nib

# SOLID FOUNDATIONS

nib holdings limited annual financial report 2009

# DIRECTORS' REPORT

year ended 30 June 2009

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 2009.

## 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

Janet Dore was a director from the beginning of the financial year until her resignation on 31 July 2008.

## 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* (and formerly a registered health benefits organisation under the *National Health Act 1953*).

## REVIEW OF OPERATIONS

In November 2008, nib holdings limited ("nib holdings") had its first anniversary as a listed public company.

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

nib's vision is to be a leading financier of the nation's healthcare 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 $23.8 million (2008: $0.4 million).

A more appropriate comparison between FY2009 and FY2008 is to compare the FY2009 consolidated profit result of $23.8 million, with the FY2008 normalised consolidated profit result of $26.7 million.

The $2.9 million decrease from the FY2008 normalised consolidated profit reflects an improved net underwriting profit before tax but, more than offset by the impact of investment losses and higher other expenses, and the associated tax impact of all the variances.

Despite deteriorating economic conditions during the year and changes in government policy the Group achieved a strong operating result with:

- solid net policyholder growth of 18,899 or 5.2%, significantly greater than nib's estimated industry growth rate of 3.0%,
- premium revenue of $829.5 million up $71.3 million or 9.4% on FY2008,
- a management expense ratio of 9.9% compared to 10.3% in FY2008 and despite non-recurring costs of $4.3 million, associated with the move to the new head office and new head office impairment ($2.8 million), and employee redundancy costs ($1.5 million),
- cash inflow from operating activities of $44.2 million.

As mentioned however, the benefit of the strong underlying business performance was eroded by investment losses of $1.2 million ($8.8 million gain in FY2008). Investment losses for the year reflect a combination of external investment market conditions and below benchmark performance of the Group's overseas fixed interest portfolio.

The Group incurred a high level of other expenses during the year of $7.9 million (FY2008: $3.5 million), which included $3.3 million one-off expenses in respect of share registry costs ($1.4 million), due diligence costs associated with merger and acquisition aspirations ($1.3 million), and bid response costs ($0.6 million).

Capital management was a key focus during the year, with capital management activities including:

- the on-market buyback announced on 29 August 2008 under which nib holdings had purchased and subsequently cancelled 21,758,132 shares as at 30 June 2009, at a total cost of $17.8 million.
- an interim dividend of 3.0 cents per fully paid share paid on 3 April 2009. A final dividend of 4.4 cents per fully paid share to be paid on 9 October 2009, has been approved by the Board. 5.0 cents of this dividend represents a capital management initiative.
- the unmarketable parcel sale facility to shareholders who were the registered holders of less than a marketable parcel of nib shares announced on 4 June 2009.

As a result of the above, at 30 June 2009 the Group had net assets of $361.9 million (2008: $384.8 million) and a return on equity for the year of 6.6% (2008: 7.0% on a normalised basis). Once again, return on equity was heavily influenced by poor investment performance.

# DIRECTORS' REPORT CONTINUED

year ended 30 June 2009



## DIVIDENDS AND CAPITAL MANAGEMENT

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

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Final dividend for the year ended 30 June 2008 of 2.1 cents per fully paid share paid on 10 October 2008 | 10,875 | – |
| Interim dividend for the year ended 30 June 2009 of 3.0 cents per fully paid share paid 3 April 2009 | 14,988 | – |
| | 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 $21.8 million (4.4 cents per fully paid per share) to be paid on 9 October 2009 out of retained profits at 30 June 2009. The total FY2009 dividend of 7.4 cents per fully paid share has provided a dividend yield since July 08 of 11.9%, based on a share price at 1 July 2008. The full year dividend payment constitutes a combination of FY09 earnings and a capital management initiative. 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 subject to franking credit availability.

The Board of nib holdings 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.

During the period further work on capital management resulted in the Board revising nib health internal benchmark for capital adequacy from 1.5x the minimum capital requirement to 1.4x.

At 30 June 2009 the Group had surplus capital of $131.6 million above our internal benchmark (after allowing for the payment of a dividend of 4.4 cents per share, totalling $21.8 million, in October 2009).

The movement in surplus capital from 30 June 2008 to 30 June 2009 reflects:

| | $000 |
|---|---|
| Surplus capital at 30 June 2008 | $105.6 |
| Profit for the year | $23.8 |
| FY2009 interim dividend and allowance for final dividend | ($36.8) |
| Costs of on-market buyback | ($17.8) |
| Decrease in capital required | $28.3 |
| Revision of nib health's internal benchmark for capital adequacy | $28.5 |
| Surplus capital at 30 June 2009 | $131.6 |

## 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

It is noteworthy that a Government appointed National Health and Hospital Reform Commission (NHHRC) has subsequent to 30 June 2009 recommended a number of changes to the Australian healthcare system. However, the consequences of these recommendations and whether or not Government will embrace same are uncertain. As such, the Group does not at this stage discern any significant impact to operations or state of affairs.

No other matter or circumstance has arisen since 30 June 2009 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.

The current view of the expected results of operations for FY2010 is net policyholder growth of 4% to 6% and a pre-tax underwriting profit in the range of 5.0% to 5.5%.

## 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**<br>*BSc (Tech) UNSW, MAICD* | Chair Independent Non-Executive Director. Age 67.<br>*Experience and expertise*<br>A 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.<br>*Other current directorships*<br>Chair of nib health funds limited since 2001 and a director since 1982; nib health services limited; The Heights Private Hospital Pty Limited and nib servicing facilities pty limited.<br>*Former directorships in the last 3 years*<br>Chair of Kip McGrath Education Centres Limited from May 2005 to November 2007.<br>*Special responsibilities*<br>Chairman of Board and the nomination and remuneration committee. Member of the investment committee from 1 April 2009.<br>*Interests in shares and performance rights*<br>72,035 ordinary shares in nib holdings limited. |
| **Mark Fitzgibbon**<br>*MBA, MA, ALCA, FAICD* | Managing Director/Chief Executive Officer. Age 49.<br>*Experience and expertise*<br>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.<br>*Other current directorships*<br>Director of nib health care services pty limited and nib servicing facilities pty limited. A director of The Newcastle Knights, Australian Health Insurance Association Ltd and Hunter Academy of Sport.<br>*Former directorships in the last 3 years*<br>None.<br>*Special responsibilities*<br>Managing Director/Chief Executive Officer.<br>*Interests in shares and performance rights*<br>Direct: 189,338 ordinary shares in nib holdings limited.<br>Indirect: 275,000 ordinary shares in nib holdings held by Fitz Family fund.<br>270,442 performance rights under FY08-FY10 Long Term Incentive Plan which may vest from 1 September 2010.<br>360,629 performance rights under FY09-FY11 Long Term Incentive Plan which may vest from 1 September 2011. |
| **Harold Bentley**<br>*MA Hons, FCA, FCIS* | Independent Non-Executive Director. Age 61.<br>*Experience and expertise*<br>A director since 7 November 2007. Has over 20 years experience in the insurance sector. Formerly the Chief Financial Officer of Promina Group Ltd and an Audit Manager of PricewaterhouseCoopers specialising in finance and insurance companies.<br>*Other current directorships*<br>None.<br>*Former directorships in the last 3 years*<br>None.<br>*Special responsibilities*<br>Member of the remuneration and nomination committee (from 1 July 2008 to 31 March 2009).<br>Member of audit committee (Chairman from 1 April 2009). Member of the investment committee (from 1 April 2009).<br>*Interests in shares and performance rights*<br>Indirect: 50,000 ordinary shares in nib holdings limited held by Sushi Sake Pty Limited. |

# DIRECTORS' REPORT CONTINUED

year ended 30 June 2009

## INFORMATION ON DIRECTORS (CONTINUED)

| Name and qualifications | |
|---|---|
| **Dr Annette Carruthers**<br>*MBBS (Hons), FRACGP, FAICD* | Independent Non-Executive Director. Age 54.<br>*Experience and expertise*<br>A 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) and previously a director of Hunter Area Health Service. Previously Chair Australian General Practice Network National Aged Care Taskforce. Member Avant Mutual Group Limited, NSW Medical Expert Committee.<br>*Other current directorships*<br>A director of nib health funds limited (since 2003), nib health services limited, nib health care services pty limited and The Heights Private Hospital Pty Limited. A director of the National Heart Foundation of Australia and the NSW Division.<br>*Former directorships in the last 3 years*<br>None.<br>*Special responsibilities*<br>Member of audit committee and risk and reputation committee (Chair of risk and reputation committee from 1 August 2008). Member of the nomination and remuneration committee from 1 April 2009.<br>*Interests in shares and performance rights*<br>Direct: 1,000 ordinary shares in nib holdings limited.<br>Indirect: 50,000 ordinary shares in nib holdings limited held by Carruthers Future Fund Pty Ltd. |
| **Philip Gardner**<br>*B.Comm, CPA, CCM, FAICD, JP* | Independent Non-Executive Director. Age 51.<br>*Experience and expertise*<br>A director since 28 May 2007. Current Chief Executive Officer of The Wests Group Australia and an adjunct lecturer in the Department of Commerce and Law at Newcastle University.<br>*Other current directorships*<br>Director of nib health funds limited since 2005. A director of Newcastle Airport Limited. Treasurer of Western Suburbs Rugby League Football Club Inc.<br>*Former directorships in the last 3 years*<br>None.<br>*Special responsibilities*<br>Member of the audit committee (and Chair of audit committee until 31 March 2009). Member of the risk & reputation committee since 1 April 2009. Chair of the investment committee since 1 April 2009.<br>*Interests in shares and performance rights*<br>Direct: 16,862 ordinary shares in nib holdings limited.<br>Indirect: 68,000 ordinary shares in nib holdings limited held by Sutton Gardner Pty Ltd. |
| **Brian Keane**<br>*FAICD* | Independent Non-Executive Director. Age 71.<br>*Experience and expertise*<br>A director since 7 November 2007. A member of the Australian Competition Tribunal. Formerly Chief Executive Officer of AAMI Ltd.<br>*Other current directorships*<br>A director of Aurora Energy Pty Ltd and The Holland Insurance Company Pty Ltd.<br>*Former directorships in the last 3 years*<br>Director of Medibank Private Ltd, CSIRO and Lawcover Pty Ltd.<br>*Special responsibilities*<br>Member of the nomination and remuneration committee, the risk and reputation committee and, since 1 April 2009, member of the audit committee.<br>*Interests in shares and performance rights*<br>Indirect: 41,300 ordinary shares in nib holdings limited held by the Brian Keane Superannuation Fund. |

## INFORMATION ON DIRECTORS (CONTINUED)

### 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.

## 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 2009, and the numbers of meetings attended by each director were:

| | Board of Directors | | | | Subcommittee of Board of Directors | | Audit Committee | | Risk and Reputation Committee | | Nomination and Remuneration Committee | | Investment Committee^^ | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Scheduled meetings | Meetings attended | Unscheduled meetings | Meetings attended | Scheduled meetings | Meetings attended | Scheduled meetings | Meetings attended | Scheduled meetings | Meetings attended | Scheduled meetings | Meetings attended | Scheduled meetings | Meetings attended |
| Keith Lynch | 12 | 12 | 5 | 5 | 2 | 2 | – | – | – | – | 2 | 2 | 2 | 2 |
| Mark Fitzgibbon | 12 | 12 | 5 | 5 | 2 | 2 | – | – | – | – | – | – | – | – |
| Philip Gardner | 12 | 12 | 5 | 5 | 2 | 1 | 6 | 6 | 2 | 2** | – | – | 2 | 2 |
| Brian Keane | 12 | 11 | 5 | 4 | – | – | 2 | 2* | 7 | 7 | 2 | 2 | – | – |
| Harold Bentley | 12 | 12 | 5 | 5 | – | – | 6 | 6 | – | – | 1 | 1^ | 2 | 2 |
| Annette Carruthers | 12 | 12 | 5 | 5 | – | – | 6 | 6 | 7 | 7 | 1 | 1*** | – | – |
| Janet Dore | 12 | 1# | 5 | – | – | – | – | – | 1 | 1# | – | – | – | – |

# J Dore resigned as a Board member with effect from 31 July 2008
* B Keane became a member of the Audit Committee with effect from 1 April 2009
** P Gardner became a member of the Risk & Reputation Committee with effect from 1 April 2009
*** A Carruthers became a member of the Nomination & Remuneration committee with effect from 1 April 2009
^ H Bentley ceased to be a member of the Nomination & Remuneration committee with effect from 31 March 2009
^^ The Investment Committee was established with effect from 1 April 2009

## REMUNERATION REPORT

The remuneration report is set out under the following main headings:

A. Principles used to determine the nature and amount of remuneration
B. Details of remuneration
C. Service agreements
D. Details of remuneration – short term performance incentives
E. Share-based compensation
F. Additional information

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

### A. Principles used to determine the nature and amount of remuneration

**Executive remuneration**

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

The Board has established a nomination and remuneration committee which inter alia, provides advice on remuneration, incentives and other terms of employment. The committee reviews remuneration each year after annual results and normally every second year, relies upon external expert advice and makes recommendations to the Board.

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) target established by the Board;
- 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.

## REMUNERATION REPORT (CONTINUED)

### A. Principles used to determine the nature and amount of remuneration (CONTINUED)

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 company, while the breakdown and combination of components is at the discretion of the employee.

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

***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 Managing Director (MD)/Chief Executive Officer (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 the base remuneration package 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. To achieve the maximum each executive must significantly outperform expectations which are based on stretch targets.

For the year ended 30 June 2009, one third of the 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, 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***

Longer term incentives reflect targets set by the Board in relation to earnings per share. The level of incentives are such that no executive can be paid greater than 100% of their base remuneration package when short-term and long-term performance incentives are combined.

Long-term performance incentives are provided to certain employees via the nib Long Term Incentive Plan ("LTIP"), see page 13 (Share-based compensation – Performance rights) for further information.

**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 but in April 2009, the nomination and remuneration committee recommended that there be no adjustment for FY2010 from FY2009 levels and hence independent advice was not obtained.

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 remuneration 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.

The following fees have applied from 1 July 2008. Refer to section 2 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.

## A. Principles used to determine the nature and amount of remuneration (CONTINUED)

***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, 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 nib holdings Group.

### Summary of remuneration principles from 1 July 2009

***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 a 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 sort on a less frequent basis.

***Incentives***

Total potential annual incentive payments will entitle the MD/CEO or executives to no more than the annual remuneration base.

There will be no retention bonus arrangements.

***Short term incentives (STI)***

STIs are established each year by the Board prior to the commencement of the financial year. STIs are predominantly (66%) based upon measurable objectives and targets aligned to the creation of long run enterprise value. Only 33% is attributed to the Board's or MD/CEO's (in the case of other executives) assessment of individual competency.

***Long term incentives (LTI)***

Existing shareholder approved LTIP arrangements mean this updated principle will not come into effect until the year beginning 1 July 2010.

LTIs are established each year by the Board prior to the commencement of each financial year and on a 4 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 2 years even after termination.

***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.

## B. 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 nib holdings limited, the "Parent", and 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
- Jayne Drinkwater
  Chief Marketing Officer
  (from 1/7/2008–10/10/2008)
- Melanie Kneale
  Chief Operating and Technology Officer
- David Lethbridge
  General Manager Corporate Office
  (from 1/7/2008–10/10/2008)
- Rhoderic McKensey
  Chief Marketing and Business Development Officer
  (from 1/9/2008)
- Michelle McPherson
  Deputy Chief Executive Officer/Chief Financial Officer

## REMUNERATION REPORT (CONTINUED)

### B. Details of remuneration (CONTINUED)

| | Short-term employee benefits | | | |
|---|---|---|---|---|
| 2009 | Cash salary and fees $ | Cash bonus $ | Transaction and retention 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** |

Negative amounts in cash bonuses result from the overaccrual of bonuses in 2008, and salary sacrifice of bonuses into superannuation.
* Denotes one of the 5 highest paid executives of the Group, as required to be disclosed under the *Corporations Act 2001*. The Parent does not pay executives, only non-executive directors are paid by the Parent from 1 October 2007.
** 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.
# Includes bonus share rights. Refer to section E Share-based compensation.
^ The transaction and retention bonus was a one-off payment in 2008 made in accordance with the executive's executed service agreement following the successful demutualisation and listing of nib.

| Post-employment benefits | | Long-term benefits | Termination benefits | Share-based payments | | | |
|---|---|---|---|---|---|---|---|
| Super-annuation $ | 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)

### B. Details of remuneration (CONTINUED)

| | Short-term employee benefits | | | |
|---|---|---|---|---|
| 2008 | Cash salary and fees $ | Cash bonus $ | Transaction and retention bonus $ | Non-monetary benefits $ |
| Keith Lynch^ | 51,777 | – | – | 2,617 |
| Harold Bentley (7/11/2007–30/6/2008) | – | – | – | – |
| David Brewer^ (1/7/2007–25/9/2007) | 19,495 | – | – | – |
| Grahame Cannon^ (1/7/2007–27/9/2007) | 21,744 | – | – | – |
| Annette Carruthers^ | 32,477 | – | – | 2,406 |
| Janet Dore^ | 16,804 | – | – | 1,960 |
| Philip Gardner^ | 74,358 | – | – | – |
| Brian Keane (7/11/2007–30/6/2008) | 27,304 | – | – | – |
| Michael Slater^ (1/7/2007–17/9/2007) | – | – | – | – |
| **Sub-total non-executive directors** | 243,959 | – | – | 6,983 |
| **From 1 October 2007 all non-executive directors remuneration other than retirement benefits were paid from the parent entity ni** | | | | |
| Mark Fitzgibbon* | 448,255 | 151,610 | 1,340,052 | 49,700 |
| Ian Boyd* (1/7/2007–29/2/2008) | 149,563 | 61,570 | 716,276 | 14,614 |
| Jayne Drinkwater* | 226,310 | 74,930 | 801,276 | 11,031 |
| Melanie Kneale (14/1/2008–30/6/2008) | 158,585 | 45,754 | – | 7,401 |
| Diane Lally (1/7/2007–19/10/2007) | 58,350 | (4,300) | 801,276 | 3,870 |
| David Lethbridge* | 179,584 | 69,150 | 716,276 | 11,460 |
| Michelle McPherson* | 307,192 | 103,863 | 716,276 | 19,791 |
| Peter Small (1/7/2007–26/10/2007) | 50,624 | (5,889) | 801,276 | 5,650 |
| **Sub-total executives** | 1,578,463 | 496,688 | 5,892,708 | 123,517 |
| **Total key management personnel compensation** | 1,822,422 | 496,688 | 5,892,708 | 130,500 |

Negative amounts in cash bonuses result from the overaccrual of bonuses in 2007.
* Denotes one of the 5 highest paid executives of the Group, as required to be disclosed under the *Corporations Act 2001*. The Parent does not pay executives, only non-executive directors are paid by the Parent from 1 October 2007.
# Includes bonus share rights. Refer to section E Share-based compensation.
^ Includes fees payable as a director of nib health funds limited.
^^ The transaction and retention bonus was a one-off payment in 2008 made in accordance with the executive's executed service agreement following the successful demutualisation and listing of nib.

| Post-employment benefits | | Long-term benefits | Termination benefits | Share-based payments | | | |
|---|---|---|---|---|---|---|---|
| Super-annuation $ | Retirement benefits $ | Long service leave $ | Termination benefits $ | Fees $ | Bonus# $ | Performance rights $ | Total $ |
| 99,140 | 73,401 | – | – | 24,083 | – | – | 251,018 |
| 63,848 | – | – | – | – | – | – | 63,848 |
| 4,258 | 1,200 | – | – | – | – | – | 24,953 |
| 1,957 | 3,394 | – | – | – | – | – | 27,095 |
| 67,773 | 5,561 | – | – | – | – | – | 108,217 |
| 56,474 | 6,338 | – | – | 26,972 | – | – | 108,548 |
| 7,906 | – | – | – | 13,486 | – | – | 95,750 |
| 36,545 | – | – | – | – | – | – | 63,849 |
| 22,970 | 2,096 | – | – | – | – | – | 25,066 |
| 360,871 | 91,990 | – | – | 64,541 | – | – | 768,344 |
| **b holdings limited** | | | | | | | |
| 50,000 | – | 48,035 | – | – | 217,914 | 26,638 | 2,332,204 |
| 13,453 | – | – | 244,400 | – | 85,000 | – | 1,284,876 |
| 50,000 | – | 23,196 | – | – | – | 4,898 | 1,191,641 |
| 12,542 | – | – | – | – | – | 6,170 | 230,452 |
| 9,702 | – | – | 223,600 | – | – | – | 1,092,498 |
| 50,000 | – | 25,092 | – | – | 87,166 | 4,519 | 1,143,247 |
| 49,194 | – | 30,351 | – | – | 87,166 | 6,512 | 1,320,345 |
| 16,901 | – | – | 209,404 | – | – | – | 1,077,966 |
| 251,792 | – | 126,674 | 677,404 | – | 477,246 | 48,737 | 9,673,229 |
| 612,663 | 91,990 | 126,674 | 677,404 | 64,541 | 477,246 | 48,737 | 10,441,573 |

## REMUNERATION REPORT (CONTINUED)

### B. Details of remuneration (CONTINUED)

Following the successful demutualisation and listing of nib in 2008, retention payments and transaction bonuses totalling $6.4 million were expensed in 2008. The impact of these payments given their one-off nature has been excluded from the table below which shows the relative proportions of remuneration that were linked to performance and those that were fixed.

| | Fixed remuneration | | At risk – STI/other bonuses | | At risk – LTI | |
|---|---|---|---|---|---|---|
| | 2009 % | 2008 % | 2009 % | 2008 % | 2009 % | 2008 % |
| **Other key management personnel of the Group** | | | | | | |
| Mark Fitzgibbon | 65.1% | 77.0% | 24.9% | 19.6% | 10.0% | 3.4% |
| Ian Boyd | – | 87.3% | – | 12.7% | – | – |
| Jayne Drinkwater | 102.9% | 79.5% | -1.8% | 19.2% | -1.1% | 1.3% |
| Melanie Kneale | 76.3% | 77.4% | 18.2% | 19.9% | 5.5% | 2.7% |
| Diane Lally | – | 101.5% | – | -1.5% | – | – |
| David Lethbridge | 102.9% | 78.4% | -1.8% | 20.3% | -1.1% | 1.3% |
| Rhoderic McKensey | 76.5% | – | 17.8% | – | 5.7% | – |
| Michelle McPherson | 78.0% | 78.6% | 16.8% | 20.1% | 5.2% | 1.3% |
| Peter Small | – | 102.1% | – | -2.1% | – | – |

Note: The percentages above are impacted by the length of employment during the year. David Lethbridge and Jayne Drinkwater were only employed for part of the year. (2008: Ian Boyd, Melanie Kneale, Diane Lally and Peter Small). The 2009 STI percentages are also impacted by the overaccrual of bonuses in 2008.

### C. 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.

| | Mark Fitzgibbon | Melanie Kneale | Rhoderic McKensey | Michelle McPherson |
|---|---|---|---|---|
| Service agreement effective: | 1 July 2007 | 14 January 2008 | 1 September 2008 | 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 2010 | 14 January 2008 to 30 June 2011 | 1 September 2008 to 30 June 2011 | 3 years ending 30 June 2010 |
| Termination Provision<br>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 | Yes | Yes | Yes | Yes |

## D. Details of Remuneration – short term performance incentives

Included in the financial statements for the year ended 30 June 2009 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 % |
|---|---|---|
| Mark Fitzgibbon | 67.5% | 32.5% |
| Melanie Kneale | 65.0% | 35.0% |
| Rhoderic McKensey[1] | 66.7% | 33.3% |
| Michelle McPherson | 67.5% | 32.5% |
| | 66.9% | 33.1% |

1. STI Bonus for Rhoderic McKensey has been apportioned based on period in role as executive officer.

## E. 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.

The performance hurdle for the vesting of performance rights is Earnings per Share growth targets (EPS Hurdle) over a 3 year period as determined by the Board.

The EPS Hurdle has been chosen by the Board to focus management attention on 3 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 3 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 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.

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.

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 |

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.

## REMUNERATION REPORT (CONTINUED)

### E. Share-based compensation (CONTINUED)

Details of performance rights over ordinary shares in the company provided as remuneration to key management personnel of the parent entity and 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 41 to the financial statements.

| | Number of performance rights granted during the year | | Number of performance rights vested during the year | |
|---|---|---|---|---|
| **Name** | **2009** | **2008** | **2009** | **2008** |
| Mark Fitzgibbon | 631,071 | – | – | – |
| Jayne Drinkwater | – | 63,431 | – | – |
| Melanie Kneale | 106,549 | 79,903 | – | – |
| David Lethbridge | – | 58,514 | – | – |
| Rhoderic McKensey | 77,910 | 16,320 | – | – |
| Michelle McPherson | 112,451 | 84,329 | – | – |

Shareholder approval was granted at the October 2008 AGM for the MD/CEO to participate in the LTIP. As a result, 270,442 performance rights relating to 2008 were granted to the MD/CEO in 2009. However, the value of these performance rights were accrued in 2008 and the fair value of these rights was recognised in the 2008 remuneration table.

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 2009 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 (2008 – $nil)
c. grant date: 30 June 2009 (2008 – 24 June 2008)
d. expiry date: 31 December 2013 (2008 – 31 December 2012)
e. share price at grant date: $0.92 (2008 – $0.565 for shares granted 24 June 2008)
f. expected dividend yield: Dividends are assumed based on the Board's policy at grant date. For rights granted 30 June 2009, the expected dividend payout ratio is 50% to 80% 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 above, 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 page 13). 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 6 August 2009 of $0.905.

## E. Share-based compensation (CONTINUED)

| Name | Year granted | Vested % | Forfeited[1] % | Financial years in which options may vest | Minimum total value of grant yet to vest $ | Maximum total value of performance rights yet to vest $ |
|---|---|---|---|---|---|---|
| | Performance rights | | | | | |
| Mark Fitzgibbon | 2008 | – | – | 30/06/2011 | nil | 244,750 |
| | 2009 | – | – | 30/06/2012 | nil | 326,369 |
| Jayne Drinkwater | 2008 | – | 100 | 30/06/2011 | – | – |
| Melanie Kneale | 2008 | – | – | 30/06/2011 | nil | 72,312 |
| | 2009 | – | – | 30/06/2012 | nil | 96,427 |
| David Lethbridge | 2008 | – | 100 | 30/06/2011 | – | – |
| Rhoderic McKensey | 2008 | – | – | 30/06/2011 | nil | 14,770 |
| | 2009 | – | – | 30/06/2012 | nil | 70,509 |
| Michelle McPherson | 2008 | – | – | 30/06/2011 | nil | 76,318 |
| | 2009 | – | – | 30/06/2012 | nil | 101,768 |

1. Compensation for performance rights forfeited during the financial year were paid as a Termination payment.

Further details relating to performance rights are set out below:

| Name | A<br>Remuneration consisting of performance rights | B<br>Value at grant date $ | C<br>Value at exercise date $ | D<br>Value at lapse date $ |
|---|---|---|---|---|
| Mark Fitzgibbon | 10.0% | 485,105 | – | – |
| Jayne Drinkwater* | -1.1% | 31,100 | – | 31,100 |
| Melanie Kneale | 5.5% | 121,080 | – | – |
| David Lethbridge* | -1.1% | 28,689 | – | 28,689 |
| Rhoderic McKensey | 5.7% | 67,891 | – | – |
| Michelle McPherson | 5.2% | 127,788 | – | – |

* Jayne Drinkwater and David Lethbridge received remuneration until 10/10/2008.

A = The percentage of the value of remuneration consisting of performance rights, based on the value of performance rights expensed during the current year.

B = 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.

C = The value at exercise date of performance rights that were granted as part of remuneration and were exercised during the year, being the intrinsic value of the performance rights at that date.

D = The value at lapse date of performance rights that were granted as part of the remuneration and that lapsed during the year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied.

## REMUNERATION REPORT (CONTINUED)

### E. Share-based compensation (CONTINUED)

#### 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 parent entity and 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 41 to the financial statements.

| Name | 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 to 11. 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 2009.

The valuation methodology inputs for bonus share rights granted for shares held in escrow during the year ended 30 June 2009 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 (3 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
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.

### F. 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 discussed in section D of the Remuneration Report and the long-term incentive plan, discussed in section E of the Remuneration Report, 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:

| Date performance rights granted | Expiry date | Issue price of shares | Number under performance right |
|---|---|---|---|
| 24 June 2008 | 31 December 2012 | nil | 196,872 |
| 30 June 2009 | 31 December 2012 | nil | 270,442 |
| 30 June 2009 | 31 December 2013 | nil | 657,539 |

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 right |
|---|---|---|---|
| 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 below.

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 below, 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*.

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

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| **1. Audit services** | | | | |
| PricewaterhouseCoopers Australian firm: | | | | |
| Audit and review of financial report and other audit work under the *Corporations Act 2001* | 295,000 | 358,750 | 120,000 | 155,000 |
| **Total remuneration for audit services** | **295,000** | **358,750** | **120,000** | **155,000** |
| **2. Non-audit services** | | | | |
| **Audit-related services** | | | | |
| PricewaterhouseCoopers Australian firm: | | | | |
| Audit of regulatory returns | 30,000 | 32,000 | – | – |
| Demutualisation and ASX listing | – | 320,035 | – | 313,046 |
| Due diligence on potential mergers and acquisitions | 377,000 | 500,000 | 377,000 | 500,000 |
| **Total remuneration for audit-related services** | 407,000 | 852,035 | 377,000 | 813,046 |
| **Taxation services** | | | | |
| PricewaterhouseCoopers Australian firm: | | | | |
| Advice on demutualisation and ASX listing | – | 259,857 | – | 70,760 |
| Due diligence on potential mergers and acquisitions | 100,500 | 214,000 | 100,500 | 214,000 |
| Tax compliance services | 88,400 | 60,693 | 59,000 | 2,947 |
| **Total remuneration for taxation services** | 188,900 | 534,550 | 159,500 | 287,707 |
| **Other services** | | | | |
| PricewaterhouseCoopers Australian firm: | | | | |
| Other activities undertaken to support audit of financial report | 7,809 | 13,977 | – | 6,989 |
| **Total remuneration for other services** | 7,809 | 13,977 | – | 6,989 |
| **Total remuneration for non-audit services** | **603,709** | **1,400,562** | **536,500** | **1,107,742** |
| **Total remuneration for audit and non-audit services** | **898,709** | **1,759,312** | **656,500** | **1,262,742** |

# DIRECTORS' REPORT CONTINUED

year ended 30 June 2009

## 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 a 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 27.

## CHIEF EXECUTIVE OFFICER/CHIEF FINANCIAL OFFICER DECLARATION

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

## ROUNDING OF AMOUNTS

The company is of a kind referred to in ASIC Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. 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
14 August 2009

# CORPORATE GOVERNANCE
year ended 30 June 2009

This report sets out nib holding's annual statement on its corporate governance framework for the year ending 30 June 2009.

The Board and Management of nib holdings are committed to achieving and demonstrating the highest standards of corporate governance. The Board and Management regularly review nib holdings' policies and practices to ensure that nib holdings continues to maintain and improve its governance standards. The Board is committed to following the ASX Governance Council Corporate Governance Principles and Recommendations 2007 (ASXCGC Recommendations).

nib holdings achieved a 4.5 star rating (out of 5) in the 2009 WHK Horwath Corporate Governance report amongst Australia's largest 250 companies based on market capitalisation, which puts nib holdings corporate governance structures and policies in the top 20% of the corporate governance structures and policies of Australian publicly listed companies.

Full details of the location of the references in this statement (and elsewhere in this Annual Report) which specifically sets out how nib holdings applies each ASXCGC Recommendation are contained in the corporate governance information section within the nib shareholder website. This website also contains copies of all charters and policies and can be found at www.nib.com.au/shareholders.

A description of nib holdings' 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.

## THE BOARD OF DIRECTORS

The Board operates in accordance with the broad principles set out in its Board charter. The charter details the roles and responsibilities of the Board, as well as the membership and operation of the Board.

### Board size and composition

At the date of signing the Directors' report the nib holding'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 Managing Director of nib holdings. The directors determine the size of the Board which, under nib holdings' constitution, is set at a maximum of 10 directors and a minimum of 3 directors. The Board must consist of a majority of non-executive, independent directors. The Chairman of the Board is a non-executive director and independent of the role of the Managing Director of nib holdings.

nib holdings 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' 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".

### Board role and responsibility

The role and responsibility of the Board is set out in the Board charter. 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' corporate strategy, approving strategy plans and performance objectives consistent with the corporate strategy and monitoring the implementation of the strategy plans;
- Oversight of management – appointment, and, if appropriate, removal of senior executives, including the Chief Executive Officer, the Chief Financial Officer and Company Secretary, approving senior executive remuneration policies and practices and monitoring their performance;
- Shareholders – effective communication with and reporting to shareholders;
- Other stakeholders – establishing and monitoring policies governing nib holdings' relationship with other stakeholders and the broader community;
- Ethics – actively promoting ethical decision making and maintaining a code of conduct to guide directors and all employees of nib holdings in practices necessary to maintain confidence in nib holdings' integrity;
- Oversight of financial management – reviewing and approving nib holdings' annual and half yearly financial reports, establishing and overseeing nib holdings' accounting and financial management systems, capital management and the dividend policy;
- Compliance and risk management – establishing and overseeing nib holdings' system for compliance and risk management.

The Board has delegated a number of these responsibilities to its committees. The responsibilities of the committees are set out in section 2 of this governance statement.

The Board has delegated to the Managing Director the authority to manage the day to day affairs of nib holdings and the authority to control the affairs of nib holdings other than those specifically reserved to itself in the Board charter and the Board delegations of authority.

# CORPORATE GOVERNANCE CONTINUED

year ended 30 June 2009

## BOARD OF DIRECTORS (CONTINUED)

### The Chairman

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

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

The current Chairman, Keith Lynch, is an independent non-executive director. He has been a director of nib health since 1982 and Chairman of nib health since 2001. The Chairman is also the Chairman of the nomination and remuneration committee.

### Directors' independence

The Board charter requires that directors must at all times bring an independent judgment to bear on all Board decisions. The Board has adopted specific principles in relation to directors' independence, which are set out in the Board charter. These state that when determining independence, a director must be a non executive and the Board should consider whether the director:

- is a substantial shareholder of nib holdings or an officer of, or otherwise associated directly with, a substantial shareholder of nib holdings;
- is, or has been employed in, an executive capacity by nib holdings 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 or any other Group member, or an employee materially associated with the service provided;
- is a material supplier or customer of nib holdings 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 or another Group member other than as a director of nib holdings; 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 or their judgment.

On appointment, each director is required to provide information for the Board, to assesses 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.

### Meetings of the Board

The Board meets on a monthly basis and whenever necessary between scheduled meetings. During the year the Board held twelve scheduled and five unscheduled Board meetings and an additional corporate strategy workshop in March 2009. The number of meetings attended by each director is disclosed in the Directors' report on page 5.

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

### Conflicts of interest

Directors must avoid conflicts of interest except in those circumstances permitted by the 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.

### Performance Assessment

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 2009 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 Company, Board discussion, 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.

### Appointment and re-election 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' 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

## BOARD OF DIRECTORS (CONTINUED)

### Appointment and re-election of directors (CONTINUED)

induction or orientation programs on appointment, and any continuing education or training arranged for them.

At each AGM there must be an election of directors and at least one director (excluding the Managing Director) must retire, including any director who has been appointed during the year. Retiring directors may be eligible for re-election. A director must retire from office at least every 3 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 2008 AGM shareholders approved the election of Harold Bentley and Brian Keane, who were appointed as directors in November 2007 by the Board to fill casual vacancies on the Board.

At the 2009 AGM, Keith Lynch and Philip Gardner will each offer himself for re-election as a director.

### (i) Independent professional advice

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 nib holdings' expense.

## BOARD COMMITTEES

### Board committees and membership

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 since 1 April 2009, the investment committee. Each is comprised entirely of non executive directors.

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 Committee | * | Chair | | * | |

Attendances of directors at committee meetings are set out in 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 and the Chairman 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 selection, performance assessment and succession planning practices for the Board and remuneration policies and practices.

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;
- nib holdings' policy on senior executive remuneration; and
- incentive schemes or equity based plans, if appropriate.

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

Details of how the performance evaluation process is undertaken in respect of the Managing Director/Chief Executive Officer and other senior executives are set out in the Remuneration report commencing on page 9.

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 and long term incentives;
- Receives reports and considers applications for the Group of relevant guidance frameworks and notes.

# CORPORATE GOVERNANCE CONTINUED

year ended 30 June 2009

## BOARD COMMITTEES (CONTINUED)

### Audit committee

The audit committee is made up entirely of non-executive directors and includes members who have appropriate financial experience and understanding of the private health insurance industry.

The audit committee operates in accordance with its charter, which has recently been reviewed and updated to better reflect the working of the 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' external audit function;
- the integrity of nib holdings' financial statements and other material regulatory documents;
- compliance with relevant financial reporting standards and ASX listing obligations and accounting policies adopted by nib holdings;
- the propriety of related party transactions;
- monitoring compliance with nib holdings Capital Management Plan.

In fulfilling its role, the audit committee:

- receives regular reports from management, the external auditors, and, if required, the internal auditors;
- meets with external auditors on a regular basis and has issued a standing invitation to the external auditor to attend all meetings of the audit committee;
- reviews the processes the Managing Director/CEO and CFO have in place to support their certifications to the Board;
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved;
- meets separately with the external auditors at least twice a year without the presence of management; and
- provides the external auditors 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. The role of the risk and reputation committee is to review and make recommendations to the Board on the internal audit function, nib holdings' risk management practices and matters relating to the social, environmental and ethical impacts of nib holdings' 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' risk management framework and the policies and procedures that support that framework;
- the identification, assessment, monitoring and reporting of material risks facing nib holdings; 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;
- 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 was established on 1 April 2009 following a review by the Board of the alignment between Board and Board Committee structure, the activities of the Group and the external operating environment. The investment committee operates in accordance with its charter.

The role of the investment committee is to assist the Board to oversee the investment activities of nib holdings. 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 nib holdings Capital Management Plan and investment policy statement.

In fulfilling its role, the investment committee intends to:

- request regular reports from management and any appointed external investment advisors and asset managers on investment performance and options;

## BOARD COMMITTEES (CONTINUED)

### Investment Committee (CONTINUED)

- meet with external investment advisors and asset managers, with or without management present, as required; and
- provide external investment advisors and asset managers appointed with a clear line of direct communication at any time to either the Chair of the investment committee or the Chairman of the Board.

## EXTERNAL AUDITORS

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

PricewaterhouseCoopers (PwC) was appointed as the external auditor of nib holdings in October 2007 and at the 2008 AGM this appointment was approved by shareholders in accordance with section 327B(1) of the *Corporations Act 2001*. It is PwC's policy to rotate audit engagement partners on listed companies at least every five years in line with Corporations Act requirements. The current engagement partner for nib holdings is Wayne Russell.

An analysis of fees paid to the external auditors, including a break down of fees for non-audit services, is provided on page 17 of the directors' report and in note 33 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 27.

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.

## INTERNAL AUDIT

nib holdings' internal audit function is currently performed by Deloitte. The internal auditor provides an independent and objective internal audit review of nib holdings' risks and how the key controls and nib holdings' processes and technology are operated and managed to provide the best outcomes for nib holdings. The annual internal audit plan is approved by the risk and reputation committee.

Internal audit reports are considered at the risk and reputation committee.

## RISK ASSESSMENT AND MANAGEMENT

At nib holdings, 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. nib holdings' 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'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 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' ability to deliver its strategic objectives. At a high level these are:

- financial risk – the risks associated with achieving nib holdings 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;

# CORPORATE GOVERNANCE CONTINUED

year ended 30 June 2009

## RISK ASSESSMENT AND MANAGEMENT (CONTINUED)

- strategic risk – the risk of changing government policies and new legislation on nib's business (sovereign risk), strategic plan risk, reputation risk and product design;
- regulatory and compliance risk – the risk of failing to comply with nib's legal and regulatory requirements and nib's internal policies and procedures.

The Board and the risk and reputation committee receive regular reports on key enterprise risks that may impede nib holdings meeting its business objectives. During the year, management has reported 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.

The nib holdings Strategic Internal Audit plan for the year was 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.

On a quarterly basis internal control questionnaires are completed by all divisional and business unit managers. These are reviewed by nib holding's finance division as part of nib holding's six monthly and annual reporting and to achieve compliance with section 295A of the *Corporations Act 2001* and Recommendation 7.3 of the ASXCGC Recommendations.

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

- nib holdings' 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 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' risk management and internal compliance and control is operating efficiently and effectively in all material respects.

## ETHICAL AND RESPONSIBLE DECISION MAKING

### Code of Conduct

nib holdings has adopted a Code of Conduct which applies to all directors, officers, employees, contractors, consultants and associates of nib holdings. The Code of Conduct sets out ethical standards and rules of nib holdings and provides a framework to guide compliance with legal and other obligations to stakeholders. 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 1988* (Cth);
- dealing fairly with all parties;
- compliance with laws and regulations;
- responsibilities to shareholders; and
- no insider trading.

### Trading Policy

nib holdings has adopted a trading policy which applies to all directors, officers, the senior executive and other employees of nib holdings and provides that where a person possesses inside information concerning nib's securities, that person must not deal in the securities of nib holdings, procure another person to deal in those securities or pass on the inside information to another person.

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 (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.

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's half yearly and annual results, and the close of nib holdings' AGM. The trading windows are normally for a period of 30 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 2001* (Cth).

## ETHICAL AND RESPONSIBLE DECISION MAKING (CONTINUED)

### Trading Policy (CONTINUED)

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.

### Whistleblower policy

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

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

### Environmental issues

nib holdings is committed to reducing its carbon footprint. In December 2008 nib holdings moved to a new Head Office at 22 Honeysuckle Drive in Newcastle. nib holdings is targeting a 4.5 Star NABERS Energy (Base Building, New Build) rating and a 4.5 star Australian Building Greenhouse Rating (Base Building, New Build) for its Head Office.

The Head Office development base building is also preparing a submission to the Green Building Council of Australia for an Office AsBuilt rating. The base building has been designed to reduce the energy consumption of the building by using efficient mechanical equipment, efficient lighting, natural ventilation and materials selected for their environmental performance.

#### Design Considerations

The fitout of the Head Office was designed to be integrated in the base building construction to reduce waste and eliminate the need for reworks during the fitout phase. The fitout was specifically designed in order to undertake the Green Star Certification process in an attempt to achieve a Green Star rating. The design of fitout specifically considered elements such as the layout of working areas to maximise daylight and external views for the majority of employees. This has been achieved by placing the majority of private offices and meeting spaces in the core of the building with open plan workstation areas closer to the windows.

A number of considerations were made in designing and specifying equipment for the base building and fitout including energy efficient mechanical (air conditioning) units and light fittings and after hours light switching is in place to lower the energy consumed by the building. Water efficient fittings have been installed in both the fitout and the base building to reduce the amount of water consumed by building operations.

nib holdings has selected a building located close to public transport facilities to allow staff to travel to work through public transport services. Cyclist facilities have also been provided to encourage employees to use alternative forms of transport to travel to work. Facilities such as bike racks, showering and changing facilities and lockers have been provided for cyclists.

#### Procurement of Products and Materials

Materials and fittings installed in the Head Office fitout have been specifically selected for their environmental performance, in order to improve the indoor environmental quality of the building and to reduce energy consumption.

Items such as workstations, tables, storage units, chairs, paints and carpets have been specifically selected as they contain low levels of Volatile Organic Compounds (VOCs), additionally materials with low formaldehyde levels have also been selected where available. The selection materials and products with low levels of VOCs and formaldehyde, together with the installation of a large number of indoor plants improve the indoor environmental quality in the building resulting in a healthier and more pleasant work environment for staff members.

Mechanical plant and insulation has been specifically selected as they contain zero Ozone Depleting Potential (ODPs) which means that there are no emissions from these products which are harmful to the ozone, improving the environmental performance of the building.

#### Ongoing Management Commitment

nib holdings has made an ongoing commitment to improved environmental performance by implementing ongoing commissioning and tuning of services equipment and plant to maintain their energy efficiency and implementing recycling practices to recycle both secure and non-secure paper as well as other recyclables such as PET and aluminium cans. nib holdings is also committed to procuring energy efficient consumables such as light fittings as well as procuring future furniture items in accordance with the practices used to select the current furniture items including requirements of low VOC and formaldehyde levels, durability, recyclability and product stewardship.

# CORPORATE GOVERNANCE CONTINUED

year ended 30 June 2009

## ETHICAL AND RESPONSIBLE DECISION MAKING (CONTINUED)

### Environmental issues (CONTINUED)

#### Other measures

In addition to those mentioned above, nib holdings has installed rainwater tanks in the carpark of the new Head Office to water the garden areas; has set all default printers to double sided printing and has made it easier for shareholders to communicate electronically, and thereby reduce paper usage, by redesigning the shareholder website and encouraging shareholders to receive communications in electronic format.

## CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATION

nib holdings has a Disclosure and Communication Policy.

nib holdings is committed to complying with the continuous disclosure obligations imposed by law, ensuring nib holdings announcements are presented in a factual, clear and balanced way and ensuring that all shareholders have equal and timely access to material information concerning nib holdings.

nib holdings has established a disclosure committee which is responsible for managing nib holdings' disclosure obligations. The committee comprises the Managing Director, Chief Financial Officer, nib holdings' Company Secretary, the Investor Relations Manager and Legal Counsel. Within this context of compliance with continuous disclosure obligations the Board also reviews all material disclosures.

nib holdings' 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.

nib holdings has a dedicated shareholder website which can be found at www.nib.com.au/shareholders. This website has recently been redesigned and updated to provide more 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 shareholder website as soon as it is disclosed to the ASX. When analysts are briefed on aspects of nib's operations, the material used in the presentation is released to the ASX and posted on nib holdings shareholder website.

nib holdings 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 shareholder website, which provides information about how to make this election. nib holdings will communicate by post with shareholders who have not elected to receive information electronically.

Shareholders are encouraged to attend or, if unable to attend, to vote on the motions proposed by appointing a proxy or using any other means included in 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 will place notices of general meetings and accompanying explanatory material on the website.

# AUDITOR'S INDEPENDENCE DECLARATION
year ended 30 June 2009

PRICEWATERHOUSECOOPERS

**PricewaterhouseCoopers**
**ABN 52 780 433 757**

PricewaterhouseCoopers Centre
26 Honeysuckle Drive
PO Box 798
NEWCASTLE NSW 2300
DX 77 Newcastle
Australia
Telephone +61 2 4925 1100
Facsimile +61 2 4925 1199

## Auditor's Independence Declaration

As lead auditor for the audit of nib holdings limited for the year ended 30 June 2009, 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.

Wayne Russell
Partner
PricewaterhouseCoopers

Newcastle
14 August 2009

Liability limited by a scheme approved under Professional Standards Legislation

# INDEPENDENT AUDITOR'S REPORT

to the members of nib holdings limited



PRICEWATERHOUSECOOPERS

**PricewaterhouseCoopers**
**ABN 52 780 433 757**

PricewaterhouseCoopers Centre
26 Honeysuckle Drive
PO Box 798
NEWCASTLE NSW 2300
DX 77 Newcastle
Australia
Telephone +61 2 4925 1100
Facsimile +61 2 4925 1199
www.pwc.com/au

## 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 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both nib holdings limited and 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 compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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.

PRICEWATERHOUSECOOPERS

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

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

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 company's and consolidated entity's financial position as at 30 June 2009 and of their 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 also complies 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 16 of the directors' report for the year ended 30 June 2009. 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 2009, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

W M Russell

Wayne Russell
Partner

Newcastle
14 August 2009

# DIRECTORS' DECLARATION

year ended 30 June 2009

In the directors' opinion:

a. the financial statements and notes set out on pages 31 to 81 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 company's and consolidated entity's financial position as at 30 June 2009 and of their 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
14 August 2009

# INCOME STATEMENTS

for the year ended 30 June 2009

| | | Consolidated | | Parent Entity | |
|---|---|---|---|---|---|
| | Notes | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| **Premium revenue** | 5 | 829,486 | 758,238 | – | – |
| Claims expense | | (599,297) | (553,910) | – | – |
| HBRTF/RETF Levy | | (86,978) | (73,128) | – | – |
| State levies | | (21,177) | (19,922) | – | – |
| Claims handling expenses | 6 | (18,384) | (17,683) | – | – |
| **Net claims incurred** | | (725,836) | (664,643) | – | – |
| Acquisition costs | 6 | (26,642) | (25,625) | – | – |
| Other underwriting expenses – ongoing | 6 | (36,847) | (34,916) | – | – |
| Other underwriting expenses – demutualisation and listing costs | 6 | – | (10,858) | – | – |
| **Underwriting expenses** | | (63,489) | (71,399) | – | – |
| **Underwriting result** | | 40,161 | 22,196 | – | – |
| Investment income | 5 | (1,167) | 8,783 | 84,472 | 95,522 |
| Other income | 5 | 1,183 | 1,463 | – | 12 |
| Investment expenses | 6 | (651) | (1,325) | (77) | (8) |
| Other expenses – ongoing | 6 | (7,931) | (3,548) | (7,460) | (3,059) |
| Other expenses – donation to nib foundation | 6 | – | (25,000) | – | (25,000) |
| Other expenses – demutualisation and listing costs | 6 | – | (7,640) | – | (7,640) |
| **Profit/(loss) before income tax** | | 31,595 | (5,071) | 76,935 | 59,827 |
| Income tax expense/(benefit) | 7 | 7,809 | (5,421) | (8,179) | (11,241) |
| **Profit/(loss) from continuing operations** | | 23,786 | 350 | 85,114 | 71,068 |
| Profit/(Loss) from discontinued operations | | – | 54 | – | – |
| **Profit/(Loss) for the year attributable to equity holders of nib holdings limited** | | **23,786** | **404** | **85,114** | **71,068** |

| | | Cents | Cents |
|---|---|---|---|
| **Earnings per share for profit/(loss) from continuing operations attritributable to the ordinary equity holders of the company** | | | |
| Basic earnings per share | 44 | 4.7 | 0.1 |
| Diluted earnings per share | 44 | 4.7 | 0.1 |
| **Earnings per share for profit/(loss) attritributable to the ordinary equity holders of the company** | | | |
| Basic earnings per share | 44 | 4.7 | 0.1 |
| Diluted earnings per share | 44 | 4.7 | 0.1 |

The above income statements should be read in conjunction with the accompanying notes.

# BALANCE SHEETS
as at 30 June 2009

| | | Consolidated | | Parent Entity | |
|---|---|---|---|---|---|
| | Notes | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | 8 | 167,143 | 179,185 | 75,990 | 12,372 |
| Receivables | 9 | 32,402 | 33,381 | 8,146 | 21,226 |
| Financial assets at fair value through profit or loss | 10 | 230,276 | 242,824 | 66,734 | 87,612 |
| | | 429,821 | 455,390 | 150,870 | 121,210 |
| Non-current assets classified as held for sale | 11 | 350 | 8,554 | – | – |
| **Total current assets** | | 430,171 | 463,944 | 150,870 | 121,210 |
| **Non-current assets** | | | | | |
| Receivables | 12 | 500 | 3,097 | – | – |
| Available-for-sale financial assets | 13 | 1,500 | 1,588 | – | – |
| Investment in controlled entities | 14 | – | – | 389,967 | 389,783 |
| Deferred tax assets | 15 | 19,687 | 18,287 | 12,585 | 6,022 |
| Investment properties | 16 | 30,000 | 30,000 | – | – |
| Property, plant and equipment | 17 | 43,752 | 39,001 | – | – |
| Intangible assets | 18 | 10,915 | 9,850 | – | – |
| **Total non-current assets** | | 106,354 | 101,823 | 402,552 | 395,805 |
| **Total assets** | | 536,525 | 565,767 | 553,422 | 517,015 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Payables | 19 | 58,758 | 55,091 | 440 | 1,228 |
| Borrowings | 20 | 409 | 2,051 | – | – |
| Outstanding claims liability | 21 | 56,231 | 62,343 | – | – |
| Unearned premium liability | 22 | 49,888 | 46,989 | – | – |
| Current tax liabilities | 24 | 5,973 | 10,366 | 5,973 | 10,366 |
| Provision for employee entitlements | 25 | 2,555 | 3,272 | – | – |
| **Total current liabilities** | | 173,814 | 180,112 | 6,413 | 11,594 |
| **Non-current liabilities** | | | | | |
| Provision for employee entitlements | 25 | 828 | 814 | – | – |
| **Total non-current liabilities** | | 828 | 814 | – | – |
| **Total liabilities** | | 174,642 | 180,926 | 6,413 | 11,594 |
| **Net assets** | | **361,883** | **384,841** | **547,009** | **505,421** |
| **EQUITY** | | | | | |
| Share capital | 27 | 42,528 | 44,574 | 416,449 | 434,296 |
| Retained profits | 28 | 317,897 | 329,565 | 130,315 | 71,064 |
| Reserves | 29 | 1,458 | 10,702 | 245 | 61 |
| **Total equity** | | **361,883** | **384,841** | **547,009** | **505,421** |

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

# STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2009

| | | Consolidated | | Parent Entity | |
|---|---|---|---|---|---|
| | Notes | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| **Total equity at the beginning of the financial year** | | 384,841 | 336,214 | 505,421 | (4) |
| Revaluation of land and buildings, net of tax | 29 | (3,156) | 3,526 | – | – |
| Changes in fair value of available-for-sale financial assets, net of tax | 29 | (62) | 62 | – | – |
| **Net income recognised directly in equity** | | (3,218) | 3,588 | – | – |
| **Profit/(loss) for the year** | 28 | 23,786 | 404 | 85,114 | 71,068 |
| **Total recognised income and expense for the financial year attributable to equity holders of nib holdings limited** | | 20,568 | 3,992 | 85,114 | 71,068 |
| Transactions with equity holders in their capacity as equity holders : | | | | | |
| Contributions of equity, net of transaction costs | 27 | – | 44,574 | – | 434,296 |
| Buy-back of ordinary shares | 27 | (2,046) | – | (17,847) | – |
| Dividends provided for or paid | 30 | (25,863) | – | (25,863) | – |
| Reverse acquisition adjustment for share buy back | 28 | (15,801) | | | |
| Performance right expense | 29 | 156 | 51 | – | – |
| Bonus share right expense | 29 | 28 | 10 | – | – |
| Performance rights issued to employees of subsidiaries | 29 | – | – | 156 | 51 |
| Bonus share rights issued to employees of subsidiaries | 29 | – | – | 28 | 10 |
| **Total equity at the end of the financial year** | | 361,883 | 384,841 | 547,009 | 505,421 |

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

# CASH FLOW STATEMENTS

for the year ended 30 June 2009

| | | Consolidated | | Parent Entity | |
|---|---|---|---|---|---|
| | Notes | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| **Cash flows from operating activities** | | | | | |
| Receipts from policyholders and customers (inclusive of goods and services tax) | | 838,162 | 766,039 | 473 | 1,083 |
| Payments to policyholders, suppliers and employees – ongoing (inclusive of goods and services tax) | | (796,555) | (718,916) | (8,871) | (1,952) |
| Payments to policyholders, suppliers and employees – donation to nib foundation (inclusive of goods and services | | – | (25,000) | – | (25,000) |
| Payments to suppliers and employees – demutualisation and listing costs (inclusive of goods and services tax) | | – | (20,962) | – | (8,786) |
| | | 41,607 | 1,161 | (8,398) | (34,655) |
| Dividends received | | 18 | – | 104,145 | 95,500 |
| Interest received | | 8,948 | 7,565 | 1,188 | 1,737 |
| Distributions received | | 7,791 | 44,500 | 1,320 | 4,525 |
| Interest paid | | (4) | (2) | (1) | – |
| Income taxes paid | | (14,132) | – | 7,123 | – |
| **Net cash inflow (outflow) from operating activities** | 34(b) | 44,228 | 53,224 | 105,377 | 67,107 |
| **Cash flows from investing activities** | | | | | |
| Proceeds from sale of available-for-sale investment properties | | – | 1,712 | – | – |
| Proceeds from disposal of other financial assets at fair value through the profit and loss | | 9,716 | 142,225 | 9,711 | – |
| Payments for other financial assets at fair value through the profit and loss | | (16,969) | (54,013) | (11,073) | (93,851) |
| Payments for available-for-sale financial assets | | – | (1,500) | – | – |
| Payments for property, plant and equipment and intangibles | 17,18 | (17,589) | (23,616) | – | – |
| Proceeds from sale of property, plant and equipment and intangibles | | 9,933 | 215 | – | – |
| Proceeds from sale of subsidiary, net of cash disposed | | 3,618 | 768 | – | – |
| Proceeds from sale of Eye Care and Dental businesses | | 250 | 250 | – | – |
| Loans to related parties | | – | – | 3,313 | (2,465) |
| **Net cash (outflow) inflow from investing activities** | | (11,041) | 66,041 | 1,951 | (96,316) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from issues of shares and other equity securities | | – | 50,000 | – | 50,000 |
| Share issue and transaction costs | | – | (8,419) | – | (8,419) |
| Payments for share buy-back | | (17,847) | – | (17,847) | – |
| Dividends paid to the company's shareholders | | (25,863) | – | (25,863) | – |
| Proceeds from finance lease | | 123 | 149 | – | – |
| **Net cash inflow (outflow) from financing activities** | | (43,587) | 41,730 | (43,710) | 41,581 |
| **Net increase (decrease) in cash and cash equivalents** | | (10,400) | 160,995 | 63,618 | 12,372 |
| Cash and cash equivalents at beginning of the financial year | 34(a) | 177,134 | 16,139 | 12,372 | – |
| **Cash and cash equivalents at end of year** | 34(a) | 166,734 | 177,134 | 75,990 | 12,372 |

The above cash flow statements should be read in conjunction with the accompanying notes.

# NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2009



## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for nib holdings limited as an individual entity and the consolidated entity (the Group) 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 financial report of nib holdings limited also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

**Early adoption of standards**

The Group has elected to apply the following pronouncements to the annual reporting period beginning 1 July 2007:

- AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an investment in a subsidiary, jointly-controlled entity or associate*

**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.

### 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 2009 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 those entities over which the Parent has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(j)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

### c) Segment Reporting

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

### d) Revenue recognition

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:

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### d) Revenue recognition (CONTINUED)

#### i) Premium revenue

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

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

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

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

#### ii) Investment income

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

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

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

### g) Acquisition costs

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

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### h) Income tax (CONTINUED)

offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

#### 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 income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risk and rewards of ownership are 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 income statement 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 income statement on a straight-line basis over the lease term.

### j) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired.

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets of the subsidiary acquired is recorded as goodwill (refer note 1(q)). If the cost of acquisition is less than the Group's share of the fair value of identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired. Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is 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.

### k) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life and are not subject to amortisation and 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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### k) Impairment of assets (CONTINUED)

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 income statement.

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

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

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

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

#### ii) Investment properties

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

Investment properties are initially recorded at 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 income statement 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 income statement.

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

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, 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.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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 the income statement. 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 recognised in the income statement.

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

Non-current assets (or disposal groups) are classified as held for sale 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 on the face of the income statement.

### p) Property, plant and equipment

Land and buildings (except for investment properties – refer to note 1(l)(ii)) are shown at fair value, based on periodic, but at least 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 the income statement 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 the income statement.

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

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

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### p) Property, plant and equipment (CONTINUED)

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. 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 licences

Software licences have a finite useful life and are carried at cost, less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the licences over their useful lives being between two and a half years and 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 expected to be settled within 12 months of the reporting date are recognised in other 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 there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit, or
- the amounts to be paid are determined before the time of completion of the financial report, or
- past practice gives clear evidence of the amount of the obligation.

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

#### iv) Retirement 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 Long-term Incentive Plan and the employee share acquisition (tax exempt) plan. Information relating to these plans is set out in note 41.

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 fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the performance rights.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### s) Employee benefits (CONTINUED)

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 fair value of the performance rights granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of performance rights that are expected to become exercisable. At each reporting date, the Group revises its estimate of the number of performance rights that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

Under the employee share acquisition (tax exempt) plan, in 2008 eligible employees were granted an aggregate market value up to $1,000 worth of fully paid ordinary shares in nib holdings limited for the first year of listing. Shares issued to the employees by the Board are acquired on-market and expensed. Subsequent offers under ESAP are at the Board's discretion.

### 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.

### 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.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### x) Reverse acquisition accounting policy (CONTINUED)

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. 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 equity. When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

### z) 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.

### aa) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

**(i) AASB-8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8* (effective from 1 January 2009)**

AASB 8 will result in a significant change in the approach to segment reporting, as it requires the adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group currently does not have separate operating segments therefore AASB 8 and AASB 2007-3 will have no impact on the Group's financial statements. The Group will apply AASB 8 and AASB 2007-3 from 1 January 2009.

**(ii) AASB 101 *Presentation of Financial Statements* and AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101* (effective from 1 January 2009)**

The September 2007 revised AASB 101 requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being at the beginning of the comparative period. The Group will apply the standard from 1 July 2009.

**(iii) Revised AASB 3 *Business Combinations*, AASB 127 *Consolidated and Separate Financial Statements* and AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127* (effective 1 July 2009)**

The revised AASB 3 continues to apply the acquisition method to business combinations, but with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs must be expensed. The Group will apply the revised standards prospectively to all business combinations and transactions with non-controlling interests from 1 July 2009.

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

| Standard | Title | Operative Date |
|---|---|---|
| 2007-6 | Amendments to Australian Accounting Standards arising from AASB 123 *Borrowing Costs* | 1 January 2009 |
| 2008-1 | Amendments to Australian Accounting Standard – Share Based Payments: Vesting Conditions and Cancellations AASB 2 | 1 January 2009 |
| 2008-2 | Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation. AASB 7, AASB 101, AASB 132, AASB 139 & Interpretation 2 | 1 January 2009 |
| 2008-5 | Amendments to Australian Accounting Standards arising from the Annual Improvements Project | 1 January 2009 |

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### aa) New accounting standards and interpretations (CONTINUED)

| Standard | Title | Operative Date |
|---|---|---|
| 2008-6 | Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project | 1 July 2009 |
| 2008-8 | Amendments to Australian Accounting Standards – Eligible Hedged Items AASB 139 | 1 July 2009 |
| 2008-13 | Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – *Distributions of Non-cash Assets to Owners* AASB 5 & AASB 110 | 1 July 2009 |
| 2009-2 | Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments AASB 4, 7, 1023 & 1038 | 1 January 2009 |
| 2009-4 | Amendments to Australian Accounting Standards arising from the Annual Improvements Project | 1 July 2009 |
| 2009-5 | Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project | 1 January 2010 |
| 2009-6 | Amendments to Australian Accounting Standards | 1 January 2009 |
| 2009-7 | Amendments to Australian Accounting Standards | 1 July 2009 |

## 2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Group makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key 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 was determined taking into account one month of actual post balance date claims.

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

## 3. ACTUARIAL ASSUMPTIONS AND METHODS

### Actuarial methods

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

In calculating the estimated cost of unpaid claims, two methods are used. For service months March 2009 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, the service months for April 2009 to June 2009, a case estimate method is used based on eligibility checks undertaken.

## 3. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

### Actuarial assumptions

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

| | 30 June 2009 | | | 30 June 2008 | | |
|---|---|---|---|---|---|---|
| | Hospital | Medical | Ancillary | Hospital | Medical | Ancillary |
| Assumed proportion paid to date | 91.5% | 89.1% | 95.4% | 89.5% | 87.1% | 95.0% |
| Expense rate | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% |
| Discount rate | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Risk equalisation rate | 23.4% | 23.4% | 0.0% | 22.0% | 22.0% | 0.0% |
| Risk margin | 5.0% | 5.0% | 5.0% | 5.4% | 5.4% | 5.4% |

The risk margin of 5.0% (June 2008: 5.4%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% (June 2008: 95%).

### 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) Case Estimate Method Assumptions

The slope and intercept of a linear relationship was determined by regressing the number of eligibility checks against claims incurred for the two year period to March 2009.

#### iii) Expense rate

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

#### iv) Discount rate

As claims for health funds are generally settled within one year, no discounting of claims is 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 2008: 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. |
| **Case Estimate Method Assumptions** | An increase or decrease in the slope of the linear regression 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 claims expense. |
| **Risk margin** | An estimate of the amount of uncertainty in the determination of the central estimate. An increase or decrease in the risk margin would have a corresponding impact on claims expense. |

**Sensitivity analysis – insurance contracts** (CONTINUED)

### ii) Impact of key variables

| | | Profit | | Equity | |
|---|---|---|---|---|---|
| | | | Consolidated 2009 $'000 | | Consolidated 2009 $'000 |
| Recognised amounts in the financial statements | | | 23,786 | | 361,883 |
| **Variable** | **Movement in variable** | **Adjustments** | **Adjusted amounts** | **Adjustments** | **Adjusted amounts** |
| Chain Ladder Development Factors | +0.5% | (2,643) | 21,143 | (2,643) | 359,240 |
| | -0.5% | 2,643 | 26,429 | 2,643 | 364,526 |
| Case Estimate Method – Slope | +0.5% | (395) | 23,391 | (395) | 361,488 |
| | -0.5% | 395 | 24,181 | 395 | 362,278 |
| Expense rate | +1.0% | (441) | 23,345 | (441) | 361,442 |
| | -1.0% | 441 | 24,227 | 441 | 362,324 |
| Risk equalisation allowance | +2.5% | (868) | 22,918 | (868) | 361,015 |
| | -2.5% | 868 | 24,654 | 868 | 362,751 |
| Risk margin | +1.0% | (536) | 23,250 | (536) | 361,347 |
| | -1.0% | 536 | 24,322 | 536 | 362,419 |

## 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;
    - 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;

## 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)

- Actuarial models, using information from the management information systems, are used to calculate premiums and monitor claims patterns. Past experience and statistical methods are used as part of the process;
- A rigorous approach to product design to mitigate the risk of the Group being exposed to adverse selection;
- Maintenance of reserves in excess of solvency and capital adequacy regulatory requirements;
- An investment strategy which delivers a diversified portfolio with a heavier weighting to defensive assets versus growth assets;
- Internal audit which provides independent assurance to senior management and directors regarding the adequacy of controls over activities where the risks are perceived to be high;
- Regular risk and compliance reporting; and 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' (2008: 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 and Parent 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.

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

### c) Credit risk (CONTINUED)

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| **Other Receivables** | | | | |
| *Counterparties without external credit rating** | | | | |
| Group 1 | – | – | – | – |
| Group 2 | 26,526 | 28,944 | 83 | 133 |
| Group 3 | – | – | – | – |
| **Total Other Receivables** | 26,526 | 28,944 | 83 | 133 |

*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.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| **Cash at Bank and short-term bank deposits** | | | | |
| A-1 | 167,143 | 179,185 | 75,990 | 12,372 |
| | 167,143 | 179,185 | 75,990 | 12,372 |

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| **Financial assets at fair value through profit or loss** | | | | |
| Interest-bearing securities | | | | |
| AAA | 93,300 | 93,239 | – | – |
| AA | 29,718 | 30,285 | – | – |
| A | 20,479 | 20,336 | – | – |
| BBB | 11,344 | (200) | – | – |
| BB | – | 3,286 | – | – |
| B | – | 1,315 | – | – |
| Sub Inv Grade * | 5,321 | – | | |
| Unclassified | 37 | 2,116 | – | – |
| | 160,199 | 150,377 | – | – |

* Sub investment grade assets in June 2009 represent underlying assets in the overseas fixed interest portfolio. The grade of these assets has declined due to the global financial crisis. The overseas fixed interest portfolio has not changed from that which was held at 30 June 2008. At 30 June 2008 none of the underlying investments were graded as sub investment grade.

### 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 and Parent manage liquidity risk by continuously monitoring forecast and actual cash flows and hold 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 below analyse the Group's and the parent entity's financial liabilities into relevant maturity groupings based on

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

### d) Liquidity risk (CONTINUED)

the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| Group at 30 June 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 |

| Group at 30 June 2008 | ≤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 | 3,585 | – | – | – | – | 3,585 | 3,585 |
| Other payables | 25,303 | 1,696 | – | – | – | 26,999 | 26,999 |
| Borrowings | 2,051 | – | – | – | – | 2,051 | 2,051 |
| | 30,939 | 1,696 | – | – | – | 32,635 | 32,635 |

| Parent 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 | – | – | – | – | – | – | – |
| Other payables | 394 | – | – | – | – | 394 | 394 |
| Borrowings | – | – | – | – | – | – | – |
| | 394 | – | – | – | – | 394 | 394 |

| Parent at 30 June 2008 | ≤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 | – | – | – | – | – | – | – |
| Other payables | 1,214 | – | – | – | – | 1,214 | 1,214 |
| Borrowings | – | – | – | – | – | – | – |
| | 1,214 | – | – | – | – | 1,214 | 1,214 |

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

### e) Market risk

#### i) Price risk

The Group and the parent entity are 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. Neither the Group nor the Parent are 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 below that summarises the sensitivity of the Group's and Parent's financial assets and financial liabilities to price risk and interest rate risk.

#### ii) Fair value interest rate risk

The Group and Parent does not have long-term borrowings. The Group's and Parent'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 below summarises the sensitivity of the Group's and Parent's financial assets and financial liabilities 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.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2009

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

### e) Market risk (CONTINUED)

| | | Interest Rate Risk | | | | Other Price Risk | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | -100bps | | +100bps | | -10% unit price | | +10% unit price | |
| **Group** | **Carrying amount** | **Profit** | **Equity** | **Profit** | **Equity** | **Profit** | **Equity** | **Profit** | **Equity** |
| **30 June 2009** | | | | | | | | | |
| **Financial assets** | | | | | | | | | |
| Cash and cash equivalents | 167,143 | (1,170) | (1,170) | 1,170 | 1,170 | – | – | – | – |
| Other Receivables | 26,526 | (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 |
| **30 June 2008** | | | | | | | | | |
| **Financial assets** | | | | | | | | | |
| Cash and cash equivalents | 179,185 | (1,254) | (1,254) | 1,254 | 1,254 | – | – | – | – |
| Other Receivables | 28,971 | (48) | (48) | 48 | 48 | – | – | – | – |
| Financial assets at fair value through profit or loss | 242,824 | 4,896 | 4,896 | (4,896) | (4,896) | (6,471) | (6,471) | 6,471 | 6,471 |
| Unlisted equity securities | 1,588 | – | – | – | – | (50) | (111) | – | 111 |
| **Total Increase/(decrease)** | | 3,594 | 3,594 | (3,594) | (3,594) | (6,521) | (6,582) | 6,471 | 6,582 |
| **Parent Entity** | | | | | | | | | |
| **30 June 2009** | | | | | | | | | |
| **Financial assets** | | | | | | | | | |
| Cash and cash equivalents | 75,990 | (532) | (532) | 532 | 532 | – | – | – | – |
| Other Receivables | 83 | – | – | – | – | – | – | – | – |
| Financial assets at fair value through profit or loss | 66,734 | – | – | – | – | (4,671) | (4,671) | 4,671 | 4,671 |
| **Total Increase/(decrease)** | | (532) | (532) | 532 | 532 | (4,671) | (4,671) | 4,671 | 4,671 |
| **30 June 2008** | | | | | | | | | |
| **Financial assets** | | | | | | | | | |
| Cash and cash equivalents | 12,372 | (87) | (87) | 87 | 87 | – | – | – | – |
| Other Receivables | 133 | – | – | – | – | – | – | – | – |
| Financial assets at fair value through profit or loss | 87,612 | – | – | – | – | (6,133) | (6,133) | 6,133 | 6,133 |
| **Total Increase/(decrease)** | | (87) | (87) | 87 | 87 | (6,133) | (6,133) | 6,133 | 6,133 |

### f) Fair value estimation

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

The fair value of financial instruments traded in active markets (such as financial assets at fair value through profit and loss and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group and Parent is the current bid price.

The fair value of financial instruments that are not traded in active markets (for example investments in unlisted subsidiaries) is determined using valuation techniques. The Group and Parent use a variety of methods and makes assumptions that are based on market conditions existing at each balance date.

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

## 5. REVENUE AND OTHER INCOME

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| **Premium Revenue** | 829,486 | 758,238 | – | – |
| **Investment Income** | | | | |
| Rent Received | 1,725 | 1,725 | – | – |
| Net fair value gains/(losses) on financial assets at fair value through profit or loss | (2,910) | 6,768 | (19,673) | 22 |
| Dividends | 18 | – | 104,145 | 95,500 |
| Fair value adjustment on non-current assets held for sale | – | 290 | – | – |
| | (1,167) | 8,783 | 84,472 | 95,522 |
| **Other income** | | | | |
| Fair value adjustment to property, plant and equipment | – | – | – | – |
| Sundry income | 1,183 | 1,463 | – | 12 |
| | 1,183 | 1,463 | – | 12 |

## 6. EXPENSES

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| **Expenses by function** | | | | |
| Claims handling expenses | 18,384 | 17,683 | – | – |
| Investment expenses | 651 | 1,325 | 77 | 8 |
| Acquisition costs | 26,642 | 25,625 | – | – |
| Underwriting expenses – ongoing | 36,847 | 34,916 | – | – |
| Underwriting expenses – demutualisation and listing costs | – | 10,858 | – | – |
| Other expenses – ongoing | 7,931 | 3,548 | 7,460 | 3,059 |
| Other expenses – donation to nib foundation | – | 25,000 | – | 25,000 |
| Other expenses – demutualisation and listing costs | – | 7,640 | – | 7,640 |
| **Total expenses (excluding direct claims expenses)** | 90,455 | 126,595 | 7,537 | 35,707 |
| **Expenses by nature** | | | | |
| Employee costs | 36,372 | 36,727 | 693 | 496 |
| Depreciation and amortisation | 4,097 | 3,834 | – | – |
| Net loss on disposal of property, plant and equipment and investment properties | 1,100 | 6 | – | – |
| Impairment of property, plant and equipment | 1,689 | (4) | – | – |
| Operating lease rental expenses | 2,659 | 2,282 | – | – |
| Donation of nib foundation | – | 25,000 | – | 25,000 |
| Demutualisation/listing expenses | – | 18,498 | – | 7,640 |
| Marketing expenses | 17,192 | 18,934 | – | – |
| Consultancy fees | 4,382 | 2,950 | 1,649 | 1,649 |
| Legal expenses | 1,020 | 783 | 753 | 529 |
| Share registry expenses | 3,517 | 1,058 | 3,517 | 1,058 |
| Other | 18,427 | 16,527 | 925 | (665) |
| **Total expenses (excluding direct claims expenses)** | 90,455 | 126,595 | 7,537 | 35,707 |

## 7. INCOME TAX

### a) Income tax expense/(benefit)

| | Notes | Consolidated 2009 $'000 | Consolidated 2008 $'000 | Parent Entity 2009 $'000 | Parent Entity 2008 $'000 |
|---|---|---|---|---|---|
| **Recognised in the income statement** | | | | | |
| Current tax expense/(benefit) | | 9,115 | 10,703 | (1,947) | (7,410) |
| Deferred tax expense/(benefit) | | (1,374) | (16,124) | (6,563) | (3,831) |
| Under (over) provided in prior years | | 68 | (54) | 331 | – |
| | | 7,809 | (5,475) | (8,179) | (11,241) |
| Income tax expense is attributable to: | | | | | |
| Profit from continuing operations | | 7,809 | (5,421) | (8,179) | (11,241) |
| Profit from discontinuing operations | | – | (54) | – | – |
| Aggregate income tax expense/(benefit) | | 7,809 | (5,475) | (8,179) | (11,241) |
| Deferred income tax (revenue) expense included in income tax expense comprises: | | | | | |
| Decrease (increase) in deferred tax assets | 15 | (1,668) | (16,370) | (6,580) | (3,831) |
| (Decrease) increase in deferred tax liabilities | 26 | 294 | 246 | 17 | – |
| | | (1,374) | (16,124) | (6,563) | (3,831) |

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

| | Consolidated 2009 $'000 | Consolidated 2008 $'000 | Parent Entity 2009 $'000 | Parent Entity 2008 $'000 |
|---|---|---|---|---|
| Profit/(Loss) from continuing operations before income tax expense | 31,595 | (5,071) | 76,935 | 59,827 |
| Profit from discontinuing operations before income tax expense | – | – | – | – |
| | 31,595 | (5,071) | 76,935 | 59,827 |
| Tax at the Australian tax rate of 30% (2008: 30%) | 9,478 | (1,522) | 23,081 | 17,949 |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | | | |
| Write back of provision on consolidation | – | (19) | – | – |
| Net exempt income | (18) | (2,213) | (1) | – |
| Assessable income | 37 | 26 | – | – |
| Non-assessable income | – | (433) | (31,244) | (28,650) |
| Other deductible expenses | (441) | (328) | – | – |
| Other non-deductible expenses | 20 | 28 | – | 3 |
| Other deductible expenses against equity | – | (337) | – | (337) |
| Previously unrecognised deferred tax asset recognised | – | (158) | – | – |
| Adjustments for current tax of prior periods | 68 | (54) | 331 | – |
| Input tax credits and foreign tax credits | (381) | (465) | (346) | (206) |
| Recognise deferred tax asset on devaluation of land & buildings | (954) | – | – | – |
| Income tax expense/(benefit) | 7,809 | (5,475) | (8,179) | (11,241) |

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

## 7. INCOME TAX (CONTINUED)

### c) Amounts recognised directly in equity

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity | | | | |
| Net deferred tax – debited (credited) directly to equity | (26) | 2,525 | – | 2,525 |
| | (26) | 2,525 | – | 2,525 |

### 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.

## 8. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| Cash at bank and cash on hand | 59,048 | 599 | 47,960 | – |
| Short term deposits and deposits at call | 108,095 | 178,586 | 28,030 | 12,372 |
| | 167,143 | 179,185 | 75,990 | 12,372 |

### a) Risk exposure

The Group's and the parent entity'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.

## 9. CURRENT ASSETS – RECEIVABLES

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| Premium Receivable | 4,491 | 6,238 | – | – |
| Other Receivables | 26,026 | 25,956 | 83 | 133 |
| Provision for impairment loss | (250) | (344) | – | – |
| | 30,267 | 31,850 | 83 | 133 |
| Lease receivables | 82 | 123 | – | – |
| Prepayments | 1,497 | 1,408 | 187 | 34 |
| Income tax receivable | 556 | – | 556 | – |
| Receivable from controlled entities | – | – | 7,320 | 21,059 |
| | 32,402 | 33,381 | 8,146 | 21,226 |

## 9. CURRENT ASSETS – RECEIVABLES (CONTINUED)

### a) Impaired receivables

As at 30 June 2009 current receivables of the Group with a nominal value of $0.250 million (2008: $0.344 million) were impaired. The individually impaired receivables relate to premium receivables and to trade receivables of the Eye Care business that was sold to Pacific Optical Pty Limited on 30 November 2006. There were no impaired trade receivables or other receivables for the Parent in 2009 or 2008.

The ageing of these receivables is as follows:

| | Consolidated | |
|---|---|---|
| | 2009 $'000 | 2008 $'000 |
| 1 to 3 months | 250 | 316 |
| 3 to 6 months | – | – |
| Over 6 months | – | 28 |
| | 250 | 344 |

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

| | Consolidated | |
|---|---|---|
| | 2009 $'000 | 2008 $'000 |
| At 1 July | 344 | 258 |
| Provision for impairment recognised during the year | – | 106 |
| Receivables written off during the year as uncollectible | (28) | (18) |
| Unused amount reversed | (66) | (2) |
| | 250 | 344 |

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 2009, receivables of $0.031 million (2008: $0.014 million) were past due but not impaired. These relate to a number of rental, hospital excess and other debtors for whom there is no recent history of default. The ageing analysis of these trade receivables are as follows:

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| up to 3 months | 31 | 11 | – | – |
| 3 to 6 months | – | – | – | – |
| Over 6 months | – | 3 | – | – |
| | 31 | 14 | – | – |

Based on the credit history of these other classes, it is expected that these amounts will be received when due. The Group does not hold any collateral in relation to these receivables.

### c) Interest rate risk

Information about the Group's and parent entity'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 entity's receivables.

## 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:

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| Equity Securities | 70,077 | 92,447 | 66,734 | 87,612 |
| Interest-bearing securities | 160,199 | 150,377 | – | – |
| | 230,276 | 242,824 | 66,734 | 87,612 |

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

### a) Risk exposure

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

## 11. CURRENT ASSETS – NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| Land and buildings | 350 | 8,554 | – | – |
| | 350 | 8,554 | – | – |

nib had entered into a put-and-call option to sell its former head office buildings at Hunter Street. The land and buildings were sold on 27 January 2009.

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

## 12. NON-CURRENT ASSETS – RECEIVABLES

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| Other receivables | 500 | 3,015 | – | – |
| Lease receivables | – | 82 | – | – |
| | 500 | 3,097 | – | – |

### 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:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| Group | Carrying amount $'000 | Fair value $'000 | Carrying amount $'000 | Fair value $'000 |
| Other receivables | 500 | 500 | 3,015 | 3,015 |
| Lease receivables | – | – | 82 | 82 |
| | 500 | 500 | 3,097 | 3,097 |

## 12. NON-CURRENT ASSETS – RECEIVABLES (CONTINUED)

### c) Risk exposure

Information about the Group's and parent entity'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 above. The Group holds a $0.75 million bank guarantee for the deferred settlement of the sale of the Eye Care and Dental businesses.

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

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

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| Unlisted equity securities | 1,500 | 1,588 | – | – |
| | 1,500 | 1,588 | – | – |

### 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 2009.

### 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.

## 14. NON-CURRENT ASSETS – SHARES IN CONTROLLED ENTITIES

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| Shares in controlled entities | – | – | 389,967 | 389,783 |
| | – | – | 389,967 | 389,783 |

These financial assets are carried at cost.

## 15. NON-CURRENT ASSETS – DEFERRED TAX ASSETS

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| The balance comprises temporary differences attributable to: | | | | |
| Prepayments | – | 3 | – | – |
| Doubtful debts | 75 | 8 | – | – |
| Depreciation | 411 | 145 | – | – |
| Share issue expenses | 1,684 | 2,189 | 1,684 | 2,189 |
| Asset revaluation | 1,483 | 75 | – | – |
| Employee benefits | 1,154 | 582 | – | – |
| Provisions | 35 | 52 | 4 | 14 |
| Outstanding claims | – | 548 | – | – |
| Demutualisation costs | 3,330 | 4,355 | 1,490 | 1,948 |
| Unrealised losses on investments | 12,055 | 10,602 | 9,424 | 1,871 |
| Total deferred tax assets | 20,227 | 18,559 | 12,602 | 6,022 |
| Set-off of deferred tax liabilities pursuant to set-off provisions (note 26) | (540) | (272) | (17) | – |
| Net deferred tax assets | 19,687 | 18,287 | 12,585 | 6,022 |
| Deferred tax assets to be recovered within 12 months | 14,452 | 12,015 | 10,392 | 1,885 |
| Deferred tax assets to be recovered after more than 12 months | 5,775 | 6,544 | 2,210 | 4,137 |
| | 20,227 | 18,559 | 12,602 | 6,022 |

| | Depreciation $'000 | Share issue expenses $'000 | Employee benefits $'000 | Outstanding claims $'000 | Demutualisation $'000 | Managed funds capital movement $'000 | Other $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|
| **Movements – Consolidated** | | | | | | | | |
| **At 1 July 2007** | – | – | – | – | – | – | – | – |
| (Charged)/credited to the income statement | 220 | – | 582 | 548 | 4,355 | 10,602 | 63 | 16,370 |
| (Charged)/credited directly to equity | – | 2,189 | – | – | – | – | – | 2,189 |
| **At 30 June 2008** | 220 | 2,189 | 582 | 548 | 4,355 | 10,602 | 63 | 18,559 |
| **At 1 July 2008** | 220 | 2,189 | 582 | 548 | 4,355 | 10,602 | 63 | 18,559 |
| (Charged)/credited to the income statement | 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 |
| **Movements – Parent** | | | | | | | | |
| **At 1 July 2007** | – | – | – | – | – | – | – | – |
| (Charged)/credited to the income statement | – | 2,189 | – | – | 1,948 | 1,871 | 14 | 6,022 |
| (Charged)/credited directly to equity | – | – | – | – | – | – | – | – |
| **At 30 June 2008** | – | 2,189 | – | – | 1,948 | 1,871 | 14 | 6,022 |
| **At 1 July 2008** | – | 2,189 | – | – | 1,948 | 1,871 | 14 | 6,022 |
| (Charged)/credited to the income statement | – | (505) | – | – | (458) | 7,553 | (10) | 6,580 |
| (Charged)/credited directly to equity | – | – | – | – | – | – | – | – |
| **At 30 June 2009** | – | 1,684 | – | – | 1,490 | 9,424 | 4 | 12,602 |

## 16. NON-CURRENT ASSETS – INVESTMENT PROPERTIES

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| At fair value | | | | |
| Opening balance at 1 July | 30,000 | 30,000 | – | – |
| Net gain/(loss) from fair value adjustment | – | – | – | – |
| Net transfer from property, plant and equipment | – | – | – | – |
| Classified as held for sale or disposal | – | – | – | – |
| **Closing balance at 30 June** | 30,000 | 30,000 | – | – |

### a) Amounts recognised in profit and loss for investment properties

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| Rental income | 1,725 | 1,725 | – | – |
| Direct operating expenses from property that generated rental income | (73) | (207) | – | – |
| Direct operating expenses from property that did not generate rental income | – | – | – | – |
| | 1,652 | 1,518 | – | – |

**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 and Healthscope Limited.

### 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.

### c) Contractual obligations

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

## 17. NON-CURRENT ASSETS – PROPERTY, PLANT & EQUIPMENT

| | Consolidated | | | |
|---|---|---|---|---|
| | Land & Buildings $'000 | Plant & Equipment $'000 | Leasehold Improvements $'000 | Total $'000 |
| **Fair value/Cost** | | | | |
| Balance at 1 July 2007 | 11,319 | 10,411 | 3,750 | 25,480 |
| Additions | 20,729 | 472 | 414 | 21,615 |
| Assets classified as held for sale and other disposals | – | (1,220) | (769) | (1,989) |
| Revaluations | 3,445 | – | – | 3,445 |
| Transfers | – | – | – | – |
| **Balance at 30 June 2008** | 35,493 | 9,663 | 3,395 | 48,551 |
| 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 |
| **Depreciation and impairment losses** | | | | |
| Balance at 1 July 2007 | (79) | (7,040) | (2,457) | (9,576) |
| Depreciation charge for the year | (46) | (1,258) | (450) | (1,754) |
| Assets classified as held for sale and other disposals | – | 945 | 747 | 1,692 |
| Revaluations | 88 | – | – | 88 |
| Transfers | – | – | – | – |
| **Balance at 30 June 2008** | (37) | (7,353) | (2,160) | (9,550) |
| 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) |
| **Carrying amounts** | | | | |
| **At 1 July 2007** | 11,240 | 3,371 | 1,293 | 15,904 |
| **At 30 June 2008** | 35,456 | 2,310 | 1,235 | 39,001 |
| **At 1 July 2008** | 35,456 | 2,310 | 1,235 | 39,001 |
| **At 30 June 2009** | **39,020** | **3,417** | **1,315** | **43,752** |

The parent entity did not hold any non-current property, plant and equipment assets.

### a) Assets in the course of construction

The carrying amounts of the assets disclosed above include the following expenditure recognised in relation to property, plant and equipment which is in the course of construction.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| Land and buildings | – | 27,728 | – | – |

## 17. NON-CURRENT ASSETS – PROPERTY, PLANT & EQUIPMENT (CONTINUED)

### b) 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 12 January 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 2009.

### c) 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:

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| **Freehold land and buildings** | | | | |
| Cost | 40,584 | 30,932 | – | – |
| Accumulated depreciation | (936) | (579) | – | – |
| **Net book amount** | 39,648 | 30,353 | – | – |

## 18. NON-CURRENT ASSETS – INTANGIBLE ASSETS

| | Consolidated | | |
|---|---|---|---|
| | Goodwill $'000 | Software $'000 | Total $'000 |
| **Fair value/Cost** | | | |
| Balance at 1 July 2007 | 7,067 | 12,482 | 19,549 |
| Additions | | 2,001 | 2,001 |
| Assets classified as held for sale and other disposals | – | (23) | (23) |
| Transfers | – | – | – |
| **Balance at 30 June 2008** | 7,067 | 14,460 | 21,527 |
| Balance at 1 July 2008 | 7,067 | 14,460 | 21,527 |
| Additions | – | 2,817 | 2,817 |
| Assets classified as held for sale and other disposals | – | – | – |
| **Balance at 30 June 2009** | 7,067 | 17,277 | 24,344 |
| **Amortisation and impairment losses** | | | |
| Balance at 1 July 2007 | – | (9,606) | (9,606) |
| Amortisation charge for the year | – | (2,080) | (2,080) |
| Assets classified as held for sale and other disposals | – | 9 | 9 |
| **Balance at 30 June 2008** | – | (11,677) | (11,677) |
| Balance at 1 July 2008 | – | (11,677) | (11,677) |
| Amortisation charge for the year | – | (1,752) | (1,752) |
| Assets classified as held for sale and other disposals | – | – | – |
| **Balance at 30 June 2009** | – | (13,429) | (13,429) |
| **Carrying amounts** | | | |
| **At 1 July 2007** | 7,067 | 2,877 | 9,943 |
| **At 30 June 2008** | 7,067 | 2,783 | 9,850 |
| **At 1 July 2008** | 7,067 | 2,783 | 9,850 |
| **At 30 June 2009** | **7,067** | **3,848** | **10,915** |

The parent entity did not hold any non-current intangible assets.

## 18. NON-CURRENT ASSETS – INTANGIBLE ASSETS (CONTINUED)

### 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 approved by management covering a three-year period.

### 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. 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 11.5% represents the 10 year Australian bond rate of 5.5% plus a risk adjustment of 6.0%. This equates to a pre tax discount rate of 19.15%.

## 19. CURRENT LIABILITIES – PAYABLES

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009<br>$'000 | 2008<br>$'000 | 2009<br>$'000 | 2008<br>$'000 |
| Trade creditors | 3,496 | 3,585 | – | – |
| Other payables | 29,943 | 26,999 | 394 | 1,214 |
| RETF payable* | 22,398 | 21,527 | – | – |
| Annual leave payable | 2,921 | 2,980 | – | – |
| Amounts owed to controlled entities | – | – | 46 | 14 |
| | 58,758 | 55,091 | 440 | 1,228 |

* 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.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009<br>$'000 | 2008<br>$'000 | 2009<br>$'000 | 2008<br>$'000 |
| Annual leave obligation expected to be settled after 12 months | 555 | 559 | – | – |

## 20. CURRENT LIABILITIES – BORROWINGS

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| Bank overdraft | 409 | 2,051 | – | – |

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

## 21. CURRENT LIABILITIES – OUTSTANDING CLAIMS LIABILITY

### a) Outstanding claims liability

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| Outstanding claims – central estimate of the expected future payment for claims incurred | 44,098 | 48,999 | – | – |
| Risk Margin | 2,272 | 2,725 | – | – |
| Claims handling costs | 1,323 | 1,470 | – | – |
| **Gross outstanding claims liability** | 47,693 | 53,194 | – | – |
| Outstanding claims – expected payment to the *RETF in relation to the central estimate | 8,132 | 8,681 | – | – |
| Risk Margin | 406 | 468 | – | – |
| **Net outstanding claims liability** | 56,231 | 62,343 | – | – |

* 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 2008: 5.4%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% (June 2008: 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 Ancillary and Ambulance services combined. Diversification benefits within a valuation class are implicitly allowed for through the model adopted. The determination of the risk margin has also implicitly allowed for diversification between valuation classes based on an analysis of past correlations in deviations from the adopted model.

The Outstanding Claims provision has been estimated using a chain ladder method, based on historical experience and future expectations as to claims. For Hospital, Prostheses and Medical services in particular, expected claim numbers and average claims size are used instead for the most recent three months. The calculation was determined taking into account one month of actual post balance date claims.

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

## 21. CURRENT LIABILITIES – OUTSTANDING CLAIMS LIABILITY (CONTINUED)

### b) Risk margin (CONTINUED)

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

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| Gross outstanding claims at beginning of period | 53,194 | 47,521 | – | – |
| Administration component | (1,470) | (1,313) | – | – |
| Risk margin | (2,725) | (2,435) | – | – |
| **Central estimate at beginning of period** | 48,999 | 43,773 | – | – |
| Change in claims incurred for the prior year | 1,876 | (2,151) | – | – |
| Claims paid in respect of the prior year | (50,875) | (41,622) | – | – |
| Claims incurred during the year (expected) | 598,488 | 553,072 | – | – |
| Claims paid during the year | (554,390) | (504,073) | – | – |
| **Central estimate at end of period** | 44,098 | 48,999 | – | – |
| Administration component | 1,323 | 1,470 | – | – |
| Change in administration component assumptions | – | – | – | – |
| Risk margin | 2,453 | 2,725 | – | – |
| Change in risk margin assumption | (181) | – | – | – |
| **Gross outstanding claims at end of period** | 47,693 | 53,194 | – | – |

## 22. CURRENT LIABILITIES – UNEARNED PREMIUM LIABILITY

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| Unearned premium liability as at 1 July | 46,989 | 51,580 | – | – |
| Deferral of premiums on contracts written in the period | 49,888 | 46,989 | – | – |
| Earning of premiums written in previous periods | (46,989) | (51,580) | – | – |
| Unearned premium liability as at 30 June | 49,888 | 46,989 | – | – |

## 23. CURRENT LIABILITIES – UNEXPIRED RISK LIABILITY

No deficiency was identified as at 30 June 2009 and 2008 that resulted in an unexpired risk liability needing to be recognised.

## 24. CURRENT LIABILITIES – CURRENT TAX LIABILITIES

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| Current tax payable | 5,973 | 10,366 | 5,973 | 10,366 |

## 25. PROVISIONS FOR EMPLOYEE ENTITLEMENTS

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| **CURRENT** | | | | |
| Employee benefits | | | | |
| Long service leave | 1,412 | 1,489 | – | – |
| Restructure costs | 478 | 1,149 | – | – |
| Retirement benefits | 665 | 634 | – | – |
| | 2,555 | 3,272 | – | – |

### 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.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| Long service leave obligation expected to be settled after 12 months | 1,108 | 1,305 | – | – |
| Retirement benefit obligation expectef to be settled after 12 months | 665 | 634 | – | – |
| | 1,773 | 1,939 | – | – |

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| **NON-CURRENT** | | | | |
| Employee benefits | | | | |
| Long service leave | 828 | 814 | – | – |
| Retirement benefits | – | – | – | – |
| | 828 | 814 | – | – |

## 26. CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

| | Consolidated 2009 $'000 | Consolidated 2008 $'000 | Parent Entity 2009 $'000 | Parent Entity 2008 $'000 |
|---|---|---|---|---|
| The balance comprises temporary differences attributable to: | | | | |
| Prepayments | 13 | – | – | – |
| Depreciation | – | 64 | – | – |
| Capital allowances | 425 | 182 | – | – |
| Doubtful debts | – | – | – | – |
| Income receivable | 102 | – | 17 | – |
| Available-for-sale financial assets | – | 26 | – | – |
| **Total deferred tax liabilities** | 540 | 272 | 17 | – |
| Set-off of deferred tax liabilities pursuant to set-off provisions (note 15) | (540) | (272) | (17) | – |
| Net deferred tax liabilities | – | – | – | – |
| Deferred tax liabilities to be settled within 12 months | 116 | 90 | 17 | – |
| Deferred tax liabilities to be settled after more than 12 months | 424 | 182 | – | – |
| | 540 | 272 | 17 | – |

| | Prepayments $'000 | Depreciation $'000 | Capital allowances $'000 | Income receivable $'000 | Available-for-sale financial assets $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Movements – Consolidated** | | | | | | |
| **At 1 July 2007** | – | – | – | – | – | – |
| (Charged)/credited to the income statement | – | 64 | 182 | – | 26 | 272 |
| (Charged)/credited directly to equity | | | | | – | – |
| **At 30 June 2008** | – | 64 | 182 | – | 26 | 272 |
| **At 1 July 2008** | – | 64 | 182 | – | 26 | 272 |
| (Charged)/credited to the income statement | 13 | (64) | 243 | 102 | – | 294 |
| (Charged)/credited directly to equity | – | – | – | – | (26) | (26) |
| **At 30 June 2009** | 13 | – | 425 | 102 | – | 540 |
| **Movements – Parent Entity** | | | | | | |
| **At 1 July 2007** | – | – | – | – | – | – |
| (Charged)/credited to the income statement | – | – | – | – | – | – |
| to equity | – | – | – | – | – | – |
| **At 30 June 2008** | – | – | – | – | – | – |
| **At 1 July 2008** | – | – | – | – | – | – |
| (Charged)/credited to the income statement | – | – | – | 17 | – | 17 |
| to equity | – | – | – | – | – | – |
| **At 30 June 2009** | – | – | – | 17 | – | 17 |

## 27. SHARE CAPITAL

### a) Share Capital

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| Ordinary shares | | | | |
| Fully paid | 42,528 | 44,574 | 416,449 | 434,296 |

### b) Movements in share capital

| | | Consolidated | | |
|---|---|---|---|---|
| Date | Details | No. of shares | Price | $'000 |
| 1 July 2007 | Opening balance | 0 | | 0 |
| 31 August 2007 | Shares issued to policyholders | 458,496,160 | – | – |
| 1 October 2007 | Shares acquired on reverse acquisition | 2 | $2.50 | – |
| 29 October 2007 | Shares issued to institutional investors | 58,823,529 | $0.85 | 50,000 |
| 29 October 2007 | Shares issued to executives as part of retention bonus | 550,000 | $0.85 | 468 |
| | Less: Transaction costs arising on share issue | | | (8,419) |
| | Deferred tax credit recognised directly in equity | | | 2,525 |
| 30 June 2008 | Balance | 517,869,691 | | 44,574 |
| Oct-Dec 2008 | Shares bought back on-market and cancelled | (18,213,260) | $0.82[1] | (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 |

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.

## 27. SHARE CAPITAL (CONTINUED)

### b) Movements in share capital (CONTINUED)

| | | Parent Entity | | |
|---|---|---|---|---|
| **Date** | **Details** | **No. of shares** | **Price** | **$'000** |
| 30 June 2007 | Opening balance | 2 | | – |
| 1 October 2007 | Shares issued to policyholders | 458,496,160 | $0.85 | 389,722 |
| 29 October 2007 | Shares issued to institutional investors | 58,823,529 | $0.85 | 50,000 |
| 29 October 2007 | Shares issued to executives as part of retention bonus | 550,000 | $0.85 | 468 |
| | Less: Transaction costs arising on share issue | | | (8,419) |
| | Deferred tax credit recognised directly in equity | | | 2,525 |
| 30 June 2008 | Balance | 517,869,691 | | 434,296 |
| Oct-Dec 2008 | Shares bought back on-market and cancelled | (18,213,260) | $0.82[1] | (14,871) |
| March-Jun 2009 | Shares bought back on-market and cancelled | (3,544,872) | $0.84 | (2,976) |
| 30 June 2009 | Balance | 496,111,559 | | 416,449 |

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

### 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.

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 October – December 2008 and March – June 2009 the company purchased and cancelled 21,758,132 ordinary shares on-market as part of the Group's capital management initiatives announced in the 2008 annual report. The shares were acquired at an average price of 82 cents per share, with prices ranging from 73 cents to 89 cents. The total cost of buyback was $17,847,117. $2,046,164 was deducted from ordinary share equity and the remaining $15,800,953 was deducted from retained profits representing the portion of share assumed to be purchased from policyholders under the reserve acquisition requirements of AASB 3 *Business Combinations*. As at 30 June 2009, 136,058 shares had been purchased at a cost of $121,197, but not cancelled until post 30 June 2009.

### e) Capital risk management

The Group's and the parent entity'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 and the parent entity 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).

Therefore a fall in the capital adequacy coverage ratio below 1.00 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 1.40x (2008: 1.5x).

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 $77,045,000 and $27,100,000 to nib holdings limited in December 2008 and June 2009 respectively.

## 27. SHARE CAPITAL (CONTINUED)

### e) Capital risk management (CONTINUED)

The surplus assets over benchmark at 30 June 2009 and 30 June 2008 were as follows:

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Total Assets nib health funds limited | 379,715 | 459,045 |
| Capital Adequacy Requirement | 253,672 | 285,053 |
| Surplus Assets for Capital Adequacy | 126,043 | 173,992 |
| *Capital Adequacy Coverage Ratio* | *1.50* | *1.61* |
| *Internal benchmark* | *1.40* | *1.50* |
| Internal benchmark requirement | 355,141 | 427,579 |
| Surplus assets over internal benchmark | 24,574 | 31,466 |

**nib holdings limited**

The Group is targeting a return on equity of 15%, and the return on equity as at 30 June 2009 is 6.6%. 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 buyback announced on 29 August 2008 under which nib holdings purchased and subsequently cancelled 21,758,132 shares at a total cost of $17.8 million.
- An interim dividend of 3.0 cents per fully paid share paid on 3 April 2009. A final dividend of 4.4 cents per fully paid share to be paid on 9 October 2009, has been approved by the Board. 5.0 cents of this dividend represents a capital management initiative.
- The unmarketable parcel sale facility to shareholders who were the registered holders of less than a marketable parcel of nib shares announced on 4 June 2009.

## 28. RETAINED PROFITS

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| Balance at beginning of the financial year | 329,565 | 329,161 | 71,064 | (4) |
| Net profit/(loss) | 23,786 | 404 | 85,114 | 71,068 |
| Realised revaluation reserve | 6,210 | – | – | – |
| Transfer from share capital on buyback of ordinary shares (note 27d) | (15,801) | – | – | – |
| Dividends | (25,863) | – | (25,863) | – |
| **Balance at the end of the financial year** | 317,897 | 329,565 | 130,315 | 71,064 |

# 29. RESERVES

## a) Reserves comprise

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| Property revaluation reserve | 1,213 | 10,579 | – | – |
| Available-for-sale investments revaluation reserve | – | 62 | – | – |
| Share-based payments reserve | 245 | 61 | 245 | 61 |
| | 1,458 | 10,702 | 245 | 61 |

## b) Movements in reserves

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| **Property revaluation reserve** | | | | |
| Balance at the beginning of the year | 10,579 | 7,053 | – | – |
| Transfer to retained profits on sale of property | (6,210) | – | – | – |
| Property revaluation | (3,156) | 3,526 | – | – |
| **Balance at the end of the financial year** | 1,213 | 10,579 | – | – |
| **Available-for-sale investments revaluation reserve** | | | | |
| Balance at the beginning of the year | 62 | – | – | – |
| Revaluation – gross (note 13) | (88) | 88 | – | – |
| Deferred tax (note 26) | 26 | (26) | – | – |
| **Balance at the end of the financial year** | – | 62 | – | – |
| **Share-based payments reserve** | | | | |
| Balance at the beginning of the year | 61 | – | 61 | – |
| Performance right expense | 156 | 51 | – | – |
| Bonus share rights expense | 28 | 10 | – | – |
| Performance rights issued to employees of subsidiaries | – | – | 156 | 51 |
| Bonus share rights issued to employees of subsidiaries | – | – | 28 | 10 |
| **Balance at the end of the financial year** | 245 | 61 | 245 | 61 |

## c) Nature and purpose of reserves

### Property revaluation reserve

The property revaluation reserve is used to record increments and decrements on the revaluation of non-current assets as described in note 1(p).

### Available-for-sale revaluation reserve

Changes in the fair value of investments, such as equities, classified as available-for-sale financial assets, are taken to the available-for-sale revaluation reserve as described in note 1(y). Amounts are recognised in profit and loss when the associated assets are sold or impaired.

### Share-based payments reserve

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.

## 30. DIVIDENDS

### a) Ordinary shares

| | Parent Entity | |
|---|---|---|
| | 2009 $'000 | 2008 $'000 |
| Final dividend for the year ended 30 June 2008 of 2.1 cents per fully paid share paid on 10 October 2008 | | |
| Fully franked based on tax paid @ 30% | 10,875 | – |
| Interim dividend for the year ended 30 June 2009 of 3.0 cents per fully paid share paid 3 April 2009 | | |
| Fully franked based on tax paid @ 30% | 14,988 | – |
| Total dividends provided for or paid | 25,863 | – |

### b) Dividends not recognised at year end

| | Parent Entity | |
|---|---|---|
| | 2009 $'000 | 2008 $'000 |
| In addition to the above dividends, since year end the directors have recommended the payment of a final dividend of 4.4 cents per fully paid ordinary share, (2008 – 2.1 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expect to be paid on 9 October 2009 out of retained profits at 30 June 2009, but not recognised as a liability at year end, is | 21,823 | 10,875 |

### c) Franked dividends

The franked portion of the final dividends recommended after 30 June 2009 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 2010.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| Franking credits available for subsequent financial years based on a tax rate of 30% (2008 – 30%) | 9,488 | 10,851 | 9,488 | 10,851 |

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.

## 31. COMMITMENTS FOR EXPENDITURE

### a) Operating lease commitments

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | | | |
| – not longer than one year | 2,026 | 1,503 | – | – |
| – longer than one year and not longer than five years | 3,445 | 1,881 | – | – |
| – longer than five years | 1,769 | 1,689 | – | – |
| | 7,240 | 5,073 | – | – |

### b) Capital expenditure commitments

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| Payable: | | | | |
| – not longer than one year | 608 | 12,683 | – | – |
| – longer than one year and not longer than five years | – | – | – | – |
| | 608 | 12,683 | – | – |

The above commitments in 2008 include capital commitments of $11.748 million relating to the construction of the new head office building at 22 Honeysuckle Drive, Newcastle.

### 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.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| – not longer than one year | 1,479 | 1,664 | – | – |
| – longer than one year and not longer than five years | – | – | – | – |
| | 1,479 | 1,664 | – | – |

## 32. CONTINGENT LIABILITIES

nib health funds limited has given an undertaking to extend financial support to nib servicing facilities pty limited and nib health care services pty limited by subordinating repayment of debts owed by the entities to nib health funds limited, in favour of all other creditors. This undertaking has been provided as a result of each of these subsidiaries experiencing deficiencies of capital and reserves, and is intended to enable the entities to continue their operations and fulfil all financial obligations now and in the future. The undertaking is provided for a minimum period of twelve months from 14 August 2009, or if earlier, to the date of sale of the entities should this occur.

## 33. REMUNERATION OF AUDITORS

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| **1. Audit services** | | | | |
| PricewaterhouseCoopers Australian firm: | | | | |
| Audit and review of financial report and other audit work under the *Corporations Act 2001* | 295,000 | 358,750 | 120,000 | 155,000 |
| **Total remuneration for audit services** | **295,000** | **358,750** | **120,000** | **155,000** |
| **2. Non-audit services** | | | | |
| **Audit-related services** | | | | |
| PricewaterhouseCoopers Australian firm: | | | | |
| Audit of regulatory returns | 30,000 | 32,000 | – | – |
| Demutualisation and ASX listing | – | 320,035 | – | 313,046 |
| Due diligence on potential mergers and acquistions | 377,000 | 500,000 | 377,000 | 500,000 |
| **Total remuneration for audit-related services** | 407,000 | 852,035 | 377,000 | 813,046 |
| **Taxation services** | | | | |
| PricewaterhouseCoopers Australian firm: | | | | |
| Advice on demutualisation and ASX listing | – | 259,857 | – | 70,760 |
| Due diligence on potential mergers and acquistions | 100,500 | 214,000 | 100,500 | 214,000 |
| Tax compliance services | 88,400 | 60,693 | 59,000 | 2,947 |
| **Total remuneration for taxation services** | 188,900 | 534,550 | 159,500 | 287,707 |
| **Other services** | | | | |
| PricewaterhouseCoopers Australian firm: | | | | |
| Other activities undertaken to support audit of financial report | 7,809 | 13,977 | – | 6,989 |
| **Total remuneration for other services** | 7,809 | 13,977 | – | 6,989 |
| **Total remuneration for non-audit services** | **603,709** | **1,400,562** | **536,500** | **1,107,742** |
| **Total remuneration for audit and non-audit services** | **898,709** | **1,759,312** | **656,500** | **1,262,742** |

## 34. 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:

| | | Consolidated | | Parent Entity | |
|---|---|---|---|---|---|
| | Notes | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| Cash and cash equivalents | 8 | 167,143 | 179,185 | 75,990 | 12,372 |
| Bank overdraft | 20 | (409) | (2,051) | – | – |
| | | 166,734 | 177,134 | 75,990 | 12,372 |

## 34. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

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

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $'000 | 2009 $'000 | 2008 $'000 |
| Profit for the year | 23,786 | 404 | 85,114 | 71,068 |
| Net (gain)/loss on disposal of non-current assets | 1,100 | 6 | – | – |
| Fair value (gain)/loss on other financial assets through profit or loss | 19,801 | 45,324 | 22,240 | 6,240 |
| Fair value adjustments to property | – | (290) | – | – |
| Impairment loss on property, plant and equipment | 1,689 | (4) | – | – |
| Non-cash employee benefits expense – share-based payments | 184 | 528 | – | – |
| Reverse acquisition expense | – | 4 | – | – |
| Gain on disposal of a subsidiary | – | – | – | – |
| Depreciation and amortisation | 4,097 | 3,834 | – | – |
| Change in operating assets and liabilities, net of effect from purchase of controlled entity | | | | |
| Decrease (increase) in receivables | (421) | (3,222) | 10,353 | (18,281) |
| Decrease (increase) in deferred tax assets | (1,374) | (15,787) | (6,563) | (3,494) |
| Increase (decrease) in trade payables | 7,307 | 2,231 | (788) | 1,163 |
| Increase (decrease) in current tax payable | (4,949) | 10,312 | (4,949) | 10,366 |
| Increase (decrease) in provisions | (6,992) | 9,884 | (30) | 45 |
| Net cash flow from operating activities | 44,228 | 53,224 | 105,377 | 67,107 |

## 35. BUSINESS COMBINATION

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

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

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

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

## 36. 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 | 2009 % | 2008 % |
| 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)[1] | Australia | 100 | 100 |
| The Heights Private Hospital pty limited | Australia | 100 | 100 |

(1) In liquidation

The ultimate parent entity is nib holdings limited. nib holdings limited legally acquired nib health funds and its subsidiaries on 1 October 2007. Prior to 1 October 2007, nib health funds limited was the ultimate parent entity.

## 37. SEGMENT REPORTING

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

## 38. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

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.

## 39. 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 the either entity.

### b) Transactions with associated companies

There were no associated company transactions during the years ended 30 June 2009 and 2008.

### c) Transactions with related parties in the wholly owned consolidated Group

The wholly-owned Group consists of nib holdings limited and its controlled entities. Details of ownership interests in these controlled entities are set out in note 36.

a. Other transactions that occurred during the financial year between entities in the wholly-owned Group were:
   - Accounting and administration services at cost charged by nib health funds limited to nib health care services pty limited, totaling $43,977 (2008: $43,977)

Amounts receivable from and payable to entities in the wholly-owned Group are disclosed in the notes to the balance sheet within the financial statements.

## 39. RELATED PARTIES (CONTINUED)

### d) Loans to/from related parties

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| **Loans to subsidiaries** | | | | |
| Beginning of the year | – | – | 21,044,736 | – |
| Loans advanced | – | – | 78,910,754 | 40,968,100 |
| Loan repayments received | – | – | (92,680,982) | (19,923,364) |
| End of the year | – | – | 7,274,508 | 21,044,736 |

## 40. KEY MANAGEMENT PERSONNEL DISCLOSURES

### a) Key management personnel compensation

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| Short-term employee benefits | 2,181,520 | 8,342,318 | 259,843 | 153,647 |
| Post-employment benefits | 651,952 | 704,653 | 416,151 | 261,258 |
| Other long-term benefits | 12,780 | 126,674 | – | – |
| Termination benefits | 706,036 | 677,404 | – | – |
| Share-based payments | 271,347 | 590,524 | 36,820 | 64,541 |
| | 3,823,635 | 10,441,573 | 712,814 | 479,446 |

Detailed remuneration disclosures are provided in sections A–C of the remuneration report on pages 5 to 12.

### 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 Section E of the remuneration report on pages 13 to 16.

#### 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.

***Consolidated and parent entity – 2009***

| Name | 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 |

## 40. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

### b) Equity instrument disclosures relating to key management personnel (CONTINUED)

#### ii) Performance rights holdings (CONTINUED)

*Consolidated and parent entity – 2008*

| Name | 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 | – | – | – | – | – | – | – |
| Jayne Drinkwater | – | 63,431 | – | – | 63,431 | – | 63,431 |
| Melanie Kneale | – | 79,903 | – | – | 79,903 | – | 79,903 |
| David Lethbridge | – | 58,514 | – | – | 58,514 | – | 58,514 |
| Rhoderic McKensey | – | 16,320 | – | – | 16,320 | – | 16,320 |
| Michelle McPherson | – | 84,329 | – | – | 84,329 | – | 84,329 |
| **Total** | – | 302,497 | – | – | 302,497 | – | 302,497 |

#### 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.

*2009*

| Name | Balance at 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 that terminated during the year.

*2008*

| Name | Balance at 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 | 1 | 23,683 | 3,000 | 26,684 |
| Harold Bentley | – | – | 50,000 | 50,000 |
| David Brewer | – | – | 1,000 | 1,000 |
| Grahame Cannon | – | – | 2,200 | 2,200 |
| Annette Carruthers | – | – | 41,000 | 41,000 |
| Janet Dore | – | 26,525 | 500 | 27,025 |
| Philip Gardner | – | 13,262 | 51,600 | 64,862 |
| Brian Keane | – | – | 16,300 | 16,300 |
| Michael Slater | – | – | – | – |
| **Other key management personnel of the Group** | | | | |
| Mark Fitzgibbon | 1 | 250,000 | 2,600 | 252,601 |
| Ian Boyd | – | 100,000 | 2,000 | 102,000 |
| Jayne Drinkwater | – | – | – | – |
| Melanie Kneale | – | – | 983 | 983 |
| Diane Lally | – | – | 3,200 | 3,200 |
| David Lethbridge | – | 100,000 | 1,000 | 101,000 |
| Rhoderic McKensey | – | – | 1,583 | 1,583 |
| Michelle McPherson | – | 100,000 | 1,000 | 101,000 |
| Peter Small | – | – | – | – |

## 41. 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 Long Term Incentive Plan ("LTIP"). Information relating to the LTIP is included in section E of the remuneration report on pages 13 to 16.

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

*Consolidated and parent entity – 2009*

| Grant date | Expiry date | Exercise price | Balance at start of the year | Granted during the year | Exercised during the year | Forfeited during the year | Balance at the end of the year | Vested and exercisable at end of the year |
|---|---|---|---|---|---|---|---|---|
| 24/06/2008 | 31/12/2012 | – | 318,817 | – | – | (121,945) | 196,872 | – |
| 30/06/2009 | 31/12/2012 | – | – | 270,442 | – | – | 270,442 | – |
| 30/06/2009 | 31/12/2013 | – | – | 657,539 | – | – | 657,539 | – |
| **Total** | | | 318,817 | 927,981 | – | (121,945) | 1,124,853 | – |

*Consolidated and parent entity – 2008*

| Grant date | Expiry date | Exercise price | Balance at start of the year | Granted during the year | Exercised during the year | Forfeited during the year | Balance at the end of the year | Vested and exercisable at end of the year |
|---|---|---|---|---|---|---|---|---|
| 24/06/2008 | 31/12/2012 | – | – | 318,817 | – | – | 318,817 | – |
| Total | | | – | 318,817 | – | – | 318,817 | – |

## 41. 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 Stock 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")

A plan under which shares were acquired by employees for no cash consideration was established on 11 January 2008. All permanent employees (excluding employees who have received a transaction bonus or are eligible to receive a transaction bonus as outlined in the remuneration report) who were an employee as at 11 January 2008 and all casual employees that were continuously employed by the Group for the period from 11 January 2005 up to and including 11 January 2008 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, eligible employees were granted an aggregate market value up to $1,000 worth of fully paid ordinary shares in nib holdings limited for the first year of listing. 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.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Number of shares purchased on market under the plan to participating employees on 19 March 2008 | – | 522,956 | – | – |
| | – | 522,956 | – | – |

Each participant was issued with shares worth $1,000 based on the volume weighted average price of $1.016854.

### d) Expenses arising from share-based payments transactions

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $'000 | 2008 $ '000 | 2009 $ '000 | 2008 $ '000 |
| Shares purchased on market under employee share scheme | – | 564 | – | – |
| Performance rights granted under LTIP | 156 | 51 | – | – |
| Bonus share rights granted | 28 | 10 | – | – |
| | 184 | 625 | – | – |

## 42. DEMUTUALISATION AND LISTING

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

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

On 31 August 2007, the following steps occurred:

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

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

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

On 29 October 2007 nib holdings conducted an institutional bookbuild to raise $50 million in new capital (primarily to cover issue costs and to fund its initial grant to the nib Foundation), and to sell to institutions any shares offered by the shareholders, through the pre-listing share sale opportunity.

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

## 43. SOLVENCY AND CAPITAL ADEQUACY RESERVES

nib health funds limited Solvency Reserve, as per the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is $73.610 million. Total Health Benefits Fund Assets are $379.715 million, representing a surplus of $131.233 million over the sum of the Solvency Reserve and total Health Benefits Fund Liabilities ($174.872 million).

nib health funds limited Capital Adequacy Reserve, as per the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is $78.800 million. Total Health Benefits Fund Assets are $379.715 million, representing a surplus of $126.043 million over the Capital Adequacy Reserve and total Health Benefits Fund Liabilities ($174.872 million).

## 44. EARNINGS PER SHARE

### a) Basic earnings per share

| | Consolidated | |
|---|---|---|
| | 2009 Cents | 2008 Cents |
| Profit from continuing operations attributable to the ordinary equity holders of the company | 4.7 | 0.1 |
| Profit from discontinued operations | 0.0 | 0.0 |
| Profit attributable to the ordinary equity holders of the company | 4.7 | 0.1 |

### b) Diluted earnings per share

| | Consolidated | |
|---|---|---|
| | 2009 Cents | 2008 Cents |
| Profit from continuing operations attributable to the ordinary equity holders of the company | 4.7 | 0.1 |
| Profit from discontinued operations | 0.0 | 0.0 |
| Profit attributable to the ordinary equity holders of the company | 4.7 | 0.1 |

### c) Reconciliations of earnings used in calculating earnings per share

| | Consolidated | |
|---|---|---|
| | 2009 Cents | 2008 Cents |
| **Basic earnings per share** | | |
| Profit from continuing operations | 23,786 | 350 |
| Profit from discontinuing operations | – | 54 |
| Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share | 23,786 | 404 |
| **Diluted earnings per share** | | |
| Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share | 23,786 | 404 |
| Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share | 23,786 | 404 |

### d) Weighted average number of shares used as the denominator

| | Consolidated | |
|---|---|---|
| | 2009 No. | 2008 No. |
| **Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share** | 506,669,804 | 419,436,429 |
| 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** | 506,669,804 | 419,436,429 |

## 44. EARNINGS PER SHARE (CONTINUED)

### e) Information concerning the classification of shares

#### i) Performance rights

Performance rights granted to employees under the nib holdings Long Term Incentive Plan are considered to be potential ordinary shares and 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 41.

The total 1,124,853 performance rights granted (2008 – 318,817) 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 2009. 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 2009. These bonus share rights could potentially dilute basic earnings per share in the future.

## 45. 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 14 August 2009. The company has the power to amend and reissue the financial report.

# SHAREHOLDER INFORMATION

30 June 2009



The shareholder information set out below was applicable as at 6 August 2009.

## 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 | 116,034 |
| 1,001–5,000 | 89,271 |
| 5,001–10,000 | 12,485 |
| 10,001–100,000 | 234 |
| 100,001 and over | 31 |
| | 218,055 |

There were 57,791 holders of less than a marketable parcel of ordinary shares.

## B. EQUITY SECURITY HOLDERS

### Twenty largest quoted equity security holders

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

| | Ordinary shares | |
|---|---|---|
| Name | Number held | Percentage of issued shares |
| Aust Executor Trustees Ltd (nib unv & o'seas p'hldrs a/c) | 50,826,670 | 10.72% |
| National Nominees Limited | 19,839,789 | 4.19% |
| Citicorp Nominees Pty Limited | 12,428,549 | 2.62% |
| J P Morgan Nominees Australia Limited | 10,871,234 | 2.29% |
| RBC Dexia Investor Services Australia Nominees P/L (pipooled a/c) | 8,878,168 | 1.87% |
| Citicorp Nominees Pty Limited (CFS Future Leader Fund a/c) | 7,806,134 | 1.65% |
| Contango Nominees Pty Limited | 7,446,544 | 1.57% |
| Cogent Nominees Pty Limited | 6,230,816 | 1.31% |
| HSBC Custody Nominees (Australia) Limited | 5,723,668 | 1.21% |
| Bowmil Nominees Pty Limited | 4,688,567 | 0.99% |
| ANZ Nominees Limited (cash income a/c) | 3,869,587 | 0.82% |
| Suncorp Custodian Services Pty Limited (AET) | 2,546,964 | 0.54% |
| Citicorp Nominees Pty Limited (CFSIL cwlth small co 7 a/c) | 1,927,617 | 0.41% |
| Fortis Clearing Nominees P/L (settlement a/c) | 1,107,945 | 0.23% |
| Vanward Investments Limited | 1,050,000 | 0.22% |
| Merrill Lynch (Australia) Nominees Pty Limited | 1,000,000 | 0.21% |
| Citicorp Nominees Pty Limited (CFSIL cwlth small cos 1 a/c) | 950,000 | 0.20% |
| Citicorp Nominees Pty Limited (CWLTH small co fd 2 a/c) | 449,570 | 0.09% |
| Mr Mark Fitzgibbon & Mrs Gabrielle Fitzgibbon (Fitz Family Fund a/c) | 250,000 | 0.05% |
| Citicorp Nominees Pty Limited (CFS Australian Shr Fnd a/c) | 226,760 | 0.05% |
| | 148,118,582 | 31.24% |

### Unquoted equity securities

| | Number on issue | Number of holders |
|---|---|---|
| Performance rights issued under the nib holdings Long Term Incentive Plan | 1,124,853 | 5 |

## C. SUBSTANTIAL HOLDERS

Substantial holders in the company are set out below:

| | Number held | Percentage of issued shares |
|---|---|---|
| Aust Executor Trustees Ltd (nib unv & o'seas p'hldrs a/c) | 50,826,670 | 10.72% |

* 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 held in escrow are detailed below:

| Number on issue | Class of equity security | Date escrow period ends |
|---|---|---|
| 350,000 | Ordinary shares | 2 November 2010 |
| 61,737 | Ordinary shares | 30 October 2009 |

This page has been left blank intentionally.

# CORPORATE DIRECTORY

year ended 30 June 2009

## 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 HOLDINGS LIMITED

**will be held at** Newcastle City Hall

**Time** 1pm

**Date** Wednesday 28 October 2009

A formal notice of the meeting is being distributed with the annual report.

## SHARE REGISTER

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

## 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

## 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

**www.nib.com.au**

Designed and Produced by Text Pacific Publishing