ANNUAL REPORT 2015

nib

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2015 ANNUAL GENERAL MEETING

The Annual General Meeting of nib holdings limited will be held at Fort Scratchley Multipurpose Centre, 1 Nobbys Road, Newcastle at 11am on Wednesday, 4 November 2015.

nib holdings limited
ABN 51 125 633 856

OPERATING AND FINANCIAL REVIEW

For the year ended 30 June 2015

CHAIRMAN'S REPORT

I'm pleased to report another strong fiscal year for the nib Group. Group premium revenue grew to $1.6 billion, an increase of 9.6% on the previous year and operating profit to $81.7 million, an increase of 13.0%. Net profit after tax was up by 7.9% to $75.3 million or 17.3 cents per share. The Board has declared ordinary dividends totalling 11.5 cents per share (fully franked) for the year. This represents a payout ratio of 67% of after tax earnings. The final fully franked dividend of 6.0 cents per share will be paid to shareholders on 9 October 2015.

Against a backdrop of cautious consumer spending, nib continued to build its customer base across the business. Our core Australian Residents Health Insurance business (arhi) added over 23,100 policyholders with a growth rate of 4.7% and accounted for almost 15% of total industry growth. And during the year we surpassed a million people covered. It was a significant milestone for a business which began in Newcastle some 63 years ago deep inside BHP Steel Works and is a tribute to everyone involved in the business today and those who have gone before us.

We continue to push hard as a business to grow and leverage our fabulous brand, technologies and capabilities we have across the Group and exploit additional complementary business prospects. There's no better example of this than our post-balance date acquisition of World Nomads Group (completed on 31 July 2015). World Nomads Group meets our strict return on investment criteria and is expected to be earnings per share and return on equity accretive immediately*.

FY15 pre-tax earnings from businesses other than arhi accounted for 12.1% of our total operating profit. The result was down on last year's contribution of 21.1% because of an improved contribution from arhi and some softness in parts of the complementary business portfolio. However, we remain very keen to grow our complementary businesses and their contribution to Group earnings. Well known themes around 'globalisation', 'disruption' and the 'internet of things' are sparking opportunities we are following closely. Importantly, we have a well-developed lens for examining complementary prospects which demands we see economies of scope and synergies.

I hasten to add that our determination to invest in and pursue non-arhi earnings doesn't mean we'll be any less focused upon our primary economic engine arhi. nib has been and continues to be a genuine pace-setter in the domestic health insurance market and we're very confident arhi still has strong growth potential. Importantly, we saw good net margin improvement in FY15 which brought us back within our stated target range of 5.0% to 5.5%.

The digital age is creating new opportunities for established businesses such as arhi, not just new business. Perhaps the best example of this during the year was the continued development and growth of our digital platform Whitecoat, which Mark writes about further on in his Managing Director's report.

As you'd expect, good governance, a focus upon return on invested capital and managing the risks implicit in our portfolio of businesses are priorities at nib. We continue to apply risk-based 'hurdle rates' in the allocation of capital and our risk framework is well developed. Hand-in-hand with strategic planning is clear Board visibility of key enterprise risks and how they are being managed. Your Board is engaged at an early stage in management's thought process allowing healthy discussion and debate ahead of any final investment decision.

Another priority of the Board is succession planning both for Executives and Non-Executive Directors. We have a strong leadership team and the Board is very comfortable with our Executive planning and development. The Board has continued to turn its mind to ensuring we continue to meet our own tests of Non-Executive Director 'independence' and appropriate skills mix as set out in our Corporate Governance Statement.

I also want to take this opportunity to briefly highlight the efforts we continue to make as a corporate citizen. Since its inception in 2008, our flagship 'nib foundation' has donated $14.9 million in grant funding to more than 80 charities. The focus of this funding has been upon health challenges faced by young people and carers and we're very proud of what has been achieved by our foundation and Board of Trustees.

Shareholders as well as our many other stakeholders can expect nib will continue to expertly, creatively and responsibly pursue our mission of helping people access and afford healthcare when and where needed. Since 1952, this has been imperative to the strength of our company and remains the key to ongoing growth and prosperity.

I would like to thank and acknowledge the contribution of my fellow Directors, as well as congratulate Mark and his management team on an excellent FY15.

Steve Crane
Chairman

* Excluding one-off transaction costs and amortisation of acquisition related identifiable intangibles.

MANAGING DIRECTOR'S REPORT

The FY15 results were mostly strong and saw us deliver a 13.0% lift in operating profit to $81.7 million and a 7.9% lift in net profit after tax to $75.3 million. Gross Written Premium (GWP) across the Group increased by 9.6% to $1.6 billion.

Throughout this Annual Report you'll find much detail and insight in relation to the FY15 performance. I won't attempt here to pre-empt all of that, only make five high level observations.

Our arhi business grew powerfully and we expect the market to continue to grow and to increase our market share.

Our growth of more than 23,100 policyholders at a rate of 4.7% was well above system's 2.5%. GWP of $1.4 billion was up 8.8% and our operating profit of $71.8 million was up an impressive 26.0% on FY14. A net margin of 5.0% was a good improvement on last year's 4.2% and beat industry's 4.4% (FY15).

A lapse rate of 13.6% for the year clearly indicated growth is not without headwinds. But we're taking meaningful action on redressing lapse and we're confident with an expanding arhi system we will still gain market share. We're equally confident that net organic growth remains highly value accretive.

There have been a few comments in the market that our diversification efforts may signal a company view that future arhi prospects are limited. Nothing could be further from the truth.

Managing underlying claims inflation is becoming more and more a top priority.

There is a determination evident amongst health insurers to rein in over-servicing, avoidable care and cost variation. In FY15 we actually saw some encouraging progress with industry benefits paid per person increasing by just 4.7% compared to 6.2% the previous year. Our own inflation was higher at 8.2% mainly because of the success we had in the over 55s market segment where claiming is implicitly higher. Very importantly, this is offset by the industry risk equalisation scheme and our expense for FY15 dropped by 2.7% to $185.5 million.

Both payers and providers will do well from inevitable growth in healthcare spending and the private sector's role. However, neither can or should be tolerating market inefficiency and simply 'pricing in' the costs with its obvious consequence for premiums.

'Complementary' business earnings continued to make a good contribution to pre-tax operating earnings and further opportunities are very real. But they are never risk free, nor is return on investment instant.

Earnings from businesses other than arhi accounted for 12.1% of Group operating profit. It would have been better except for the higher claims experience encountered in our International inbound business.

Our nascent New Zealand business performed well delivering policyholder growth of 4,631 policies (5.9% net growth) and saw GWP increase by 8.1% to $150.4 million. We saw strong sales of 18.5%, of which approximately 50% was attributable to our new direct-to-consumer channel. While the operating profit of $5.4 million was on the surface slightly disappointing, it was hampered by a legacy product arrangement which we explain further on in this report. It's clear we've some way to go yet to prove the New Zealand investment case, but we will.

We also incurred further losses in our fledgling medical travel business nib Options of $3.8 million. Nevertheless, we've learnt much from our experience to date and the second half of FY15 saw some significant changes to the operating model.

While it occurred just after 30 June 2015, I should mention here our acquisition of World Nomads Group (WNG), a leading travel insurance company. We believe WNG is a great fit. It's a market that's growing, 60% of claims are medical and we've actually been selling travel insurance since 1990. Furthermore, WNG has a culture very similar to our own and is a terrific business.

We made significant investment in our IT and digital strategy, especially recognising the potential of the 'digital era' to disrupt the healthcare market and create opportunities.

During FY15 we continued development of Whitecoat. Several years in the making, Whitecoat is our Wikipedia, Amazon and TripAdvisor style solution for the healthcare market. And a potential 'game changer'. We are trying to provide consumers with as much information as we can to overcome information asymmetry and help them make better decisions regarding their healthcare.

The digital era, 'internet of things' and leaps in technology generally, are also allowing us to explore other disruptive possibilities. We even created a new entity (Digital Health Ventures Pty Limited) with a specialist digital company to help drive our efforts and investment.

Although there was no significant mergers & acquisition (M&A) activity during FY15, some form of consolidation in the private health insurance market is inevitable.

As we have previously indicated to investors, we view 'opportunistically' M&A prospects within the Australian private health insurance market. That is, while we are not deliberately chasing opportunities we will always be open to participating in any sale process.

It's worth observing there have been seven health insurer acquisitions during the past 10 years. That we now have two ASX listed health insurance companies (Medibank Private and us) and an ambitious large international player (BUPA) can only add momentum. The rapid M&A we are currently seeing in the United States is also a possible harbinger for consolidation at a global level.

As a business we have a philosophy that the future is unpredictable and that disruptive technologies are making the status-quo for any company more and more a business risk. For us it means we must be experimenting widely throughout the business. So expect to see even more.

I should mention before concluding the important shift in our active capital structure that a combination of capital management and acquisitions has brought about. Post the WNG purchase we expect to have a ratio of debt-to-debt plus equity of 32%. We've created a capital structure which has lowered our weighted average cost of capital without posing any additional risk to equity.

I'd like to thank Chairman Steve, our Board of Directors, my Executive leadership team and everyone at nib for their support during 2015 and I look forward to an even brighter future.

Mark Fitzgibbon
Managing Director

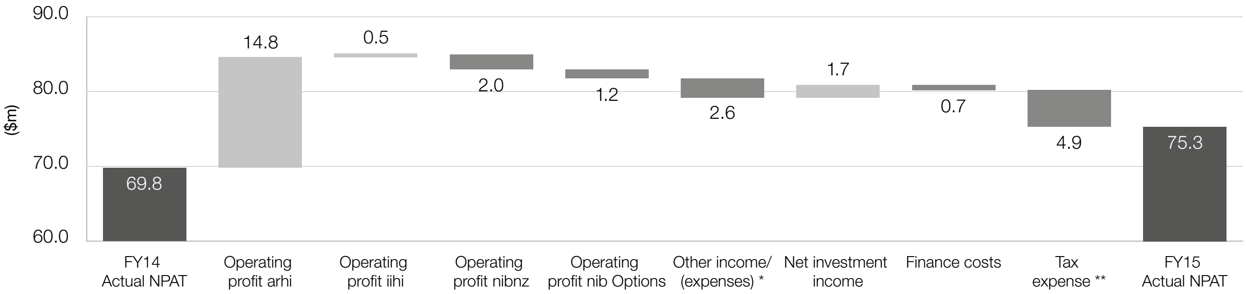
For the year ended 30 June 2015

REVIEW OF GROUP OPERATIONS

Operations and underlying drivers of performance

($m)	2015	2014	Change $m	Change %
Net premium revenue	1,634.9	1,491.6	143.2	9.6
Net claims incurred (excluding claims handling expenses)	(1,367.1)	(1,255.4)	(111.6)	8.9
Gross margin	267.8	236.2	31.6	13.4
	16.4%	15.8%		
Management expenses	(179.2)	(162.1)	(17.1)	10.5
	11.0%	10.9%		
Underwriting result	**88.6**	**74.1**	**14.5**	**19.6**
	5.4%	5.0%		
Other income	5.1	5.7	(0.6)	(10.8)
Other expenses	(12.0)	(7.5)	(4.5)	60.1
Operating profit	**81.7**	**72.3**	**9.4**	**13.0**
Net investment income	31.4	29.7	1.7	5.8
	5.8%	5.6%		
Finance costs	(3.4)	(2.7)	(0.7)	24.7
Profit before tax	**109.6**	**99.2**	**10.4**	**10.5**
Tax	(34.3)	(29.4)	(4.9)	16.8
NPAT	**75.3**	**69.8**	**5.5**	**7.9**
EPS (cps)	17.3	15.9	1.4	8.8
ROE (%)	23.1%	20.8%		
Dividend per share – ordinary (cps)	11.5	11.0	0.5	4.5
Dividend per share – special (cps)	0.0	9.0	(9.0)	*NA*
Operating cash flow	114.2	93.7	20.5	21.9

The NPAT waterfall graph below illustrates the contribution of segments to movement in NPAT from FY14 to FY15.



* Excluding segments

** Tax expense impacted by one-off non-deductible items, most notably write-back of nib Options unrecognised tax losses. Refer to Note 8.

Financial year 2015 yielded a good overall result for the nib Group, featuring strong top line growth of 9.6% to $1.6 billion and improved performance of our arhi business. Our Group operating profit of $81.7 million was up 13.0% on the previous year and within our FY15 guidance range of $75 million to $82 million.

Our investment portfolio successfully delivered against internal benchmarks for the year, resulting in a net investment return of $31.4 million or 5.8%. This out-performance was due to a strong equity market, as well as the sale of a shareholding in Pacific Smiles Group in November 2014, which returned $5.4 million. Excluding the benefit from the sale of our shareholding in Pacific Smiles Group, investment return would have been $26.0 million or 4.8%. As at 30 June 2015, our investment assets totalled $600.8 million.

Group net profit after tax (NPAT) for FY15 was $75.3 million, compared to $69.8 million last year. Our earnings per share result was 17.3 cents and return on equity 23.1%.

FINANCIAL POSITION

($m)	2015	2014	Change $m	Change %
Assets				
Cash and cash equivalents	123.7	148.7	(24.9)	(16.9)
Receivables	45.1	44.9	0.2	0.5
Financial assets at fair value through profit or loss	457.2	410.8	46.4	11.3
Deferred acquisition costs	64.1	40.0	24.1	60.2
Assets classified as held for sale	38.7	0.0	38.6	*NA*
Property, plant and equipment	14.5	48.0	(33.6)	(69.9)
Intangible assets	90.2	95.2	(5.0)	(5.3)
Other assets	3.7	10.5	(6.8)	(65.1)
Total assets	**837.1**	**798.1**	**39.0**	**4.9**
Liabilities				
Payables	124.9	111.4	13.5	12.1
Borrowings	63.9	66.8	(2.9)	(4.4)
Outstanding claims liability	97.1	93.7	3.3	3.7
Unearned premium liability	143.2	114.2	29.0	25.4
Premium payback liability	40.9	40.8	0.0	0.3
Other liabilities	22.8	14.9	7.9	53.0
Total liabilities	**492.8**	**441.7**	**51.2**	**11.6**
Net assets	**344.3**	**356.4**	**(12.1)**	**(3.4)**
Total equity	**344.3**	**356.4**	**(12.1)**	**(3.4)**

Our strong financial performance and position has allowed the Board to declare full year ordinary dividends for FY15 of 11.5 cents per share, fully franked (FY14: 11.0 cents per share), totalling $50.5 million. This full year ordinary dividend comprises an interim ordinary dividend of 5.5 cents per share fully franked (paid 2 April 2015) and a final ordinary dividend of 6.0 cents per share fully franked. The final ordinary dividend will be paid to shareholders on 9 October 2015. The full year dividend of 11.5 cents per share represents a payout ratio of 67% of full year NPAT and is consistent with our policy to pay ordinary, fully franked dividends between 60% to 70% of full year NPAT.

Following the acquisition of World Nomads Group* announced on 8 July 2015 and completed on 31 July 2015, our gearing ratio was 32% (debt-to-debt plus equity). This is consistent with our long-term target gearing ratio of 30%, noting that the target gearing policy allows for gearing to go above 30% for a short time, if necessary, as part of funding a significant transaction.

After allowing for the payment of the final dividend totalling $26.3 million and acquisition of World Nomads Group* (completed 31 July 2015), our available capital position was $10.2 million.

Since listing on ASX in 2007 our financial performance has been consistently strong. Our total shareholder return (TSR)# for this period up to the end of FY15 is 519% compared to 15.0% for the S&P/ASX200. For FY15, our TSR was 7.6% compared to 5.7% for the S&P/ASX200. Our focus on disciplined capital management has also benefited our shareholders with returns to shareholders totalling approximately $162.7 million since listing, through a combination of special dividends and a capital return.

Our strong share price performance also resulted in nib being admitted into the S&P/ASX300 during March this year.

* The acquisition of World Nomads Group was funded with $85 million in debt, with the balance funded from available capital.

\# TSR rebased to 100 (assumes capital returns and dividends re-invested at the payment date). Source: IRESS.

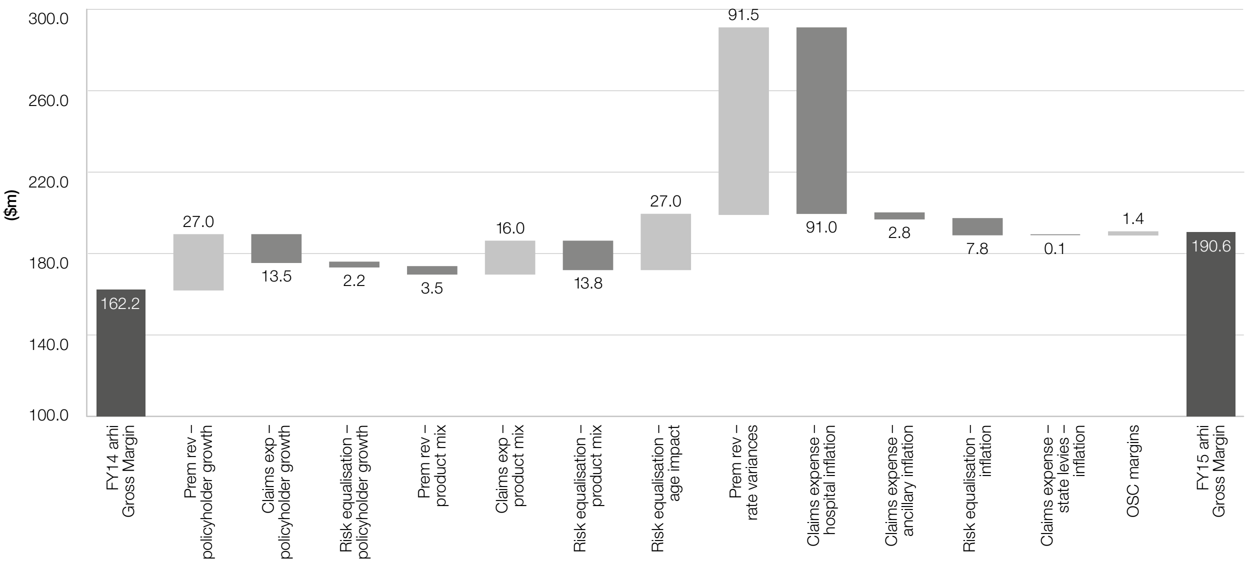
For the year ended 30 June 2015

AUSTRALIAN RESIDENTS HEALTH INSURANCE

Financial performance and business review

			Change	
($m)	**2015**	**2014**	**$m**	**%**
Policyholder growth	4.7%	3.1%		
Net premium revenue	1,429.5	1,314.5	115.0	8.8
Net claims incurred (excluding claims handling expenses)	(1,238.9)	(1,152.3)	(86.6)	7.5
Gross margin	190.6	162.2	28.4	17.5
	13.3%	12.3%		
Management expenses	(118.9)	(106.4)	(12.5)	11.8
	8.3%	8.1%		
Underwriting result	71.7	55.8	15.9	28.5
	5.0%	4.2%		
Other income	0.1	1.2	(1.1)	(91.5)
	0.0%	0.1%		
Operating profit	71.8	57.0	14.8	26.0
	5.0%	4.3%		

The waterfall below highlights arhi gross margin components and drivers from FY14 to FY15.



Our Australian Residents Health Insurance (arhi) business performed strongly during the year, with an operating profit of $71.8 million, an increase of 26.0% on the previous year. Strong policyholder growth was a highlight of FY15, with the business growing by more than 23,100 net new policyholders at a growth rate of 4.7%. This helped us achieve the major milestone of over one million arhi customers covered.

Growth in policies, combined with premium increases, resulted in an 8.8% increase in premium revenue for the year to $1.4 billion.

Above-industry policyholder growth has underpinned the performance of our arhi business for many years. Historically, this has been largely due to the considerable success we have achieved in growing our customer base of those aged under 40 years. While we continue to focus on targeting the better risk component of this demographic, we have also identified and leveraged the opportunity to acquire customers aged 55 years and over. Through distribution partnerships with organisations like Apia, who have a very strong appeal with this market segment, we are having considerable success among this group. During FY15, 31.3% of arhi sales were to policyholders over 55 years of age, compared to 21.9% the previous year. Claims expenses, including risk equalisation, grew by 7.5% during the reporting period, reflecting our growing customer numbers, the frequency of customers seeking medical treatment and the increase in costs associated with medical treatment and healthcare. For FY15, claims costs totalled $1.2 billion, which represents 87 cents in each dollar being paid on behalf of our customers.

Controlling claims inflation, while also keeping our premiums as affordable as possible for our customers, remains our ultimate goal. Our efforts and focus will continue to ensure utilisation and cost of healthcare services remains appropriate.

Within the private health insurance industry there is a growing trend of customers looking to switch providers or cancel their cover altogether. Accordingly, reducing the rate of lapse and retaining customers remains a priority. While it is unlikely we will significantly arrest our overall lapse rate, which for FY15 was 13.6% (FY14: 12.0%), it is important that we continue to provide outstanding service and ensure our customers get value from their nib health cover.

This explains our effort in a number of customer retention initiatives, including a new rewards program. ‘nib Rewards’ is a pilot program that provides customers with discounts, benefits and special offers at more than 2,000 providers across Australia, including travel, accommodation, dining and leisure. Based on the success of the pilot we are planning a full roll out of the program in the coming 12 months.

The frequency of customers downgrading their level of health cover also appears to be a watch point for many industry observers during FY15. Ensuring customers are on the most appropriate level of nib cover for their life stage and budget is our ultimate objective, which can result in customers either upgrading or downgrading their level of cover.

Despite our strong investment in policyholder growth for the year, our management expense ratio of 8.3% is comparable to the FY14 result of 8.1%. Our management expense ratio excluding customer acquisition costs fell from 5.1% in FY14 to 4.9% this year. We will continue to focus on improving operational efficiencies with the view to provide our customers with affordable private health insurance and the customer service they have come to expect from us.

NEW ZEALAND RESIDENTS HEALTH INSURANCE

Financial performance and business review

			Change	
($m)	**2015**	**2014**	**$m**	**%**
Policyholder growth	5.9%	(0.1%)		
Net premium revenue	150.4	139.2	11.2	8.1
Net claims incurred (excluding claims handling expenses and (Increase)/Decrease in PPB liability)	(96.8)	(89.5)	(7.3)	8.1
(Increase)/Decrease in premium payback liability	(1.9)	3.3	(5.2)	(157.8)
Gross margin	51.7	53.0	(1.2)	(2.3)
	34.4%	38.1%		
Management expenses	(46.3)	(45.6)	(0.7)	(1.7)
	30.8%	32.8%		
Underwriting result	5.4	7.4	(2.0)	(27.0)
	3.6%	5.3%		
Other income	0.0	0.0	0.0	–
	0.0%	0.0%		
Operating profit	5.4	7.4	(2.0)	(27.0)
	3.6%	5.3%		

Since acquiring our New Zealand operations in late 2012, significant effort and investment has been made to grow the business, drive efficiency through automation initiatives and develop new business opportunities.

The business contributed $7.3 million (before movements in PPB* liability) or 8.7% to our Group operating profit in FY15. Including PPB, operating profit was $5.4 million (FY14: $7.4 million). Our continued effort and investment will see this contribution become more material in the years ahead.

Despite being New Zealand’s second largest health insurer providing cover to more than 162,000 people across the country, nib has approximately 12% of the market, with only 30% of New Zealanders having private health insurance (compared to approximately 50% in Australia). This provides considerable scope to grow the business.

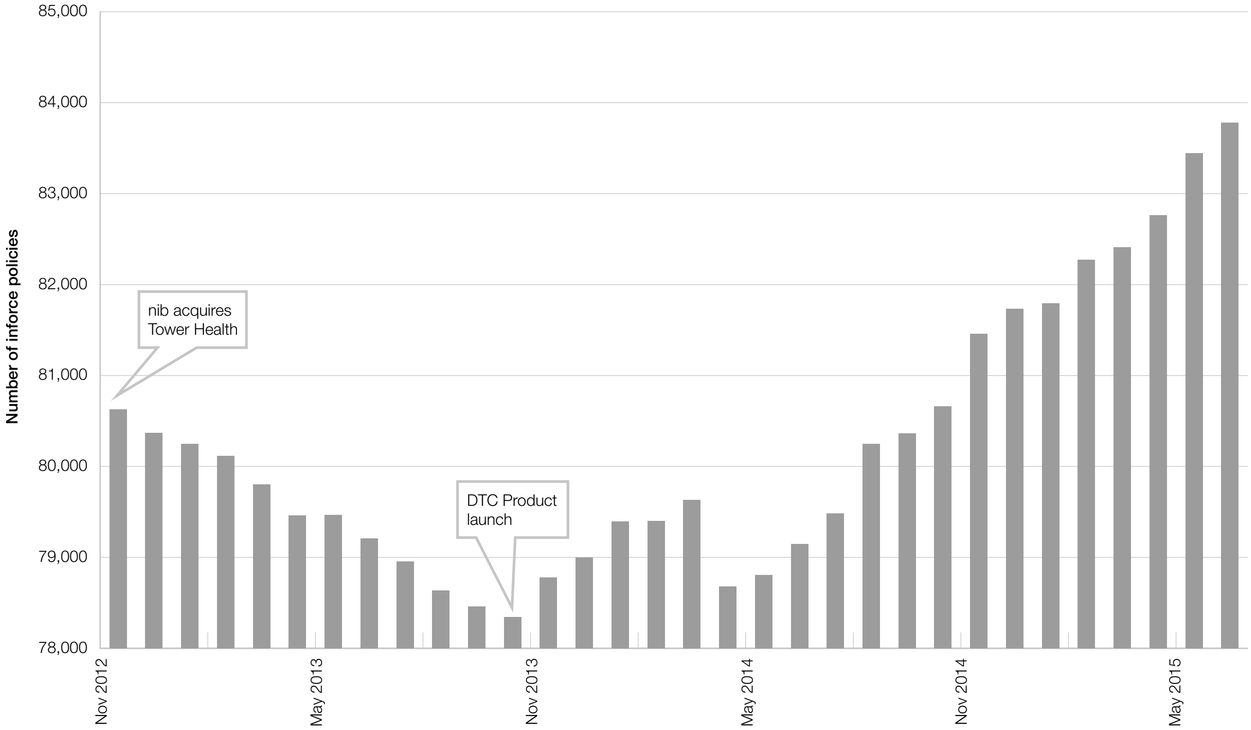
Our direct-to-consumer channel, that we launched in late 2013, remains a significant focus of our investment. Our net policyholder growth for the period was 5.9%, with nearly half of all policies sold being through this key sales channel.

* Premium Payback (PPB) portfolio is related to a legacy product that is a calculated liability based upon reimbursing policyholders at some future time, the difference between premiums paid and claims made.

NEW ZEALAND RESIDENTS HEALTH INSURANCE continued

Financial performance and business review continued

The following graph shows the growth in policyholders since the launch of our direct-to-consumer channel.



A number of important initiatives were undertaken in New Zealand throughout FY15 to develop and grow both current and alternative sales channels.

- Improvements to our operating model for wealth advisor sales distribution have generated some successes for the business. We will continue to work with our advisor network over the coming year to further recalibrate the distribution model to drive greater growth from this channel.
- The group or employer-sponsored area of the market remains a significant growth opportunity for nib in New Zealand. Accordingly, we will launch an innovative new corporate product offering in FY16 to actively target this large segment of the market.
- Following the success of white-labelling partnerships in Australia, we are currently exploring similar opportunities in New Zealand. Productive discussions have been held with a number of potential partners.

The profitability of our New Zealand operations will continue to be impacted for the short-to-medium term by the investment we continue to make in business development, as well as further automation and efficiency initiatives. The thesis behind this level of investment is we will grow our share of the New Zealand health insurance market, as well as our overall profitability.

INTERNATIONAL (INBOUND) HEALTH INSURANCE

Financial performance and business review

			Change	
($m)	2015	2014	$m	%
Policyholder growth	58.5%	66.6%		
Net premium revenue	54.9	38.0	16.9	44.6
Net claims incurred (excluding claims handling expenses)	(29.4)	(16.9)	(12.5)	73.8
Gross margin	25.5	21.0	4.4	21.1
	46.4%	55.4%		
Management expenses	(13.9)	(10.1)	(3.8)	37.8
	25.3%	26.6%		
Underwriting result	11.6	11.0	0.6	5.8
	21.1%	28.8%		
Other income	0.2	0.4	(0.2)	(45.4)
	0.4%	1.0%		
Operating profit	11.8	11.3	0.5	4.0
	21.5%	29.9%		

Our International (Inbound) Health Insurance business includes international students and workers. For FY15 premium revenue grew 44.6% to $54.9 million, primarily due to strong policyholder growth of 58.5%. nib now provides health insurance to almost 88,000 international students and workers while they are in Australia.

A large portion of this growth can be attributed to our upstream distribution strategy of leveraging educational brokers, as well as winning a major contract with the Saudi Arabian Cultural Attaché Office in Canberra. Under this arrangement nib became the sole provider of Australian health insurance, and as at 30 June 2015 provided health insurance to almost 11,000 Saudi customers living in the country.

Rapid policyholder growth skewed towards the second half of this financial year, particularly in students, combined with what appears to be pent-up demand from those new customers, has seen a higher rate of growth in claims when compared to growth in premium revenue. For this financial year claims costs increased 73.8% to $29.4million, while premium revenue grew 44.6% to $54.9 million. Various levers are at work to bring claims experience back in to line with expectations. Pleasingly, management expenses only increased $3.8 million to $13.9 million, while the management expense ratio decreased 1.3% to 25.3% reflecting scale within the business.

During the year we have seen a softening in Australia's skilled migrant intake (457 visa class), causing a shift in focus upon other visa classes. We have also seen increased competition in the market, however, we have a number of strategies that are expected to offset this through market and premium growth.

FY15 operating profit was $11.8 million compared to $11.3 million the previous year. Our International (Inbound) Health Insurance business contributed 14.4% of total Group FY15 operating profit. This business is expected to continue to grow future earnings and level of contribution to our overall Group result in future years.

nib OPTIONS

Financial performance and business review

			Change	
($m)	2015	2014	$m	%
Other income	0.6	0.4	0.2	65.8
Other expenses	(4.4)	(2.9)	(1.5)	51.2
Operating profit	(3.8)	(2.5)	(1.2)	49.0
	(614.3%)	(683.3%)		

nib Options was launched in March 2014 to facilitate customers receiving cosmetic and major dental treatment both in Australia and overseas. The business is still in a development phase and as a result made an operating loss of $3.8 million in FY15. Significant work has been undertaken during the year to reposition the business operating model, including recalibrating the business and establishing operations in Thailand.

BUSINESS STRATEGIES AND PROSPECTS

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

1. Achieve above 'system' growth in the Australian Residents Health Insurance market.
2. Grow our International (Inbound) Health Insurance market share.
3. Position and build our business in New Zealand as a 'challenger' and grow the market and our share.
4. Leverage core business capability to pursue adjacent business opportunities.
5. Design product benefits and manage claims in accordance with our strategic and commercial objectives.
6. Develop Whitecoat and our digital platform to create an unrivalled customer experience and support health and clinical decision making by customers.
7. Increase customer satisfaction, productivity and efficiency.
8. Have the 'right people on the bus', develop a high performance organisational culture and advance the engagement of our people.

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

- Group premium revenue growth
- Group operating profit
- Non arhi contribution to profit
- Net promoter score (NPS)
- Earnings per share
- Return on equity
- Total shareholder return

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. 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. The environment in which nib operates may experience challenging conditions as a result of general uncertainty about future Australian and international economic conditions.
Claims inflation and fraud	nib is subject to significant claims inflation which may not be adequately covered by premium price increases and/or product design changes. Keys sources of claims inflation risk include the renewal of key provider contracts on acceptable terms, service utilisation rates, services related to complex and costly members (usually with chronic diseases), claims leakage, provider and member fraud, public hospital claiming, as well as general provider behaviour, which results in a weakening of nib's gross margin and overall profitability.
Performance of adjacent (non-Australian Residents Health Insurance) businesses	In recent years, in addition to focussing on its Australian regulated health insurance business, nib has diversified its business and identified adjacent earnings opportunities, such as International (Inbound) Health Insurance, New Zealand and nib Options. These adjacent businesses now make a meaningful contribution to nib's operating result and as a result the performance of these businesses could significantly affect nib's profits.
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 currently 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	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: a. Federal Government Rebate; b. Lifetime Health Cover; and c. Medicare Levy Surcharge. 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.

BUSINESS STRATEGIES AND PROSPECTS continued

Principal risks and uncertainties continued

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	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. 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.
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.

FIVE YEAR SUMMARY

		2015 $m	2014 $m	2013 $m	2012 $m	2011 $m
Consolidated Income Statement						
Net premium revenue		1,634.9	1,491.6	1,290.4	1,123.8	1,007.8
Net claims incurred		(1,367.1)	(1,255.4)	(1,089.6)	(949.2)	(848.7)
Gross margin		**267.8**	**236.2**	**200.8**	**174.6**	**159.1**
Management expenses		(179.2)	(162.1)	(127.0)	(103.8)	(97.6)
Underwriting result		**88.6**	**74.1**	**73.8**	**70.7**	**61.5**
Other income		5.1	5.7	3.1	3.6	5.8
Other expenses		(12.0)	(7.5)	(7.6)	(4.3)	(7.5)
Operating profit		**81.7**	**72.3**	**69.3**	**70.0**	**59.8**
Net investment income		31.4	29.7	28.8	25.6	32.1
Finance costs		(3.4)	(2.7)	(1.4)	0.0	0.0
Profit before tax		**109.6**	**99.2**	**96.7**	**95.7**	**91.9**
Tax		(34.3)	(29.4)	(29.5)	(28.0)	(26.5)
NPAT		**75.3**	**69.8**	**67.2**	**67.6**	**65.5**
Consolidated Balance Sheet						
Total assets		837.1	798.1	712.3	617.8	639.3
Equity		344.3	356.4	326.2	301.6	411.8
Debt		63.9	66.8	62.4	0.0	0.0
Share Performance						
Number of shares	m	439.0	439.0	439.0	439.0	466.7
Weighted average number of shares – basic	m	439.0	439.0	439.0	458.3	478.5
Weighted average number of shares – diluted	m	439.0	439.0	439.0	458.3	478.5
Basic earnings per share	cps	17.3	15.9	15.3	14.8	13.7
Diluted earnings per share	cps	17.3	15.9	15.3	14.8	13.7
Share price at year end	$	3.36	3.26	2.13	1.50	1.45
Dividend per share – ordinary	cps	11.50	11.00	10.00	9.25	8.00
Dividend per share – special	cps	0.00	9.00	0.00	0.00	5.00
Dividend payout ratio – ordinary	%	66.6%	69.2%	65.0%	60.0%	57.0%
Dividend payout ratio – combined ordinary and special	%	66.6%	125.8%	65.0%	60.0%	92.7%
Other financial data						
ROE	%	23.1%	20.8%	21.6%	21.7%	16.5%
Operating cash flow		114.2	93.7	20.0	134.6	88.3

DIRECTORS' REPORT

For the year ended 30 June 2015

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 2015.

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
Lee Ausburn
Annette Carruthers
Christine McLoughlin
Mark Fitzgibbon
Harold Bentley
Philip Gardner

PRINCIPAL ACTIVITIES

The principal continuing activities of the Group consisted of operating as a private health insurer covering Australian residents, New Zealand residents and international visitors and students. Our vision is to be a leading financier and facilitator of healthcare spending with a reputation for innovative products, value for money, outstanding customer service, being a good corporate citizen and strong shareholder returns.

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 13 of this Annual Report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group during the financial year.

DIVIDENDS

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

	2015 $000	2014 $000
Final dividend for the year ended 30 June 2014 of 14.75 cents per fully paid ordinary share, made up of 5.75 cps ordinary dividend and 9.0 cps special dividend (2013 – 5.0 cents per fully paid ordinary share, made up of 5.0 cps ordinary dividend) paid on 3 October 2014	64,748	21,946
Interim dividend for the year ended 30 June 2015 of 5.5 cents (2014 – 5.25 cents) per fully paid share paid on 2 April 2015	24,144	23,045
	88,892	**44,991**

In addition to these dividends, since the end of the financial year the Directors have recommended the payment of a fully franked final dividend of $26.3 million (6.0 cents per fully paid share, made up of 6.0 cps ordinary dividend) to be paid on 9 October 2015 out of retained profits at 30 June 2015.

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.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Acquisition of World Nomads Group Pty Limited and its controlled entities

On 31st July 2015 nib acquired 100% of World Nomads Group Pty Limited and its controlled entities (WNG) for $95.0 million on an enterprise value basis. WNG is the third-largest distributor of travel insurance in Australia, and specialises in the marketing, sale and distribution of travel insurance policies globally.

The final payment is expected to be approximately $106.0 million, including $15.5 million in cash, and is subject to final completion accounts confirming the value of assets and liabilities acquired.

The acquisition was funded with $85 million in debt, with the balance funded from available capital. Following the acquisition the Group Gearing Ratio will be approximately 32%.

Given the final completion accounts are not yet finalised we have not disclosed other assets and liabilities.

Premium payback early settlement offer

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

For eligible premium payback customers with renewal dates in September 2015 and October 2015, early settlement offers have been sent in July 2015 and August 2015 respectively. The value of early settlement offers issued in July 2015 and August 2015 is $6.8m.

No other matter or circumstance has arisen since 30 June 2015 that has significantly affected, or may significantly affect:

a. the Group's operations in future financial years; or

b. the results of those operations in future financial years; or

c. the Group's state of affairs in future financial years.

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 *BCommerce, FAICD, SF Fin*	**Chairman Independent Non-Executive Director** *Experience and expertise* A Director since 28 September 2010, appointed Chairman on 1 October 2011. Approximately 40 years of financial market experience, as well as an extensive background in publicly-listed companies. Previously the Chief Executive of BZW Australia and ABN AMRO. *Other current directorships* Director of APA Group, including APT Pipelines Limited and the Taronga Conservation Society Australia. He is also Chairman of Global Valve Technology Limited. *Former directorships in the last 3 years* Director of Transfield Services Limited, Bank of Queensland Limited, APA Ethane Limited and formerly a member of the CIMB (Australia) Advisory Council. *Subsidiary boards and special responsibilities* Chairman of the Board. A Director of nib health funds limited and IMAN Australian Health Plans Pty Limited. *Interests in shares and performance rights* Indirect: 200,000 ordinary shares in nib holdings limited held by Depeto Pty Limited.
Mark Fitzgibbon *MBA, MA, ALCA, FAICD*	**Managing Director/Chief Executive Officer** *Experience and expertise* Joined nib health funds limited in October 2002 as Chief Executive Officer (CEO). Previously CEO of the national and peak industry bodies for licensed clubs. Before that, held several CEO positions in local government, including General Manager of Bankstown Council between 1995 and 1999. *Other current directorships* Director of Knights Rugby League Pty Limited. *Former directorships in the last 3 years* None. *Subsidiary boards and special responsibilities* Director of nib health funds limited, nib health care services pty limited, nib servicing facilities pty limited, The Heights Private Hospital Pty Limited, IMAN Australian Health Plans Pty Limited, nib nz holdings limited, nib nz limited, nib Options pty limited, RealSurgeons Pty Ltd and RealSelf Pty Ltd and Digital Health Ventures Pty Ltd. *Interests in shares and performance rights* Direct: 969,029 ordinary shares in nib holdings limited. Indirect: 625,621 ordinary shares in nib holdings limited held by Fitz Family Fund. 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. 273,786 performance rights under FY14-FY17 Long Term Incentive Plan which may vest from 1 September 2017. 234,714 performance rights under FY15-FY18 Long Term Incentive Plan which may vest from 1 September 2018.

INFORMATION ON DIRECTORS continued

Harold Bentley *MA Hons, FCA, FCSA, FGIA*	**Independent Non-Executive Director** *Experience and expertise* A Director since 7 November 2007. Has over 20 years' experience in the insurance sector. Formerly the Chief Financial Officer of Promina Group Ltd and an Audit Manager of PricewaterhouseCoopers specialising in finance and insurance companies. *Other current directorships* None. *Former directorships in the last 3 years* None. *Subsidiary boards and special responsibilities* Director of nib health funds limited, IMAN Australian Health Plans Pty Limited, nib nz holdings limited and nib nz limited. Chairman of the Audit Committee, and Member of the Investment, Risk and Reputation and Nomination Committees. Chairman of the nib nz holdings limited's Audit Committee and Chairman of nib nz limited's Board, Audit, Risk and Compliance Committee (BARCC). *Interests in shares and performance rights* Indirect: 100,000 ordinary shares in nib holdings limited held by Sushi Sake Pty Limited.
Dr Annette Carruthers *MBBS (Hons), FRACGP, FAICD, GradDipAppFin TAASFA*	**Independent Non-Executive Director** *Experience and expertise* A Director since 20 September 2007. A general medical practitioner with financial qualifications and 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* Director of Hunter Infrastructure and Investment Advisory Board, Cater Care Holdings Pty Ltd and Multiple Sclerosis Australia. *Former directorships in the last 3 years* Director of National Heart Foundation of Australia (NSW Division), Aged Care Investment Services (the Trustee for the AMP Managed Aged Care Investment Trusts), the NSW Board of the Medical Board of Australia and Hunter Primary Care Ltd. *Subsidiary boards and special responsibilities* Director of nib health funds limited (since 2003), nib health care services pty limited, IMAN Australian Health Plans Pty Limited, The Heights Private Hospital Pty Limited, nib nz holdings limited and nib nz limited. Chairman of the Risk and Reputation Committee, Member of the Audit and Nomination Committees and Member of the nib nz limited's Board, Audit, Risk and Compliance Committee (BARCC). *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** A Director since 28 May 2007. Current Chief Executive Officer of The Wests Group Australia. *Other current directorships* Knights Rugby League Pty Limited. *Former directorships in the last 3 years* A Director of Newcastle Airport Limited and Hunter Funds Management Pty Ltd. *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, People and Remuneration and Nomination Committees. *Interests in shares and performance rights* Indirect: 125,000 ordinary shares in nib holdings limited held by Sutton Gardner Pty Ltd.
Christine McLoughlin *BA/LLB (Hons) FAICD*	**Independent Non-Executive Director** *Experience and expertise* A Director since 20 March 2011. Over 25 years' experience as a financial services and legal executive with iconic brands in financial services (AMP and IAG), telecommunications (Optus) and professional services industries in Australia, the UK and Asia. *Other current directorships* Director of Suncorp Group Limited, Spark Infrastructure Group and Whitehaven Coal Limited. Member of the Minter Ellison Advisory Board and Deputy Chairman of The Smith Family. *Former directorships in the last 3 years* Director of Westpac's Insurance Businesses, TAC (Transport Accident Commission) and The Australian Nuclear Science and Technology Organisation (ANSTO) and Chairman of Australian Payments Council. *Subsidiary boards and special responsibilities* A Director of nib health funds limited and IMAN Australian Health Plans Pty Limited. Chairman of the People and Remuneration Committee and Member of the Risk and Reputation and Nomination Committees. *Interests in shares and performance rights* Indirect: 97,500 shares in nib holdings limited held by Dundas Street Investments Pty Ltd.
Lee Ausburn *MPharm, BPharm, Dip Hosp Pharm, GAICD*	**Independent Non-Executive Director** *Experience and expertise* A Director of nib holdings limited since November 2013. With more than 30 years' experience in pharmaceuticals, she is an experienced Non-Executive Director with a wealth of knowledge in the global health industry. *Other current directorships* Australian Pharmaceutical Industries Ltd and SomnoMed Ltd. She is also President of the Pharmacy Foundation at the University of Sydney. *Former directorships in the last 3 years* Director of NSW Health's Clinical Excellence Commission, and of Agency for Clinical Innovation. *Subsidiary boards and special responsibilities* A Director of nib health funds limited and IMAN Australian Health Plans Pty Limited. Member of the Risk and Reputation, People and Remuneration and Nomination Committees. *Interests in shares and performance rights* Indirect: 20,000 ordinary shares in nib holdings limited held by Leedoc Pty Ltd.

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 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. Mrs McPherson is also a member of the Council of the University of Newcastle.

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 nib Group and is also responsible for Risk & Compliance and serves as a Company Secretary of other nib Group companies. Ms Toms has over twelve years' experience as a lawyer in business, government and private practice.

MEETINGS OF DIRECTORS

The number of meetings of nib holdings limited's Board of Directors and of each Board committee held during the year ended 30 June 2015, and the numbers of meetings attended by each Director were:

	Board[1]		Audit Committee		Risk and Reputation Committee		People and Remuneration Committee		Investment Committee		Nomination Committee	
Name	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
S Crane[2]	14	14	9	9	4	4	6	6	–	–	1	1
M Fitzgibbon[2]	14	14	9	9	4	4	6	6	4	4	1	1
L Ausburn	14	14	–	–	4	4	6	6	–	–	1	1
H Bentley	14	13	9	9	4	4	–	–	4	4	1	1
A Carruthers	14	14	9	9	4	4	–	–	–	–	1	1
P Gardner	14	13	9	9	–	–	6	6	4	4	1	1
C McLoughlin	14	14	–	–	4	4	6	6	–	–	1	1

1. Four Board meetings that took place were unscheduled.
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.

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 13.

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.

REMUNERATION REPORT

The Remuneration Report is set out on pages 21 to 43 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 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
21 December 2011	1 September 2015	nil	392,307
19 November 2012	1 September 2016	nil	553,236
29 November 2013	1 September 2017	nil	559,057
22 December 2014	1 September 2018	nil	473,927
13 May 2015	1 September 2018	nil	22,956

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 32 – 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 32, 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 20.

CHIEF EXECUTIVE OFFICER/CHIEF FINANCIAL OFFICER DECLARATION

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

ROUNDING OF AMOUNTS

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

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

On behalf of the Board

Steve Crane
Director

Harold Bentley
Director

Newcastle, NSW
21 August 2015

AUDITOR'S INDEPENDENCE DECLARATION

For the year ended 30 June 2015

pwc

Auditor's Independence Declaration

As lead auditor for the audit of nib holdings limited for the year ended 30 June 2015, 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.

C. Mara

Caroline Mara
Partner
PricewaterhouseCoopers

Newcastle
21 August 2015

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REMUNERATION REPORT

For the year ended 30 June 2015

MESSAGE FROM THE BOARD

Our approach is to align nib's remuneration practices with shareholder value creation over the short and long term. In setting our remuneration framework we take into account the dynamics of the market and industry in which we operate, as well as feedback from our shareholders to ensure our approach to remuneration is framed to attract, reward, motivate and retain our people.

Dear Shareholder,

We are pleased to present our Remuneration Report for the financial year to 30 June 2015.

Remuneration, particularly relating to Executives, continues to be a focus for all shareholders. We have spent considerable time and effort over the past few years working on nib's remuneration framework to ensure our approach is fair to our people, recognises and rewards achievement above and beyond what we set ourselves as a business, but just as important, reasonable in the eyes of our shareholders. At the 2014 Annual General Meeting shareholders voted almost 98% in favour of our Remuneration Report. nib will undertake a similar approach to previous years in engaging with our shareholders, proxy advisors and other shareholder representative groups prior to this year's Annual General Meeting.

Our ongoing objective is to ensure remuneration arrangements reinforce our focus on the strategic direction and performance of the nib Group, the performance of our business segments including new and adjacent businesses, growing geographic diversity and scope of our business operations, as well as the capability and development of our individual leaders.

Like many other companies, we continue to see intense competition to attract and retain talent. It is important in terms of our ongoing strategic success and creation of shareholder value that any changes to remuneration centre on making sure we have a clear and meaningful link to performance and reward to ensure we continue to attract and retain the right people.

Financial Year Ended 30 June 2015

Adjustments to Total Fixed Remuneration (TFR) or base component of remuneration took into account experience of each of our Executives, increasing growth and diversification of our business, what the market and our peers are doing around remuneration levels, and ensuring our remuneration remains appropriate and fair. The at-risk or incentive component for each Executive includes a Short-Term Incentive (STI); which is based on the achievement of annual targets aimed to deliver longer term performance and a Long-Term Incentive (LTI); aimed to reward creation of longer term shareholder value.

Consistent with this approach and as outlined in last year's Remuneration Report the following changes were made to Executive Remuneration.

- TFR for the Managing Director/Chief Executive Officer was increased by 10%, maximum STI was increased from 60% to 80% and maximum LTI was increased from 80% to 100%.
- TFR for the Chief Financial Officer/Deputy Chief Executive Officer was increased by 7% and maximum LTI was increased from 40% to 50%.
- TFR for the Group Executive Australian Residents Health Insurance was increased by 13% and the maximum STI was increased from 50% to 60%.
- TFR for the Chief Executive Officer New Zealand was increased by 10%, maximum STI was increased from 40% to 50% and maximum LTI was increased from 25% to 40%.
- TFR for the Chief Information Officer was increased by 10%, maximum STI was increased from 40% to 50% and maximum LTI was increased from 25% to 40%.
- TFR for the Group Executive Benefits and Provider Relations was increased by 14%, maximum STI was increased from 40% to 50% and maximum LTI was increased from 25% to 40%.

Driven by the ongoing successful diversification of our business, particularly in the International (Inbound) Health Insurance segment, we continued to strengthen our Executive team during the period with the appointment of David Kan as Group Executive International and New Business. David joined nib on 12 January 2015.

MESSAGE FROM THE BOARD continued

The link to fixed remuneration and short-term and long-term incentive awards continues to be closely monitored by the Board. Setting a fixed remuneration which is aligned with market expectations and using performance incentives though the STI and LTI arrangements to recognise and reward out-performance remains our focus. Variations in target remuneration mix between Executives reflect position responsibilities; however for our Managing Director/CEO for FY15, more than 60% of his total remuneration was 'at-risk' through performance incentives (STI and LTI). Ultimately as a Board we attempt to strike the right balance in setting fixed remuneration which is in line with market expectations and appears right in retaining our Executives, and setting performance targets that are reasonable, but also motivate and reward our Executives for out-performance.

Further information regarding Executive Remuneration as well as total remuneration mix and performance against STI and LTI hurdles for FY15 can be found on pages 27 to 31 of the Annual Report.

Fees for Non-Executive Directors have been increased by 4.5% during FY15. The fee for the Chairman of the nib holdings limited Audit Committee has been increased from $23,000 to $30,000 pa from 1 July 2014.

The Upcoming Financial Year (FY16)

On a regular basis, nib undertakes an assessment of market conditions to benchmark Executive remuneration, as well as review the Group's short-term and long-term incentive programs. Last year we also appointed independent remuneration advisor, Guerdon Associates, to assist with this process as well as benchmark remuneration to a defined comparator group (page 25 defines nib's peer group).

As we explained in last year's Remuneration Report, one of the anomalies identified from the Guerdon analysis was the gap appearing in the remuneration of our Executives when compared to market median levels and incentive structures (STI and LTI). A lot of this variation has been driven by nib's growing relative value or market capitalisation over time, the development and improved ability of our Executives and the increased complexity of these roles, as well as the potential impact they have in delivering our Group results. As a result the Board took a position last year to progressively address this with the goal to move our Executive team over time to the 75th percentile of benchmarked companies, rather than significant step changes. To ensure market competiveness, the remuneration package for senior executives has been reviewed again in FY15. From 1 July 2015, TFR for the Managing Director/Chief Executive Officer was increased by 10% and maximum STI was increased from 80% to 100%. TFR for all other Executives was increased by between 4% and 10%, consistent with our position of moving our Executive team over time to the 75th percentile.

Due to ongoing growth and diversification of the Group, Board succession planning and renewal is a key focus for the nib Board. Ensuring the Board has the right skills mix, experience, independence and capacity is integral to nib's ongoing success. While our current Board composition has the right capability and mix to deliver against our business strategy, it is anticipated that during FY16 we will look to start a process to appoint an additional Non-Executive Director to the Board. nib will not be seeking shareholder approval to increase the Non-Executive Director fee pool at the 2015 Annual General Meeting to accommodate any new Non-Executive Director, with any new appointment captured under our current fee pool.

As Chairman of our People and Remuneration Committee for the past three years, I am of the strong view we have set a remuneration framework aligned to performance recognition that is also viewed as fair and equitable in the eyes of our shareholders. nib has performed well against our stated business strategy and continues to deliver strong returns for our shareholders, while being served by a very capable and experienced Executive team.

We thank our Executives and their teams for their commitment to nib and, as always, we welcome your feedback.

Christine McLoughlin

Yours sincerely

Christine McLoughlin
Chairman
People and Remuneration Committee

CONTENTS

KEY TERMS USED IN THIS REPORT

FY14	Financial year ended 30 June 2014
FY15	Financial year ended 30 June 2015
FY16	Financial year ended 30 June 2016
AGM	Annual General Meeting
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.

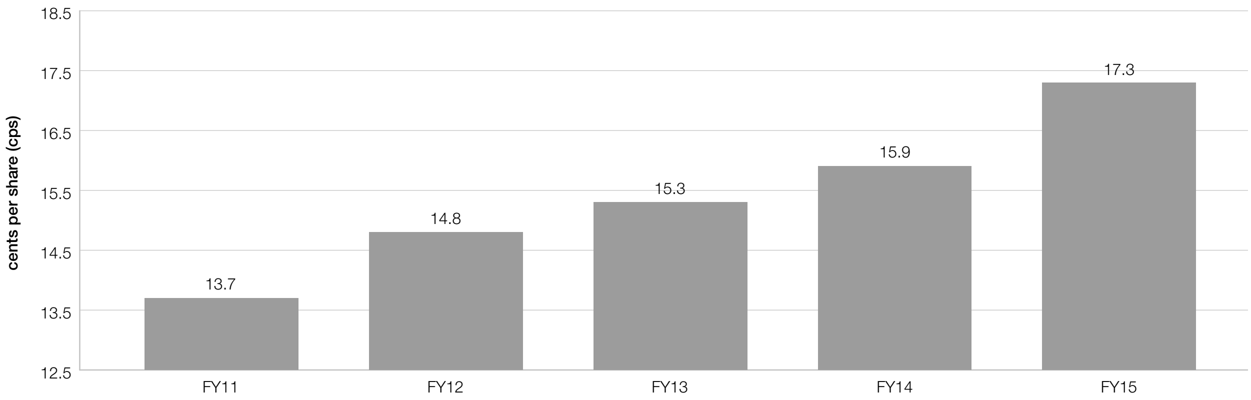
Executive Director	
Mark Fitzgibbon	Managing Director/Chief Executive Officer (MD/CEO)
Other Executives	
Michelle McPherson	Deputy Chief Executive Officer/Chief Financial Officer (DCEO/CFO)
Rhod McKensey	Group Executive Australian Residents Health Insurance (GEARHI)
Rob Hennin	Chief Executive Officer – New Zealand (CEO NZ)
Brendan Mills	Chief Information Officer (CIO)
Justin Vaughan	Group Executive Benefits and Provider Relations (GEBPR)
David Kan (commenced 12/1/2015)	Group Executive International and New Business (GEINB)
Independent Non-Executive Directors	
Steve Crane	Chairman
Lee Ausburn	Member Risk and Reputation Committee and People and Remuneration Committee
Harold Bentley	Chairman Audit Committee, Chairman Board Audit Risk and Compliance Committee New Zealand, Director New Zealand subsidiaries, Member Investment Committee, and Risk and Reputation Committee
Annette Carruthers	Chairman Risk and Reputation Committee, Director New Zealand subsidiaries and Member Audit Committee and Board Audit Risk and Compliance Committee New Zealand
Philip Gardner	Chairman Investment Committee, Member Audit Committee and People and Remuneration Committee
Christine McLoughlin	Chairman People and Remuneration Committee, Member Risk and Reputation Committee

PERFORMANCE DRIVES REMUNERATION AT nib

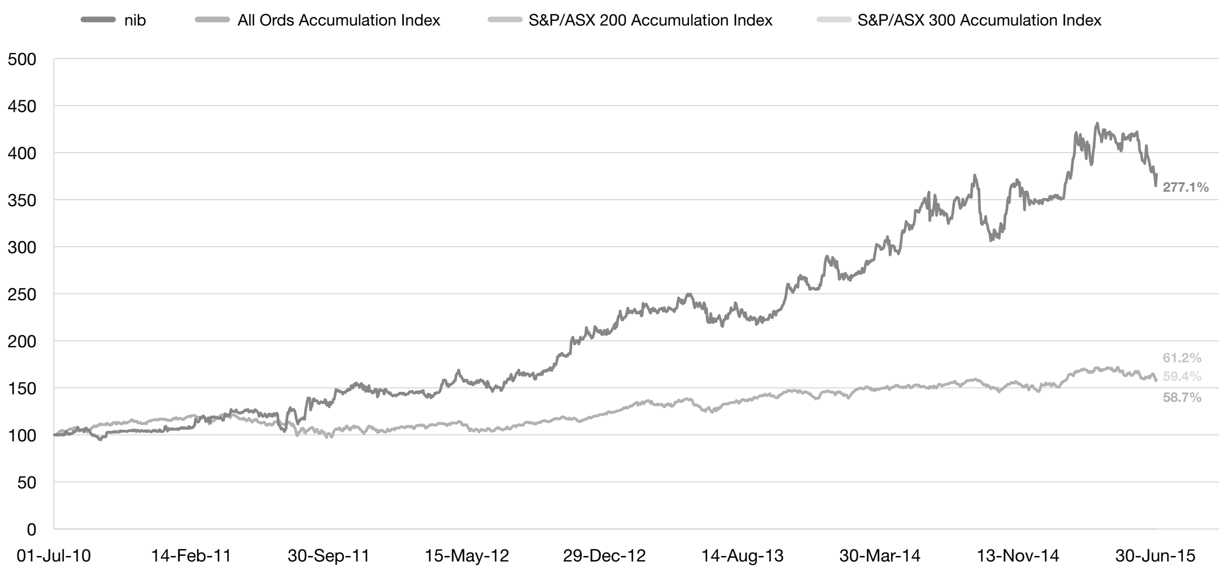
The Remuneration Report details how nib's actual performance is linked to the payments to our Executives. Over the past five years nib has continued to perform strongly against these key performance criteria.

Sustained growth in consolidated operating profit combined with effective capital management has seen strong performance in the key metrics of EPS and TSR.

Earnings Per Share



Total Shareholder Return



Rebased to 100. Source: IRESS (as at 30 June 2015)

Since 1 July 2010, the Total Shareholder Return (TSR) of the S&P/ASX All ordinaries, S&P/ASX200 and S&P/ASX300 indices have performed broadly in line with each other (S&P/ASX All Ordinaries: 58.7%, S&P/ASX200: 61.2%, S&P/ASX300: 59.4%) compared to nib (TSR of 277.1%). Assumes capital returns and dividends are re-invested at the payout date.

OUR REMUNERATION GOVERNANCE

The role of nib's People and Remuneration Committee (Committee) is to make recommendations to the Board on nib's remuneration framework, ensuring nib's remuneration strategy is aligned and reflects the performance of the nib Group. As part of this process the Committee seeks advice and consults with a range of external remuneration consultants, specialists, major shareholders and shareholder advisory groups.

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 (nib.com.au/shareholders). The Committee includes the following independent, Non-Executive Directors:

- Christine McLoughlin
- Philip Gardner
- Lee Ausburn

Executive remuneration arrangements are set against a comparator group of organisations or peers, which nib determines in consultation with external remuneration advisors. The need for external advice is reviewed annually.

nib's peer group includes companies from the following sector and industries:

- Health insurance companies;
- Other insurance companies;
- Other finance sector companies;
- Consumer discretionary (including gaming companies given their highly regulated operating environment); and
- Healthcare companies.

We have found it challenging to define a peer group in the Australian market of a similar size to nib. As a result comparator companies were chosen based on size and broad operational parameters. We also consider current market expectations within our sector in forming a view of benchmarking Executive remuneration.

In some cases due to the nature of some of our Executive roles this peer group may not be appropriate or extensive enough to accurately benchmark specific roles such as our Chief Information Officer, CEO New Zealand and Group Executive International and New Business. In these cases supplementary comparator companies are used for these positions.

The primary peer group contained 20 companies, and a further 25 companies were represented in the supplementary comparator group. The primary peer group was chosen based on market capitalisation and pre-tax profit broadly being between 50% and 200% of nib, with nib positioned around the middle of the group.

nib's long term goal is to set fixed remuneration competitively at 75th percentile of the peer group for Executives. The mix of remuneration between fixed and variable elements, takes into account the expectations of each Executive in delivering both short-term and long-term objectives for nib, as well as the delivery of ongoing shareholder value.

ACTUAL REMUNERATION RECEIVED FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

Actual remuneration for each Executive in FY15 included a fixed component, as well as an STI payment and LTI award. The amount of the STI paid is determined by the performance of each Executive against set performance targets which includes financial, non-financial metrics, and in some instances, strategic milestones. FY15 included the vesting of the FY11-FY14 LTI Plan for eligible participants, based on hurdles set (EPS and TSR) with 50% of the FY11-FY14 LTI Plan vesting for participants.

A full breakdown of Executive remuneration details has been prepared in accordance with statutory requirements and accounting standards. This detailed disclosure (statutory tables) is located on page 35 of this Report.

The remuneration structure for each Executive for FY15 is made up of the following components.

Total potential reward						
Total fixed remuneration (cash salary, superannuation, plus insurance cover)	+	Short-term incentive (STI), being cash and deferral into shares (from FY15 STI plan)	+	Long-term incentive (LTI) being performance rights	=	Total potential reward
Fixed		Variable				

The table below shows the key elements of total reward for each Executive for FY15. This includes the cash component elements paid to each Executive for the year as well as the value of equity held in escrow (not subject to forfeiture conditions), and equity from previous years that vested in FY15 and which was originally reported under accounting standards in the year they were granted.

		STI applicable to the FY14 year paid in Sept 2014 (FY15)[2]			
	Total fixed remuneration[1]	Cash	Shares held in escrow	LTI vested in FY15[3]	Total reward (received or available)
	$	$	$	$	$
Mark Fitzgibbon	800,000	204,156	87,495	450,635	1,542,286
Michelle McPherson	504,999	134,803	57,773	227,375	924,950
Rhod McKensey	475,000	75,149	32,207	109,872	692,228
Rob Hennin	362,609	95,744	39,539	–	497,892
Brendan Mills	307,999	61,152	26,208	–	395,359
Justin Vaughan	300,495	46,632	19,985	–	367,112
David Kan (from 12/1/15)	190,364	–	–	–	190,364
	2,941,466	**617,636**	**263,207**	**787,882**	**4,610,191**

1. Total fixed remuneration comprises Cash salaries and fees and superannuation.
2. FY14 STI paid in the FY15 year.
3. Value of shares issued during the year on exercise of performance rights.

EXECUTIVE REWARD AT nib

In keeping with nib's approach to remuneration the Board carefully considers the strategic direction and overall performance of nib in determining the approach to incentives and overall remuneration for our Executives. This framework ensures nib's Executive reward is designed to attract, reward, motivate and retain Executives, as well as align their interests with shareholders.

The objective of Executive remuneration arrangements is to ensure that nib's remuneration practices are clearly understood and appropriately 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, superannuation and insurance cover;
- 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.

Executives only receive dividends on the deferred STI and LTI (including those subject to escrow) after they have been awarded or vested. Executives are not entitled to dividends on securities or performance rights which have not vested.

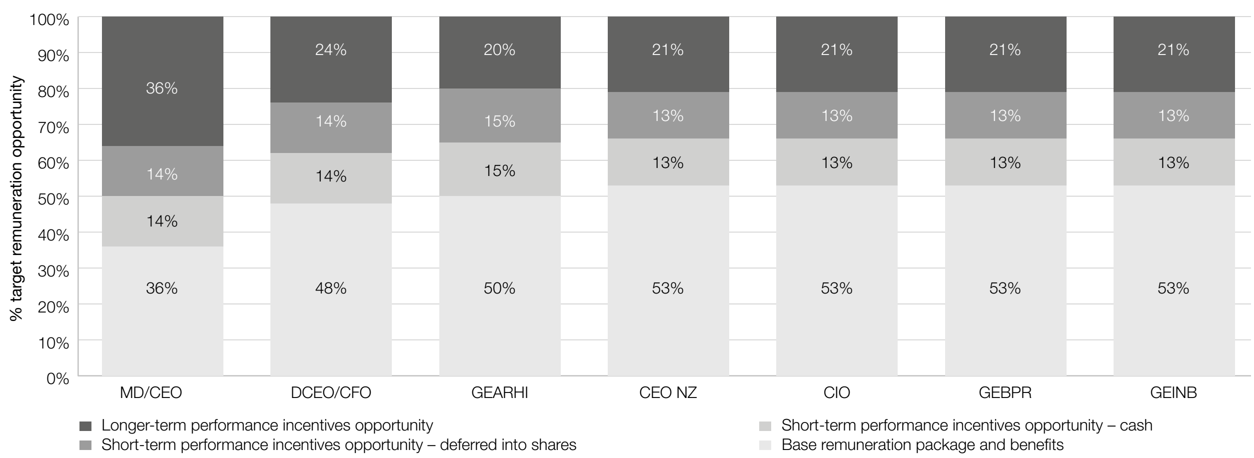
A significant portion of the Managing Director/Chief Executive Officer's and Chief Financial Officer/Deputy Chief Executive Officer's remuneration is performance based through STI and LTI arrangements. Claw-back arrangements are in place for the portion of STI deferred and LTI.

If the Board becomes aware of a material misstatement of our financial accounts or statements, and nib has awarded the Executive a remuneration increase, incentive payment or award (STI and LTI) having regard to misstatement, the Board may, (in its absolute discretion) require the Executive to:

- repay the Company any amount of remuneration, STI or LTI received by the Executive; or
- forfeit or cancel any remuneration increase, STI or LTI award (whether vested or unvested).

Our remuneration mix

The graph below illustrates the FY15 remuneration mix for our Executives. Any variations in target remuneration mix between Executive roles reflect position responsibilities.



EXECUTIVE REWARD AT nib continued

Fixed remuneration

Fixed remuneration for Executives is determined with reference to a benchmarking process, external market factors, competition to attract and retain talent, as well as consideration of the expertise of the individual in the role.

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

Short-term incentives for the financial year ended 30 June 2015

Performance criteria for STI include a leadership assessment (20% of the STI) with the remaining 80% assessed against predetermined performance milestones. In some instances an Executive's STI assessment may include a strategic milestone.

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 predetermined performance milestones 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. For FY15, 50% of the awarded STI must be deferred into shares, with half the shares vesting after one year and the second half after two years. These shares are subject to a real risk of forfeiture during the deferral period being a service condition. While nib does not set minimum shareholding requirements on our Executives, the Board's view is that the deferral arrangements under the STI means all Executives have an appropriate minimum equity holding.

	FY15 Maximum potential STI as a % of TFR	Proportion of actual FY15 STI to be deferred into shares
Mark Fitzgibbon	80%	50%
Michelle McPherson	60%	50%
Rhod McKensey	60%	50%
Rob Hennin	50%	50%
Brendan Mills	50%	50%
Justin Vaughan	50%	50%
David Kan	50%	50%

The specific KPIs and weighting for FY15 for each Executive which constitutes 80% of their total STI are:

KPI Weighting	Mark Fitzgibbon (MD/CEO)	Michelle McPherson (DCEO/CFO)	Rhod McKensey (GEARHI)	Rob Hennin (CEO NZ)	Brendan Mills (CIO)	Justin Vaughan (GEBPR)	David Kan (GEINB)
Growth							
arhi premium revenue	–	–	30%	–	–	–	–
nib nz premium revenue	–	–	–	30%	–	–	–
nib Options operating income	–	–	–	–	–	–	5%
Group premium revenue	10%	–	–	–	10%	–	–
Profitability							
arhi underwriting profit	–	–	30%	–	–	–	–
International (Inbound) Health Insurance underwriting profit	–	–	–	–	–	–	40%
nib nz underwriting profit	10%	–	–	30%	–	–	–
nib Options operating profit	–	–	–	–	–	–	5%
Group operating profit	40%	40%	10%	10%	40%	40%	20%
Earnings per share (EPS)	20%	20%	10%	10%	10%	10%	–
Cost control							–
Group management expense ratio (excluding acquisition costs)	–	20%	–	–	20%	–	–
Group gross underwriting margin	–	–	–	–	–	40%	–
Customer satisfaction							
arhi customer satisfaction	20%	20%	20%	–	20%	10%	–
nibnz customer satisfaction	–	–	–	20%	–	–	–
Commercially sensitive/ strategic milestone	–	–	–	–	–	–	30%

Short-term performance targets are set for achieving specific financial business and individual performance outcomes and awards are made relative to stretch performance.

Actual STIs awarded and forfeited (as a percentage of total STI) are set out below. A more detailed description of performance against STI performance hurdles is shown on page 32.

	FY15 STI Bonus		FY14 STI Bonus	
	Awarded %	Forfeited %	Awarded %	Forfeited %
Mark Fitzgibbon	83%	17%	67%	33%
Michelle McPherson	82%	18%	68%	32%
Rhod McKensey	90%	10%	51%	49%
Rob Hennin	85%	15%	91%	9%
Brendan Mills	79%	21%	78%	22%
Justin Vaughan	80%	20%	65%	35%
David Kan	75%	25%	–	–
Group average	82%	18%	70%	30%

EXECUTIVE REWARD AT nib continued

Long-term incentives for the financial year ended 30 June 2015

The purpose of the LTI is to balance short-term performance objectives with the creation of long-term shareholder value by focusing overall Group performance over a multi-year period.

The nib LTI is an incentive provided to eligible Executives if specific measures are met over a four-year period. LTI targets are set in the interests of creating long term shareholder value and to assist nib to attract, reward, motivate and retain Executives.

LTIP participants are granted performance rights that 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. No dividends are received on unvested rights.

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, on winding up, delisting, change of control and reconstruction or amalgamation.

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

The performance hurdles for the nib LTI is Total Shareholder Return (TSR) relative to the S&P/ASX200 over four years and EPS growth over the performance period. The LTI is allocated in two equal tranches; 50% for TSR and 50% for EPS.

A condition of acceptance for each Executive in the LTI Plan is the requirement for 50% of the LTI to have a two-year escrow period. This escrow period extends beyond employment at nib ceasing, including termination.

nib LTI performance rights 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 200 (the peer group) over the performance period.

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

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

EPS Hurdle (Tranche 2)

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

Percentage of performance rights vesting	EPS Hurdle: CAGR from base EPS	FY12-FY15 LTIP	EPS Hurdle: CAGR from base EPS	FY13-FY16 LTIP	EPS Hurdle: CAGR from base EPS	FY14-FY17 LTIP	EPS Hurdle: CAGR from base EPS	FY15-FY18 LTIP
	Base EPS	13.7 cps	Base EPS	14.8 cps	Base EPS	15.3 cps	Base EPS	15.9 cps
100%	25%	33.4 cps	15%	25.8 cps	15%	26.8 cps	9%	22.4 cps
75%	20%	28.4 cps	12.5%	23.6 cps	10%	22.4 cps	7%	20.8 cps
50%	15%	23.9 cps	10%	21.6 cps	7%	20.1 cps	5.5%	19.7 cps
25%	10%	20.0 cps	7.5%	19.7 cps	3%	17.2 cps	4%	18.6 cps
0%	<10%	nil	<7.5%	nil	<3%	nil	<4%	nil

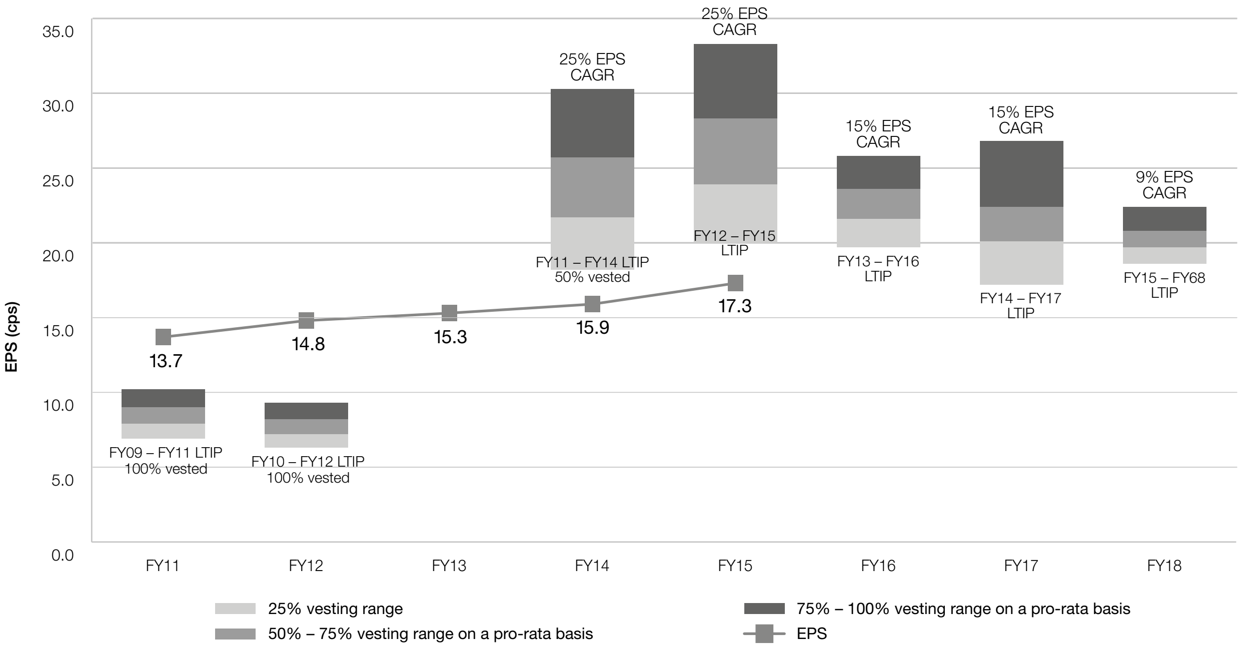
For the purpose of the calculation, 25% to 50% will be discrete thresholds, with performance above the 50% entitlement calculated on a pro rata basis to a maximum entitlement of 100%.

For the FY15-FY18 LTIP, the EPS CAGR hurdles were updated to reflect the strategy and maturity of the business. EPS hurdles and performance levels for future LTI grants are set annually. This allows the Board to take into account regulatory pricing re-sets and a focus on performance sustainability over a long-term period.

If vesting conditions are met, the performance rights will vest on 1 September following the end of the performance 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 for the past five years and demonstrates how challenging the EPS targets are for grants of LTI made in FY11 and FY12. For the FY13 and FY14 grants cumulative average growth rate targets were updated to reflect the strategy and maturity of the business. Variability in investment returns from year to year impacts EPS, with EPS targets being set based on an assumption that on average over time investment returns will be in line with benchmark performance.



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

HOW REWARD WAS LINKED TO PERFORMANCE THIS YEAR

The components of remuneration that are linked to performance are the STI and LTI plans. Set performance indicators determine 80% of the STI award, while 20% is assessed on the leadership of each Executive.

Commercially sensitive and strategic milestone targets were set for some of our Executives and these were dependent on the segment of our business they have responsibility for.

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

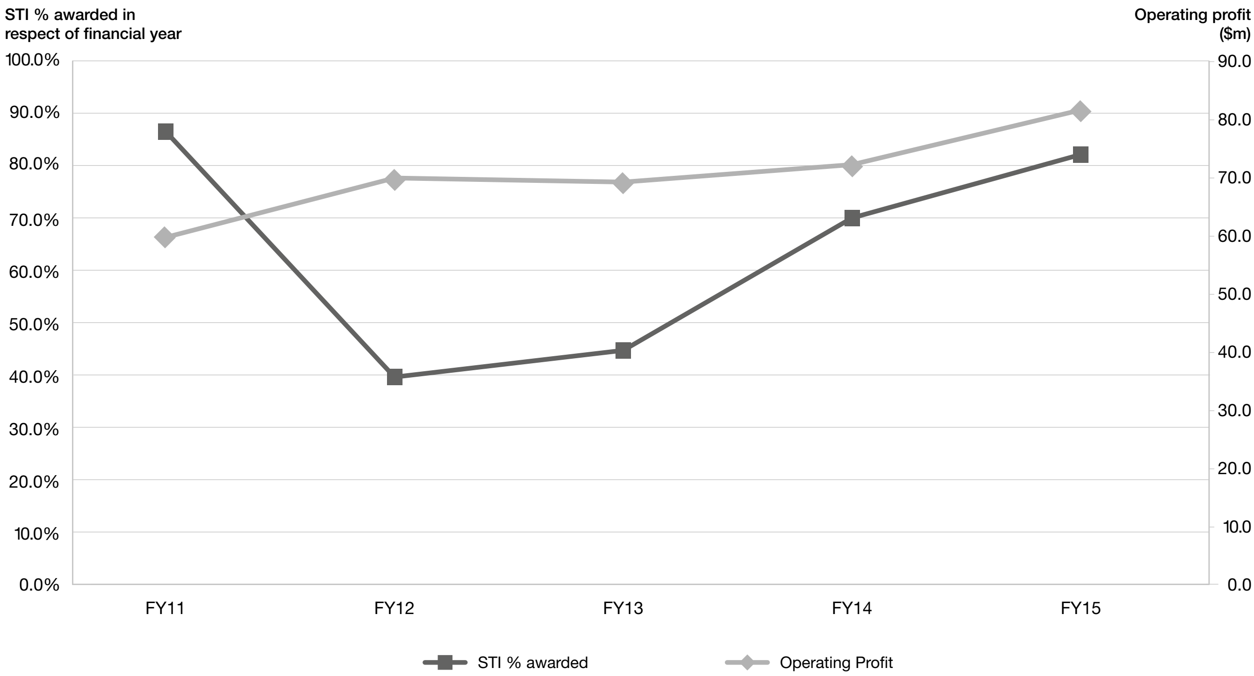
Financial results		2015 $m	2014 $m	2013 $m	2012 $m	2011 $m
Growth						
arhi premium revenue		1,429.5	1,314.5	1,187.2	1,095.6	991.3
nib nz premium revenue		150.4	139.2	71.1	–	–
nib Options operating income		0.6	0.4	–	–	–
Group premium revenue		1,634.9	1,491.6	1,290.4	1,123.8	1,007.8
Profitability						
arhi underwriting profit		71.7	55.8	59.0	64.6	59.8
International (Inbound) Health Insurance underwriting profit		11.6	11.0	8.3	6.1	1.7
nib nz underwriting profit		5.4	7.4	6.4	–	–
nib Options profit/(loss)		(3.8)	(2.5)	–	–	–
nib Group operating profit		81.7	72.3	69.3	70.0	59.8
EPS	cps	17.3	15.9	15.3	14.8	13.7
Cost Control						
nib Group management expense ratio excluding acquisition costs	%	6.1%	6.3%	5.8%	6.0%	6.0%
nib Group gross underwriting margin	%	16.4%	15.8%	15.6%	15.5%	15.8%
Other						
ROE	%	23.1%	20.8%	21.6%	21.7%	16.5%
Share price at year end	$	3.36	3.26	2.13	1.50	1.45
Dividend per share – ordinary	cps	11.50	11.00	10.00	9.25	8.00
Dividend per share – special	cps	–	9.00	–	–	5.00
Dividend payout ratio – ordinary	%	66.6%	69.2%	65.0%	60.0%	57.0%
Dividend payout ratio – combined ordinary and special	%	66.6%	125.8%	65.0%	60.0%	92.7%

Results against KPIs (excluding leadership component) are detailed in the table below.

KPI	Result
Growth	
arhi premium revenue	arhi premium revenue up 9% to $1.4 billion, with approximately 95% of maximum STI awarded for this target.
nib nz premium revenue	nib nz premium revenue up 8% to $150.4 million, with 60% of maximum STI was awarded for this target.
nib Options operating income	Small award for this target given progress in developing the nib Options business.
Group premium revenue	Group premium revenue up 10% to $1.6 billion, with approximately 70% of maximum STI was awarded for this target.

KPI	Result
Profitability	
arhi underwriting profit	arhi net underwriting profit up 29% to $71.7 million, with 100% of maximum STI was awarded for this target.
International (Inbound) Health Insurance underwriting profit	International (Inbound) Health Insurance net underwriting profit up 6% to $11.6 million, with approximately 60% of maximum STI was awarded for this target.
nib nz underwriting profit	nib nz net underwriting profit (normalised for movement in premium payback liability linked to interest rate) resulted in 100% of maximum STI awarded for this target.
nib Options profit/(loss)	Small award for this target given progress in developing the nib Options business.
nib Group operating profit	Group operating profit of $81.7 million up 13%, with 82% of maximum STI was awarded for this target.
EPS	EPS of 17.3cps up 8.8%, with 80% of maximum STI was awarded for this target.
Cost control	
nib Group management expense ratio excluding acquisition costs	80% of maximum STI was awarded for this target.
nib Group gross underwriting margin	Approximately 85% of maximum STI was awarded for this target.
Customer satisfaction	
Australian customer satisfaction	A range of metrics are used to measure customer satisfaction, including lapse and NPS which resulted in 80% being awarded for this target.
nib nz customer satisfaction	A range of metrics are used to measure customer satisfaction, including lapse and NPS which resulted in 100% being awarded for this target.

The graph below illustrates the relationship between the amount (as a percentage) of total STI awarded and operating profit result. Executives received a lower STI (as a percentage) as operating profit has slowed from FY12. In recognition of the role and contribution of our Executives in establishing and integrating our new business segments (including nib New Zealand and International (Inbound) Health Insurance) the STI percentage awarded has improved in recent years.



TERMS OF EXECUTIVE CONTRACTS

From 1 July 2014 all nib Executives are on open contracts in line with market best practice.

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

A significant portion of the Managing Director/Chief Executive Officer's and Chief Financial Officer/Deputy Chief Executive Officer's remuneration is performance based through STI and LTI arrangements. Claw-back arrangements are in place for the portion of STI deferred and LTI.

The table below provides a summary of the agreements.

	Service agreement effective	Term of agreement	Termination provision
Mark Fitzgibbon (MD/CEO)	1 July 2010	Open contract with notice period	The agreement may be terminated early by nib health funds limited giving notice with immediate effect or by the relevant executive giving three months notice.
Michelle McPherson (DCEO/CFO)	1 July 2010	Open contract with notice period	
Rhod McKensey (GEARHI)	1 July 2014	Open contract with notice period	
Rob Hennin (CEO NZ)	6 May 2013	Open contract with notice period	
Brendan Mills (CIO)	1 June 2012	Open contract with notice period	
Justin Vaughan (GEBPR)	1 August 2013	Open contract with notice period	
David Kan (GEINB)	19 December 2014	Open contract with notice period	

Termination payments

For our Australian Executives with open contracts effective pre August 2014, 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. For our Australian Executives with open contracts effective post August 2014, the Group may terminate the Executive's contract with six 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 was employed and the Board's assessment of the Executive's performance against the key performance indicators as at the date of termination; and/or
- 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.

At the 2011 Annual General Meeting nib received shareholder approval for the payment of termination benefits which may exceed the 12 month salary limit on termination benefits under the *Corporations Act 2001*. In response to shareholder feedback, the Board has since determined that this approval will only be undertaken for Executives who held this position at the date of shareholder approval. The only current Executives this approval would be applicable to are Mark Fitzgibbon (MD/CEO), Michelle McPherson (Deputy CEO/CFO) and Rhod McKensey (Group Executive Australian Residents Health Insurance).

DETAILED DISCLOSURE OF EXECUTIVE REMUNERATION (STATUTORY TABLES)

Details of the remuneration of the Executives of the nib holdings group are set out in the following tables.

	Short-term employee benefits			Post-employment benefits		Long-term benefits	Termination benefits	Share-based payments		
Executives	Cash salary and fees[1] $	Cash bonus $	Non-monetary benefits[5] $	Superannuation $	Retirement benefits $	Long service leave $	Termination benefits $	Bonus[6] $	Performance rights[7] $	Total $
2015										
Mark Fitzgibbon	752,692	272,495	11,352	35,000	–	13,326	–	269,012	678,279	2,032,156
Michelle McPherson	474,818	126,717	3,673	24,322	–	8,412	–	125,585	294,442	1,057,969
Rhod McKensey	439,516	128,488	3,455	30,000	–	7,912	–	128,488	168,437	906,296
Rob Hennin	349,186	85,661	7,866	26,700	–	–	–	82,078	37,865	589,356
Brendan Mills	292,770	61,138	2,240	18,783	–	5,131	–	61,138	34,847	476,047
Justin Vaughan	279,598	55,003	2,186	18,783	–	–	–	55,413	24,319	435,302
David Kan (from 12/1/2015)[2]	181,676	36,581	1,385	9,012	–	–	–	36,581	2,167	267,402
	2,770,256	**766,083**	**32,157**	**162,600**	**–**	**34,781**	**–**	**758,295**	**1,240,356**	**5,764,528**
2014										
Mark Fitzgibbon	680,325	198,061	10,779	22,852	–	11,639	–	84,884	170,496	1,179,036
Michelle McPherson	450,502	132,821	3,469	23,314	–	7,862	–	56,923	59,507	734,398
Rhod McKensey	388,652	75,149	3,094	17,775	–	7,013	–	32,207	45,358	569,248
Rob Hennin	318,730	79,908	–	18,261	–	–	–	34,246	18,879	470,024
Brendan Mills	257,548	61,152	2,058	17,775	–	5,055	–	26,208	17,587	387,383
Justin Vaughan (from 1/8/2013)[3]	235,500	47,349	8,624	17,775	–	–	–	20,293	8,132	337,673
Marc Nourse (from 6/1/2014 to 11/4/2014)[4]	100,035	–	803	9,253	–	–	–	–	–	110,091
	2,431,292	**594,440**	**28,827**	**127,005**	**–**	**31,569**	**–**	**254,761**	**319,959**	**3,787,853**

1. Includes cash salary and fees and short-term compensated absences, such as annual leave entitlements accrued but not taken during the year.
2. David Kan was appointed Group Executive International and New Business on 12 January 2015.
3. Justin Vaughan was appointed Group Executive Benefits & Provider Relations on 1 August 2013.
4. Marc Nourse was Group Manager – International and New Business from 6 January 2014 to 11 April 2014 and the amounts reflect all remuneration arrangements for that period.
5. Non-monetary benefits includes insurance cover and cost of benefits and associated Fringe Benefits Tax.
6. Includes bonus share rights. Refer to Share-based compensation.
7. Performance rights in FY15 has increased from FY14 as no LTI performance rights vested in FY14 due to the performance period for the rights granted in FY11 being extended to 4 years. The LTI performance rights that vested in FY15 reflects a movement in share price from $1.12 (at grant date) to $3.39 (at vesting) at 50% vesting.

DETAILED DISCLOSURE OF EXECUTIVE REMUNERATION (STATUTORY TABLES) continued

Details of current LTI allocations

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

	FY11 to FY14 LTIP	FY12 to FY15 LTIP	FY13 to FY16 LTIP	FY14 to FY17 LTIP	FY15 to FY18 LTIP	Total
Grant date[1]	27 May 2011	21 Dec 2011	19 Nov 2012	29 Nov 2013	22 Dec 2014 for KMP excluding David Kan and 13 May 2015 for David Kan	
Vesting and exercise date	1 Sep 2014 (FY15)	1 Sep 2015 (FY16)	1 Sep 2016 (FY17)	1 Sep 2017 (FY18)	1 Sep 2018 (FY19)	
Expiry date	1 Sep 2014	1 Sep 2015	1 Sep 2016	1 Sep 2017	1 Sep 2018	
Exercise price	nil	nil	nil	nil	nil	
Value per performance right at grant date	1.1235	1.1313	1.5437	1.9830	2.6689 (22 Dec 2014) 3.2289 (13 May 2015)	
Performance achieved and % vested	50%	Vesting date yet to occur and performance not yet tested				
% forfeited	50%	Vesting date yet to occur and performance not yet tested				
Number of performance rights yet to vest at the end of the financial year	0	392,307	553,236	559,057	496,883	2,001,483
Vesting hurdle (refer table on pages 30-31)	50% 4yr EPS/ 50%4yr TSR	50% 4yr EPS/ 50% 4yr TSR	50% 4yr EPS/ 50% 4yr TSR	50% 4yr EPS/ 50% 4yr TSR	50% 4yr EPS/ 50% 4yr TSR	

	FY11 to FY14 LTIP Number	FY11 to FY14 LTIP $	FY12 to FY15 LTIP Number	FY12 to FY15 LTIP $	FY13 to FY16 LTIP Number	FY13 to FY16 LTIP $	FY14 to FY17 LTIP Number	FY14 to FY17 LTIP $	FY15 to FY18 LTIP Number	FY15 to FY18 LTIP $	Total Number	Total $
Mark Fitzgibbon												
Number of performance rights yet to vest at 1 July 2014	235,952		217,546		331,765		273,786		–		1,059,049	
Number and value at grant date of performance rights granted during the year[2]	–		–		–		–		234,714	626,428	234,714	
Number of performance rights vested during the year[3]	(117,976)		–		–		–		–		(117,976)	
Number of performance rights forfeited during the year	(117,976)		–		–		–		–		(117,976)	
Number of performance rights and maximum total value yet to vest at 30 June 2015	–	–	217,546	730,955	331,765	1,114,730	273,786	919,921	234,714	788,639	1,057,811	3,554,245
Date of exercise of performance rights	2 Sep 2014		n/a		n/a		n/a		n/a			
Number of shares issued and value on exercise of performance rights during the year[3]	132,817	450,635	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	132,817	450,635
Michelle McPherson												
Number of performance rights yet to vest at 1 July 2014	119,053		109,766		107,871		89,060		–		425,750	
Number and value at grant date of performance rights granted during the year[2]	–		–		–		–		74,081	197,715	74,081	
Number of performance rights vested during the year[3]	(59,527)		–		–		–		–		(59,527)	
Number of performance rights forfeited during the year	(59,527)		–		–		–		–		(59,527)	

	FY11 to FY14 LTIP		FY12 to FY15 LTIP		FY13 to FY16 LTIP		FY14 to FY17 LTIP		FY15 to FY18 LTIP		Total	
	Number	$	Number	$	Number	$	Number	$	Number	$	Number	$
Number of performance rights and maximum total value yet to vest at 30 June 2015	–		109,766	368,814	107,871	362,447	89,060	299,242	74,081	248,912	380,778	1,279,414
Date of exercise of performance rights	2 Sep 2014		n/a		n/a		n/a		n/a			
Number of shares issued and value on exercise of performance rights during the year[3]	67,015	227,375	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	67,015	227,375
Rhod McKensey												
Number of performance rights yet to vest at 1 July 2014	57,529		64,995		75,013		79,437		–		276,974	
Number and value at grant date of performance rights granted during the year[2]	–		–		–		–		55,744	148,775	55,744	
Number of performance rights vested during the year[3]	(28,765)		–		–		–		–		(28,765)	
Number of performance rights forfeited during the year	(28,765)		–		–		–		–		(28,765)	
Number of performance rights and maximum total value yet to vest at 30 June 2015	–	–	64,995	218,383	75,013	252,044	79,437	266,908	55,744	187,300	275,189	924,635
Date of exercise of performance rights	2 Sep 2014		n/a		n/a		n/a		n/a			
Number of shares issued and value on exercise of performance rights during the year[3]	32,383	109,872	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	32,383	109,872
Brendan Mills *(commenced 1 June 2012)*												
Number of performance rights yet to vest at 1 July 2014			–		38,587		33,020		–		71,607	
Number and value at grant date of performance rights granted during the year[2]	–		–		–		–		36,145	96,467	36,145	
Number of performance rights vested during the year[3]	–		–		–		–		–		–	
Number of performance rights forfeited during the year	–		–		–		–		–		–	
Number of performance rights and maximum total value yet to vest at 30 June 2015	–	–	–	–	38,587	129,652	33,020	110,947	36,145	121,447	107,752	362,047
Date of exercise of performance rights	n/a		n/a		n/a		n/a		n/a			
Number of shares issued and value on exercise of performance rights during the year[3]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Rob Hennin *(commenced 6 May 2013)*												
Number of performance rights yet to vest at 1 July 2014					–		57,316		–		57,316	
Number and value at grant date of performance rights granted during the year[2]	–		–		–		–		40,384	107,781	40,384	
Number of performance rights vested during the year[3]	–		–		–		–		–		–	
Number of performance rights forfeited during the year	–		–		–		–		–		–	

DETAILED DISCLOSURE OF EXECUTIVE REMUNERATION (STATUTORY TABLES) continued

Details of current LTI allocations continued

	FY11 to FY14 LTIP		FY12 to FY15 LTIP		FY13 to FY16 LTIP		FY14 to FY17 LTIP		FY15 to FY18 LTIP		Total	
	Number	$	Number	$	Number	$	Number	$	Number	$	Number	$
Number of performance rights and maximum total value yet to vest at 30 June 2015	–	–	–	–	–	–	57,316	192,582	40,384	135,690	97,700	328,272
Date of exercise of performance rights	n/a		n/a		n/a		n/a		n/a			
Number of shares issued and value on exercise of performance rights during the year[3]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Justin Vaughan *(commenced 1 August 2013)*												
Number of performance rights yet to vest at 1 July 2014	–		–		–		26,438		–		26,438	
Number and value at grant date of performance rights granted during the year[2]	–		–		–		–		32,859	87,697	32,859	
Number of performance rights vested during the year[3]	–		–		–		–		–		–	
Number of performance rights forfeited during the year	–		–		–		–		–		–	
Number of performance rights and maximum total value yet to vest at 30 June 2015	–	–	–	–	–	–	26,438	88,832	32,859	110,406	59,297	199,238
Date of exercise of performance rights	n/a		n/a		n/a		n/a		n/a			
Number of shares issued and value on exercise of performance rights during the year[3]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
David Kan *(commenced 12 January 2015)*												
Number of performance rights yet to vest at 1 July 2014	–		–		–		–		–		–	
Number and value at grant date of performance rights granted during the year[2]	–		–		–		–		22,956	74,123	22,956	
Number of performance rights vested during the year[3]	–		–		–		–		–		–	
Number of performance rights forfeited during the year	–		–		–		–		–		–	
Number of performance rights and maximum total value yet to vest at 30 June 2015	–	–	–	–	–	–	–	–	22,956	77,132	22,956	77,132
Date of exercise of performance rights	n/a		n/a		n/a		n/a		n/a			
Number of shares issued and value on exercise of performance rights during the year[3]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

1. Performance rights granted under the plan carry no dividend or voting rights.
2. The value at grant date calculated in accordance with AASB 2 Share-based payment of performance rights granted during the year as part of remuneration.
3. Shares will be issued or transferred on exercise of performance rights within 15 business days after the exercise date. Shares may be issued or acquired on-market at the election of the company.

NON-EXECUTIVE DIRECTOR REMUNERATION

Fees and payments to Non-Executive Directors reflect the Board role, market fee levels, and the objective of the Group 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

Our Non-Executive Directors (NEDs) are paid a base fee, plus they also receive an additional fee for being members of other nib Board Committees. NED fees are reviewed annually by the Committee and approved by the Board. Every second year nib seeks benchmarking data from an external remuneration specialist, with the most recent review completed in May 2014.

NED fees are determined within the $1.5 million aggregate nib Directors fee pool limit, which was approved by shareholders at the 2013 Annual General Meeting. Directors' fees and superannuation are paid out of this pool. Travel allowances, non-monetary benefits and retirement benefits are not included in this pool.

The following table shows the fees (inclusive of superannuation) for nib's Australian boards and committees:

	2015 $	2014 $
Base fees		
Chairman	234,400	224,000
Other Non-Executive Directors	102,000	97,500
Additional fees*		
Audit committee		
Chairman	30,000	23,000
Member	12,000	11,500
Investment committee		
Chairman	16,700	16,000
Member	9,900	9,500
Risk and Reputation committee		
Chairman	24,100	23,000
Member	12,000	11,500
People and Remuneration committee		
Chairman	24,100	23,000
Member	12,000	11,500
Nomination committee		
Chairman	–	–
Member	–	–

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

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

	2015 $	2014 $
NZ Base fees		
Chairman*	69,836	59,000
Member	35,600	34,000
NZ Board, Audit, Risk and Compliance committee		
Chairman	8,900	8,500
Member	–	–

* The Chairman of the NZ Board is not a member of the nib holdings Board.

In addition to the above board and committee fees, Annette Carruthers and Lee Ausburn received fees for nib Options Medical Advisory Committee meetings during the year.

NON-EXECUTIVE DIRECTOR REMUNERATION continued

Non-Executive Director fees continued

Principle 2 of nib's Corporate Governance Statement (which is available at ww.nib.com.au/shareholders/company-profile/corporate-governance) includes the committee membership of each of nib's NEDs.

Share ownership by Non-Executive Directors

nib's NEDs are required to hold a minimum of 50% of their first year's total annual base Director's fee in shares, which is to be accumulated within three years of appointment (based on the share price at the date of joining the Board). All current Non-Executive Directors comply with this requirement as at 30 June 2015.

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 payment. 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 Annette Carruthers is 0.71.

At 30 June 2015, the following retirement benefits are provided for:

Annette Carruthers	$85,569

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.

	Short-term employee benefits			Post-employment benefits		Long-term benefits	Termination benefits	Share-based payments		
Non-Executive Directors	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Superannuation $	Retirement benefits $	Long service leave $	Termination benefits $	Bonus $	Performance rights $	Total $
2015										
Steve Crane	215,617	–	–	18,783	–	–	–	–	–	234,400
Lee Ausburn[1]	117,808	–	–	11,192	–	–	–	–	–	129,000
Harold Bentley	163,400	–	–	35,000	–	–	–	–	–	198,400
Annette Carruthers[1]	162,283	–	–	15,417	7,256	–	–	–	–	184,956
Philip Gardner	130,320	–	–	12,380	–	–	–	–	–	142,700
Christine McLoughlin	126,119	–	–	11,981	–	–	–	–	–	138,100
	915,547	**–**	**–**	**104,753**	**7,256**	**–**	**–**	**–**	**–**	**1,027,556**
2014										
Steve Crane	206,225	–	–	17,775	–	–	–	–	–	224,000
Lee Ausburn (from 13/11/2013)	70,030	–	–	6,478	–	–	–	–	–	76,508
Harold Bentley	150,211	–	–	33,789	–	–	–	–	–	184,000
Annette Carruthers	157,208	–	–	14,542	9,688	–	–	–	–	181,438
Philip Gardner	124,943	–	–	11,557	–	–	–	–	–	136,500
Christine McLoughlin	144,165	–	–	13,335	–	–	–	–	–	157,500
	852,782	**–**	**–**	**97,476**	**9,688**	**–**	**–**	**–**	**–**	**959,946**

1. Cash salaries and fees and superannuation for Lee Ausburn and Annette Carruthers include fees for nib Options Medical Advisory Committee meetings of $3,000 and $4,000 respectively.

EQUITY INSTRUMENTS HELD BY KEY MANAGEMENT PERSONNEL

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.

2015	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	1,059,049	234,714	(117,976)	(117,976)	1,057,811	–	1,057,811
Michelle McPherson	425,750	74,081	(59,527)	(59,527)	380,777	–	380,777
Rhod McKensey	276,974	55,744	(28,765)	(28,765)	275,188	–	275,188
Rob Hennin	57,316	40,384	–	–	97,700	–	97,700
Brendan Mills	71,607	36,145	–	–	107,752	–	107,752
Justin Vaughan	26,438	32,859	–	–	59,297	–	59,297
David Kan	–	22,956	–	–	22,956	–	22,956
Total	**1,917,134**	**496,883**	**(206,268)**	**(206,268)**	**2,001,481**	**–**	**2,001,481**

2014	Balance at start of the year	Granted as compensation	Exercised[1]	Other forfeitures	Balance at the end of the year	Vested and exercisable	Unvested
Mark Fitzgibbon	785,263	273,786	–	–	1,059,049	–	1,059,049
Michelle McPherson	336,690	89,060	–	–	425,750	–	425,750
Rhod McKensey	197,537	79,437	–	–	276,974	–	276,974
Rob Hennin	–	57,316	–	–	57,316	–	57,316
Brendan Mills	38,587	33,020	–	–	71,607	–	71,607
Matthew Henderson	–	26,438	–	–	26,438	–	26,438
Total	**1,358,077**	**559,057**	**–**	**–**	**1,917,134**	**–**	**1,917,134**

1. No LTI performance rights vested in FY14 due to the performance period for the rights granted in FY11 being extended to 4 years.

To date nib's practice has been to source equity for remuneration awards from shares purchased on market. Accordingly, there was no dilution from Executive new issue equity awards in 2015.

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.

2015	Balance at the start of the year	Granted during the year as compensation	Other changes during the year	Balance at the end of the year
Ordinary shares				
Directors of nib group				
Steve Crane	200,000	–	–	200,000
Lee Ausburn	20,000	–	–	20,000
Harold Bentley	100,000	–	–	100,000
Annette Carruthers	72,500	–	–	72,500
Philip Gardner	108,000	–	17,000	125,000
Christine McLoughlin	97,500	–	–	97,500
Other key management personnel of the Group				
Mark Fitzgibbon	1,436,045	158,605	–	1,594,650
Michelle McPherson	428,455	84,043	–	512,498
Rhod McKensey	203,945	41,875	–	245,820
Rob Hennin	–	11,653	–	11,653
Brendan Mills	31,170	7,724	–	38,894
Justin Vaughan	–	5,890	–	5,890
David Kan	–	–	–	–

2014	Balance at the start of the year	Granted during the year as compensation	Other changes during the year	Balance at the end of the year
Ordinary shares				
Directors of nib group				
Steve Crane	200,000	–	–	200,000
Lee Ausburn	–	–	20,000	20,000
Harold Bentley	100,000	–	–	100,000
Annette Carruthers	72,500	–	–	72,500
Philip Gardner	108,000	–	–	108,000
Christine McLoughlin	77,500	–	20,000	97,500
Other key management personnel of the Group				
Mark Fitzgibbon	1,462,551	23,494	(50,000)	1,436,045
Michelle McPherson	413,177	15,278	–	428,455
Rhod McKensey	188,471	15,474	–	203,945
Rob Hennin	–	–	–	–
Brendan Mills	25,165	6,005	–	31,170
Justin Vaughan	–	–	–	–

Other transactions with key management personnel

The wife of Philip Gardner, a Director, is a director and shareholder of XO Digital Pty Limited and Enigma Communications Pty Limited. The nib holdings limited Group has entered into contracts with XO Digital Pty Limited for software development and maintenance, and Enigma Communications Pty Limited for graphic design and creative services. The contracts were based on normal commercial terms and conditions.

Aggregate amounts of each of the above types of other transactions with key management personnel of the Group:

a) Amounts recognised as expense

	2015 $000	2014 $000
Software maintenance	55	13
Advertising and promotions	116	–
	171	**13**

b) Amounts recognised as intangible assets

Software	128	107
	128	**107**

c) Amounts recognised as assets and liabilities

At the end of the reporting period the following aggregate amounts were recognised in relation to the above transactions:

Non-current assets	235	107
	235	**107**

CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2015

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. The Board is dedicated to, and responsible for, actively promoting ethical and responsible decision making and practices at nib to ensure that practices are in place necessary to maintain confidence in nib's integrity.

The 2015 Corporate Governance Statement is dated as at 30 June 2015 and reflects the corporate governance practices in place throughout the 2015 financial year. The Corporate Governance Statement was approved by the Board on 21 August 2015. A description of the Group's current corporate governance practices is set out in the Group's Corporate Governance Statement which can be viewed at www.nib.com.au/shareholders/company-profile/corporate-governance

FINANCIAL REPORT

For the year ended 30 June 2015

CONTENTS

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2015

	Notes	2015 $000	2014 $000
Premium revenue	6	1,636,323	1,492,933
Outwards reinsurance premium expense	6	(1,444)	(1,285)
Net premium revenue		**1,634,879**	**1,491,648**
Claims expense		(1,152,016)	(1,040,540)
Reinsurance and other recoveries revenue		587	571
RETF levy		(185,498)	(190,604)
State levies		(28,237)	(28,161)
(Increase) / Decrease in premium payback liability		(1,902)	3,291
Claims handling expenses	7	(16,982)	(17,802)
Net claims incurred		**(1,384,048)**	**(1,273,245)**
Acquisition costs	7	(79,261)	(67,878)
Other underwriting expenses	7	(82,922)	(76,404)
Underwriting expenses		**(162,183)**	**(144,282)**
Underwriting result		**88,648**	**74,121**
Other income	6	5,054	5,664
Other expenses	7	(12,047)	(7,523)
Operating profit		**81,655**	**72,262**
Finance costs	7	(3,423)	(2,744)
Investment income	6	32,975	31,235
Investment expenses	7	(1,616)	(1,584)
Profit before income tax		**109,591**	**99,169**
Income tax expense	8(a)	(34,330)	(29,393)
Profit for the year		**75,261**	**69,776**
Profit for the year is attributable to:			
Owners of nib holdings limited		75,798	69,911
Non-controlling interests		(537)	(135)
		75,261	**69,776**

		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company			
Basic earnings per share	27	17.3	15.9
Diluted earnings per share	27	17.3	15.9
Earnings per share for profit attributable to the ordinary equity holders of the company			
Basic earnings per share	27	17.3	15.9
Diluted earnings per share	27	17.3	15.9

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 2015

	Notes	2015 $000	2014 $000
Profit for the year		**75,261**	**69,776**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(1,434)	2,337
Reversal on disposal of available for sale financial assets		(2,012)	776
Income tax related to these items	8(a)(iii)	660	(530)
Items that will not be reclassified to profit or loss			
Revaluation of land and buildings		5,539	4,518
Income tax related to these items	8(a)(iii)	(1,662)	(1,355)
Other comprehensive income for the year, net of tax		**1,091**	**5,746**
Total comprehensive income for the year		**76,352**	**75,522**
Total comprehensive income for the year is attributable to:			
Owners of nib holdings limited		76,889	75,657
Non-controlling interests		(537)	(135)
		76,352	**75,522**

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

CONSOLIDATED BALANCE SHEET

For the year ended 30 June 2015

	Notes	2015 $000	2014 $000
ASSETS			
Current assets			
Cash and cash equivalents	9	123,655	148,722
Receivables	10	45,130	44,903
Financial assets at fair value through profit or loss	11	457,155	410,779
Reinsurance and other recoveries receivable	12	–	108
Deferred acquisition costs	13	22,059	15,778
Assets classified as held for sale	14	38,726	–
Current tax assets		–	2,876
Total current assets		**686,725**	**623,166**
Non-current assets			
Deferred acquisition costs	13	42,069	24,250
Available-for-sale financial assets		–	3,512
Deferred tax assets	8(b)	3,677	4,031
Property, plant and equipment	15	14,458	47,967
Intangible assets	16	90,179	95,178
Total non-current assets		**150,383**	**174,938**
Total assets		**837,108**	**798,104**
LIABILITIES			
Current liabilities			
Payables	17	124,902	110,720
Reinsurance and other recoveries payable	12	9	–
Borrowings	18	1,390	1,768
Outstanding claims liability	19	97,147	93,652
Unearned premium liability	20	126,922	104,278
Premium payback liability	21	10,459	7,496
Provision for employee entitlements	22	3,056	2,370
Current tax liabilities		2,607	1,264
Total current liabilities		**366,492**	**321,548**
Non-current liabilities			
Payables	17	–	672
Borrowings	18	62,501	65,081
Unearned premium liability	20	16,306	9,924
Premium payback liability	21	30,429	33,254
Provision for employee entitlements	22	1,268	1,268
Deferred tax liabilities	8(c)	15,849	9,989
Total non-current liabilities		**126,353**	**120,188**
Total liabilities		**492,845**	**441,736**
Net assets		**344,263**	**356,368**
EQUITY			
Contributed equity	23	28,001	27,189
Retained profits	24	307,038	320,132
Reserves	25	9,815	9,101
Capital and reserves attributable to owners of nib holdings limited		**344,854**	**356,422**
Non-controlling interests		(591)	(54)
Total equity		**344,263**	**356,368**

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 2015

		Attributable to owners of nib holdings limited					
	Notes	Contributed Equity $000	Retained Profits $000	Reserves $000	Total $000	Non-controlling interests $000	Total Equity $000
Balance at 1 July 2013		**27,906**	**295,212**	**3,035**	**326,153**	**–**	**326,153**
Profit for the year		–	69,911	–	69,911	(135)	69,776
Gain on revaluation of land and buildings		–	–	3,163	3,163	–	3,163
Revaluation of available for sale financial assets, net of tax		–	–	543	543	–	543
Movement in foreign currency translation, net of tax		–	–	2,040	2,040	–	2,040
Total comprehensive income for the year		**–**	**69,911**	**5,746**	**75,657**	**(135)**	**75,522**
Transactions with owners in their capacity as owners:							
Transactions with non-controlling interests		–	–	–	–	81	81
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust	23(c)	(837)	–	–	(837)	–	(837)
Issue of shares held by nib Holdings Ltd Share Ownership Plan Trust to employees	23(c)	120	–	–	120	–	120
Employee performance rights – value of employee services	25	–	–	320	320	–	320
Dividends paid	26	–	(44,991)	–	(44,991)	–	(44,991)
		(717)	**(44,991)**	**320**	**(45,388)**	**81**	**(45,307)**
Balance at 30 June 2014		**27,189**	**320,132**	**9,101**	**356,422**	**(54)**	**356,368**
Profit for the year		–	75,798	–	75,798	(537)	75,261
Gain on revaluation of land and buildings, net of tax		–	–	3,877	3,877	–	3,877
Revaluation of available for sale financial assets, net of tax		–	–	(1,408)	(1,408)	–	(1,408)
Movement in foreign currency translation, net of tax		–	–	(1,378)	(1,378)	–	(1,378)
Total comprehensive income for the year		**–**	**75,798**	**1,091**	**76,889**	**(537)**	**76,352**
Transactions with owners in their capacity as owners:							
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust	23(c)	(137)	–	–	(137)	–	(137)
Issue of shares held by nib Holdings Ltd Share Ownership Plan Trust to employees	23(c)	949	–	(745)	204	–	204
Employee performance rights – value of employee services	25	–	–	368	368	–	368
Dividends paid	26	–	(88,892)	–	(88,892)	–	(88,892)
		812	**(88,892)**	**(377)**	**(88,457)**	**–**	**(88,457)**
Balance at 30 June 2015		**28,001**	**307,038**	**9,815**	**344,854**	**(591)**	**344,263**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2015

	Notes	2015 $000	2014 $000
Cash flows from operating activities			
Receipts from policyholders and customers (inclusive of goods and services tax)		1,696,350	1,541,868
Payments to policyholders and customers		(1,351,374)	(1,238,389)
Payments to suppliers and employees (inclusive of goods and services tax)		(224,172)	(195,886)
		120,804	**107,593**
Dividends received		217	556
Interest received		8,938	9,366
Distributions received		12,148	9,314
Transaction costs relating to acquisition of subsidiary		–	(104)
Interest paid		(3,227)	(2,688)
Income taxes paid		(24,671)	(30,341)
Net cash inflow from operating activities	9(c)	**114,209**	**93,696**
Cash flows from investing activities			
Proceeds from disposal of other financial assets at fair value through profit and loss		154,234	180,500
Payments for other financial assets at fair value through profit and loss		(199,028)	(221,180)
Proceeds from sale of investment properties		–	10,000
Proceeds from sale of available-for-sale financial assets		6,882	–
Proceeds from sale of property, plant and equipment and intangibles		36	5
Payments for property, plant and equipment and intangibles	15,16	(10,982)	(11,241)
Payment for acquisition of subsidiary, net of cash acquired		–	(84)
Net cash inflow (outflow) from investing activities		**(48,858)**	**(42,000)**
Cash flows from financing activities			
Repayment of borrowings		–	(550)
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust	23(c)	(137)	(837)
Transactions with non-controlling interests		–	81
Dividends paid to the company's shareholders	26	(88,892)	(44,991)
Net cash inflow (outflow) from financing activities		**(89,029)**	**(46,297)**
Net increase (decrease) in cash and cash equivalents		**(23,678)**	**5,399**
Cash and cash equivalents at beginning of the year		146,954	139,756
Effects of exchange rate changes on cash and cash equivalents		(1,011)	1,799
Cash and cash equivalents at the end of the year		**122,265**	**146,954**
Reconciliation to Consolidated Balance Sheet			
Cash and cash equivalents		123,655	148,722
Borrowings – overdraft		(1,390)	(1,768)
		122,265	**146,954**

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

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.

Significant and other accounting policies that summarise the measurement basis used and are relevant to the understanding of financial statements are provided throughout the notes to the financial statements.

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.

b) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2014:

- AASB 2014-1 Amendments to Australian Accounting Standards

This standard only affected the disclosures in the notes to the financial statements.

c) New accounting standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2015 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

i) AASB-9 Financial Instruments (effective from 1 January 2018)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting.

While the Group is yet to undertake a detailed assessment it doesn't expect any impact from this standard. The standard is not applicable until 1 January 2018 but is available for early adoption. The Group has not yet decided when to adopt AASB 9.

ii) AASB-15 Revenue from contracts with customers (effective from 1 January 2017)

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The Group's premium revenue is recognised under AASB 1023 General Insurance Contracts which is not impacted by AASB 15.

While the Group is yet to undertake a detailed assessment it doesn't expect any impact from this standard. The standard is not applicable until 1 January 2017 but is available for early adoption. The Group has not yet decided when to adopt AASB 15.

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.

d) 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 2015 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 (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to Note 33(a)).

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) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of nib holdings limited.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset.

e) 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. 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.

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.

f) Assets backing private health insurance liabilities

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

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

g) 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.

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

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

The key areas in which critical estimates are applied are:

- Estimation of deferred acquisition costs – Note 13
- Estimation of goodwill impairment and definite life of brand names and trademarks. During the year the useful life of brands and trademarks acquired with IMAN Australian Health Plans Pty Ltd were revised from indefinite to having a useful life of five years – Note 16(b)
- Estimation of outstanding claims liability – Note 19
- Estimation for liability adequacy test – Note 20 and Note 21
- Estimation of premium payback liabilities – Note 21

3. RISK MANAGEMENT

The financial condition and operations 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 a three lines of defence model. The three lines of defence model provides defined risk ownership responsibilities with functionally independent oversight and assurance. nib's Group risk management framework manages risks through:

- The Board of nib is ultimately responsible for the risk management framework and oversees its operation by management to operate within the approved risk appetite statement.
- 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.
  - With effect from 1 July 2014, the Audit Committee's Charter confirms its responsibilities also include:
    - reviewing the performance and independence of the Appointed Actuary;
    - reviewing the adequacy of nib's corporate reporting processes and the integrity of nib's financial statements and other material regulatory documents; and
  - 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.
- nib health funds limited is subject to the application of standards for solvency and capital adequacy. Until 30 June 2015, these were legislated under division 140 and 143 of the *Private Health Insurance Act 2007 (the Act)* and the Private Health Insurance (Health Benefits Fund Administration) Rules 2007. From 1 July 2015, section 92 of the *Private Health Insurance (Prudential Supervision) Act 2015* (Cth) provides the Australian Prudential Regulation Authority (**APRA**) with the power to issue prudential standards. The relevant standards determined by APRA are the *Health Insurance (Prudential Standard) Determination No. 2 of 2015 – HPS 100 Solvency Standard* and the *Health Insurance (Prudential Standard) Determination No 3 of 2015 – HPS 110 Capital Adequacy.*

- The Solvency and Capital Adequacy Standards 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 nib nz limited's insurance licence.

b) Insurance risk

In addition to the risk management policies and procedures adopted to manage insurance risk set out in Note 3(a) the provision of private health insurance in Australia is governed by the Act. Private health insurance business (Australian Residents Health Insurance) 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 the Group provides International Students Health Insurance and International Workers Health Insurance 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 (Australian Residents Health Insurance) and International Students Health Insurance, but not to International Workers Health Insurance.
- **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 policyholders with lower average claims payments (such as nib) to those insurers with older and less healthy policyholders and which have higher average claims payments. The scheme applies to all health insurance business (CHIP) but does not apply to International Students Health Insurance or International Workers Health Insurance. As of 1 July 2015, the Commonwealth Health Minister will retain overall policy responsibility for the risk equalisation scheme, with APRA having a similar role administering the risk equalisation scheme as PHIAC had administrating the risk equalisation scheme prior to 1 July 2015.
- **Coverage Requirements**: The Act limits the types of treatments that private health insurers can offer as part of their health insurance business (CHIP). International Students Health Insurance products coverage requirements are set out in a Deed between the insurer and the Commonwealth, while the health services offered under International Workers Health Insurance 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 the Minister is satisfied that the change would be contrary to the public interest. Insurers can ordinarily only seek one premium increase per annum. International Students Health Insurance 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. International Workers Health Insurance 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.

3. 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 hedging 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:

	2015		2014	
	Weighted average interest rate %	Balance $000	Weighted average interest rate %	Balance $000
Bank loans	4.9%	62,501	4.2%	65,081
Interest rate swaps (notional principal amount)	–	–	5.7%	1,396
Net exposure to cash flow interest rate risk		**62,501**		**66,477**

An analysis by maturities is provided at 3(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. 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 consultants, JANA Implemented Consulting and Fisher Funds 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.

	2015					2014				
Interest Rate Risk		-100bps		+100bps			-100bps		+100bps	
	Carrying amount $000	Profit $000	Equity $000	Profit $000	Equity $000	Carrying amount $000	Profit $000	Equity $000	Profit $000	Equity $000
Financial assets										
Cash and cash equivalents	123,655	(866)	(866)	866	866	148,722	(1,041)	(1,041)	1,041	1,041
Other receivables	2,771	(19)	(19)	19	19	6,592	(46)	(46)	46	46
Financial assets at fair value through profit or loss	457,155	4,184	4,184	(4,151)	(4,151)	410,779	3,112	3,112	(3,063)	(3,063)
Unlisted equity securities	–	–	–	–	–	3,512	–	–	–	–
Financial liabilities										
Bank loans	(62,501)	450	450	(450)	(450)	(65,081)	456	456	(456)	(456)
Premium payback liability	(40,888)	(1,414)	(1,414)	1,192	1,192	(40,750)	(985)	(985)	1,181	1,181
Total Increase / (decrease)		2,335	2,335	(2,524)	(2,524)		1,496	1,496	(1,251)	(1,251)

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(e). 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.

	2015			2014		
Foreign Exchange Risk		-10%	+10%		-10%	+10%
	Exposure	Equity		Exposure	Equity	
	$000	$000	$000	$000	$000	$000
Shareholders equity exposure	17,039	(1,704)	1,704	13,832	(1,383)	1,383
Loan from parent entity to nib nz holdings limited	18,567	(1,857)	1,857	19,258	(1,926)	1,926
Total Increase / (decrease)	**35,606**	**(3,561)**	**3,561**	**33,090**	**(3,309)**	**3,309**

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.

	2015					2014				
Interest Rate Risk		-10% unit price		+10% unit price			-10% unit price		+10% unit price	
	Carrying amount $000	Profit $000	Equity $000	Profit $000	Equity $000	Carrying amount $000	Profit $000	Equity $000	Profit $000	Equity $000
Financial assets										
Financial assets at fair value through profit or loss	457,155	(4,279)	(4,279)	4,279	4,279	410,779	(3,754)	(3,754)	3,754	3,754
Unlisted equity securities	–	–	–	–	–	3,512	–	(246)	–	246
Total Increase / (decrease)		**(4,279)**	**(4,279)**	**4,279**	**4,279**		**(3,754)**	**(4,000)**	**3,754**	**4,000**

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.

3. 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 and the Department of Human Services (Private Health Insurance Premiums Reduction Scheme). nib only deals with major banks in Australia which are independently rated with a minimum rating of 'A-1' and in New Zealand with a minimum rating of 'AA'. 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 Private Health Insurance Premiums Reduction Scheme receivable is due from a government organisation under legislation.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date is the carrying amount, net of any provisions for impairment loss, as disclosed in the balance sheet and notes to the financial statements. The Group does not have any material credit risk to any single debtor or group of debtors under financial instruments entered into.

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

Other receivables	2015 $000	2014 $000
Counterparties without external credit rating		
Group 1 – new debtors (less than 6 months)	71	1,902
Group 2 – existing debtors (more than 6 months) with no defaults in the past	2,515	4,301
Group 3 – existing debtors (more than 6 months) with some defaults in the past. All defaults were fully recovered.	185	389
Total Other Receivables	**2,771**	**6,592**

Cash at Bank and short-term bank deposits		
A-1	106,384	121,866
AA	17,271	26,856
	123,655	**148,722**

Financial assets at fair value through profit or loss		
Short term deposits		
A-1	35,188	50,138
Derivative financial instruments		
AA	–	2,075
Interest-bearing securities[1]		
AAA	152,664	121,090
AA	110,825	101,980
A	63,373	47,867
BBB	28,130	24,539
Sub Investment Grade	6,747	5,186
Unclassified	(903)	4,273
	396,024	**357,148**

1. The financial assets at fair value through profit and loss with credit risk are held in unit trusts, the above table summarises the underlying investments of the unit trusts.

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 unpresented cheques and outstanding deposits. There are no overdraft facilities.

Maturities of financial liabilities

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

Group at 30 June 2015	≤ 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	6,145	214	30	–	–	6,389	6,389
Other payables	61,416	4,126	69	452	–	66,063	66,063
Borrowings	1,653	504	2,206	66,694	–	71,057	63,891
	69,214	**4,844**	**2,305**	**67,146**	**–**	**143,509**	**136,343**

Group at 30 June 2014	≤ 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	5,445	–	–	–	–	5,445	5,445
Other payables	51,176	4,163	367	–	–	55,706	55,706
Borrowings	2,038	557	2,617	66,630	–	71,842	66,849
	58,659	**4,720**	**2,984**	**66,630**	**–**	**132,993**	**128,000**

4. FAIR VALUE MEASUREMENT

a) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

The following tables present the Group's assets and liabilities measured and recognised at fair value at 30 June 2015 and 30 June 2014.

Group at 30 June 2015	Level 1 $000	Level 2 $000	Level 3 $000	Level 4 $000
Assets				
Cash and cash equivalents and deposits at call	123,655	–	–	123,655
Financial assets at fair value through profit or loss				
Equity securities	60,600	531	–	61,131
Interest-bearing securities	310,948	49,888	–	360,836
Short term deposits	35,188	–	–	35,188
Property, plant and equipment				
Land and buildings	–	–	1,815	1,815
Total assets	**530,391**	**50,419**	**1,815**	**582,625**

Group at 30 June 2014	Level 1 $000	Level 2 $000	Level 3 $000	Level 4 $000
Assets				
Cash and cash equivalents and deposits at call	148,722	–	–	148,722
Financial assets at fair value through profit or loss				
Equity securities	52,921	710	–	53,631
Interest-bearing securities	266,594	38,341	–	304,935
Short term deposits	50,138	–	–	50,138
Derivative financial instruments	–	2,075	–	2,075
Available-for-sale financial assets				
Unlisted equity securities	–	3,512	–	3,512
Property, plant and equipment				
Land and buildings	–	–	40,587	40,587
Total assets	**518,375**	**44,638**	**40,587**	**603,600**
Liabilities				
Contingent consideration payable	–	–	672	672
Total liabilities	**–**	**–**	**672**	**672**

There were no transfers between level 1 and level 2 during the year.

The Group's policy is to recognise transfers into and transfers out of the fair value hierarchy levels as at the end of the reporting period.

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.

Level 1: 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 bidprice. These instruments are included in level 1.

Level 2: 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.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

b) Valuation techniques used determine fair values

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

All of the resulting fair value estimates for financial instruments are included in level 2 except for contingent consideration payable explained in c) below.

The Group obtains independent valuations for its freehold land and buildings at least every three years.

At the end of each reporting period, the Directors update their assessment of the fair value of each property, taking into account the most recent independent valuations. Freehold land and buildings were independently valued by a member of the Australian Property Institute as at 30 June 2013. As at 30 June 2015 a Directors' valuation has been performed for all properties.

Freehold land and buildings classified as held for sale during the reporting period were measured using a non-recurring level 3 fair value measurement as set out in Note 14(b).

All resulting fair value estimates for properties are included at level 3.

c) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 instruments for the year ended 30 June 2015:

	Land & Buildings $000	Contingent consideration payable[1] $000	Total $000
Opening balance 1 July 2013			
Adoption of AASB13	37,201	–	37,201
Other increases	–	(672)	(672)
Acquisitions	49	–	49
Gains recognised in other comprehensive income	4,518	–	4,518
Depreciation	(1,181)	–	(1,181)
Closing balance 30 June 2014	**40,587**	**(672)**	**39,915**
Assets included in a disposal group classified as held for sale and other disposals	(38,726)	–	(38,726)
Gains recognised in other comprehensive income	5,539	–	5,539
Gains/(losses) recognised in other income	–	672	672
Depreciation	(1,081)	–	(1,081)
Transfers to leasehold improvements	(4,504)	–	(4,504)
Closing balance 30 June 2015	**1,815**	**–**	**1,815**

1. As at 30 June 2015, the contingent consideration in relation to the acquisition of RealSelf Pty Ltd has been derecognised, as the required level of subscription income is forecast not to be achieved. A gain of $672,025 was included in other income.

4. FAIR VALUE MEASUREMENT continued

c) Fair value measurements using significant observable inputs (level 3) continued

i) Transfers between levels 2 and 3

There were no transfers between the levels of the fair value hierarchy during the year. There were also no changes during the year to any of the valuation techniques applied as of 30 June 2014.

ii) Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements:

Description	Fair value at 30 June 2015 $000	Unobservable inputs*	Range of inputs (probability - weighted average)	Relationship of unobservable inputs to fair value
Land and buildings	1,815	Capitalisation rate	6.75% – 8.75% (7.75%)	The higher the capitalisation rate, the lower the fair value.
		Market rent per square metre	$500 – $610 ($556)	If market rent per square metre was 10% higher or lower, the fair value would increase/decrease by $200,000.

* There were no significant inter-relationships between unobservable inputs that materially affect fair values.

iii) Valuation process

The Group engages external, independent and qualified valuers to determine the fair value of the Group's land and buildings at least every three years. As at 30 June 2015, a Directors' valuation has been performed for the land and buildings.

The finance department of the Group includes a team that performs the valuations of non-property assets required for financial reporting purposes, including level 3 fair values. This team reports directly to the chief financial officer (CFO) and the audit committee (AC). Discussions of valuation processes and results are held between the CFO, AC and the valuation team at least once every six months, in line with the Group's half-yearly reporting dates.

Changes in level 2 and 3 fair values are analysed at each reporting date during the half-yearly valuation discussion between the CFO, AC and the valuation team. As part of this discussion the team presents a report that explains the reason for the fair value movements.

d) Fair values of other financial instruments

The Group also had another financial instrument which was not measured at fair value in the balance sheet. This had the following fair value as at 30 June 2015:

	2015		2014	
Non-current borrowings	Carrying amount $000	Fair value $000	Carrying amount $000	Fair value $000
Bank loans	62,501	62,524	65,081	65,163

The fair values of non-current borrowings are based on discounted cash flows using a current borrowing rate. They are classified as level 3 fair values in the fair value hierarchy (see Note 4(a)) due to the use of unobservable inputs, including own credit risk.

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

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.

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:

- Australian Residents Health Insurance – nib's core product offering within the Australian private health insurance industry
- New Zealand Residents Health Insurance – nib's core product offering within the New Zealand private health insurance Industry
- International (Inbound) Health Insurance – nib's offering of health insurance products for international students and workers
- nib Options – this part of the business facilitates access to cosmetic and dental treatment both overseas and here in Australia

While the MD/CEO receives separate reports for both international students and international workers, these have been aggregated into one operating segment as they are both for overseas visitors and have similar product design, processing and distribution methods. Further, both are regulated as Health Related Business under the Private Health Insurance (Health Benefits Fund Policy) Rules 2015. In the prior year financial statements the aggregation criteria was not applied, the comparative numbers have been amended to reflect the aggregation.

Although the nib Options 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.

5. SEGMENT REPORTING continued

b) Segment information provided to Executive management

The segment information provided to the MD/CEO for the reportable segments is as follows:

2015	Australian Residents Health Insurance $000	International (Inbound) Health Insurance $000	New Zealand Health Insurance $000	nib Options $000	Unallocated to segments $000	Total $000
Premium revenue	1,429,516	56,376	150,431	–	–	1,636,323
Outwards reinsurance premium expense	–	(1,443)	(1)	–		(1,444)
Net premium revenue	**1,429,516**	**54,933**	**150,430**	**–**	**–**	**1,634,879**
Claims expense	(1,025,195)	(30,025)	(96,796)	–	–	(1,152,016)
Reinsurance and other recoveries revenue	–	587	–	–	–	587
RETF levy	(185,498)	–	–	–	–	(185,498)
State levies	(28,237)	–	–	–	–	(28,237)
(Increase) / Decrease in premium payback liability	–	–	(1,902)	–	–	(1,902)
Claims handling expenses	(15,185)	(639)	(1,158)	–	–	(16,982)
Net claims incurred	**(1,254,115)**	**(30,077)**	**(99,856)**	**–**	**–**	**(1,384,048)**
Acquisition costs	(49,537)	(5,061)	(24,663)	–	–	(79,261)
Other underwriting expenses	(54,188)	(8,214)	(20,520)	–	–	(82,922)
Underwriting expenses	**(103,725)**	**(13,275)**	**(45,183)**	**–**	**–**	**(162,183)**
Underwriting result	**71,676**	**11,581**	**5,391**	**–**	**–**	**88,648**
Other income	102	214	–	615	4,123	5,054
Other expenses	–	–	–	(4,393)	(7,654)	(12,047)
Operating profit / (loss)	**71,778**	**11,795**	**5,391**	**(3,778)**	**(3,531)**	**81,655**
Inter-segment other income[1]	2,261	5	41	–	–	2,307
Depreciation and amortisation	6,296	1,225	4,829	168	55	12,573
Investment income	25,012		6,215	4	1,744	32,975
Income tax expense	31,135		3,737	928	(1,470)	34,330
Total assets	**611,303**		**166,703**	**473**	**58,629**	**837,108**
Total liabilities	**339,447**		**71,087**	**143**	**82,168**	**492,845**
Insurance liabilities						
Outstanding claims liability	86,537		10,610	–	–	97,147
Unearned premium liability	129,397		13,831	–	–	143,228
Premium payback liability	–		40,888	–	–	40,888
Total	**215,934**		**65,329**	**–**	**–**	**281,263**

1. Inter-segment other income is eliminated on consolidation and not included in operating profit.

2014	Australian Residents Health Insurance $000	International (Inbound) Health Insurance $000	New Zealand Health Insurance $000	nib Options $000	Unallocated to segments $000	Total $000
Premium revenue	1,314,472	39,270	139,191	–	–	1,492,933
Outwards reinsurance premium expense	–	(1,285)	–	–	–	(1,285)
Net premium revenue	**1,314,472**	**37,985**	**139,191**	**–**	**–**	**1,491,648**
Claims expense	(933,522)	(17,509)	(89,509)	–	–	(1,040,540)
Reinsurance and other recoveries revenue	–	571	–	–	–	571
RETF levy	(190,604)	–	–	–	–	(190,604)
State levies	(28,161)	–	–	–	–	(28,161)
(Increase) / Decrease in premium payback liability	–	–	3,291	–	–	3,291
Claims handling expenses	(16,029)	(671)	(1,102)	–	–	(17,802)
Net claims incurred	**(1,168,316)**	**(17,609)**	**(87,320)**	**–**	**–**	**(1,273,245)**
Acquisition costs	(38,962)	(3,506)	(25,410)	–	–	(67,878)
Other underwriting expenses	(51,409)	(5,920)	(19,075)	–	–	(76,404)
Underwriting expenses	**(90,371)**	**(9,426)**	**(44,485)**	**–**	**–**	**(144,282)**
Underwriting result	**55,785**	**10,950**	**7,386**	**–**	**–**	**74,121**
Other income	1,195	392	–	371	3,706	5,664
Other expenses	–	–	–	(2,906)	(4,617)	(7,523)
Operating profit / (loss)	**56,980**	**11,342**	**7,386**	**(2,535)**	**(911)**	**72,262**
Inter-segment other income[1]	903	–	–	–	–	903
Depreciation and amortisation	6,463	745	4,706	28	21	11,963
Investment income	26,843		3,529	5	858	31,235
Income tax expense	27,965		3,880	(819)	(1,633)	29,393
Total assets	**522,899**		**164,925**	**2,212**	**108,068**	**798,104**
Total liabilities	**291,497**		**71,475**	**1,354**	**77,410**	**441,736**
Insurance liabilities						
Outstanding claims liability	82,860		10,792	–	–	93,652
Unearned premium liability	100,172		14,030	–	–	114,202
Premium payback liability	–		40,750	–	–	40,750
Total	**183,032**		**65,572**	**–**	**–**	**248,604**

1. Inter-segment other income is eliminated on consolidation and not included in operating profit for Australian Residents Health Insurance.

5. SEGMENT REPORTING continued

c) Other segment information

The MD/CEO assesses the performance of the operating segments based on operating profit. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as integration costs.

No information regarding assets, liabilities and income tax is provided for individual Australian Health Insurance and International (Inbound) Health Insurance segments to the MD/CEO. Furthermore, investment income and expenditure for Australia is not allocated to individual Australian segments as this type of activity is driven by the central treasury function, which manages the cash position of the Australian companies.

i) Segment operating profit

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

	2015 $000	2014 $000
Segment operating profit	85,186	73,173
Other income – unallocated to segments	4,123	3,706
Other expenses – unallocated to segments	(7,654)	(4,617)
Finance costs	(3,423)	(2,744)
Investment income	32,975	31,235
Investment expenses	(1,616)	(1,584)
Profit before income tax from continuing operations	**109,591**	**99,169**

6. REVENUE AND OTHER INCOME

	2015 $000	2014 $000
Premium revenue	1,636,323	1,492,933
Outwards reinsurance premiums	(1,444)	(1,285)
Net premium revenue	**1,634,879**	**1,491,648**
Other Income		
Agency fee	310	232
Life and funeral insurance commission	2,014	1,759
Travel insurance and other commission	413	387
Rental income	950	868
Subscription income / (refund)	(105)	347
Fair value adjustment to contingent consideration	672	–
Sundry income	800	2,071
	5,054	**5,664**
Investment income		
Interest	9,164	8,748
Net gain on sale of available for sale financial assets[1]	5,382	–
Net realised gain on financial assets at fair value through profit or loss	16,622	20,197
Net unrealised gain/(loss) on financial assets at fair value through profit or loss	1,590	1,734
Dividends	217	556
	32,975	**31,235**

1. On 21 November 2014 nib sold the 5,294,118 shares held in Pacific Smiles Group (PSG) as part of PSG's IPO process.

a) Recognition and measurement

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. Any non-current portion is discounted based on expected settlement dates.

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.

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.

iii) 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.

7. EXPENSES

	Notes	2015 $000	2014 $000
Expenses by function			
Claims handling expenses		16,982	17,802
Acquisition costs		79,261	67,878
Other underwriting expenses		82,922	76,404
Other expenses		12,047	7,523
Finance costs		3,423	2,744
Investment expenses		1,616	1,584
Total expenses (excluding direct claims expenses)		**196,251**	**173,935**
Expenses by nature			
Employee costs		77,687	69,742
Depreciation and amortisation		12,573	11,963
Finance costs		3,423	2,744
Net (gain) / loss on disposal of property, plant and equipment		84	116
Operating lease rental expenses		3,785	3,246
Marketing expenses – excluding commissions		32,726	28,009
Marketing expenses – commissions		30,195	25,270
Merger and acquisition costs		2,098	794
Electronic claims processing fees		3,845	3,953
Bank charges		2,037	1,908
Consultancy fees		3,634	2,541
Legal expenses		660	1,007
Insurance		1,160	1,147
Postages		1,838	1,859
Share registry expenses		1,376	1,213
Software maintenance		5,614	5,585
Telephones		1,257	1,249
Investment expenses		1,616	1,584
Impairment of goodwill	16	1,423	–
Other		9,220	10,005
Total expenses (excluding direct claims expenses)		**196,251**	**173,935**

8. TAXATION

a) Income tax

	Notes	2015 $000	2014 $000
i) Income tax expense			
Recognised in the income statement			
Current tax expense		29,447	25,228
Deferred tax expense		5,212	4,211
Under (over) provided in prior years		(3)	(46)
Under (over) provided in prior years – research and development tax credit		(326)	–
		34,330	**29,393**
Income tax expense is attributable to:			
Profit from continuing operations		34,330	29,393
Aggregate income tax expense		**34,330**	**29,393**
Deferred income tax expense included in income tax expense comprises:			
Decrease in deferred tax assets	8(b)	(572)	1,101
Increase in deferred tax liabilities	8(c)	5,784	3,110
		5,212	**4,211**
ii) Numerical reconciliation of income tax expense to prima facie tax payable			
Profit from continuing operations before income tax expense		**109,591**	**99,169**
Tax at the Australian tax rate of 30% (2014: 30%)		32,877	29,751
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
Goodwill impairment		427	–
Fair value adjustment to contingent consideration		(202)	–
Share–based payments		(124)	90
Entertainment		92	122
Merger and acquisition costs		151	68
Sundry items		11	(20)
Net assessable trust distributions		142	130
Imputation credits and foreign tax credits		(539)	(599)
Adjustment for current tax of prior periods		(3)	(46)
Adjustment for current tax of prior periods – research and development tax credit		(326)	–
Unrecognised tax losses and deferred tax assets		1,941	–
Differences in foreign tax rates		(117)	(103)
Income tax expense		**34,330**	**29,393**
iii) Tax expense relating to items of other comprehensive income			
Foreign currency translations	25	(56)	297
Gain on revaluation of land and buildings	25	1,662	1,355
Change in value of available for sale financial assets	25	(604)	233
		1,002	**1,885**
iv) Tax losses			
Unused tax losses for which no deferred tax asset has been recognised		6,180	–
Potential tax benefit @ 30%		**1,854**	**–**

8. TAXATION continued

b) Deferred tax assets

	Notes	2015 $000	2014 $000
The balance comprises temporary differences attributable to:			
Employee benefits		2,568	2,377
Outstanding claims		–	64
Premium payback liabilities		11,051	10,995
		13,619	**13,436**
Other			
Doubtful debts		247	318
Provisions		1,186	741
Merger and acquisition costs		438	325
Tax losses		194	796
Sub-total other		**2,065**	**2,180**
Total deferred tax assets		**15,684**	**15,616**
Set-off of deferred tax liabilities pursuant to set-off provisions	8(c)	(12,007)	(11,585)
Net deferred tax assets		**3,677**	**4,031**
Recovery of Total deferred tax assets:			
Deferred tax assets to be recovered within 12 months		7,075	5,261
Deferred tax assets to be recovered after more than 12 months		8,609	10,355
		15,684	**15,616**

Movements	Depreciation and amortisation $000	Employee benefits $000	Outstanding claims $000	Premium payback liabilities $000	Other $000	Total $000
At 1 July 2013	143	2,006	337	10,882	2,181	15,549
(Charged)/credited to the income statement	(140)	353	(273)	(921)	(120)	(1,101)
(Charged)/credited directly to equity	(3)	18	–	1,034	9	1,058
Acquisition of subsidiary	–	–	–	–	110	110
At 30 June 2014	**–**	**2,377**	**64**	**10,995**	**2,180**	**15,616**
At 1 July 2014	–	2,377	64	10,995	2,180	15,616
(Charged)/credited to the income statement	–	212	(64)	533	(109)	572
(Charged)/credited directly to equity	–	(21)	–	(477)	(6)	(504)
At 30 June 2015	**–**	**2,568**	**–**	**11,051**	**2,065**	**15,684**

c) Deferred tax liabilities

		2015 $000	2014 $000
The balance comprises temporary differences attributable to:			
Depreciation and amortisation		413	137
Deferred acquisition costs		17,866	11,382
Brands and trademarks and customer contracts		4,653	5,848
Outstanding claims		61	–
Unrealised gains on investments		1,474	1,828
		24,467	**19,195**
Other			
Asset revaluation		2,611	1,553
Borrowing costs		6	23
Income receivables		4	4
Prepayments		27	6
Unrealised foreign exchange gains		559	793
Unearned premium liability		182	–
Sub-total other		**3,389**	**2,379**
Total deferred tax liabilities		**27,856**	**21,574**
Set-off of deferred tax liabilities pursuant to set-off provisions	8(b)	(12,007)	(11,585)
Net deferred tax liabilities		**15,849**	**9,989**
Recovery of Total deferred tax liabilities:			
Deferred tax liabilities to be settled within 12 months		8,155	5,427
Deferred tax liabilities to be settled after more than 12 months		19,701	16,147
		27,856	**21,574**

Movements	Depreciation and amortisation $000	Deferred acquisition costs $000	Brands and trademarks and customer contracts $000	Outstanding claims $000	Unrealised gains on investments $000	Other $000	Total $000
At 1 July 2013	–	7,528	6,444	–	1,139	410	15,521
(Charged)/credited to the income statement	137	3,616	(1,189)	–	689	(143)	3,110
(Charged)/credited directly to equity	–	238	593	–	–	2,112	2,943
At 30 June 2014	**137**	**11,382**	**5,848**	**–**	**1,828**	**2,379**	**21,574**
At 1 July 2014	137	11,382	5,848	–	1,828	2,379	21,574
(Charged)/credited to the income statement	288	6,596	(994)	61	(354)	187	5,784
(Charged)/credited directly to equity	(12)	(112)	(201)	–	–	823	498
At 30 June 2015	**413**	**17,866**	**4,653**	**61**	**1,474**	**3,389**	**27,856**

8. TAXATION continued

d) Recognition and measurement

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 are a tax consolidated group. Also, nib options pty limited and its wholly-owned Australian controlled entities are a tax consolidated group. As a consequence, the entities within each group 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.

9. CASH AND CASH EQUIVALENTS

	2015 $000	2014 $000
Cash at bank and cash on hand	73,516	123,732
Short term deposits and deposits at call	50,139	24,990
	123,655	**148,722**

a) Recognition and measurement

Cash and cash equivalents, and bank overdrafts are carried at face value of the amounts deposited or drawn. For the purpose of the presentation in the 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.

b) Risk exposure

The Group's exposure to interest rate risk is discussed in Note 3(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.

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

	2015 $000	2014 $000
Profit for the year	75,261	69,776
Net gain on sale of available for sale financial assets	(5,382)	–
Net (gain)/loss on disposal of property, plant and equipment	84	116
Fair value (gain)/loss on other financial assets through profit or loss	(5,071)	(11,379)
Impairment loss on property, plant and equipment	–	–
Non-cash employee benefits expense – share-based payments	369	320
Depreciation and amortisation	12,573	11,963
Impairment of goodwill	1,423	–
Amortisation of borrowing costs	59	56
Gain on fair value adjustment to contingent consideration	(672)	–
Net exchange differences	2,434	(5,314)
Change in operating assets and liabilities, net of effect from purchase of controlled entity		
Decrease (increase) in current tax assets	2,876	(2,876)
Decrease (increase) in receivables	(344)	(3,221)
Decrease (increase) in reinsurance receivables	117	(27)
Decrease (increase) in deferred acquisition costs	(24,100)	(12,802)
Decrease (increase) in deferred tax assets	(353)	(2,062)
Increase (decrease) in trade payables	14,174	11,410
Increase (decrease) in unearned premium liability	29,026	20,777
Increase (decrease) in premium payback liability	138	536
Increase (decrease) in current tax liabilities	1,343	(2,405)
Increase (decrease) in deferred tax liabilities	5,860	6,133
Increase (decrease) in provisions	4,394	12,695
Net cash flow from operating activities	**114,209**	**93,696**

10. RECEIVABLES

	2015 $000	2014 $000
Current		
Premium receivable	7,888	5,872
Private Health Insurance Premiums Reduction Scheme receivable	32,662	30,899
Other receivables	2,771	6,592
Provision for impairment loss	(850)	(1,242)
Prepayments	2,659	2,782
	45,130	**44,903**

As at 30 June 2015 current receivables of the Group with a nominal value of $0.850 million (2014: $1.242 million) were impaired. The individually impaired receivables relate to premium receivables.

The ageing of these receivables is as follows:

	2015 $000	2014 $000
1 to 3 months	518	468
3 to 6 months	193	399
Over 6 months	139	375
	850	**1,242**

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

	2015 $000	2014 $000
At 1 July 2014	1,242	938
Provision for impairment recognised during the year	506	1,242
Receivables written off during the year as uncollectible	(160)	–
Unused amount reversed	(738)	(938)
	850	**1,242**

As of 30 June 2015 and 2014 no receivables were past due but not impaired.

a) Recognition and measurement

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. A 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 provision for impairment account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

i) 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.

b) Interest rate risk

Information about the Group's exposure to interest rate risk in relation to other receivables is provided in Note 3.

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

d) Risk exposure

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above. Refer to Note 3 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

	2015 $000	2014 $000
Equity securities	61,131	53,631
Interest-bearing securities	360,836	304,935
Short term deposits	35,188	50,138
Derivative financial instruments – interest rate swap contracts	–	2,075
	457,155	**410,779**

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) Recognition and measurement

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.

ii) Financial assets and liabilities

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.

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.

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.

b) Risk exposure

Information about the Group's exposure to price risk and interest rate risk is provided in Note 3.

12. REINSURANCE AND OTHER RECOVERIES RECEIVABLE / (PAYABLE)

	2015 $000	2014 $000
Expected future reinsurance recoveries undiscounted		
on claims paid	108	141
on outstanding claims	(117)	(33)
Reinsurance and other recoveries receivable on incurred claims	**(9)**	**108**

a) Recognition and measurement

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.

13. DEFERRED ACQUISITION COSTS

	2015 $000	2014 $000
Current		
Deferred acquisition costs	22,059	15,778
	22,059	**15,778**
Non-current		
Deferred acquisition costs	42,069	24,250
	42,069	**24,250**

Movements in the deferred acquisition costs are as follows:

	2015 $000	2014 $000
Balance at beginning of year	40,028	27,226
Acquisition costs deferred during the year	44,078	27,072
Amortisation expense	(19,528)	(15,075)
Exchange differences	(450)	805
	64,128	**40,028**

a) Recognition and measurement

Direct acquisition costs incurred in obtaining health insurance contracts, including broker commissions, are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the consolidated income statement in subsequent reporting periods. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

b) Critical accounting judgements and estimates

i) Australian Residents Health Insurance

Deferred acquisition costs are amortised on a straight line basis over a period of six years (2014: six years), in accordance with the expected pattern of the incidence of risk under the open ended insurance contracts to which they relate, which includes expectations of customers remaining insured.

The Group pays an upfront commission to retail brokers on signing up new members to the business. These upfront commissions will give rise to future premium revenue beyond the current period and are able to be measured and directly associated with a particular insurance contract. The Group does not capitalise the indirect administration costs associated with acquiring new members due to the difficulty in measurement. The Group considers the duration of a health insurance contract to be an open ended agreement as the Group stands ready to continue to insure its customers under continuing policies. The Group uses average retention rates to determine the appropriate customer contract life and related amortisation period for customers who purchase insurance through these broker channels. The analysis included extrapolating historical lapse rates for broker acquired customers but truncating the data at 10 years in order to allow for the inherent distortion created by extrapolating historical data. The analysis identified the amortisation period to be six years. The Group re-performs this analysis at least every six months for reassessment. A decrease in the expected contract periods of one year would increase amortisation expense by $2.3m for 30 June 2015.

The recoverability of the related deferred acquisition costs is also considered as part of the liability adequacy test performed. As described in Note 20, the Group has no deficiency in the unearned premium liability at 30 June 2015.

Alternative view

General insurers amortise deferred acquisition costs usually over one year, as their policies generally have a defined term of one year. With health insurance, if the contract term is considered to be only the term to which the customer has agreed to, or paid to, the deferred acquisition cost would be amortised over a period of between one and two months, which is the period paid in advance by the customer. However, the Group believes that does not reflect the open ended nature of a health insurance contract, the contract periods to which future premium revenue will arise, nor the expected pattern of the incidence of risk under the insurance contracts to which the costs relate. For these reasons the Group believes the currently adopted treatment is more appropriate.

ii) nib New Zealand

The Group pays commissions to retail brokers on signing up new members to the business. The majority of these commissions are trailing commissions paid to retail brokers over the contract period of one year. These are written off over the life of the contract, being one year. Consistent with the Australian Residents Health Insurance business, the Group does not capitalise the indirect administration costs associated with acquiring new members due to the difficulty in identifying and associating those indirect costs with acquiring particular insurance contracts.

In addition to the above, a small remaining balance of upfront commissions are written off over the expected life of the policyholder.

14. ASSETS CLASSIFIED AS HELD FOR SALE

	2015 $000	2014 $000
Non-current assets held for sale		
Land and buildings	38,726	–
	38,726	**–**

In May 2015, the Directors of the Group decided to sell and leaseback the freehold land and buildings at 22 Honeysuckle Drive. The sale is expected to be completed before the end of June 2016.

a) Recognition and measurement

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.

b) Non-recurring fair value measurement

Land and buildings classified as held for sale during the reporting period was measured at the lower of its carrying amount and the fair value less costs to sell at the time of the reclassification, resulting in the recognition of a gain of $5,539,000 in other comprehensive income. The fair value of the land and buildings was determined based on an independent valuation. This is a level 3 measurement as per the fair value hierarchy set out in Note 4(a).

15. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings $000	Plant and Equipment $000	Leasehold Improvements $000	Total $000
At 1 July 2013				
Cost	38,358	11,755	2,652	**52,765**
Accumulated depreciation and impairment	(1,157)	(7,844)	(2,042)	**(11,043)**
Net book amount	**37,201**	**3,911**	**610**	**41,722**
Year ended 30 June 2014				
Opening net book amount	37,201	3,911	610	**41,722**
Additions	49	3,781	1,340	**5,170**
Acquisition of subsidiary	–	38	–	**38**
Revaluations	4,518	–	–	**4,518**
Assets included in a disposal group classified as held for sale and other disposals	–	(172)	–	**(172)**
Depreciation charge for the year	(1,181)	(1,862)	(388)	**(3,431)**
Exchange differences	–	122	–	**122**
Closing net book amount	**40,587**	**5,818**	**1,562**	**47,967**
At 30 June 2014				
Cost	41,180	11,944	3,992	**57,116**
Accumulated depreciation and impairment	(593)	(6,126)	(2,430)	**(9,149)**
Net book amount	**40,587**	**5,818**	**1,562**	**47,967**
Year ended 30 June 2015				
Opening net book amount	40,587	5,818	1,562	**47,967**
Additions	–	2,171	1,636	**3,807**
Revaluations	5,539	–	–	**5,539**
Assets included in a disposal group classified as held for sale and other disposals	(38,726)	(120)	–	**(38,846)**
Transfers	(4,504)	–	4,504	**–**
Depreciation charge for the year	(1,081)	(2,174)	(659)	**(3,914)**
Exchange differences	–	(86)	(9)	**(95)**
Closing net book amount	**1,815**	**5,609**	**7,034**	**14,458**
At 30 June 2015				
Cost	1,863	13,672	10,971	**26,506**
Accumulated amortisation and impairment	(48)	(8,063)	(3,937)	**(12,048)**
Net book amount	**1,815**	**5,609**	**7,034**	**14,458**

15. PROPERTY, PLANT AND EQUIPMENT continued

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 were independently valued by a member of the Australian Property Institute as at 30 June 2013. It is the opinion of the Directors that this valuation represents the fair value of the property at 30 June 2015 allowing for additions and depreciation subsequent to the independent valuation.

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:

	2015 $000	2014 $000
Cost	1,354	41,580
Accumulated depreciation	(579)	(9,347)
Net book amount	**775**	**32,233**

b) Recognition and measurement

Land and buildings (except for investment properties) 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 10 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 16(a)(v).

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.

16. INTANGIBLE ASSETS

	Goodwill $000	Software $000	Brands and Trademarks $000	Customer Contracts $000	Total $000
At 1 July 2013					
Cost	52,515	37,696	6,580	22,718	**119,509**
Accumulated amortisation and impairment	–	(23,745)	(740)	(3,754)	**(28,239)**
Net book amount	**52,515**	**13,951**	**5,840**	**18,964**	**91,270**
Year ended 30 June 2014					
Opening net book amount	52,515	13,951	5,840	18,964	**91,270**
Additions	–	6,122	–	–	**6,122**
Acquisition of subsidiary	1,423	–	–	–	**1,423**
Amortisation charge for the year	–	(4,839)	(1,355)	(2,338)	**(8,532)**
Exchange differences	2,688	294	139	1,774	**4,895**
Closing net book amount	**56,626**	**15,528**	**4,624**	**18,400**	**95,178**
At 30 June 2014					
Cost	56,626	43,338	6,832	24,667	**131,463**
Accumulated amortisation and impairment	–	(27,810)	(2,208)	(6,267)	**(36,285)**
Net book amount	**56,626**	**15,528**	**4,624**	**18,400**	**95,178**
Year ended 30 June 2015					
Opening net book amount	56,626	15,528	4,624	18,400	**95,178**
Additions	–	7,175	–	–	**7,175**
Amortisation charge for the year	–	(5,680)	(701)	(2,278)	**(8,659)**
Impairment charge[1]	(1,423)	–	–	–	**(1,423)**
Exchange differences	(1,206)	(224)	(14)	(648)	**(2,092)**
Closing net book amount	**53,997**	**16,799**	**3,909**	**15,474**	**90,179**
At 30 June 2015					
Cost	55,420	50,201	6,720	23,793	**136,134**
Accumulated amortisation and impairment	(1,423)	(33,402)	(2,811)	(8,319)	**(45,955)**
Net book amount	**53,997**	**16,799**	**3,909**	**15,474**	**90,179**

1. The carrying amount of the nib Options segment goodwill has been reduced to nil through recognition of an impairment loss against goodwill. This loss has been disclosed as a separate line item in profit or loss.

a) Recognition and measurement

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.

16. INTANGIBLE ASSETS continued

a) Recognition and measurement continued

iii) Brands and trademarks

Brands and trademarks acquired with IMAN Australian Health Plans Pty Ltd have a definite useful life of five years and are carried at cost less accumulated impairment losses. Refer to 16(b) for change in estimate of useful life of this asset.

Brands and trademarks acquired with nib nz limited (formerly TOWER Medical Insurance Limited) in November 2012 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 Australian Health Plans Pty Ltd and 10 years for nib nz limited.

v) Impairment

Goodwill and intangible assets that have an indefinite useful life and are not subject to amortisation are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

b) Change in critical accounting judgements and estimates for useful life of brands and trademarks

During the year the useful life of brands and trademarks acquired with IMAN Australian Health Plans Pty Ltd were revised from indefinite to having a useful life of five years. The net effect of the changes in the current financial year was an increase in amortisation expense of $134,800.

Assuming the assets are held until the end of their estimated useful lives, amortisation in future years in relation to these assets will be increased by the following amounts:

Year ending 30 June	$000
2015	135
2016	809
2017	809
2018	809
2019	809
2020	674

c) Impairment tests for goodwill

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

	Australian Residents Health Insurance Australia $000	International Students Health Insurance Australia $000	International Workers Health Insurance Australia $000	New Zealand Residents Health Insurance New Zealand $000	nib Options Australia $000	Total $000
At 30 June 2015	7,067	–	18,380	28,550	–	53,997
At 30 June 2014	7,067	–	18,380	29,756	1,423	56,626

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

d) Key assumptions used for value-in-use calculations

The assumptions used for the cash flow projections for the first three years are in line with the current Board approved budget and forecast forward projections. Key assumptions include policyholder growth, claims ratio and the discount factor.

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

Cash flows beyond the three-year period are extrapolated in to perpetuity assuming a growth factor of 3.0%. The Group has applied a post-tax discount rate to discount the forecast future attributable post tax cash flows. For Australian CGUs, the discount rate applied of 10.4% represents the risk free rate of 4.8% plus a risk adjustment of 5.6%. This equates to a pre-tax discount rate of 14.0%. For the New Zealand CGU, the discount rate applied of 11.1% represents the risk free rate of 5.1% plus a risk adjustment of 6.0%. This equates to a pre-tax discount rate of 13.9%.

The following table sets out the key assumptions for those CGUs that have significant goodwill allocated to them:

	Budget/forecast period[1]				Beyond budget/ forecast period			
	Policyholder growth		Claims ratio		Growth rate		Discount rate	
Goodwill	2015 %	2014 %	2015 %	2014 %	2015 %	2014 %	2015 %	2014 %
Australian Residents Health Insurance (arhi)	5.2	4.2	86.2	86.2	3.0	3.0	10.4	10.7
International Workers Health Insurance (iwhi)	11.7	19.6	34.6	31.6	3.0	3.0	10.4	10.7
New Zealand Residents Health Insurance	5.9	9.8	63.9	66.3	3.0	3.0	11.1	11.4

1. The Budget/forecast period for 2015 refers to FY16 to FY18, and for 2014 FY15 to FY17.

These assumptions have been used for analysis of each CGU within an operating segment. Management determined policyholder growth and claims ratios based on past performance and its expectations for the future.

e) Significant estimate: Impact of possible changes in key assumptions

In both 2015 and 2014 there were no reasonably possible changes in any of the key assumptions that would have resulted in an impairment write-down of goodwill in any CGU.

nib Options goodwill of $1.423 million has been fully written down in FY15 due to the change in the business model.

17. PAYABLES

	2015 $000	2014 $000
Current		
Outwards reinsurance expense liability – premiums payable to reinsurers	348	306
Trade creditors	6,389	5,445
Other payables	66,063	55,706
RETF payable*	47,920	45,294
Annual leave payable	4,182	3,969
	124,902	**110,720**
Non-Current		
Deferred settlement	–	672
	–	**672**

* 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.

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.

	2015 $000	2014 $000
Annual leave obligation expected to be settled after 12 months	**434**	**463**

a) Recognition and measurement

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.

i) 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.

18. BORROWINGS

	2015 $000	2014 $000
Current		
Bank overdraft	1,390	1,768
	1,390	**1,768**
Non-current		
Bank loans (secured)	62,501	65,081
	62,501	**65,081**

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

The Group has a line-of-credit facility for corporate credit cards issued to nib employees for a total of $2.0 million. Outstanding amounts as at 30 June 2015 are included in Current Liabilities – Payables under Trade Creditors.

Movements in the bank loans (secured) are as follows:

	2015 $000	2014 $000
Balance at beginning of period	65,081	59,149
Amortisation of borrowing expenses	59	56
Exchange differences	(2,639)	5,876
Balance at end of period	**62,501**	**65,081**

a) Recognition and measurement

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 if the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

b) Secured liabilities

nib nz holdings 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 nib nz limited with maturity and repayment at the end of three years being 18 December 2017.

The bank loan is secured by the shares in nib nz holdings 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 Interest Cover Ratio will not be less than 5:1.

As at 30 June 2015 the Group Gearing Ratio was 15.6% and the Group Interest Ratio Cover Ratio was 35:1.

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

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

c) Available debt facility

nib holdings limited has entered into a AUD$50 million debt facility that has not been drawn down as at 30 June 2015. Refer to Note 31 Events Occurring after the Balance Sheet Date.

d) Risk exposure

Information on the sensitivity of the Group's profit and equity to interest rate risk on borrowings is provided in Note 3.

19. OUTSTANDING CLAIMS LIABILITY

	2015 $000	2014 $000
Outstanding claims – central estimate of the expected future payment for claims incurred	78,565	74,536
Risk margin	3,872	3,408
Administration component	1,214	1,375
Gross outstanding claims liability	**83,651**	**79,319**
Outstanding claims – expected payment to the RETF* in relation to the central estimate	12,940	13,742
Risk Margin	556	591
Net outstanding claims liability	**97,147**	**93,652**

* 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.

Movements in the gross outstanding claims are as follows:

	2015 $000	2014 $000
Gross outstanding claims at beginning of period	79,319	68,039
Risk margin	(3,408)	(3,771)
Administration component	(1,375)	(1,220)
Central estimate at beginning of period	**74,536**	**63,048**
Change in claims incurred for the prior year	(5,559)	(3,247)
Claims paid in respect of the prior year	(68,496)	(60,121)
Claims incurred during the year (expected)	1,146,524	1,034,646
Claims paid during the year	(1,068,031)	(960,695)
Effect of changes in foreign exchange rates	(409)	905
Central estimate at end of period	**78,565**	**74,536**
Risk margin	3,872	3,408
Administration component	1,214	1,375
Gross outstanding claims at end of period	**83,651**	**79,319**

a) Actuarial methods and critical accounting judgements and estimates

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 and risk margin is made of the amounts that will be recoverable from or payable to the RETF based upon the gross provision.

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 Australian Residents Health Insurance and New Zealand Health Insurance, two methods are used. For service months April 2015 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 2015 and June 2015 the Bornhuetter-Ferguson method is used, which progressively blends payment experience and prior forecasts of incurred costs.

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

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

b) Actuarial assumptions

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

	2015			2014		
Australian Residents Health Insurance	Hospital %	Medical %	Ancillary %	Hospital %	Medical %	Ancillary %
Assumed proportion paid to date	92.6%	90.8%	97.2%	92.1%	89.7%	96.5%
Expense rate	1.4%	1.4%	1.4%	1.7%	1.7%	1.7%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	2.9%	2.9%	2.9%	3.3%	3.3%	3.3%
Risk equalisation rate	24.1%	24.1%	0.0%	26.9%	26.9%	0.0%
Risk margin for risk equalisation	4.3%	4.3%	0.0%	4.3%	4.3%	0.0%
International Students Health Insurance						
Assumed proportion paid to date	69.1%	75.8%	96.0%	74.8%	82.1%	98.6%
Expense rate	2.0%	2.0%	2.0%	1.7%	1.7%	1.7%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	19.7%	19.7%	19.7%	19.6%	19.6%	19.6%
International Workers Health Insurance						
Assumed proportion paid to date	80.2%	80.8%	89.0%	85.5%	82.5%	87.0%
Expense rate	4.0%	4.0%	4.0%	8.0%	8.0%	8.0%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	23.4%	23.4%	23.4%	23.2%	23.2%	23.2%
NZ Health Insurance	Surgical %	Medical %		Surgical %	Medical %	
Assumed proportion paid to date	89.3%	79.7%		88.9%	78.5%	
Expense rate	1.8%	1.8%		1.6%	1.6%	
Discount rate	0.0%	0.0%		0.0%	0.0%	
Risk margin	8.4%	8.4%		8.5%	8.5%	

The risk margin of 2.9% for Australian Residents Health Insurance (June 2014: 3.3%), International Students Health Insurance 19.7% (June 2014: 19.6%), 23.4% for International Workers Health Insurance (June 2014: 23.2%) and New Zealand Health Insurance 8.4% (June 2014: 8.5%) of the underlying liability has been estimated to equate to a probability of adequacy of 95% for the Group. The risk margin within each territory allows for diversification across the entity. The benefit of diversification across the Group is again allocated to the Australian Residents Health Insurance segment.

19. OUTSTANDING CLAIMS LIABILITY continued

c) 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 policyholders 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% at a consolidated level (June 2014: 95%).

d) Sensitivity analysis

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.

ii) Impact of key variables

			Profit after tax 2015 $000		Equity 2015 $000
Recognised amounts in the financial statements			**75,798**		**344,854**
Variable	**Movement in variable**	**Adjustments**	**Adjusted amounts**	**Adjustments**	**Adjusted amounts**
		$000	**$000**	**$000**	**$000**
Chain Ladder Development Factors	+0.5%	(3,401)	72,397	(3,401)	341,453
	-0.5%	3,401	79,199	3,401	348,255
Bornhuetter-Ferguson Unpaid Factors	+2.0%	(2,538)	73,260	(2,538)	342,316
	-2.0%	2,538	78,336	2,538	347,392
Expense rate	+1.0%	(581)	75,217	(581)	344,273
	-1.0%	581	76,379	581	345,435
Risk equalisation allowance	+2.5%	(982)	74,816	(982)	343,872
	-2.5%	982	76,780	982	345,836
Risk margin	+1.0%	(651)	75,147	(651)	344,203
	-1.0%	651	76,449	651	345,505

20. UNEARNED PREMIUM LIABILITY AND UNEXPIRED RISK LIABILITY

a) Unearned premium liability

	2015 $000	2014 $000
Current		
Unearned premium liability	126,922	104,278
	126,922	**104,278**
Non-current		
Unearned premium liability	16,306	9,924
	16,306	**9,924**

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

Movements in the unearned premium liability are as follows:

	2015 $000	2014 $000
Unearned premium liability as at 1 July	114,202	93,425
Deferral of premiums on contracts written in the period	133,304	110,869
Earning of premiums written in previous periods	(104,278)	(90,092)
Unearned premium liability as at 30 June	**143,228**	**114,202**

b) Unexpired risk liability

No deficiency was identified as at 30 June 2015 and 2014 that resulted in an unexpired risk liability needing to be recognised.

c) Critical accounting judgements and estimates

A liability adequacy test is required to be performed for the period over which the insurer is "on risk" in respects of premiums paid in advance. 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 arising from the rights and obligations created. 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 and an unexpired risk liability created. 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 19(b). No deficiency was identified as at 30 June 2015 and 2014 that resulted in an unexpired risk liability needing to be recognised.

This test is also extended beyond recognised unearned premium liability to include premiums renewable until the next repricing review, usually 1 April each year.

21. PREMIUM PAYBACK LIABILITY

	2015 $000	2014 $000
Current		
Premium payback liability	10,459	7,496
	10,459	**7,496**
Non current		
Premium payback liability	30,429	33,254
	30,429	**33,254**

Premium payback early settlement offer

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

Customers receive the settlement offer around two months before their policy renewal. The first settlement offers were made in mid-June 2015 for August 2015 policy renewals and 100% of these offers have been included in the current portion of the premium payback liability on the balance sheet. Settlement offers have been sent in July 2015 and August 2015 to eligible customers with renewal dates in September 2015 and October 2015. As the premium payback settlement offer is expected to continue over the next 12 months, and recognising that 100% acceptance is unlikely, it's estimated for policyholders that accept the offer, $10.0 million of total premium payback liability could be settled within the next 12 months. This is in addition to $6.3 million premium payback liability that is expected to be settled in the normal course of business.

Movements in the premium payback liability are as follows:

	2015 $000	2014 $000
Gross premium payback liability at beginning of period	40,750	40,214
Adjustment to ensure reserve exceeds current payout on early lapse	(1,733)	(1,167)
Value of payments currently being processed	(1,033)	(1,191)
Risk margin	(1,156)	(1,954)
Central estimate at beginning of period	**36,828**	**35,902**
Funding/new accrued	6,581	5,878
Unwind discount rate	1,624	1,757
Interest rate movement impact	1,953	(1,195)
Premium payback payments	(8,222)	(9,765)
Others	811	759
Effect of changes in foreign exchange rates	(1,603)	3,492
Central estimate at end of year/period	**37,972**	**36,828**
Adjustment to ensure reserve exceeds current payout on early lapse	565	1,733
Value of payments currently being processed	1,000	1,033
Risk margin	1,351	1,156
Gross outstanding claims at end of period	**40,888**	**40,750**

a) Risk exposure

Information about the Group's exposure to interest rate risk in relation to premium payback liability is provided in Note 3(c)(i).

b) Actuarial methods and critical accounting judgements and estimates

The premium payback liability represents the accrued amount of premium expected to be repaid to certain New Zealand health insurance policyholders. A number of nib nz limited'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.

21. PREMIUM PAYBACK LIABILITY continued

b) Actuarial methods and critical accounting judgements and estimates continued

A risk margin at 95% probability of sufficiency was estimated by assuming there are no future lapses. Most of the premium payback reserve is held in respect of a group of customers where the historical lapse rate is already very low.

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

	2015	2014
Lapse rate until 3 years from premium payback date	2.0% – 10.0%	2.0% – 13.0%
Lapse rate within 3 years of premium payback date	0.0% – 1.0%	0.0% – 1.0%
Expense rate	0.0%	0.0%
Discount rate for succeeding and following year	2.8% – 3.1%	3.8% – 4.2%
Risk margin	3.1%	2.6%

The risk margin has been estimated to equate to a 95% probability of adequacy (2014: 95%).

c) Sensitivity analysis

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 an inverse impact on the premium payback liability.
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 an inverse impact on the premium payback liability.
Risk margin	An estimate of the amount of uncertainty in the determination of the central estimate. An increase or decrease in the risk margin would have a corresponding impact on the premium payback liability.

ii) Impact of key variables

	Profit after tax 2015 $000	Equity 2015 $000
Recognised amounts in the financial statements	**75,798**	**344,854**

Variable	Movement in variable	Adjustments	Adjusted amounts	Adjustments	Adjusted amounts
		$000	$000	$000	$000
Lapse Rate	+1.0%	806	76,604	806	345,660
	-1.0%	(867)	74,931	(867)	343,987
Discount Rate	+1.0%	1,193	76,991	1,193	346,047
	-1.0%	(1,414)	74,384	(1,414)	343,440
Risk margin	+1.0%	(285)	75,513	(285)	344,569
	-1.0%	285	76,083	285	345,139

d) Unexpired risk liability

A liability adequacy test was performed allowing for the expected cash flows of each policy over the entire product life.

The future cash flows include:

- Reserves held at 30 June 2015 including the risk margin;
- Expected future payments for claims, policy paybacks and management expenses; and
- Expected future revenue from premiums and investment income.

No deficiency was identified at 30 June 2015 (2014: nil) that resulted in an unexpired risk liability needing to be recognised.

22. PROVISION FOR EMPLOYEE ENTITLEMENTS

	2015 $000	2014 $000
Current		
Long service leave	2,557	2,097
Termination benefits	413	195
Retirement benefits	86	78
	3,056	**2,370**
Non-Current		
Long service leave	1,268	1,268
	1,268	**1,268**

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.

	2015 $000	2014 $000
Long service leave obligation expected to be settled after 12 months	2,297	1,882
Retirement benefit obligation expected to be settled after 12 months	86	78
	2,383	**1,960**

a) Recognition and measurement

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. The portion not expected to be settled within 12 months is discounted based on expected settlement dates. 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 G100 treasury discount rates 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.

22. PROVISION FOR EMPLOYEE ENTITLEMENTS continued

a) Recognition and measurement continued

iv) Retirement benefit obligations

Directors' retirement benefits are provided for in the financial statements. Non-Executive Directors of nib health funds limited employed before 24 November 2005 are entitled to a lump sum retirement benefit based on number of years' service. 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.

23. CONTRIBUTED EQUITY

a) Share capital

	2015 $000	2014 $000
Ordinary shares		
Fully paid	**28,106**	**28,106**
Other equity securities		
Treasury shares	**(105)**	**(917)**
Total contributed equity	**28,001**	**27,189**

b) Movements in share capital

Date	Details	No. of shares	Price $	$000
1 July 2013	Opening balance	439,004,182		28,106
30 June 2014	**Balance**	**439,004,182**		**28,106**
1 July 2014	Opening balance	439,004,182		28,106
30 June 2015	**Balance**	**439,004,182**		**28,106**

c) 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 36 for more information.

Date	Details	No. of shares	$000
1 July 2013	**Opening balance**	**95,158**	**200**
Jul 2013	Acquisition of shares by the Trust	16,280	35
Sep 2013	Employee share issue – STI	(60,251)	(120)
Jun 2014	Acquisition of shares by the Trust	250,000	802
30 June 2014		**301,187**	**917**
Sep 2014	Employee share issue – LTIP	(232,215)	(745)
Sep 2014	Employee share issue – STI	(77,576)	(204)
Sep 2014	Acquisition of shares by the Trust	40,000	137
30 June 2015		**31,396**	**105**

d) Recognition and measurement

i) Ordinary shares

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.

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.

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.

24. RETAINED PROFITS

	2015 $000	2014 $000
Balance at the beginning of the year	320,132	295,212
Net profit	75,798	69,911
Dividends	(88,892)	(44,991)
Balance at the end of the financial year	**307,038**	**320,132**

25. RESERVES

	2015 $000	2014 $000
Revaluation surplus – property, plant and equipment	8,910	5,033
Available-for-sale financial assets	–	1,408
Share-based payments	811	524
Share-based payments exercised	(1,803)	(1,139)
Foreign currency translation	1,897	3,275
	9,815	**9,101**

25. RESERVES continued

Movements in reserves

	Notes	2015 $000	2014 $000
Revaluation surplus – property, plant and equipment			
Balance at the beginning of the year		5,033	1,870
Property revaluation – gross		5,539	4,518
Deferred tax	8(a)(iii)	(1,662)	(1,355)
Balance at the end of the financial year		**8,910**	**5,033**
Available-for-sale financial assets			
Balance at the beginning of the year		1,408	865
Revaluation – gross		–	776
Reversal of revaluation on disposal – gross		(2,012)	–
Deferred tax	8(a)(iii)	604	(233)
Balance at the end of the financial year		**–**	**1,408**
Share-based payments			
Balance at the beginning of the year		524	204
Performance right expense		368	320
Transfer to share-based payments exercised reserve on exercise of performance rights		(81)	–
Balance at the end of the financial year		**811**	**524**
Share-based payments exercised			
Balance at the beginning of the year		(1,139)	(1,139)
Transfer from share-based payments reserve on exercise of performance rights		81	–
Issue of shares held by nib Holdings Ltd Share Ownership Plan Trust to employees		(745)	–
Balance at the end of the financial year		**(1,803)**	**(1,139)**
Foreign currency translation			
Balance at the beginning of the year		3,275	1,235
Currency translation differences arising during the year – gross		(1,434)	2,337
Deferred tax		56	(297)
Balance at the end of the financial year		**1,897**	**3,275**

a) 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 15(b).

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. 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(e) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

26. DIVIDENDS

a) Ordinary shares

	2015 $000	2014 $000
Final dividend for the year ended 30 June 2014 of 14.75 cents per fully paid ordinary share, made up of 5.75 cps ordinary dividend and 9.0 cps special dividend (2013 – 5.0 cents per fully paid ordinary share, made up of 5.0 cps ordinary dividend) paid on 3 October 2014		
Fully franked based on tax paid @ 30%	64,748	21,946
Interim dividend for the year ended 30 June 2015 of 5.5 cents per fully paid ordinary share, made up of 5.5 cps ordinary dividend (2014 – 5.25 cents per fully paid ordinary share, made up of 5.25 cps ordinary dividend) paid on 2 April 2015		
Fully franked based on tax paid @ 30%	24,144	23,045
Total dividends provided for or paid	**88,892**	**44,991**

b) Dividends not recognised at year end

	2015 $000	2014 $000
In addition to the above dividends, since the end of the year the Directors have recommended the payment of a final dividend of 6.0 cents per fully paid ordinary share, made up of 6.0 cps ordinary dividend (2014 – 14.75 cents per fully paid ordinary share, made up of 5.75 cps ordinary dividend and 9.0 cps special dividend), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 9 October 2015 out of retained profits at 30 June 2015, but not recognised as a liability at the end of the year, is	**26,340**	**64,753**

c) Franked dividends

The franked portion of the final dividends recommended after 30 June 2015 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 2015.

	2015 $000	2014 $000
Franking credits available for subsequent financial years to equity holders of parent entity based on a tax rate of 30%	**15,711**	**26,316**

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

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

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

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

d) Recognition and measurement

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.

27. EARNINGS PER SHARE

a) Basic earnings per share

	2015 cents	2014 cents
Profit from continuing operations attributable to the ordinary equity holders of the company	17.3	15.9
Profit from discontinued operations	–	–
Profit attributable to the ordinary equity holders of the company	**17.3**	**15.9**

b) Diluted earnings per share

	2015 cents	2014 cents
Profit from continuing operations attributable to the ordinary equity holders of the company	17.3	15.9
Profit from discontinued operations	–	–
Profit attributable to the ordinary equity holders of the company	**17.3**	**15.9**

c) Reconciliations of earnings used in calculating earnings per share

	2015 $000	2014 $000
Basic earnings per share		
Profit from continuing operations	75,798	69,911
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**75,798**	**69,911**
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	75,798	69,911
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	**75,798**	**69,911**

d) Weighted average number of shares used as the denominator

	2015 Number	2014 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	439,004,182	439,004,182
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**	**439,004,182**

e) Recognition and measurement

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.

f) 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 are only 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 the Remuneration Report on page [42].

The total 2,001,483 performance rights granted (2014 – 1,917,134) 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 2015. These performance rights could potentially dilute basic earnings per share in the future.

28. CAPITAL 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 has a number of levers, including adjusting the amount of dividends paid to shareholders, returning capital to shareholders, issuing new shares, selling assets, raising or reducing debt or buying back shares.

nib holdings limited

The Group through earnings and capital management have achieved a return on equity of 20% or greater for the last three years and continues to target return on equity in the order of 20%. The return on equity as at 30 June 2015 is 23.1%. (2014: 20.8%). 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.

At 30 June 2015 the Group had available capital of $10.2 million above our internal benchmark (after allowing for the payment of a fully franked final dividend of 6.0 cents per share, made up of 6.0 cps ordinary dividend, totalling $26.3 million, in October 2015).

Below is a reconciliation of net assets to available capital as at 30 June 2015 (after allowing for payment of a final dividend):

		2015 $m
Net assets		**344.3**
Less:	nib health fund capital required	(226.1)
	nib nz capital required	(58.5)
	Capital required looking forward 12 months	(17.0)
	Allowance for World Nomads Group acquisition	(12.2)
	nib nz intangibles	(38.6)
	International Workers intangibles	(23.3)
	Digital Health Ventures intangibles	0.3
	Borrowings	62.5
	Other assets and liabilities	5.1
	Final dividend	(26.3)
Available capital (after allowing for payment of final dividend)		**10.2**

28. CAPITAL MANAGEMENT continued

nib health funds limited

nib health funds limited, a controlled entity, 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 Solvency Standard, nib health funds limited:

i. must ensure that, at all times, the value of cash must be equal to or greater than a specified cash management amount, plus any solvency supervisory adjustment (Section 4.2 of the Solvency Standard),
ii. must have, and comply with, a board endorsed, liquidity management plan designed to ensure compliance with the solvency requirements described above, and set minimum liquidity requirements and management action triggers (Section 4.3 of the Solvency Standard).

To comply with the Capital Adequacy Standard, nib health funds limited:

i. must ensure that at all times the value of its assets is not less than the amounts calculated under Section 4.2 (a) and (b) of the Capital Adequacy Standard (Capital Adequacy Requirement),
ii. must have, and comply with, a written, board endorsed capital management policy.

nib health funds limited has a capital management plan which establishes a target 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 internal capital target ensures nib has a minimum level of capital given certain stressed capital scenarios. This currently approximates to 13.6% of total projected premiums for the next 12 months.

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 $25,000,000 in December 2014 and $28,000,000 June 2015 to nib holdings limited.

The surplus assets over benchmark at 30 June 2015 and 30 June 2014 were as follows:

	2015 $000	2014 $000
Total Assets nib health funds limited (excluding unclosed business contributions – unearned)	586,971	506,722
Capital Adequacy Requirement	389,187	326,268
Surplus Assets for Capital Adequacy	197,784	180,454
Net Assets nib health funds limited	231,162	205,933
Internal capital target	226,105	200,797
Surplus assets over internal capital target	5,057	5,136

nib nz limited

nib nz limited, a controlled entity, is required to comply with the Solvency Standards for non life insurance business published by the Reserve Bank of New Zealand (RBNZ). The Solvency Standards determine the Minimum Solvency Capital required. A requirement of nib nz limited's insurance license is that it maintains capital above the Minimum Solvency Capital.

The overriding objective underpinning nib nz limited's capital management approach is to operate with a level of capital judged to be commercially prudent and within the bounds of the Board's risk appetite which achieves a balance between:

- maintaining a buffer above the RBNZ Minimum Solvency Requirement (MSR) for nib nz limited (as defined by the IPSA Solvency Standard for Non-life Insurance Business);
- maintaining a level of capital that ensures an appropriate financial strength rating; and
- avoiding holding an excessive level of capital, which would otherwise act to reduce returns on capital for the Group.

The benchmark capital adequacy coverage ratio is 1.75x plus $NZ10 million.

The surplus assets over benchmark at 30 June 2015 and 2014 are as follows:

	2015 $000	2014 $000
Actual Solvency Capital	32,758	29,615
Minimum Solvency Capital	8,284	7,823
Solvency Capital	24,474	21,792
Capital Adequacy Coverage Ratio	3.95	3.79
Internal benchmark	1.75 + $NZ10m	1.75 + $NZ10m
Internal benchmark requirement	23,429	23,000
Surplus assets over internal benchmark	9,329	6,615

29. COMMITMENTS FOR EXPENDITURE

a) Operating lease commitments

	2015 $000	2014 $000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
– not longer than one year	3,435	3,406
– longer than one year and not longer than five years	8,498	10,140
– longer than five years	1,125	1,733
	13,058	**15,279**

The Group entered into an agreement to lease new Auckland premises for a lease term of six years commencing 1 November 2014. The agreement to lease provides for a rent review every three years based on prevailing market value rates at the time of review. As part of the lease, an NZD$951,000 bank guarantee was required.

b) Capital expenditure commitments

	2015 $000	2014 $000
Payable:		
– not longer than one year	481	477
	481	**477**

30. CONTINGENT LIABILITIES

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

nib holdings limited has given an undertaking to extend financial support to nib options pty limited, Realself pty limited and Realsurgeons pty limited by subordinating repayment of debts owed by the entities to nib holdings limited, in favour of all other creditors. This undertaking has been provided as a result of each of these subsidiaries experiencing deficiencies of capital and reserves, and is intended to enable the entities to continue their operations and fulfil all financial obligations now and in the future. The undertaking is provided for a minimum period of twelve months from 21 August 2015, or if earlier, to the date of sale of the entities should this occur.

nib health funds limited has given an undertaking to extend financial support to nib servicing facilities pty limited by subordinating repayment of debts owed by the entity to nib health funds limited, in favour of all other creditors. This undertaking has been provided as a result of the subsidiary experiencing deficiencies of capital and reserves, and is intended to enable the entity to continue its operations and fulfil all financial obligations now and in the future. The undertaking is provided for a minimum period of twelve months from 21 August 2015, or if earlier, to the date of sale of the entity should this occur.

31. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Acquisition of World Nomads Group Pty Limited and its controlled entities

On 31st July 2015 nib acquired 100% of World Nomads Group Pty Limited and its controlled entities (WNG) for $95.0 million on an enterprise value basis. WNG is the third-largest distributor of travel insurance in Australia, and specialises in the marketing, sale and distribution of travel insurance policies globally.

The final payment is expected to be approximately $106.0 million, including $15.5 million in cash, and is subject to final completion accounts confirming the value of assets and liabilities acquired.

The acquisition was funded with $85 million in debt, with the balance funded from available capital. Following the acquisition the Group Gearing Ratio will be approximately 32%.

Given the final completion accounts are not yet finalised we have not disclosed other assets and liabilities.

Premium payback early settlement offer

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

For eligible premium payback customers with renewal dates in September 2015 and October 2015, early settlement offers have been sent in July 2015 and August 2015 respectively. The value of early settlement offers issued in July 2015 and August 2015 is $6.8 million.

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.

32. REMUNERATION OF AUDITORS

	2015 $	2014 $
a) PricewaterhouseCoopers Australia		
1. Audit services		
Audit and review of financial report and other audit work under the *Corporations Act 2001*	450,089	406,398
Total remuneration for audit services	**450,089**	**406,398**
2. Non-audit services		
Audit-related services		
Audit of regulatory returns	48,400	43,100
Total remuneration for audit-related services	**48,400**	**43,100**
Taxation services		
Tax compliance services	149,966	106,195
International tax consulting and tax advice on mergers and acquisitions	23,332	45,329
Total remuneration for taxation services	**173,298**	**151,524**
Other services		
Accounting advice and support including one off transactions	164,545	27,103
Review of regulatory returns	11,554	11,094
Total remuneration for other services	**176,099**	**38,197**
Total remuneration for non-audit services	**397,797**	**232,821**
Total remuneration of PricewaterhouseCoopers Australia	**847,886**	**639,219**
b) Network firms of PricewaterhouseCoopers Australia		
1. Audit services		
Audit and review of financial report	150,089	141,611
Total remuneration for audit services	**150,089**	**141,611**
2. Non-audit services		
Audit-related services		
Audit of regulatory returns	10,975	10,359
Total remuneration for audit-related services	**10,975**	**10,359**
Taxation services		
Tax compliance services	31,732	61,519
Tax consulting services	15,291	–
International tax consulting and tax advice on mergers and acquisitions	25,127	–
Total remuneration for taxation services	**72,150**	**61,519**
Total remuneration for non-audit services	**83,125**	**71,878**
Total remuneration of network firms of PricewaterhouseCoopers	**233,214**	**213,489**
Total auditors' remuneration	**1,081,100**	**852,708**

33. BUSINESS COMBINATION

There were no business acquisitions in the year ending 30 June 2015.

On 13 September 2013, nib Options pty limited (a 92.5% owned subsidiary incorporated on 31 July 2013) acquired 100% of the issued capital of RealSelf pty limited effective 1 July 2013. Details of this business combination were discussed in Note 36 of the Group's Annual Report for the year ended 30 June 2014.

a) Recognition and measurement

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.

34. CONTROLLED ENTITIES

a) Subsidiaries and trusts

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):

		Beneficial ownership by Consolidated entity	
	Place of Incorporation	2015 %	2014 %
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 nz holdings limited (previously nib nzed limited)	New Zealand	100	100
nib nz limited (previously Tower Medical Insurance Limited)	New Zealand	100	100
nib Options pty limited	Australia	92.5	92.5
RealSurgeons pty limited	Australia	92.5	92.5
RealSelf pty limited	Australia	92.5	92.5
Digital Health Ventures Pty Ltd	Australia	50	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
- nib Salary Sacrifice (NZ) and Matching Plan (NZ) Trust
- nib holdings – nib nz Employee Share Purchase Scheme Trust

b) Non-controlling interests (NCI)

Set out below is summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. The amounts disclosed for each subsidiary are before inter-company eliminations.

	Digital Health Ventures Pty Ltd		nib Options pty limited consolidated group	
Summarised balance sheet	**2015 $000**	**2014 $000**	**2015 $000**	**2014 $000**
Current assets	369	–	165	494
Current liabilities	515	–	6,246	3,186
Current net assets	**(146)**	**–**	**(6,081)**	**(2,692)**
Non-current assets	892	–	309	2,647
Non-current liabilities	1,061	–	–	672
Non-current net assets	**(169)**	**–**	**309**	**1,975**
Net assets / liabilities	**(315)**	**–**	**(5,772)**	**(717)**
Accumulated NCI	**(158)**	**–**	**(433)**	**(54)**

Summarised statement of comprehensive income	2015 $000	2014 $000	2015 $000	2014 $000
Profit/(loss) for the year	**(315)**	**–**	**(5,055)**	**(1,798)**
Other comprehensive income	–	–	–	–
Total comprehensive income	**(315)**	**–**	**(5,055)**	**(1,798)**
Profit/(loss) allocated to NCI	**(158)**	**–**	**(379)**	**(135)**
Dividends paid to NCI	**–**	**–**	**–**	**–**

Summarised cash flows	2015 $000	2014 $000	2015 $000	2014 $000
Cashflows from operating activities	(243)	–	(3,638)	(2,412)
Cashflows from investing activities	(831)	–	(188)	(273)
Cash flows from financing activities	1,371	–	3,597	3,034
Net increase / (decrease) in cash and cash equivalents	**297**	**–**	**(229)**	**349**

c) Transactions with non-controlling interests

On 8 August 2014, the Group acquired 50% of the issued capital of Digital Health Ventures Pty Ltd (incorporated on 8 August 2014).

On 13 September 2013, the Group acquired 92.5% of the issued capital of nib Options pty limited (incorporated on 31 July 2013).

The effect on equity attributable to owners of nib holdings limited during the year from all non-controlling interests is summarised as follows:

	2015 $000	2014 $000
Consideration paid by non-controlling interests	–	81
	–	81

35. RELATED PARTY TRANSACTIONS

a) Related party transactions with key management personnel

Key management personnel are entitled to insurance policies provided at a discount dependant on length of service. These are provided under normal terms and conditions.

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

b) Key management personnel compensation

	2015 $	2014 $
Short-term employee benefits	4,484,043	3,907,341
Post-employment benefits	274,609	234,169
Other long-term benefits	34,781	31,569
Termination benefits	–	–
Share-based payments[1]	1,998,651	574,720
	6,792,084	**4,747,799**

1. Share-based payments in FY15 has increased from FY14 as no LTI performance rights vested in FY14 due to the performance period for the rights granted in FY11 being extended to 4 years. The LTI performance rights that vested in FY15 reflects a movement in share price from $1.12 (at grant date) to $3.39 (at vesting) at 50% vesting.

Detailed remuneration disclosures are provided in the Remuneration Report on pages 21 to 43.

c) Transactions with other related parties

i) Purchases from entities controlled by key management personnel

The Group acquired the following goods and services from entities that are controlled by a close family member of one of the Group's key management personnel:

- software development and maintenance
- advertising and promotions

Further details of the above transactions with key management personnel are disclosed in the Remuneration Report on page 43.

d) Outstanding balances arising from sales/purchases of goods and services

There are no outstanding balances at the end of the reporting period in relation to transactions with related parties.

36. 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 21 to 43 The nib Holdings Ltd Share Ownership Plan Trust administers the Group's Executive management Short-Term incentive and Long-Term Incentive Share Plans. This Trust has been consolidated in accordance with Note 1(d).

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

2015 Grant date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at the end of the year Number	Vested and exercisable at end of the year Number
27/05/2011	1/09/2014	–	412,534	–	(206,267)	(206,267)	–	–
21/12/2011	1/09/2015	–	392,307	–	–	–	392,307	–
19/11/2012	1/09/2016	–	553,236	–	–	–	553,236	–
29/11/2013	1/09/2017	–	559,057	–	–	–	559,057	–
22/12/2014	1/09/2018	–	–	473,927	–	–	473,927	–
13/05/2015	1/09/2018	–	–	22,956	–	–	22,956	–
		–	1,917,134	496,883	(206,267)	(206,267)	2,001,483	–

2014 Grant date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at the end of the year Number	Vested and exercisable at end of the year Number
27/05/2011	1/09/2014	–	412,534	–	–	–	412,534	–
21/12/2011	1/09/2015	–	392,307	–	–	–	392,307	–
19/11/2012	1/09/2016	–	553,236	–	–	–	553,236	–
29/11/2013	1/09/2017	–	–	559,057	–	–	559,057	–
			1,358,077	559,057	–	–	1,917,134	–

b) Employee Share Acquisition (tax exempt) Plan (ESAP)

Eligible Australian employees were offered the opportunity to receive part of their salary in the form of shares. All permanent employees who were an employee at the date the offer was made 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.

	2015	2014
Number of shares purchased on market under the plan to participating employees	78,766	157,158

The shares were allocated in two tranches. The first tranche of shares were for allocated on 27 August 2014 following nib's FY14 full year results presentation at a volume weighted average price of $3.36. The remaining tranche of shares were allocated on 6 March 2015 following nib's FY15 half year results presentation at a volume weighted average price of $3.71.

36. SHARE-BASED PAYMENTS continued

c) nib NZ Employee Share Purchase Scheme (ESPS)

The scheme rules were adopted on 7 November 2013. On 9 December 2013, eligible employees were offered the opportunity to receive part of their salary in the form of shares. All full time and permanent part-time employees who were an employee as at 9 December 2013 and the date shares were allocated to employees were eligible to participate in the scheme. Employees may elect not to participate in the scheme.

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

Under the scheme, participating employees were allocated an aggregate market value up to NZ$1,000 worth of fully paid ordinary shares in nib holdings limited. Subsequent offers under ESPS are at the Board's discretion.

Shares issued under the scheme may not be sold until the earlier of three years after issue or cessation of employment. In all other respects shares rank equally with other fully-paid ordinary shares on issue.

	2015	2014
Number of shares purchased on market under the plan to participating employees	4,837	42,126

The shares were allocated in two tranches. The first tranche of shares were for allocated on 27 August 2014 following nib's FY14 full year results presentation at a volume weighted average price of $3.36. The remaining tranche of shares were allocated on 6 March 2015 following nib's FY15 half year results presentation at a volume weighted average price of $3.71.

d) nib Salary Sacrifice Plan and Matching Plan

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 plan.

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 plan 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.

	2015	2014
Number of shares purchased on market under the plan to participating employees	54,080	69,710

e) Salary Sacrifice Plan (NZ) and Matching Plan (NZ)

The plan rules were adopted on 28 October 2013. On 9 December 2013, New Zealand 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 plan.

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

Shares issued under the scheme may not be sold until the earlier of three or seven years after issue, or cessation of employment. In all other respects shares rank equally with other fully paid ordinary shares on issue.

	2015	2014
Number of shares purchased on market under the plan to participating employees	2,751	2,938

f) 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 to be deferred into shares for one year. For the GEARHI 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 deferred into shares for one year.

The nib Holdings Ltd Share Ownership Plan Trust administers the Group's Executive management Short-Term Incentive and Long-Term Incentive Share Plans. This Trust has been consolidated in accordance with Note 1(d).

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 23(c).

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

g) Expenses arising from share-based payments transactions

	2015 $000	2014 $000
Shares purchased on market under ESAP and ESPS	291	481
Shares purchased on market under nib salary sacrifice plan and matching plan and salary sacrifice (NZ) rules and matching plan (NZ)	189	184
Performance rights granted under LTIP	368	320
Shares purchased on market under STI	263	129
	1,111	**1,114**

h) Recognition and measurement

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 23(d)(i). 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.

37. PARENT ENTITY FINANCIAL INFORMATION

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

	2015 $000	2014 $000
Balance Sheet		
ASSETS		
Current assets	53,947	97,867
Non-current assets	434,958	435,833
Total assets	**488,905**	**533,700**
LIABILITIES		
Current liabilities	2,459	4,540
Non-current liabilities	–	584
Total liabilities	**2,459**	**5,124**
NET ASSETS	**486,446**	**528,576**
EQUITY		
Share Capital	297,178	297,178
Share-based payments	(991)	(615)
Retained Profits	190,259	232,013
Total Equity	**486,446**	**528,576**
Profit or loss for the year	**47,145**	**99,956**
Total comprehensive income for the year	**47,145**	**99,956**

Refer to Note 30 for contingent liabilities of parent entity.

a) Recognition and measurement

The financial information for the parent entity, nib holdings limited, 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.

38. 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 21 August 2015. The company has the power to amend and reissue the Financial Report.

DIRECTORS' DECLARATION

For the year ended 30 June 2015

In the Directors' opinion:

a. the financial statements and notes set out on pages 45 to 111 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 2015 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 the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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

On behalf of the Board

Steve Crane
Director

Harold Bentley
Director

Newcastle, NSW
21 August 2015

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 consolidated balance sheet as at 30 June 2015, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 (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
Level 3, 45 Watt Street, PO Box 798, NEWCASTLE NSW 2300
T: +61 2 4925 1100, F: +61 2 4925 1199, www.pwc.com.au

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 2015 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 21 to 43 of the directors' report for the year ended 30 June 2015. 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 2015 complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of nib holdings limited (the company) for the year ended 30 June 2015 included on nib holdings limited's web site. The company's directors are responsible for the integrity of nib holdings limited's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

C. Mara

Caroline Mara — Newcastle
Partner — 21 August 2015

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SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 31 August 2015.

A. DISTRIBUTION OF EQUITY SECURITIES

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

	Class of equity security
1 – 1,000	63,363
1,001 – 5,000	79,912
5,001 – 10,000	11,143
10,001 – 100,000	1,056
100,001 and over	54
	157,528

There were 3,629 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:

	Number held	Percentage of issued shares %
J P Morgan Nominees Australia Limited	29,977,847	6.83
HSBC Custody Nominees (Australia) Limited	19,570,772	4.46
Citicorp Nominees Pty Limited	19,447,412	4.43
RBC Investor Services Australia Nominees Pty Limited	18,384,147	4.19
BNP Paribas Noms Pty Ltd	11,541,698	2.63
National Nominees Limited	6,871,180	1.57
UBS Nominees Pty Ltd	3,356,258	0.76
RBC Investor Services Australia Nominees Pty Limited	1,622,257	0.37
Citicorp Nominees Pty Limited	904,910	0.21
UBS Wealth Management Australia Nominees Pty Ltd	805,695	0.18
Questor Financial Services Limited	714,544	0.16
Computershare Plan Co Pty Ltd	668,745	0.15
Fitzy (NSW) Pty Ltd	625,621	0.14
Jemon Pty Ltd	575,000	0.13
RBC Investor Services Australia Nominees Pty Ltd	548,435	0.12
Mr Mark Anthony Fitzgibbon	482,649	0.11
Bond Street Custodians Limited	419,477	0.10
Mr Jinyue Zhang + Mrs Ting Wu	400,000	0.09
Mr John Arthur Foyle Turner	357,000	0.08
Warbont Nominees Pty Ltd	322,246	0.07
	117,595,893	**26.79**

Unquoted equity securities

	Number on issue	Number of holders
Performance rights issued under the nib holdings Long-term Incentive Plan	2,001,483	7

C. SUBSTANTIAL HOLDERS

Substantial holders in the Company are set out below:

	Number held	Percentage of issued shares %
Perpetual Limited	34,741,021	7.91

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.

CORPORATE DIRECTORY

DIRECTORS

Chairman
Steve Crane

Managing Director/Chief Executive Officer
Mark Fitzgibbon

Lee Ausburn
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 Executive Australian Residents Health Insurance
Rhod McKensey

Chief Information Officer
Brendan Mills

Chief Executive Officer – nib New Zealand
Rob Hennin

Group Executive Benefits and Provider Relations
Justin Vaughan

Group Executive International and New Business
David Kan

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of nib holdings limited will be held at Fort Scratchley Multipurpose Centre, 1 Nobbys Road, Newcastle at 11am on Wednesday, 4 November 2015.

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

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Newcastle NSW 2300
13 14 63

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PricewaterhouseCoopers Centre
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Newcastle NSW 2300

LEGAL ADVISERS

King & Wood Mallesons
Level 61, Governor Philip Tower
1 Farrer Place
Sydney NSW 2000

BANKERS

St.George Bank
4-16 Montgomery Street
Kogarah NSW 2217

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