

All eligible employees have a STI opportunity. For the MD/CEO and CFO 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 GMARHI the maximum target bonus opportunity is 50% of the base remuneration package with 30% of the calculated entitlement deferred into shares for one year. For other Executives the maximum entitlement is 40% of the remuneration package with 30% 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 Note1(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 27(d).

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

e. Expenses arising from share-based payments transactions

	2013 \$000	2012 \$000
Shares purchased on market under employee share scheme	493	121
Performance rights granted under LTIP	136	259
Shares purchased on market under STI	79	160
nib salary sacrifice plan and matching plan trust deed	126	164
	834	704

41. SOLVENCY AND CAPITAL ADEQUACY RESERVES

nib health funds limited Solvency Reserve, as per the *Private Health Insurance (Health Benefits Fund Administration) Rules 2007*, is \$116.244 million. Total Health Benefits Fund Assets are \$497.127 million, representing a surplus of \$121.247 million over the sum of the Solvency Reserve and total Health Benefits Fund Liabilities (\$259.636 million). This equates to a solvency coverage ratio of 1.32x and a solvency/capital risk multiple of 2.04.

nib health funds limited Capital Adequacy Reserve, as per the *Private Health Insurance (Health Benefits Fund Administration) Rules 2007*, is \$116.244 million. Total Health Benefits Fund Assets are \$497.127 million, representing a surplus of \$121.247 million over the sum of the Capital Adequacy Reserve and total Health Benefits Fund Liabilities (\$259.636 million). This equates to a capital adequacy coverage ratio of 1.32x and a capital adequacy/risk multiple of 2.04.

TOWER Medical Insurance Limited (TOWER Medical) has capital (net assets) of \$40.556 million. After this capital is adjusted for deductions required under the Reserve Bank of New Zealand Solvency standard for non life business TOWER Medical has solvency capital of \$18.879 million. This compares to a minimum solvency capital required under the solvency standard of \$8.526 million representing a solvency surplus of \$10.353 million equating to a solvency ratio of 2.21x.

Notes to the Consolidated Financial Statements continued

For the year ended 30 June 2013

42. EARNINGS PER SHARE

a. Basic earnings per share

	2013 cents	2012 cents
Profit from continuing operations attributable to the ordinary equity holders of the company	15.3	14.8
Profit from discontinued operations	–	–
Profit attributable to the ordinary equity holders of the company	15.3	14.8

b. Diluted earnings per share

	2013 cents	2012 cents
Profit from continuing operations attributable to the ordinary equity holders of the company	15.3	14.8
Profit from discontinued operations	–	–
Profit attributable to the ordinary equity holders of the company	15.3	14.8

c. Reconciliations of earnings used in calculating earnings per share

	2013 \$000	2012 \$000
Basic earnings per share		
Profit from continuing operations	67,157	67,640
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	67,157	67,640
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	67,157	67,640
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	67,157	67,640

d. Weighted average number of shares used as the denominator

	2013 Number	2012 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	439,004,182	458,305,148
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	439,004,182	458,305,148

e. Information concerning the classification of shares

i. Performance rights

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

The total 1,358,077 performance rights granted (2012 – 1,327,727) 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 2013. These performance rights could potentially dilute basic earnings per share in the future.

43. PARENT ENTITY FINANCIAL INFORMATION

a. Summary financial information

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

	2013 \$000	2012 \$000
Balance Sheet		
ASSETS		
Current assets	41,197	42,340
Total assets	476,741	458,834
LIABILITIES		
Current liabilities	3,443	7,026
Total liabilities	3,443	7,026
NET ASSETS	473,298	451,808
EQUITY		
Share Capital	297,178	297,178
Share-based payments	(935)	(194)
Retained Profits	177,055	154,824
Total Equity	473,298	451,808
Profit or loss for the year	66,131	28,841
Total comprehensive income	66,131	28,841

b. Contingent liabilities of the parent entity

Refer to Note 32.

44. COMPANY DETAILS

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

22 Honeysuckle Drive
NEWCASTLE NSW 2300

The Financial Report was authorised for issue by the Directors on 23 August 2013. The company has the power to amend and reissue the Financial Report.

Directors' Declaration

For the year ended 30 June 2013

In the Director's opinion:

- a. the financial statements and notes set out on pages 45 to 107 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 2013 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

Newcastle, NSW
23 August 2013



Harold Bentley

Director

Independent Auditor's Report

To the members of nib holdings limited



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 2013, the income statement and 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 nib holdings limited group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at 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. Those 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 consolidated 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.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
PricewaterhouseCoopers Centre, 26 Honeysuckle Drive, PO Box 798, NEWCASTLE NSW 2300
T: +61 2 4925 1100, F: +61 2 4925 1199, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

Independent Auditor's Report continued

To the members of nib holdings limited



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 2013 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*.
- (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 19 to 34 of the directors' report for the year ended 30 June 2013. 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 2013, complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in cursive script that reads 'John Campion'.

John Campion
Partner

Newcastle
23 August 2013

Shareholder Information

The shareholder information set out below was applicable as at 30 August 2013.

A. DISTRIBUTION OF EQUITY SECURITIES

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

	Class of equity security
1 – 1,000	67,277
1,001 – 5,000	83,866
5,001 – 10,000	11,624
10,001 – 100,000	932
100,001 and over	46
	163,745

There were 3,662 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:

Name	Ordinary shares	
	Number held	Percentage of issued shares %
JP Morgan Nominees Australia Limited	28,228,933	6.43
RBC Investor Services Australia Nominees Pty Limited (PI Pooled A/C)	18,461,080	4.21
National Nominees Limited	14,639,559	3.33
Citicorp Nominees Pty Limited	10,934,885	2.49
HSBC Custody Nominees (Australia) Limited	10,725,571	2.44
BNP Paribas Nominees Pty Ltd ACF Pengana (DRP A/C)	7,945,120	1.81
Citicorp Nominees Pty Limited (Colonial First State Inv A/C)	3,445,803	0.78
JP Morgan Nominees Australia Limited (Cash Income A/C)	3,171,239	0.72
BNP Paribas Noms Pty Ltd (DRP)	2,847,400	0.65
RBC Investor Services Australia Nominees Pty Limited (GSAM A/C)	1,356,270	0.31
Suncorp Custodian Services Pty Limited (SGAEAT)	974,022	0.22
UBS Wealth Management Australia Nominees Pty Ltd	947,366	0.22
Jemon Pty Ltd (Bar Beach Super Fund A/C)	600,000	0.14
Fitzy (NSW) Pty Ltd (Fitz Family Fund A/C)	568,621	0.13
Mr Mark Anthony Fitzgibbon	550,323	0.13
Questor Financial Services Limited (TPS RF A/C)	540,735	0.12
BNP Paribas Nominees Pty Ltd (Agency Lending DRP A/C)	488,428	0.11
Computershare Plan Co Pty Ltd (NHF LTP Control A/C)	468,913	0.11
RBC Investor Services Australia Nominees Pty Limited (Piselect)	414,443	0.09
Warbont Nominees Pty Ltd (Accumulation Entrepot A/C)	307,571	0.07
	107,616,282	24.51

Unquoted equity securities

	Number on issue	Number of holders
Performance rights issued under the nib holdings Long-Term Incentive Plan	1,358,077	4

Shareholder Information continued

C. SUBSTANTIAL HOLDERS

Substantial holders in the company are set out below:

	Number held	Percentage of issued shares %
Perpetual Limited	40,467,864	9.22

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 of shares
Ordinary shares	7 September 2013	44,992

Corporate Directory

DIRECTORS

Chairman

Steve Crane

Managing Director/Chief Executive Officer

Mark Fitzgibbon

Harold Bentley

Annette Carruthers

Philip Gardner

Christine McLoughlin

COMPANY SECRETARIES

Michelle McPherson

Roslyn Toms

EXECUTIVE MANAGEMENT

Managing Director/Chief Executive Officer

Mark Fitzgibbon

Deputy Chief Executive Officer and

Chief Financial Officer

Michelle McPherson

Group Manager Australian Residents Health Insurance

Rhod McKensey

Chief Information Officer

Brendan Mills

Chief Executive Officer – nib New Zealand

Rob Hennin

Group Manager Benefits and Provider Relations

Justin Vaughan

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of nib holdings limited will be held at the Fort Scratchley Multipurpose Centre, 1 Nobbys Road, Newcastle at 11.00am (AEDT) on Tuesday, 29 October 2013.

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

King & Wood Mallesons

Level 61, Governor Philip Tower

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