nib

ANNUAL REPORT 2016

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2016 ANNUAL GENERAL MEETING

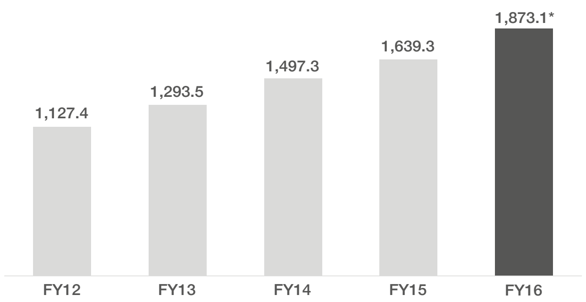
The Annual General Meeting of nib holdings limited will be held at The Westin, 1 Martin Place, Sydney at 11.00am (AEDT) on Wednesday, 2 November 2016.

nib holdings limited
ABN 51 125 633 856

GROUP PERFORMANCE HIGHLIGHTS

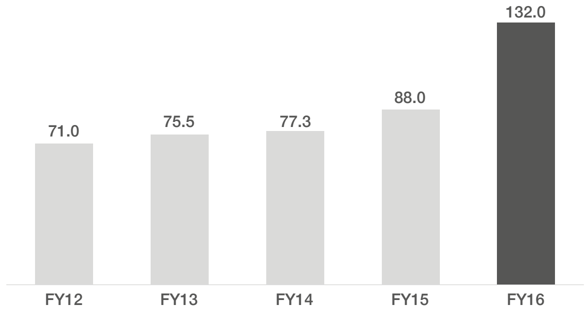
For the year ended 30 June 2016

TOTAL GROUP REVENUE $m ▲ 14.3%

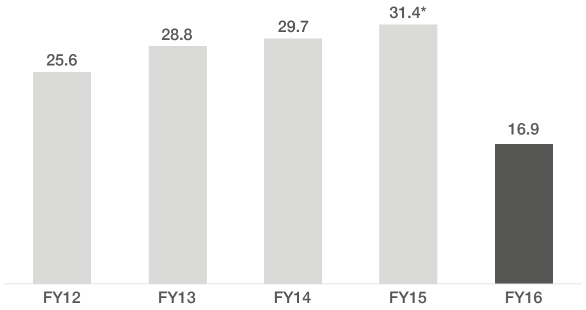


* Excludes non-recurring profit from sale of Newcastle office building

UNDERLYING OPERATING PROFIT $m ▲ 49.9%

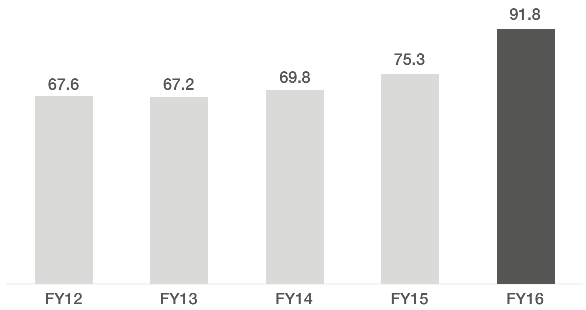


NET INVESTMENT RETURN $m ▼ 46.2%

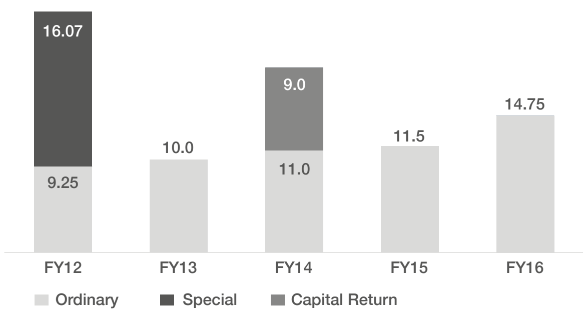


* Includes profit on sale of PSG shares of $5.4m in FY15

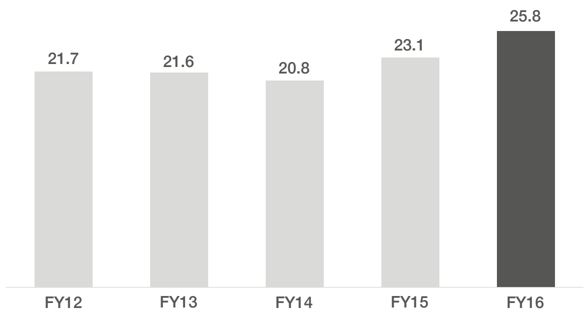
NET PROFIT AFTER TAX $m ▲ 22.0%



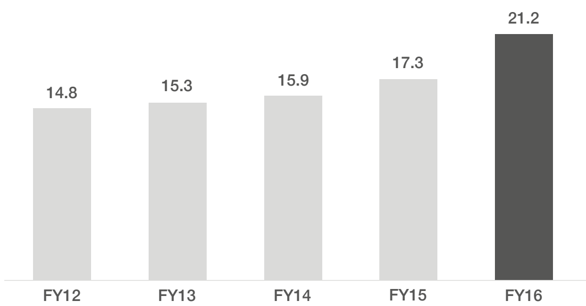
DIVIDENDS cps ▲ 28.3%



RETURN ON EQUITY % ▲ 11.7%

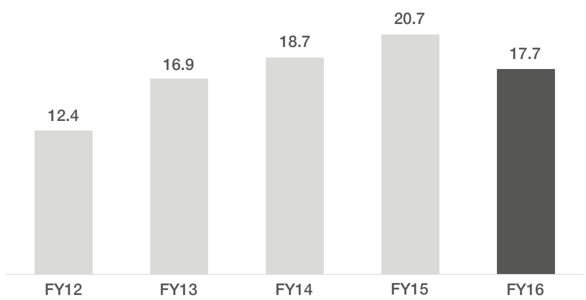


EARNINGS PER SHARE (STATUTORY) cps ▲ 22.5%



All figures quoted are in Australian dollars unless otherwise stated.

NET PROMOTER SCORE (ARHI*) % ▼ 3.0%



* Australian Residents Health Insurance

OPERATING AND FINANCIAL REVIEW

For the year ended 30 June 2016

CHAIRMAN'S REPORT

Strong customer, revenue and earnings growth in financial year 2016 reflected how well the nib Group is meeting customer needs across the various markets in which we operate and with that, delivered solid returns for nib shareholders. They are results consistent with the company's performance since listing on the ASX in 2007. I believe we have created a good balance between building upon nib's traditional capabilities and strengths in the private health insurance market and leveraging these to expand into new businesses and markets.

As will be observed from our operating and financial review, FY16 produced impressive revenue and earnings growth. Total Group revenue was up 14.3% to $1.9 billion* and our underlying operating profit (UOP) up almost 50% to $132.0 million. Net Profit After Tax (NPAT) improved by 22.0% to $91.8 million or 21.2 cents per share.

Our underlying financial performance for FY16 has allowed the Board to declare dividends totalling 14.75 cents per share (fully franked). This represents a payout ratio of 70% of after tax earnings in keeping with our stated policy range of 60% to 70%.

An evolving Group

nib's mainstay Australian Residents Health Insurance (arhi) business produced a pleasing result in terms of both top line and earnings growth. arhi contributed $94.5 million or 72% to Group UOP in FY16. We're really proud that we've been able to grow this business well ahead of the market average for so long.

Importantly, our adjacent businesses are steadily increasing their earnings contribution with a combined UOP of $37.5 million in the year under review. These businesses demonstrate a preparedness to deploy existing Group capabilities and assets to explore new market opportunities. They also reflect a disciplined approach to investment. The acquisition during FY16 of specialist travel insurance provider World Nomads Group (WNG) and the medical insurance book of New Zealand insurer, OnePath Life (NZ) Limited (OnePath NZ), were both aligned with our Group strategy and investment framework. Both acquisitions have settled well under nib ownership and are performing in line with expectations.

Shareholders can expect continued and measured amplification of investment in arhi and adjacent businesses as circumstances, our company strategy and our internal 'hurdle' rates of return dictate.

An evolving market

It will be evident from media coverage during the year that many consumers are aggrieved with private health insurance and especially premium increases, out of pocket expenses and limited treatment coverage.

Some of the critique has justification and we recognise there must be ongoing improvement in the industry in meeting customer needs, affordability and cost effectiveness. It's the same recognition that explains the level of innovation for which nib has become well known, our devotion to the principles of Net Promotor Score (a widely used customer satisfaction index) and a general thrust towards reducing claims outlays without compromising customer outcomes. We also welcome many of the reforms being mooted by Government.

There is an urgent need for industry regulatory reform and Mark's report raises some real possibilities. I would however caution Government on a couple of matters which have been subject to recent attention.

First has been the discussion around so called 'junk policies'.

I've no doubt there is a need to better inform consumers about the level of coverage they purchase and nib supports proposed initiatives in this direction. We do however, need to keep in mind the important role that product diversification and choice have played in improving consumer sovereignty and, especially, attracting younger policyholders. More than anything else, it is participation by younger people that makes premiums for everyone more affordable.

Second has been the discussion about premium increases and possibly regulating premium pricing based upon a maximum return on invested capital.

In an efficient market, companies are rewarded for good performance with higher returns on invested capital. I don't believe we should ever upset this dynamic and it's competition that should dictate market prices. With 34 players and the principle of 'portability' (which means a consumer can transfer insurer without any disadvantage) competition is hardly lacking in Australia. Premiums are growing circa 5% to 6% per annum because that's how much more we are spending on our healthcare per capita. About half has been actual cost inflation (the correct comparison with CPI) and half utilisation growth (i.e. people using healthcare services more often). The real underlying problem is we're spending more than we should be (over servicing, avoidable hospital admissions etc.) and that's what the industry must tackle.

* Excludes non-recurring profit from sale of Newcastle office building.

An evolving leadership team

Succession planning for both Executives and Non-Executive Directors (NED) is a priority for the Board. While we have great confidence in the calibre of our current leadership, naturally we must prepare for a range of future circumstances and market conditions.

We continue to be mindful of ensuring we meet our own tests for NEDs independence and maintaining an appropriate skills mix. During the year we appointed Mr Donal O'Dwyer as a NED after conducting an extensive search through an independent recruitment firm. Donal is a highly-experienced company director with extensive executive-level experience in the global sales and marketing of healthcare products and services. The appointment of Donal follows the announcement in November last year by Dr Annette Carruthers that she would not seek re-election as a NED.

I would like to take this opportunity to again sincerely thank and pay tribute to Annette for her 12 year contribution to the company and shareholders. During her time she has overseen the transition of the business from a mutual to an ASX-listed entity, the significant growth across Australia and expansion into new markets both domestic and international. I'm certain she has much yet to contribute to the Australian corporate world.

I would like to thank everyone at nib for their efforts this year, including my fellow Directors and the Executive team. The success of our business is reflected in the dedication, professionalism and quality of our people and their commitment to delivering service excellence.

Steve Crane
Chairman

OPERATING AND FINANCIAL REVIEW
CONTINUED

For the year ended 30 June 2016

MANAGING DIRECTOR'S REPORT

Another pleasing result in FY16 reflecting the strong execution of our business strategy across the Group. In just about every part of the business we grew our customer base, market share and profitability. Group underlying operating earnings increased an impressive 49.9% to $132.0 million and NPAT 22.0% to $91.8 million.

Our core arhi segment was once again a 'star' performer. Although the policyholder growth rate of 3.8% was slightly below our sustainable growth rate target of 4% to 5%, we grew almost three times the industry average (1.3%). arhi also produced a very solid UOP up 31.4% on FY15. The 'above system' organic growth and improved profitability is familiar but only ever achieved with constant creativity, effort and investment. Deeply ingrained in our corporate culture is the belief that ongoing experimentation and measured risk taking is crucial to improvement and keeping ahead of competitors.

Importantly, arhi achieved this growth in very 'soft' market conditions not made any easier by all the 'trash talking' in the media about private health insurance (PHI). The diatribe is doing the Australian healthcare system a real disservice given we need the private sector to play an even greater role in meeting our future healthcare needs. Every year we're spending about 6% more per capita on healthcare and our primary reliance on taxes to fund this spending is simply unsustainable given an ever increasing dependency ratio of retirees to taxpayers.

That's not to suggest there aren't real opportunities to improve our PHI system and nobody is thinking and working harder than nib on a better 'deal' for consumers and market efficiency. We're especially excited about the possibilities in regulatory reform. We do appreciate just how supportive current Commonwealth policy settings are for PHI and we certainly don't look to government to guarantee our future. But there are still obstacles to improved market efficiency such as the perverse system of risk equalisation and the outrageous regulated over-pricing of prosthetic devices.

For several years, we've been very deliberately diversifying the business with a view to exploiting 'economies of scope' across the Group and in order to mitigate earnings concentration risk in arhi. And our efforts haven't been without considerable progress. In FY16, 'non-arhi' earnings accounted for 28% of our Group UOP, compared to just over 18% in FY15 and a negligible contribution just five years ago. These are the earnings derived from our international workers and students businesses, nib New Zealand, our travel insurance business WNG and a collection of other smaller product lines such as life insurance. It's a strategy which is clearly working for us and we have an appetite for more within the disciplined investment framework we apply.

Perhaps our most exciting initiative in FY16 was to take our digital healthcare platform Whitecoat to another level. Sometimes referred to as the 'TripAdvisor' for healthcare, Whitecoat is designed to help people make better choices about their behaviour, treatment options and choice of doctor with the added convenience of search, booking and payments engines. As other digital platforms are doing in other markets, Whitecoat is all about producing information in order to 'level the playing field' between the sellers and consumers of healthcare.

With the technology in place, more than 40,000 registered clinical providers and 250,000 patient reviews Whitecoat is already well-established. However, our recent announcement to form a joint venture with fellow health insurers Bupa and HBF will significantly escalate participation and the 'network effect'. Under the collaboration Whitecoat will have direct engagement with around six million Australians.

I'd like to thank my Executive team, Board of Directors and everyone in the business for their efforts and contribution throughout FY16. We remain very ambitious for the nib Group.

Mark Fitzgibbon
Managing Director

AUSTRALIAN RESIDENTS HEALTH INSURANCE

PREMIUM REVENUE UP 9.7%

$1.6b

UOP UP 31.4%

$94.5m

($m)	2016	2015	Change $m	Change %
Policyholder growth	3.8%	4.7%		
Net premium revenue	1,568.4	1,429.5	138.9	9.7
Net claims incurred (excluding claims handling expenses)	(1,334.1)	(1,238.9)	95.2	7.7
Gross margin	234.2	190.6	43.6	22.9
	14.9%	*13.3%*		
Management expenses	(140.1)	(118.9)	21.2	17.8
	8.9%	*8.3%*		
Underwriting result	94.1	71.7	22.4	31.3
	6.0%	*5.0%*		
Other income	0.4	0.2	0.2	76.7
	0.0%	*0.0%*		
Underlying operating profit	94.5	71.9	22.6	31.4
	6.0%	*5.0%*		

nib continues to perform strongly against the backdrop of weak industry growth and retail conditions. During the year, we added more than 19,500 policyholders at a growth rate of almost three times the industry average.

Our sustained ‘above system’ growth has been achieved through ongoing innovation in our distribution model, informed by deep market insight. We continue to grow the ‘nib’ brand through investment in our own organic channels supplemented by judicious use of retail brokers.

As nib’s brand positioning reflects, we intend on remaining a major force within the under 40s market segment. In recent years we have also become more focused on the over 55s age group due to the significant ongoing growth in this segment. Distribution partnerships, particularly our relationship with Apia, have been an important part of this strategic shift.

In reaction to the trend of major brands looking for ways to add more value to their existing customer relationships, we have very deliberately developed a ‘whitelabelling’ capability. This investment led to the launch of the Qantas Assure partnership that we announced in November 2015.

Across the business there are several initiatives underway designed to increase the value proposition and make for a better customer experience. For example, we launched the nib Rewards program during the year and we continue to invest heavily in online engagement. There’s no better example than how we are looking to better engage with our customers than Whitecoat.

This success doesn’t mean we don’t face a number of business challenges. Customer lapse in particular continues to increase both as a result of customers switching funds or giving up health insurance. We are especially focused on two remedies. First, improving the customer experience when going to hospital through providing them with convenient and relevant information. Second, giving customers a reason to stay with nib beyond the benefits of our core product offering.

As can be observed from the financials, the strong operating performance of arhi translated into a very solid underwriting result. Assisted by claims inflation which was low relative to previous years, our gross underwriting margin improved from 13.3% in FY15 to 14.9%. After operating expenses, we delivered an UOP of $94.5 million (net margin 6.0%) an increase of 31.4%.

Slowing claims inflation benefits policyholders by relieving pressure on future health insurance premiums. While it remains to be seen if claims inflation will continue this lower trajectory, we are doing our best to keep it as low as possible.

At a broader industry level, health insurance affordability and transparency have been major issues with a number of initiatives being pursued by the Government and the PHI industry. We are, and will continue to be, an active participant in these efforts.

nib NEW ZEALAND

PREMIUM REVENUE UP 15.4%

$173.6m

UOP UP 99.9%

$17.3m

			Change	
($m)	**2016**	**2015**	**$m**	**%**
Policyholder growth[1]	25.8%	5.9%		
Net premium revenue	173.6	150.4	23.2	15.4
Net claims incurred (excluding claims handling expenses and movement in PPB liability)	(121.0)	(96.8)	24.2	25.1
Decrease/(increase) in premium payback liability	15.8	(1.9)	17.7	929.5
Gross margin	68.3	51.7	16.6	32.0
	39.4%	*34.4%*		
Management expenses	(51.0)	(43.1)	7.9	18.4
	29.4%	*28.6%*		
Underlying operating profit	17.3	8.7	8.6	99.9
	10.0%	*5.8%*		

November 2016 marks four years since we acquired our New Zealand operations*. Since then the business has been dramatically transformed to align with our ambitions in the country.

Probably the most significant evidence of progress has been customer growth. Prior to our purchase of the business the portfolio had declined for nearly a decade. Our rebranding and the launch of New Zealand's first direct-to-consumer health insurance range in 2013 was the catalyst for change. We are now growing the health insurance market and our overall share has increased to over 15%. We have made a considerable investment in the brand and the growth of our direct-to-consumer customer base, with approximately 45% of all our sales for FY16 made through this channel.

Good progress was made during the year to strengthen our multi-channel distribution strategy, which included:

- Maintaining our 'best in class' advisor product range, as well as continuing to build strong key advisor relationships.
- Developing the group and employer channel by launching new products and a unique health and wellness package (healthHQ) designed to help us win new business.
- Establishing a new 'whitelabelling' distribution capability and with that, a relationship with leading New Zealand brand, The Warehouse Group, who sell their own branded nib health and travel insurance policies. We expect to expand this 'whitelabel' channel during FY17 with other well-known New Zealand brands.

In October we announced the acquisition of the medical insurance book of OnePath NZ for approximately AU$22.5 million. OnePath NZ was a subsidiary of ANZ Bank New Zealand Limited (ANZ) and New Zealand's fifth largest health insurer. As a result, nib New Zealand now provides health insurance to more than 200,000 Kiwis covering more than 15% of the insured population. A key part of the transaction is the distribution agreement between nib and ANZ, where nib will distribute its health insurance products through ANZ's network of wealth specialists. This further strengthens our position as New Zealand's second largest health insurer.

Investing in digital and automation initiatives continues to be in focus given we inherited a business that was largely paper-based and manual. Our digital initiatives are proving popular with our customers. For example:

- 30% of claims are now online
- More than 50% of direct-to-consumer sales are online
- 90% of customer payments are electronic

By focusing on a digital-first approach we are improving customer engagement and satisfaction, as well as generating operational efficiencies.

Overall, New Zealand continues to deliver on the targets set when we acquired the business. For FY17 and beyond we expect profitability to further improve through organic growth and increased scale.

1. Includes policyholders from acquisition of OnePath Life NZ medical insurance business completed 1 December 2015. Excluding OnePath Life NZ, net policyholder growth for FY16 was 4.1%.

* nib acquired TOWER Medical Insurance Limited, New Zealand's second largest health insurer, in November 2012.

INTERNATIONAL AND NEW BUSINESS

INTERNATIONAL (INBOUND) HEALTH INSURANCE UOP UP 41.2%

$17.2m

WNG INAUGURAL UOP CONTRIBUTION

$9.7m

International (Inbound) Health Insurance

			Change	
($m)	2016	2015	$m	%
Policyholder growth	28.0%	58.5%		
Net premium revenue	76.8	54.9	21.9	39.7
Net claims incurred (excluding claims handling expenses)	(41.7)	(29.4)	12.3	41.6
Gross margin	35.1	25.5	9.6	37.5
	45.7%	*46.4%*		
Management expenses	(18.1)	(13.7)	4.4	32.2
	23.5%	*24.9%*		
Underwriting result	17.0	11.8	5.2	43.7
	22.2%	*21.5%*		
Other income	0.2	0.4	(0.2)	(37.7)
	0.3%	*0.7%*		
Underlying operating profit	17.2	12.2	5.0	41.2
	22.5%	*22.2%*		

Our International (Inbound) Health Insurance business continued to grow powerfully. Net policyholder growth for the year was 28% with UOP up 41.2% to $17.2 million. The result would have been better if not for higher than expected claims associated with a single business group. The relationship with this group was discontinued from March 2016.

Overall, we expect that earnings will continue to grow aided by a strong pipeline of international student sales and further growth in international visitor visa classes.

World Nomads Group

nib's $95 million (enterprise value basis) acquisition of WNG, was completed on 31 July 2015. WNG is Australia's third largest travel insurer. Since then our short-term priorities have centred upon business transition, having the right people lead the business, exploring nib Group synergies and considering future investment opportunities. We have ambitions for WNG and see international markets as rich in opportunity. Investment in these opportunities may impact short term profitability but naturally will reflect a disciplined assessment about creating enterprise value.

WNG is a managing general agent which performs all the functions of an insurer other than carrying the underwriting risk. This includes product design, pricing, marketing, sales, paying claims and emergency assistance. WNG is a leading Australian travel insurance company in a number of international markets including North and South America, Asia and Europe.

WNG had an UOP of $9.7 million, which was in line with our expectations.

Adjacent insurance lines and new business

We continue to see an increase in the number of our customers looking to purchase complementary products from nib. In FY16, commissions from our adjacent insurance lines, including life and income insurance, totalled $2.3 million. Over the next 12 months we expect to launch a number of new product lines and further leverage the expertise and reach of our distribution partners, which we expect will be popular with our customers.

Launched in early 2014, nib Options aims to facilitate customers receiving cosmetic and major dental treatment domestically and overseas. While the business made a loss of $2.5 million in FY16, our investment thesis is that people will increasingly travel internationally to seek treatment and that nib has capabilities that lend ourselves to competing in the market for clients.

OPERATING AND FINANCIAL REVIEW
CONTINUED
For the year ended 30 June 2016

PROFITABILITY AND SHAREHOLDER RETURN

NPAT UP 22.0%

$91.8m

FULL YEAR DIVIDEND (FULLY FRANKED)

14.75cps

			Change	
($m)	**2016**	**2015**	**$m**	**%**
Net premium revenue	1,818.7	1,634.9	183.8	11.2
Net claims incurred (excluding claims handling expenses)	(1,481.1)	(1,367.1)	114.0	8.3
Gross margin	337.6	267.8	69.8	26.1
	18.6%	*16.4%*		
Management expenses	(209.2)	(175.6)	33.6	19.1
	11.5%	*10.7%*		
Underwriting result	**128.4**	**92.2**	**36.2**	**39.3**
	7.1%	*5.6%*		
Other income	54.4	4.4	50.0	1,141.1
Other expenses	(50.8)	(8.5)	42.3	496.2
Underlying operating profit	**132.0**	**88.0**	**44.0**	**49.9**
	7.3%	*5.4%*		
Amortisation of acquired intangibles	(7.8)	(3.5)	4.3	121.6
One-off transactions and M&A costs	(3.4)	(2.8)	0.6	19.0
Statutory operating profit	**120.8**	**81.7**	**39.1**	**47.9**
	6.6%	*5.0%*		
Finance costs	(5.2)	(3.4)	(1.8)	(53.1)
Net investment income	16.9	31.4	(14.5)	(46.2)
	2.7%	*5.8%*		
Profit before tax	**132.4**	**109.6**	**22.8**	**20.8**
Tax	(40.6)	(34.3)	6.3	18.4
NPAT	**91.8**	**75.3**	**16.6**	**22.0**
Statutory EPS (cps)	21.2	17.3	3.9	22.5
Underlying EPS (cps)	22.9	18.3	4.6	25.1
ROE (%)	25.8%	23.1%		
Operating cash flow	148.4	114.2	34.2	29.9

The strong performance of our core arhi business, as well the continued growth and expansion of our adjacent businesses this financial year, has yielded another material improvement in performance for the nib Group.

Total Group revenue[1] rose by an impressive 14.3% to $1.9 billion, which included the first time contribution of WNG (11-month result) and OnePath NZ (seven-month result). Our Group UOP of $132.0 million was up 49.9% (statutory operating profit up 47.9% to $120.8 million). The difference between our UOP and statutory operating profit reflects one-off transactions and non-cash items associated with business acquisitions.

Our investment portfolio delivered returns that were broadly in line with our internal benchmarks for the year, with a net investment return of $16.9 million.

As a share of our overall Group after tax earnings, investment returns have continued to reduce over the past few years. This is due to a lower capital base following a range of capital management initiatives undertaken since listing on the ASX in 2007. Over the course of that period, we have returned more than $160 million to shareholders through a combination of special dividends and a Capital Return. Capital above our internal prudential requirements has also been used to partially fund a number of acquisitions, including IMAN in FY10, TOWER Medical Insurance Limited in FY13 as well as our WNG and OnePath NZ transactions this financial year.

As at 30 June 2016, our total investment assets were $640.8 million.

1. Excludes non-recurring profit from sale of Newcastle office building.

($m)	2016	2015	Change $m	Change %
Assets				
Cash and cash equivalents	89.4	123.7	(34.2)	(27.7)
Receivables	51.9	45.1	6.7	14.9
Financial assets at fair value through profit or loss	580.7	457.2	123.6	27.0
Deferred acquisition costs	83.2	64.1	19.1	29.7
Assets classified as held for sale	–	38.7	(38.7)	NA
Property, plant and equipment	15.5	14.5	1.0	7.1
Intangible assets	217.4	90.2	127.2	141.1
Other assets	0.9	3.7	(2.8)	(75.8)
Total assets	**1,039.0**	**837.1**	**201.9**	**24.1**
Liabilities				
Payables	141.3	124.9	16.4	13.1
Borrowings	151.9	63.9	88.0	137.7
Outstanding claims liability	112.2	97.1	15.0	15.5
Unearned premium liability	176.3	143.2	33.0	23.1
Premium payback liability	27.4	40.9	(13.5)	(33.1)
Other liabilities	43.9	22.8	21.1	92.6
Total liabilities	**652.9**	**492.8**	**160.0**	**32.5**
Net assets	**386.1**	**344.3**	**41.8**	**12.1**
Total equity	**386.1**	**344.3**	**41.8**	**12.1**

In addition to using our capital to fund acquisitions, we have also accessed debt as a funding source. As at 30 June 2016, our gearing ratio was 28.1% (debt-to-debt plus equity). This is consistent with our long-term 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 investment. The Board will continue to assess our debt and gearing levels and targets with the view to optimise our capital structure.

Our strong financial performance for FY16 has allowed the Board to declare a full year dividend of 14.75 cents per share fully franked (FY15: 11.5 cents per share), totalling $64.8 million. The full year dividend comprises an interim dividend of 5.75 cents per share fully franked (paid 1 April 2016) and a final dividend of 9.0 cents per share fully franked. The final dividend will be paid to shareholders on 7 October 2016. The full year dividend of 14.75 cents per share represents a payout ratio of 70% of full year NPAT and is consistent with our policy to pay ordinary fully franked dividends between 60% to 70% of full year NPAT.

Since listing on the ASX in 2007 our financial performance has been strong and on a Total Shareholder Return (TSR) basis we have consistently outperformed the S&P/ASX200. For FY16, our TSR was 30.0% compared to negative 0.5% for the S&P/ASX200. Our business strategy will continue to focus on delivering outstanding service to our customers, improving our operating efficiencies and growing the business to provide the foundation for ongoing earnings growth and value for shareholders.

OPERATING AND FINANCIAL REVIEW
CONTINUED

For the year ended 30 June 2016

OUR COMMUNITY

nib foundation FUNDING SINCE 2008

$15m

nib foundation PARTNERSHIPS WITH

95 charities

nib foundation was established in 2008 with a clear vision to improve the health and wellbeing of individuals and communities across Australia.

Over the past seven years, the foundation has remained dedicated to this vision through a commitment of $15 million to 95 charity partners in support of programs that raise awareness, build resilience, increase access to information and foster social connections.

In 2015, four new Multi-Year Partnerships were established that work to address significant health needs affecting the foundation's two focal groups, young people and carers:

- Australian Drug Foundation's Good Sports Junior program will encourage sporting clubs to foster a positive and healthy environment for their young members
- Hello Sunday Morning will develop technology designed to empower Australians to improve their relationship with alcohol
- National Stroke Foundation will enhance and expand the My Stroke Journey program, which supports stroke survivors and their families
- Disability Sport and Recreation's Score! is Australia's first online platform that will connect young Victorians with a disability with inclusive sporting opportunities

The foundation's ongoing commitment to the Hunter was clearly demonstrated through the support of the Upper Hunter township of Dungog. April 2016 marked the one-year anniversary of the devastating floods that tore through the region. Through the nib foundation funded, Project Bounce Forward, The Dungog Shire Community Centre has worked tirelessly since the disaster to help rebuild the town and provide services to support the wellbeing of residents.

With initial funding due to end in March 2016 and much work still to be done, a renewed funding injection of $50,000 was provided to ensure the project successfully reaches all those in need of support.

While the foundation continues to support many new and local causes, it has also helped existing partners to build their capacity and expand service offerings. This has been the case with long-standing partner, OzHarvest. This financial year the foundation's ongoing support of the food rescue program enabled the service to be expanded into the Port Stephens area. Furthermore, an additional three years of funding was announced to help establish and grow OzHarvest Western Australia.

Together with the foundation, we will continue to play an important role in helping meet the health and wellbeing needs of communities across Australia by funding charities that work to address significant health concerns.

In addition to the work of nib foundation, we are focused on giving back to the community through a combination of fundraising initiatives, in-kind support and employee volunteering efforts.

Our dedicated workplace fundraising program, has raised more than $61,000 and provided overwhelming in-kind support for 40 local and national charities since 2008.

It is through the dedication of our employees and the donation of their time and skills that we are able to deliver considerable value to nib foundation partners and other community groups above and beyond agreed funding commitments.

BUSINESS STRATEGIES AND PROSPECTS

nib's Business Strategy sets out 10 key levers which we believe will increase earnings and grow enterprise value.

1. Pursue above 'system' 4% to 5% net policyholder growth in the Australian Resident Health Insurance market.
2. Grow our international workers and international students market share.
3. Position and build our business in New Zealand as a 'challenger' and grow the market and our share.
4. Complete integration and pursue growth of World Nomads Group travel insurance business.
5. Escalate focus upon knowledge as a source of customer value, empowerment and competitive advantage.
6. Leverage core business capability to pursue adjacent business opportunities.
7. Design and manage product benefits and claims in accordance with our strategic and commercial objectives.
8. Increase customer satisfaction, productivity and efficiency.
9. Have the 'right people on the bus', develop a high performance organisational culture and engage our people.
10. Continue to build and develop overall key organisational capabilities and assets.

We measure our success by Group revenue and earnings growth, customer satisfaction and total shareholder returns.

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. The Corporate Governance Statement and nib's Risk Policy are 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. Key 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 focusing 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, nib Options and World Nomads Group. 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 special account 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.

BUSINESS STRATEGIES AND PROSPECTS continued

Principal risks and uncertainties continued

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. Australian 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.
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

		2016 $m	2015 $m	2014 $m	2013 $m	2012 $m
Consolidated Income Statement						
Net premium revenue		1,818.7	1,634.9	1,491.6	1,290.4	1,123.8
Net claims incurred		(1,481.1)	(1,367.1)	(1,255.4)	(1,089.6)	(949.2)
Gross margin		**337.6**	**267.8**	**236.2**	**200.8**	**174.6**
Management expenses		(209.2)	(175.6)	(157.9)	(124.4)	(102.9)
Underwriting result		**128.4**	**92.2**	**78.4**	**76.4**	**71.6**
Other income[1]		54.4	4.4	5.7	3.1	3.6
Other expenses[1]		(50.8)	(8.5)	(6.8)	(4.0)	(4.3)
Underlying operating profit		**132.0**	**88.0**	**77.3**	**75.5**	**71.0**
Amortisation of acquired intangibles		(7.8)	(3.5)	(4.2)	(2.6)	(1.0)
One-off transactions and M&A costs		(3.4)	(2.8)	(0.8)	(3.6)	(0.0)
Statutory operating profit		**120.8**	**81.7**	**72.3**	**69.3**	**70.0**
Finance costs		(5.2)	(3.4)	(2.7)	(1.4)	0.0
Net investment income		16.9	31.4	29.7	28.8	25.6
Profit before tax		**132.4**	**109.6**	**99.2**	**96.7**	**95.7**
Tax		(40.6)	(34.3)	(29.4)	(29.5)	(28.0)
NPAT		**91.8**	**75.3**	**69.8**	**67.2**	**67.6**
Consolidated Balance Sheet						
Total assets		1,039.0	837.1	798.1	712.3	617.8
Equity		386.1	344.3	356.4	326.2	301.6
Debt		151.9	63.9	66.8	62.4	0.0
Share Performance						
Number of shares	m	439.0	439.0	439.0	439.0	439.0
Weighted average number of shares – basic	m	439.0	439.0	439.0	439.0	458.3
Weighted average number of shares – diluted	m	439.0	439.0	439.0	439.0	458.3
Basic earnings per share	cps	21.2	17.3	15.9	15.3	14.8
Diluted earnings per share	cps	21.2	17.3	15.9	15.3	14.8
Underlying earnings per share	cps	22.9	18.3	16.8	16.3	15.0
Share price at year end	$	4.22	3.36	3.26	2.13	1.50
Dividend per share – ordinary	cps	14.75	11.50	11.00	10.00	9.25
Dividend per share – special	cps	0.00	0.00	9.00	0.00	0.00
Dividend payout ratio – ordinary	%	70.0	66.6	69.2	65.0	60.0
Dividend payout ratio – combined ordinary and special	%	70.0	66.6	125.8	65.0	60.0
Other financial data						
ROE	%	25.8	23.1	20.8	21.6	21.7
Operating cash flow		148.4	114.2	93.7	20.0	134.6

1. Increase in Other income and Other expenses in FY16 due to the inclusion of World Nomads Group 11 month result.

DIRECTORS' REPORT

For the year ended 30 June 2016

The Directors of nib holdings limited (Company) present their report on the consolidated entity (Group) consisting of nib holdings limited and the entities it controlled at the end of or during the year ended 30 June 2016.

DIRECTORS

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

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

Donal O'Dwyer was appointed as a Non-Executive Director on 22 March 2016.

PRINCIPAL ACTIVITIES

The principal continuing activities of the Group consisted of operating as a private health insurer for Australian residents, New Zealand residents and international visitors and students to Australia. Overall the Group insures over 1.3 million lives.

Our vision is to be a leading financier and facilitator of healthcare consumption with a reputation for innovative products, value for money, outstanding customer service, being a good corporate citizen and strong shareholder returns.

During the year the Group acquired World Nomads Group (WNG), the third-largest distributor of travel insurance in Australia. WNG specialises in the marketing, sale and distribution of travel insurance policies globally.

Additionally, nib nz limited (a 100% owned subsidiary) acquired the medical insurance business OnePath Life (NZ) Limited (OnePath). OnePath was New Zealand's fifth-largest health insurer with approximately 19,000 policies covering 43,000 insured persons.

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 2 to 13 of this Annual Report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 31st July 2015 nib acquired 100% of World Nomads Group Pty Limited and its controlled entities for $95 million on an enterprise value basis.

There were no other 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:

	2016 $000	2015 $000
Final dividend for the year ended 30 June 2015 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) paid on 9 October 2015	26,339	64,748
Interim dividend for the year ended 30 June 2016 of 5.75 cents (2015 – 5.5 cents) per fully paid share paid on 1 April 2016	25,242	24,144
	51,581	**88,892**

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 $39.5 million (9.0 cents per fully paid ordinary share) to be paid on 7 October 2016 out of retained profits at 30 June 2016.

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

No matter or circumstance has arisen since 30 June 2016 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 Chairman of the Taronga Conservation Society Australia. He is also Chairman of Global Valve Technology Limited and a consultant member of the Advisory Board with Morgans Financial Ltd. *Former directorships in the last three years* Chairman of IMAN Australian Health Plans Pty Limited. Director of Transfield Services Limited, Bank of Queensland Limited and formerly a member if the CIMB (Australia) Advisory Council. *Subsidiary boards and special responsibilities* Chairman of nib holdings limited and nib health funds limited. Steve is also Chairman of the Nomination Committee. *Interests in shares and performance rights* Indirect: 250,000 ordinary shares in nib holdings limited held by Depeto Pty Ltd.
Mark Fitzgibbon *MBA, MA, ALCA, FAICD*	**Managing Director/Chief Executive Officer** *Experience and expertise* Mark joined nib health funds limited in October 2002 as Chief Executive Officer (CEO) and led nib through its demutualisation and listing on the ASX in May 2007 when he was appointed Managing Director of nib holdings limited. Previously CEO of both the national and NSW peak industry bodies for licensed clubs and has held several CEO positions in local government. *Other current directorships* Director of Knights Rugby League Pty Limited. *Former directorships in the last three years* None. *Subsidiary boards and special responsibilities* Managing Director of nib holdings limited. Director of nib health funds limited, nib health care services pty limited, nib servicing facilities pty limited, nib Global Pty Limited, IMAN Australian Health Plans Pty Limited, nib nz holdings limited, nib nz limited, nib Options Pty Limited, RealSurgeons Pty Ltd, RealSelf Pty Ltd and World Nomads Group Pty Ltd. Mark is also a member of the Nomination Committee. *Interests in shares and performance rights* Direct: 1,122,656 ordinary shares in nib holdings limited. Indirect: 660,621 ordinary shares in nib holdings limited held by Fitz (NSW) Pty Ltd. 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. 284,320 performance rights under FY16-FY19 Long Term Incentive Plan which may vest from 1 September 2019.

INFORMATION ON DIRECTORS continued

Philip Gardner *B.Comm, CPA, CCM, FAICD, JP*	**Independent Non-Executive Director** *Experience and expertise* A Director since 28 May 2007. Current Chief Executive Officer of The Wests Group Australia, a position he has held for more than a decade in which time he has overseen the Group's significant growth and expansion. *Other current directorships* Knights Rugby League Pty Limited. *Former directorships in the last three years* A Director of IMAN Australian Health Plans Pty Limited, Newcastle Airport Limited and Hunter Funds Management Pty Ltd. *Subsidiary boards and special responsibilities* A Director of nib health funds limited (since 2005). Chairman of the Investment Committee and a member of the Audit Committee, People and Remuneration Committee and Nomination Committee. *Interests in shares and performance rights* Indirect: 150,000 ordinary shares in nib holdings limited held by Sutton Gardner 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, Lee is an experienced Non-Executive Director with a wealth of knowledge in the global health industry. *Other current directorships* A Director of Australian Pharmaceutical Industries Ltd and SomnoMed Ltd. President of the Pharmacy Foundation at the University of Sydney. *Former directorships in the last three years* Director of IMAN Australian Health Plans Pty Limited. *Subsidiary boards and special responsibilities* A Director of nib health funds limited. Chairman of the People and Remuneration Committee and a member of the Risk and Reputation Committee and Nomination Committee. *Interests in shares and performance rights* Indirect: 20,000 ordinary shares in nib holdings limited held by Leedoc Pty Ltd and 30,000 ordinary shares in nib holdings limited held by MIML Pension Consolidator (Lee Ausburn).

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 with PricewaterhouseCoopers specialising in finance and insurance companies. *Other current directorships* None. *Former directorships in the last three years* Director of IMAN Australian Health Plans Pty Limited. *Subsidiary boards and special responsibilities* Director of nib health funds limited, nib nz holdings limited and nib nz limited. Chairman of the Audit Committee and a member of the Investment Committee, Risk and Reputation Committee and Nomination Committee. 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 Ltd.
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. *Other current directorships* Director of Cater Care Holdings Pty Ltd, Multiple Sclerosis Research Australia and Vice President of MS Australia. *Former directorships in the last three years* Director of IMAN Australian Health Plans Pty Limited, Aged Care Investment Services (the Trustee for the AMP Managed Aged Care Investment Trusts), the NSW Board of the Medical Board of Australia, Hunter Primary Care Ltd, and Hunter Infrastructure and Investment Advisory Board. *Subsidiary boards and special responsibilities* Director of nib health funds limited (since 2003), nib health care services pty limited, nib nz holdings limited and nib nz limited. Chairman of the Risk and Reputation Committee and a member of the Audit Committee and Nomination Committee. A member of nib nz limited's Board, Audit, Risk and Compliance Committee (BARCC) and a member of nib nz holdings limited's Audit Committee. *Interests in shares and performance rights* Direct: 1,000 ordinary shares in nib holdings limited. Indirect: 71,500 ordinary shares in nib holdings limited held by Carruthers Future Fund Pty Ltd.

INFORMATION ON DIRECTORS continued

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* Chairman of Stadium Australia Group, a Non-Executive Director of Suncorp Group Limited, Spark Infrastructure Group and Whitehaven Coal Limited and a member of ASIC's Director Advisory Panel and the Minter Ellison Advisory Board. *Former directorships in the last three years* Director of IMAN Australian Health Plans Pty Limited, Westpac's Insurance Businesses. Chairman of Australian Payments Council and Deputy Chairman of The Smith Family. *Subsidiary boards and special responsibilities* A Director of nib health funds limited. A member of the People and Remuneration Committee, Risk and Reputation Committee and Nomination Committee. *Interests in shares and performance rights* Indirect: 110,000 shares in nib holdings limited held by Dundas Street Investments Pty Ltd.
Donal O'Dwyer *MBA, BE*	**Independent Non-Executive Director** *Experience and expertise* Appointed as an additional Director on 22 March 2016 and will stand for election at the 2016 Annual General Meeting. Highly experienced Non-Executive Director and former executive as the former worldwide President at Cordis Cardiology and President of the Cardiovascular Group, Europe with Baxter Healthcare (now Edwards Lifesciences). *Other current directorships* Chairman of AtCor Medical Ltd. A Director of Cochlear Ltd, Mesoblast Ltd and Fisher & Paykel Healthcare Corporation Ltd. *Former directorships in the last three years* None. *Subsidiary boards and special responsibilities* A Director of nib health funds limited. A member of the People and Remuneration Committee, Risk and Reputation Committee and Nomination Committee. *Interests in shares and performance rights* Indirect: 25,600 shares in nib holdings limited held by Dundrum Investments Pty Ltd.

COMPANY SECRETARIES

Mrs Michelle McPherson (BBUS (Accounting) (UTS), CA) 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. Mrs McPherson is a Director of the Hunter Valley Research Foundation and Hunter Valley Grammar School, Chairman 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 and the Council of the University of Newcastle. Mrs McPherson also serves as a Director of a number of nib Group companies.

Ms Roslyn Toms (BA (Hons) (UCAN,UTS) /LLB (UNSW)) was appointed Company Secretary on 29 April 2013 and serves as joint Company Secretary. She is also General Counsel of the nib Group and Company Secretary of other nib Group companies. Ms Toms has over thirteen 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 2016, and the numbers of meetings attended by each Director were:

	Board[2]		Audit Committee		Risk and Reputation Committee		People and Remuneration Committee[3]		Investment Committee		Nomination Committee	
Name	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
S Crane	10	10	9	9*	4	4*	7	7*	6	1*	2	2
M Fitzgibbon	10	10	9	9*	4	4*	7	6*	6	6*	2	2*
L Ausburn	10	10	9	9*	4	4	7	7	6	–	2	2
H Bentley	10	10	9	9	4	4	7	4*	6	6	2	2
A Carruthers	10	10	9	9	4	4	7	3*	6	–	2	2
P Gardner	10	10	9	9	4	4*	7	6	6	6	2	2
C McLoughlin	10	10	9	6*	4	4	7	7	6	–	2	2
D O'Dwyer[1]	10	2	9	–	4	1	7	2	6	–	2	1

* Attendance at Committee meetings in an ex-officio capacity

1. D O'Dwyer commenced on 22 March 2016
2. Unscheduled Board meeting on 24 June 2016
3. Unscheduled PARCO meeting on 7 June 2016

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 2 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 22 to 42 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
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
18 January 2016	1 September 2019	nil	628,895

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

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

NON-AUDIT SERVICES

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

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services during the year are disclosed in Note 33 – Remuneration of Auditors.

The Board of Directors has considered the position and, in accordance with advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out in Note 1, 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 21.

CHIEF EXECUTIVE OFFICER/CHIEF FINANCIAL OFFICER DECLARATION

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

ROUNDING OF AMOUNTS

The Company is of a kind referred to in Instrument 2016/191, 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 Instrument.

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
19 August 2016

AUDITOR'S INDEPENDENCE DECLARATION

For the year ended 30 June 2016

Auditor's Independence Declaration

As lead auditor for the audit of nib holdings limited for the year ended 30 June 2016, 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
19 August 2016

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REMUNERATION REPORT

For the year ended 30 June 2016

MESSAGE FROM THE BOARD

Dear Shareholder,

We are pleased to present our Remuneration Report for the financial year to 30 June 2016.

Our aim with remuneration is to retain, reward and incentivise our Executives to deliver short-and-long-term value creation that is aligned to our organisational culture, overall business strategy as well as shareholder interests.

The Board has spent considerable time bedding down a remuneration philosophy and framework that is fair to our people and is reasonable in the eyes of our shareholders. It's therefore encouraging that our remuneration approach has been readily accepted by our shareholders, proxy advisors and other shareholder representative groups. At the 2015 Annual General Meeting, our shareholders voted more than 98% in favour of our Remuneration Report. We feel feedback is important and as in previous years, nib will seek to engage with our key stakeholders prior to this year's AGM.

Like many companies we continue to face intense competition to attract and also retain Executive talent. Our remuneration structure sets a clear and meaningful link between performance and reward to ensure we continue to attract and retain the right people. We have previously explained to our shareholders that the Board's Executive remuneration goal is to position our Executive team between the 50th and 75th percentile of benchmarked companies in terms of fixed remuneration. On a regular basis we engage an independent advisor to assist in benchmarking remuneration against a defined nib peer group which contains similar businesses of comparable size. This was done in May 2014 and again in May this year (for financial year 2017). As our shareholders have seen, the size, scope and complexity of nib has increased significantly in the last few years with the acquisition of nib New Zealand, World Nomads Group and the expansion of our international business operations. Our benchmarking in 2016 has shown that the Managing Director was below market and so TFR will be increased by 15% in 2017 to align with our targets and to remain competitive. Further information regarding Executive Remuneration, as well as total remuneration mix and performance against STI and LTI hurdles for FY16, can be found on pages 27 to 31 of the Annual Report.

Due to ongoing growth and diversification of the Group, Board succession planning and renewal remains a key focus for the nib Board. Ensuring we have the right skills mix, experience, diversity, independence and capacity is integral to nib's ongoing success. With this central to our thinking, during the year nib appointed Mr Donal O'Dwyer as an Independent Non-Executive Director of the Board of nib. The appointment of Donal follows the announcement in November last year by Dr Annette Carruthers that she would not be seeking re-election as a Non-Executive Director of nib. We will not be seeking shareholder approval to Increase nib's Non-Executive Director fee pool with 2017 Directors fees captured under our current fee pool.

Since listing on ASX in 2007, nib has continued to perform well against our stated business strategy. With that we have delivered 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.

I would like acknowledge the contribution of my fellow nib Director, Christine McLoughlin who during the year moved from Chairman of our People and Remuneration Committee and will take up the role as Chairman of Risk and Reputation Committee. Christine's, leadership has helped embed the effective remuneration philosophy we have at nib. As Chairman of our People and Remuneration Committee I look forward to building on the strong foundations we have in place.

As always, we welcome your feedback.

Yours sincerely

Lee Ausburn
Chairman
People and Remuneration Committee

CONTENTS

KEY TERMS USED IN THIS REPORT

FY15	Financial year ended 30 June 2015
FY16	Financial year ended 30 June 2016
FY17	Financial year ended 30 June 2017
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.

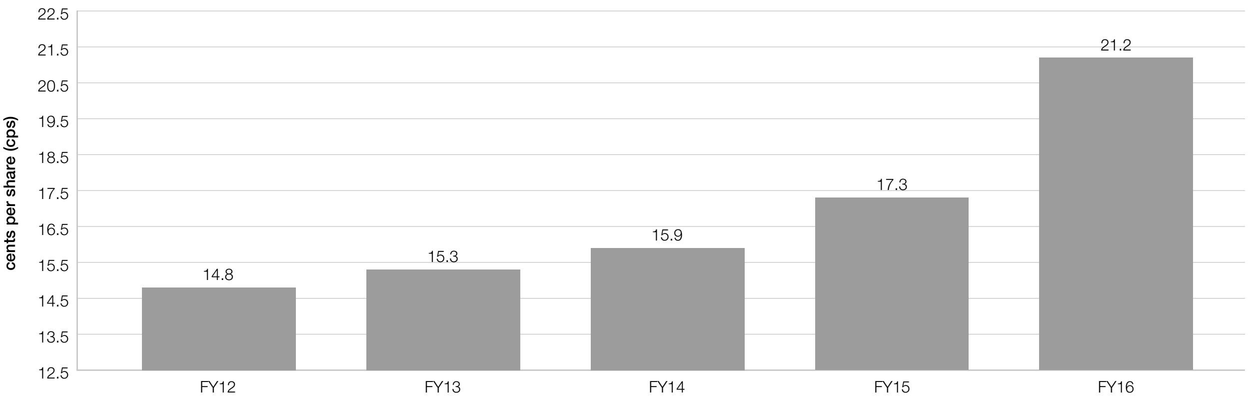
Executive Director	
Mark Fitzgibbon	Managing Director/Chief Executive Officer (MD/CEO)
Other Executives	
Michelle McPherson	Deputy Chief Executive Officer/Chief Financial Officer (CFO/DCEO)
Rhod McKensey	Group Executive Australian Residents Health Insurance (GEARHI)
Rob Hennin	Chief Executive Officer – New Zealand (CEO NZ)
Brendan Mills	Chief Information Officer (CIO)
Justin Vaughan	Group Executive Benefits and Provider Relations (GEBPR)
David Kan	Group Executive International and New Business (GEINB)
Independent Non-Executive Directors	
Steve Crane	Chairman
Lee Ausburn	Member Risk and Reputation Committee , Member People and Remuneration Committee (until 29 February 2016), Chairman People and Remuneration Committee (1 March 2016 – 30 June 2016)
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 (until 29 February 2016), Member People and Remuneration (1 March 2016 – 30 June 2016), Member Risk and Reputation Committee
Donal O'Dwyer (commenced 22/3/2016)	Member People and Remuneration Committee, and Risk and Reputation Committee

PERFORMANCE DRIVES REMUNERATION AT nib

Over the past five years nib has continued to perform strongly against the following 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

Since 1 July 2011 nib has consistently performed above the S&P ASX200. The graph below shows the value of $100 invested over the five-year period to the end to 30 June 2016 (with dividends reinvested) compared to the performance of the S&P/ASX200.

Rebased to 100. Source: Bloomberg, assumes capital returns and dividends reinvested 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 the remuneration framework, ensuring our 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 and its link to nib's culture and business strategy, diversity, human resources strategy, succession planning and employee development and engagement. The Committee Charter is available on the nib website (nib.com.au/shareholders). The Committee includes the following independent, Non-Executive Directors:

Lee Ausburn

Christine McLoughlin

Donal O'Dywer

Philip Gardner

Executive remuneration arrangements are set against a comparator group of organisations or peers, which nib determines in consultation with external remuneration advisors. In May 2014 (and again in May this year for financial year 2017) Guerdon Associates completed the benchmarking analyses. The scope of this work included reviewing and benchmarking remuneration arrangements against a relevant peer group of companies and working with the Committee to ensure any proposed changes are aligned to our remuneration philosophy. The May 2014 benchmarking analysis and supplementary data was utilised for the financial year 2016 reviews.

In determining nib's peer group, companies from the following sectors and industries were considered:

- Health insurance companies;
- Other insurance companies;
- Other finance sector companies;
- Consumer discretionary; 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.

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 TFR for our Managing Director/ Chief Executive Officer and Executives competitively between the 50th and 75th percentiles of our benchmarked peer group. In FY16, adjustments were made to achieve this goal. Our increasing market capitalisation (which has increased approximately 230% over the five year period from 30 June 2011) together with the expanding scope and complexity of our business, has required us to review and change our peer group of 20 companies for FY17. This has resulted in further Executive remuneration adjustments for FY17. Our benchmarking in 2016 has shown that the Managing Director was below market and so TFR will be increased by 15% in 2017 to align with our targets and to remain competitive.

The Board's view is that our current LTI performance hurdles being Earnings Per Share (EPS) and Total Shareholder Return (TSR) relative to S&P/ASX200 group of companies remain appropriate and aligned to our remuneration philosophy. We will continue to assess the appropriateness of these performance hurdles each year and consult with shareholders, proxy advisors and other shareholder representative groups regarding any future amendments to ensure they are aligned to shareholder interests.

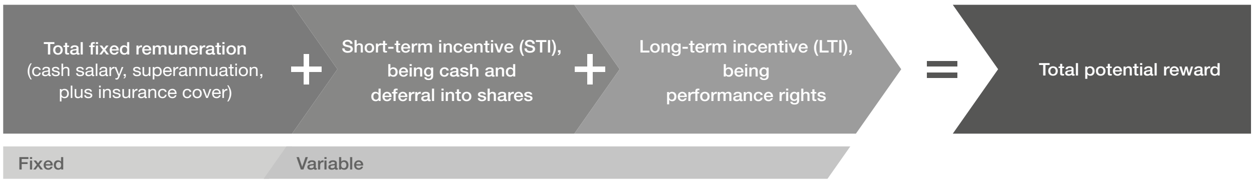
ACTUAL REMUNERATION RECEIVED FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

Actual remuneration for each Executive in FY16 included a fixed component, as well as a variable component made up of an STI payment and LTI award. The STI paid is determined by the performance of each Executive against set performance targets that include financial and non-financial metrics, and in some instances, strategic milestones. FY16 included the vesting of the FY12-FY15 LTI Plan for eligible participants, based on hurdles set (Earnings Per Share and Total Shareholder Return) with 50% of the FY12-FY15 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 is located on page 36 of this Report.

The remuneration structure for each Executive for FY16 is made up of the following components.

TOTAL POTENTIAL REWARD



The table below shows the key elements of total reward for each Executive for FY16. 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 FY16 and which was originally reported under accounting standards in the year they were granted.

		STI applicable to the FY15 year paid in Sept 2015 (FY16)[2]			
	Total fixed remuneration[1]	Cash	Shares held in escrow	LTI vested in FY16[3]	Total reward (received or available)
	$	$	$	$	$
Mark Fitzgibbon	880,000	266,400	266,400	333,629	1,746,429
Rob Hennin	393,592	75,182	82,005	–	550,780
David Kan	444,919	36,581	36,581	–	518,080
Rhod McKensey	540,001	128,488	128,488	99,678	896,655
Michelle McPherson	556,001	124,735	124,735	168,337	973,808
Brendan Mills	320,301	61,138	61,138	–	442,577
Justin Vaughan	291,201	55,720	55,720	–	402,641
	3,426,015	**748,243**	**755,066**	**601,644**	**5,530,967**

1. Total fixed remuneration comprises Cash salaries and fees and superannuation.
2. FY15 STI paid in the FY16 year.
3. Value of shares issued during the year on exercise of performance rights.

EXECUTIVE REWARD AT nib

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.

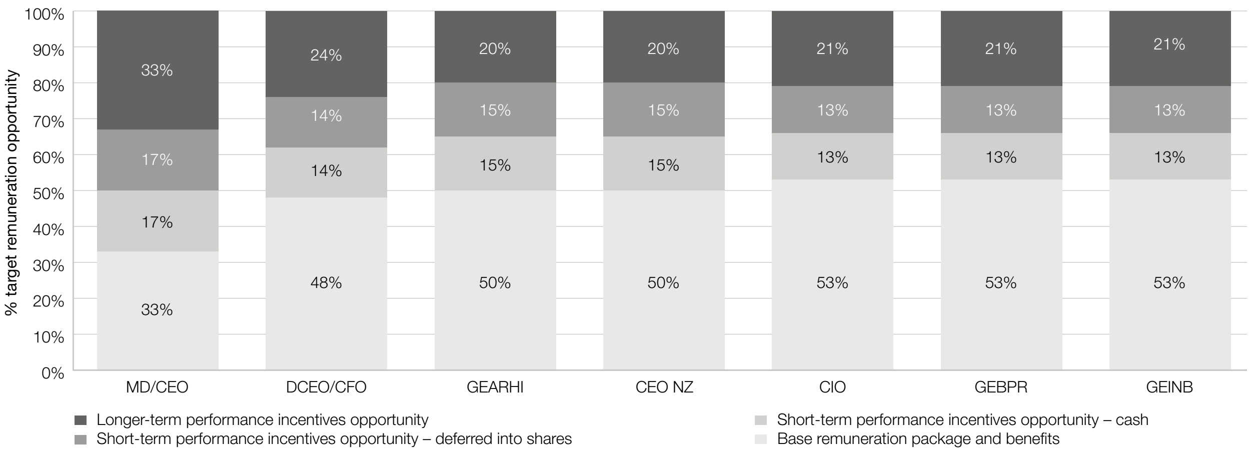
A significant portion of the Managing Director/Chief Executive Officer's and Executives' remuneration is performance based through STI and LTI arrangements. Claw-back arrangements are in place for the portion of STI deferred and LTI.

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 FY16 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 2016

nib's short-term incentive (STI) plan for each Executive is structured as follows.

TOTAL POTENTIAL STI

Performance criteria for STI is based on two components:

1. Performance assessment which makes up 80% of the total STI. The performance component is assessed against predetermined performance milestones for each Executive. In some instances an Executive's STI assessment may include strategic milestones.
2. Leadership assessment which makes up 20% of the total STI. The leadership component ensures we continue to focus and recognise the contribution of our Executives in developing a high performance organisational culture and is assessed as part of annual performance reviews.

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 Executive's 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 FY16, 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.

	FY16 Maximum potential STI as a % of TFR	Proportion of actual FY16 STI to be deferred into shares
Mark Fitzgibbon	100%	50%
Michelle McPherson	60%	50%
Rhod McKensey	60%	50%
Rob Hennin	60%	50%
Brendan Mills	50%	50%
Justin Vaughan	50%	50%
David Kan	50%	50%

The specific KPIs and weighting for FY16 for the Managing Director/CEO and Chief Financial Officer/Deputy CEO which constitutes 80% of their total STI are below (other executives have KPIs which are relevant to their roles).

KPI Weighting	Mark Fitzgibbon (MD/CEO)	Michelle McPherson (CFO/DCEO)
Growth		
Group premium revenue	10%	–
Profitability		
Group underlying profit	40%	40%
WNG underlying operating profit	10%	–
Underlying EPS	20%	20%
Cost control		
Group management expense ratio (excluding acquisition costs)	–	30%
Customer satisfaction		
arhi customer satisfaction	20%	10%

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 for the CEO and CFO/DCEO is shown on page 32.

	FY16 STI Bonus		FY15 STI Bonus	
	Awarded	Forfeited	Awarded	Forfeited
	%	%	%	%
Mark Fitzgibbon	87%	13%	83%	17%
Michelle McPherson	86%	14%	82%	18%
Rhod McKensey	87%	13%	90%	10%
Rob Hennin	92%	8%	85%	15%
Brendan Mills	85%	15%	79%	21%
Justin Vaughan	96%	4%	80%	20%
David Kan	82%	18%	75%	25%
Group average	88%	12%	70%	30%

REMUNERATION REPORT
CONTINUED

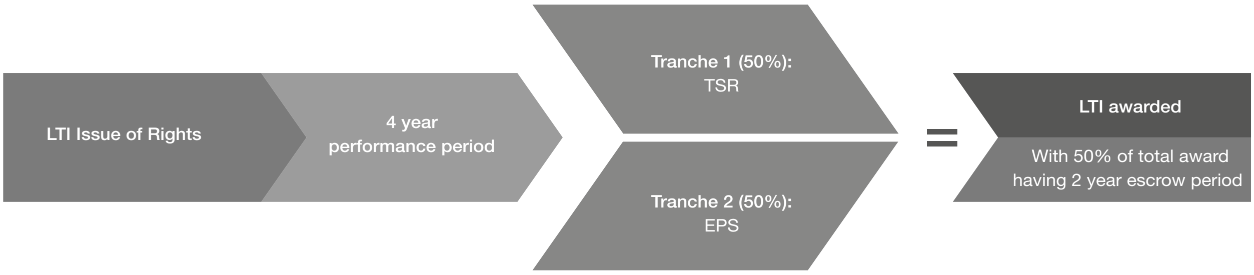
For the year ended 30 June 2016

EXECUTIVE REWARD AT nib continued

Long-term incentives for the financial year ended 30 June 2016

nib's long-term incentive (LTI) plan for each Executive is structured as follows.

TOTAL POTENTIAL LTI



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 groth 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 Tranch 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 74%
< 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	FY13-FY16 LTIP	EPS Hurdle: CAGR from base EPS	FY14-FY17 LTIP	EPS Hurdle: CAGR from base EPS	FY15-FY18 LTIP	EPS Hurdle: CAGR from base EPS	FY16-FY19 LTIP
	Base EPS	14.8 cps	Base EPS	15.3 cps	Base EPS	15.9 cps	Base EPS	17.3 cps
100%	15%	25.8 cps	15%	26.8 cps	9%	22.4 cps	9%	24.4 cps
75%	12.5%	23.6 cps	10%	22.4 cps	7%	20.8 cps	7%	22.7 cps
50%	10%	21.6 cps	7%	20.1 cps	5.5%	19.7 cps	5%	21.0 cps
25%	7.5%	19.7 cps	3%	17.2 cps	4%	18.6 cps	3%	19.5 cps
0%	<7.5%	nil	<3%	nil	<4%	nil	<3%	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%.

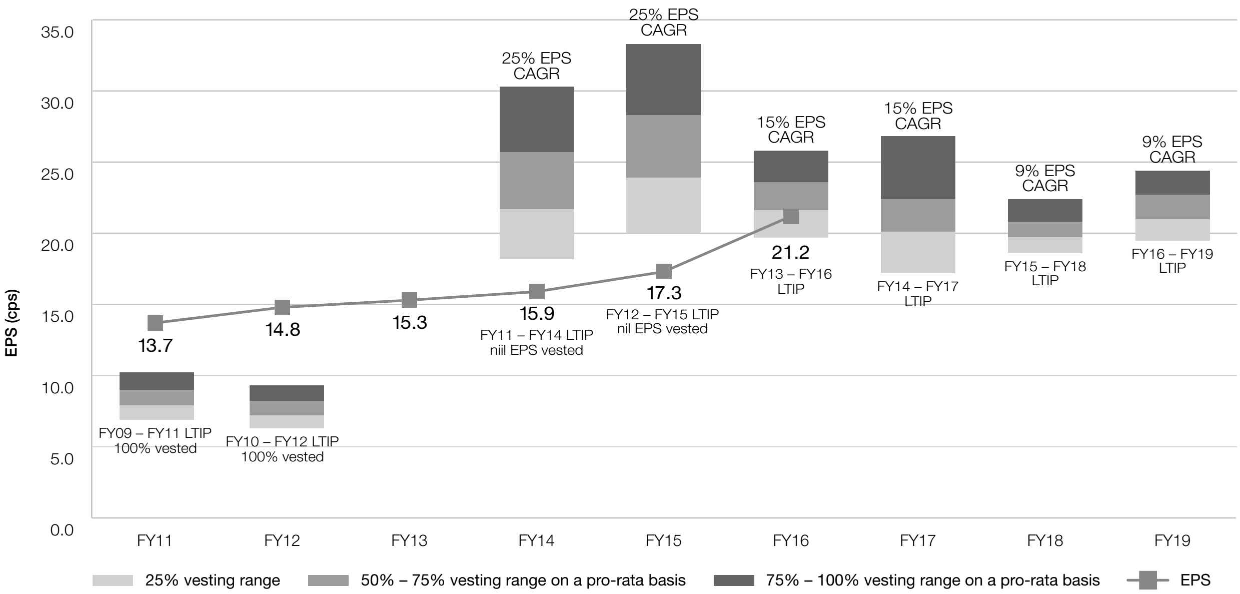
For the FY16-FY19 LTIP nib moved to set EPS hurdles and performance levels annually, instead for the four year period at the beginning at the performance period. This allows the Board to take into account regulatory pricing re-sets and a focus on performance sustainability over a long-term period. The main reason for this, and as can be seen from the graph (below), is that for incentive schemes to be effective they need to strike the right balance of being aspirational but also achievable. As the graph highlights, our previous approach to setting EPS targets for the four year period resulted in nil award of the EPS component for 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 also 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.

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.

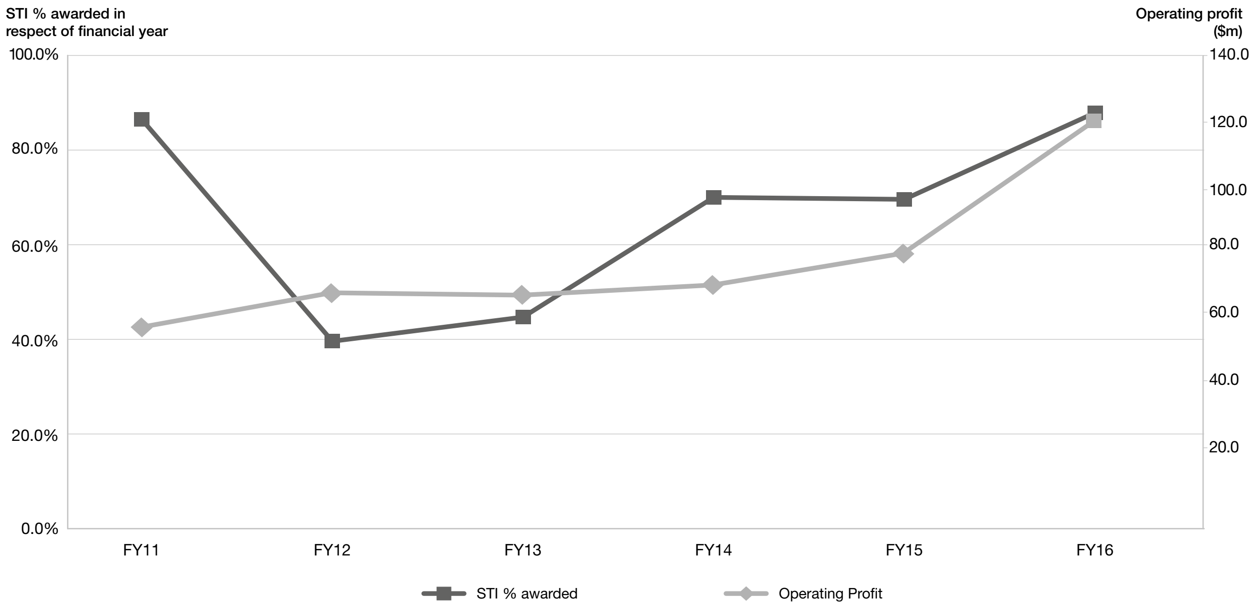
The following table shows the specific key performance indicators for the Managing Director/CEO and Chief Financial Officer/Deputy CEO over the last five years:

Financial results		2016 $m	2015 $m	2014 $m	2013 $m	2012 $m
Growth						
Group premium revenue		1,818.7	1,634.9	1,491.6	1,290.4	1,123.8
Profitability						
nib Group underlying operating profit		132.0	85.2	77.3	75.5	70.0
WNG underlying operating profit		9.7	–	–	–	–
Underlying EPS	cps	22.9	18.3	16.8	16.3	15.0
Cost Control						
Group underlying management expense ratio excluding acquisition costs	%	6.3	5.9	6.0	5.6	5.9

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

KPI	Result
Growth	
Group premium revenue	Group premium revenue up 11% to $1.8 billion, with 100% of maximum STI awarded for this target.
Profitability	
nib Group underlying operating profit	Group underlying operating profit up 49.9% to $132.0 million, with 100% of maximum STI awarded for this target.
WNG underlying operating profit	WNG underlying operating profit was $9.7 million (11 month result), with approximately 70% of maximum STI awarded for this target.
Underlying EPS	Underlying EPS of 22.9cps up 25.1%, with 100% of maximum STI awarded for this target.
Cost control	
nib Group underlying management expense ratio excluding acquisition costs	Approximately 65% of maximum STI awarded for this target.
Customer satisfaction	
arhi customer satisfaction	A range of metrics are used to measure customer satisfaction, including lapse and NPS which resulted in approximately 50% of maximum STI awarded for this target.

The graph over 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, International (Inbound) Health Insurance and World Nomads Group) the STI percentage awarded has improved in recent years.



TERMS OF EXECUTIVE CONTRACTS

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 (CFO/DECO)	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).

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.

nib requires all Non-Executive Directors 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 2016.

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. In 2014, nib engaged the services of Guerdon Associates to conduct a benchmarking and market remuneration analysis, which together with supplementary data was utilised this year.

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:

	2016 $	2015 $
Base fees		
Chairman	242,000	234,400
Other Non-Executive Directors	105,000	102,000
Additional fees*		
Audit committee		
Chairman	31,000	30,000
Member	12,500	12,000
Investment committee		
Chairman	17,000	16,700
Member	10,000	9,900
Risk and Reputation committee		
Chairman	25,000	24,100
Member	12,500	12,000
People and Remuneration committee		
Chairman	25,000	24,100
Member	12,500	12,000
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:

	2016 $	2015 $
NZ Base fees		
Chairman*	72,000	69,836
Member	37,000	35,600
NZ Board, Audit, Risk and Compliance committee		
Chairman	9,000	8,900
Member	–	–

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

Principle 2 of nib's Corporate Governance Statement (which is available at www.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 2016.

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 2016, the following retirement benefits are provided for:

Annette Carruthers	$90,958

DETAILED DISCLOSURE OF EXECUTIVE REMUNERATION

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[3] $	Superannuation $	Retirement benefits $	Long service leave $	Termination benefits $	Bonus[4] $	Performance rights $	Total $
2016										
Mark Fitzgibbon	828,128	384,560	10,999	35,000	–	14,699	–	384,560	660,706	2,318,652
Michelle McPherson	524,774	143,170	3,871	24,847	–	9,287	–	143,170	263,960	1,113,079
Rhod McKensey	516,450	141,210	3,759	25,631	–	9,015	–	141,210	179,472	1,016,747
Rob Hennin	372,636	110,275	8,412	27,370	–	–	–	117,098	62,067	697,858
Brendan Mills	302,839	67,743	2,230	19,308	–	5,350	–	67,743	52,420	517,633
Justin Vaughan	273,018	69,888	2,027	19,308	–	–	–	69,888	43,579	477,708
David Kan	442,561	89,544	3,098	19,308	–	–	–	89,544	45,885	689,940
	3,260,406	**1,006,390**	**34,396**	**170,772**	**–**	**38,351**	**–**	**1,013,213**	**1,308,089**	**6,831,617**
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**

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. Non-monetary benefits includes insurance cover and cost of benefits and associated Fringe Benefits Tax.
4. Includes bonus share rights. Refer to Share-based payments.

Details of current LTI allocations

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

	FY12 to FY15 LTIP	FY13 to FY16 LTIP	FY14 to FY17 LTIP	FY15 to FY18 LTIP	FY16 to FY19 LTIP	Total
Grant date[1]	21 Dec 2011	19 Nov 2012	29 Nov 2013	22 Dec 2014 for KMP excluding David Kan and 13 May 2015 for David Kan	22 Jan 2016	
Vesting and exercise date	1 Sep 2015 (FY16)	1 Sep 2016 (FY17)	1 Sep 2017 (FY18)	1 Sep 2018 (FY19)	1 Sep 2019 (FY20)	
Expiry date	1 Sep 2015	1 Sep 2016	1 Sep 2017	1 Sep 2018	1 Sep 2019	
Exercise price	nil	nil	nil	nil	nil	
Value per performance right at grant date	1.1313	1.5437	1.9830	2.6689 (22 Dec 2014) 3.2289 (13 May 2015)	3.0246	
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	553,236	559,057	496,883	628,895	2,238,071
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	

	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 $	FY16 to FY19 LTIP Number	FY16 to FY19 LTIP $	Total Number	Total $
Mark Fitzgibbon												
Number of performance rights yet to vest at 1 July 2015	217,546		331,765		273,786		234,714		–		1,057,811	
Number and value at grant date of performance rights granted during the year[2]	–		–		–		–		284,320	859,954	284,320	
Number of performance rights vested during the year[3]	(108,773)		–		–		–		–		(108,773)	
Number of performance rights forfeited during the year	(108,773)		–		–		–		–		(108,773)	
Number of performance rights and maximum total value yet to vest at 30 June 2016	–	–	331,765	1,400,048	273,786	1,155,377	234,714	990,493	284,320	1,199,830	1,124,585	4,745,749
Date of exercise of performance rights	2 Sep 2015		n/a		n/a		n/a		n/a			
Number of shares issued and value on exercise of performance rights during the year[3]	108,773	333,629	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	108,773	333,629
Michelle McPherson												
Number of performance rights yet to vest at 1 July 2015	109,766		107,871		89,060		74,081		–		380,778	
Number and value at grant date of performance rights granted during the year[2]	-		–		–		–		89,819	271,667	89,819	
Number of performance rights vested during the year[3]	(54,883)		–		–		–		–		(54,883)	
Number of performance rights forfeited during the year	(54,883)		–		–		–		–		(54,883)	
Number of performance rights and maximum total value yet to vest at 30 June 2016	–	–	107,871	455,216	89,060	375,833	74,081	312,622	89,819	379,036	360,831	1,522,707
Date of exercise of performance rights	2 Sep 2015		n/a		n/a		n/a		n/a			
Number of shares issued and value on exercise of performance rights during the year[3]	54,883	168,337	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	54,883	168,337

DETAILED DISCLOSURE OF EXECUTIVE REMUNERATION continued

Details of current LTI allocations continued

	FY12 to FY15 LTIP		FY13 to FY16 LTIP		FY14 to FY17 LTIP		FY15 to FY18 LTIP		FY16 to FY19 LTIP		Total	
	Number	$	Number	$	Number	$	Number	$	Number	$	Number	$
Rhod McKensey												
Number of performance rights yet to vest at 1 July 2015	64,995		75,013		79,437		55,744		–		275,189	
Number and value at grant date of performance rights granted during the year[2]	–		–		–		–		69,787	211,078	69,787	
Number of performance rights vested during the year[3]	(32,498)		–		–		–		–		(32,498)	
Number of performance rights forfeited during the year	(32,497)		–		–		–		–		(32,497)	
Number of performance rights and maximum total value yet to vest at 30 June 2016	–	–	75,013	316,555	79,437	335,224	55,744	235,240	69,787	294,501	279,981	1,181,520
Date of exercise of performance rights	2 Sep 2015		n/a		n/a		n/a		n/a			
Number of shares issued and value on exercise of performance rights during the year[3]	32,498	99,678	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	32,498	99,678
Brendan Mills *(commenced 1 June 2012)*												
Number of performance rights yet to vest at 1 July 2015	–		38,587		33,020		36,145		–		107,752	
Number and value at grant date of performance rights granted during the year[2]	–		–		–		–		41,394	125,200	41,394	
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 2016	–	–	38,587	162,837	33,020	139,344	36,145	152,532	41,394	174,683	149,146	629,396
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 2015			–		57,316		40,384		–		97,700	
Number and value at grant date of performance rights granted during the year[2]	–		–		–		–	–	49,492	149,694	49,492	
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 2016	–	–	–	–	57,316	241,874	40,384	170,420	49,492	208,856	147,192	621,150
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

	FY12 to FY15 LTIP		FY13 to FY16 LTIP		FY14 to FY17 LTIP		FY15 to FY18 LTIP		FY16 to FY19 LTIP		Total	
	Number	$	Number	$	Number	$	Number	$	Number	$	Number	$
Justin Vaughan *(commenced 1 August 2013)*												
Number of performance rights yet to vest at 1 July 2015	–		–		26,438		32,859		–		59,297	
Number and value at grant date of performance rights granted during the year[2]	–		–		–		–		37,633	113,825	37,633	
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 2016	–	–	–	–	26,438	111,568	32,859	138,665	37,633	158,811	96,930	409,045
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 2016)*												
Number of performance rights yet to vest at 1 July 2015	–		–		–		22,956		–		22,956	
Number and value at grant date of performance rights granted during the year[2]	–		–		–		–		56,450	170,739	56,450	
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 2016	–	–	–	–	–	–	22,956	96,874	56,450	238,219	79,406	335,093
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.

DETAILED DISCLOSURE OF NON-EXECUTIVE REMUNERATION

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 $
2016										
Steve Crane	222,692	–	–	19,308	–	–	–	–	–	242,000
Lee Ausburn	122,527	–	–	11,640	–	–	–	–	–	134,167
Harold Bentley	169,500	–	–	35,000	–	–	–	–	–	204,500
Annette Carruthers	163,927	–	–	15,573	5,390	–	–	–	–	184,890
Philip Gardner	134,247	–	–	12,753	–	–	–	–	–	147,000
Christine McLoughlin	126,332	–	–	12,002	–	–	–	–	–	138,334
Donal O'Dywer (from 22/3/2016)	33,122	–	–	3,147	–	–	–	–	–	36,269
	972,347	**–**	**–**	**109,423**	**5,390**	**–**	**–**	**–**	**–**	**1,087,160**
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**

1. Cash salaries and fees and superannuation in 2015 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.

2016	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	1,057,811	284,320	(108,773)	(108,773)	1,124,585	–	1,124,585
Michelle McPherson	380,778	89,819	(54,883)	(54,883)	360,831	–	360,831
Rhod McKensey	275,189	69,787	(32,498)	(32,497)	279,981	–	279,981
Rob Hennin	97,700	49,492	–	–	147,192	–	147,192
Brendan Mills	107,752	41,394	–	–	149,146	–	149,146
Justin Vaughan	59,297	37,633	–	–	96,930	–	96,930
David Kan	22,956	56,450	–	–	79,406	–	79,406
Total	**2,001,483**	**628,895**	**(196,154)**	**(196,153)**	**2,238,071**	**–**	**2,238,071**

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)	(59,526)	380,778	–	380,778
Rhod McKensey	276,974	55,744	(28,765)	(28,764)	275,189	–	275,189
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)**	**(206,266)**	**2,001,483**	**–**	**2,001,483**

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 2016.

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.

2016	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	–	50,000	250,000
Lee Ausburn	20,000	–	30,000	50,000
Harold Bentley	100,000	–	–	100,000
Annette Carruthers	72,500	–	–	72,500
Philip Gardner	125,000	–	25,000	150,000
Christine McLoughlin	97,500	–	12,500	110,000
Donal O'Dwyer	–	–	25,600	25,600
Other key management personnel of the Group				
Mark Fitzgibbon	1,594,650	195,627	(7,000)	1,783,277
Michelle McPherson	512,498	95,550	–	608,048
Rhod McKensey	245,820	74,389	–	320,209
Rob Hennin	11,653	26,736	274	38,663
Brendan Mills	38,894	19,933	–	58,827
Justin Vaughan	5,890	18,166	–	24,056
David Kan	–	11,926	–	11,926

EQUITY INSTRUMENTS HELD BY KEY MANAGEMENT PERSONNEL continued

Share holdings continued

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	–	–	–	–

In addition to the above shareholding in nib holdings limited, David Kan during the year acquired one share in both nib Options Holdings (Thailand) Co Ltd and nib Options (Thailand) Co Ltd.

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. In line with nib's Procurement and Related Party Transactions Policies, these services were benchmarked against suppliers providing similar services and found to be competitive. 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

	2016 $000	2015 $000
Software maintenance	–	54,874
Advertising and promotions	222,701	115,689
Printing and stationery	97,382	–
	320,083	**170,563**

b) Amounts recognised as intangible assets

Software	–	128,223
	–	**128,223**

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	–	234,943
	–	**234,943**

CORPORATE GOVERNMENT STATEMENT

For the year ended 30 June 2016

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 2016 Corporate Governance Statement is dated as at 30 June 2016 and reflects the corporate governance practices in place throughout the 2016 financial year. The Corporate Governance Statement was approved by the board on 19 August 2016. 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 2016

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CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2016

	Notes	2016 $000	2015 $000
Premium revenue	6	1,820,053	1,636,323
Outwards reinsurance premium expense	6	(1,349)	(1,444)
Net premium revenue		**1,818,704**	**1,634,879**
Claims expense		(1,288,708)	(1,152,016)
Reinsurance and other recoveries revenue		660	587
RESA levy[1]		(179,416)	(185,498)
State levies		(29,402)	(28,237)
Decrease / (increase) in premium payback liability		15,778	(1,902)
Claims handling expenses	7	(16,828)	(16,982)
Net claims incurred		**(1,497,916)**	**(1,384,048)**
Acquisition costs	7	(94,584)	(79,261)
Other underwriting expenses	7	(101,997)	(82,922)
Underwriting expenses		**(196,581)**	**(162,183)**
Underwriting result		**124,207**	**88,648**
Other income	6	55,800	5,054
Other expenses	7	(59,217)	(12,047)
Operating profit		**120,790**	**81,655**
Finance costs	7	(5,241)	(3,423)
Investment income	6	18,477	32,975
Investment expenses	7	(1,597)	(1,616)
Profit before income tax		**132,429**	**109,591**
Income tax expense	8(a)	(40,598)	(34,330)
Profit for the year		**91,831**	**75,261**
Profit for the year is attributable to:			
Owners of nib holdings limited		92,850	75,798
Non-controlling interests		(1,019)	(537)
		91,831	**75,261**

1. RESA (Risk Equalisation Special Account) levy, formerly RETF (Risk Equalisation Trust Fund) levy.

		cents	cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company			
Basic earnings per share	28	21.2	17.3
Diluted earnings per share	28	21.2	17.3
Earnings per share for profit attributable to the ordinary equity holders of the company			
Basic earnings per share	28	21.2	17.3
Diluted earnings per share	28	21.2	17.3

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 2016

	Notes	2016 $000	2015 $000
Profit for the year		**91,831**	**75,261**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	26	3,299	(1,434)
Reversal on disposal of available for sale financial assets		–	(2,012)
Income tax related to these items	8(a)(iii)	(705)	660
Items that will not be reclassified to profit or loss			
Revaluation of land and buildings	26	117	5,539
Income tax related to these items	8(a)(iii)	(35)	(1,662)
Other comprehensive income for the year, net of tax		**2,676**	**1,091**
Total comprehensive income for the year		**94,507**	**76,352**
Total comprehensive income for the year is attributable to:			
Owners of nib holdings limited		95,526	76,889
Non-controlling interests		(1,019)	(537)
		94,507	**76,352**

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 2016

	Notes	2016 $000	2015 $000
ASSETS			
Current assets			
Cash and cash equivalents	9	89,428	123,655
Receivables	10	51,858	45,130
Financial assets at fair value through profit or loss	11	580,738	457,155
Reinsurance and other recoveries receivable	12	79	–
Deferred acquisition costs	13	34,060	22,059
Assets classified as held for sale	14	–	38,726
Total current assets		**756,163**	**686,725**
Non-current assets			
Deferred acquisition costs	13	49,135	42,069
Deferred tax assets	8(b)	809	3,677
Property, plant and equipment	15	15,486	14,458
Intangible assets	16	217,428	90,179
Total non-current assets		**282,858**	**150,383**
Total assets		**1,039,021**	**837,108**
LIABILITIES			
Current liabilities			
Payables	17	141,289	124,902
Reinsurance and other recoveries payable	12	–	9
Borrowings	18	–	1,390
Outstanding claims liability	19	112,179	97,147
Unearned premium liability	20	151,941	126,922
Premium payback liability	21	10,261	10,459
Provision for employee entitlements	22	2,881	3,056
Current tax liabilities		15,034	2,607
Other liabilities	23	408	–
Total current liabilities		**433,993**	**366,492**
Non-current liabilities			
Borrowings	18	151,867	62,501
Unearned premium liability	20	24,326	16,306
Premium payback liability	21	17,100	30,429
Provision for employee entitlements	22	2,290	1,268
Deferred tax liabilities	8(c)	17,808	15,849
Other liabilities	23	5,573	–
Total non-current liabilities		**218,964**	**126,353**
Total liabilities		**652,957**	**492,845**
Net assets		**386,064**	**344,263**
EQUITY			
Contributed equity	24	26,525	28,001
Retained profits	25	356,218	307,038
Reserves	26	4,908	9,815
Capital and reserves attributable to owners of nib holdings limited		**387,651**	**344,854**
Non-controlling interests		(1,587)	(591)
Total equity		**386,064**	**344,263**

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 2016

		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 2014		**27,189**	**320,132**	**9,101**	**356,422**	**(54)**	**356,368**
Profit for the year		–	75,798	–	75,798	(537)	75,261
Revaluation of land and buildings, net of tax	26	–	–	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	26	–	–	(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	24(c)	(137)	–	–	(137)	–	(137)
Issue of shares held by nib Holdings Ltd Share Ownership Plan Trust to employees	24(c)	949	–	(745)	204	–	204
Employee performance rights – value of employee services	26	–	–	368	368	–	368
Dividends paid	27	–	(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**
Balance at 1 July 2015		**28,001**	**307,038**	**9,815**	**344,854**	**(591)**	**344,263**
Profit for the year		–	92,850	–	92,850	(1,019)	91,831
Movement in foreign currency translation, net of tax	26	–	–	2,594	2,594	–	2,594
Revaluation of land and buildings, net of tax	26	–	–	82	82	–	82
Transfer to retained profits on sale of land and buildings, net of tax	26	–	7,911	(7,911)	–	–	–
Total comprehensive income for the year		**–**	**100,761**	**(5,235)**	**95,526**	**(1,019)**	**94,507**
Transactions with owners in their capacity as owners:							
Transactions with non-controlling interests	35(c)	–	–	–	–	23	23
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust	24(c)	(2,902)	–	–	(2,902)	–	(2,902)
Issue of shares held by nib Holdings Ltd Share Ownership Plan Trust to employees	24(c)	1,426	–	(631)	795	–	795
Employee performance rights – value of employee services	26	–	–	959	959	–	959
Dividends paid	27	–	(51,581)	–	(51,581)	–	(51,581)
		(1,476)	**(51,581)**	**328**	**(52,729)**	**23**	**(52,706)**
Balance at 30 June 2016		**26,525**	**356,218**	**4,908**	**387,651**	**(1,587)**	**386,064**

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 2016

	Notes	2016 $000	2015 $000
Cash flows from operating activities			
Receipts from policyholders and customers (inclusive of goods and services tax)		1,934,973	1,696,350
Payments to policyholders and customers		(1,503,099)	(1,351,374)
Payments to suppliers and employees (inclusive of goods and services tax)		(273,792)	(224,172)
		158,082	**120,804**
Dividends received		–	217
Interest received		7,393	8,938
Distributions received		19,151	12,148
Transaction costs relating to acquisition of business combination		(2,763)	–
Interest paid		(4,817)	(3,227)
Income taxes paid		(28,643)	(24,671)
Net cash inflow from operating activities	9(c)	**148,403**	**114,209**
Cash flows from investing activities			
Proceeds from disposal of other financial assets at fair value through profit and loss		154,448	154,234
Payments for other financial assets at fair value through profit and loss		(281,829)	(199,028)
Proceeds from sale of available-for-sale financial assets		–	6,882
Proceeds from sale of assets classified as held for sale		46,259	–
Proceeds from sale of property, plant and equipment and intangibles		27	36
Payments for property, plant and equipment and intangibles	15,16	(16,173)	(10,982)
Payment for acquisition of business combination, net of cash acquired	34	(114,506)	–
Net cash (outflow) inflow from investing activities		**(211,774)**	**(48,858)**
Cash flows from financing activities			
Proceeds from borrowings		85,000	–
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust	24(c)	(2,902)	(137)
Transactions with non-controlling interests	35(c)	23	–
Dividends paid to the company's shareholders	27	(51,581)	(88,892)
Net cash inflow (outflow) from financing activities		**30,540**	**(89,029)**
Net (decrease) increase in cash and cash equivalents		**(32,831)**	**(23,678)**
Cash and cash equivalents at beginning of the year		122,265	146,954
Effects of exchange rate changes on cash and cash equivalents		(6)	(1,011)
Cash and cash equivalents at the end of the year		**89,428**	**122,265**
Reconciliation to Consolidated Balance Sheet			
Cash and cash equivalents		89,428	123,655
Borrowings – overdraft		–	(1,390)
		89,428	**122,265**

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 not applied any new standards or amendments during the annual reporting period commencing 1 July 2015.

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 2016 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 significant impact from this standard.

ii) AASB 15 Revenue from contracts with customers (effective from 1 January 2018)

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 majority of the Group's 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 significant impact from this standard.

iii) AASB 16 Leases (effective from 1 January 2019)

AASB 16 will primarily affect the accounting by lessees and will result in the recognition of almost all the leases on the balance sheet. The standard removes the current distinctions between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for almost all the lease contracts. The Group is yet to undertake a detailed assessment of this standard.

The Group is currently assessing whether it should adopt these standards before their mandatory date.

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 2016 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.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to Note 34(c).

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 Instrument 2016/191, 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 Instrument 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 judgment 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 judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key areas in which critical estimates are applied are:

- Estimation of deferred acquisition costs – Note 13
- Estimation of goodwill impairment and useful life of brand names and trademarks – Note 16
- 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;
    - 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.
  - 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. 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 license.

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 retains 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.

3. RISK MANAGEMENT continued

b) Insurance risk continued

- **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.

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 Australian and New Zealand Dollars.

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

	2016		2015	
	Weighted average interest rate %	Balance $000	Weighted average interest rate %	Balance $000
Bank loans	3.6%	151,867	4.9%	62,501
Net exposure to cash flow interest rate risk		**151,867**		**62,501**

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 Nikko Asset Management New Zealand Limited. The Group has adopted an investment strategy that delivers a diversified portfolio with a heavier weighting to defensive assets versus growth assets. Defensive assets consist of Australian and overseas fixed interest investments and cash and cash equivalents.

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

Interest Rate Risk	2016					2015				
		-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	89,428	(625)	(625)	625	625	123,655	(866)	(866)	866	866
Other receivables	7,974	(56)	(56)	56	56	2,771	(19)	(19)	19	19
Financial assets at fair value through profit or loss	580,738	6,149	6,149	(6,103)	(6,103)	457,155	4,184	4,184	(4,151)	(4,151)
Financial liabilities										
Bank loans	(151,867)	1,076	1,076	(1,076)	(1,076)	(62,501)	450	450	(450)	(450)
Premium payback liability	(27,361)	(1,044)	(1,044)	919	919	(40,888)	(1,414)	(1,414)	1,192	1,192
Total increase / (decrease)		**5,500**	**5,500**	**(5,579)**	**(5,579)**		**2,335**	**2,335**	**(2,524)**	**(2,524)**

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 Brazil, Canada, New Zealand, Thailand, United Kingdom and United States. In accordance with the policy set out in Note 1(e), 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. Foreign exchange gains or losses arising on assets and liabilities denominated in foreign currencies are recognised directly in profit and loss. 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 foreign currency, with all other variables held constant.

Foreign exchange risk	2016					2015				
		-10%		+10%			-10%		+10%	
	Exposure $000	Profit $000	Equity $000	Profit $000	Equity $000	Exposure $000	Profit $000	Equity $000	Profit $000	Equity $000
Brazilian real	155	–	(15)	–	15	–	–	–	–	–
Canadian dollar	36	(2)	(1)	2	1	–	–	–	–	–
European euro	(168)	12	–	(12)	–	–	–	–	–	–
Great Britain pound	7	(11)	15	11	(15)		–	–	–	–
New Zealand dollar	55,090	12	(5,526)	(12)	5,526	35,606	–	(3,561)	–	3,561
United States dollar	618	(55)	17	55	(17)	–	–	–	–	–
Thai baht	123	–	(12)	–	12	–	–	–	–	–
Total increase / (decrease)	**55,861**	**(44)**	**(5,522)**	**44**	**5,522**	**35,606**	**–**	**(3,561)**	**–**	**3,561**

3. RISK MANAGEMENT continued

c) Market risk continued

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

	2016					2015				
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	580,738	(6,848)	(6,848)	6,848	6,848	457,155	(4,279)	(4,279)	4,279	4,279
Total increase / (decrease)		**(6,848)**	**(6,848)**	**6,848**	**6,848**		**(4,279)**	**(4,279)**	**4,279**	**4,279**

Methods and assumptions used in preparing sensitivity analysis

The post-tax effect on profit and equity of movements in foreign exchange, interest rate and price have 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.

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 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	2016 $000	2015 $000
Counterparties with external credit rating	169	–
Counterparties without external credit rating		
Group 1 – new debtors (less than 6 months)	434	71
Group 2 – existing debtors (more than 6 months) with no defaults in the past	7,277	2,515
Group 3 – existing debtors (more than 6 months) with some defaults in the past. All defaults were fully recovered.	94	185
Total Other Receivables	**7,974**	**2,771**

Cash at Bank and short-term bank deposits	2016 $000	2015 $000
A-1	89,363	123,655
A-2	65	–
	89,428	**123,655**

Financial assets at fair value through profit or loss		
Short term deposits		
A-1	60,188	35,188
Interest-bearing securities[1]		
AAA	156,611	152,664
AA	126,171	110,825
A	97,080	63,373
BBB	39,422	28,130
Sub Investment Grade	3,410	6,747
Unclassified	26	(903)
	482,908	**396,024**

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 2016	≤ 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	11,981	266	242	30	–	12,519	12,519
Other payables	68,730	7,141	1,171	412	381	77,835	77,835
Borrowings	713	1,078	3,820	156,347	–	161,958	151,867
	81,424	**8,485**	**5,233**	**156,789**	**381**	**252,312**	**242,221**

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**

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 2016 and 30 June 2015.

Group at 30 June 2016	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Assets				
Cash and cash equivalents and deposits at call	89,428	–	–	89,428
Financial assets at fair value through profit or loss				
Equity securities	97,830	–	–	97,830
Interest-bearing securities	410,734	11,986	–	422,720
Short term deposits	60,188	–	–	60,188
Property, plant and equipment				
Land and buildings	–	–	1,908	1,908
Total assets	**658,180**	**11,986**	**1,908**	**672,074**

Group at 30 June 2015	Level 1 $000	Level 2 $000	Level 3 $000	Total $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**

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 bid price. 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 2016.

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 2016:

	Land and Buildings $000	Total $000
Opening balance 1 July 2014	40,587	40,587
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
Depreciation	(1,081)	(1,081)
Transfers to leasehold improvements	(4,504)	(4,504)
Closing balance 30 June 2015	**1,815**	**1,815**
Gains recognised in other comprehensive income	117	117
Depreciation	(24)	(24)
Closing balance 30 June 2016	**1,908**	**1,908**

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 2015.

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 2016 $000	Unobservable inputs*	Range of inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Land and buildings	1,908	Capitalisation rate	6.75% – 8.75% (7.75%)	The higher the capitalisation rate, the lower the fair value.
		Market rent per square metre	$512 – $626 ($569)	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.

4. FAIR VALUE MEASUREMENT continued

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

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 2016, freehold land and buildings were independently valued by a member of the Australian Property Institute.

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 2016:

	2016		2015	
Non-current borrowings	Carrying amount $000	Fair value $000	Carrying amount $000	Fair value $000
Bank loans	151,867	151,878	62,501	62,524

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 five 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
- World Nomads Group – nib's distribution of travel insurance products
- nib Options – nib's facilitation of access to cosmetic and dental treatment both overseas and here in Australia

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.

b) Other segment information

The MD/CEO assesses the performance of the operating segments based on underlying operating profit. This measurement basis excludes from the operating segments the effects of non-recurring profit on sale of the head office building, and non-recurring expenditure such as integration costs, merger and acquisition costs, and amortisation of acquired intangibles.

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.

5. SEGMENT REPORTING continued

c) Segment information provided to Executive management

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

	For the year ending 30 June 2016						
	Australian Residents Health Insurance $000	International (Inbound) Health Insurance $000	New Zealand Residents Health Insurance $000	World Nomads Group $000	nib Options $000	Unallocated to segments $000	Total $000
Premium revenue	1,568,369	78,103	173,581	–	–	–	1,820,053
Outwards reinsurance premium expense	–	(1,344)	(5)	–	–	–	(1,349)
Net premium revenue	**1,568,369**	**76,759**	**173,576**	**–**	**–**	**–**	**1,818,704**
Claims expense	(1,125,309)	(42,352)	(121,047)	–	–	–	(1,288,708)
Reinsurance and other recoveries revenue	–	660	–	–	–	–	660
RESA[1]	(179,416)	–	–	–	–	–	(179,416)
State levies	(29,402)	–	–	–	–	–	(29,402)
(Increase) / Decrease in premium payback liability	–	–	15,778	–	–	–	15,778
Claims handling expenses	(14,460)	(897)	(1,471)	–	–	–	(16,828)
Net claims incurred	**(1,348,587)**	**(42,589)**	**(106,740)**	**–**	**–**	**–**	**(1,497,916)**
Acquisition costs	(60,892)	(6,878)	(26,814)	–	–	–	(94,584)
Other underwriting expenses	(64,779)	(10,286)	(22,694)	–	–	–	(97,759)
Underwriting expenses	**(125,671)**	**(17,164)**	**(49,508)**	**–**	**–**	**–**	**(192,343)**
Underwriting result	**94,111**	**17,006**	**17,328**	**–**	**–**	**–**	**128,445**
Other income	380	233	–	49,973	26	3,772	54,384
Other expenses	–	–	–	(40,283)	(2,566)	(7,976)	(50,825)
Underlying operating profit / (loss)	**94,491**	**17,239**	**17,328**	**9,690**	**(2,540)**	**(4,204)**	**132,004**
Items not included in underlying operating profit							
Amortisation of acquired intangibles	–	(869)	(3,369)	(3,587)	–	–	(7,825)
One-off transactions and M&A costs	–	–	–	(1,919)	–	(1,470)	(3,389)
Finance costs							(5,241)
Investment income							18,477
Investment expenses							(1,597)
Profit before income tax from continuing operations							**132,429**
Inter-segment other income[2]	1,799	–	70	–	–	–	1,869
Depreciation and amortisation	6,055	2,004	5,594	4,349	191	236	18,429
Total assets	710,297		194,159	110,604	648	23,313	1,039,021
Total liabilities	389,225		66,752	10,900	460	185,620	652,957
Insurance liabilities							
Outstanding claims liability	96,593		15,586				112,179
Unearned premium liability	159,030		17,237				176,267
Premium payback liability	–		27,361				27,361
Total	**255,623**		**60,184**				**315,807**

1. RESA (Risk Equalisation Special Account) levy, formerly RETF (Risk Equalisation Trust Fund) levy.
2. Inter-segment other income is eliminated on consolidation and not included in operating profit.

	For the year ending 30 June 2015						
	Australian Residents Health Insurance $000	International (Inbound) Health Insurance $000	New Zealand Residents Health Insurance $000	World Nomads Group $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
RESA[1]	(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)	(7,958)	(17,245)	–	–	–	(79,391)
Underwriting expenses	**(103,725)**	**(13,019)**	**(41,908)**	**–**	**–**	**–**	**(158,652)**
Underwriting result	**71,676**	**11,837**	**8,666**	**–**	**–**	**–**	**92,179**
Other income	215	374	–	–	(57)	3,850	4,382
Other expenses	–	–	–	–	(2,970)	(5,555)	(8,525)
Underlying operating profit / (loss)	**71,891**	**12,211**	**8,666**	**–**	**(3,027)**	**(1,705)**	**88,036**
Items not included in underlying operating profit							
Amortisation of acquired intangibles	–	(256)	(3,275)		–	–	(3,531)
One-off transactions and M&A costs	–	–	–	–	(751)	(2,098)	(2,849)
Finance costs							(3,423)
Investment income							32,975
Investment expenses							(1,616)
Profit before income tax from continuing operations							**109,592**
Inter-segment other income[2]	2,261	5	41	–	–	–	2,307
Depreciation and amortisation	6,296	1,225	4,829		168	55	12,573
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. RESA (Risk Equalisation Special Account) levy, formerly RETF (Risk Equalisation Trust Fund) levy.
2. Inter-segment other income is eliminated on consolidation and not included in operating profit.

6. REVENUE AND OTHER INCOME

	2016 $000	2015 $000
Premium revenue	1,820,053	1,636,323
Outwards reinsurance premiums	(1,349)	(1,444)
Net premium revenue	**1,818,704**	**1,634,879**
Other income		
Travel insurance commission	49,994	413
Life and funeral insurance commission and other commissions	2,271	2,014
Agency fee	311	310
Profit on sale of head office building	1,416	–
Deferred profit on sale and leaseback of head office building	136	–
Rental income	746	950
Fair value adjustment to contingent consideration	–	672
Subscription income / (refund)	–	(105)
Sundry income	926	800
	55,800	**5,054**
Investment income		
Interest	7,361	9,164
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	18,547	16,622
Net unrealised gain/(loss) on financial assets at fair value through profit or loss	(7,431)	1,590
Dividends	–	217
	18,477	**32,975**

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.

iv) Revenue from travel insurance commission

Revenue in the form of commissions is recognised when the sale of an insurance policy to a customer occurs. Revenue is also generated on travel services activities and recognised as the service is performed.

7. EXPENSES

	2016 $000	2015 $000
Expenses by function		
Claims handling expenses	16,828	16,982
Acquisition costs	94,584	79,261
Other underwriting expenses	101,997	82,922
Other expenses	59,217	12,047
Finance costs	5,241	3,423
Investment expenses	1,597	1,616
Total expenses (excluding direct claims expenses)	**279,464**	**196,251**
Expenses by nature		
Amortisation of acquired intangibles	7,825	3,531
Bank charges	3,964	2,037
Consultancy fees	8,975	3,634
Depreciation and amortisation	10,604	9,042
Electronic claims precessing fees	3,473	3,845
Employee costs	104,163	77,687
Finance costs	5,241	3,422
Impairment of goodwill	–	1,423
Insurance	1,673	1,160
Investment expenses	1,597	1,616
Legal expenses	1,201	1,160
Marketing expenses – commissions	54,894	661
Marketing expenses – excluding commissions	42,501	30,195
Merger and acquisition costs	2,886	32,726
Net loss on disposal of property, plant and equipment	19	84
Operating lease rental expenses	5,962	3,785
Postages	2,049	1,838
Share registry expenses	1,131	1,376
Software maintenance	6,175	5,614
Telephones	1,538	1,257
Other	13,593	9,220
Total expenses (excluding direct claims expenses)	**279,464**	**196,251**

8. TAXATION

a) Income tax

	Notes	2016 $000	2015 $000
i) Income tax expense			
Recognised in the income statement			
Current tax expense		37,798	29,447
Deferred tax expense		3,025	5,212
Under (over) provided in prior years		305	(3)
Under (over) provided in prior years – research and development tax credit		(530)	(326)
		40,598	**34,330**
Income tax expense is attributable to:			
Profit from continuing operations		40,598	34,330
Aggregate income tax expense		**40,598**	**34,330**
Deferred income tax expense included in income tax expense comprises:			
Increase in deferred tax assets	8(b)	(470)	(572)
Increase in deferred tax liabilities	8(c)	3,495	5,784
		3,025	5,212
ii) Numerical reconciliation of income tax expense to prima facie tax payable			
Profit from continuing operations before income tax expense		**132,429**	**109,591**
Tax at the Australian tax rate of 30% (2015: 30%)		39,729	32,877
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		79	(124)
Entertainment		86	92
Merger and acquisition costs		940	151
Sundry items		(229)	11
Net assessable trust distributions		194	142
Imputation credits and foreign tax credits		(648)	(539)
Adjustment for current tax of prior periods		305	(3)
Adjustment for current tax of prior periods – research and development tax credit		(530)	(326)
Unrecognised tax losses and deferred tax assets		930	1,941
Differences in foreign tax rates		(258)	(117)
Income tax expense		**40,598**	**34,330**
iii) Tax expense relating to items of other comprehensive income			
Foreign currency translations	26	705	(56)
Revaluation of land and buildings	26	35	1,662
Change in value of available for sale financial assets	26	–	(604)
		740	**1,002**
iv) Amounts recognised directly to equity			
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:			
Transfer from revaluation reserve on sale of land and buildings	26	(3,390)	–
		(3,390)	**–**
v) Tax losses			
Unused tax losses for which no deferred tax asset has been recognised		9,364	6,180
Potential tax benefit @ 30%		**2,809**	**1,854**

8. TAXATION continued

b) Deferred tax assets

		2016 $000	2015 $000
The balance comprises temporary differences attributable to:			
Deferred profit on sale and leaseback of head office building		1,794	–
Employee benefits		4,187	2,568
Premium payback liabilities		7,235	11,051
Unrealised losses on investments		592	–
		13,808	**13,619**
Other			
Doubtful debts		323	247
Merger and acquisition costs		175	438
Outstanding claims		124	–
Provisions		2,478	1,186
Tax losses		1,435	194
Sub-total other		**4,535**	**2,065**
Total deferred tax assets		**18,343**	**15,684**
Set-off of deferred tax liabilities pursuant to set-off provisions	8(c)	(17,534)	(12,007)
Net deferred tax assets		**809**	**3,677**
Recovery of Total deferred tax assets:			
Deferred tax assets to be recovered within 12 months		8,995	7,075
Deferred tax assets to be recovered after more than 12 months		9,348	8,609
		18,343	**15,684**

Movements	Note	Deferred profit on sale and leaseback of head office building $000	Employee benefits $000	Premium payback liabilities $000	Unrealised losses on investments $000	Other $000	Total $000
At 1 July 2014		–	2,377	10,995	–	2,244	15,616
(Charged)/credited to the income statement		–	212	533	–	(173)	572
(Charged)/credited directly to other comprehensive income		–	(21)	(477)	–	(6)	(504)
At 30 June 2015		**–**	**2,568**	**11,051**	**–**	**2,065**	**15,684**
At 1 July 2015		–	2,568	11,051	–	2,065	15,684
(Charged)/credited to the income statement		1,794	235	(4,418)	592	2,267	470
(Charged)/credited directly to other comprehensive income		–	28	602	–	12	642
(Charged)/credited directly to equity		–	–	–	–	–	–
Acquisition of businesses	34	–	1,356	–	–	191	1,547
At 30 June 2016		**1,794**	**4,187**	**7,235**	**592**	**4,535**	**18,343**

c) Deferred tax liabilities

	Note	2016 $000	2015 $000
The balance comprises temporary differences attributable to:			
Brands and trademarks and customer contracts		9,391	4,653
Deferred acquisition costs		23,678	17,866
Depreciation and amortisation		885	413
Unrealised foreign exchange gains		1,092	559
Unrealised gains on investments		–	1,474
		35,046	**24,965**
Other			
Asset revaluation		81	2,611
Borrowing costs		3	6
Income receivables		4	4
Outstanding claims		–	61
Prepayments		3	27
Unearned premium liability		205	182
Sub-total other		**296**	**2,891**
Total deferred tax liabilities		**35,342**	**27,856**
Set-off of deferred tax liabilities pursuant to set-off provisions	8(b)	(17,534)	(12,007)
Net deferred tax liabilities		**17,808**	**15,849**
Recovery of Total deferred tax liabilities:			
Deferred tax liabilities to be settled within 12 months		10,604	8,155
Deferred tax liabilities to be settled after more than 12 months		24,738	19,701
		35,342	**27,856**

Movements	Note	Brands and trademarks and customer contracts $000	Deferred acquisition costs $000	Depreciation and amortisation $000	Unrealised foreign exchange losses $000	Unrealised gains on investments $000	Other $000	Total $000
At 1 July 2014		5,848	11,382	137	793	1,828	1,586	21,574
(Charged)/credited to the income statement		(994)	6,596	288	–	(354)	248	5,784
(Charged)/credited directly to other comprehensive income		(201)	(112)	(12)	(234)	–	1,057	498
At 30 June 2015		**4,653**	**17,866**	**413**	**559**	**1,474**	**2,891**	**27,856**
At 1 July 2015		4,653	17,866	413	559	1,474	2,893	27,858
(Charged)/credited to the income statement		(1,774)	5,550	1,268	10	(1,474)	(85)	3,495
(Charged)/credited directly to other comprehensive income		521	262	30	533	–	35	1,381
(Charged)/credited directly to equity		–	–	(825)	–	–	(2,565)	(3,390)
Acquisition of businesses	34	5,991	–	(1)	(10)	–	18	5,998
At 30 June 2016		**9,391**	**23,678**	**885**	**1,092**	**–**	**296**	**35,342**

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. The World Nomads Group Australian entities joined this tax consolidation group during the year. 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

	2016 $000	2015 $000
Cash at bank and cash on hand	70,045	73,516
Short term deposits and deposits at call	19,383	50,139
	89,428	**123,655**

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

	2016 $000	2015 $000
Profit for the year	91,831	75,261
Net gain on sale of available for sale financial assets	–	(5,382)
Profit on sale of head office building	(1,416)	–
Deferred profit on sale and leaseback of head office building	(136)	–
Net (gain)/loss on disposal of property, plant and equipment	19	84
Fair value (gain)/loss on other financial assets through profit or loss	9,501	(5,071)
Non-cash employee benefits expense – share-based payments	959	369
Depreciation and amortisation	18,429	12,573
Impairment of goodwill	–	1,423
Amortisation of borrowing costs	30	59
Gain on fair value adjustment to contingent consideration	–	(672)
Net exchange differences	(3,573)	2,434
Change in operating assets and liabilities, net of effect from purchase of controlled entity		
Decrease (increase) in current tax assets	–	2,876
Decrease (increase) in receivables	1,168	(344)
Decrease (increase) in reinsurance receivables	(88)	117
Decrease (increase) in deferred acquisition costs	(19,067)	(24,100)
Decrease (increase) in deferred tax assets	(1,327)	(353)
Increase (decrease) in trade payables	7,572	14,174
Increase (decrease) in unearned premium liability	30,795	29,026
Increase (decrease) in premium payback liability	(13,527)	138
Increase (decrease) in current tax liabilities	12,162	1,343
Increase (decrease) in deferred tax liabilities	1,112	5,860
Increase (decrease) in provisions	13,959	4,394
Net cash flow from operating activities	**148,403**	**114,209**

d) Off balance sheet arrangements

World Nomads Group Pty Ltd (WNG), a wholly subsidiary of nib holdings limited, operates bank accounts held in their name on behalf of their underwriters in accordance with contractual terms governing the arrangements. These accounts are not considered part of the cash and cash equivalents of WNG as they do not have the control over the cash. At 30 June 2016 this amounted to $17,054,596.

10. RECEIVABLES

	2016 $000	2015 $000
Current		
Premium receivable	6,244	7,888
Private Health Insurance Premiums Reduction Scheme receivable	35,030	32,662
Other receivables	7,974	2,771
Provision for impairment loss	(1,092)	(850)
Prepayments	3,702	2,659
	51,858	**45,130**

As at 30 June 2016 current receivables of the Group with a nominal value of $1.092 million (2015: $0.850 million) were impaired. The individually impaired receivables relate to premium receivables.

10. RECEIVABLES continued

The ageing of these impaired receivables is as follows:

	2016 $000	2015 $000
1 to 3 months	626	518
3 to 6 months	247	193
Over 6 months	219	139
	1,092	**850**

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

	2016 $000	2015 $000
At 1 July	850	1,242
Provision for impairment recognised during the year	743	506
Receivables written off during the year as uncollectible	(27)	(160)
Unused amount reversed	(474)	(738)
	1,092	**850**

As of 30 June 2016 and 2015 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

	2016 $000	2015 $000
Equity securities	97,830	61,131
Interest-bearing securities	422,720	360,836
Short term deposits	60,188	35,188
	580,738	**457,155**

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.

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)

	2016 $000	2015 $000
Expected future reinsurance recoveries undiscounted		
on claims paid	104	108
on outstanding claims	(25)	(117)
Reinsurance and other recoveries receivable on incurred claims	**79**	**(9)**

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

	2016 $000	2015 $000
Current		
Deferred acquisition costs	34,060	22,059
	34,060	**22,059**
Non-current		
Deferred acquisition costs	49,135	42,069
	49,135	**42,069**

Movements in the deferred acquisition costs are as follows:

	2016 $000	2015 $000
Balance at beginning of year	64,128	40,028
Acquisition costs deferred during the year	47,447	44,078
Amortisation expense	(29,298)	(19,528)
Exchange differences	918	(450)
	83,195	**64,128**

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 5 years (2015: 6 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 5 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 $3.0m for 30 June 2016.

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 2016.

Change in critical accounting judgements and estimates

On 1 April 2016, the amortisation period was revised to five years. The net effect of the changes in the current financial year was an increase in amortisation expense of $1.8 million.

Assuming the deferred acquisition costs are held and amortised at a rate of five years, the amortisation in future years in relation to these deferred acquisition costs will increase by the following amounts:

Year ending 30 June	$000
2016	1,778
2017	4,585
2018	1,816
2019	(259)
2020	(1,381)
2021	(5,146)
2022	(1,393)

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

	2016 $000	2015 $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, Newcastle. The sale was completed in February 2016 and the portion of the resulting profit in relation to the leaseback is deferred and recognised over the term being 15 years.

15. PROPERTY, PLANT AND EQUIPMENT

	Note	Land and Buildings $000	Plant and Equipment $000	Leasehold Improvements $000	Total $000
At 1 July 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 depreciation and impairment		(48)	(8,063)	(3,937)	**(12,048)**
Net book amount		**1,815**	**5,609**	**7,034**	**14,458**
Year ended 30 June 2016					
Opening net book amount		1,815	5,609	7,034	**14,458**
Additions		–	2,136	1,417	**3,553**
Acquisition of subsidiary	34	–	316	685	**1,001**
Revaluations		117	–	–	**117**
Assets included in a disposal group classified as held for sale and other disposals		–	(29)	(15)	**(44)**
Depreciation charge for the year		(24)	(2,613)	(1,179)	**(3,816)**
Exchange differences		–	146	71	**217**
Closing net book amount		**1,908**	**5,565**	**8,013**	**15,486**
At 30 June 2016					
Cost		1,910	17,409	12,346	**31,665**
Accumulated amortisation and impairment		(2)	(11,844)	(4,333)	**(16,179)**
Net book amount		**1,908**	**5,565**	**8,013**	**15,486**

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 2016. It is the opinion of the Directors that this valuation represents the fair value of the property at 30 June 2016.

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:

	2016 $000	2015 $000
Cost	1,624	1,354
Accumulated depreciation	(611)	(579)
Net book amount	**1,013**	**775**

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

	Note	Goodwill $000	Software $000	Brands and Trademarks $000	Customer Contracts $000	Total $000
At 1 July 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		(1,423)	–	–	–	(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**
Year ended 30 June 2016						
Opening net book amount		53,997	16,799	3,909	15,474	90,179
Additions		–	12,595	25	–	12,620
Acquisition of business	34	72,123	9,488	21,808	21,153	124,572
Amortisation charge for the year		–	(8,989)	(839)	(4,785)	(14,613)
Exchange differences		2,503	376	–	1,791	4,670
Closing net book amount		**128,623**	**30,269**	**24,903**	**33,633**	**217,428**
At 30 June 2016						
Cost		128,623	68,953	28,897	47,221	273,694
Accumulated amortisation and impairment		–	(38,684)	(3,994)	(13,588)	(56,266)
Net book amount		**128,623**	**30,269**	**24,903**	**33,633**	**217,428**

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.

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 amortisation.

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.

Brands and trademarks acquired with World Nomads Group in July 2015 have an indefinite useful life and are carried at fair value at the date of acquisition.

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, 10 years for nib nz limited and approximately 2.5 years for World Nomads Group.

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

b) Impairment tests for goodwill and indefinite life intangibles

Indefinite life intangibles such as brands and trademarks are allocated to a cash generating unit (CGU) which may be at a level lower than operating segments. Goodwill is allocated at an operating segment level to a CGU or group of CGUs.

Goodwill	Australian Residents Health Insurance Australia $000	International Workers Health Insurance Australia $000	New Zealand Residents Health Insurance New Zealand $000	World Nomads Group Australia $000	Total $000
At 30 June 2016	7,067	18,380	41,964	61,212	128,623
At 30 June 2015	7,067	18,380	28,550	–	53,997

Brands and trademarks	World Nomads $000	Travel Insurance Direct $000	Suresave $000	Total $000
At 30 June 2016	12,715	6,193	2,888	21,796
At 30 June 2015	–	–	–	–

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.

16. INTANGIBLE ASSETS continued

c) 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.

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

	Policyholder growth		Claims ratio		Long term growth rate		Pre-tax discount rate	
Goodwill	2016 %	2015 %	2016 %	2015 %	2016 %	2015 %	2016 %	2015 %
Australian Residents Health Insurance	6.2	5.2	85.0	86.2	3.0	3.0	11.0	14.0
International Workers Health Insurance	12.9	11.7	32.2	34.6	3.0	3.0	11.0	14.0
New Zealand Residents Health Insurance	10.9	5.9	63.9	63.9	3.0	3.0	15.0	13.9

	Gross written premium growth rate		Long term growth rate		Pre-tax discount rate	
	2016 %	2015 %	2016 %	2015 %	2016 %	2015 %
World Nomads Group	11.0	N/A	3.0	N/A	11.0	N/A

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

	Gross written premium growth rate		Royalty Rate		Long term growth rate		Pre-tax discount rate	
Brandnames and trademarks	2016 %	2015 %	2016 %	2015 %	2016 %	2015 %	2016 %	2015 %
WorldNomads.com	16.5	N/A	2.5	N/A	3.0	N/A	11.0	N/A
Travel Insurance Direct	6.4	N/A	2.0	N/A	3.0	N/A	11.0	N/A
Suresave	5.1	N/A	1.5	N/A	3.0	N/A	11.0	N/A

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.

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

In both 2016 and 2015 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 was fully written down in FY15 due to a change in the business model.

17. PAYABLES

	2016 $000	2015 $000
Current		
Outwards reinsurance expense liability – premiums payable to reinsurers	332	348
Trade creditors	12,519	6,389
Other payables	77,835	66,063
RESA payable[1]	45,378	47,920
Annual leave payable	5,225	4,182
	141,289	**124,902**

1. Risk Equalisation Special Account (RESA) levy, formerly RETF (Risk Equalisation Trust Fund) levy represents expenses incurred under RESA arrangements which are provided for within the legislation to support the principle of community rating.

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.

	2016 $000	2015 $000
Annual leave obligation expected to be settled after 12 months	**412**	**434**

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 special account levy

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

18. BORROWINGS

	2016 $000	2015 $000
Current		
Bank overdraft	–	1,390
	–	**1,390**
Non-current		
Bank loans (secured)	151,867	62,501
	151,867	**62,501**

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 $2.9 million. Outstanding amounts as at 30 June 2016 are included in Current Liabilities – Payables under Trade Creditors.

18. BORROWINGS continued

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

	2016 $000	2015 $000
Balance at beginning of period	62,501	65,081
Proceeds from borrowings	85,000	–
Borrowing expenses	(18)	–
Amortisation of borrowing expenses	30	59
Exchange differences	4,354	(2,639)
Balance at end of period	**151,867**	**62,501**

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

During the year, nib holdings limited established a $50 million variable rate loan facility with NAB and drew down $35 million of the existing $50 million loan facility with ANZ. Both loans relate to the acquisition of World Nomads Group with maturity and repayment being 18 December 2017. The covenants on these loan facilities are the same as the existing covenants on the NZD$70 million loan detailed below.

Both facilities are variable rate Australian denominated loans which are carried at amortised cost.

nib nz holdings limited, a wholly owned subsidiary of nib holdings limited, has an existing 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 2016 the Group Gearing Ratio was 28.1% and the Group Interest Ratio Cover Ratio was 27:1.

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 a AUD$50 million variable rate loan facility with ANZ of which AUD$35 million was drawn down on 17 August 2015 with $15 million remaining in the facility as at 30 June 2016.

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

	2016 $000	2015 $000
Outstanding claims – central estimate of the expected future payment for claims incurred	90,526	78,565
Risk margin	4,766	3,872
Administration component	1,440	1,214
Gross outstanding claims liability	**96,732**	**83,651**
Outstanding claims – expected payment to the RESA[1] in relation to the central estimate	14,802	12,940
Risk margin	645	556
Net outstanding claims liability	**112,179**	**97,147**

1. Risk Equalisation Special Account (RESA) Levy formerly REFT (Risk Equalisation Trust Fund) levy represents expenses incurred under RESA arrangements which are provided for within the legislation to support the principle of community rating.

Movements in the gross outstanding claims are as follows:

	Note	2016 $000	2015 $000
Gross outstanding claims at beginning of period		83,651	79,319
Risk margin		(3,872)	(3,408)
Administration component		(1,214)	(1,375)
Central estimate at beginning of period		**78,565**	**74,536**
Change in claims incurred for the prior year		388	(5,559)
Claims paid in respect of the prior year		(77,854)	(68,496)
Claims incurred during the period (expected)		1,265,429	1,146,524
Claims paid during the period		(1,177,994)	(1,068,031)
Acquisition of business	34	1,147	–
Effect of changes in foreign exchange rates		845	(409)
Central estimate at end of period		**90,526**	**78,565**
Risk margin		4,766	3,872
Administration component		1,440	1,214
Gross outstanding claims at end of period		**96,732**	**83,651**

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 Special Account (RESA) 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 RESA based upon the gross provision.

19. OUTSTANDING CLAIMS LIABILITY continued

a) Actuarial methods and critical accounting judgements and estimates continued

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 2016 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 2016 and June 2016 the Bornhuetter-Ferguson method is given some weight, 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:

	2016			2015		
Australian Residents Health Insurance	Hospital %	Medical %	General %	Hospital %	Medical %	General %
Assumed proportion paid to date	92.2%	90.8%	97.7%	92.6%	90.8%	97.2%
Expense rate	1.40%	1.40%	1.40%	1.4%	1.4%	1.4%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	3.9%	3.9%	3.9%	2.9%	2.9%	2.9%
Risk equalisation rate	23.5%	23.5%	0.0%	24.1%	24.1%	0.0%
Risk margin for risk equalisation	4.4%	4.4%	0.0%	4.3%	4.3%	0.0%
International Students Health Insurance						
Assumed proportion paid to date	86.4%	92.1%	99.8%	69.1%	75.8%	96.0%
Expense rate	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	24.8%	24.8%	24.8%	19.7%	19.7%	19.7%
International Workers Health Insurance						
Assumed proportion paid to date	79.1%	83.2%	91.7%	80.2%	80.8%	89.0%
Expense rate	5.0%	5.0%	5.0%	4.0%	4.0%	4.0%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	18.5%	18.5%	18.5%	23.4%	23.4%	23.4%
NZ Health Insurance	Surgical %	Medical %		Surgical %	Medical %	
Assumed proportion paid to date	87.5%	79.9%		89.3%	79.7%	
Expense rate	2.0%	2.0%		1.8%	1.8%	
Discount rate	0.0%	0.0%		0.0%	0.0%	
Risk margin	5.8%	5.8%		8.4%	8.4%	

The risk margin of 3.9% for Australian Residents Health Insurance (June 2015: 2.9%), International Students Health Insurance 24.8% (June 2015: 19.7%), 18.5% for International Workers Health Insurance (June 2015: 23.4%) and New Zealand Health Insurance 5.8% (June 2015: 8.4%) 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.

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 2015: 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 RESA 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.

19. OUTSTANDING CLAIMS LIABILITY continued

d) Sensitivity analysis continued

ii) Impact of key variables

	Profit after tax 2016 $000	Equity 2016 $000
Recognised amounts in the financial statements attributable to owners of nib holdings limited	**92,850**	**387,651**

Variable	Movement in variable	Adjustments $000	Adjusted amounts $000	Adjustments $000	Adjusted amounts $000
Chain Ladder Development Factors	+0.5%	(8,502)	84,348	(8,502)	379,149
	–0.5%	8,547	101,397	8,547	396,198
Bornhuetter-Ferguson Unpaid Factors	+2.0%	(1,488)	91,362	(1,488)	386,163
	–2.0%	1,533	94,383	1,533	389,184
Expense rate	+1.0%	(672)	92,178	(672)	386,979
	–1.0%	672	93,522	672	388,323
Risk equalisation allowance	+2.5%	(1,151)	91,699	(1,151)	386,500
	–2.5%	1,151	94,001	1,151	388,802
Risk margin	+1.0%	(750)	92,100	(750)	386,901
	–1.0%	750	93,600	750	388,401

20. UNEARNED PREMIUM LIABILITY AND UNEXPIRED RISK LIABILITY

a) Unearned premium liability

	2016 $000	2015 $000
Current		
Unearned premium liability	151,941	126,922
	151,941	**126,922**
Non-current		
Unearned premium liability	24,326	16,306
	24,326	**16,306**

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:

	Note	2016 $000	2015 $000
Unearned premium liability as at 1 July		143,228	114,202
Acquisition of business	34	2,182	–
Deferral of premiums on contracts written in the period		157,779	133,304
Earning of premiums written in previous periods		(126,922)	(104,278)
Unearned premium liability as at 30 June		**176,267**	**143,228**

b) Unexpired risk liability

No deficiency was identified as at 30 June 2016 and 2015 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 2016 and 2015 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

	2016 $000	2015 $000
Current		
Premium payback liability	10,261	10,459
	10,261	**10,459**
Non-current		
Premium payback liability	17,100	30,429
	17,100	**30,429**

Premium payback early settlement offer

At their policy renewal, eligible premium payback customers have been 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 received 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. The last settlement offers were made in May 2016 for July 2016 policy renewals, the offer expires on 31 August 2016. 100% of the available offers have been included in the current portion of the premium payback liability on the balance sheet. As customers may or may not accept the available premium payback settlement offer and recognising that 100% acceptance is unlikely, it's estimated for policyholders that accept the offer, $1.8 million of total premium payback liability could be settled within the next 2 months. This is in addition to $0.6 million of the premium payback liability that is expected to be settled within the next 2 months in the normal course of business.

21. PREMIUM PAYBACK LIABILITY continued

Movements in the premium payback liability are as follows:

	2016 $000	2015 $000
Gross premium payback liability at beginning of period	40,888	40,750
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)
Central estimate at beginning of period	**37,972**	**36,828**
Funding/new accrued	2,722	6,581
Unwind discount rate	1,044	1,624
Interest rate movement impact	1,984	1,953
Premium payback payments	(20,799)	(8,222)
Others	624	811
Effect of changes in foreign exchange rates	2,036	(1,603)
Central estimate at end of year/period	**25,583**	**37,972**
Adjustment to ensure reserve exceeds current payout on early lapse	34	565
Value of payments currently being processed	1,025	1,000
Risk margin	719	1,351
Total premium payback liability as at 30 June	**27,361**	**40,888**

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.

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:

	2016	2015
Lapse rate until 3 years from premium payback date	2.0% – 10.0%	2.0% – 10.0%
Lapse rate within 3 years of premium payback date	0.0% – 1.0%	0.0% – 1.0%
Expense rate	0.0%	0.0%
Discount rate for succeeding and following year	2.0%	2.8% – 3.1%
Risk margin	2.7%	3.1%

The risk margin has been estimated to equate to a 95% probability of adequacy (2015: 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 and risk margin.
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 2016 $000		Equity 2016 $000
Recognised amounts in the financial statements attributable to owners of nib holdings limited			**92,850**		**387,651**
Variable	**Movement in variable**	**Adjustments**	**Adjusted amounts**	**Adjustments**	**Adjusted amounts**
		$000	$000	$000	$000
Lapse rate	+1.0%	585	93,435	585	388,236
	-1.0%	(631)	92,219	(631)	387,020
Discount rate	+1.0%	919	93,769	919	388,570
	-1.0%	(1,045)	91,805	(1,045)	386,606
Risk margin	+1.0%	(189)	92,661	(189)	387,462
	-1.0%	189	93,039	189	387,840

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 2016 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 2016 (2015: nil) that resulted in an unexpired risk liability needing to be recognised.

22. PROVISION FOR EMPLOYEE ENTITLEMENTS

	2016 $000	2015 $000
Current		
Long service leave	2,544	2,557
Termination benefits	246	413
Retirement benefits	91	86
	2,881	**3,056**
Non-Current		
Long service leave	2,290	1,268
	2,290	**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.

	2016 $000	2015 $000
Long service leave obligation expected to be settled after 12 months	2,063	2,297
Retirement benefit obligation expected to be settled after 12 months	–	86
	2,063	**2,383**

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.

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. OTHER LIABILITIES

	2016 $000	2015 $000
Current		
Deferred profit on sale and leaseback of head office building	408	–
	408	**–**
Non-Current		
Deferred profit on sale and leaseback of head office building	5,573	–
	5,573	**–**

a) Recognition and measurement

The deferred profit relates to the sale and leaseback of the head office building at 22 Honeysuckle Drive, Newcastle in February 2016. The excess of the proceeds received over fair value relating to the leaseback portion of the building was deferred and is being amortised over the lease term of 15 years. In FY16, profit on sale of head office building of $1,416,224 and deferred profit on sale and leaseback of head office building of $135,931 was recognised in profit or loss relating to this transaction. The subsequent leasing agreement is treated as an operating lease. The non-current part of the deferred profit will be amortised between 2016 and the end of the lease term.

24. CONTRIBUTED EQUITY

a) Share capital

	2016 $000	2015 $000
Ordinary shares		
Fully paid	**28,106**	**28,106**
Other equity securities		
Treasury shares	**(1,581)**	**(105)**
Total contributed equity	**26,525**	**28,001**

b) Movements in share capital

Date	Details	No. of shares	Price $	$000
1 July 2014	Opening balance	439,004,182		28,106
30 June 2015	**Balance**	**439,004,182**		**28,106**
1 July 2015	Opening balance	439,004,182		28,106
30 June 2016	**Balance**	**439,004,182**		**28,106**

24. CONTRIBUTED EQUITY continued

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 37 for more information.

Date	Details	No. of shares	$000
1 July 2014	**Opening balance**	**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	**Balance**	**31,396**	**105**
1 July 2015	**Opening balance**	**31,396**	**105**
Aug 2015	Acquisition of shares by the Trust	430,000	1,382
Sep 2015	Employee share issue – LTIP	(196,154)	(631)
Sep 2015	Employee share issue – STI	(246,173)	(795)
Apr 2016	Acquisition of shares by the Trust	118,482	499
May 2016	Acquisition of shares by the Trust	116,123	513
Jun 2016	Acquisition of shares by the Trust	116,722	508
30 June 2016	**Balance**	**370,396**	**1,581**

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.

25. RETAINED PROFITS

	2016 $000	2015 $000
Balance at the beginning of the year	307,038	320,132
Net profit	92,850	75,798
Transfer from revaluation reserve on sale of land and buildings, net of tax	7,911	–
Dividends	(51,581)	(88,892)
Balance at the end of the financial year	**356,218**	**307,038**

26. RESERVES

	2016 $000	2015 $000
Revaluation surplus – property, plant and equipment	1,081	8,910
Share-based payments	1,683	811
Share-based payments exercised	(2,347)	(1,803)
Foreign currency translation	4,491	1,897
	4,908	**9,815**

Movements in reserves

	Notes	2016 $000	2015 $000
Revaluation surplus – property, plant and equipment			
Balance at the beginning of the year		8,910	5,033
Property revaluation – gross		117	5,539
Transfer to retained profits on sale of land and buildings – gross		(11,301)	–
Deferred tax	8(a)(iii)	3,355	(1,662)
Balance at the end of the financial year		**1,081**	**8,910**
Share-based payments			
Balance at the beginning of the year		811	524
Performance right expense		959	368
Transfer to share-based payments exercised reserve on exercise of performance rights		(87)	(81)
Balance at the end of the financial year		**1,683**	**811**
Share-based payments exercised			
Balance at the beginning of the year		(1,803)	(1,139)
Transfer from share-based payments reserve on exercise of performance rights		87	81
Issue of shares held by nib Holdings Ltd Share Ownership Plan Trust to employees		(631)	(745)
Balance at the end of the financial year		**(2,347)**	**(1,803)**
Foreign currency translation			
Balance at the beginning of the year		1,897	3,275
Currency translation differences arising during the year – gross		3,299	(1,434)
Deferred tax	8(a)(iii)	(705)	56
Balance at the end of the financial year		**4,491**	**1,897**

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).

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.

26. RESERVES continued

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.

27. DIVIDENDS

a) Ordinary shares

	2016 $000	2015 $000
Final dividend for the year ended 30 June 2015 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) paid on 9 October 2015		
Fully franked based on tax paid @ 30%	26,339	64,748
Interim dividend for the year ended 30 June 2016 of 5.75 cents per fully paid ordinary share, made up of 5.75 cps ordinary dividend (2015 – 5.5 cents per fully paid ordinary share, made up of 5.5 cps ordinary dividend) paid on 1 April 2016		
Fully franked based on tax paid @ 30%	25,242	24,144
Total dividends provided for or paid	**51,581**	**88,892**

b) Dividends not recognised at year end

	2016 $000	2015 $000
In addition to the above dividends, since the end of the year the Directors have recommended the payment of a final dividend of 9.0 cents per fully paid ordinary share (2015–6.0 cents per fully paid ordinary share, made up of 6.0 cps ordinary dividend), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 7 October 2016 out of retained profits at 30 June 2016, but not recognised as a liability at the end of the year, is	**39,510**	**26,340**

c) Franked dividends

The franked portion of the final dividends recommended after 30 June 2016 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 2016.

	2016 $000	2015 $000
Franking credits available for subsequent financial years to equity holders of parent entity based on a tax rate of 30%	**36,793**	**15,711**

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.

28. EARNINGS PER SHARE

a) Basic earnings per share

	2016 Cents	2015 Cents
Profit from continuing operations attributable to the ordinary equity holders of the company	21.2	17.3
Profit from discontinued operations	–	–
Profit attributable to the ordinary equity holders of the company	**21.2**	**17.3**

b) Diluted earnings per share

	2016 Cents	2015 Cents
Profit from continuing operations attributable to the ordinary equity holders of the company	21.2	17.3
Profit from discontinued operations	–	–
Profit attributable to the ordinary equity holders of the company	**21.2**	**17.3**

c) Reconciliations of earnings used in calculating earnings per share

	2016 $000	2015 $000
Basic earnings per share		
Profit from continuing operations	92,850	75,798
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**92,850**	**75,798**
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	92,850	75,798
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	**92,850**	**75,798**

d) Weighted average number of shares used as the denominator

	2016 Number	2015 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.

28. EARNINGS PER SHARE continued

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 41.

The total 2,238,071 performance rights granted (2015 – 2,001,483) 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 2016. These performance rights could potentially dilute basic earnings per share in the future.

29. 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 2016 is 25.8% (2015: 23.1%). 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 2016 the Group had available capital of $6.8 million above our internal benchmark (after allowing for the payment of a fully franked final ordinary dividend of 9.0 cents per share, totalling $39.5 million, in October 2016).

Below is a reconciliation of net assets to available capital as at 30 June 2016 (after allowing for payment of a final dividend):

		2016 $m
Net assets		**386.1**
Less:	nib health fund capital required	(245.7)
	nib nz capital required	(89.3)
	Capital required looking forward 12 months	(0.1)
	nib nz intangibles	(39.5)
	iihi intangibles	(22.1)
	nib Options intangibles	(0.2)
	Digital Health Ventures intangibles	(0.7)
	World Nomads Group intangibles	(94.8)
	Borrowings	151.9
	Other assets and liabilities	0.7
	Final dividend	(39.5)
Available capital (after allowing for payment of final dividend)		**6.8**

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 14.0% 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 $12.2 million in September 2015, $18.0 million in December 2015 and $13.4 million in March 2016 to nib holdings limited.

The surplus assets over benchmark at 30 June 2016 and 30 June 2015 were as follows:

	2016 $000	2015 $000
Total Assets nib health funds limited (excluding unclosed business contributions – unearned)	687,529	586,971
Capital Adequacy Requirement	456,574	389,187
Surplus Assets for Capital Adequacy	230,955	197,784
Net Assets nib health funds limited	273,600	231,162
Internal capital target	245,736	226,105
Surplus assets over internal capital target	27,864	5,057

nib nz limited

nib nz limited, a controlled entity, is required to comply with the Solvency Standard 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.

Any capital in excess of the benchmark, taking a 12-month forward looking view, will be reduced by way of dividend to nib nz holdings limited, unless management decide to retain funds for strategic purposes. nib nz limited paid dividends of $NZ12.0 million in June 2016 to nib nz holdings limited.

29. CAPITAL MANAGEMENT continued

The surplus assets over benchmark at 30 June 2016 and 2015 are as follows:

	2016 $000	2015 $000
Actual Solvency Capital	19,539	28,469
Minimum Solvency Capital	9,673	8,284
Solvency Capital	9,866	20,185
Net assets nib nz limited	82,354	59,116
Capital Adequacy Coverage Ratio	2.02	3.44
Internal benchmark	1.75 + $NZ10m	1.75 + $NZ10m
Internal benchmark requirement	26,482	23,429
Surplus/(deficit) assets over internal benchmark	(6,943)	5,040

As part of its role as regulator of New Zealand insurance companies, the Reserve Bank of New Zealand (RBNZ) reviews solvency returns. The RBNZ has recently queried the manner in which certain matters have been dealt with in nib nz limited's FY15 solvency calculation. At the time of signing the Annual Report, nib nz limited is working with the RBNZ to resolve these queries.

While the discussions are not yet completed, nib nz limited has made a change to its solvency calculations regarding the treatment of deferred tax. This change has been reflected in the current and prior year numbers disclosed above.

While there is a possibility of further changes following the resolution of the remaining queries, the table above reflects our best estimate at the time of signing the Annual Report. Further changes (if any) are not expected to cause nib nz limited to fall below the RBNZ's minimum solvency requirements.

The change to the treatment of deferred tax has resulted in a drop below nib nz limited's internal capital target. The internal target will be reviewed following completion of discussions with the RBNZ.

30. COMMITMENTS FOR EXPENDITURE

a) Operating lease commitments

	2016 $000	2015 $000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
– not longer than one year	7,586	3,435
– longer than one year and not longer than five years	23,891	8,498
– longer than five years	41,972	1,125
	73,449	**13,058**

In February 2016, the Group entered into a sale and leaseback agreement for the head office building at 22 Honeysuckle Drive, Newcastle. The term of the lease is 15 years commencing 1 March 2016.

b) Capital expenditure commitments

	2016 $000	2015 $000
Payable:		
– not longer than one year	432	481
	432	**481**

31. 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, Realsurgeons pty limited, Realself pty limited and Digital Health Ventures Pty Limited and 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 19 August 2016, or if earlier, to the date of sale of the entities should this occur.

32. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Digital Health Ventures

On 29 July 2016, nib announced that Bupa and HBF signed a heads of agreement to join nib as investors and participants in expanding the Whitecoat healthcare provider platform.

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.

33. REMUNERATION OF AUDITORS

	2016 $	2015 $
a) PricewaterhouseCoopers Australia		
1. Audit services		
Audit and review of financial report and other audit work under the *Corporations Act 2001*	465,660	450,089
Total remuneration for audit services	**465,660**	**450,089**
2. Non-audit services		
Audit-related services		
Audit of regulatory returns	56,515	48,400
Total remuneration for audit-related services	**56,515**	**48,400**
Taxation services		
Tax compliance services	205,574	149,966
International tax consulting and tax advice on mergers and acquisitions	47,700	23,332
Total remuneration for taxation services	**253,274**	**173,298**
Other services		
Accounting advice and support including one off transactions	76,220	164,545
Review of regulatory returns	11,577	11,554
Total remuneration for other services	**87,797**	**176,099**
Total remuneration for non-audit services	**397,586**	**397,797**
Total remuneration of PricewaterhouseCoopers Australia	**863,246**	**847,886**
b) Network firms of PricewaterhouseCoopers Australia		
1. Audit services		
Audit and review of financial report	146,799	150,089
Total remuneration for audit services	**146,799**	**150,089**
2. Non-audit services		
Audit-related services		
Audit of regulatory returns	11,193	10,975
Total remuneration for audit-related services	**11,193**	**10,975**
Taxation services		
Tax compliance services	34,068	31,732
Tax consulting services	4,604	15,291
International tax consulting and tax advice on mergers and acquisitions	18,415	25,127
Total remuneration for taxation services	**57,087**	**72,150**
Other services		
Accounting advice and support	27,525	–
Total remuneration for other services	**27,525**	**–**
Total remuneration for non-audit services	**95,805**	**83,125**
Total remuneration of network firms of PricewaterhouseCoopers	**242,604**	**233,214**
Total auditors' remuneration	**1,105,850**	**1,081,100**

34. BUSINESS COMBINATION

a) Acquisition of World Nomads Group

i) Summary of acquisition

On 31 July 2015, nib holdings limited acquired 100% of the issued capital of World Nomads Group Pty Limited and its subsidiaries (WNG). WNG is the third-largest distributor of travel insurance in Australia, and specialises in the marketing, sale and distribution of travel insurance policies globally.

Details of the purchase consideration are as follows:

	$000
Purchase consideration	
Cash	106,923
Total purchase consideration	**106,923**

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

	Fair value $000
Cash and cash equivalents	14,926
Receivables	4,378
Prepayments	344
Property, plant and equipment	1,001
Software	9,488
Brand names	21,808
Customer contracts	3,452
Deferred tax assets	1,547
Payables	(8,140)
Current tax liabilities	(265)
Deferred tax liabilities	(1,042)
Provision for employee entitlements	(1,786)
Net identifiable assets acquired	**45,711**
Add: Goodwill	61,212
Net assets acquired	**106,923**

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

a) Acquisition related costs

Total acquisition related costs are $3.2 million, of which $2.6 million has been incurred in the current period and are included in other expenses in profit or loss and in operating cash flows in the statement of cash flows.

b) Revenue and profit contribution

The acquired business contributed $49.9 million to Group income and $7.6 million to net profit before tax for the period 1 August 2015 to 30 June 2016.

If the acquisition had occurred on 1 July 2015, consolidated operating revenue and net profit before tax for the year ended 30 June 2016 are estimated to have been $1,879.5 million and $131.9 million respectively, based on historical WNG management accounts.

c) Acquired receivables

The fair value of acquired receivables is $4.4 million and is expected to be fully collectable.

d) Contingent assets and liabilities

Prior to acquisition, WNG had identified a potential miscalculation of stamp duty that may have resulted in an underpayment of the duty they remitted to the relevant State Revenues on behalf of their underwriting partners. Although WNG believe responsibility for stamp duty lies with their underwriting partners, WNG may have an exposure for the potential miscalculation of stamp duty. The extent of this exposure, if any is unknown. WNG has notified its Professional Indemnity insurer.

A condition as part of the acquisition is that $3 million is held in escrow to cover the nib holdings group from any potential loss.

34. BUSINESS COMBINATION continued

a) Acquisition of World Nomads Group continued

ii) Purchase consideration – cash outflow

	$000
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	106,923
Less: Cash balances acquired	(14,926)
Outflow of cash – investing activities	**91,997**

b) Acquisition of medical insurance book of OnePath Life (NZ) Limited

i) Summary of acquisition

On 1 December 2015, nib nz limited (a 100% owned subsidiary) acquired the medical insurance book of OnePath Life (NZ) Limited (OnePath), for $22.5 million. The acquisition will provide the Group with a solid platform for growing the New Zealand private health insurance market and its overall market share. Approximately 19,000 policies covering 43,000 insured persons were acquired.

Details of the provisional purchase consideration are as follows:

	$000
Provisional purchase consideration	
Cash	22,509
Total provisional purchase consideration	**22,509**

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

	Fair value $000
Receivable from OnePath Life (NZ) Limited	2,182
Customer contracts	17,701
Deferred tax liabilities	(4,956)
Outstanding claims liability	(1,147)
Unearned premium liability	(2,182)
Net identifiable assets acquired	**11,598**
Add: Goodwill	10,911
Net assets acquired	**22,509**

The fair values assigned are currently provisionally determined. The fair value of assets and liabilities acquired may change upon finalisation of the purchase price allocation and alignment with Group accounting policies.

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

a) Acquisition related costs

Total acquisition related costs are $1.0 million of which $0.2 million has been incurred in the current period and are included in other expenses in profit or loss and in operating cash flows in the statement of cash flows.

b) Revenue and profit contribution

The acquired business contributed $16.1 million to Group revenues and $1.9 million to net profit before tax for the period 1 December 2015 to 30 June 2016.

If the acquisition had occurred on 1 July 2015, consolidated operating revenue and net profit before tax for the year ended 30 June 2016 are estimated to have been $1,887.0 million and $133.8 million respectively.

ii) Provisional purchase consideration – cash outflow

	$000
Outflow of cash to acquire business, net of cash acquired	
Cash consideration	22,509
Less: Cash balances acquired	–
Outflow of cash – investing activities	**22,509**

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

c) 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.

35. 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):

	Place of Incorporation	Beneficial ownership by Consolidated entity 2016 %	2015 %
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
nib Global pty limited	Australia	100	100
IMAN Australian Health Plans Pty Limited	Australia	100	100
nib nz holdings limited	New Zealand	100	100
nib nz 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
nib Options Holdings (Thailand) Co Ltd	Thailand	46.2	N/A
nib Options (Thailand) Co Ltd	Thailand	69.4	N/A
Digital Health Ventures Pty Ltd	Australia	50	50
nib Phillipines pty limited	Australia	100	N/A
World Nomads Group Pty Limited	Australia	100	N/A
WNG Services Pty Limited	Australia	100	N/A
World Experiences Assist Pty Limited	Australia	100	N/A
Suresave Pty Limited	Australia	100	N/A
Sure-Save.net Pty Ltd	Australia	100	N/A
SureSave Net Limited	New Zealand	100	N/A
Travel Insurance Direct Holdings Pty Limited	Australia	100	N/A
Travel Insurance Direct Pty Limited	Australia	100	N/A
Travel Insurance Direct (New Zealand) Limited	New Zealand	100	N/A
Cheap Travel Insurance Pty Limited	Australia	100	N/A
Holiday Travel Insurance Pty Limited	Australia	100	N/A
SureCan Technology Pty Ltd	Australia	100	N/A
The World Nomads Group Holdings Pty Ltd	Australia	100	N/A
World Nomads Pty Ltd	Australia	100	N/A
World Nomads Inc	United States of America	100	N/A
World Nomads Limited	United Kingdom	100	N/A
World Nomads (Canada) Ltd	Canada	100	N/A
WorldNomads.com Pty Ltd	Australia	100	N/A
Cerberus Special Risks Pty Limited	Australia	100	N/A
Get Insurance Group Pty Limited	Australia	100	N/A
World Experiences International Holdings Pty Ltd	Australia	100	N/A
World Experiences Seguros De Viagem Brasil LTDA	Brazil	100	N/A
Travellr Pty Limited	Australia	100	N/A
Travel Insurance Compared Pty Limited	Australia	100	N/A
TravelClear Pty Limited	Australia	100	N/A
Travellers Assistance Group Pty Limited	Australia	100	N/A
Hello Travel Insurance Pty Limited	Australia	100	N/A
World Experiences Pty Limited	Australia	100	N/A
World Experiences Group Pty Limited	Australia	100	N/A
World Experiences Travel Pty Limited	Australia	100	N/A

nib holdings limited also controls the following trusts:

- nib Holdings Ltd Share Ownership Plan Trust
- nib salary sacrifice plan and matching plan trust
- 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	2016 $000	2015 $000	2016 $000	2015 $000
Current assets	167	369	406	165
Current liabilities	235	515	9,491	6,246
Current net assets / (liabilities)	**(68)**	**(146)**	**(9,085)**	**(6,081)**
Non-current assets	1,630	892	234	309
Non-current liabilities	3,450	1,061	–	–
Non-current net assets / (liabilities)	**(1,820)**	**(169)**	**234**	**309**
Net assets / liabilities	**(1,888)**	**(315)**	**(8,851)**	**(5,772)**
Accumulated NCI	**(944)**	**(158)**	**(643)**	**(433)**
Summarised statement of comprehensive income				
Profit/(loss) for the year	**(1,573)**	**(315)**	**(3,100)**	**(5,055)**
Other comprehensive income	–	–	–	–
Total comprehensive income / (loss)	**(1,573)**	**(315)**	**(3,100)**	**(5,055)**
Profit/(loss) allocated to NCI	**(786)**	**(158)**	**(233)**	**(379)**
Dividends paid to NCI	**–**	**–**	**–**	**–**
Summarised cash flows				
Cashflows from operating activities	(1,845)	(243)	(2,718)	(3,638)
Cashflows from investing activities	(1,160)	(831)	(115)	(188)
Cash flows from financing activities	3,135	1,371	2,960	3,597
Net increase / (decrease) in cash and cash equivalents	**130**	**297**	**127**	**(229)**

35. CONTROLLED ENTITIES continued

c) Transactions with non-controlling interests

The Group acquired:

- on 11 February 2016, 49.98% of the issued capital of nib Options Holdings (Thailand) Co Ltd (incorporated 10 February 2016)
- on 12 February 2016, 49.99% of the issued capital of nib Options (Thailand) Co Ltd (incorporated on 11 February 2016)

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

	2016 $000	2015 $000
Consideration paid by non-controlling interests	23	–
	23	**–**

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

36. 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

	2016 $	2015 $
Short-term employee benefits	5,273,536	4,484,043
Post-employment benefits	285,583	274,609
Other long-term benefits	38,351	34,781
Termination benefits	–	–
Share-based payments	2,321,301	1,998,651
	7,918,771	**6,792,084**

Detailed remuneration disclosures are provided in the Remuneration Report on pages 22 to 42.

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:

- advertising and promotions
- printing and stationery
- software development and maintenance

Further details of the above transactions with key management personnel are disclosed in the Remuneration Report on page 42.

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.

37. SHARE-BASED PAYMENTS

a) Long-term incentive plan (LTIP)

Performance rights to acquire shares in nib holdings limited are granted to Executives under the Long Term Incentive Plan (LTIP). Information relating to the LTIP is included in the Remuneration Report on pages 22 to 42. 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:

2016 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
21/12/2011	1/09/2015	–	392,307	–	(196,154)	(196,153)	–	–
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	–
22/01/2016	1/09/2019	–	–	628,895	–	–	628,895	–
			2,001,483	628,895	(196,154)	(196,153)	2,238,071	–

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	–

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.

	2016	2015
Number of shares purchased on market under the plan to participating employees	85,806	78,766

The shares were allocated in two tranches. The first tranche of shares were for allocated on 27 August 2015 following nib's FY15 full year results presentation at a volume weighted average price of $3.12. The remaining tranche of shares were allocated on 24 February 2016 following nib's FY16 half year results presentation at a volume weighted average price of $3.51.

37. 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.

	2016	2015
Number of shares purchased on market under the plan to participating employees	7,672	4,837

The shares were allocated in two tranches. The first tranche of shares were for allocated on 27 August 2015 following nib's FY15 full year results presentation at a volume weighted average price of $3.36. The remaining tranche of shares were allocated on 24 February 2016 following nib's FY16 half year results presentation at a volume weighted average price of $3.51.

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.

	2016	2015
Number of shares purchased on market under the plan to participating employees	38,952	54,080

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.

	2016	2015
Number of shares purchased on market under the plan to participating employees	2,132	2,751

f) Short-Term Performance Incentive (STI)

All eligible employees have a STI opportunity. For the MD/CEO the maximum target bonus opportunity is 100% of the base remuneration package with 50% of the calculated entitlement to be deferred into shares. For the CFO/DCEO and GEARHI the maximum target bonus opportunity is 60% of the base remuneration package with 50% of the calculated entitlement to be deferred into shares. For other executives the maximum entitlement is 50% of the remuneration package with 50% of the calculated entitlement deferred into shares.

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 24(c).

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

g) Expenses arising from share-based payments transactions

	2016 $000	2015 $000
Shares purchased on market under ESAP and ESPS	309	291
Shares purchased on market under nib salary sacrifice plan and matching plan and salary sacrifice (NZ) rules and matching plan (NZ)	149	189
Performance rights granted under LTIP	959	368
Shares purchased on market under STI	755	263
	2,172	**1,111**

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 24(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.

38. PARENT ENTITY FINANCIAL INFORMATION

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

	2016 $000	2015 $000
Balance Sheet		
ASSETS		
Current assets	34,869	53,947
Non-current assets	551,613	434,958
Total assets	**586,482**	**488,905**
LIABILITIES		
Current liabilities	13,999	2,459
Non-current liabilities	84,989	–
Total liabilities	**98,988**	**2,459**
NET ASSETS	**487,494**	**486,446**
EQUITY		
Share Capital	297,178	297,178
Share-based payments	(665)	(991)
Retained Profits	190,981	190,259
Total Equity	**487,494**	**486,446**
Profit or loss for the year	**52,305**	**47,145**
Total comprehensive income for the year	**52,305**	**47,145**

Refer to Note 31 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.

39. COMPANY DETAILS

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

22 Honeysuckle Drive
NEWCASTLE NSW 2300

The Financial Report was authorised for issue by the Directors on 19 August 2016. The company has the power to amend and reissue the Financial Report.

DIRECTORS' DECLARATION

For the year ended 30 June 2016

In the Directors' opinion:

a. the financial statements and notes set out on pages 44 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 2016 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
19 August 2016

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 2016, 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 Strteet, PO Box 798, NEWCASTLE NSW 2300
T: +61 2 4925 1100, F: +61 2 4925 1199, www.pwc.com.au

To the members of nib holdings limited
For the year ended 30 June 2016

pwc

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 2016 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards 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 22 to 42 of the directors' report for the year ended 30 June 2016. 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 2016 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

C. Mara

Caroline Mara
Partner

Newcastle
19 August 2016

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 31 August 2016.

A. DISTRIBUTION OF EQUITY SECURITIES

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

	Class of equity security
1 – 1,000	63,828
1,001 – 5,000	76,810
5,001 – 10,000	10,542
10,001 – 100,000	932
100,001 and over	52
	152,164

There were 3,631 holders of less than a marketable parcel of ordinary shares.

B. EQUITY SECURITY HOLDERS

The 20 largest quoted equity security holders

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

	Ordinary Shares	
	Number held	Percentage of issued shares %
JP Morgan Nominees Australia Limited	44,587,633	10.16
HSBC Custody Nominees (Australia) Limited	31,347,196	7.14
Citicorp Nominees Pty Limited	19,727,883	4.49
BNP Paribas Noms Pty Ltd	14,960,754	3.41
National Nominees Limited	6,777,163	1.54
RBC Investor Services Australia Nominees Pty Limited	5,775,627	1.32
BNP Paribas Nominees Pty Ltd	2,110,894	0.48
UBS Nominees Pty Ltd	836,717	0.19
Computershare Plan Co Pty Ltd	832,401	0.19
IOOF Investment Management Limited	709,566	0.16
Woodross Nominees Pty Ltd	691,664	0.16
Brispot Nominees Pty Ltd	672,430	0.15
Fitzy (NSW) Pty Ltd	660,621	0.15
Jemon Pty Ltd	600,000	0.14
HSCB Custody Nominees (Australia) Limited – A/C 2	537,989	0.12
Mr Jinyue Zhang + Mrs Ting Wu	450,000	0.10
Mr Mark Anthony Fitzgibbon	440,649	0.10
Warbont Nominees Pty Ltd	388,573	0.09
Mr John Arthur Foyle Turner	369,619	0.08
CPU Share Plans Pty Ltd	369,070	0.08
	132,846,449	**30.26**

Unquoted equity securities

	Number on issue	Number of holders
Performance rights issued under the nib holdings Long-term Incentive Plan	2,238,071	7

SHAREHOLDER INFORMATION
CONTINUED

C. SUBSTANTIAL HOLDERS

There are no substantial holders in the Company.

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
Donal O'Dwyer

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 The Heritage Ballroom, The Westin, 1 Martin Place, Sydney at 11am (Australian Eastern Daylight Time) on Wednesday, 2 November 2016.

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

AUDITOR

PricewaterhouseCoopers
PricewaterhouseCoopers Centre
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Newcastle NSW 2300

LEGAL ADVISERS

King & Wood Mallesons
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1 Farrer Place
Sydney NSW 2000

BANKERS

National Australia Bank Limited
1 Old Castle Hill Road
Castle Hill NSW 2154

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nib.com.au