

Corporate Governance Statement

30 June 2011

nib

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

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

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

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

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

PRINCIPLE 1 - Lay Solid Foundations for Management and Oversight

Role of the Board

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

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

The Board has reserved to itself the following specific responsibilities:

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

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

Meetings of the Board

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

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

Delegation

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

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

Performance review of senior executives

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

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

PRINCIPLE 2 - Structure the Board to Add Value

Board size and composition

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

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

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

Directors' independence

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

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

- is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's independent exercise of their judgment;
- is a substantial shareholder of nib holdings limited or an officer of, or otherwise associated directly with, a substantial shareholder of nib holdings limited;
- is, or has been employed in, an executive capacity by nib holdings limited or any other Group member within three years before commencing to serve on the Board;

- within the last three years has been a principal of a material professional adviser or a material consultant to nib holdings limited or any other Group member, or an employee materially associated with the service provided; is a material supplier or customer of nib holdings limited or any other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; and
- has a material contractual relationship with nib holdings limited or another Group member other than as a Director of nib holdings limited.

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

Conflicts of interest

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

The Chairman

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

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

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

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

Nomination and Remuneration Committee

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

Selection and appointment of Directors

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

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

Appointment and re-election of Directors

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

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

Evaluation of Board and committee performance

The Board undertakes an annual self assessment of its collective performance, the performance of the Chairman, individual Directors and of its committees. The performance assessment process conducted in 2010/2011 was facilitated by an independent third party and included interviews with Directors. The Chairman formally discusses the results of the review with the individual Directors. At that meeting the Chairman and the individual Director also discuss the effectiveness of the Board and its contribution to the Group, Board discussion, and the composition of the Board and committees.

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

Independent professional advice and access to company information

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

BOARD COMMITTEES

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

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

COMMITTEE	Keith Lynch	Philip Gardner	Annette Carruthers	Harold Bentley	Brian Keane (retired)	Steve Crane	Christine McLoughlin
Audit		•	•	• Chair	•	•	•
Risk & reputation		•	• Chair		•	•	•
Nomination & remuneration	• Chair		•		•	•	•
Investment Committee	•	• Chair		•			

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

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

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

Nomination and Remuneration Committee

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

The nomination responsibilities include:

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

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

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

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

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

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

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

Audit Committee

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

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

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

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

In fulfilling its role, the Audit Committee:

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

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

Risk and Reputation Committee

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

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

The Risk and Reputation Committee makes recommendations on:

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

In fulfilling its role, the Risk and Reputation Committee:

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

Investment Committee

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

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

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

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

In fulfilling its role, the Investment Committee:

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

PRINCIPLE 3 - Promote Ethical and Responsible Decision Making.

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

Code of Conduct

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

The Code of Conduct rules include:

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

Trading Policy

nib holdings limited has adopted a Trading Policy which applies to all Directors, officers, the senior executive and other employees of nib holdings limited and all entities within the Group. The policy provides that where a person possesses inside information concerning nib holdings limited's securities, that person must not deal in the securities of nib holdings limited, procure another person to deal in those securities or pass on the inside information to another person. In December 2010 an updated Trading Policy was approved by the Board. The updated policy is available on the nib website.

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

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

announcement is released to the market following its lodgement with ASX.

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

The trading policy prohibits Key Management Personnel from hedging their holdings in nib's securities.

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

Whistleblower Policy

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

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

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

Diversity Policy

On 26 May 2011 nib holdings limited adopted a Diversity Policy which is available on the nib website.

The policy sets out nib's approach to diversity in the workplace and provides a framework to achieve nib's diversity goals.

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

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

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

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

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

Objective	Details	Timeframe	Results as at 30 June 2011
Recruitment and selection	Ensure that employees and Directors are selected from diverse candidate pools. A shortlist will be compiled for all management, executive and Board positions with at least one serious female candidate to be present on every shortlist. If this is not possible, there must be objective reasons to support this. Candidates will be interviewed by a diverse group of people through the process.	June 2011	In place
Flexible work practices	Develop a flexible work practices policy and engender a culture of support for flexible work practices where possible and required.	June 2011	<p>In December 2010, nib recruited a new work from home team to support our call centre operation. This innovative new concept was introduced to help manage unplanned and seasonal fluctuations in call volumes. It also allowed us to tap into the growing market of skilled workers seeking flexibility in their working conditions. Employees are employed on a casual basis and can book themselves in to work as many hours they wish per week based on the shifts available.</p> <p>nib now has 43 Remote Call Centre Agents working from home. Among these employees we have people that run their own businesses and need a second income, people that live remotely and would like to avoid travel time, parents that want to work around the hours of their children and some that already work from home for other organisations. Of our work from home employees, 39 are female.</p> <p>nib continues to offer employees flexible working hours upon their return to work including gradual return from parental leave (including in certain circumstances the ability to work from home), part-time hours and job share arrangements. Over the past twelve months, twelve employees have taken maternity (including accessing nib's 12 week paid parental allowance), all of which have returned to part-time working arrangements (either their previous part-time hours or by request reducing from full-time to part-time).</p> <p>nib continues to offer flexible working arrangements through part-time and casual employment. As at the end of June we had 138 part-time employees and 56 casual employees working across all areas of the business.</p> <p>nib is working to develop an overarching flexible work practices policy which further engenders a culture of support for flexible work practices where possible and required.</p>

Table continued overleaf

Representation	Set goals, timeframes and succession plans to improve the number of women in management roles in the business. At a minimum: <ul style="list-style-type: none"> • 40% of manager and team leaders; • 30% of business unit managers; • 30% of executives; • Two non executive Directors; and • One member of the Nomination and Remuneration Committee. 	June 2014	<ul style="list-style-type: none"> • 72% of managers and team leaders are women • 25% of business unit managers are women • 40% of executives are women • Two non-executive Directors on the Board • Two female non-executive Directors are on the Nomination and Remuneration Committee
Development and Succession	Introduce mentoring, coaching and succession programs that support and encourage women to expand their skills as part of their professional development and to prepare them to take on management or executive roles.	January 2012	Currently in the development and planning stage.

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

Corporate Social Responsibility Principles

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

- **Corporate Governance** - nib's aim is to maintain the highest standards of corporate governance.
- **Our Employees** - nib's belief is that nib's growth is dependent on our ability to grow with our people.
- **Our Customers** - nib wants to make our health cover easy to understand, easy to claim on and affordable. nib supports the Private Health Insurance Industry codes of practice. nib respects our customers' privacy and will protect the personal information they entrust with nib. Where differences arise between our customers and ourselves, nib will ensure our customers have ready access to a clear and fair complaints resolution process.
- **Our Suppliers** - nib believes that our suppliers play a key role in ensuring nib can have a positive impact on our stakeholders and the environment. nib requires suppliers to comply with applicable laws and generally accepted standards of business ethics, health and safety and environmental protection.
- **Community involvement** - nib believes that we have a responsibility to the communities around us. nib has a long and proud history of supporting a large range of community programs, partners and community activities, including nib foundation.
- **The Environment** - nib will constantly seek to identify opportunities to minimise the negative environmental impact of our operations. nib's head office building has a 5 star Green Star rating for efficient energy usage, a 4 star Green Star rating for fit out and a 4 star Green Star rating for the Base building construction and management systems.

PRINCIPLE 4 - Safeguard Integrity in Financial Report

Audit Committee

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

External auditors

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

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

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

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

PRINCIPLE 5 - Make Timely and Balanced Disclosure

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

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

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

PRINCIPLE 6 - Respect the Rights of Shareholders

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

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

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

PRINCIPLE 7 - Recognise and manage risk

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

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

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

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

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

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

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

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

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

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

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

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

Internal audit

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

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

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

PRINCIPLE 8 - Remunerate fairly and responsibly

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

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

The senior executives participate in a long term performance incentive plan, which have been updated to incorporate the Australian Shareholders Association guidelines for long term performance incentives. For further details on this see the Remuneration Report on page 6 of the financial report.

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