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nib holdings limited
ABN 51 125 633 856

Half-year report for the period ended 31 December 2007

This report should be read in conjunction with the nib Health Funds Limited's annual financial report for the year ended 30 June 2007.

CONTENTS

APPENDIX 4D

nib holdings limited
ABN 51 125 633 856

For the period ended 31 December 2007

Results for announcement to market

	6 months to 31-Dec-07 $'000	6 months to 31-Dec-06 $'000	Movement up / (down) $'000	Movement %
Revenue from ordinary activities	384,180	345,944	38,236	11%
Profit from ordinary activities after tax attributable to members	(7,628)	36,805	(44,433)	-121%
Net profit attributable to members	(7,628)	36,805	(44,433)	-121%

No interim dividend has been proposed or declared in respect of the 6 months ended 31 December 2007.

Brief explanation of figures reported above:

Net profit after tax for the half year to 31 December 2007 calculated on a statutory basis equated to a loss of $7.6 million.

Statutory net profit after tax was materially impacted by once only demutualisation and listing adjustments including:

- Before tax expense of $25.0 million to recognise a liability for the donation to the nib Foundation.
- Other demutualisation and listing before tax expenses of $16.1 million.
- Tax effect of above once only adjustments of $12.0 million.

On a normalised basis, net profit after tax for the half year to 31 December 2007 was $17.7 million.

As noted in the Listing Prospectus, nib holdings limited does not intend to declare an interim dividend.

For further information refer to the Directors' Report in the attached Interim Report of nib holdings limited for the period ended 31 December 2007.

Net tangible assets per security	Current period	Previous corresponding period
Net tangible asset backing per ordinary security (cents per share)	70.89	Not Applicable

Control gained over entities having a material effect	As part of the demutualisation of nib health funds limited, nib holdings limited acquired nib health funds limited. Pursuant to AASB 3 this transaction is treated as a reverse acquisition. Further information is contained in Note 1.u) and Note 7. of the attached Interim Report.

Loss of control of entities having a material effect	Not Applicable

Dividends	No interim dividend has been proposed or declared in respect of the 6 months ended 31 December 2007.

Details of aggregate share of profits (losses) of associates and joint venture entities	Not Applicable

nib holdings limited

ABN 51 125 633 856

Interim Report

31 December 2007

Contents

The directors of nib holdings limited present their report on the consolidated entity (referred to hereafter as the Group) consisting of nib holdings limited and the entities it controlled at the end of or during the half-year ended 31 December 2007.

Directors

The following persons were directors of nib holdings limited during the whole of the half-year and up to the date of this report:

Keith Lynch
Mark Fitzgibbon
Philip Gardner

Annette Carruthers and Janet Dore were appointed directors on 20 September 2007 and continue in office at the date of this report.

Harold Bentley and Brian Keane were appointed directors on 7 November 2007 and continue in office at the date of this report.

Demutualisation and Listing

The Group has resulted from the demutualisation of nib health funds limited ("nib health"), with nib holdings limited ("nib holdings") subsequently listing on ASX as set out below.

On 19 July 2007, Company Members and Eligible Policyholders of nib health approved the Schemes of Arrangement to implement the proposed Demutualisation of nib health. The Federal Court of Australia made orders to approve the Schemes of Arrangement on 23 July 2007.

On 31 August 2007, the following steps occurred:

- nib health converted from a company limited by guarantee to a company limited by shares;
- nib health issued shares to Eligible Policyholders (if an Eligible Policyholder was unverified or had a residential address outside Australia, shares were issued to the Overseas Policyholders and Unverified Policyholders Trust ("Trust") and held on their behalf); and
- nib health issued shares to nib holdings.

On 24 September 2007, nib holdings shareholders were invited to offer their ordinary shares in nib holdings for sale through the pre-listing share sale opportunity.

On 1 October 2007 (Demutualisation Date) the nib health shares issued to Eligible Policyholders, and the Trust on their behalf, were cancelled and the same number of shares were issued to Eligible Policyholders, and the Trust on their behalf, by nib holdings.

On 25 - 26 October 2007 nib holdings conducted an institutional bookbuild to raise $50 million in new capital (primarily to cover issue costs and to fund its initial grant to the nib Foundation), and to sell to institutions any shares offered by the shareholders, through the pre-listing share sale opportunity.

Following the bookbuild nib holdings listed on ASX on 5 November 2007.

Review of Operations

The consolidated loss of the Group for the half-year, after income tax expense, was $7.6 million (2006: $36.8 million profit). This result was materially impacted by once only demutualisation and listing adjustments including:

- Before tax expense to recognise liability for donation to nib Foundation $25.0 million (2006: nil)
- Other demutualisation and listing before tax expenses $16.1 million (2006: $1.0 million)
- Tax effect of above once only adjustments $12.0 million (2006: nil)

In addition to the once only demutualisation and listing adjustments set out above, the following adjustments result in a normalised (reflects the ongoing operations of the Group) consolidated profit of the Group for the half-year, after income tax expense, of $17.7 million (2006: $23.9 million):

- Ongoing company costs of $0.8 million (2006: $1.2 million) to reflect result as if nib holdings was a public ASX listed entity for the entire period.
- Remove profit from discontinuing operations of $0.1 million (2006: $1.3 million).
- An increase in the HBRTF/RETF Levy of $1.0 million in 2006 to reflect the result as if the Risk Equalisation Trust Fund arrangements had been in place for the entire period. On 1 April 2007, the Private Health Insurance Act 2007 (Cth) and associated legislation came into force, repealing the National Health Act 1953 (Cth). One of the changes resulting from the new legislation was the replacement of the previous Health Benefits Reinsurance Trust Fund arrangements with the Risk Equalisation Trust Fund arrangements from 1 April 2007.
- Tax expense of $2.9 million (2006: $10.4 million) to reflect result as if nib health was subject to income tax for the entire period. nib health only became subject to income tax on conversion to a for profit private health insurer on 1 October 2007.

nib's strategy is centred on growing market share through the provision of innovative, low cost health insurance products. Key business initiatives include:

- Aggressively pursuing growth both in the under 40 segment and outside of NSW, by utilising nib's strong brand, well designed and competitively priced products, online presence and capability.
- Retaining existing customers through great customer service, the nib Loyalty Bonus and migrating customers through different products as they age or their life circumstances change.
- Utilising nib's improved capital and corporate structure following its demutualisation and listing on the ASX during the period as a platform for potential private health insurance industry consolidation.

nib achieved the following results for the period:

- Gross underwriting margin of 13.9%.
- Normalised net underwriting margin of 3.7%, equating to $9.7 million after tax.
- Normalised management expense ratio of 10.2%
- Investment returns of 5.7%, delivering returns of $8.8 million after tax.

nib's experience and performance during the half-year demonstrates that nib continues to deliver great results from its strategy. Most notable during the period was:

- Strong organic growth, with sales of 32,831 new policies, with 80.4% of these sales new to private health insurance.
- The positive impact of a continued focus on retention of existing customers with a stable lapse rate.
- A result reflective of strategic targets with 78.2% of new sales from the under 40's segment, 37.5% of new sales on line and 42.3% of new sales from outside of NSW.

Review of Operations (continued)

- Management expenses continued to reflect nib's willingness to invest in growing the business and delivering against our strategy, with a normalised management expense ratio of 10.2%.
- A strong capital position with the net asset position of $376.7 million with a capital adequacy coverage ratio of 2.03x for nib health, well ahead of the Board's target of 1.5x. Ongoing capital management is a key focus.

The results for the period also emphasise the challenges we face:

- A gross underwriting margin of 13.9% which is below our stated medium term target of 15%. Once we reach our gross margin target of 15%, earnings growth will be a function of increased volume, product value "buy up" and lower per unit management expenses.
- Investment returns of 5.7% for the period which continue to be impacted by general financial market conditions.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set on page 4.

Rounding of amounts

The company is of a kind referred to in ASIC Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the director's report have been rounded off in accordance with that Class Order to the nearest thousand dollars or in certain cases to the nearest dollar.

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

On behalf of the Board

Mark Fitzgibbon
Director

Philip Gardner
Director

Newcastle, NSW, 26 February 2008

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Auditor's Independence Declaration

As lead auditor for the review of nib Holdings Limited for the half year ended 31 December 2007, 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 review; and
b) no contraventions of any applicable code of professional conduct in relation to the review.

In making this declaration I have relied on relief provided by an order issued by the Australian Securities and Investment Commission. This order provided relief to all partners of the firm and staff who provide service to nib Health Funds Limited to temporarily hold investments acquired on the demutualisation of nib Health Funds Limited.

This declaration is in respect of nib Holdings Limited and the entities it controlled during the period.

Wayne Russell
Partner
PricewaterhouseCoopers

Newcastle
26 February 2008

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Independent Auditor's Review Report to the members of nib Holdings Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of nib Holdings Limited, which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity, and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the nib Holdings Limited Group (the consolidated entity). The consolidated entity comprises both nib Holdings Limited (the company) and the entities it controlled during that half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001.* This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.* As the auditor of nib Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

For further explanation of a review, visit our website http:/www.pwc.com/au/financialstatementaudit.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of nib Holdings Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

W M Russell

Wayne Russell
Partner

Newcastle
26 February 2008

nib holdings limited

Directors' declaration

In the Director's opinion:

a) the financial statements and notes set out on pages 8 to 38 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 31 December 2007 and of its performance for the half-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.

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

On behalf of the Board

Mark Fitzgibbon
Director

Philip Gardner
Director

Newcastle, NSW, 26 February 2008

nib holdings limited
Condensed consolidated income statement
for the half-year ended 31 December 2007

	Notes	Half-year 2007 $000	Half-year 2006 $000
Premium revenue		370,923	328,302
Claims expense		(274,677)	(249,620)
HBRTF/RETF Levy		(34,818)	(18,848)
State levies		(9,617)	(8,588)
Claims handling expenses		(8,585)	(7,984)
Net claims incurred		(327,697)	(285,040)
Acquisition costs		(11,788)	(6,452)
Other underwriting expenses - ongoing		(17,579)	(16,814)
Other underwriting expenses - demutualisation and listing expenses		(8,270)	(1,006)
Underwriting expenses		(37,637)	(24,272)
Underwriting result		5,589	18,990
Investment Income		12,587	16,967
Other Revenue		671	675
Investment expenses		(691)	(517)
Other expenses - ongoing		(488)	(597)
Other expenses - demutualisation and listing expenses		(32,820)	-
Profit before income tax		(15,152)	35,518
Income tax benefit/(expense)	5	7,470	-
Profit from continuing operations		(7,682)	35,518
Profit/(Loss) from discontinued operations	16(i)(b), 16(ii)(b)	54	1,287
Profit for the half-year attributable to equity holders/(2006:members) of nib holdings limited		(7,628)	36,805

	Cents	Cents
Earnings per share for profit from continuing operations attritributable to the ordinary equity holders of the company		
Basic earnings per share	(2.4)	n/a
Diluted earnings per share	(2.4)	n/a

The above condensed consolidated income statement should be read in conjunction with the accompanying notes

nib holdings limited
Condensed consolidated balance sheet
as at 31 December 2007

	Notes	31 December 2007 $000	30 June 2007 $000
Assets			
Current assets			
Cash and cash equivalents		54,609	17,570
Receivables		30,450	27,355
Financial assets at fair value through profit or loss		374,189	376,361
		459,248	421,286
Non-current assets classified as held for sale		10,179	9,889
Total Current assets		469,427	431,175
Non-current assets			
Receivables		6,686	7,026
Investment properties		30,000	30,000
Property, plant and equipment		25,624	15,904
Intangible assets		9,552	9,943
Deferred tax assets		15,225	-
Total Non-current assets		87,087	62,873
Total Assets		556,514	494,048
Liabilities			
Current liabilities			
Payables		64,344	45,188
Borrowings		1,644	1,431
Outstanding claims liability	9	61,017	53,955
Unearned premium liability		41,969	51,580
Current tax liabilities		5,216	54
Provision for employee entitlements		4,834	4,753
Total Current liabilities		179,024	156,961
Non-Current liabilities			
Provision for employee entitlements		830	873
Total Non-current liabilities		830	873
Total Liabilities		179,854	157,834
Net Assets		376,660	336,214
Equity			
Share Capital		44,548	-
Retained profits		321,532	329,161
Reserves		10,580	7,053
Total Equity		376,660	336,214

The above condensed consolidated balance sheet should be read in conjunction with the accompanying notes

nib holdings limited
Condensed consolidated statements of changes in equity
For the half-year ended 31 December 2007

	Notes	Half-year	
		2007 **$000**	**2006** **$000**
Total equity at the beginning of the period		336,214	283,584
Revaluation of land and buildings, net of tax		3,526	-
Net income recognised directly in equity		3,526	-
Profit for the half-year		(7,628)	36,805
Total recognised income and expense for the half-year attributable to equity holders of nib Holdings Limited		(4,102)	36,805
Transactions with equity holders in their capacity as equity holders :			
Contributions of equity, net of transaction costs		44,548	-
Total equity at the end of the period		376,660	320,389

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes

nib holdings limited
Condensed consolidated cash flow statement
For the half-year ended 31 December 2007

	Notes	Half-year	
		2007 $000	**2006 $000**
Cash flows from operating activities			
Receipts from policyholders and customers (inclusive of goods and services tax)		374,042	355,656
Payments to policyholders, suppliers and employees - ongoing (inclusive of goods and services tax)		(372,511)	(341,597)
Payments to suppliers and employees - demutualisation and listing costs (inclusive of goods and services tax)		(11,951)	(866)
		(10,420)	13,193
Interest received		23,216	8,383
Interest paid		-	(2)
Net cash provided by operating activities		12,796	21,574
Cash flows from investing activities			
Proceeds from disposal of other financial assets at fair value through the profit and loss		22,251	24,716
Payments for other financial assets at fair value through the profit and loss		(32,359)	(39,686)
Payments for property, plant and equipment and intangibles		(7,910)	(2,311)
Proceeds from sale of property, plant and equipment and intangibles		164	61
Proceeds from sale of Eye Care and Dental businesses	16(ii)(d)	250	325
Net cash (used in) investing activities		(17,604)	(16,895)
Cash flows from financing activities			
Proceeds from issues of shares and other equity		50,000	-
Share issue transaction costs		(8,457)	-
Proceeds from finance lease		91	87
Net cash inflow from financing activities		41,634	87
Net increase (decrease) in cash and cash equivalents		36,826	4,766
Cash and cash equivalents at beginning of the half-year		16,139	8,804
Cash and cash equivalents at end of the half-year		52,965	13,570

The above condensed consolidated cash flow statement should be read in conjunction with the accompanying notes

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Preparation

This general purpose financial report for the interim half-year reporting period ending 31 December 2007 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 30 June 2007 and any public announcements made by nib holdings limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

The accounting policies adopted are consistent with those of the previous financial year of the nib health funds limited group.

Historical cost convention
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through profit or loss, certain classes of property, plant and equipment and investment properties.

Critical accounting estimates
The preparation of financial statements in conformity with AIFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

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

b) Principles of consolidation

i) Subsidiaries

The financial information for December 2007 incorporates the assets and liabilities of all subsidiaries of nib holdings limited for the half-year ended 31 December 2007 and the results of all subsidiaries for the half-year then ended. The financial information for June 2007 incorporates the assets and liabilities of all subsidiaries of nib health funds limited. The financial information for December 2006 incorporates the results of nib health funds limited and all subsidiaries for the half-year then ended. Refer to Note 1(u) and Note 7 for further details of the group structure for accounting purposes.

Subsidiaries are all those entities over which the parent has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(j)).Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by nib holdings limited.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products and services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

d) Revenue recognition

Revenues are recognised at the fair value of the consideration received or receivable, net of the amount of goods and services tax (GST) payable to the taxation authority.

i) Premium revenue

Premium revenue comprises premiums from private health insurance contracts held by policyholders.

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

The proportion of the premium received or receivable not earned in the income statement at the reporting date is recognised in the balance sheet as an unearned premium liability.

Premiums on unclosed business are brought to account using estimates based on payment cycles nominated by the policyholder.

ii) Investment income

Net fair value gains or losses on financial assets classified as at fair value through profit or loss are recognised in the income statement in the period.

Rental revenue from leasing of investment properties is recognised in the income statement in the period in which it is receivable, as this represents the pattern of service rendered through the provision of the properties.

iii) Other revenue

Revenue from the sale of goods is net of returns, discounts and other allowances, and is recognised when control of the goods passes to the customer.

e) Unexpired risk liability

At each reporting date, the adequacy of the unearned premium liability is assessed by considering current estimates of all expected future cash flows relating to future claims against current private health insurance contracts.

If the 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. The company applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability, refer to note 1(f).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Outstanding claims liability

The liability for outstanding claims is measured as the central estimate of the expected future payments against claims incurred but not settled at the reporting date under private insurance contracts issued by the company, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims reported but not yet paid and claims incurred but not yet reported, together with allowances for Health Benefit Reinsurance Trust Fund/Risk Equalisation Trust Fund consequences and claims handling expenses.

g) Acquisition costs

Acquisition costs incurred in obtaining private health insurance contracts are recognised in the consolidated income statement as incurred.

h) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, 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 balance sheet 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.

Tax consolidation legislation

nib holdings ltd and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 October 2007. The company is the head entity.

The head entity, nib holdings ltd, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Income tax (continued)

amounts are measured as if each entity in the tax consolidated group continues to be a stand alone 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.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details about the tax funding agreements are disclosed in note 5. 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.

i) Leases

Leases of property, plant and equipment where nib has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term.

j) Business combinations

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair market value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of identifiable net assets of the subsidiary acquired, the

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Business combinations (continued)

difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

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 implicit in the transaction.

k) Impairment of assets

The carrying amounts of assets, including goodwill and intangible assets that have an indefinite useful life and are not subject to amortisation, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

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).

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

l) Assets backing private health insurance liabilities

As part of the investment strategy nib 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, nib has determined that all assets are held to back private health insurance liabilities and their accounting treatment is described below.

i) Financial assets

Financial assets are designated at fair value through profit or loss. Initial recognition is at cost in the balance sheet and subsequent measurement is at fair value with any resultant fair value gains or losses recognised in the income statement.

Details of fair value for the different types of financial assets and liabilities are listed below:

1. Cash and cash equivalents, and bank overdrafts are carried at face value of the amounts deposited or drawn. The carrying amounts of cash assets and bank overdrafts approximate their fair value. For the purposes of the cash flow statement, cash includes cash on hand, deposits held at call with financial institutions, net of bank overdrafts;
2. Shares, fixed interest securities, options and units in trusts listed on stock exchanges are initially recognised at cost and the subsequent fair value adjustment is taken as the quoted bid price of the instrument at the balance sheet date;

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Assets backing private health insurance liabilities (continued)

All purchases and sales of financial assets that require delivery of the asset within the timeframe established by regulation or market convention ("regular way" transactions) are recognised at trade date, being the date on which the company commits to buy or sell the asset.

In cases where the point between trade and settlement exceeds this time frame, the transaction is recognised at settlement date. Financial assets are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and the Group has transferred substantially all the risks and rewards of ownership.

ii) Investment properties

Certain freehold land and buildings have been classified as investment properties where they are held for the purposes of resale or where they are leased to external parties.

Investment properties are initially recorded at cost. Costs incurred subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to nib.

Subsequent to initial recognition as assets and once completed, investment properties are revalued to fair value as determined by external independent valuers, on a periodic basis, but at least every three years. Investment properties are maintained at a high standard and, as permitted by accounting standards, the properties are not depreciated.

Changes in fair value are recognised in the income statement as part of investment income.

iii) Receivables

Amounts due from policyholders are initially recognised at fair value, being the amounts due. They are subsequently measured at fair value which is approximated by taking this initially recognised amount and reducing it for impairment as appropriate.

A provision for impairment of receivables is established when there is objective evidence that nib 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 income statement.

m) Cash and cash equivalents other than those included in assets backing private health insurance liabilities

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, and bank overdrafts. Bank overdrafts are shown within borrowings on the balance sheet.

n) Receivables other than those included in assets backing private health insurance liabilities

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) Receivables other than those included in assets backing private health insurance liabilities (continued)

Collectibility of trade and other receivables is reviewed on a ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment is established where there is objective evidence that nib will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the income statement.

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

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

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

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

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

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

p) Property, plant and equipment

Land and buildings (except for investment properties - refer to note 1(l)(ii)) are shown at fair value, based on periodic, but at least every three years, 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. Plant and equipment is 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 nib and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Property, plant and equipment (continued)

Increases in the carrying amounts arising on the revaluation of land and buildings are credited to the reserves in the shareholders' equity. To the extent that the increase reverses a decrease previously recognised in the income statement, the increase is first recognised in the income statement. 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 the income statement.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

Buildings	25 to 40 years
Plant and equipment	3 to 20 years
Leasehold improvements	3 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see note 1(k)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount of the asset, and are included in the income statement. When revalued assets are sold, it is nib's policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

q) Intangible assets

i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of nib'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 Licences

Software licences have a finite useful life and are carried at cost, less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the licences over their useful lives being two and half years.

r) Payables

These amounts represent liabilities for goods and services provided to nib prior to the end of the financial year and which are unpaid. These amounts are unsecured and are usually paid with 30 days of recognition.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) Employee benefits

i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in other creditors and current provision in respect of employees' services up to the reporting date and measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rate paid or payable.

ii) Long service leave

The liability for long service leave is the amount of the future benefit that employees have earned in return for their service in the current and prior periods. The liability is calculated using expected future increases in wage and salary rates and expected settlement dates, and is discounted using the rates attached to Commonwealth Government Bonds at the balance sheet date which have the maturity dates approximating to the terms of nib's obligations.

iii) Bonus plans

A liability for employee benefits in the form of bonus plans is recognised in other creditors when there is no realistic alternative but to settle the liability and 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 benefits

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 defined benefit based on number of years service, after five years service. Benefits for those directors that have served for five years are recognised as current provisions, and benefits for those directors that have not yet served for five years are recognised as non-current provisions. The benefit for each director is calculated based on the average director's fee for the last three years multiplied by a factor based on years of service.

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. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t) Goods and Services Tax (GST)

Revenues, expenses, assets and liabilities are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense recognised in the income statement.

Receivables and payables are stated inclusive of the amount of GST recoverable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated balance sheet.

Cash flows are presented inclusive of the amount of GST. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

u) Reverse acquisition accounting policy

Post demutualisation, the formation of the Group has been accounted for as a business combination. AASB Business Combinations deals with the bringing together of separate businesses into one reporting entity. When a new entity (legal entity) is formed to effect a business combination an entity that existed before the combination must be identified as the acquirer. This is commonly referred to as a reverse acquisition.

nib health funds limited has been deemed to be the accounting acquirer of nib holdings limited (the legal parent).

Accordingly, under the revenue acquisition requirements of AASB 3, the consolidated financial statement of nib holdings limited are the continuing accounts of nib health funds limited as accounting acquirer of the legal parent.

The financial information incorporates the assets and liabilities of all entities deemed to be acquired by nib health funds limited, including nib holdings limited and the results of these entities for the period from which those entities are accounted for as being acquired by nib health funds limited. The assets and liabilities of the entities acquired by nib health funds limited were recorded at fair value and the assets and liabilities of nib health funds limited were maintained at their book value. The impact of transactions between entities in the Group is eliminated in full.

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

The ultimate liability arising from claims made under private health insurance contracts
Provision is made at the period end for the liability for outstanding claims which is measured as the central estimate of the expected payments against claims incurred but not settled at the reporting date under private health insurance contracts issued by the Group. The expected future payments include those in relation to claims reported but not yet paid and claims incurred but not yet reported. This ‘central estimate’ of outstanding claims is an estimate which is intended to contain no intentional over or under estimation. For this reason the inherent uncertainty in the central estimate must also be considered and a risk margin is added. The estimated cost of claims includes allowances for Risk Equalisation Trust Fund (‘RETF”) consequences and claims handling expense. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

In calculating the estimated cost of unpaid claims the Group uses estimation techniques based upon statistical analysis of historical experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including changes in the Group’s processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods.

The calculation was determined taking into account one month of actual post balance date claims.

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.

The central estimates are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from or payable to the RETF based upon the gross provision.

Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in note 3.

3. ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial methods

The outstanding claims estimate is derived based on three valuation classes, namely Hospital and Prostheses services combined, Medical services, and Ancillary and Ambulance services combined.

In calculating the estimated cost of unpaid claims, two methods are used. For service months September 2007 and earlier for hospital and medical, and for all months for ancillary, 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, the service months for October 2007 to December 2007 a case estimate method is used.

3. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

Actuarial assumptions

The following assumptions have been made in determining the outstanding claims liability.

	31/12/2007 Hospital	**31/12/2007 Medical**	**31/12/2007 Ancillary**	30/06/2007 Hospital	30/06/2007 Medical	30/06/2007 Ancillary
Assumed proportion paid to date	**89.1%**	**86.5%**	**94.9%**	89.7%	87.4%	94.8%
Expense rate	**3.00%**	**3.00%**	**3.00%**	3.00%	3.00%	3.00%
Discount rate	**0%**	**0%**	**0%**	0%	0%	0%
Risk equalisation rate	**22.5%**	**22.5%**	**0.0%**	17.5%	17.5%	0.0%
Risk margin	**5.4%**	**5.4%**	**5.4%**	5.4%	5.4%	5.4%

The risk margin of 5.4% (June 2007: 5.4%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% (June 2007: 95%).

Process used to determine assumptions
A description of the processes used to determine these assumptions is provided below:

i) Assumed proportion paid to date

The assumed proportion paid to date summarises the application of the chain ladder and case estimate methods described above to determine the total expected incurred in the twelve months prior to the valuation date (it is not an assumption in itself but an outcome). The proportion is the ratio of claims paid (that is, already settled) in the twelve months to the total expected incurred.

ii) Expense rate

Claims handling expenses were calculated by reference to past experience of total claims handling costs as a percentage of total past payments.

iii) Discount rate

The business written by the Group is short tail in nature. Based on historic experience, approximately 83.75% of outstanding claims are paid within two months of balance date; for this reason, expected future payments are not discounted.

iv) Risk equalisation allowance

In simplified terms, each organisation is required to contribute to the risk equalisation pool or is paid from the pool to equalise their hospital claims exposure to members aged over 55 years of age and in respect of high cost claims. This is the allowance made in respect of the claims incurred but not yet paid.

v) Risk margin

The risk margin has been based on an analysis of the past experience of the Group. This analysis examined the volatility of past payments that has not been explained by the model adopted to determine the central estimate. This past volatility has been assumed to be indicative of the future volatility and has been set at a level estimated to equate to a probability of adequacy of 95% (June 2007: 95%).

3. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

Sensitivity analysis – insurance contracts

i) Summary

The Group conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the performance and equity of the Group. The tables below describe how a change in each assumption will affect the insurance liabilities.

Variable	Impact of movement in variable
Assumed proportion paid to date	An increase in the proportion assumed paid to date, via changes to the assumptions made, would lead to more of the total claims being paid sooner and the liability being decreased. An increase or decrease in the proportion paid to date would have a corresponding decrease or increase 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.
Discount rate	The outstanding claims liability is calculated by reference to expected future payments. These payments are not discounted to adjust for the time value of money. An allowance for discounting would decrease the total 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 claims expense.
Risk margin	An estimate of the amount of uncertainty in the determination of the central estimate. An increase or decrease in the risk margin would have a corresponding impact on claims expense.

ii) Impact of key variables

	Profit 31-Dec-07 $000	Equity 31-Dec-07 $000
Recognised amounts in the financial statements	(7,628)	376,660

Variable	Movement in variable	Adjustments	Adjusted amounts	Adjustments	Adjusted amounts
Assumed proportion paid to date	+0.5%	3,586	(4,042)	3,586	380,246
	-0.5%	(3,626)	(11,254)	(3,626)	373,034
Expense rate	+1.0%	(502)	(8,130)	(502)	376,158
	-1.0%	502	(7,126)	502	377,162
Application of a discount rate of	6.68%	510	(7,118)	510	377,170
Risk equalisation allowance	+2.5%	(1,039)	(8,667)	(1,039)	375,621
	-2.5%	1,039	(6,589)	1,039	377,699
Risk margin	+1.0%	(579)	(8,207)	(579)	376,081
	-1.0%	579	(7,049)	579	377,239

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

The financial condition and operation of the Group are affected by a number of key financial risks including insurance risk, interest rate risk, credit risk, market risk, liquidity risk, financial risk and fiscal risk and non financial risks including operational risk, regulatory and compliance risk. Notes on the Group's policies and procedures in respect of managing these financial risks are set out in this note below.

a) Objectives in managing risks arising from private health insurance contracts and policies for mitigating those risks

nib's board of directors determines the Group's overall risk appetite and approves the risk management strategies, policies and practices to ensure that risks are identified and managed within the context of this appetite.

The Group's risk management framework manages risks through:

- The establishment of the Audit Committee and the Risk 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;
    - reviewing the Group's systems and procedures for compliance with legal and regulatory requirements other than those monitored by the Risk Committee
  - The Risk Committee's responsibilities include:
    - assisting the Board to review the effectiveness of the Group's system of internal control;
    - recommending the appointment and remuneration of the internal auditor;
    - reviewing the performance and independence of the internal auditor;
    - monitoring the risk management system; and
    - reviewing the Group's systems and procedures for compliance with legal and regulatory requirements other than those monitored by the Audit Committee.
- the Group's internal policies and procedures designed to mitigate such risks:
  - The maintenance and use of management information systems which provide up to date, reliable data on the risks which the business is exposed to at any point in time.
  - Actuarial models, using information from the management information systems, are used to calculate premiums and monitor claims patterns. Past experience and statistical methods are used as part of the process,
  - A rigorous approach to product design to mitigate the risk of the Group being exposed to adverse selection,
  - Maintenance of reserves in excess of solvency and capital adequacy regulatory requirements,
  - An investment strategy which delivers a diversified portfolio with a heavier weighting to defensive assets versus growth assets.
- internal audit which provides independent assurance to senior management and directors regarding the adequacy of controls over activities where the risks are perceived to be high;
- regular risk and compliance reporting; and

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

a) Objectives in managing risks arising from private health insurance contracts and policies for mitigating those risks (continued)

- the application of standards for solvency and capital adequacy legislated under division 140 and 143 of the Private Health Insurance Act 2007 (the Act):
  - The Solvency and Capital Adequacy Standards are established under the Act, and are an integral component of the prudential reporting and management regime for registered private health insurers.
  - These standards impose a two tier capital requirement on private health insurers with each tier considering the capital requirements in a different set of circumstances.
  - The first tier – solvency – is intended to ensure the basic solvency of the fund (that is, in the unlikely event of a wind-up); at any time on a run-off view, 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.

b) Insurance Risk

The provision of private health insurance in Australia is governed by the Act and shaped by a number of regulatory factors.

The first is the principle of community rating. This principle prevents private health insurers from discriminating between people on the basis of their health status, age, race, sex, sexuality, the frequency that a person needs treatment, or claims history.

The second is risk equalisation which supports the principle of community rating. Private health insurance averages out the cost of hospital treatment across the industry. The risk equalisation scheme transfers money from private health insurers with younger healthier members with lower average claims payments (such as nib) to those insurers with an older and less healthy membership and which have higher average claims payments. Thirdly, the Act limits the types of treatments that private health insurers are able to offer as part of their health insurance business and fourthly, premiums for health insurance can only be changed with the approval of the Minister.

c) Interest rate risk

The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate on those financial assets are as follows:

Class of Asset	Effective Weighted average interest rate
Receivables	7.16% (June 2007: 6.56%)
Financial assets at fair value through profit and loss	6.57% (June 2007: 6.39%)
Cash and Cash equivalents	6.64% (June 2007: 6.36%)

All other financial assets and liabilities are non-interest bearing.

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

d) Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognise financial assets 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.

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 holds a high percentage of highly liquid investments.

f) Market risk

i) Price risk

The Group is exposed to equity securities price risk. This arises from investments held by the Group and classified on the balance sheet as 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.

ii) Fair value interest rate risk

Refer to (c) above

5. INCOME TAX

	Notes	Dec 2007 $000	Dec 2006 $000
a) Income tax expense/(benefit)			
Recognised in the income statement			
Current tax expense/(benefit)		6,200	-
Deferred tax expense/(benefit)		(13,670)	-
Under (over) provided in prior years	16(ii)(b)	(54)	-
		(7,523)	-
Income tax expense/(benefit) is attributable to:			
Profit/(Loss) from continuing operations		(7,470)	-
Profit from discontinuing operations	16(ii)(b)	(54)	-
Aggregate income tax expense/(benefit)		(7,523)	-

b) Numerical reconciliation of income tax to prima facie tax payable

	Notes	Dec 2007 $000	Dec 2006 $000
Profit/(Loss) from continuing operations before income tax expense		(15,152)	35,518
Profit from discontinuing operations before income tax expense		-	1,287
		(15,152)	36,805
Tax at the Australian tax rate of 30% (2007: 30%)		(4,545)	11,041
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
Write back of provision on consolidation		(19)	334
Net exempt income		(2,214)	(11,172)
Assessable income		27	26
Non-assessable income		-	(25)
Other deductible expenses		(554)	(110)
Other non-deductible expenses		1	113
Previously unrecognised deferred tax asset recognised		(165)	(208)
Prior year capital losses not recognised now recouped		-	(17)
Adjustments for current tax of prior periods	16(ii)(b)	(54)	-
Deferred tax asset not recognised		-	18
Income tax expense/(benefit)		(7,523)	-

nib health funds limited was exempt from income tax under the provisions of Section 50-30 of the Income Tax Assessment Act 1997 as amended for the period to 1 October 2007. Income of the company was liable to taxation from that date forward.

5. INCOME TAX (CONTINUED)

c) Amounts recognised directly in equity

	Notes	Dec 2007 $000	Dec 2006 $000
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity			
Net deferred tax - debited (credited) directly to equity		(2,537)	-
		(2,537)	-

	Dec 2007 $000	Jun 2007 $000
d) Tax losses		
Unused revenue tax losses for which no deferred tax asset has been recognised	-	1,239
Unused capital tax losses for which no deferred tax asset has been recognised	-	1,552
	-	2,791
Potential tax benefit @ 30%	-	837

All unused tax losses were incurred by Australian entities. The tax losses have not been brought to account as a future economic benefit by any of the entities that have generated tax losses as recovery of the tax losses is not regarded as probable. All losses of subsidiary entities were lost upon entry to the tax consolidation system.

e) Unrecognised temporary differences

Temporary differences relating to deferred tax assets have not been recognised		
Doubtful Debts	-	30
Legal expense	-	32
Depreciation	-	2,041
Audit expense	-	13
	-	2,116
Unrecognised deferred tax assets relating to the above temporary differences (Refer to Note 5(b))	-	635

f) Tax consolidation legislation

nib holdings limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation from 1 October 2007. The accounting policy in relation to this is set out in Note 1(h).

5. INCOME TAX (CONTINUED)

f) Tax consolidation legislation (continued)

The entities in the tax consolidated group have entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, nib holdings limited.

The entities have also entered into a tax funding arrangement 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 tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities financial statements.

6. CURRENT ASSETS – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2007 $000	30 June 2007 $000
Equity Securities	107,754	107,134
Interest-Bearing Securities	266,435	269,227
	374,189	376,361

a) Interest rate risk

The Group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following tables:

		Fixed interest maturing in:					
	Floating interest rate $'000	1 year or less $'000	Over 1 to 2 years $'000	Over 2 to 3 years $'000	Over 3 to 4 years $'000	Non-interest bearing $'000	Total $'000
31 December 2007							
Equity Securities						107,754	107,754
Interest-bearing securities	119,460	146,975					266,435
	119,460	146,975	0	0	0	107,754	374,189
Weighted average interest rate	5.24%	7.65%	-	-	-	-	
30 June 2007							
Equity Securities						107,134	107,134
Interest-bearing securities	127,218	142,009					269,227
	127,218	142,009	0	0	0	107,134	376,361
Weighted average interest rate	6.00%	6.76%	-	-	-	-	

7. BUSINESS COMBINATION

On 1 October 2007, nib holdings limited legally acquired nib health funds limited and its subsidiaries. This acquisition has been treated as a reverse acquisition under AASB 3 and therefore for the purpose of preparing the nib holdings limited condensed consolidated financial statements, nib health funds limited has been treated as the acquirer and nib holdings limited has been treated as the acquired company.

The fair value of the identifiable assets and liabilities of this acquisition as at the date of acquisition is as follows:

	$
Consideration	-
Net assets by major class:	
Other financial assets	5
Deferred tax assets	1,800
Payables	(6,000)
	(4,195)

There was no consideration for the acquisition. nib holdings limited became the parent company of the nib group on 1 October 2007 when nib health funds limited cancelled the shares it issued to eligible policyholders. nib holdings limited then issued the same number of shares cancelled to eligible policyholders. There is no goodwill arising from the acquisition.

8. CONTINGENT LIABILITIES

nib health funds limited has given an undertaking to extend financial support to nib servicing facilities pty limited and nib health care services pty limited by subordinating repayment of debts owed by the entities to nib health funds limited, in favour of all other creditors. This undertaking has been provided as a result of each of these subsidiaries experiencing deficiencies of capital and reserves, and is intended to enable the entities to continue their operations and fulfil all financial obligations now and in the future. The undertaking is provided for a minimum period of twelve months from 30 August 2007, or if earlier, to the date of sale of the entities should this occur.

9. CURRENT LIABILITIES – OUTSTANDING CLAIMS LIABILITY

a) Outstanding claims liability

	31 Dec 07 $000	30 June 07 $000
Outstanding claims - central estimate of the expected future payments for claims incurred	47,588	43,773
Risk Margin	2,647	2,435
Claims handling costs	1,428	1,313
Gross outstanding claims liability	51,663	47,521
Outstanding claims - expected payment to the HRBTF/RETF in relation to the central estimate	8,875	6,105
Risk Margin	479	329
Net outstanding claims liability	61,017	53,955

9. CURRENT LIABILITIES – OUTSTANDING CLAIMS LIABILITY (CONTINUED)

b) Risk margin

The risk margin of 5.4% (June 2007: 5.4%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% (June 2007: 95%).

The central estimate of outstanding claims (including those that have been reported but not yet settled and which have been incurred but not yet reported) is an estimate which is intended to contain no intentional over or under estimation. For this reason the inherent uncertainty in the central estimate must also be considered.

The risk margin has been based on an analysis of the past experience of the Company. This analysis examined the volatility of past payments that has not been explained by the model adopted to determine the central estimate. This past volatility has been assumed to be indicative of the future volatility.

The outstanding claims estimate is derived based on 3 valuation classes, namely Hospital and Prostheses services combined, Medical services, and Ancillary and Ambulance services combined. Diversification benefits within a valuation class are implicitly allowed for through the model adopted. The determination of the risk margin has also implicitly allowed for diversification between valuation classes based on an analysis of past correlations in deviations from the adopted model. The calculation was determined taking into account one month of actual post balance date claims.

The Outstanding Claims provision has been estimated using a chain ladder method, based on historical experience and future expectations as to claims. For Hospital, Prostheses and Medical services in particular, an expected claim numbers and average claims size is used instead for the most recent three months.

The business written by the Company is short tail in nature. Based on historic experience, approximately 83.75% of outstanding claims are received within two months of balance date, and accordingly only 16.25% of the outstanding claims provision requires an estimate. For this reason, expected future payments are not discounted. Accordingly, reasonable changes in assumptions would not have a material impact on the outstanding claims balance.

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

	31 Dec 07 $000	30 June 07 $000
Gross outstanding claims at beginning of period	47,521	50,805
Administration component	(1,313)	(1,416)
Risk margin	(2,435)	(2,188)
Central estimate at beginning of period	43,773	47,201
Change in claims incurred for the prior year	(2,048)	1,510
Claims paid in respect of the prior year	(39,831)	(48,711)
Claims incurred during the year (expected)	273,599	501,823
Claims paid during the year (expected)	(227,905)	(458,050)
Central estimate at end of period	47,588	43,773
Administration component	1,428	1,313
Change in administration component assumptions	-	-
Risk margin	2,647	2,029
Change in risk margin assumption	-	406
Gross outstanding claims at end of period	51,663	47,521

10. DIVIDENDS

There were no dividends provided for or paid during the half-year.

11. EQUITY SECURITIES ISSUED

	2007 Shares	2006 Shares	2007 $000	2006 $000
Issues of ordinary shares during the half-year				
Shares issued to Policyholders	458,496,160	-	-	-
Shares issued to institutional investors	58,823,529	-	50,000	-
Shares issued to executives as part of retention bonus	550,000	-	468	-
	517,869,689	-	50,468	-

12. SEGMENT REPORTING

The group operates predominantly in the private health insurance industry and related health care activities in Australia.

13. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There have not been any matters or circumstances that have arisen since the end of the half-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.

14. UNUSUAL ITEMS

The following items are unusual because of their nature, size or incidence:

a) Commitments for the acquisition of property, plant and equipment

Capital commitments of $19.469 million (June 2007 $24.978 million) relating to the construction of the new head office building at Honeysuckle. The total forecast cost of the new head office building is $42.226 million (June 2007 $41.616 million). Costs incurred to date are $14.949 million (30 June 2007 $8.249 million).

b) Demutualisation/Listing Costs

Profit for the half-year includes Demutualisation/listing costs incurred for the half-year of $41.090 million (2006: $1.006 million). A breakdown of these costs by activity is as follows:

	31 Dec 07 $000	31 Dec 06 $000
Legal fees	1,193	143
Underwriting and management fees	12,943	451
Accounting and taxation advice	908	113
Actuarial advice	20	149
Donation to nib foundation	25,000	-
Retention/transaction bonuses & restructure costs	7,098	-
Other	2,385	150
Listing costs offset against share capital	(8,457)	-
	41,090	1,006

15. SOLVENCY RESERVE

nib health funds limited Solvency Reserve, as per the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is $77.003 million. Total Health Benefits Fund Assets are $514.271 million, representing an excess of $437.268 million over the Solvency Reserve.

16. DISCONTINUED OPERATIONS

i) Newcastle Private Hospital Pty Limited

(a) Description

On 28 April 2006 nib health funds limited and its subsidiaries, nib servicing facilities pty limited and Newcastle Private Hospital Pty Limited, following decisions taken by the Boards of the companies, resolved to enter into the following agreements with Healthscope Limited:

(a) Share Sale Agreement – whereby all the shares held by nib health funds limited and nib servicing facilities pty limited in Newcastle Private Hospital Pty Limited are sold to Healthscope Limited, and in regard to this:
  - (i) nib health funds limited subscribed for 29,000,000 shares of $1.00 each in Newcastle Private Hospital Pty Limited on 27 April 2006 in satisfaction of the advances made to Newcastle Private Hospital Pty Limited by the ultimate parent entity, nib health funds limited in current and prior years;
  - (ii) the Share Sale Agreement was subject to certain conditions precedent which were satisfied on 31 May 2007;
  - (iii) subject to the completion of the Share Sale Agreement, nib health funds limited will lease the land and buildings that house the operations of Newcastle Private Hospital to Healthscope for a term of up to 13 years. Healthscope has within that lease an option to acquire the land and buildings, which is able to be exercised within the initial three (3) years of the lease.

(b) Management Agreement – whereby Healthscope Limited manages the operations of Newcastle Private Hospital for Newcastle Private Hospital Pty Limited and nib health funds limited, and in regard to this:
  - (i) the term of the management agreement commenced 1 May 2006 and continued until the completion of the Share Sale Agreement;
  - (ii) Healthscope Limited as manager received the following payments:
    - (1) all Manager's costs and expenses incurred in providing the services and managing the Operations;
    - (2) a fixed proportion of the Manager's Overheads;
    - (3) a further proportion of the Manager's Overheads up to a maximum amount subject to a defined financial target being achieved; and
    - (4) a Management Fee up to a maximum amount subject to a defined financial target being achieved.

As a result of the Conditions Precedent being satisfied on 31 May 2007, the Share Sale Agreement between nib servicing facilities pty limited, nib health funds limited and Healthscope Limited was finalised, completing the sale of Newcastle Priavet Hospital Pty Limited to Healthscope Limited.

On completion of the Share Sale Agreement, nib health funds limited entered into an agreement to lease the land and buildings that house the operations of Newcastle Private Hospital to Healthscope Limited for a term of up to 13 years. Healthscope has within that lease an option to acquire the land and buildings, which is able to be exercised within the initial three years of the lease.

During the financial year Newcastle Private Hospital was operated under a management agreement whereby Healthscope Limited managed the operations of

16. DISCONTINUED OPERATIONS (CONTINUED)

i) Newcastle Private Hospital Pty Limited (continued)

a) Description (continued)

Newcastle Private Hospital for Newcastle Private Hospital Pty Ltd and nib health funds limited and received the following payments:

(1) all manager's costs and expenses incurred in providing the services and managing the operations;
(2) a fixed proportion of the manager's overheads;
(3) a further proportion of the manager's overheads up to a maximum amount subject to a defined financial savings target being achieved; and
(4) A Management Fee up to a maximum amount subject to a defined financial target being achieved.

The management agreement was terminated on the completion of the Share Sale Agreement on 31 May 2007.

Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

(b) Financial Performance and cash flow information

The financial performance and cash flow information presented are for the half-year ended 31 December 2006 and 31 December 2007:

	Half-year	
	2007	**2006**
	$000	**$000**
Revenue	-	21,906
Expenses	-	(21,936)
Profit/(Loss) before income tax	-	(30)
Income tax expense	-	-
Profit/(Loss) after income tax of discontinued operation	-	(30)
Gain on the sale of the operation before income tax	-	-
Income tax expense	-	-
Gain on the sale of the operation after income tax	-	-
Profit/(Loss) from discontinued operations	-	**(30)**
(1) Expenses		
Materials and consumables	-	(6,079)
Employee costs	-	(11,931)
Depreciation and amortisation	-	-
Medical malpractice insurance	-	(243)
Physicians fees	-	(685)
Nursing Agency Fees	-	(604)
Other expenses	-	(2,394)
	-	**(21,936)**

16. DISCONTINUED OPERATIONS (CONTINUED)

i) Newcastle Private Hospital Pty Limited (continued)

b) Financial performance and cash flow information (continued)

	Half-year	
	2007	**2006**
	$000	**$000**
Cash flows		
Net cash inflow (outflow) from operating activities	-	1,633
Net cash inflow (outflow) from investing activities	-	(132)
Net cash inflow (outflow) from financing activities	-	-
Net increase (decrease) in cash generated by the operation	**-**	**1,501**

(c) Carrying amounts of assets and liabilities

The carrying amounts of assets and liabilities as at 31 December 2007 and 30 June 2007 are nil.

(d) Details of the sale of the operations

The details of the sale of operations are not applicable to the current reporting period.

ii) nib eye care and dental businesses

(a) Description

nib health care services pty limited formerly operated an Eye Care Centre business and an Eye Safety business. The Eye Care and Eye Safety businesses were sold to Pacific Optical Pty Limited on 30 November 2006. The centres continue to be branded as nib eye care centres. nib health care services pty limited receives a percentage of retail product sales revenue from the eye care centres.

nib health care services also formerly operated Dental Centres in Newcastle and Sydney. From 1 September 2004, the operation of the nib dental care centres was transferred from nib health care services pty limited to Pacific Smiles Group Pty Limited. The Dental business was then sold to Pacific Smiles Group Pty Limited on 30 November 2006. The centres continue to be branded as nib dental centres. nib health care services leases dental and support equipment and premises to Pacific Smiles Group, and receives a percentage of the revenue from diagnostic and preventative services provided to nib policyholders at the dental care centres.

The Eye Care, Eye Safety and Dental businesses disposed of are reported in this financial report as a discontinuing operation.

Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

16. DISCONTINUED OPERATIONS (CONTINUED)

ii) nib eye care and dental businesses (continued)

(b) Financial Performance and cash flow information

The financial performance and cash flow information presented are for the five months ended 30 November 2006 and six months ending 31 December 2007:

	Half-year 2007 $000	Half-year 2006 $000
Revenue	-	2,239
Expenses	-	(2,367)
Profit/(Loss) before income tax	-	(128)
Income tax expense	-	-
Profit/(Loss) after income tax of discontinued operation	-	(128)
Gain on the sale of the operation before income tax	-	1,445
Income tax benefit/(expense)	54	-
Gain on the sale of the operation after income tax	54	1,445
Profit from discontinued operations	**54**	**1,317**
Cash flows		
Net cash inflow (outflow) from operating activities	-	152
Net cash inflow (outflow) from investing activities (2006 includes an inflow of $325,297.42 from the sale of the operation)	250	265
Net cash inflow (outflow) from financing activities	-	-
Net increase (decrease) in cash generated by the operation	**250**	**417**

The financial performance and cash flow information presented for the five months ended 30 November 2006 above does not agree to the financial performance and cash flow information presented for the five months ended 30 November 2006 in the nib 2007 annual report. This is due to transactions relating to the discontinued operation being finalised subsequent to December 2006.

(c) Carrying amounts of assets and liabilities

The carrying amounts of assets and liabilities as at 30 November 2006 are:

	$000
Inventories	146
Plant and equipment	180
Total assets	326
Employee Benefits	196
Total liabilities	196
Net assets	130

16. DISCONTINUED OPERATIONS (CONTINUED)

ii) nib eye care and dental businesses (continued)

(d) Details of the sale of the operations

	$000
Consideration received or receivable:	
Cash	575
Present value of amount due on 30 November 2008	250
Present value of amount due on 30 November 2009	250
Present value of amount due on 30 November 2010	250
Present value of amount due on 30 November 2011	250
Total disposal consideration	1,575
Carrying amount of net assets sold	(130)
Gain on sale before income tax	1,445
Income tax expense	-
Gain on sale after income tax	1,445

17. COMPANY DETAILS

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

384 Hunter Street
NEWCASTLE NSW 2300

The financial report was authorised for issue by the directors on 26 February 2008. The company has the power to amend and reissue the financial report.