2010 FINANCIAL REPORT

nib

CONTENTS

AGM DETAILS

The Annual General Meeting (AGM) of nib will be held on
Tuesday, 26 October 2010 at 1.00pm
(Australian Eastern Daylight Saving time)
at the Newcastle City Hall, 1st Floor Concert Hall,
290 King Street, Newcastle NSW 2300.

DIRECTORS' REPORT

year ended 30 June 2010

The Directors of nib holdings limited present their report on the consolidated entity (hereafter the Group) consisting of nib holdings limited and the entities it controlled at the end of, or during, the year ended 30 June 2010.

DIRECTORS

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

- Keith Lynch
- Mark Fitzgibbon
- Harold Bentley
- Annette Carruthers
- Philip Gardner
- Brian Keane

PRINCIPAL ACTIVITIES

During the year the principal continuing activities of the Group consisted of operating as a private health insurer under the *Private Health Insurance Act 2007*.

REVIEW OF OPERATIONS

nib's vision is to be a leading financier of the nation's health care spending with a reputation for innovative products, value for money, outstanding customer service, corporate social responsibility and strong shareholder returns.

The consolidated profit of the Group for the year, after income tax expense, was $61.5 million (2009: $23.8 million).

The $37.7 million increase from the 2009 consolidated profit reflects an improved net underwriting profit, significantly improved investment performance and lower holding company and other expenses, and the associated tax impact of all these variances.

The Group achieved a strong operating result with key performance indicators shown below:

			Change	
($m)	**FY10**	**FY09**	**$m**	**%**
Policyholder growth	5.9%	5.2%		
Premium revenue	901.4	829.5	71.9	8.7
Gross margin	133.5	122.0	11.5	9.4
	14.8%	14.7%		
Management Expense*	(86.4)	(81.8)	(4.6)	5.6
	9.6%	9.9%		
Net margin	47.1	40.2	6.9	17.2
	5.2%	4.8%		
Net investment return	44.5	(1.8)	46.3	2,572.2
	10.5%	(0.4)%		
Other income*	1.3	1.1	0.2	18.2
Other expenses*	(5.9)	(7.9)	2.0	(25.3)
Profit before tax	87.0	31.6	55.4	175.3
Tax*	(25.5)	(7.8)	(17.7)	226.9
NPAT	61.5	23.8	37.7	158.4
EPS (cps)	12.4	4.7	7.7	163.8
ROE[1] (%)	16.3%	6.6%		
Operating cash flow	66.3	44.2	22.1	50.0

1. Using average shareholders' equity over rolling 12 month period.

* Some items rounded up/down by 0.1 for presentation purposes.

Capital management was a key focus during the year, as nib seeks to balance the competing goals of optimising capital and retaining funds for funding potential investments via mergers and acquisitions.

The most significant capital management initiative was the sale of shares in the unmarketable parcel sale facility on behalf of shareholders who were the registered holders of less than a marketable parcel of nib shares on 26 August 2009. The sale facility resulted in 21,978,234 shares being sold to institutional investors.

At 30 June 2010 the Group had net assets of $391.4 million (2009: $361.9 million) and a return on equity of 16.3%, using average shareholders' equity over a rolling 12 month period (2009: 6.6%).

The Board currently intends to continue to undertake the on-market buyback of up to 10% of issued shares at the time of commencement of the on-market buyback, or 51,786,969 shares, in compliance with the applicable laws and the ASX Listing Rules, as surplus capital and other capital management initiatives permit.

DIVIDENDS AND CAPITAL MANAGEMENT

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

	2010 $000	2009 $000
Final dividend for the year ended 30 June 2009 of 4.4 cents per fully paid share paid on 9 October 2009	21,823	10,875
Interim dividend for the year ended 30 June 2010 of 2.0 cents per fully paid share paid 8 April 2010	9,918	14,988
	31,741	25,863

In addition to the above dividends, since the end of the financial year the Directors have recommended the payment of a final dividend of $24.8 million (5.0 cents per fully paid share) to be paid on 27 September 2010 out of retained profits at 30 June 2010. Subject to franking credit availability, the Board's position is that future dividends will reflect a dividend payout ratio of 50% to 60% of earnings with additional capacity to pay special dividends as part of further capital management. The dividend payout ratio for the year was 56.4%.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no other significant changes in the nature of activities conducted by the Group during the year.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

nib signed an asset purchase agreement on 5 July 2010 to purchase the business and assets of IMAN International Pty Limited, a specialist provider of health cover for temporary migrant workers in Australia for approximately $25 million (including estimated completion adjustments in respect of the assumption of certain liabilities). Completion of the agreement is expected by 1 October 2010 and is conditional on various conditions precedent, including the novation of at least 11,000 IMAN customer contracts, no material adverse effect and the finalisation of service and transitional arrangements to facilitate the transfer of the IMAN business.

The sale of Newcastle Private Hospital to Healthscope Limited for $30 million was completed on 9 July, 2010 (see Note 11).

No other matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect:

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

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

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

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

ENVIRONMENTAL REGULATION

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

INFORMATION ON DIRECTORS

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

INFORMATION ON DIRECTORS (CONTINUED)

Name and qualifications	
Keith Lynch *BSc (Tech) UNSW, MAICD*	**Chair Independent Non-Executive Director. Age 68.** *Experience and expertise* Director since 28 May 2007. Previously held senior executive positions with Hunter-based engineering firms. Formerly a Director of Newcastle Grammar School and CW Pope & Associates Pty Ltd. *Other current directorships* Chair of nib health funds limited since 2001 and a Director since 1982; Director of ACN 144 907 746 Pty Limited, The Heights Private Hospital Pty Limited and nib servicing facilities pty limited. *Former directorships in the last three years* Chair of Kip McGrath Education Centres Limited from May 2005 to November 2007. *Special responsibilities* Chairman of Board and the Nomination and Remuneration Committee. Member of the Investment Committee. *Interests in shares and performance rights* 100,951 ordinary shares in nib holdings limited.
Mark Fitzgibbon *MBA, MA, ALCA, FAICD*	**Managing Director/Chief Executive Officer. Age 50.** *Experience and expertise* Joined nib health funds limited in 2002 as Chief Executive Officer (CEO). Previously CEO of the national and peak industry bodies for licensed clubs. Before that, held several CEO positions in local government, including General Manager of Bankstown Council between 1995 and 1999. *Other current directorships* Director of nib health funds limited, nib health care services pty limited, nib servicing facilities pty limited and ACN 144 907 746 Pty Limited. Director of the Australian Health Insurance Association Ltd. *Former directorships in the last three years* Newcastle Knights Rugby League Football Club and Australian Health Services Alliance. *Special responsibilities* Managing Director/Chief Executive Officer. *Interests in shares and performance rights* Direct: 145,304 ordinary shares in nib holdings limited. Indirect: 385,600 ordinary shares in nib holdings limited held by Fitz Family fund. 270,442 performance rights under FY08-FY10 Long-Term Incentive Plan which may vest from 1 September 2010. 360,629 performance rights under FY09-FY11 Long-Term Incentive Plan which may vest from 1 September 2011. 270,280 performance rights under FY10-FY12 Long-Term Incentive Plan which may vest from 1 September 2012.
Harold Bentley *MA Hons, FCA, FCIS*	**Independent Non-Executive Director. Age 62.** *Experience and expertise* Director since 7 November 2007. Has more than 20 years experience in the insurance sector. Formerly the Chief Financial Officer of Promina Group Ltd and an Audit Manager of PricewaterhouseCoopers specialising in finance and insurance companies. *Other current directorships* Director of nib health funds limited and ACN 144 907 746 Pty Limited. *Former directorships in the last three years* None. *Special responsibilities* Chairman of the Audit Committee. Member of the Investment Committee. *Interests in shares and performance rights* Indirect: 70,000 ordinary shares in nib holdings limited held by Sushi Sake Pty Limited.

INFORMATION ON DIRECTORS (CONTINUED)

Name and qualifications	
Dr Annette Carruthers *MBBS (Hons), FRACGP, FAICD*	**Independent Non-Executive Director. Age 55.** *Experience and expertise* Director since 20 September 2007. A general medical practitioner with comprehensive experience in health management. Clinical Director at GP Access (formerly known as Hunter Urban Division of General Practice) until August 2009. Member NSW Medical Experts Committee Avant Pty Ltd. Conjoint senior lecturer in the School of Medicine & Public Health at the University of Newcastle. *Other current directorships* Director of nib health funds limited since 2003, nib health care services pty limited, ACN 144 907 746 Pty Limited and The Heights Private Hospital Pty Limited. Director of the National Heart Foundation of Australia (NSW Division). *Former directorships in the last three years* Director of the National Heart Foundation of Australia. *Special responsibilities* Chair of the Risk and Reputation Committee. Member of Audit Committee and the Nomination and Remuneration Committee. *Interests in shares and performance rights* Direct: 1,000 ordinary shares in nib holdings limited. Indirect: 57,200 ordinary shares in nib holdings limited held by Carruthers Future Fund Pty Ltd.
Philip Gardner *B.Comm, CPA, CCM, FAICD, JP*	**Independent Non-Executive Director. Age 52.** *Experience and expertise* Director since 28 May 2007. Current Chief Executive Officer of The Wests Group Australia and an adjunct lecturer in the Faculty of Business and Law at the University of Newcastle. *Other current directorships* Director of nib health funds limited since 2005 and ACN 144 907 746 Pty Limited. Director of Newcastle Airport Limited. *Former directorships in the last three years* None. *Special responsibilities* Chair of the Investment Committee. Member of the Audit Committee and the Risk and Reputation Committee. *Interests in shares and performance rights* Direct: 16,862 ordinary shares in nib holdings limited. Indirect: 88,000 ordinary shares in nib holdings limited held by Sutton Gardner Pty Ltd.
Brian Keane *FAICD*	**Independent Non-Executive Director. Age 72.** *Experience and expertise* Director since 7 November 2007. Former member of the Australian Competition Tribunal. Formerly Chief Executive Officer of AAMI Ltd. *Other current directorships* Director of nib health funds limited and ACN 144 907 746 Pty Limited. Director of Aurora Energy Pty Ltd and the Hollard Insurance Company Pty Ltd. *Former directorships in the last three years* Director of Medibank Private Ltd, CSIRO and Lawcover Pty Ltd. *Special responsibilities* Member of the Nomination and Remuneration Committee, the Risk and Reputation Committee and the Audit Committee. *Interests in shares and performance rights* Indirect: 61,300 ordinary shares in nib holdings limited held by the Brian Keane Superannuation Fund.

Company secretary

The company secretary is Mrs Michelle McPherson *BBUS (Accounting) (UTS), CA, GAICD*. Mrs McPherson was appointed to the position of company secretary on 1 September 2008. She is currently the Chief Financial Officer and Deputy Chief Executive Officer of the Group, a Director of the Newcastle Port Corporation and the Hunter Valley Research Foundation, and a member of the advisory board to the Faculty of Business and Law at the University of Newcastle.

INFORMATION ON DIRECTORS (CONTINUED)

Meetings of Directors

The number of meetings of the Group's Board of Directors and of each Board committee held during the year ended 30 June 2010, and the numbers of meetings attended by each Director were:

	Board*		Board Subcommittee		Audit Committee		Risk & Reputation Committee		Nomination & Remuneration Committee		Investment Committee	
NAME	Held	Att	Held	Att	Held	Att	Held	Att	Held	Att	Held	Att
K Lynch	18	18	1	1	–	–	–	–	5	5	6	5
M Fitzgibbon	18	16	1	1	–	–	–	–	–	–	–	–
P Gardner	18	17	1	1	10	10	6	6	–	–	6	6
B Keane	18	17	–	–	10	9	6	6	5	5	–	–
H Bentley	18	17	–	–	10	10	–	–	–	–	6	6
A Carruthers	18	18	1	1	10	10	6	6	5	5	–	–

* Five of the Board meetings that took place were unscheduled meetings.

REMUNERATION REPORT

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

Principles used to determine the nature and amount of remuneration

General Principles

Section 300A of the *Corporations Act 2001* requires disclosure of remuneration for key management personnel of the Group.

The key management personnel of the Group, includes the Directors as per pages 3 to 4 and the following executive officers who have/had the authority and responsibility for planning, directing and controlling the activities of the Group.

- Mark Fitzgibbon, Managing Director/Chief Executive Officer
- Melanie Kneale, Chief Operating and Technology Officer
- Rhoderic McKensey, Chief Marketing and Business Development Officer (from 1/9/2008)
- Michelle McPherson, Deputy Chief Executive Officer/Chief Financial Officer

In addition, the following person must be disclosed under the *Corporations Act 2001* as they are among the five highest remunerated Group executives:

- Mark Bishop, Group Actuary

Transparency

The Board will publish all remuneration components and the basis/calculation of each component in the annual report.

Professional and independent framework

The Board has established a Nomination and Remuneration Committee comprised of non-executive Directors only.

The Committee and through the Committee, the Board, every second year will commission advice from an expert consultant (nominated and appointed by the Committee) with respect to executive remuneration and market rates, unless increases are determined to be at or below CPI, in which case advice will be sought on a less frequent basis.

Principles for executive remuneration

The objective of the Group's executive remuneration is to ensure the Group is able to attract and retain key personnel, reward superior performance and align executive and shareholder interests.

The framework provides a mix of fixed and variable remuneration with a blend of short-term and long-term incentives. There are three components:

- base remuneration package and benefits, inclusive of superannuation;
- short-term performance incentives having regard for competency in the position and predetermined Key Performance Indicator (KPI) targets established by the Board; and
- longer-term performance incentives having regard for predetermined KPI targets established by the Board.

The combination of these components comprises the executive's total remuneration.

The remuneration package may be delivered as a combination of cash, vehicle capital allowance, other allowances (inclusive of FBT if appropriate) and superannuation (which must meet the superannuation guarantee charge minimum set by legislation). The total of all these components is at the discretion of the Group, while the breakdown and combination of components is at the discretion of the employee.

In addition to the above remuneration, the Group incurs operating costs and FBT for executive vehicles given frequent required use of the vehicles for business purposes.

REMUNERATION REPORT CONTINUED

Principles used to determine the nature and amount of remuneration CONTINUED

Incentives

Total potential annual incentive payments will entitle the Managing Director (MD)/Chief Executive Officer (CEO) or executives to receive no more than an amount equal to the annual total fixed remuneration.

There will be no retention bonus arrangements.

Short-term performance incentives

Based upon an annual performance review and success in meeting or exceeding targets, bonuses are payable on or before 15 September each year. The Board is responsible for assessing the performance of the MD/CEO and the MD/CEO is responsible for assessing the performance of the other executives.

Each executive has a target short-term incentives (STI) opportunity. For the MD/CEO the maximum target bonus opportunity is 60% of total fixed remuneration with 30% of the calculated entitlement awarded as performance shares to be held in escrow for one year. For other executives the maximum entitlement is 40% of the remuneration package.

For the year ended 30 June 2010, one-third of the executives' STI entitlement is linked to an assessment of personal competency and two-thirds linked to specific pre-determined performance targets (KPIs). The specific KPIs concern net policyholder growth, consolidated profit, the underwriting management expenses ratio, gross margin, non-PHI Revenue, policyholder retention, Return on Equity (ROE) and policy "buy-up".

The short-term bonus payments may be adjusted up or down in line with under or over achievement against the target performance levels. This is at the discretion of the Nomination and Remuneration Committee. The STI target annual payment is reviewed annually.

Amounts not realised in any year are not available to be recouped in future years.

Long-term performance incentives

Long-term performance incentives (LTIs) are provided to certain employees via the nib Long-Term Incentive Plan ("LTIP"), see page 11 (Share-based compensation – Performance rights) for further information.

Longer term incentives reflect targets set by the Board in relation to certain performance standards. From 1 July 2008 the performance standards were based on earnings per share growth targets over a three year period.

From 1 July 2010, LTIs are established each year by the Board prior to the commencement of each financial year and on a four year rolling cycle, with a minimum of 50% to be linked to total shareholder return (TSR) relative to an appropriate peer group.

Termination payments

Termination payments will be no greater than the equivalent of 12 months remuneration other than in circumstances deemed exceptional by the Board and clearly described and justified to shareholders.

Non-executive Directors

Fees and payments to non-executive Directors reflect the responsibilities of the position and market comparisons. Non-executive Chairman and Directors' fees are reviewed annually by the Nomination and Remuneration Committee and through it, the Board.

The committee also considers the advice of an independent expert normally every two years. However, given the Nomination and Remuneration Committee recommended that there be no adjustment for FY10 from FY09 levels, the request for independent advice was deferred until 2010 to be provided in respect of FY11.

Non-executive Directors do not receive share options. To promote alignment with shareholders the Board has resolved to apply a minimum shareholding requirement for non-executive Directors of at least 20% up to a maximum of 90% of their base fees (does not include the deducted 9% superannuation component) in nib holdings limited shares. A non-executive Director share plan (NEDSAP) exists to facilitate non-executive Directors meeting this requirement. Shares applied for under the NEDSAP are acquired on market. The requirement to take a portion of annual Directors' fees in shares is calculated as a cumulative amount, having regard to nib shares acquired by Directors outside of the NEDSAP. All current non-executive Directors comply with this requirement.

Non-executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by the shareholders. The maximum currently stands at $1,100,000. Directors' fees and superannuation are to be paid out of this pool. Additional compensation of travel allowances, non-monetary benefits and retirement benefits are not included in this pool.

Principles used to determine the nature and amount of remuneration CONTINUED

The following fees have applied from 1 July 2008. Refer to the Board Committees section of the Corporate Governance Statement for committee membership.

	Annual fee
Base fees	
Chairman	$184,100
Other non-executive Directors	$84,160
Additional fees*	
Committee – Chairman	$18,936
Committee – member	$9,468

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

Retirement allowances for Directors

On 24 November 2005, the Board of nib health funds limited resolved to remove retirement allowances for non-executive Directors appointed on or after that date.

Retirement benefits are provided for in the financial statements. Non-executive Directors employed before 24 November 2005 are entitled to a lump sum defined benefit based on number of years service.

The 24 November 2005 resolution has since been amended to include that for the purposes of calculating the retirement allowance payable to retiring Directors eligible to be paid a retirement allowance from nib health funds limited, the average of the last three years remuneration paid to the retiring Director includes Directors' and Committee fees paid to that Director from any company in the Group.

Details of remuneration

Details of the remuneration of each Director of nib holdings limited and other key management personnel are set out in the following tables.

The key management personnel of the Group, consisting of nib holdings limited and its subsidiaries, includes the Directors as per pages 3 to 4 and the following executive officers who have/had the authority and responsibility for planning, directing and controlling the activities of the Group.

- Mark Fitzgibbon, Managing Director/Chief Executive Officer
- Melanie Kneale, Chief Operating and Technology Officer
- Rhoderic McKensey, Chief Marketing and Business Development Officer (from 1/9/2008)
- Michelle McPherson, Deputy Chief Executive Officer/Chief Financial Officer

In addition, the following person must be disclosed under the *Corporations Act 2001* as they are among the five highest remunerated Group executives:

- Mark Bishop, Group Actuary

REMUNERATION REPORT CONTINUED

Details of remuneration CONTINUED

	Short-term employee benefits		
2010	**Cash salary and fees $**	**Cash bonus $**	**Non-monetary benefits $**
Keith Lynch	100,320	–	672
Harold Bentley	62,564	–	–
Annette Carruthers	92,032	–	2,100
Philip Gardner	111,956	–	–
Brian Keane	72,740	–	–
Sub-total non-executive Directors	439,612	–	2,772
Mark Fitzgibbon*	515,585	92,282	64,782
Melanie Kneale*	341,377	106,490	14,407
Rhoderic McKensey*	245,731	89,404	9,682
Michelle McPherson*	352,702	124,199	25,334
Sub-total executives	1,455,395	412,375	114,205
Total key management personnel compensation	**1,895,007**	**412,375**	**116,977**
Other Group executives			
Mark Bishop*^	128,388	–	1,922

* Denotes one of the five highest paid executives of the Group, as required to be disclosed under the *Corporations Act 2001*.

Includes bonus share rights. Refer to Share-based compensation.

^ Termination benefits include a total permanent disability payment made under the Group Life insurance policy and an exgratia payment.

	Short-term employee benefits		
2009	**Cash salary and fees $**	**Cash bonus $**	**Non-monetary benefits $**
Keith Lynch	47,280	–	886
Harold Bentley	5,463	–	–
Annette Carruthers	51,384	–	2,592
Janet Dore (1/7/2008 - 31/7/2008)	3,386	–	1,170
Philip Gardner	98,927	–	–
Brian Keane	48,755	–	–
Sub-total non-executive Directors	255,195	–	4,648
Mark Fitzgibbon*	477,993	181,155	68,964
Jayne Drinkwater* (1/7/2008 - 10/10/2008)	54,335	(7,740)	7,240
Melanie Kneale*	313,112	84,658	13,956
David Lethbridge* (1/7/2008 - 10/10/2008)	45,620	(71,400)	5,212
Rhoderic McKensey**	225,972	59,221	8,523
Michelle McPherson*	346,017	87,136	21,702
Sub-total executives	1,463,049	333,030	125,597
Total key management personnel compensation	**1,718,244**	**333,030**	**130,245**

** Rhoderic McKensey was appointed Chief Marketing and Business Development Officer on 1 September 2008. Before this appointment he was the company's INVENT manager. Amounts shown above include all Mr McKensey's remuneration during the reporting period, whether as an executive officer or as INVENT manager. Amounts received in his position as Chief Marketing and Business Development Officer amounted to $298,476, made up of cash salary of $199,785, cash bonus of $55,342, non-monetary benefits of $7,305, superannuation of $17,202 and performance right of $18,842.

Negative amounts in cash bonuses result from the over accrual of bonuses in 2008, and salary sacrifice of bonuses into superannuation.

* Denotes one of the five highest paid executives of the Group, as required to be disclosed under the *Corporations Act 2001*.

Includes bonus share rights. Refer to Share-based compensation.

Post-employment benefits		Long-term benefits	Termination benefits	Share-based payments			
Superannuation $	**Retirement benefits $**	**Long service leave $**	**Termination benefits $**	**Salary and fees $**	**Bonus# $**	**Performance rights $**	**Total $**
50,000	50,887	–	–	33,780	–	–	235,659
50,000	–	–	–	–	–	–	112,564
30,000	6,853	–	–	–	–	–	130,985
10,076	–	–	–	–	–	–	122,032
39,824	–	–	–	–	–	–	112,564
179,900	57,740	–	–	33,780	–	–	713,804
14,461	–	8,759	–	–	147,052	297,949	1,140,870
14,461	–	–	–	–	–	76,470	553,205
14,461	–	21,474	–	–	–	44,527	425,279
20,000	–	6,157	–	–	6,482	80,703	615,577
63,383	–	36,390	–	–	153,534	499,649	2,734,931
243,283	57,740	36,390	–	33,780	153,534	499,649	3,448,735
14,461	–	2,791	681,557	–	–	–	829,119

Post-employment benefits		Long-term benefits	Termination benefits	Share-based payments			
Superannuation $	**Retirement benefits $**	**Long service leave $**	**Termination benefits $**	**Fees $**	**Bonus# $**	**Performance rights $**	**Total $**
100,000	75,389	–	–	36,820	–	–	260,375
100,000	–	–	–	–	–	–	105,463
62,758	6,794	–	–	–	–	–	123,528
5,205	395	–	–	–	–	–	10,156
8,903	–	–	–	–	–	–	107,830
56,708	–	–	–	–	–	–	105,463
333,574	82,578	–	–	36,820	–	–	712,815
50,000	–	8,759	–	–	72,292	93,339	952,502
16,434	–	(885)	375,577	–	–	(4,898)	440,063
28,230	–	–	–	–	–	25,771	465,727
90,106	–	(1,106)	330,459	–	(2,166)	(4,519)	392,206
19,559	–	–	–	–	–	18,842	332,117
31,473	–	6,011	–	–	8,667	27,199	528,205
235,802	–	12,779	706,036	–	78,793	155,734	3,110,820
569,376	82,578	12,779	706,036	36,820	78,793	155,734	3,823,635

REMUNERATION REPORT CONTINUED

Details of remuneration CONTINUED

	Fixed remuneration		At risk – STI/Other bonuses		At risk – LTI*	
	2010	2009	2010	2009	2010	2009
Other key management personnel of the Group						
Mark Fitzgibbon	53.7%	65.1%	19.8%	24.9%	26.5%	10.0%
Jayne Drinkwater	–	102.9%	–	-1.8%	–	-1.1%
Melanie Kneale	67.0%	76.3%	19.2%	18.2%	13.8%	5.5%
David Lethbridge	–	102.9%	–	-1.8%	–	-1.1%
Rhoderic McKensey	68.5%	76.5%	21.0%	17.8%	10.5%	5.7%
Michelle McPherson	66.4%	78.0%	20.4%	16.8%	13.2%	5.2%
Other Group executives						
Mark Bishop	100.0%	–	–	–	–	–

* Since the long-term incentives are provided exclusively by way of performance rights, the percentages disclosed also reflect the value of remuneration consisting of performance rights, based on the value of the performance rights expensed during the year. Negative amounts indicate expenses reversed during the year due to a failure to satisfy the vesting conditions.

Note: The percentages above are impacted by the length of employment during the year. (2009: David Lethbridge and Jayne Drinkwater were only employed for part of the year). The 2009 STI percentages are also impacted by the over accrual of bonuses in 2008.

Service agreements

On appointment, all executives enter into a service agreement with nib health funds limited. The agreement summarises employment terms and conditions, including compensation, relevant to the executive's position. Each of these agreements provide for the provision of performance-related short-term performance incentives and other entitlements.

	Other key management personnel			
	Mark Fitzgibbon	Melanie Kneale	Rhoderic McKensey	Michelle McPherson
Service agreement effective:	1 July 2010 (1 July 2007)	14 January 2008	1 September 2008	1 July 2010 (1 July 2007)
Remuneration package Including superannuation, non-monetary benefits and bonus schemes which are subject to annual review	Yes	Yes	Yes	Yes
Term of Agreement	3 years ending 30 June 2013 (3 years ending 30 June 2010)	14 January 2008 to 30 June 2011	1 September 2008 to 30 June 2011	3 years ending 30 June 2013 (3 years ending 30 June 2010)
Termination Provision Payment of a termination benefit on early termination by the company, other than for gross misconduct is equal to the remuneration package for the remaining term of the agreement, up to a maximum of 12 months of the remuneration package	The agreement may be terminated early by either party with six months notice (The agreement may be terminated early by either party with six months notice)	The agreement may be terminated early by either party with six months notice	The agreement may be terminated early by either party with six months notice	The agreement may be terminated early by either party with three months notice (The agreement may be terminated early by either party with six months notice)

Details of Remuneration – short-term performance incentives

Included in the financial statements for the year ended 30 June 2010 is a provision based on a preliminary assessment of performance against the STI criteria. The final bonus amount is subject to determination by the Nomination and Remuneration Committee.

The percentage of the maximum STI that was provided for and the percentage that was unrealised is set out below.

	STI Bonus Provided %	STI Bonus expected to be unrealised %
Key management personnel		
Mark Fitzgibbon	69.1%	30.9%
Melanie Kneale	74.7%	25.3%
Rhoderic McKensey	78.3%	21.7%
Michelle McPherson	82.0%	18.0%
	74.2%	25.8%

Share-based compensation

Performance rights

Performance rights to acquire shares in nib holdings limited are granted under the Long-Term Incentive Plan ("LTIP"). The LTIP is designed to align the interests of executives and senior management and shareholders and to assist nib in the attraction, motivation and retention of executives. Under the LTIP participants are granted performance rights which vest only if certain performance standards are met and the employees are still employed by the Group at the end of the vesting period.

Performance rights from 1 July 2010

LTIs are established each year by the Board prior to the commencement of each financial year and on a four year rolling cycle, with a minimum of 50% to be linked to total shareholder return (TSR) relative to an appropriate peer group.

In respect of the above, vesting only occurs when performance is in the top half of the peer group with full vesting only if equal or greater than 75% of the peer group. There is no reward in respect of the above when TSR is negative for the period. There will be no retesting of the LTI performance hurdles post performance period.

The LTI entitlement is in the form of equities. 50% of any equities awarded will be required to be held in escrow for a period of two years even after termination.

Performance rights prior to 1 July 2010

The performance hurdle for the vesting of performance rights is Earnings per Share growth targets (EPS Hurdle) over a three year period as determined by the Board.

The EPS Hurdle has been chosen by the Board to focus management attention on three year strategic and financial objectives as well as shareholder alignment.

The principle used in setting the EPS Hurdle is to use the prior financial year's normalised EPS as a base and apply a range of compound annual growth rates in EPS from 10% to 25%, which in turn determines the percentage of performance rights that will vest on 1 September following the end of the relevant three year period, depending on the compound growth rate in EPS achieved. No performance rights will vest if the compound annual growth rate is below 10%.

Vesting of performance rights is subject to nib holdings limited EPS hurdle as follows:

EPS Hurdle	Percentage of performance rights vesting
Compound annual growth rate of 25% from base EPS	100%
Compound annual growth rate of 20% from base EPS	75%
Compound annual growth rate of 15% from base EPS	50%
Compound annual growth rate of 10% from base EPS	25%
Compound annual growth rate of Nil% from base EPS	0%

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

For the FY08-FY10 LTIP, the compound annual growth rate is calculated from a base EPS of $0.072. For the FY09-FY11 LTIP, the base EPS is $0.052. For the FY10-FY12 LTIP, the base EPS is $0.047.

The vesting date may be accelerated at the Board's discretion in the event of death of a participant, cessation of employment for other reasons; including total and permanent disablement, redundancy, retirement or separation; and takeover, reconstruction or amalgamation. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

Once vested the performance rights remain exercisable for a period of two years and four months. Performance rights are granted under the plan for no consideration.

REMUNERATION REPORT CONTINUED

Share-based compensation CONTINUED

The terms and conditions of the grant of performance rights affecting remuneration in this reporting period are as follows:

LTIP	Grant date	Date vested and exercisable	Expiry date	Exercise price	Value per performance right at grant date
FY08-FY10	24 June 2008	1 September 2010	31 December 2012	nil	$0.4903
FY08-FY10	30 June 2009	1 September 2010	31 December 2012	nil	$0.7687
FY09-FY11	30 June 2009	1 September 2011	31 December 2013	nil	$0.7687
FY10-FY12	28 January 2010	1 September 2012	31 December 2014	nil	$1.1279

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

When exercised, each performance right will be converted into one ordinary share within 15 business days after the exercise date.

Details of performance rights over ordinary shares in the company provided as remuneration to key management personnel of the Group are set out below. Shares may be issued or acquired on-market at the election of the company. When exercisable, each performance right is convertible into one ordinary share of nib holdings limited. Further information on the performance rights is set out in Note 39 to the financial statements.

	Number of performance rights granted during the year	Value of performance rights at grant date*	Number of performance rights vested during the year
Mark Fitzgibbon	270,280	$304,849	–
Melanie Kneale	81,859	$92,329	–
Rhoderic McKensey	59,851	$67,506	–
Michelle McPherson	86,385	$97,434	–

* The value at grant date calculated in accordance with AASB 2 *Share-based Payment* of performance rights granted during the year as part of remuneration.

The assessed fair value at grant date of performance rights granted to individuals is allocated equally over the period from grant date to vesting date, and the amount for key management personnel is included in the remuneration tables above. Fair values at grant date are independently determined in accordance with AASB 2 based on the relevant market price at the grant date, expected dividends, the details of the performance rights and other market-consistent assumptions.

The valuation methodology inputs for performance rights granted during the year ended 30 June 2010 included:

a. performance rights are granted for no consideration and vest subject to nib holdings limited EPS hurdle. Vested performance rights are exercisable for a period of two years and four months after vesting;
b. exercise price: $nil (2009 – $nil);
c. grant date: 28 January 2010 (2009 – 30 June 2009);
d. expiry date: 31 December 2014 (2009 – 31 December 2013);
e. share price at grant date: $1.285 (2009 – $0.92 for shares granted 30 June 2009); and
f. expected dividend yield: Dividends are assumed based on the Board's policy at grant date. For rights granted 28 January 2010 and 30 June 2009, the expected dividend payout ratio is 50% to 60% of normalised net profit after tax (with the potential for special dividends above this range), for rights granted 24 June 2008 the previous dividend payout ratio of 40% to 60% of normalised net profit after tax applies.

Shares provided on exercise of performance rights

No ordinary shares in the company have been provided as a result of the exercise of performance rights.

For each grant of performance rights included in the tables on page 13, the percentage of the available grant that was vested, in the financial year, and the percentage that the Board cashed out on termination because that person did not meet the service and performance criteria, is set out below. The performance rights vest two months after the performance measurement period ends, provided the vesting conditions are met (see above). No performance rights will vest if the conditions are not satisfied, hence the minimum value of the performance right yet to vest is nil. The maximum value of the performance rights yet to vest has been determined as the amount of the performance rights multiplied by the share price at 5 August 2010 of $1.295.

Share-based compensation CONTINUED

	Performance rights				
	Year granted	Vested %	Forfeited %	Financial years in which options may vest	Maximum total value of performance rights yet to vest $
Key management personnel of the Group					
Mark Fitzgibbon	2008	–	–	30/06/11	350,222
	2009	–	–	30/06/12	467,015
	2010	–	–	30/06/13	350,013
Melanie Kneale	2008	–	–	30/06/11	103,474
	2009	–	–	30/06/12	137,981
	2010	–	–	30/06/13	106,007
Rhoderic McKensey	2008	–	–	30/06/11	21,134
	2009	–	–	30/06/12	100,893
	2010	–	–	30/06/13	77,507
Michelle McPherson	2008	–	–	30/06/11	109,206
	2009	–	–	30/06/12	145,624
	2010	–	–	30/06/13	111,869

Bonus share rights granted for shares held in escrow issued as part of transaction bonus

Details of bonus share rights granted for shares held in escrow issued as part of transaction bonus in the company provided as remuneration to key management personnel of the Group are set out below. Shares may be issued or acquired on-market at the election of the company. Further information on the bonus shares rights granted for shares held in escrow issued as part of transaction bonus is set out in Note 39 to the financial statements.

	Number of shares held in escrow issued as part of transaction bonus
Mark Fitzgibbon	250,000
Michelle McPherson	100,000

The assessed fair value at grant date of additional shares granted for shares held in escrow to individuals is allocated equally over the period from grant date to vesting date, and the amount for key management personnel is included in the remuneration tables on pages 8 and 9. Fair values at grant date are independently determined in accordance with AASB 2 based on the relevant market price at the grant date, expected dividends, the details of the additional shares granted for shares held in escrow and other market-consistent assumptions.

No bonus share rights were granted in 2010 or 2009.

The valuation methodology inputs for bonus share rights granted for shares held in escrow during the year ended 30 June 2008 included:

a. additional shares are granted for no consideration subject to nib holdings limited TSR hurdles, with one share to be granted for every four shares held by the executive which were subject to the Escrow Deed if the TSR at the end of the escrow period (three years) equals or exceeds the 75% quartile of the ASX small ordinaries index; or one share will be granted for every eight shares held by the executive which were subject to the Escrow Deed where the TSR equals or exceeds the ASX small ordinaries index median;
b. exercise price: nil;
c. escrow period begins: 2 November 2008;
d. escrow period ends: 2 November 2010;
e. book build price at grant date: $0.85; and
f. expected dividend yield: Dividends are assumed based on the Board's policy at grant date. The previous dividend payout ratio of 40% to 60% of normalised net profit after tax applies.

REMUNERATION REPORT CONTINUED

Additional information

Performance of nib holdings limited

The components of remuneration that are linked to company performance are the two thirds of the STI based on achievement of Group performance KPI's and the long-term incentive plan as discussed above, which aligns the executive bonus to the EPS growth.

nib listed on 5 November 2007; Executive STI bonuses are paid on or before 15 September each year. Trend analysis requires at least two full financial years EPS data and subsequent payment of STI bonuses relating to those years. Therefore trend analysis can be tracked from the year ending 30 June 2011 onwards.

SHARES UNDER PERFORMANCE RIGHTS

Unissued ordinary shares of nib holdings limited under performance rights at the date of this report are as follows:

LTIP	Grant date	Date vested and exercisable	Expiry date	Exercise price	Value per performance right at grant date
FY08-FY10	24 June 2008	1 September 2010	31 December 2012	nil	$0.4903
FY08-FY10	30 June 2009	1 September 2010	31 December 2012	nil	$0.7687
FY09-FY11	30 June 2009	1 September 2011	31 December 2013	nil	$0.7687
FY10-FY12	28 January 2010	1 September 2012	31 December 2014	nil	$1.1279

Shares may be issued or acquired on-market at the election of the company.

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

BONUS SHARE RIGHTS

Unissued ordinary shares of nib holdings limited under bonus share rights at the date of this report are as follows:

Date right granted	Expiry date	Issue price of shares	Number under bonus share rights
2 November 2007	2 November 2010	nil	87,500

Shares may be issued or acquired on-market at the election of the company.

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

NON-AUDIT SERVICES

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

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services during the year are set out on page 15.

The Board of Directors has considered the position and, in accordance with advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out on page 15, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure that they did not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

NON-AUDIT SERVICES CONTINUED

During the year the following fees were paid or payable for services provided by the auditor of the Group, its related practices and non-related audit firms:

	Consolidated	
	2010 $	**2009 $**
1. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial report and other audit work under the *Corporations Act 2001*	312,700	295,000
Total remuneration for audit services	312,700	295,000
2. Non-audit services		
Audit-related services		
PricewaterhouseCoopers Australian firm:		
Audit of regulatory returns	31,800	30,000
Due diligence on potential mergers and acquistions	20,000	377,000
Total remuneration for audit-related services	51,800	407,000
Taxation services		
PricewaterhouseCoopers Australian firm:		
Due diligence on potential mergers and acquistions	83,500	100,500
Tax compliance services	70,800	88,400
Total remuneration for taxation services	154,300	188,900
Other services		
PricewaterhouseCoopers Australian firm:		
Review of regulatory returns	21,486	7,809
Total remuneration for other services	21,486	7,809
Total remuneration for non-audit services	227,586	603,709
Total remuneration for audit and non-audit services	540,286	898,709

INSURANCE OF OFFICERS

During the financial year, the Group paid a premium in respect of a contract insuring the Directors and officers of the Group against liability incurred as such a Director or officer, other than conduct involving willful breach of duty in relation to the Group, to the extent permitted by the Corporations Act. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 16.

CHIEF EXECUTIVE OFFICER/CHIEF FINANCIAL OFFICER DECLARATION

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

ROUNDING OF AMOUNTS

The company is of a kind referred to in ASIC Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' report. 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,

Keith Lynch
Director

Harold Bentley
Director

Newcastle, NSW
20 August 2010

AUDITOR'S INDEPENDENCE DECLARATION

year ended 30 June 2010

PRICEWATERHOUSECOOPERS

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Auditor's Independence Declaration

As lead auditor for the audit of nib holdings limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of nib holdings limited and the entities it controlled during the period.

John Campion
Partner
PricewaterhouseCoopers

Newcastle
20 August 2010

CORPORATE GOVERNANCE

year ended 30 June 2010

This report sets out the Group's annual statement on its corporate governance framework for the year ending 30 June 2010.

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**).

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 reviewed and published an updated Trading Policy, Whistleblowers Policy, Code of Conduct and Risk Policy. In addition, upon review and recommendations from the respective committees, the Board approved the following updated charters in December 2009: the Audit Committee charter, the Investment Committee charter, the Nomination & Remuneration Committee charter and the Risk and Reputation Committee charter.

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 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.

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 MD/CEO, the CFO 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; and
- 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 a monthly basis and whenever necessary between scheduled meetings. During the year the Board held 13 scheduled and five unscheduled Board meetings and an additional corporate strategy workshop in March 2010. The number of meetings attended by each Director is disclosed in the Directors' report on page 5.

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 MD. The responsibilities of the committees are set out in the Board Committees section of this governance statement.

The Board has delegated to the MD 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 MD has the authority to sub-delegate and is accountable to the Board for the authority that is delegated by the Board.

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT CONTINUED

Performance review of senior executives

In accordance 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 MD is evaluated and assessed by the Board, assisted by the Nomination and Remuneration Committee, most recently in August 2009.

The MD 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 five non-executive Directors, all of whom are deemed independent under the principles set out below, and one executive Director, being the MD 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 judgement 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 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 of any other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has a material contractual relationship with nib holdings limited or another Group member other than as a Director of nib holdings limited; and
- 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 judgement.

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 of the Board is independent of the role of the MD of nib holdings. 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;

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE CONTINUED

The Chairman CONTINUED

- 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 funds limited since 1982 and Chairman of nib health funds limited since 2001. He is also the Chairman of the Nomination and Remuneration Committee.

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 this page.

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 MD) 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 2010 AGM, Dr Annette Carruthers will offer herself for re-election as a Director.

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 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 2010. 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
Audit		✓	✓	✓ Chair	✓
Risk and Reputation		✓	✓ Chair		✓
Nomination and Remuneration	✓ Chair		✓		✓
Investment	✓	✓ Chair		✓	

BOARD COMMITTEES CONTINUED

Attendances of Directors at committee meetings are set out on page 5 of the Directors' 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 MD/CEO 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 MD/CEO and other senior executives are set out in the Remuneration report commencing on page 5.

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

- receives regular reports from management and external consultants, if required;
- assesses actual performance against agreed Key Performance Indicators for short-term and long-term incentives; and
- 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 December 2009. 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 four 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 MD/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

BOARD COMMITTEES CONTINUED

Audit Committee CONTINUED

- 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 behaviour 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 December 2009 an updated version of the Code of Conduct was approved by the Board. The updated Code of Conduct is available on the nib website.

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING CONTINUED

Code of Conduct CONTINUED

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;
- 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 2009, 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 (designated persons), further restrictions apply. Those restrictions limit the periods in which the Directors and designated persons can trade in the securities of nib holdings limited.

The periods in which the Directors and designated persons can trade (**trading window**) commence at any time a prospectus or similar disclosure document has been lodged with ASIC and is open for acceptances, 24 hours after the release of nib holdings limited's half yearly and annual results, and the close of nib holdings limited's AGM. The trading windows are normally for a period of 30 working days. The trading window can also be at such other times as the Board permits. Where exceptional circumstances exist permission can be obtained for Directors and designated persons to trade outside of the trading windows. In all circumstances any trading remains subject to legal obligations not to trade while in possession of inside information pursuant to the Corporations Act.

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 behaviour, 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.

In December 2009, an updated Whistleblower Policy was approved by the Board. The updated policy is available on the nib website.

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 20.

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.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORT CONTINUED

External auditors CONTINUED

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 15 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 16.

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 MD, CFO, nib holdings limited's Company Secretary, the Corporate Affairs & 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 which can be found at nib.com.au/shareholders. This website provides relevant information for shareholders in a dedicated place and in an easy to navigate manner. All information disclosed to the ASX is posted on 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 2009, 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 21) whose role includes reviewing and making recommendations to the Board on the Group's system of risk management.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK CONTINUED

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 management framework is based on the Australian/New Zealand Standard (AS/NZS 4360:2004) 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 a 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; and
- 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 in meeting its business objectives. During the year, management reports to the Risk and Reputation Committee and the Board as to 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 MD/CEO and CFO 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.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK CONTINUED

Internal audit CONTINUED

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 the 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 20.

The Nomination and Remuneration Committee reviews remuneration of senior executives and non-executive Directors every year. Every second year the committee commissions advice 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 from FY11 will be updated to incorporate the Australian Shareholders Association guidelines for long-term performance incentives. For further details on this see the Remuneration Report on pages 5 to 14.

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 pages 5 to 14.

INDEPENDENT AUDITOR'S REPORT

to the members of nib holdings limited

PRICEWATERHOUSECOOPERS

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Independent auditor's report to the members of nib holdings limited

Report on the financial report

We have audited the accompanying financial report of nib holdings limited (the company), which comprises the balance sheet as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the nib holdings limited group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the 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 controls relevant to the preparation and fair presentation of the 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. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

PRICEWATERHOUSECOOPERS

Independent auditor's report to the members of nib holdings limited (continued)

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

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of nib holdings limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 5 to 14 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of nib holdings limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

John Campion

John Campion
Partner

Newcastle
20 August 2010

DIRECTORS' DECLARATION

year ended 30 June 2010

In the Directors' opinion:

a. the financial statements and notes set out on pages 29 to 74 are in accordance with the *Corporations Act 2001*, including:
    i. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
    ii. giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the financial year ended on that date; and
b. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the Board,

Keith Lynch
Director

Harold Bentley
Director

Newcastle, NSW
20 August 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2010

	Notes	2010 $000	2009 $000
Premium revenue	5	901,370	829,486
Claims expense		(635,929)	(599,908)
RETF levy		(109,898)	(86,367)
State levies		(22,045)	(21,177)
Claims handling expenses	6	(14,407)	(18,384)
Net claims incurred		(782,279)	(725,836)
Acquisition costs	6	(32,512)	(26,642)
Other underwriting expenses	6	(39,514)	(36,847)
Underwriting expenses		(72,026)	(63,489)
Underwriting result		47,065	40,161
Investment income/(loss)	5	45,794	(797)
Other income	5	1,291	1,183
Investment expenses	6	(1,344)	(1,021)
Other expenses	6	(5,840)	(7,931)
Profit before income tax		86,966	31,595
Income tax expense	7	(25,441)	(7,809)
Profit from continuing operations		61,525	23,786
Other comprehensive income			
Revaluation of land and buildings		–	(3,156)
Available-for-sale financial assets		–	(88)
Income tax related to components of other comprehensive income		–	26
Other comprehensive income for the year, net of tax		–	(3,218)
Total comprehensive income for the year attributable to equity holders of nib holdings limited		61,525	20,568

		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company			
Basic earnings per share	41	12.4	4.7
Diluted earnings per share	41	12.4	4.7
Earnings per share for profit attributable to the ordinary equity holders of the company			
Basic earnings per share	41	12.4	4.7
Diluted earnings per share	41	12.4	4.7

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

as at 30 June 2010

	Notes	2010 $000	2009 $000
ASSETS			
Current assets			
Cash and cash equivalents	8	197,415	167,143
Receivables	9	31,812	32,402
Financial assets at fair value through profit or loss	10	264,408	230,276
		493,635	429,821
Assets classified as held for sale	11	30,000	350
Total current assets		523,635	430,171
Non-current assets			
Receivables	12	250	500
Available-for-sale financial assets	13	1,500	1,500
Deferred tax assets	14	9,127	19,687
Investment properties	15	–	30,000
Property, plant and equipment	16	41,033	43,752
Intangible assets	17	12,437	10,915
Total non-current assets		64,347	106,354
Total assets		587,982	536,525
LIABILITIES			
Current liabilities			
Payables	18	68,543	58,758
Borrowings	19	3,593	409
Outstanding claims liability	20	62,119	56,231
Unearned premium liability	21	54,443	49,888
Current tax liabilities	23	4,325	5,973
Provision for employee entitlements	24	2,690	2,555
Total current liabilities		195,713	173,814
Non-current liabilities			
Provision for employee entitlements	24	868	828
Total non-current liabilities		868	828
Total liabilities		196,581	174,642
Net assets		391,401	361,883
EQUITY			
Share capital	26	42,437	42,528
Retained profits	27	347,358	317,897
Reserves	28	1,606	1,458
Total equity		391,401	361,883

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2010

	Notes	Contributed Equity $000	Reserves $000	Retained Profits $000	Total Equity $000
Balance at 1 July 2008		44,574	10,702	329,565	384,841
Profit for the year	27	–	–	23,786	23,786
Revaluation of land and buildings	28(b)	–	(3,156)	–	(3,156)
Changes in fair value of available-for-sale financial assets, net of tax	28(b)	–	(62)	–	(62)
Transfer to retained profits on sale of property	27,28(b)	–	(6,210)	6,210	–
Total comprehensive income for the year		–	(9,428)	29,996	20,568
Transactions with owners in their capacity as owners:					
Share buy-back		(2,046)	–	(15,801)	(17,847)
Employee performance rights – value of employee services	28	–	156	–	156
Employee bonus share rights – value of employee services	28	–	28	–	28
Dividends paid	29	–	–	(25,863)	(25,863)
		(2,046)	184	(41,664)	(43,526)
Balance at 30 June 2009		**42,528**	**1,458**	**317,897**	**361,883**
Balance at 1 July 2009		42,528	1,458	317,897	361,883
Profit for the year	27	–	–	61,525	61,525
Transfer to retained profits on sale of property	27,28(b)	–	(379)	379	–
Total comprehensive income for the year		–	(379)	61,904	61,525
Transactions with owners in their capacity as owners:					
Share buy-back	26(d)	(91)	–	(702)	(793)
Employee performance rights – value of employee services	28	–	504	–	504
Employee bonus share rights – value of employee services	28	–	23	–	23
Dividends paid	29	–	–	(31,741)	(31,741)
		(91)	527	(32,443)	(32,007)
Balance at 30 June 2010		42,437	1,606	347,358	391,401

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2010

	Notes	2010 $000	2009 $000
Cash flows from operating activities			
Receipts from policyholders and customers (inclusive of goods and services tax)		912,444	841,033
Payments to policyholders, suppliers and employees (inclusive of goods and services tax)		(844,003)	(799,426)
		68,441	41,607
Dividends received		20	18
Interest received		8,945	8,948
Distributions received		4,817	7,791
Interest (paid)/refunded		1	(4)
Income taxes paid		(15,969)	(14,132)
Net cash inflow (outflow) from operating activities	33(b)	66,255	44,228
Cash flows from investing activities			
Proceeds from disposal of other financial assets at fair value through the profit and loss		8	9,716
Payments for other financial assets at fair value through the profit and loss		(4,729)	(16,969)
Payments for property, plant and equipment and intangibles		(4,770)	(17,589)
Proceeds from sale of property, plant and equipment and intangibles		340	9,933
Proceeds from sale of subsidiary, net of cash disposed		2,265	3,618
Proceeds from sale of Eye Care and Dental businesses		250	250
Payment for acquisition of subsidiary		(79)	-
Net cash (outflow) inflow from investing activities		(6,715)	(11,041)
Cash flows from financing activities			
Payments for share buy-back	26	(793)	(17,847)
Dividends paid to the company's shareholders	29	(31,741)	(25,863)
Proceeds from finance lease		82	123
Net cash inflow (outflow) from financing activities		(32,452)	(43,587)
Net increase (decrease) in cash and cash equivalents		27,088	(10,400)
Cash and cash equivalents at beginning of the year		166,734	177,134
Cash and cash equivalents at end of the year	33(a)	193,822	166,734

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of nib holdings limited and its subsidiaries.

a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

The consolidated financial statements comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

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

Critical accounting estimates

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

Functional and presentation currency

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

Financial statement presentation

The Group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

Comparative information

When the presentation or classification of items in the financial report is amended, comparative amounts have been reclassified.

The following comparative information has been reclassified for FY09:

- As a result of the reclassification of movements in the outstanding claims liability relating to the RETF, consolidated claims expense has increased and consolidated RETF Levy has decreased by $0.611 million. There is no effect on net claims incurred;
- As a result of understatement of investment management fees, consolidated investment income/(loss) and consolidated investment expenses have both increased by $0.370 million. There is no effect on profit before income tax; and
- As a result of a reallocation of cash flows from policyholders, consolidated receipts from policyholders and customers and consolidated payments to policyholders, suppliers and employees have both increased by $2.871 million. There is no effect on net cash inflow from operating activities.

b) Principles of consolidation

i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of nib holdings limited ("parent entity") as at 30 June 2010 and the results of all subsidiaries for the year then ended. nib holdings limited and its subsidiaries together are referred to in this financial report as the Group.

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

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to Note 1(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 are changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of nib holdings limited.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the MD/CEO.

d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into account the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

i) Premium revenue

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

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

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

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

ii) Investment income

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

Dividends declared from a subsidiary are recognised by the investor as income when the right to receive payment is established.

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

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 sum of the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability, less related intangible assets and related deferred acquisition costs, then the unearned premium is deemed to be deficient. 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).

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 Group, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

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

g) Acquisition costs

Acquisition costs incurred in obtaining private health insurance contracts are expensed as incurred. Acquisition costs are not deferred because the life of the policy is short in nature.

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 applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

h) Income tax CONTINUED

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.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

i) Investment allowance

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

ii) Tax consolidation legislation

nib holdings limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 October 2007. The head entity, nib holdings limited, and the controlled entities in the tax consolidated Group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated Group continues to be a 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 7. 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 the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases 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 not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is the lessor is recognised in the profit or loss on a straight-line basis over the lease term.

j) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination, are with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

j) Business combinations CONTINUED

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

k) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life and are not subject to amortisation, are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

l) Assets backing private health insurance liabilities

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

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

i) Investment and other financial assets

The Group classifies its financial assets into financial assets at fair value through profit or loss and available for sale financial assets, (refer to Note 1(y)).

a) Financial assets at fair value through profit or loss

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

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

1. Cash and cash equivalents, and bank overdrafts are carried at face value of the amounts deposited or drawn. The carrying amounts of cash assets and bank overdrafts approximate their fair value. For the purposes of the cash flow statement, cash includes cash on hand, deposits held at call with financial institutions, net of bank overdrafts; and
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.

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.

Investment and other financial assets of nib holdings limited are also designated as at fair value through the profit or loss as they are managed and their performance is evaluated on a fair value basis, in accordance with a documented investment policy, and information is provided internally on that basis to the entity's key management personnel.

ii) Investment properties

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

l) Assets backing private health insurance liabilities CONTINUED

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

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

Changes in fair value are recognised in the profit or loss as part of investment income.

iii) Amounts due from policyholders

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

A provision for impairment of receivables is established when there is objective evidence that 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 profit or loss.

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, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

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.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly.

An allowance account (provision for impairment) is used where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

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

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment 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 the Group and the cost of the item can be measured reliably. The carrying amount of a replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Increases in the carrying amounts arising on the revaluation of land and buildings are credited, net of tax, to other reserves in the shareholders' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first charged against the revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged to profit or loss.

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

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

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

q) Intangible assets

i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, and is carried at cost less accumulated impairment losses.

ii) Software

Costs incurred in developing products or systems and costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software. Costs capitalised include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis over periods generally ranging from two and a half years to five years.

r) Payables

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

s) Employee benefits

i) Wages and salaries, annual leave and sick leave

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

ii) 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 at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit; or

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

s) Employee benefits CONTINUED

- the amounts to be paid are determined before the time of completion of the financial report; or
- past practice gives clear evidence of the amount of the obligation.

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

iv) Retirement benefit obligations

Directors' retirement benefits are provided for in the financial statements. Non-executive Directors of nib health funds limited employed before 24 November 2005 are entitled to a lump sum 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 (paid by either nib holdings limited or nib health fund limited) multiplied by a factor based on years of service. The factors based on years of service were frozen at 24 November 2005. The factors for the Directors that remain in office as at the date of this report are 5.00 for K.Lynch and 0.71 for A.Carruthers.

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.

vi) Share-based payments

Share-based compensation benefits are provided to employees via the nib holdings limited Long-Term Incentive Plan, the employee share acquisition (tax exempt) plan and the short-term performance incentive. Information relating to these plans is set out in Note 39.

The fair value of performance rights granted under the nib holdings Long-Term Incentive Plan is recognised as an employee benefit expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the performance rights granted, which includes any market performance conditions but excludes the impact of any service and non-market performance vesting conditions and the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of performance rights that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the Group revises its estimate of the number of performance rights that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Under the employee share acquisition (tax exempt) plan and the short-term performance incentive, shares are acquired on-market and expensed.

t) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

If the entity reacquires its own equity instruments, for example as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental cost (net of income taxes) is recognised directly in equity.

u) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

v) Earnings per share

i) Basic earnings per share

Basic earnings per share is calculated by dividing:

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

ii) Diluted earnings per share

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

w) Goods and Services Tax (GST)

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

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

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

x) Reverse acquisition accounting policy

Post demutualisation, the formation of the Group has been accounted for as a business combination. AASB 3 *Business Combinations* deals with the bringing together of separate businesses into one reporting entity. When a new entity (legal entity) is formed to effect a business combination, an entity that existed before the combination must be identified as the acquirer. This is commonly referred to as a reverse acquisition.

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

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

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

y) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated as available-for-sale if they do not have fixed maturities and management intends to hold them for the medium to long term.

Initial recognition is at fair value, being acquisition cost, in the balance sheet and subsequent measurement is at fair value with any resultant fair value gains or losses recognised in other comprehensive income. When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss.

z) Parent entity financial information

The financial information for the parent entity, nib holdings limited, disclosed in Note 42 has been prepared on the same basis as the consolidated financial statements, except as set out below.

i) Investments in subsidiaries, associates and joint venture entities

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

ii) Tax consolidation legislation

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

z) Parent entity financial information CONTINUED

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate nib holdings limited for any current tax payable assumed and are compensated by nib holdings limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to nib holdings limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

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

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

aa) Rounding of amounts

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

bb) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

i) AASB-9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess its full impact. However, initial indications are that it may affect the Group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. The Group has not yet decided when to adopt AASB 9.

The following new standards and amendments to standards are not expected to have a material impact on the Group's financial statements.

Standard	Title	Operative Date
2009-8	Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions [AASB 2]	1 January 2010
2009-10	Amendments to Australian Accounting Standard – Classification of Rights Issues [AASB 132]	1 February 2010
2009-12	Amendments to Australian Accounting Standards and revised AASB 124 Related Party Disclosures	1 January 2011
2009-13	Amendments to Australian Accounting Standards arising from Interpretation 19 and AASB Interpretation 19 – Extinguishing financial liabilities with equity instruments	1 July 2010
2009-14	Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	1 January 2011
2010-2	Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements	1 July 2013
AASB 1053	Application of Tiers of Australian Accounting Standards	1 July 2013
2010-3	Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 July 2010
2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 January 2011

NOTE 2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

The ultimate liability arising from claims made under private health insurance contracts

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

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

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

The risk margin is based on an analysis of the past experience of the Group. This analysis examines the volatility of past payments that is not explained by the model adopted to determine the central estimate. This past volatility is assumed to be indicative of the future volatility. The central estimates are calculated gross of any risk equalisation recoveries. A separate estimate is made of the amounts that will be recoverable from or payable to the RETF based upon the gross provision.

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

NOTE 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 General Treatment. This analysis is supplemented by more granular analysis within classes as appropriate.

In calculating the estimated cost of unpaid claims, two methods are used. For service months April 2010 and earlier for hospital and medical and for all months for general treatment, a chain ladder method is used; this assumes that the development pattern of the current claims will be consistent with historical experience. For hospital and medical, for the service months of May 2010 and June 2010 the paid Bornhuetter-Ferguson method is used, which progressively blends payment experience and prior forecasts of incurred costs. This represents a change from the prior year where the eligibility check method was used for hospital and medical claims for last three service months of the year. This change was made as the eligibility check method was determined to be a less reliable estimation tool during the financial year ended 30 June 2010.

Actuarial assumptions

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

	30/06/10			30/06/09		
	Hospital	Medical	Ancillary	Hospital	Medical	Ancillary
Assumed proportion paid to date	91.7%	88.1%	95.6%	91.5%	89.1%	95.4%
Expense rate	2.5%	2.5%	2.5%	3.0%	3.0%	3.0%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk equalisation rate	28.5%	28.5%	0.0%	23.4%	23.4%	0.0%
Risk margin	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

The risk margin of 5.0% (June 2009: 5.0%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% (June 2009: 95%).

NOTE 3. ACTUARIAL ASSUMPTIONS AND METHODS CONTINUED

Process used to determine assumptions

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

i) Chain Ladder Development Factors

Chain Ladder Development Factors were selected based on observations of historical claim payment experience. Particular attention was given to the development of the most recent 12 months.

ii) Bornhuetter-Ferguson Unpaid Factors

Bornhuetter-Ferguson Unpaid Factors were selected based on historical patterns of payment (by development) to ultimate incurred claims. That is, the proportion of ultimate to be paid by development month, is selected based on observations from the historical development. This “unpaid proportion” is then multiplied by a prior forecast of incurred claims for each service month to determine the outstanding claims estimate.

iii) Expense rate

Claims handling expenses were calculated by reference to past experience of total claims handling costs as a percentage of total past payments. The expense allocation modelling has been refined in the current financial year, resulting in a 0.5% decrease in claims handling expenses.

iv) Discount rate

As claims for health funds are generally settled within one year, no discounting of claims is usually applied as the difference between the undiscounted value of claims payments and the present value of claims payments is not likely to be material.

v) Risk equalisation allowance

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

vi) Risk margin

The risk margin has been based on an analysis of the past experience of the Group. This analysis examined the volatility of past payments that has not been explained by the model adopted to determine the central estimate. This past volatility has been assumed to be indicative of the future volatility and has been set at a level estimated to equate to a probability of adequacy of 95% (June 2009: 95%).

Sensitivity analysis – insurance contracts

i) Summary

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

Variable	Impact of movement in variable
Chain Ladder Development Factors	An increase or decrease in the chain ladder factors would lead to a higher or lower projection of the ultimate liability and a corresponding increase or decrease on claims expense respectively.
Bornhuetter-Ferguson Unpaid Factors	An increase or decrease in the level of unpaid factors would lead to a higher or lower projection of the ultimate liability and a corresponding increase or decrease on claims expense respectively.
Expense rate	An estimate for the internal costs of handling claims is included in the outstanding claims liability. An increase or decrease in the expense rate assumption would have a corresponding impact on claims expense.
Risk equalisation	An estimate for the risk equalisation cost is included in the outstanding claims liability. An increase or decrease in the risk equalisation allowance would have a corresponding impact on RETF levy.
Risk margin	An estimate of the amount of uncertainty in the determination of the central estimate. An increase or decrease in the risk margin would have a corresponding impact on claims expense.

NOTE 3. ACTUARIAL ASSUMPTIONS AND METHODS CONTINUED

Sensitivity analysis – insurance contracts CONTINUED

ii) Impact of key variables

		Profit		Equity	
			2010 $000		2010 $000
Recognised amounts in the financial statements			61,525		391,401
Variable	**Movement in variable**	**Adjustments**	**Adjusted amounts**	**Adjustments**	**Adjusted amounts**
Chain Ladder Development Factors	+0.5%	(2,732)	58,793	(2,732)	388,669
	-0.5%	2,978	64,503	2,978	394,379
Bornhuetter-Ferguson Unpaid Factors	+0.5%	(2,094)	59,431	(2,094)	389,307
	-0.5%	2,089	63,614	2,089	393,490
Expense rate	+1.0%	(495)	61,030	(495)	390,906
	-1.0%	495	62,020	495	391,896
Risk equalisation allowance	+2.5%	(1,002)	60,523	(1,002)	390,399
	-2.5%	1,002	62,527	1,002	392,403
Risk margin	+1.0%	(592)	60,933	(592)	390,809
	-1.0%	592	62,117	592	391,993

NOTE 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 sovereign risk, operational risk, regulatory and compliance risk. Notes on the Group's policies and procedures in respect of managing the financial risks are set out in this note below.

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

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

The Group's risk management framework manages risks through:

- the establishment of the Audit Committee and the Risk and Reputation Committee to assist the Board in the execution of its responsibilities:
  - the Audit Committee's responsibilities include:
    - reviewing the annual reports and other financial information distributed externally;
    - recommending the appointment and remuneration of the external auditor;
    - reviewing the performance and independence of the external auditor; and
    - reviewing the Group's systems and procedures for compliance with legal and regulatory requirements other than those monitored by the Risk and Reputation Committee.
  - the Risk and Reputation Committee's responsibilities include:
    - assisting the Board to review the effectiveness of the Group's system of internal control;
    - recommending the appointment and remuneration of the internal auditor;
    - reviewing the performance and independence of the internal auditor;
    - monitoring the risk management system; and
    - reviewing the Group's systems and procedures for compliance with legal and regulatory requirements other than those monitored by the Audit Committee.
- the Group's internal policies and procedures designed to mitigate such risks:
  - the maintenance and use of management information systems which provide up to date, reliable data on the risks which the business is exposed to at any point in time;
  - actuarial models, using information from the management information systems, are used to calculate premiums and monitor claims patterns. Past experience and statistical methods are used as part of the process;

NOTE 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

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

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) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, financial assets and deposits with banks and financial institutions, as well as credit exposures to policyholders, Medicare Australia (Health Insurance Contribution (HIC) rebate) and entities that have purchased discontinued operations under deferred settlement terms. nib only deals with major banks in Australia which are independently rated with a minimum rating of 'A-1'. nib receives advice from its asset consultant, Mercer Investment Consulting, who provide a rating of investment managers to nib as part of their advice. Credit risk for premium receivables are minimal due to the diversification of policyholders. The HIC rebate receivable is due from a government organisation under legislation. Credit risk for deferred settlement is minimised, in part, by obtaining bank guarantees from the purchaser. The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date is the carrying amount, net of any provisions for impairment loss, as disclosed in the balance sheet and notes to the financial statements. The Group does not have any material credit risk to any single debtor or group of debtors under financial instruments entered into.

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

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

c) Credit risk CONTINUED

	2010 $000	2009 $000
Other Receivables		
*Counterparties without external credit rating**		
Group 1	–	–
Group 2	1,852	4,561
Group 3	–	–
Total Other Receivables	1,852	4,561

* Group 1 – new debtors (less than 6 months).
Group 2 – existing debtors (more than 6 months) with no defaults in the past.
Group 3 – existing debtors (more than 6 months) with some defaults in the past. All defaults were fully recovered.

	2010 $000	2009 $000
Cash at Bank and short-term bank deposits		
A-1	197,415	167,143
	197,415	167,143

	2010 $000	2009 $000
Financial assets at fair value through profit or loss		
Interest-bearing securities		
AAA	113,757	93,300
AA	19,461	29,718
A	21,821	20,479
BBB	11,800	11,344
BB	–	–
B	–	–
Sub Inv Grade *	16,277	5,321
Unclassified	–	37
	183,116	160,199

* Sub investment grade assets represent underlying assets in the overseas fixed interest portfolio. The increase in sub investment assets from 2009 to 2010 is mainly due to the overseas fixed interest portfolio taking a position in sub investment grade assets in May 2010. All units in the overseas fixed interest portfolio have subsequent to 30 June 2010 been redeemed at an amount higher than both the 30 June 2010 carrying value and the carrying value of the units prior to the acquisition of these sub investment grade assets.

d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and holds a high percentage of highly liquid investments.

Borrowings in the balance sheet refer to the bank overdraft. The bank overdraft comprises the closing positive balances of the bank account, adjusted for unpresented cheques and outstanding deposits. There are no overdraft facilities.

Maturities of financial liabilities

The tables on page 47 analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

d) Liquidity risk CONTINUED

Group at 30 June 2010	≤ 1 month $000	1 – 3 months $000	3 – 12 months $000	1 – 5 years $000	>5 years $000	Total Contractual Cashflows $000	Carrying amount $000
Financial Liabilities							
Trade creditors	4,004	–	–	–	–	4,004	4,004
Other payables	29,825	1,666	–	–	–	31,491	31,491
Borrowings	3,593	–	–	–	–	3,593	3,593
	37,422	1,666	–	–	–	39,088	39,088

Group at 30 June 2009	≤ 1 month $000	1 – 3 months $000	3 – 12 months $000	1 – 5 years $000	>5 years $000	Total Contractual Cashflows $000	Carrying amount $000
Financial Liabilities							
Trade creditors	3,496	–	–	–	–	3,496	3,496
Other payables	28,235	1,708	–	–	–	29,943	29,943
Borrowings	409	–	–	–	–	409	409
	32,140	1,708	–	–	–	33,848	33,848

e) 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 either available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk.

To manage its price risk the Group has adopted an investment strategy which delivers a diversified portfolio with a heavier weighting to defensive assets versus growth assets.

Post-tax profit for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as available-for-sale.

Refer to the table on page 48 that summarises the sensitivity of the Group's financial assets and financial liabilities to price risk and interest rate risk.

ii) Fair value interest rate risk

The Group does not have long-term borrowings. The Group's interest rate risks arise from receivables, financial assets at fair value through profit and loss and cash and cash equivalents. Receivables arising from the deferred settlement of discontinued operations sold are subject to 90-day bank bill rates. Lease receivables are subject to a fixed rate specified in the lease contract. All other receivables are non-interest bearing. There is an interest-bearing component of financial assets at fair value through profit and loss. nib receives advice from its asset consultant, Mercer Investment Consulting, who provide a rating of investment managers to nib as part of their advice. The Group has adopted an investment strategy that delivers a diversified portfolio with a heavier weighting to defensive assets versus growth assets. Defensive assets consist of Australian and overseas fixed interest investments and cash and cash equivalents.

Summarised sensitivity analysis

The table on page 48 summarises the sensitivity of the Group's financial assets to interest rate risk and other price risk.

Methods and assumptions used in preparing sensitivity analysis:

The post-tax effect on profit and equity of movements in both interest rate and price has been calculated using 'reasonably possible' changes in the risk variables, based on recent interest rate and market movements.

An interest rate change of 100 basis points will directly affect interest received on cash and cash equivalents and other receivables and will directly affect the unit price of cash enhanced products as these products are primarily floating rate accounts. An interest rate change of 100 basis points will inversely affect the unit price of fixed interest investments. This change has been calculated by multiplying the average duration of underlying investments in each portfolio by the interest rate change. All other investments are not directly affected by interest rate changes but would be revalued through profit or loss as their unit price changes.

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

e) Market risk CONTINUED

		Interest Rate Risk				Other Price Risk			
Group		-100bps		+100bps		-10% unit price		+10% unit price	
30 June 2010	Carrying amount $000	Profit $000	Equity $000	Profit $000	Equity $000	Profit $000	Equity $000	Profit $000	Equity $000
Financial assets									
Cash and cash equivalents	197,415	(1,382)	(1,382)	1,382	1,382	–	–	–	–
Other receivables	1,852	(4)	(4)	4	4	–	–	–	–
Financial assets at fair value through profit or loss	264,408	5,042	5,042	(5,042)	(5,042)	(5,690)	(5,690)	5,690	5,690
Unlisted equity securities	1,500	–	–	–	–	(105)	(105)	–	105
Total Increase/(decrease)		3,656	3,656	(3,656)	(3,656)	(5,795)	(5,795)	5,690	5,795

		Interest Rate Risk				Other Price Risk			
Group		-100bps		+100bps		-10% unit price		+10% unit price	
30 June 2009	Carrying amount $000	Profit $000	Equity $000	Profit $000	Equity $000	Profit $000	Equity $000	Profit $000	Equity $000
Financial assets									
Cash and cash equivalents	167,143	(1,170)	(1,170)	1,170	1,170	–	–	–	–
Other receivables	4,560	(21)	(21)	21	21	–	–	–	–
Financial assets at fair value through profit or loss	230,276	4,545	4,545	(4,545)	(4,545)	(4,905)	(4,905)	4,905	4,905
Unlisted equity securities	1,500	–	–	–	–	(167)	(105)	–	105
Total Increase/(decrease)		3,354	3,354	(3,354)	(3,354)	(5,072)	(5,010)	4,905	5,010

f) Fair value measurement

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

As of 1 July 2009, the Group has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

a. quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
b. inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
c. inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following tables present the Group's assets and liabilities measured and recognised at fair value at 30 June 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

Group at 30 June 2010	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Assets				
Financial assets at fair value through profit or loss				
Securities	263,470	938	–	264,408
Available-for-sale financial assets				
Unlisted equity securities	–	1,500	–	1,500
Total assets	263,470	2,438	–	265,908

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

f) Fair value measurement CONTINUED

The fair value of financial instruments traded in active markets (such as financial assets at fair value through profit and loss) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in active markets (for example available-for-sale financial assets) is determined using valuation techniques. The Group use a variety of methods and makes assumptions that are based on market conditions existing at each balance date. These instruments are included in level 2.

The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values due to their short-term nature.

NOTE 5. REVENUE AND OTHER INCOME

	2010 $000	2009 $000
Premium revenue	901,370	829,486
Investment income		
Rent received	1,819	1,725
Interest	8,642	8,905
Net realised gain/(loss) on financial assets at fair value through profit or loss	12,089	(6,605)
Net unrealised gain/(loss) on financial assets at fair value through profit or loss	23,224	(4,840)
Dividends	20	18
	45,794	(797)
Other income		
Sundry income	1,291	1,183
	1,291	1,183

NOTE 6. EXPENSES

	2010 $000	2009 $000
Expenses by function		
Claims handling expenses	14,407	18,384
Investment expenses	1,344	1,021
Acquisition costs	32,512	26,642
Other underwriting expenses	39,514	36,847
Other expenses	5,840	7,931
Total expenses (excluding direct claims expenses)	93,617	90,825

The expense allocation modelling has been refined in the current financial year. If the 2009 expense allocation was recalculated using the same assumptions, it would result in a reduction of $5.283 million in claims handling expenses and a corresponding increase in other underwriting expenses.

NOTE 6. EXPENSES CONTINUED

	2010 $000	2009 $000
Expenses by nature		
Employee costs	37,782	36,372
Depreciation and amortisation	4,751	4,097
Net loss on disposal of property, plant and equipment	225	1,100
Impairment of property, plant and equipment	1,000	1,689
Operating lease rental expenses	2,694	2,659
Marketing expenses	19,371	17,192
Consultancy fees	2,828	4,382
Legal expenses	726	1,020
Share registry expenses	2,475	3,517
Other	21,765	18,797
Total expenses (excluding direct claims expenses)	93,617	90,825

NOTE 7. INCOME TAX

a) Income tax expense/(benefit)

	2010 $000	2009 $000
Recognised in the income statement		
Current tax expense/(benefit)	14,826	9,115
Deferred tax expense/(benefit)	10,560	(1,374)
Under (over) provided in prior years	55	68
	25,441	7,809
Income tax expense is attributable to:		
Profit from continuing operations	25,441	7,809
Aggregate income tax expense/(benefit)	25,441	7,809
Deferred income tax (revenue) expense included in income tax expense comprises:		
Decrease (increase) in deferred tax assets (Note 14)	11,072	(1,668)
(Decrease) increase in deferred tax liabilities (Note 25)	(512)	294
	10,560	(1,374)

NOTE 7. INCOME TAX CONTINUED

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

	2010 $000	2009 $000
Profit from continuing operations before income tax expense	86,966	31,595
	86,966	31,595
Tax at the Australian tax rate of 30% (2009: 30%)	26,091	9,478
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Net exempt income	–	(18)
Assessable income	3,174	37
Non-assessable income	(3,201)	–
Other deductible expenses	(497)	(441)
Other non-deductible expenses	350	20
Adjustments for current tax of prior periods	55	68
Input tax credits and foreign tax credits	(531)	(381)
Recognise deferred tax asset on revaluation of land & buildings	–	(954)
Income tax expense	25,441	7,809

c) Tax expense (income) relating to items of other comprehensive income

	2010 $000	2009 $000
Available-for-sale financial assets (Note 28(b))	–	(26)
	–	(26)

d) 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).

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.

NOTE 8. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	2010 $000	2009 $000
Cash at bank and cash on hand	21,415	59,048
Short-term deposits and deposits at call	176,000	108,095
	197,415	167,143

a) Risk exposure

The Group's exposure to interest rate risk is discussed in Note 4. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

NOTE 9. CURRENT ASSETS – RECEIVABLES

	2010 $000	2009 $000
Premium receivable	4,579	4,491
Health Insurance Contribution (HIC) rebate receivable	24,423	21,965
Other receivables	1,602	4,061
Provision for impairment loss	(241)	(250)
Lease receivables	–	82
Prepayments	1,449	1,497
Income tax receivable	–	556
	31,812	32,402

a) Impaired receivables

As at 30 June 2010, current receivables of the Group with a nominal value of $0.241 million (2009: $0.250 million) were impaired. The individually impaired receivables relate to premium receivables.

The ageing of these receivables is as follows:

	2010 $000	2009 $000
1 to 3 months	241	250
3 to 6 months	–	–
Over 6 months	–	–
	241	250

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

	2010 $000	2009 $000
At 1 July	250	344
Provision for impairment recognised during the year	–	–
Receivables written off during the year as uncollectible	–	(28)
Unused amount reversed	(9)	(66)
	241	250

Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

b) Past due but not impaired

As of 30 June 2010, no receivables (2009: $0.031 million) were past due but not impaired.

c) Interest rate risk

Information about the Group's exposure to interest rate risk in relation to other receivables is provided in Note 4.

d) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to Note 4 for more information on the risk management policy of the Group and the credit quality of the Group's receivables.

NOTE 10. CURRENT ASSETS – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets are designated at fair value through profit or loss and include the following:

	2010 $000	2009 $000
Equity securities	81,292	70,077
Interest-bearing securities	183,116	160,199
	264,408	230,276

Changes in fair values of financial assets at fair value through profit or loss are recorded in investment income in profit or loss (Note 5).

a) Risk exposure

Information about the Group's exposure to price risk and interest rate risk is provided in Note 4.

NOTE 11. CURRENT ASSETS – ASSETS CLASSIFIED AS HELD FOR SALE

	2010 $000	2009 $000
Investment properties	30,000	–
Land and buildings	–	350
	30,000	350

The Group entered into a contract for sale of the former retail centre at Cessnock in June 2009. The property was sold in July 2009.

The Group completed a share sale agreement on 31 May 2007 to sell Newcastle Private Hospital pty limited. 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. Healthscope exercised the option in May 2010. The sale was completed on 9 July 2010.

NOTE 12. NON-CURRENT ASSETS – RECEIVABLES

	2010 $000	2009 $000
Other receivables	250	500
	250	500

a) Impaired receivables and receivables past due

None of the non-current receivables are impaired or past due but not impaired.

b) Fair values

The fair values and carrying values of non-current receivables are as follows:

	2010		2009	
Group	Carrying amount $000	Fair value $000	Carrying amount $000	Fair value $000
Other receivables	250	250	500	500
	250	250	500	500

NOTE 12. NON-CURRENT ASSETS – RECEIVABLES CONTINUED

c) Risk exposure

Information about the Group's exposure to credit risk is provided in Note 4. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned on page 53. The Group holds a $0.75 million bank guarantee for the deferred settlement of the sale of the Eye Care and Dental businesses.

NOTE 13. NON-CURRENT ASSETS – AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	2010 $000	2009 $000
Unlisted equity securities	1,500	1,500
	1,500	1,500

a) Unlisted securities

Unlisted securities are traded in inactive markets. Their fair value is determined based on the price of shares traded during the financial year ended 30 June 2010.

b) Impairment and risk exposure

None of the financial assets are either past due or impaired.

All available-for-sale assets are denominated in Australian currency. For an analysis of the sensitivity of available-for-sale financial assets to price risk refer to Note 4.

NOTE 14. NON-CURRENT ASSETS – DEFERRED TAX ASSETS

	2010 $000	2009 $000
The balance comprises temporary differences attributable to:		
Doubtful debts	72	75
Depreciation	1,120	411
Share issue expenses	1,179	1,684
Asset revaluation	825	1,483
Employee benefits	1,337	1,154
Provisions	582	35
Outstanding claims	371	–
Demutualisation costs	2,306	3,330
Unrealised losses on investments	1,363	12,055
Total deferred tax assets	9,155	20,227
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 25)	(28)	(540)
Net deferred tax assets	9,127	19,687
Deferred tax assets to be recovered within 12 months	5,671	14,452
Deferred tax assets to be recovered after more than 12 months	3,484	5,775
	9,155	20,227

NOTE 14. NON-CURRENT ASSETS – DEFERRED TAX ASSETS CONTINUED

Movements	Depreciation $000	Share issue expenses $000	Employee benefits $000	Outstanding claims $000	Demutual-isation costs $000	Managed funds capital movement $000	Other $000	Total $000
At 1 July 2008	220	2,189	582	548	4,355	10,602	63	18,559
(Charged)/credited to profit or loss	191	(505)	572	(548)	(1,025)	1,453	1,530	1,668
(Charged)/credited directly to equity	–	–	–	–	–	–	–	–
At 30 June 2009	411	1,684	1,154	–	3,330	12,055	1,593	20,227
At 1 July 2009	411	1,684	1,154	–	3,330	12,055	1,593	20,227
(Charged)/credited to profit or loss	709	(505)	183	371	(1,024)	(10,692)	(114)	(11,072)
(Charged)/credited directly to equity	–	–	–	–	–	–	–	–
At 30 June 2010	1,120	1,179	1,337	371	2,306	1,363	1,479	9,155

NOTE 15. NON-CURRENT ASSETS – INVESTMENT PROPERTIES

	2010 $000	2009 $000
At fair value		
Opening balance at 1 July	30,000	30,000
Classified as held for sale or disposal	(30,000)	–
Closing balance at 30 June	–	30,000

a) Amounts recognised in profit and loss for investment properties

	2010 $000	2009 $000
Rental income	1,819	1,725
Direct operating expenses from property that generated rental income	(197)	(73)
	1,622	1,652

Valuation basis

The basis of the valuation of investment properties is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. The valuation above represents the agreed sale price of the land and buildings under the option contained in the lease agreement between nib health funds limited and Healthscope Limited (refer to Note 11).

b) Leasing arrangements

On completion of the Share Sale Agreement on 31 May 2007, 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. Healthscope exercised the option in May 2010. The sale was completed on 9 July 2010.

c) Contractual obligations

There are no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance or enhancements.

NOTE 16. NON-CURRENT ASSETS – PROPERTY, PLANT & EQUIPMENT

	Land & Buildings $000	Plant & Equipment $000	Leasehold Improvements $000	Total $000
Fair value/Cost				
Balance at 1 July 2008	35,493	9,663	3,395	48,551
Additions	11,098	3,058	619	14,775
Assets classified as held for sale and other disposals	(1,745)	(4,810)	(262)	(6,817)
Revaluations	(4,886)	–	–	(4,886)
Balance at 30 June 2009	39,960	7,911	3,752	51,623
Balance at 1 July 2009	39,960	7,911	3,752	51,623
Additions	190	880	326	1,396
Assets classified as held for sale and other disposals	–	(1,112)	(860)	(1,972)
Revaluations	(2,677)	–	–	(2,677)
Balance at 30 June 2010	37,473	7,679	3,218	48,370
Depreciation and impairment losses				
Balance at 1 July 2008	(37)	(7,353)	(2,160)	(9,550)
Depreciation charge for the year	(936)	(927)	(482)	(2,345)
Assets classified as held for sale and other disposals	18	3,786	205	4,009
Revaluations	15	–	–	15
Balance at 30 June 2009	(940)	(4,494)	(2,437)	(7,871)
Balance at 1 July 2009	(940)	(4,494)	(2,437)	(7,871)
Depreciation charge for the year	(1,461)	(1,031)	(408)	(2,900)
Assets classified as held for sale and other disposals	–	1,090	667	1,757
Revaluations	1,677	–	–	1,677
Balance at 30 June 2010	(724)	(4,435)	(2,178)	(7,337)
Carrying amounts				
At 1 July 2008	35,456	2,310	1,235	39,001
At 30 June 2009	39,020	3,417	1,315	43,752
At 1 July 2009	39,020	3,417	1,315	43,752
At 30 June 2010	36,749	3,244	1,040	41,033

a) Valuations of land and buildings

The valuation basis of land and buildings is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition. Freehold land and buildings at 22 Honeysuckle Drive was valued by a member of the Australian Property Institute as at 31 December 2009. Other freehold land and buildings were independently valued by a member of the Australian Property Institute as at 1 October 2007. It is the opinion of the Directors that these valuations represent the fair value of the properties at 30 June 2010.

NOTE 16. NON-CURRENT ASSETS – PROPERTY, PLANT & EQUIPMENT CONTINUED

b) Carrying amounts that would have been recognised if land and buildings were stated at cost

If freehold land and buildings were stated at cost on historical cost basis, the amounts would be as follows:

	2010 $000	2009 $000
Freehold land and buildings		
Cost	41,443	41,253
Accumulated depreciation	(2,392)	(1,138)
Net book amount	39,051	40,115

NOTE 17. NON-CURRENT ASSETS – INTANGIBLE ASSETS

	Goodwill $000	Software $000	Total $000
Fair value/Cost			
Balance at 1 July 2008	7,067	14,460	21,527
Additions	–	2,817	2,817
Balance at 30 June 2009	7,067	17,277	24,344
Balance at 1 July 2009	7,067	17,277	24,344
Additions	–	3,373	3,373
Assets classified as held for sale and other disposals	–	(14)	(14)
Balance at 30 June 2010	7,067	20,636	27,703
Amortisation and impairment losses			
Balance at 1 July 2008	–	(11,677)	(11,677)
Amortisation charge for the year (Note 6)	–	(1,752)	(1,752)
Balance at 30 June 2009	–	(13,429)	(13,429)
Balance at 1 July 2009	–	(13,429)	(13,429)
Amortisation charge for the year (Note 6)	–	(1,851)	(1,851)
Assets classified as held for sale and other disposals	–	14	14
Balance at 30 June 2010	–	(15,266)	(15,266)
Carrying amounts			
At 1 July 2008	7,067	2,783	9,850
At 30 June 2009	7,067	3,848	10,915
At 1 July 2009	7,067	3,848	10,915
At 30 June 2010	7,067	5,370	12,437

Amortisation of $0.970 million ($0.883 million in 2009), $0.517 million ($0.351 million in 2009) and $0.364 million ($0.518 million in 2009), respectively, is included in other underwriting expenses, acquisition costs and claims handling expenses in profit or loss.

a) Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment. nib health funds limited has one CGU being private health insurance.

Goodwill related to the acquisition of a subsidiary, nib health services limited (formerly IOOF Health Services Limited). The business was subsequently transferred to nib health funds limited. The recoverable amount of a CGU is determined based on a value-in-use calculation, and the recoverable amount exceeds the carrying value of the goodwill. The value-in-use calculation uses cash flow projections based on financial budgets and forecast forward projections approved by management covering a three-year period.

NOTE 17. NON-CURRENT ASSETS – INTANGIBLE ASSETS CONTINUED

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

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

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

Cash flows beyond the three-year period are extrapolated to ten years assuming a conservative growth factor of 0. The Group has applied a post tax discount rate to discount the forecast future attributable post tax cash flows. The discount rate applied of 10.7% represents the 10 year Australian bond rate of 5.355% plus a risk adjustment of 5.35%. This equates to a pre tax discount rate of 18.2%.

NOTE 18. CURRENT LIABILITIES – PAYABLES

	2010 $000	2009 $000
Trade creditors	4,004	3,496
Other payables	31,491	29,943
RETF payable*	30,028	22,398
Annual leave payable	3,020	2,921
	68,543	58,758

* Risk Equalisation Trust Fund (RETF) Levy represents expenses incurred under Risk Equalisation Trust Fund arrangements which are provided for within the legislation to support the principle of community rating.

a) Amounts not expected to be settled within the next 12 months

Annual leave payable is accrued annual leave. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken within the next 12 months.

	2010 $000	2009 $000
Annual leave obligation expected to be settled after 12 months	569	555

NOTE 19. CURRENT LIABILITIES – BORROWINGS

	2010 $000	2009 $000
Bank overdraft	3,593	409

The bank overdraft comprises the closing positive balances of the bank account, adjusted for unpresented cheques and outstanding deposits. There are no overdraft facilities.

NOTE 20. CURRENT LIABILITIES – OUTSTANDING CLAIMS LIABILITY

a) Outstanding claims liability

	2010 $000	2009 $000
Outstanding claims – central estimate of the expected future payment for claims incurred	47,106	44,098
Risk Margin	2,414	2,272
Claims handling costs	1,178	1,323
Gross outstanding claims liability	50,698	47,693
Outstanding claims – expected payment to the *RETF in relation to the central estimate	10,877	8,132
Risk Margin	544	406
Net outstanding claims liability	62,119	56,231

* Risk Equalisation Trust Fund (RETF) Levy represents expenses incurred under Risk Equalisation Trust Fund arrangements which are provided for within the legislation to support the principle of community rating

b) Risk margin

The risk margin of 5.0% (June 2009: 5.0%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% (June 2009: 95%).

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

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

The outstanding claims estimate is derived based on three valuation classes, namely Hospital and Prostheses services combined, Medical services, and General Treatment. This analysis is supplemented by more granular analysis within classes as appropriate.

In calculating the estimated cost of unpaid claims, two methods are used. For service months April 2010 and earlier for hospital and medical and for all months for general treatment, a chain ladder method is used; this assumes that the development pattern of the current claims will be consistent with historical experience. For hospital and medical, for the service months of May 2010 and June 2010 the paid Bornhuetter-Ferguson method is used, which progressively blends payment experience and prior forecasts of incurred costs. This represents a change from the prior year where the eligibility check method was used for hospital and medical claims for last three service months of the year. This change was made as the eligibility check method was determined to be a less reliable estimation tool during the financial year ended 30 June 2010.

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

NOTE 20. CURRENT LIABILITIES – OUTSTANDING CLAIMS LIABILITY CONTINUED

b) Risk margin CONTINUED

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

	2010 $000	2009 $000
Gross outstanding claims at beginning of period	47,693	53,194
Administration component	(1,323)	(1,470)
Risk margin	(2,272)	(2,725)
Central estimate at beginning of period	44,098	48,999
Change in claims incurred for the prior year	(1,092)	1,876
Claims paid in respect of the prior year	(43,013)	(50,875)
Claims incurred during the year (expected)	636,512	598,488
Claims paid during the year	(589,399)	(554,390)
Central estimate at end of period	47,106	44,098
Administration component	1,413	1,323
Change in administration component assumptions	(235)	–
Risk margin	2,414	2,453
Change in risk margin assumption	–	(181)
Gross outstanding claims at end of period	50,698	47,693

NOTE 21. CURRENT LIABILITIES – UNEARNED PREMIUM LIABILITY

	2010 $000	2009 $000
Unearned premium liability as at 1 July	49,888	46,989
Deferral of premiums on contracts written in the period	54,443	49,888
Earning of premiums written in previous periods	(49,888)	(46,989)
Unearned premium liability as at 30 June	54,443	49,888

NOTE 22. CURRENT LIABILITIES – UNEXPIRED RISK LIABILITY

No deficiency was identified as at 30 June 2010 and 2009 that resulted in an unexpired risk liability needing to be recognised.

NOTE 23. CURRENT LIABILITIES – CURRENT TAX LIABILITIES

	2010 $000	2009 $000
Current tax payable	4,325	5,973

NOTE 24. PROVISIONS FOR EMPLOYEE ENTITLEMENTS

	2010 $000	2009 $000
CURRENT		
Employee benefits		
Long service leave	1,577	1,412
Restructure costs	390	478
Retirement benefits	723	665
	2,690	2,555
NON-CURRENT		
Employee benefits		
Long service leave	868	828
	868	828

a) Amounts not expected to be settled within the next 12 months

The current provision for long service leave and retirement benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of the provision or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

	2010 $000	2009 $000
Long service leave obligation expected to be settled after 12 months	1,420	1,108
Retirement benefit obligation expected to be settled after 12 months	723	665
	2,143	1,773

NOTE 25. CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

	2010 $000	2009 $000
The balance comprises temporary differences attributable to:		
Prepayments	11	13
Capital allowances	–	425
Income receivable	17	102
Total deferred tax liabilities	28	540
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 14)	(28)	(540)
Net deferred tax liabilities	–	–
Deferred tax liabilities to be settled within 12 months	28	116
Deferred tax liabilities to be settled after more than 12 months	–	424
	28	540

NOTE 25. CURRENT LIABILITIES – DEFERRED TAX LIABILITIES CONTINUED

Movements	Prepayments $000	Depreciation $000	Capital allowances $000	Income Receivable $000	Available-for-sale financial assets $000	Total $000
At 1 July 2008	–	64	182	–	26	272
(Charged)/credited to profit or loss	13	(64)	243	102	–	294
(Charged)/credited directly to equity	–	–	–	–	(26)	(26)
At 30 June 2009	13	–	425	102	–	540
At 1 July 2009	13	–	425	102	–	540
(Charged)/credited to profit or loss	(2)	–	(425)	(85)		(512)
(Charged)/credited directly to equity	–	–	–	–	–	–
At 30 June 2010	11	–	–	17	–	28

NOTE 26. SHARE CAPITAL

a) Share Capital

	2010 $000	2009 $000
Ordinary shares		
Fully paid	42,437	42,528

b) Movements in share capital

		Consolidated		
Date	**Details**	**No of shares**	**Price[1]**	**$000**
1 July 2008	Opening balance	517,869,691		44,574
Oct-Dec 2008	Shares bought back on-market and cancelled	(18,213,260)	$0.82	(14,871)
March-Jun 2009	Shares bought back on-market and cancelled	(3,544,872)	$0.84	(2,976)
	Reverse acquisition adjustment for share buy-back			15,801
30 June 2009	**Balance**	496,111,559		42,528
July-Sept 2009	Shares bought back on-market and cancelled	(186,058)	$0.96	(178)
March-May 2010	Shares bought back on-market and cancelled	(494,074)	$1.24	(615)
	Reverse acquisition adjustment for share buy-back			702
30 June 2010	**Balance**	495,431,427		42,437

1. Average price of shares purchased through on-market buy back.

Reverse acquisition accounting policy

Post demutualisation, the formation of the Group has been accounted for as a business combination. AASB 3 *Business Combinations* deals with the bringing together of separate businesses into one reporting entity. When a new entity (legal entity) is formed to effect a business combination, an entity that existed before the combination must be identified as the acquirer. This is commonly referred to as a reverse acquisition where nib health funds limited has been deemed to be the accounting acquirer of nib holdings limited (the legal parent).

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

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

c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

NOTE 26. SHARE CAPITAL CONTINUED

c) Ordinary shares CONTINUED

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

d) Share buy-back

During the periods July – September 2009 and March – May 2010 the company cancelled 680,132 ordinary shares purchased on-market as part of the Group's capital management initiatives announced in the 2008 annual report. Of these shares, 136,058 had been purchased prior to 30 June 2009 at a cost of $121,197, but were not cancelled until July 2009. The remaining 544,074 shares were purchased and cancelled during September 2009 – May 2010 and were acquired for $671,529 at an average price of $1.23 per share, with prices ranging from $1.14 to $1.25. The total cost of the 680,132 shares cancelled was $792,726. $90,886 was deducted from ordinary share equity and the remaining $701,840 was deducted from retained profits representing the portion of shares assumed to be purchased from policyholders under the reverse acquisition requirements of AASB 3 *Business Combinations*.

nib currently intends to continue to undertake the buy-back in compliance with applicable laws and the ASX Listing Rules.

e) Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

nib health funds limited

nib health funds limited is required to comply with the Solvency and Capital Adequacy Standards under Schedule 2 and 3 of the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, the Rules are made for the purposes of Part 4-4 of the *Private Health Insurance Act 2007*.

To comply with the capital adequacy standard nib health funds limited must ensure that at all times the value of capital equals or exceeds the capital adequacy requirement (section 5.1 of the Capital Adequacy Standard), failure to do so represents a breach of the *Private Health Insurance Act 2007*.

nib health fund has a capital management plan which establishes a benchmark for capital held in excess of the regulatory requirement; the aim is to keep a sufficient buffer in line with the Board's attitude to and tolerance for risk. The current benchmark capital adequacy coverage ratio is 1.4x (2009: 1.4x).

Any capital in excess of the benchmark, taking a 12 month forward looking view, will be reduced by way of dividend to nib holdings limited. nib health funds limited paid dividends of $25,500,000 and $8,500,000 to nib holdings limited in December 2009 and June 2010 respectively.

The surplus assets over benchmark at 30 June 2010 and 30 June 2009 were as follows:

	2010 $000	2009 $000
Total Assets nib health funds limited	423,991	379,715
Capital Adequacy Requirement	289,930	253,672
Surplus Assets for Capital Adequacy	134,061	126,043
Capital Adequacy Coverage Ratio	*1.46*	*1.50*
Internal benchmark	*1.40*	*1.40*
Internal benchmark requirement	405,902	355,141
Surplus assets over internal benchmark	18,089	24,574

nib holdings limited

The Group is targeting a return on equity of 15%, and the return on equity as at 30 June 2010 is 16.3%. While improvement to return on equity can be made through increased profitability, it is also important that capital be managed appropriately, therefore, if funds are not required for strategic reasons the Group will consider a range of capital management initiatives.

Capital management initiatives undertaken during the financial year included:

- the on-market buy-back announced on 29 August 2008 under which nib holdings purchased and subsequently cancelled 680,132 shares at a total cost of $0.793 million; and
- the unmarketable parcel sale facility to shareholders who were the registered holders of less than a marketable parcel of nib shares on 26 August 2009. The sale facility resulted in 21,978,234 shares being sold to institutional investors.

NOTE 27. RETAINED PROFITS

	2010 $000	2009 $000
Balance at beginning of the financial year	317,897	329,565
Net profit/(loss)	61,525	23,786
Realised revaluation reserve	379	6,210
Transfer from share capital	(702)	(15,801)
Dividends	(31,741)	(25,863)
Balance at the end of the financial year	347,358	317,897

NOTE 28. RESERVES

a) Reserves comprise:

	2010 $000	2009 $000
Revaluation surplus – property, plant and equipment	834	1,213
Available-for-sale financial assets	–	–
Share-based payments	772	245
	1,606	1,458

b) Movements in reserves:

	2010 $000	2009 $000
Revaluation surplus – property, plant and equipment		
Balance at the beginning of the year	1,213	10,579
Transfer to retained profits on sale of property	(379)	(6,210)
Property revaluation	–	(3,156)
Balance at the end of the financial year	834	1,213
Available-for-sale financial assets		
Balance at the beginning of the year	–	62
Revaluation – gross	–	(88)
Deferred tax (Note 25)	–	26
Balance at the end of the financial year	–	–
Share-based payments		
Balance at the beginning of the year	245	61
Performance rights expense	504	156
Bonus share rights expense	23	28
Balance at the end of the financial year	772	245

c) Nature and purpose of reserves

Revaluation surplus – property, plant and equipment

The property, plant and equipment revaluation surplus is used to record increments and decrements on the revaluation of non-current assets as described in Note 1(p).

Available-for-sale financial assets

Changes in the fair value of investments, such as equities, classified as available-for-sale financial assets, are recognised in other comprehensive income as described in Note 1(y) and accumulated in a separate reserve in equity. Amounts are reclassified in profit and loss when the associated assets are sold or impaired.

NOTE 28. RESERVES CONTINUED

c) Nature and purpose of reserves CONTINUED

Share-based payments

The share-based payments reserve is used to recognise the fair value of performance rights and bonus share rights issued to employees but not exercised.

NOTE 29. DIVIDENDS

a) Ordinary shares

	2010 $000	2009 $000
Final dividend for the year ended 30 June 2009 of 4.4 cents (2008: 2.1 cents) per fully paid share paid on 9 October 2009 (2008: 10 October 2008)		
Fully franked based on tax paid @ 30%	21,823	10,875
Interim dividend for the year ended 30 June 2010 of 2.0 cents (2009: 3.0 cents) per fully paid share paid 8 April 2010 (2009: 3 April 2009)		
Fully franked based on tax paid @ 30%	9,918	14,988
Total dividends provided for or paid	31,741	25,863

b) Dividends not recognised at year end

	2010 $000	2009 $000
In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend of 5.0 cents per fully paid ordinary share (2009 – 4.4 cents) fully franked, based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 27 September 2010 out of retained profits at 30 June 2010, but not recognised as a liability at year end, is:	24,772	21,823

c) Franked dividends

The franked portion of the final dividends recommended after 30 June 2010 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2011.

	2010 $000	2009 $000
Franking credits available for subsequent financial years to equity holders of parent entity based on a tax rate of 30% (2009 – 30%)	11,155	9,488

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

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

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

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

NOTE 30. COMMITMENTS FOR EXPENDITURE

a) Operating lease commitments

	2010 $000	2009 $000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
– not longer than one year	1,985	2,026
– longer than one year and not longer than five years	3,490	3,445
– longer than five years	1,488	1,769
	6,963	7,240

b) Capital expenditure commitments

	2010 $000	2009 $000
Payable:		
– not longer than one year	283	608
	283	608

c) Remuneration commitments

Commitments for the payment of salaries, wages and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities.

	2010 $000	2009 $000
Payable:		
– not longer than one year	1,503	1,479
	1,503	1,479

NOTE 31. 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 12 months from 20 August 2010, or if earlier, to the date of sale of the entities should this occur.

nib holdings limited and nib health funds limited have indemnified the trustee under the nib demutualisation overseas policyholders and unverified policyholders trust deed dated 19 July 2007, in respect of all liabilities, costs and expenses incurred in execution of the trust. It is envisaged that the trust will be wound up within 12 months from the date of issuance of this financial report in accordance with the provisions of the trust deed. Whilst the trust has a current deficiency in total trust funds, it is not practical to estimate total trust funds on wind up of the trust.

NOTE 32. REMUNERATION OF AUDITORS

	Consolidated	
	2010 $	**2009 $**
1. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial report and other audit work under the *Corporations Act 2001*	312,700	295,000
Total remuneration for audit services	312,700	295,000
2. Non-audit services		
Audit-related services		
PricewaterhouseCoopers Australian firm:		
Audit of regulatory returns	31,800	30,000
Due diligence on potential mergers and acquisitions	20,000	377,000
Total remuneration for audit-related services	51,800	407,000
Taxation services		
PricewaterhouseCoopers Australian firm:		
Due diligence on potential mergers and acquisitions	83,500	100,500
Tax compliance services	70,800	88,400
Total remuneration for taxation services	154,300	188,900
Other services		
PricewaterhouseCoopers Australian firm:		
Review of regulatory returns	21,486	7,809
Total remuneration for other services	21,486	7,809
Total remuneration for non-audit services	227,586	603,709
Total remuneration for audit and non-audit services	540,286	898,709

NOTE 33. NOTES TO THE STATEMENT OF CASH FLOWS

a) Reconciliation of cash

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

	Note	2010 $000	2009 $000
Cash and cash equivalents	8	197,415	167,143
Bank overdraft	19	(3,593)	(409)
		193,822	166,734

NOTE 33. NOTES TO THE STATEMENT OF CASH FLOWS CONTINUED

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

	2010 $000	2009 $000
Profit for the year	61,525	23,786
Net (gain)/loss on disposal of non-current assets	225	1,100
Fair value (gain)/loss on other financial assets through profit or loss	(29,411)	19,801
Impairment loss on property, plant and equipment	1,000	1,689
Non-cash employee benefits expense – share-based payments	527	184
Expenses incurred for acquisition of subsidiary	79	–
Depreciation and amortisation	4,751	4,097
Change in operating assets and liabilities, net of effect from purchase of controlled entity		
Decrease (increase) in receivables	(2,089)	(421)
Decrease (increase) in deferred tax assets	10,560	(1,374)
Increase (decrease) in trade payables	14,002	7,307
Increase (decrease) in current tax payable	(1,091)	(4,949)
Increase (decrease) in provisions	6,177	(6,992)
Net cash flow from operating activities	66,255	44,228

NOTE 34. CONTROLLED ENTITIES

The consolidated financial statements incorporate the assets, liabilities and results of the following controlled entities in accordance with the accounting policy described in Note 1(b):

		Percentage of shares held	
	Place of Incorporation	2010 %	2009 %
nib holdings limited	Australia		
nib health funds limited	Australia	100	100
nib servicing facilities pty limited	Australia	100	100
nib health care services limited	Australia	100	100
nib health services limited* (formerly IOOF Health Services Limited)	Australia	–	100
The Heights Private Hospital Pty Limited	Australia	100	100
A.C.N. 144 907 746 Pty Limited	Australia	100	–

* Deregistered.

NOTE 35. SEGMENT REPORTING

Management has determined the operating segments based on the reports reviewed by the CEO/MD that are used to make strategic decisions.

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

	2010 $000	2009 $000
Revenue from external customers	901,370	829,486
Segment non-current assets	53,720	85,167
Unallocated:		
Deferred tax assets	9,127	19,687
Available-for-sale financial assets	1,500	1,500
Total non-current assets	64,347	106,354

NOTE 36. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

nib signed an asset purchase agreement on 5 July 2010 to purchase the business and assets of IMAN International Pty Limited (IMAN), a specialist provider of health cover for temporary migrant workers in Australia, for approximately $25 million (including estimated completion adjustments in respect of the assumption of certain liabilities). Completion of the agreement is expected by 1 October 2010 and is conditional on various conditions precedent, including the novation of at least 11,000 IMAN customer contracts, no material adverse effect and the finalisation of service and transitional arrangements to facilitate the transfer of the IMAN business.

The financial effects of the transaction have not been brought to account at 30 June 2010. The assets acquired and liabilities assumed will be consolidated from completion date.

Acquisition-related costs of $572,615 are included in other expenses in profit or loss in the reporting period ending 30 June 2010 and additional costs will be recognised in profit or loss in the reporting period ending 30 June 2011.

The sale of Newcastle Private Hospital to Healthscope Limited for $30 million was completed on 9 July 2010 (see Note 11).

Except for the IMAN acquisition and sale of investment property discussed above, there have not been any matters or circumstances that have arisen since the end of the financial year that has significantly affected, or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

NOTE 37. RELATED PARTIES

a) Related party transactions with key management personnel

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

b) Transactions with associated companies

There were no associated company transactions during the years ended 30 June 2010 and 2009.

NOTE 38. KEY MANAGEMENT PERSONNEL DISCLOSURES

a) Key management personnel compensation

	2010 $	2009 $
Short-term employee benefits	2,424,359	2,181,520
Post-employment benefits	301,023	651,952
Other long-term benefits	36,390	12,780
Termination benefits	–	706,036
Share-based payments	686,963	271,347
	3,448,735	3,823,635

Detailed remuneration disclosures are provided in the remuneration report on pages 5 to 10.

b) Equity instrument disclosures relating to key management personnel

i) Performance rights provided as remuneration and shares issued on exercise of such performance rights

Details of performance rights provided as remuneration and shares issued on the exercise of such performance rights, together with terms and conditions of the performance rights, can be found in the remuneration report on pages 11 to 14.

NOTE 38. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

b) Equity instrument disclosures relating to key management personnel CONTINUED

ii) Performance rights holdings

The numbers of performance rights over ordinary shares in the company held during the financial year by each executive of nib holdings limited are set out below.

2010	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at the end of the year	Vested and exercisable	Unvested
Mark Fitzgibbon	631,071	270,280	–	–	901,351	–	901,351
Melanie Kneale	186,452	81,859	–	–	268,311	–	268,311
Rhoderic McKensey	94,230	59,851	–	–	154,081	–	154,081
Michelle McPherson	196,780	86,385	–	–	283,165	–	283,165
Total	1,108,533	498,375	–	–	1,606,908	–	1,606,908

2009	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at the end of the year	Vested and exercisable	Unvested
Mark Fitzgibbon	–	631,071	–	–	631,071	–	631,071
Jayne Drinkwater	63,431	–	–	(63,431)	–	–	–
Melanie Kneale	79,903	106,549	–	–	186,452	–	186,452
David Lethbridge	58,514	–	–	(58,514)	–	–	–
Rhoderic McKensey	16,320	77,910	–	–	94,230	–	94,230
Michelle McPherson	84,329	112,451	–	–	196,780	–	196,780
Total	302,497	927,981	–	(121,945)	1,108,533	–	1,108,533

iii) Share holdings

The number of shares in the company held during the financial year by each Director of nib holdings limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares received during the reporting period on the exercise of performance rights.

2010	Balance at the start of the year	Granted during the year as compensation	Other changes during the year	Balance at the end of the year
Ordinary shares				
Directors of nib Group				
Keith Lynch	72,035	28,916	–	100,951
Harold Bentley	50,000	–	20,000	70,000
Annette Carruthers	51,000	–	7,200	58,200
Philip Gardner	84,862	–	20,000	104,862
Brian Keane	41,300	–	20,000	61,300
Other key management personnel of the Group				
Mark Fitzgibbon	464,338	58,566	8,000	530,904
Melanie Kneale	983	–	–	983
Rhoderic McKensey	1,583	–	–	1,583
Michelle McPherson	101,000	–	–	101,000

b) Equity instrument disclosures relating to key management personnel CONTINUED

2009	Balance at the start of the year	Granted during the year as compensation	Other changes during the year	Balance at the end of the year
Ordinary shares				
Directors of nib Group				
Keith Lynch	26,684	45,351	–	72,035
Harold Bentley	50,000	–	–	50,000
Annette Carruthers	41,000	–	10,000	51,000
Philip Gardner	64,862	–	20,000	84,862
Brian Keane	16,300	–	25,000	41,300
Other key management personnel of the Group				
Mark Fitzgibbon	252,601	61,737	150,000	464,338
Melanie Kneale	983	–	–	983
Rhoderic McKensey	1,583	–	–	1,583
Michelle McPherson	101,000	–	–	101,000

The above table excludes key management personnel who terminated during the year.

NOTE 39. SHARE-BASED PAYMENTS

a) Long-Term Incentive Plan ("LTIP")

Performance rights to acquire shares in nib holdings limited are granted to executive and selected business unit managers under the LTIP. Information relating to the LTIP is included in the remuneration report on pages 5 to 14.

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

Consolidated and parent entity – 2010

Grant date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at the end of the year Number	Vested and exercisable at end of the year Number
24/06/08	31/12/12	–	196,872	–	–	–	196,872	–
30/06/09	31/12/12	–	270,442	–	–	–	270,442	–
30/06/09	31/12/13	–	657,539	–	–	–	657,539	–
28/01/10	31/12/14	–	–	498,375	–	–	498,375	–
Total			1,124,853	498,375	–	–	1,623,228	–

Consolidated and parent entity – 2009

Grant date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at the end of the year Number	Vested and exercisable at end of the year Number
24/06/08	31/12/12	–	318,817	–	–	(121,945)	196,872	–
30/06/09	31/12/12	–	–	270,442	–	–	270,442	–
30/06/09	31/12/13	–	–	657,539	–	–	657,539	–
Total			318,817	927,981	–	(121,945)	1,124,853	–

NOTE 39. SHARE-BASED PAYMENTS CONTINUED

b) Non-Executive Director share plan ("NEDSAP")

The Board has resolved that non-executive Directors will hold a minimum of 20% of their annual Directors' fees in the form of shares. NEDSAP has been introduced to encourage non-executive Directors share ownership to align the interests of non-executive Directors and shareholders. Non-executive Directors may express a preference to receive up to 90% of their annual Directors' fee in the form of shares under the NEDSAP.

Under the plan, shares will be acquired on-market with the number of shares allocated being determined on the basis of volume weighted average price of shares traded on the Australian Securities Exchange for five trading days up to and including the relevant allocation date. The volume weighted average price may be above or below current or future market prices.

Non-executive Directors who acquire shares under the NEDSAP may not sell, transfer, or dispose of any shares acquired for a period of ten years from the date that the shares are allocated.

The requirement to take a portion of annual Directors' fees in shares is calculated as a cumulative amount, having regard to nib shares acquired by Directors outside of the NEDSAP.

c) Employee share acquisition (tax exempt) plan ("ESAP")

The plan rules were adopted on 11 January 2008 and amended on 3 December 2009. On 3 December 2009, eligible employees were offered the opportunity to receive part of their salary in the form of shares. All permanent employees who were an employee as at 3 December 2009 and the date shares were allocated to employees were eligible to participate in the scheme. Employees may elect not to participate in the scheme.

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

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

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

No shares were issued under ESAP in 2009.

	2010	2009
Number of shares purchased on market under the plan to participating employees	86,580	–
	86,580	–

The shares were purchased on-market at a volume weighted average price of $1.2816 per share soon after the 2010 half year results announcement on 22 February 2010 in accordance with the plan rules.

d) Short-term performance incentive ("STI")

All eligible employees have a STI opportunity. For the MD/CEO the maximum target bonus opportunity is 60% of the base remuneration package with 30% of the calculated entitlement awarded as performance shares to be held in escrow for one year.

At management's discretion in 2010, business unit managers were offered the opportunity to receive 100% of their respective STI in the form of performance shares to be held in escrow for one year. Business unit managers that elected to receive their STI as shares received an additional 2% of their base remuneration package in performance shares.

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

e) Expenses arising from share-based payments transactions

	2010 $000	2009 $000
Shares purchased on market under employee share scheme	110	–
Performance rights granted under LTIP	504	156
Bonus share rights granted	23	28
Shares purchased on market under STI	123	–
	760	184

NOTE 40. SOLVENCY AND CAPITAL ADEQUACY RESERVES

nib health funds limited Solvency Reserve, as per the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is $76.069 million. Total Health Benefits Fund Assets are $423.991 million, representing a surplus of $150.273 million over the sum of the Solvency Reserve and total Health Benefits Fund Liabilities ($197.649 million).

nib health funds limited Capital Adequacy Reserve, as per the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is $92.281 million. Total Health Benefits Fund Assets are $423.991 million, representing a surplus of $134.061 million over the Capital Adequacy Reserve and total Health Benefits Fund Liabilities ($197.649 million).

NOTE 41. EARNINGS PER SHARE

a) Basic earnings per share

	Consolidated	
	2010 Cents	2009 Cents
Profit from continuing operations attributable to the ordinary equity holders of the company	12.4	4.7
Profit from discontinued operations	0.0	0.0
Profit attributable to the ordinary equity holders of the company	12.4	4.7

b) Diluted earnings per share

	Consolidated	
	2010 Cents	2009 Cents
Profit from continuing operations attributable to the ordinary equity holders of the company	12.4	4.7
Profit from discontinued operations	0.0	0.0
Profit attributable to the ordinary equity holders of the company	12.4	4.7

c) Reconciliations of earnings used in calculating earnings per share

	2010 $000	2009 $000
Basic earnings per share		
Profit from continuing operations	61,525	23,786
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	61,525	23,786
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	61,525	23,786
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	61,525	23,786

d) Weighted average number of shares used as the denominator

	2010 Number	2009 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	495,845,697	506,669,804
Adjustments for calculation of diluted earnings per share:		
Performance rights and bonus share rights	–	–
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	495,845,697	506,669,804

NOTE 41. EARNINGS PER SHARE CONTINUED

e) Information concerning the classification of shares

i) Performance rights

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

The total 1,623,228 performance rights granted (2009 – 1,124,853) are not included in the calculation of diluted earnings per share because they are contingently issuable ordinary shares and conditions were not satisfied at 30 June 2010. These performance rights could potentially dilute basic earnings per share in the future.

ii) Bonus share rights

Bonus share rights are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The additional shares for shares held in escrow have not been included in the determination of basic earnings per share.

The 87,500 bonus share rights granted on 2 November 2007 are not included in the calculation of diluted earnings per share because they are contingently issuable ordinary shares and conditions were not satisfied at 30 June 2010. These bonus share rights could potentially dilute basic earnings per share in the future.

NOTE 42. PARENT ENTITY FINANCIAL INFORMATION

	2010 $000	2009 $000
Balance sheet		
Current assets	165,386	150,870
Total assets	561,206	553,422
Current liabilities	5,632	6,413
Total liabilities	5,632	6,413
Shareholders' equity		
Share Capital	415,656	416,449
Reserves		
Share-based payments	772	245
Retained Profits	139,146	130,315
	555,574	547,009
Profit or loss for the year	40,573	85,114
Total comprehensive income	40,573	85,114

b) Contingent liabilities of the parent entity

Refer to Note 31.

NOTE 43. COMPANY DETAILS

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

22 Honeysuckle Drive
NEWCASTLE NSW 2300

The financial report was authorised for issue by the Directors on 20 August 2010. The company has the power to amend and reissue the financial report.

SHAREHOLDER INFORMATION
31 August 2010

The shareholder information set out below was applicable as at 31 August 2010.

A. DISTRIBUTION OF EQUITY SECURITIES

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

	Class of equity security
	Ordinary shares
1 – 1,000	69,411
1,001 – 5,000	90,182
5,001 – 10,000	12,048
10,001 – 100,000	256
100,001 and over	41
	171,938

There were 15,977 holders of less than a marketable parcel of ordinary shares.

B. EQUITY SECURITY HOLDERS

The 20 largest quoted equity security holders

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

	Ordinary shares	
Name	**Number held**	**Percentage of issued shares**
RBC Dexia Investor Services Australia Nominees P/L (pipooled a/c)	30,108,855	6.08%
Aust Executor Trustees Ltd (nib unv & o'seas p'hldrs a/c)	28,908,440	5.84%
J P Morgan Nominees Australia Limited	25,380,220	5.12%
Citicorp Nominees Pty Limited	23,819,728	4.81%
National Nominees Limited	20,938,163	4.23%
Cogent Nominees Pty Limited	6,947,030	1.40%
GPG Nominees Pty Limited	5,442,753	1.10%
RBC Dexia Investor Services Australia Nominees P/L (GSAM a/c)	3,796,267	0.77%
ANZ Nominees Limited (cash income a/c)	3,364,838	0.68%
HSBC Custody Nominees (Australia) Limited	3,283,733	0.66%
Citicorp Nominees Pty Limited (CFSIL cwlth small co 7 a/c)	2,162,117	0.44%
Suncorp Custodian Services Pty Limited (AET)	2,016,761	0.41%
AMP Life Limited	1,595,330	0.32%
RBC Dexia Investor Services Australia Nominees P/L (piselect a/c)	1,321,372	0.27%
Bond Street Custodians Limited (MMC concentrated fund a/c)	1,000,000	0.20%
UBS Nominees Pty Limited (PB seg a/c)	900,000	0.18%
Citicorp Nominees Pty Limited (CFSIL cwlth small cos 1 a/c)	808,000	0.16%
Harbour Nominees Pty Limited	721,177	0.15%
Citicorp Nominees Pty Limited (CWLTH small co fd 2 a/c)	540,419	0.11%
Vanward Investments Limited	500,000	0.10%
	163,555,203	33.03%

Unquoted equity securities

	Number on issue	Number of holders
Performance rights issued under the nib holdings Long-Term Incentive Plan	1,623,228	5

SHAREHOLDER INFORMATION CONTINUED

31 August 2010

C. SUBSTANTIAL HOLDERS

Substantial holders in the company are set out below:

	Number held	Percentage of issued shares
RBC Dexia Investor Services Australia Nominees P/L (pipooled a/c)	30,108,855	6.08%
Aust Executor Trustees Ltd (nib unv & o'seas p'hldrs a/c)*	28,908,440	5.84%
J P Morgan Nominees Australia Limited	25,380,220	5.12%

* The above shareholding is for shares held in trust that were issued to unverified and overseas policyholders on nib's demutualisation.

D. VOTING RIGHTS

The voting rights attaching to each class of equity securities are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Performance rights

No voting rights.

E. SECURITIES SUBJECT TO VOLUNTARY ESCROW

Shares taken as part of the transaction bonus and short-term incentive bonus held in escrow are detailed below:

Number on issue	Class of equity security	Date escrow period ends
350,000	Ordinary shares	2 November 2010
58,566	Ordinary shares	28 August 2010
48,954	Ordinary shares	15 September 2010

CORPORATE DIRECTORY

year ended 30 June 2010

DIRECTORS

Chairman
Keith Lynch

Managing Director/Chief Executive Officer
Mark Fitzgibbon

Harold Bentley

Annette Carruthers

Philip Gardner

Brian Keane

COMPANY SECRETARY

Michelle McPherson

EXECUTIVE MANAGEMENT

Managing Director/Chief Executive Officer
Mark Fitzgibbon

Deputy Chief Executive Officer & Chief Financial Officer
Michelle McPherson

Chief Operating and Technology Officer
Melanie Kneale

Chief Marketing and Business Development Officer
Rhoderic McKensey

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of nib will be held on Tuesday, 26 October 2010 at 1.00pm (Australian Eastern Daylight Saving time) at Newcastle City Hall, 1st Floor Concert Hall, 290 King Street, Newcastle NSW 2300.

A formal Notice of Meeting is being distributed with the annual report.

SHARE REGISTER

Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney NSW 2000

1300 664 316

STOCK EXCHANGE LISTING

nib holdings limited shares (nhf) are listed on the Australian Securities Exchange.

PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

22 Honeysuckle Drive
Newcastle NSW 2300

13 14 63

AUDITOR

PricewaterhouseCoopers
PricewaterhouseCoopers Centre
26 Honeysuckle Drive
Newcastle NSW 2300

LEGAL ADVISERS

Mallesons Stephen Jaques
Level 61, Governor Philip Tower
1 Farrer Place
Sydney NSW 2000

BANKERS

St George Bank
4-16 Montgomery Street
Kogarah NSW 2217

WEBSITE ADDRESS

nib.com.au

nib.com.au