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nib holdings limited
ABN 51 125 633 856

Preliminary final report for the period ended 30 June 2008

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

CONTENTS

APPENDIX 4E

nib holdings limited
ABN 51 125 633 856

For the period ended 30 June 2008

Results for announcement to market

	2008 $'000	2007 $'000	Movement up / (down) $'000	Movement %
Revenue from ordinary activities	768,484	699,580	68,903	10%
Profit (loss) from ordinary activities after tax attributable to members	404	52,496	(52,092)	-99%
Net profit (loss) attributable to members	404	52,496	(52,092)	-99%

Dividends (distributions)	Amount per security	Franking amount per security
Final dividend	2.1	100%

Record date for determining entitlements to the dividend	19-September-2008
Date the final dividend is payable	10-October-2008

Brief explanation of figures reported above:

Net profit after tax for the financial year ended 30 June 2008 calculated on a statutory basis equated to a profit of $0.4 million

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

Donation to the nib foundation (before tax)	$25.0 million
Other demutualisation and listing expenses (before tax)	$18.5 million
Tax effect of the above once off adjustments	($12.2 million)

Statutory profit after tax before one off costs above was $31.7 million.

The following normalisation adjustments were made to derive a normalised net profit after tax:

Adjustment for tax to reflect nib health funds paying tax for entire financial year	($4.0 million)
Other adjustments (refer to review of operations in attached directors report)	($1.0 million)

On a normalised basis, net profit after tax for the financial year was $26.7 million

Appendix 4E disclosure requirements	nib group Appendix 4E	Note Number
1. Details of the reporting period and the previous corresponding period	All financial data headings	
2. Key information in relation to the following: This information must be identified as "Results for announcement to the market". 2.1 The amount and percentage change up or down from the previous corresponding period of revenue from ordinary activities. 2.2 The amount and percentage change up or down from the previous corresponding period of profit (loss) from ordinary activities after tax attributable to members. 2.3 The amount and percentage change up or down from the previous corresponding period of profit (loss) attributable to members. 2.4 The amount per security and franked amount per security of final and interim dividends or a statement that it is not proposed to pay dividends. 2.5 The record date for determining entitlements to the dividends (if any). A brief explanation of any of the figures in 2.1 to 2.4 necessary to enable the figures to be understood.	"Results for announcement to the market" page 1 Appendix 4E	
3. A statement of financial performance together with note to the statement, prepared in compliance with AASB 1018 or the equivalent foreign accounting standard.	Annual Report 30 June 2008: • Income Statement • Notes to the financial statement - Summary of significant accounting policies - Revenue - Expenses - Income tax	 Note 1 Note 5 Note 6 Note 7
4. A statement of financial position together with notes to the statement. The statement of financial position may be condensed but must report as line items each significant class of asset, liability, and equity element with appropriate sub-totals.	Annual Report 30 June 2008: • Balance Sheet • Notes to the financial statement - Current assets – Cash and cash equivalents - Current assets – Receivables - Current assets – Financial assets at fair value through profit or loss - Current assets – Non-current assets classified as held for sale - Non-current assets – Receivables - Non-current assets – Available-for-sale financial assets - Non-current assets – Other financial assets - Non-current assets – Deferred tax assets - Non-current assets – Investment properties - Non-current assets – Property, plant and equipment - Non-current assets – Intangible assets - Current liabilities - Payables - Current liabilities - Borrowings - Current liabilities – Outstanding claims liability - Current liabilities – Unearned premium liability - Current liabilities – Unexpired risk liability - Current liabilities – Current tax liability - Provisions for employee entitlements - Non-current liabilities – Deferred tax liability - Share Capital - Retained profits	 Note 8 Note 9 Note 10 Note 11 Note 12 Note 13 Note 14 Note 15 Note 16 Note 17 Note 18 Note 19 Note 20 Note 21 Note 22 Note 23 Note 24 Note 25 Note 26 Note 27 Note 28

	- Reserves	Note 29
5. A statement of cash flows together with notes to the statement. The statement of cash flows may be condensed but must report as line items each significant form of cash flow and comply with the disclosure requirements of AASB 1026 Statement of Cash Flows, or for foreign entities, the equivalent foreign accounting standard..	Annual Report 30 June 2008: • Cash Flow Statement • Notes to the financial statement - Notes to the statement of cash flows	Note 34
6. Details of individual and total dividends or distributions and dividend or distribution payments. The details must include the date on which the dividend or distribution is payable and (if known) the amount per security of foreign sourced dividend or distribution.	Annual Report 30 June 2008: • Notes to the financial statement - Dividends	Note 30
7. Details of any dividend or distribution reinvestment plan in operation and the last date for the receipt of an election notice for the participation in any dividend or distribution reinvestment plan.	No dividend reinvestment plan. Not applicable	
8. A statement of retained earnings showing movements.	Annual Report 30 June 2008: • Notes to the financial statement - Retained earnings	Note 28
9. Net tangible assets per security with the comparative figure for the previous corresponding period.	Net tangible asset backing per ordinary security (cents per share) is 72.41 (not applicable in 2007)	
10. Details over which control has been gained or lost during the period, including the following: 10.1 Name of entity. 10.2 The date of the gain or loss of control. 10.3 Where material to the understanding of the report – the contribution of such entities to the reporting entity's profit from ordinary activities during the period and the profit or loss of such entities during the whole of the previous corresponding reporting period.	Annual Report 30 June 2008: • Directors' report • Notes to the financial statement - Business combinations - Discontinued operations	Note 35 Note 44
11. Details of associates and joint venture entities including the following: 11.1 Name of the associate or joint venture entity. 11.2 Details of the reporting entity's percentage holding in each of these entities. 11.3 Where material to the understanding of the report – aggregate share of profits (losses) of these entities, details of contributions to net profit for each of these entities, and with comparative figures for the previous corresponding reporting period.	Annual Report 30 June 2008: • Directors' report • Notes to the financial statement - Related parties	Note 39 (b)
12. Any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position.	Annual Report 30 June 2008	
13. For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Accounting Standards).	Not applicable	
14. A commentary on the results for the period. The commentary must be sufficient for the user to compare the information presented with equivalent information for previous periods. The commentary must include any significant information needed by an investor to make an informed assessment of the entity's activities and results, which would include but not be limited to discussion of the following: 14.1 The earnings per security and the nature of any dilution aspects. 14.2 Returns to shareholders including distributions and buy backs 14.3 Significant features of operating performance 14.4 The results of segments that are significant to an understanding of the business as a whole. 14.5 A discussion of trends in performance 14.6 Any other factors which have affected the results in the period or which are likely to affect results in the future, including those where the effect could not be quantified.	Annual Report 30 June 2008: • Directors' report • Notes to the financial statement ▪ Earnings per share ▪ Dividends ▪ Directors report ▪ Segment reporting ▪ Directors report ▪ Events subsequent to reporting date	Note 43 Note 30 Note 37 Note 38

15. A statement as to whether the report is based on accounts which have been audited or subject to review, are in the process of being audited or reviewed, or have not yet been audited or reviewed.	The financial report 300 June 2008 has been fully audited • Independent auditor's report	
16. If the accounts have not yet been audited or subject to review and are likely to be subject to dispute or qualification, a description of the likely dispute or qualification.	Not applicable	

nib holdings limited

ABN 51 125 633 856

ANNUAL REPORT

30 JUNE 2008

CONTENTS

CORPORATE DIRECTORY

Directors	**Chairman** Keith Lynch **Managing Director** Mark Fitzgibbon Harold Bentley Annette Carruthers Philip Gardner Brian Keane
Company secretary	David Lethbridge
Executive management	**Chief Executive Officer** Mark Fitzgibbon **Chief Marketing Officer** Jayne Drinkwater **Chief Operating and Technology Officer** Melanie Kneale **General Manager - Corporate Office** David Lethbridge **Deputy Chief Executive Officer & Chief Financial Officer** Michelle McPherson
Notice of annual general meeting	The annual general meeting of nib holdings limited **will be held at** Newcastle Town Hall **Time** 2pm **Date** Tuesday 28 October 2008 A formal notice of the meeting is enclosed.
Share register	Computershare Investor Services Pty Limited Level 3 60 Carrington Street Sydney NSW 2000
Stock exchange listing	nib holdings limited shares are listed on the Australian Stock Exchange.
Principal registered office in Australia	384 Hunter Street Newcastle NSW 2300

CORPORATE DIRECTORY

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	Westpac Institutional Bank 275 Kent Street Sydney NSW 2000
Website address	www.nib.com.au

The directors of nib holdings limited present their report on the consolidated entity (referred to hereafter as the Group) consisting of nib holdings limited and the entities it controlled at the end of, or during, the year ended 30 June 2008.

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
Philip Gardner

Annette Carruthers was appointed director on 20 September 2007 and continues in office at the date of this report.

Janet Dore was appointed director on 20 September 2007 and resigned on 31 July 2008.

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

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).

The following significant changes in nature of the activities of the group occurred during the year:

(a) Demutualisation and Listing

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

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

On 31 August 2007, the following steps occurred:

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

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

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

On 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.

Principal activities (continued)

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

Review of operations

The consolidated profit of the Group for the year, after income tax expense, was $0.404 million (2007: $52.496 million). This result was materially impacted by once only demutualisation and listing adjustments as set out in the table below.

$ million	2008	2007
Consolidated profit	$0.404	$52.496
Add back:		
Donation to nib Foundation (note 6)	$25.000	$nil
Other demutualisation and listing expenses (note 6)	$18.498	$5.721
Tax effect of above once only adjustments	$(12.187)	$nil
Consolidated profit excluding once only demutualisation and listing adjustments	$31.715	$58.217

The normalised consolidated profit of the Group for the year, after income tax expense, was $26.750 million (2007: $37.234 million). The adjustments that determine this normalised result are set out in the table below.

$ million	2008	2007
Consolidated profit excluding once only demutualisation and listing adjustments	$31.715	$58.217
Adjustments:		
Ongoing listed public company costs to reflect results as if nib holdings was a publicly listed company for the entire period	$(0.800)	$(2.400)
Remove profit from discontinuing operations	$(0.054)	$(1.682)
An increase in the HBRTF/RETF Levy estimated to reflect the result as if the Risk Equalisation Trust Fund arrangements (introduced on 1 April 2007 to replace the previous Health Benefits Reinsurance Trust Fund arrangements) had been in place for the entire period	$nil	$(1.202)
Tax effect of ongoing listed public company costs and adjustment to HBRTF/RETF Levy	$0.240	$1.080
Tax expense to reflect the result as if nib health was subject to income tax for the entire period. nib health only became subject to income tax on conversion to a for profit private health insurer on 1 October 2007	$(4.011)	$(16.779)
Tax deduction for listing expenses credited directly to equity	$(0.340)	$nil
Normalised consolidated profit	$26.750	$37.234

nib's strategy is to shape the future of private healthcare funding in a way that increases participation, enhances health outcomes and creates enterprise value. nib's core business of the provision of private health insurance has a strategy of growing market share through the provision of innovative, low cost health insurance products. Key business initiatives include:

- Aggressively pursuing growth in national market for private health insurance and in our market share, especially within the under 40 segment and outside of NSW, by

Review of operations (continued)

utilising nib's strong brand, well designed and competitively priced products, and online presence and capability.

- Focus on retaining customers through great customer service, nib product design and looking to migrate customers through different products as they age or their life circumstances change.
- Pursue enterprise value adding health fund mergers and acquisitions
- Actively pursue product innovation aimed at enhancing customer value proposition and increasing our role in the financing of private health care expenditure.
- Modernise and enhance organisational capability, efficiency and performance.

nib's normalised consolidated profit for the year of $26.750 million (2007: $37.234 million) reflects the following key metrics:

	2008	**2007**
Gross margin	14.7%	14.3%
Management expense ratio	10.3%	10.7%
Net underwriting margin	4.4%	3.6%
Net investment income	$7.5m	$31.3m
Investment return	1.6%	8.8%

The above normalised results were pleasing in the context of:

- Strong policyholder growth due to continued success of organic growth strategy
- nib growing faster than industry, up 11.1% vs 4.2% for industry in terms of net policyholders
- 36,605 net new policyholders – 114.7% of FY08 Prospectus forecast, and above revised forecast
- targeting young policy holders without PHI and building a national footprint
- nib with 7.0% market share, accounted for 17.3% of national growth in FY08 (22.3% in NSW)
- Since the launch of our new product portfolio in June 2006 and the investment in our organic growth strategy in January 2007, in the last two years we have added 63,090 net new policyholders, accounting for about 15.3% of industry growth
- Our normalised net margin has increased from 3.6% in FY07 to 4.4% in FY08

During the year we have also faced some challenges, including:

- Our lapse rate of 9.4% (2007: 7.7%) is up on 2007 largely due to a deliberate strategy to exit unprofitable corporate channel business (1.0% lapse)
- Low investment earnings given volatile investment markets, we are carefully managing our investment portfolio to move it towards an 80%/20% defensive/growth split over time
- Government's proposed increase to the Medicare Levy Surcharge (MLS) threshold. We are lobbying Government to reconsider extent of MLS threshold uplift as well as its approach to premium pricing. We are monitoring customer reaction, and have a number of plans in place to address the potential impact.
- Government increasing its "footprint" in PHI through Medibank Private's purchase of AHM. We continue to pursue attractive acquisition opportunities as they arise.
- The new risk equalisation scheme provides little incentive for other funds to implement appropriate risk management. We are lobbying Government to consider a new approach that rewards risk management.

Capital management continues to be a significant priority. At 30 June 2008 the Group had excess capital of $105.6 million above our internal benchmark (after allowing for the payment of a dividend of 2.1 cps, totaling $10.9 million, in October 2008). nib health funds limited had a capital adequacy coverage ratio of 1.61x (2007: 1.64x), with the fall driven by a strengthening capital position during the year being more than offset by a dividend of $95.5 million from nib health funds limited to nib holdings limited to transfer excess capital above

Review of operations (continued)

our internal benchmark of 1.5x capital adequacy to nib holdings limited as part of nib's capital management activities.

Our strong capital position and our ungeared balance sheet, enables us to pursue attractive acquisition opportunities as they arise or undertake capital management initiatives. In the absence of an acquisition we envisage a return of capital in the near term. We are currently reviewing our Group capital management plan with a view to determining the most optimal capital structure and method of capital return. As an initial step we plan to undertake an on-market share buy-back of up to 10% of issued shares.

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

Since 30 June 2008 nib holdings limited has resolved to do an on-market buy-back of nib holdings shares, commencing 15 September 2008. Up to 10% of shares issued will be bought back at market price.

Other than the matters noted above there have not been any matters or circumstances that have arisen since the end of the financial year that has significantly affected, or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Likely developments and expected results of operations

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

Environmental regulation

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

Information on directors

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

Name and qualifications	
Keith Lynch BSc (Tech) UNSW, MAICD	Chair Independent Non-Executive Director. Age 66.
Experience and expertise	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.
Other current directorships	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.
Former directorships in the last 3 years	Chair of Kip McGrath Education Centres Limited from May 2005 to November 2007.
Special responsibilities	Chairman of Board and remuneration and nomination committee.
Interests in shares and performance rights	26,684 ordinary shares in nib holdings limited
Name and qualifications	
Mark Fitzgibbon MBA, MA, ALCA, FAICD	Managing Director. Age 48.
Experience and expertise	Joined nib health funds limited in 2002 as Chief Executive Officer (CEO). Previously CEO of the national and peak industry bodies for licensed clubs. Before that, held several CEO positions in local government, including General Manager of Bankstown Council between 1995 and 1999.
Other current directorships	Director of nib health 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.
Former directorships in the last 3 years	None.
Special responsibilities	Managing Director.
Interests in shares and performance rights	Direct: 2,601 ordinary shares in nib holdings limited. Indirect: 250,000 ordinary shares in nib holdings held by Fitz Family fund. Performance rights to be granted under the nib long-term incentive plan subject to shareholder approval to be sought at the October 2008 AGM.
Name and qualifications	
Harold Bentley MA Hons, FCA, FCIS	Independent Non-Executive Director. Age 60.
	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.
Other current directorships	None.
Former directorships in the last 3 years	None.
Special responsibilities	Member of audit committee and remuneration and nomination committee.
Interests in shares and performance rights	Indirect: 50,000 ordinary shares in nib holdings limited held by Sushi Sake Pty Limited.
Name and qualifications	

Information on directors (continued)

Dr Annette Carruthers MBBS (Hons), FRACGP, FAICD	Independent Non-Executive Director. Age 53.
Experience and expertise	A director since 20 September 2007. A general practitioner with comprehensive experience in health management. Currently Clinical Director at GP access (formerly known as Hunter Urban Division of General Practice and previously a director of Hunter Area Health Service. Chair Australian General Practice Network National Aged Care Taskforce. Member NSW Medical Experts Committee Avant Pty Ltd.
Other current directorships	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 (NSW Division).
Former directorships in the last 3 years	None.
Special responsibilities	Member of audit committee and risk and reputation committee (Chair of risk and reputation committee from 1 August 2008).
Interests in shares and performance rights	Direct: 1,000 ordinary shares in nib holdings limited. Indirect: 40,000 ordinary shares in nib holdings limited held by Carruthers Future Fund Pty Ltd.
Name and qualifications	
Janet Dore B.App.Sc (Planning) MBA, FAICD, FAIM, FAPI, FIMM	Independent Non-Executive Director. Age 58.
Experience and expertise	A director since 20 September 2007. Chief Claims Officer Transport Accident Commission Victoria and a former General Manager of Newcastle City Council and Chief Executive Officer City of Ballarat. A member of the NSW Heritage Council and the Premier's Advisory Council on Women. A director of Hunter Economic Development Corporation, Hunter Regional Tourism Organisation and the Sustainability Advisory Council (Planning NSW), Newcastle and Hunter Events Corporation. Sat on the Metropolitan Strategy Reference Panel and NSW Greenhouse Advisory Panel from 2004 to 2006. A former member of the Newcastle Graduate School Advisory Board. Resigned 31 July 2008.
Other current directorships	Chair of nib health care services pty limited and director of nib health funds limited (since 2002), nib health services limited, The Heights Private Hospital Pty Limited, Newcastle Airport Ltd, Newcastle Alliance, Hunter Councils Inc, Hunter Integrated Resources, and Life Activities Incorporated.
Former directorships in the last 3 years	None
Special responsibilities	Chair of the risk and reputation committee until 31 July 2008.
Interests in shares and performance rights	27,025 ordinary shares in nib holdings limited.

Information on directors (continued)

Name and qualifications	
Philip Gardner B.Comm, CPA, CCM, FAICD, JP	Independent Non-Executive Director. Age 50.
Experience and expertise	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.
Other current directorships	Director of nib health funds limited since 2005. A director of Newcastle Airport Limited and Chair of the Audit & Risk Management Committee. Treasurer of Western Suburbs Rugby League Football Club Inc.
Former directorships in the last 3 years	None.
Special responsibilities	Chair of audit committee.
Interests in shares and performance rights	Direct: 16,862 ordinary shares in nib holdings limited. Indirect: 48,000 ordinary shares in nib holdings limited held by Sutton Gardner Pty Ltd.
Name and qualifications	
Brian Keane FAICD	Independent Non-Executive Director. Age 70.
Experience and expertise	A director since 7 November 2007. A member of the Australian Competition Tribunal. Formerly Chief Executive Officer of AAMI Ltd.
Other current directorships	A director of the CSIRO, Lawcover Pty Ltd, Aurora Energy Pty Ltd and The Holland Insurance Company Pty Ltd.
Former directorships in the last 3 years	A director of Medibank Private Ltd, Royal and Sun Alliance Ltd, TAB Ltd, AAI Ltd (Australian Pensioners Insurance), IEC Ltd, Motor Accidents Authority of NSW, and RAC Insurance Ltd. Director and President of the Insurance Council of Australia.
Special responsibilities	Member of the remuneration and nomination committee and risk and reputation committee.
Interests in shares and performance rights	Indirect: 16,300 ordinary shares in nib holdings limited held by the Brian Keane Superannuation Fund.

Company Secretary	
David Lethbridge LLB (Otago NZ), GAICD	Company Secretary since 28 May 2007. Age 49. Currently General Manager – Corporate Office at nib health funds limited. Formerly Board Secretary/Senior Legal Advisor New Zealand Apple and Pear Marketing Board and Legal Advisor New Zealand Dairy Board.

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 2008, and the numbers of meetings attended by each director were:

	Board of Directors				Audit Committee		Risk and Reputation Committee		Nomination and Remuneration Committee	
	Scheduled meetings	Meetings attended	Unscheduled meetings	Meetings attended	Scheduled meetings	Meetings attended	Scheduled meetings	Meetings attended	Scheduled meetings	Meetings attended
Keith Lynch	10	9	11	11	-	-	-	-	2	2
Mark Fitzgibbon	10	9	11	10	-	-	-	-	-	-
Philip Gardner	10	10	11	8	4	4	-	-	-	-
Janet Dore	10	8	9	8	-	-	6	4	-	-
Annette Carruthers	10	10	9	9	4	4	6	6	-	-
Harold Bentley	8	6	5	5	4	3	-	-	2	1
Brian Keane	8	7	5	3	-	-	6	5	2	2

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 – cash bonuses
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

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage/alignment of executive compensation
- transparency.

In consultation with external remuneration consultants, the company has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the organisation.

Alignment to shareholders' interests:

- has financial performance as a core component of plan design
- focuses on sustained growth in net assets as well as focusing the executive on key non-financial drivers of value
- attracts and retains high calibre executives.

Alignment to executives' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in net assets
- provides clear structure for earning rewards
- provides recognition for contribution

The framework provides a mix of fixed and variable remuneration, and a blend of short-term and long-term incentives.

The Board has established a remuneration and nomination committee which provides advice on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors. The Corporate Governance Statement provides further information on the role of this committee.

Remuneration report (continued)

A Principles used to determine the nature and amount of remuneration (continued)

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees are reviewed annually by the Board. The Board has also sought the advice of an independent remuneration consultant in 2007 to ensure non-executive directors' fees and payments are appropriate and in line with the market and will continue to seek independent advice every 2 years. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market.

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.

Directors' fees

The current base remuneration was last reviewed with effect from 1 October 2007 and is being reviewed again currently to become effective 1 July 2008. The Chairman's and directors' remuneration is inclusive of committee fees.

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 prior to and following the corporate and committee restructure on 1 October 2007. Refer to section 2 the Corporate Governance Statement for committee membership.

Remuneration report (continued)

A Principles used to determine the nature and amount of remuneration (continued)

	Annual Fee from 1 October 2007	Annual Fee Equivalent from 1 July 2007 to 30 September 2007
Base fees		
Chairman	$175,000	$175,000
Other non-executive directors	$80,000	$80,000
Additional fees		
Audit and compliance committee - chairman		$18,000
Audit and compliance committee - member		$9,000
Finance and investment committee - chairman		$18,000
Finance and investment committee - member		$9,000
Corporate governance committee - chairman		$18,000
Corporate governance committee - member		$9,000
Remuneration committee - chairman		$18,000
Remuneration committee - member		$9,000
Audit committee - chairman*	$18,000	
Audit committee - member	$9,000	
Risk and reputation committee - chairman*	$18,000	
Risk and reputation committee - member	$9,000	
Nomination and remuneration committee - chairman*	$18,000	
Nomination and remuneration committee - member	$9,000	

*from 1 October 2007 where the Chairman of the Board is a chairman or member of a committee, no fees are payable to the chairman for such membership.

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, in line with recent guidance on non-executive directors' remuneration.

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.

Executive remuneration

The executive remuneration and reward framework has four components:

- remuneration package inclusive of superannuation;
- prescribed non financial benefits at the company's discretion;
- short-term performance incentives; and
- long-term incentives.

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

Remuneration report (continued)

A Principles used to determine the nature and amount of remuneration (continued)

The overall level of executive reward during the year ended 30 June 2008, takes into account the performance of the Group for the year ended 30 June 2008 and the successful demutualisation and listing of nib during the year.

Remuneration package

The remuneration package may be delivered as a combination of cash, vehicle capital allowance (inclusive of FBT if appropriate), 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 for Executive vehicles.

Executives are offered a competitive package following the provision of analysis and advice from external remuneration consultants every two years to ensure the remuneration package is reflective of comparable roles in the market. Total remuneration for executives is reviewed annually to ensure the executive's reward is competitive with the market. An executive's remuneration is also reviewed on position change and/or promotion. Although the review occurs on an annual basis, there is no guaranteed increase in any executive's remuneration.

Short-term incentives

Should the executives achieve required levels of personal competency and the Group achieve pre-determined performance targets set by the Board's nomination and remuneration committee then a short-term incentive (STI) pool is available for executives for allocation during the annual review. Cash incentives (bonuses) are payable on or before 15 September each year. The incentive pool is leveraged for performance above the pre-determined performance targets to provide an incentive for executive out-performance.

Each executive has a target STI opportunity depending on the accountabilities of the role and impact on the organisation or business unit performance. For the chief executive officer and other executives, the maximum target bonus opportunity is 50% (with 50% of entitlement to be awarded as performance shares to be held in escrow for one year) and 40% of total executives' remuneration package, respectively. There is no minimum entitlement to STI.

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 personal competency of the other executives.

The nomination and remuneration committee is responsible for assessing whether the KPIs are met by the MD/CEO and other executives. To help make this assessment, the nomination and remuneration committee receives reports and documented evidence on performance from management either specifically for the nomination and remuneration committee or via other board and committee reporting. 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 forfeited in any year are not available to be recouped in future years.

Long-term incentives

Long-term incentives are provided to certain employees via the nib long-term incentive plan ("LTIP"), see page 19 (Share-based compensation – Performance rights) for further information.

Remuneration report (continued)

B Details of remuneration

Details of the remuneration of each director of the nib Group (being nib health funds limited prior to demutualisation on 1 October and nib holdings limited following the demutualisation) and other key management personnel are set out in the following tables. The cash bonuses are dependent on the satisfaction of performance conditions as set out in the section headed "Short-term incentives" above. Performance rights are dependent on the satisfaction of performance conditions as set out in the section headed "Performance rights" below. All other elements of remuneration are not directly related to performance.

The key management personnel of nib holdings limited, the "Parent", and the "Group", consisting of nib holdings limited and its subsidiaries following the demutualisation and nib health funds limited and its subsidiaries prior to demutualisation, includes the directors as per pages 7 to 9 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
- Ian Boyd — Medical Director (from 1/7/2006 – 29/2/2008)*
- Jayne Drinkwater — Chief Marketing Officer
- Melanie Kneale — Chief Operating and Technology Officer (from 14/1/2008)
- Diane Lally — Human Resources Director (from 1/7/2006 – 19/10/2007)
- David Lethbridge — General Manager Corporate Office
- Michelle McPherson — Deputy Chief Executive Officer/Chief Financial Officer
- Peter Small — Chief Operating Officer (from 1/7/2006 – 26/10/2007)

* Ian Boyd is no longer employed by the Group but continues in the role of Medical Director on a consulting basis.

Remuneration report (continued)

B Details of remuneration (continued)

2008	Short-term employee benefits				Post-employment benefits		Long-term benefits	Termination benefits	Share-based payments			
Name	Cash salary and fees $	Cash bonus $	Transaction and retention bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Long service leave $	Termination benefits $	Fees $	Bonus # $	Performance rights $	Total $
Keith Lynch^	51,777	-	-	2,617	99,140	73,401	-	-	24,083	-	-	251,018
Harold Bentley (7/11/2007 - 30/6/2008)	-	-	-	-	63,848	-	-	-	-	-	-	63,848
David Brewer^ (1/7/2007 - 25/9/2007)	19,495	-	-	-	4,258	1,200	-	-	-	-	-	24,953
Grahame Cannon^ (1/7/2007 - 27/9/2007)	21,744	-	-	-	1,957	3,394	-	-	-	-	-	27,095
Annette Carruthers^	32,477	-	-	2,406	67,773	5,561	-	-	-	-	-	108,217
Janet Dore^	16,804	-	-	1,960	56,474	6,338	-	-	26,972	-	-	108,548
Philip Gardner^	74,358	-	-	-	7,906	-	-	-	13,486	-	-	95,750
Brian Keane (7/11/2007 - 30/6/2008)	27,304	-	-	-	36,545	-	-	-	-	-	-	63,849
Michael Slater^ (1/7/2007 - 17/9/2007)	-	-	-	-	22,970	2,096	-	-	-	-	-	25,066
Sub-total non-executive directors	243,959	-	-	6,983	360,871	91,990	-	-	64,541	-	-	768,344
From 1 October 2007 all non-executive directors remuneration other than retirement benefits were paid from the parent entity nib holdings limited												
Mark Fitzgibbon*	448,255	151,610	1,340,052	49,700	50,000	-	48,035	-	-	217,914	26,638	2,332,204
Ian Boyd* (1/7/2007 - 29/2/2008)	149,563	61,570	716,276	14,614	13,453	-	-	244,400	-	85,000	-	1,284,876
Jayne Drinkwater*	226,310	74,930	801,276	11,031	50,000	-	23,196	-	-	-	4,898	1,191,641
Melanie Kneale (14/1/2008 - 30/6/2008)	158,585	45,754	-	7,401	12,542	-	-	-	-	-	6,170	230,452
Diane Lally (1/7/2007 - 19/10/2007)	58,350	(4,300)	801,276	3,870	9,702	-	-	223,600	-	-	-	1,092,498
David Lethbridge*	179,584	69,150	716,276	11,460	50,000	-	25,092	-	-	87,166	4,519	1,143,247
Michelle McPherson*	307,192	103,863	716,276	19,791	49,194	-	30,351	-	-	87,166	6,512	1,320,345
Peter Small (1/7/2007 - 26/10/2007)	50,624	(5,889)	801,276	5,650	16,901	-	-	209,404	-	-	-	1,077,966
Sub-total executives	1,578,463	496,688	5,892,708	123,517	251,792	-	126,674	677,404	-	477,246	48,737	9,673,229
Total key management personnel compensation	1,822,422	496,688	5,892,708	130,500	612,663	91,990	126,674	677,404	64,541	477,246	48,737	10,441,573

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.

Remuneration report (continued)

B Details of remuneration (continued)

2007	Short-term employee benefits				Post-employment benefits		
Name	Cash salary and fees $	Cash bonus $	Retention bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Total $
Keith Lynch	26,383	-	-	3,738	116,117	40,979	187,217
David Brewer	16,678	-	-	3,738	68,322	3,436	92,174
Grahame Cannon	36,829	-	-	3,738	52,940	9,499	103,006
Annette Carruthers	52,196	-	-	-	33,012	3,528	88,736
Janet Dore	14,438	-	-	-	70,562	4,020	89,020
Philip Gardner	77,982	-	-	-	7,018	-	85,000
Michael Slater	38,991	-	-	3,738	46,009	5,074	93,812
Sub-total non-executive directors	**263,497**	**-**	**-**	**14,952**	**393,980**	**66,536**	**738,965**
Mark Fitzgibbon*	442,416	138,000	250,000	12,995	27,174	-	870,585
Ian Boyd*	221,348	70,500	150,000	7,377	19,397	-	468,622
Jayne Drinkwater*	183,604	74,100	150,000	6,086	48,522	-	462,312
Diane Lally	173,190	64,500	150,000	2,844	28,101	-	418,635
David Lethbridge*	50,020	67,500	150,000	10,070	181,342	-	458,932
Michelle McPherson*	243,422	82,500	150,000	10,926	33,509	-	520,357
Peter Small	148,183	60,000	150,000	8,730	50,761	-	417,674
Sub-total executives	**1,462,183**	**557,100**	**1,150,000**	**59,028**	**388,806**	**-**	**3,617,117**
Total key management personnel compensation	**1,725,680**	**557,100**	**1,150,000**	**73,980**	**782,786**	**66,536**	**4,356,082**

* 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.

Remuneration report (continued)

B Details of remuneration (continued)

Following the successful demutualisation and listing of nib during the year, retention payments and transaction bonuses totaling $6.4 million (2007: $1.2 million) were expensed as set out on pages 15 - 16. 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.

Name	Fixed remuneration		At risk - STI/Other bonuses		At risk - LTI	
	2008	2007	2008	2007	2008	2007
Other key management personnel of the Group						
Mark Fitzgibbon	77.0%	77.8%	19.6%	22.2%	3.4%	-
Ian Boyd	87.3%	77.9%	30.3%	22.1%	-	-
Jayne Drinkwater	79.5%	76.3%	19.2%	23.7%	1.3%	-
Melanie Kneale	77.4%	-	19.9%	-	2.7%	-
Diane Lally	101.5%	76.0%	-1.5%	24.0%	-	-
David Lethbridge	78.4%	78.2%	20.3%	21.8%	1.3%	-
Michelle McPherson	78.6%	77.7%	20.1%	22.3%	1.3%	-
Peter Small	102.1%	77.6%	-2.1%	22.4%	-	-

Note: The percentages above are impacted by the length of employment during the year. Ian Boyd, Melanie Kneale, Diane Lally and Peter Small were only employed for part of the year.

C Service agreements

On appointment, all executives enter into a service agreement with the company. 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 cash bonuses and other entitlements.

All executives in employment at 30 June 2008, with the exception of M Kneale, have executed service agreements effective 1 July 2007 with the following identical terms:

- Remuneration packages including superannuation, non-monetary benefits and cash bonus schemes which are subject to annual review.
- Terms of Agreement – 3 years ending 30 June 2010.
- Termination Provisions – 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.

M Kneale has executed a service agreement effective 14 January 2008 with the following terms:

- Remuneration packages including superannuation, non-monetary benefits and cash bonus schemes which are subject to annual review.
- Terms of Agreement – ending 30 June 2010.
- Termination Provisions – 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.

Retention Payments and Transaction Bonuses

In executive contracts for the three years commencing 1 July 2006, nib put in place employee retention and incentive arrangements to cover key employees who the board believed to be critical to an anticipated transaction (three potential options existed at the time the contracts were entered into), or critical to the continuation of the business of nib. Under these

Remuneration report (continued)

C Service agreements (continued)

Retention Payments and Transaction Bonuses (continued)

arrangements, key employees were eligible to receive a transaction bonus conditional on the anticipated transaction and a retention bonus conditional on the anticipated transaction or the employee remaining employed by nib, whichever date is earlier.

During the year, one of the anticipated transactions occurred, being the successful demutualisation and listing of nib, and as part of the Group's executive retention arrangements, the Group paid to the executive a Transaction Bonus which was payable on completion of the listing of nib holdings on 5 November 2007 and a retention payment which was payable six months after completion of the listing of nib holdings on 5 November 2007.

The transaction bonus was calculated in accordance with a formula that was dependent on the value of the Shares at Listing. The chief executive officer and other executives were entitled to 0.4% and 0.2%, respectively, of the excess of the weighted average market capitalisation for the first three days of trading on the ASX above the net assets of the nib group as at 30 June 2006. The VWAP for nib holdings shares for this period was $1.1764, resulting in an aggregate cost of $5.2 million for the transaction bonus.

The retention payment arrangements have an aggregate maximum cost of $2.3 million. The retention payment arrangements were designed to be in respect of the 3 years ended 30 June 2009 or the period from 1 July 2006 to a date 6 months post a defined transaction. Given that the most likely outcome was a transaction, being the listing of nib holdings, occurring in November 2007, the retention payment was accrued over the period 1 July 2006 to 30 June 2008.

Executives whose positions were terminated as part of the restructure of the Group during the year received their transaction and retention bonuses on termination. Executives that chose to purchase shares with a portion of their transaction bonus received their transaction bonus in November 2007 and the remaining executive was paid their transaction bonus in May 2008.

Details of retention payments, transaction bonuses and termination payments paid and provided for during the period are as follows:

	Retention Payment paid [1]	Transaction Bonus paid	Termination payment paid
Mark Fitzgibbon	500,000	1,302,552	-
Ian Boyd	300,000	651,276	244,400
Jayne Drinkwater	300,000	651,276	-
Diane Lally	300,000	651,276	223,600
David Lethbridge	300,000	651,276	-
Michelle McPherson	300,000	651,276	-
Peter Small	300,000	651,276	209,404
	2,300,000	5,210,208	677,404

[1] 50% of the retention payment was provided for at 30 June 2007.

Shares (equating to $0.5 million) taken as part of the transaction bonus are held in escrow for three years and executives are eligible to receive additional shares at the end of the three year period, subject to certain performance hurdles and remaining in employment with the Group.

Additional shares are awarded on the following basis:

- One share granted for every four shares held in escrow if Total Shareholder Return (TSR) at the end of the three year period equals or exceeds the ASX small ordinaries index 75% quartile; or

Remuneration report (continued)

C Service agreements (continued)

Retention Payments and Transaction Bonuses (continued)

- One share granted for every eight shares held in escrow if TSR at the end of the three year period equals or exceeds the ASX small ordinaries index median.

The executive is relieved of the escrow arrangement and able to divest shares without any additional share entitlement upon termination of employment.

D Details of Remuneration – cash bonuses

Included in the table below are details of the accruals as at 30 June 2008 in respect of the normal short term incentive (STI) payment for each executive.

Each executive has a target STI opportunity depending on the accountabilities of the role and impact on the organisation or business performance.

For the year ended 30 June 2008, 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 linked to the STI plan and their respective weighting (within the two thirds) were based on group objectives being:

- Policyholder growth 30%
- Normalised consolidated profit 50%
- Normalised consolidated management expense ratio 10%
- Gross margin 10%

For the MD/CEO and other executives the maximum target bonus opportunity is 50% (with 50% of entitlement to be awarded as performance shares to be held in escrow for one year) and 40% of the remuneration package, respectively.

Included in the financial statements for the year ended 30 June 2008 is a provision equal to 30% of each executives' remuneration package, which was based on a preliminary assessment of performance against the KPI criteria. The final bonus amount is subject to determination by the nomination and remuneration committee.

Actual bonuses are paid on or around 15 September each year in respect of the year ended 30 June once the financial statements are finalised. The maximum bonuses attainable and actual bonuses provided are as follows:

	Remuneration Package including $	STI Maximum Bonus $	STI Bonus Provided $	STI Bonus Provided %	STI Bonus expected to be forfeited %
Mark Fitzgibbon	500,000	250,000	150,000	60%	40%
Jayne Drinkwater	258,000	103,200	77,400	75%	25%
Melanie Kneale	325,000	59,672	44,754	75%	25%
David Lethbridge	238,000	95,200	71,400	75%	25%
Michelle McPherson	343,000	137,200	102,900	75%	25%
	1,664,000	645,272	446,454	69%	31%

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

Remuneration report (continued)

E Share-based compensation (continued)

certain performance standards are met and the employees are still employed by the Group at the end of the vesting period. Vesting of performance rights in respect of the FY08 – FY10 LTIP is subject to nib holdings limited EPS hurdle as follows:

EPS Hurdle	Percentage of performance rights vesting
Compound annual growth rate of 25% (equates to EPS of $0.140 in the financial year ending 30 June 2010)	100%
Compound annual growth rate of 20% (equates to EPS of $0.124 in the financial year ending 30 June 2010)	75%
Compound annual growth rate of 15% (equates to EPS of $0.109 in the financial year ending 30 June 2010)	50%
Compound annual growth rate of 10% (equates to EPS of $0.096 in the financial year ending 30 June 2010)	25%
Nil	0%

For the purpose of the calculation, 25% to 50% will be discrete thresholds (eg performance will be assessed at 25% for EPS greater than $0.096 but less than $0.109), with performance above the 50% entitlement calculated on a pro rata basis to a maximum entitlement of 100%.

The performance measurement period commences on 30 June 2007. The vesting date commences on 1 September 2010 but 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:

Grant date	Date vested and exercisable	Expiry date	Exercise price	Value per performance right at grant date
24 June 2008	1 September 2010	31 December 2012	nil	$0.49

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

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

Details of performance rights over ordinary shares in the company provided as remuneration to each director of nib holdings limited and each 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.

Remuneration report (continued)

E Share-based compensation (continued)

Name	Number of performance rights granted during the year	Number of performance rights vested during the year
Mark Fitzgibbon	-	-
Jayne Drinkwater	63,431	-
Melanie Kneale	79,903	-
David Lethbridge	58,514	-
Michelle McPherson	84,329	-

Shareholder approval will be sought at the October 2008 AGM, for the MD/CEO to participate in the LTIP. As a result, no performance rights have been currently granted to the MD/CEO. However, the value of performance rights that would be granted to the MD/CEO has been accrued and the fair value of these rights has been recognised in the 2008 remuneration table. The MD/CEO will be granted 270,442 performance rights subject to shareholder approval.

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 2008 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
c) grant date: 28 October 2008 for the chief executive officer and 24 June 2008 for all other executives and senior management.
d) expiry date: 31 December 2012
e) share price at grant date: $0.565 for shares granted 24 June 2008 and $0.700 for shares to be granted on 28 October 2008 (being an estimation of a future share price based on the closing share price on 12 August 2008).
f) expected dividend yield: Dividends are assumed based on the Board's previously stated dividend payout ratio of 40% to 60% of normalised net profit after tax.

Shares provided on exercise of performance rights

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

For each grant of performance rights included in the tables on pages 20 - 21, the percentage of the available grant that was vested, in the financial year, and the percentage that was forfeited 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 20 above). No performance rights will vest if the conditions are not satisfied, hence the minimum value of the performance right yet to vest is nil. The maximum value of the performance rights yet to vest has been determined as the amount of the performance rights multiplied by the share price at 12 August 2008 of $0.700.

Remuneration report (continued)

E Share-based compensation (continued)

Name	Performance rights					
	Year granted	Vested %	Forfeited %	Financial years in which options may vest	Minimum total value of grant yet to vest $	Maximum total value of performance rights yet to vest $
Mark Fitzgibbon	2008	-	-	30/06/2011	nil	189,309
Jayne Drinkwater	2008	-	-	30/06/2011	nil	44,402
Melanie Kneale	2008	-	-	30/06/2011	nil	55,932
David Lethbridge	2008	-	-	30/06/2011	nil	40,960
Michelle McPherson	2008	-	-	30/06/2011	nil	59,030

Further details relating to performance rights are set out below:

Name	A Remuneration consisting of performance rights	B Value at grant date $
Mark Fitzgibbon#	3.4%	169,026
Jayne Drinkwater	1.3%	31,081
Melanie Kneale*	2.7%	39,152
David Lethbridge	1.3%	28,672
Michelle McPherson	1.3%	41,321

* Melanie Kneale received remuneration from 14/1/08.
# The value at grant date for Mark Fitzgibbon is an estimate of grant date value based on predicted nib share price at 28 October 2008, reflecting the need for shareholder approval. Value at grant date for all other executives is based on the share price at grant date (24 June 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.

Bonus share rights granted for shares held in escrow

Details of bonus share rights granted for shares held in escrow in the company provided as remuneration to each director of nib holdings limited and each 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 is set out in note 41 to the financial statements.

Name	Number of shares held in escrow
Mark Fitzgibbon	250,000
David Lethbridge	100,000
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 15 and 16. 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.

Remuneration report (continued)

E Share-based compensation (continued)

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

a) Additional shares are granted for no consideration subject to nib holdings limited TSR hurdles, with one Share to be granted for every four Shares held by the Executive which were subject to the Escrow Deed if the TSR at the end of the escrow period (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) share price at grant date: $0.85
f) expected dividend yield: Dividends are assumed based on the Board's previously stated dividend payout ratio of 40% to 60% of normalised net profit after tax.

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, so is not yet in a position to provide trend analysis of the link between performance of the Group and executive remuneration.

Shares under performance rights

Unissued ordinary shares of nib holdings limited under performance right 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	318,817

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

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

Bonus share rights

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

Date right granted	Expiry date	Issue price of shares	Number under bonus share rights
2 November 2007	2 November 2010	nil	112,500

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
- 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
	2008	2007	2008	2007
	$	$	$	$
1. Audit services				
PricewaterhouseCoopers Australian firm:				
Audit and review of financial report and other audit work under the *Corporations Act 2001*	358,750	204,000	155,000	6,000
Total remuneration for audit services	358,750	204,000	155,000	6,000
2. Non-audit services				
Audit-related services				
PricewaterhouseCoopers Australian firm:				
Audit of regulatory returns	32,000	31,050	-	-
Demutualisation and ASX listing	320,035	215,900	313,046	-
Due diligence on potential mergers and acquistions	500,000	20,500	500,000	-
Total remuneration for audit-related services	852,035	267,450	813,046	-
Taxation services				
PricewaterhouseCoopers Australian firm:				
Advice on demutualisation and ASX listing	259,857	311,420	70,760	-
Due diligence on potential mergers and acquistions	214,000	4,225	214,000	-
Tax compliance services	60,693	30,660	2,947	-
Total remuneration for taxation services	534,550	346,305	287,707	-
Other services				
PricewaterhouseCoopers Australian firm:				
Other activities undertaken to support audit of financial report	13,977	64,350	6,989	-
Total remuneration for other services	13,977	64,350	6,989	-
Total remuneration for non-audit services	1,400,562	678,105	1,107,742	-
Total remuneration for audit and non-audit services	1,759,312	882,105	1,262,742	6,000

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 35.

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 recommendations 4.1 and 7.2 of the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice 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

Philip Gardner
Director

Newcastle, NSW
28 August 2008

Corporate governance statement

This report sets out nib holding's annual statement on its corporate governance framework.

nib holdings was incorporated in May 2007. On 1 October 2007, nib health funds demutualised and on this date, nib health became a wholly owned subsidiary of nib holdings. Prior to 1 October 2007, nib holdings did not have any assets or operating business. Prior to its demutualisation, nib health was a company limited by guarantee with 50 members. As nib health was not a listed entity, it was not required to comply with the Australian Stock Exchange Limited's Corporate Governance Council's Corporate Governance Principles and Recommendations (ASXCGC Recommendations).

Although nib health was not required to provide disclosure in relation to corporate governance, it has, to the maximum extent possible attempted to comply with the ASXCGC Recommendations. Details of nib health's corporate governance regime are set out on pages 37 to 41 of the 2007 nib health Annual Report. The 2003-2007 annual reports of nib health are available on its website (nib.com.au).

The information below outlines nib holdings' compliance with the ASXCGC Recommendations from 5 November 2007, being the date nib holdings was admitted to the Official List of the Australian Securities Exchange (ASX). All these practices, unless otherwise stated, were in place from that time.

nib holdings and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The Board continues to review the framework and practices to ensure they meet the interests of shareholders.

nib holdings considers that its governance practices which are outlined in this Governance Statement comply with the ASXCGC Recommendations.

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 of nib's website. This section of nib's website also contains copies of all charters and policies.

A description of nib holdings' main corporate governance practices is set out below.

1. 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.

(a) 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. The directors will determine the size of the board which subject to nib holdings' constitution is set at a maximum of 10 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".

(b) 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.

(c) 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.

(d) Directors' independence

The board charter requires that directors must at all times bring an independent judgement to bear on all board decisions. The board has adopted specific principles in relation to directors' independence. 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 judgement.

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.

(e) Meetings of the board

The board meets on a monthly basis and whenever necessary between scheduled meetings. During the year the board held eleven scheduled and ten unscheduled board meetings and an additional corporate strategy workshop in February 2008. The number of meetings attended by each director is disclosed in the Directors' report on page 9.

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

(f) 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.

(g) 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 process conducted in 2007 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.

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

At each AGM one third of the directors (excluding the managing director) must retire, including any director who has been appointed during the year. Retiring directors may be eligible for re-election. 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, Harold Bentley and Brian Keene, who were appointed as Directors in November 2007 to fill casual vacancies on the Board, will offer themselves for election as Directors.

(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.

2. Board committees

(a) 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 and the risk and reputation 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	Mark Fitzgibbon
Audit		* Chair	*	*		
Risk and reputation			*Chair		*	
Nomination and remuneration	* 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.

(b) 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.

The committee also reviews and makes recommendations to the board on matters relating to the recruitment, retention and termination policies and procedures of the 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 Chief Executive Officer and other senior executives are set out in the Remuneration report commencing on page 10.

(c) Audit committee

The audit committee includes members who have appropriate financial experience and understanding of the private health insurance industry.

The audit committee operates in accordance with its charter. The committee assists the board in carrying out its accounting, auditing and financial reporting responsibilities by making recommendations to the board on:

- the integrity of nib holdings' external financial reporting and financial statements;
- the appointment, remuneration and competence of the external auditor;
- the performance of the external audit function; and
- compliance with financial reporting and related regulatory requirements.

In fulfilling its responsibilities, the audit committee:

- receives regular reports from management, the internal and external auditors;
- meets with the internal and external auditors at least twice a year, or more frequently if necessary;
- reviews the processes the CEO and CFO have in place to support their certifications to the board;
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved;
- meets separately with the external auditors and the internal auditor at least twice a year without the presence of management; and
- provides the internal and external auditors with a clear line of direct communication at any time to either the Chairman or 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.

(d) Risk and reputation committee

The risk and reputation committee operates in accordance with its charter. The committee provides 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.

3. External auditors

nib holdings and audit committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs.

PricewaterhouseCoopers (PwC) was appointed as the external auditor of nib health in 2003 and with the demutualisation of nib health was appointed the external auditor of nib holdings in 2007. It is PwC's policy to rotate audit engagement partners on listed companies at least every five years in line with Corporations Act requirements.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in 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 audit committee.

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.

4. Internal audit

nib holdings' internal audit function is currently performed by Deloitte. The internal audit function was performed by KPMG throughout the financial year ending 30 June 2008. 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.

5. 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 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 tolerances 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 Board and the senior executives have identified 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's revenue and income growth and includes model risk, credit risk, liquidity risk, market risk, investment risk, pricing risk and claims risk;
- operational risk – the risk that arises from normal operations, project management, inadequate or failed internal processes, people, systems, fraud or from external events;
- strategic risk – the risk of changing government policies and new legislation on nib's business (sovereign risk), strategic plan risk, reputation risk and product design;
- regulatory and compliance risk – the risk of failing to comply with nib's legal and regulatory requirements and nib's internal policies and procedures.

The Board and the Risk and Reputation Committee receive regular reports on material 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.

During the year nib holding's internal auditors undertook for the Board and the Risk and Reputation Committee a review of nib's risk management framework and in particular focused on the adequacy of the risk governance, risk assessment, the quantification and aggregation of risks, risk monitoring and reporting and risk and control and optimatisation.

On a quarterly basis introl 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 and Recommendation 7.3 of the ASXCGC Recommendations.

The Managing Director 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.

6. Ethical and responsible decision making

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 including:

- the avoidance of conflicts of interest;
- the use of corporate opportunities and other benefits properly
- respecting confidentiality and privacy;
- dealing fairly with all parties;
- compliance with laws and regulations
- responsibilities to shareholders; and
- no insider trading.

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 nib securities, procure another person to deal in those securities or pass on the inside information to another person.

In addition, for directors and those employees, because of seniority or nature of their position, who 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 nib securities.

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 to not trade while in possession of inside information.

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.

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

- dishonest behaviour;
- fraudulent activity;
- corrupt practices;
- illegal activities;
- unethical behaviour;
- 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.

7. Continuous Disclosure and Shareholder Communication

nib holdings has adopted 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 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 and the Investor Relations Manager.

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.

All information disclosed to the ASX is posted on nib holdings' 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' website. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed and, if so, this information is also immediately released to the market.

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' website. The website 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.

PRICEWATERHOUSECOOPERS

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Auditor’s Independence Declaration

As lead auditor for the audit of nib holdings limited for the year ended 30 June 2008, 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.

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

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

Wayne Russell
Partner
PricewaterhouseCoopers

Newcastle
28 August 2008

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

Report on the financial report

We have audited the accompanying financial report of nib holdings limited (the company), which comprises the balance sheet as at 30 June 2008, 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.

PRICEWATERHOUSECOOPERS

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

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

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

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 2008 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 10 to 23 of the directors' report for the year ended 30 June 2008. 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.

PRICEWATERHOUSECOOPERS

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

Auditor's opinion

In our opinion, the Remuneration Report of nib holdings limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of nib holdings limited (the company) for the year ended 30 June 2008 included on nib holding limited's web site. The company's directors are responsible for the integrity of the nib holdings limited web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

PricewaterhouseCoopers

Wayne Russell | Newcastle
Partner | 28 August 2008

Directors' declaration

In the directors' opinion:

a) the financial statements and notes set out on pages 40 to 105 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 2008 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

Philip Gardner
Director

Newcastle, NSW
28 August 2008

nib holdings limited
Income statements
For the year ended 30 June 2008

	Notes	Consolidated 2008 $000	Consolidated 2007 $000	Parent entity 2008 $000	Parent entity 2007 $000
Premium revenue	5	758,238	665,964	-	-
Claims expense		(553,910)	(505,315)	-	-
HBRTF/RETF Levy		(73,128)	(46,939)	-	-
State levies		(19,922)	(17,599)	-	-
Claims handling expenses	6	(17,683)	(16,295)	-	-
Net claims incurred		(664,643)	(586,148)		-
Acquisition costs	6	(25,625)	(18,982)	-	-
Other underwriting expenses - ongoing	6	(34,916)	(35,922)	-	-
Other underwriting expenses - demutualisation and listing costs	6	(10,858)	(5,721)	-	-
Underwriting expenses		(71,399)	(60,625)	-	-
Underwriting result		22,196	19,191	-	-
Investment income	5	8,783	32,353	95,522	-
Other income	5	1,463	1,263	12	-
Investment expenses	6	(1,325)	(1,099)	(8)	-
Other expenses - ongoing	6	(3,548)	(894)	(3,059)	(6)
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		(5,071)	50,814	59,827	(6)
Income tax (expense)/benefit	7	5,421	-	11,241	2
Profit/(loss) from continuing operations		350	50,814	71,068	(4)
Profit/(Loss) from discontinued operations	44(i)(b), 44(ii)(b)	54	1,682	-	-
Profit/(loss) for the year attributable to equity holders of nib holdings limited/(2007: members of nib health funds limited)		404	52,496	71,068	(4)
		Cents	**Cents**		
Earnings per share for profit/(loss) from continuing operations attritributable to the ordinary equity holders of the company					
Basic earnings per share	43	0.1	n/a		
Diluted earnings per share	43	0.1	n/a		
Earnings per share for profit/(loss) attritributable to the ordinary equity holders of the company					
Basic earnings per share	43	0.1	n/a		
Diluted earnings per share	43	0.1	n/a		

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

nib holdings limited
Balance sheets
For the year ended 30 June 2008

	Notes	Consolidated 2008 $000	Consolidated 2007 $000	Parent entity 2008 $000	Parent entity 2007 $000
ASSETS					
Current assets					
Cash and cash equivalents	8	179,185	17,570	12,372	-
Receivables	9	33,381	27,355	21,226	-
Financial assets at fair value through profit or loss	10	242,824	376,361	87,612	-
		455,390	421,286	121,210	-
Non-current assets classified as held for sale	11	8,554	9,889	-	-
Total current assets		463,944	431,175	121,210	-
Non-current assets					
Receivables	12	3,097	7,026	-	-
Available-for-sale financial assets	13	1,588	-	-	-
Investment in controlled entities	14	-	-	389,783	-
Investment properties	16	30,000	30,000	-	-
Property, plant and equipment	17	39,001	15,904	-	-
Intangible assets	18	9,850	9,943	-	-
Deferred tax assets	15	18,287	-	6,022	2
Total non-current assets		101,823	62,873	395,805	2
Total assets		565,767	494,048	517,015	2
LIABILITIES					
Current liabilities					
Payables	19	55,091	48,039	1,228	6
Borrowings	20	2,051	1,431	-	-
Outstanding claims liability	21	62,343	53,955	-	-
Unearned premium liability	22	46,989	51,580	-	-
Current tax liabilities	24, 44(ii)(b)	10,366	54	10,366	-
Provision for employee entitlements	25	3,272	1,902	-	-
Total current liabilities		180,112	156,961	11,594	6
Non-current liabilities					
Provision for employee entitlements	25	814	873	-	-
Total non-current liabilities		814	873	-	-
Total liabilities		180,926	157,834	11,594	6
Net assets		384,841	336,214	505,421	(4)
EQUITY					
Share capital	27	44,574	-	434,296	-
Retained profits	28	329,565	329,161	71,064	(4)
Reserves	29	10,702	7,053	61	-
Total equity		384,841	336,214	505,421	(4)

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

nib holdings limited
Statements of changes in equity
For the year ended 30 June 2008

	Notes	Consolidated 2008 $000	Consolidated 2007 $000	Parent entity 2008 $000	Parent entity 2007 $000
Total equity at the beginning of the financial year		336,214	283,584	(4)	-
Revaluation of land and buildings, net of tax	29	3,526	134	-	-
Changes in fair value of available-for-sale financial assets, net of tax	29	62	-	-	-
Net income recognised directly in equity		3,588	134	-	-
Profit/(loss) for the year	28	404	52,496	71,068	(4)
Total recognised income and expense for the financial year attributable to equity holders of nib holdings limited/(2007: members of nib health funds limited)		3,992	52,630	71,068	(4)
Transactions with equity holders in their capacity as equity holders :					
Contributions of equity, net of transaction costs	27	44,574	-	434,296	-
Performance right expense	29	51	-	-	-
Bonus share right expense	29	10	-	-	-
Performance rights issued to employees of subsidiaries	29	-	-	51	-
Bonus share rights issued to employees of subsidiaries	29	-	-	10	-
Total equity at the end of the financial year		384,841	336,214	505,421	(4)

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

nib holdings limited
Cash flow statements
For the year ended 30 June 2008

	Notes	Consolidated 2008 $000	Consolidated 2007 $000	Parent entity 2008 $000	Parent entity 2007 $000
Cash flows from operating activities					
Receipts from policyholders and customers (inclusive of goods and services tax)		766,039	719,419	1,083	-
Payments to policyholders, suppliers and employees - ongoing (inclusive of goods and services tax)		(718,916)	(670,760)	(1,952)	-
Payments to policyholders, suppliers and employees - donation to nib foundation (inclusive of goods and services tax)		(25,000)	-	-	-
Payments to suppliers and employees - demutualisation and listing costs (inclusive of goods and services tax)		(20,962)	(2,953)	(33,786)	-
		1,161	45,706	(34,655)	-
Dividends received		-	-	95,500	-
Interest received		7,565	1,390	1,737	-
Distributions received		44,500	20,820	4,525	-
Interest paid		(2)	(29)	-	-
Net cash inflow (outflow) from operating activities	34(b)	53,224	67,887	67,107	-
Cash flows from investing activities					
Proceeds from sale of available-for-sale investment properties		1,712	479	-	-
Proceeds from disposal of other financial assets at fair value through the profit and loss		142,225	105,716	-	-
Payments for other financial assets at fair value through the profit and loss		(54,013)	(164,644)	(93,851)	-
Payments for available-for-sale financial assets		(1,500)	-	-	-
Payments for property, plant and equipment and intangibles	17,18	(23,616)	(11,682)	-	-
Proceeds from sale of property, plant and equipment and intangibles		215	80	-	-
Proceeds from sale of subsidiary, net of cash disposed	44(i)(d)	768	8,997	-	-
Proceeds from sale of Eye Care and Dental businesses	44(ii)d)	250	325	-	-
Loans to related parties		-	-	(2,465)	-
Net cash (outflow) inflow from investing activities		66,041	(60,729)	(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)	-
Proceeds from finance lease		149	177	-	-
Net cash inflow from financing activities		41,730	177	41,581	-
Net increase (decrease) in cash and cash equivalents		160,995	7,335	12,372	-
Cash and cash equivalents at beginning of the financial year	34(a)	16,139	8,804	-	-
Cash and cash equivalents at end of year	34(a)	177,134	16,139	12,372	-

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

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
Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of nib holdings limited complies with International Financial Reporting Standards (IFRS).

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.*

See note 1(d)(ii) for the impact of this early adoption.

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 judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

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

b) Principles of consolidation

i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of nib holdings limited ("parent entity") as at 30 June 2008 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. The consolidated financial statements for 30 June 2007 incorporate the assets and liabilities and the results of nib health funds limited and all subsidiaries for the year then ended. Refer to Note 1(x) and Note 35 for further details of the Group structure for accounting purposes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Principles of consolidation (continued)

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.

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:

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.
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Revenue recognition (continued)

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 Health Benefit Reinsurance Trust Fund/Risk Equalisation Trust Fund consequences and claims handling expenses.

g) Acquisition costs

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Income tax (continued)

date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Leases (continued)

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

l) Assets backing private health insurance liabilities

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Assets backing private health insurance liabilities (continued)

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 classified as at fair value through profit or loss if they are held for trading in the short term. Initial recognition is at fair value, being acquisition cost, in the balance sheet and subsequent measurement is at fair value with any resultant fair value gains or losses recognised in 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; or

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Assets backing private health insurance liabilities (continued)

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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Property, plant and equipment (continued)

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

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

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in 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 two and half 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 with 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) Employee benefits (continued)

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 director's average fee for the last three years (100% of the fees paid prior to 24 November 2005 and 80% of the fees paid after 24 November 2005, by either nib holdings limited or nib health funds 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.

Contributions to defined contributions funds for all other employees are recognised as an expense when they become payable.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) Employee benefits (continued)

vi) Share-based payments (continued)

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.
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, 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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

w) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

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

x) Reverse acquisition accounting policy

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

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

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

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

y) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

aa) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 101 *Presentation of Financial Statements* and AASB 2007-8 *Amendments to Australian Accounting Standards arising from* AASB 101.

AASB 101 and AASB 2007-8 are effective for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity. 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, this one being at the beginning of the comparative period. Application of the standards will not affect any of the amounts recognised in the financial statements. The Group intends to apply the standard from 1 July 2009.

(ii) AASB-I 13 *Customer Loyalty Programmes*

AASB-I 13 is applicable to annual reporting periods commencing on or after 1 July 2008. It provides guidance on the accounting for customer loyalty programmes and requires that the fair value of the consideration received/receivable in respect of a sale transaction is allocated between the award credits and the other components of the sale. The Group operates a customer loyalty programme that increases annual limits on applicable Extras services. No expense is currently recognised until a claim has been incurred. AASB-I 13 will impact the timing of revenue recognition in the Group's financial statements, however the impact has not yet been quantified. The Group will apply AASB-I 13 from 1 July 2008.

(iii) AASB-8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8*

AASB 8 and AASB 2007-3 is effective for annual reporting periods commencing on or after 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 in what 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.

(iv) Revised AASB 123 *Borrowing Costs* and AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123* [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2008. It has removed the option to expense all borrowing costs and – when adopted – will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Group, as the Group currently does not have any borrowing costs.

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 2008 and earlier for hospital and medical, and for all months for ancillary, a chain ladder method is used; this assumes that the development pattern of the current claims will be consistent with historical experience. For hospital and medical, the service months for April 2008 to June 2008 a case estimate method is used.

Actuarial assumptions

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

	30/06/2008 Hospital	30/06/2008 Medical	30/06/2008 Ancillary	30/06/2007 Hospital	30/06/2007 Medical	30/06/2007 Ancillary
Assumed proportion paid to date	89.5%	87.1%	95.0%	89.7%	87.4%	94.8%
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	22.0%	22.0%	0.0%	17.5%	17.5%	0.0%
Risk margin	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%

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

Process used to determine assumptions

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

i) Assumed proportion paid to date

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

ii) Discount rate

As claims for health funds are generally settled within in 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.

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) Risk equalisation allowance

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

3. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

Process used to determine assumptions (continued)

v) Risk margin

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

Sensitivity analysis – insurance contracts

i) Summary

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

Variable	**Impact of movement in variable**
Assumed proportion paid to date	An increase in the proportion assumed paid to date, via changes to the assumptions made, would lead to more of the total claims being paid sooner and the liability being decreased. An increase or decrease in the proportion paid to date would have a corresponding decrease or increase on claims expense respectively.
Expense rate	An estimate for the internal costs of handling claims is included in the outstanding claims liability. An increase or decrease in the expense rate assumption would have a corresponding impact on claims expense.
Risk equalisation	An estimate for the risk equalisation cost is included in the outstanding claims liability. An increase or decrease in the risk equalisation allowance would have a corresponding impact on claims expense.
Risk margin	An estimate of the amount of uncertainty in the determination of the central estimate. An increase or decrease in the risk margin would have a corresponding impact on claims expense.

ii) Impact of key variables

		Profit		Equity	
			Consolidated 2008 $000		Consolidated 2008 $000
Recognised amounts in the financial statements			404		384,841
Variable	**Movement in variable**	**Adjustments**	**Adjusted amounts**	**Adjustments**	**Adjusted amounts**
Assumed proportion paid to date	+0.5%	2,493	2,897	2,493	387,333
	-0.5%	(2,827)	(2,423)	(2,827)	382,014
Expense rate	+0.1%	(516)	(112)	(516)	384,324
	-0.1%	516	921	516	385,357
Risk equalisation rate	+2.5%	(1,040)	(635)	(1,040)	383,801
	-2.5%	1,040	1,444	1,040	385,880
Risk margin	+0.1%	(591)	(187)	(591)	384,249
	-0.1%	591	996	591	385,432

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

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

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)

- 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 view, the fund's financial position is such that the insurer will be able to meet, out of the fund's assets, all liabilities incurred for the purposes of the fund as those liabilities become due.
  - The second tier – capital adequacy – is intended to secure the financial soundness of the health benefits fund on a going concern basis, in particular its ability to remain solvent for at least the next three years. It is expected that in most circumstances this second tier will provide an additional buffer of capital above the minimum solvency requirement.

b) Insurance Risk

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

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

The second is risk equalisation which supports the principle of community rating. Private health insurance averages out the cost of hospital treatment across the industry. The risk equalisation scheme transfers money from private health insurers with younger healthier members with lower average claims payments (such as nib) to those insurers with an older and less healthy membership and which have higher average claims payments.

Thirdly, the Act limits the types of treatments that private health insurers are able to offer as part of their health insurance business and fourthly, premiums for health insurance can only be changed with the approval of the Minister.

c) 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. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. 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.

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

c) Credit risk (continued)

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.

		Consolidated		Parent
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Other Receivables				
*Counterparties without external credit rating**				
Group 1	-	6,671	-	-
Group 2	28,944	20,809	133	-
Group 3	-	-	-	-
Total Other Receivables	28,944	27,480	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				
Cash at Bank and short-term bank deposits				
AA	179,185	17,570	12,372	-
	179,185	17,570	12,372	-
Financial assets at fair value through profit or loss				
Interest-bearing securities				
AAA	93,239	167,586	-	-
AA	30,285	44,166	-	-
A	20,336	51,770	-	-
BBB	(200)	4,513	-	-
BB	3,286	1,217	-	-
B	1,315	-	-	-
Unclassified	2,116	(25)	-	-
	150,377	269,227	-	-

a) 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 the remaining period at the reporting date to the

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

d) Liquidity risk (continued)

contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

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

Group at 30 June 2007	≤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	3,372	-	-	-	-	3,372	3,372
Other payables	24,241	1,733	1,323	-	-	27,297	27,297
Borrowings	1,431	-	-	-	-	1,431	1,431
	29,044	1,733	1,323	-	-	32,100	32,100

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

Parent at 30 June 2007	≤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	6	-	-	-	-	6	6
Borrowings	-	-	-	-	-	-	-
	6	-	-	-	-	6	6

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.

Interest rate and price change assumptions
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. The price risk sensitivity analysis is based on reasonably possible changes in market risk unit prices based on recent market price calculations.

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

e) Market risk (continued)

Group		Interest Rate Risk				Other Price Risk			
		-100bps		+100bps		-10% unit price		+10% unit price	
30 June 2008	Carrying amount	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
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

Group		Interest Rate Risk				Other Price Risk			
		-100bps		+100bps		-10% unit price		+10% unit price	
30 June 2007	Carrying amount	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
Financial assets									
Cash and cash equivalents	17,570	(123)	(123)	123	123	-	-	-	-
Other Receivables	27,510	(55)	(55)	55	55	-	-	-	-
Financial assets at fair value through profit or loss	376,361	4,039	4,039	(4,039)	(4,039)	(7,499)	(7,499)	7,499	7,499
Total Increase/(decrease)		3,861	3,861	(3,861)	(3,861)	(7,499)	(7,499)	7,499	7,499

Parent Entity		Interest Rate Risk				Other Price Risk			
		-100bps		+100bps		-10% unit price		+10% unit price	
30 June 2008	Carrying amount	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
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

Parent Entity		Interest Rate Risk				Other Price Risk			
		-100bps		+100bps		-10% unit price		+10% unit price	
30 June 2007	Carrying amount	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
Financial assets									
Cash and cash equivalents	-	-	-	-	-	-	-	-	-
Other Receivables	-	-	-	-	-	-	-	-	-
Total Increase/(decrease)		-	-	-	-	-	-	-	-

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 trading and available-for-sale securities) is based on quoted market process at the reporting date. The quoted market price used for financial assets held by the Group and Parent is the current bid price.

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

f) Fair value estimation (continued)

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. Estimated discounted cash flows are used to determine fair value for investments in unlisted subsidiaries.

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	
	2008	2007	2008	2007
	$000	$000	$000	$000
Premium Revenue	758,238	665,964	-	-
Investment Income				
Rent Received	1,725	144	-	-
Net fair value gains on financial assets at fair value through profit or loss	6,768	30,771	22	-
Dividends	-	-	95,500	-
Fair value adjustment on investment properties	-	1,438	-	-
Fair value adjustment on non-current assets held for sale	290	-	-	-
	8,783	32,353	95,522	-
Other income				
Fair value adjustment to property, plant and equipment	-	140	-	-
Sundry income	1,463	1,123	12	-
	1,463	1,263	12	-

6. EXPENSES

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$000	$000	$000	$000
Expenses by function				
Claims handling expenses	17,683	16,295	-	-
Investment expenses	1,325	1,099	8	-
Acquisition costs	25,625	18,982	-	-
Underwriting expenses - ongoing	34,916	35,922	-	-
Underwriting expenses - demutualisation and listing costs	10,858	5,721	-	-
Other expenses - ongoing	3,548	894	3,059	6
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)	126,595	78,913	35,707	6
Expenses by nature				
Employee costs	36,727	36,697	496	-
Depreciation and amortisation	3,834	4,454	-	-
Net loss on disposal of property, plant and equipment and investment properties	6	-	-	-
Impairment of property, plant and equipment	(4)	-	-	-
Operating lease rental expenses	2,282	2,543	-	-
Donation of nib foundation	25,000	-	25,000	-
Demutualisation/listing expenses	18,498	5,721	7,640	-
Marketing expenses	18,934	13,794	-	-
Other	21,318	15,704	2,571	6
Total expenses (excluding direct claims expenses)	126,595	78,913	35,707	6

Demutualisation/listing costs are non-recurring items. A breakdown of these costs by activity is as follows:

	Consolidated		Parent entity	
	2008	2007	2008	2007
Demutualisation/listing expenses	$000	$000	$000	$000
Legal fees	1,178	738	616	-
Underwriting and management fees	13,348	901	12,896	-
Accounting and taxation advice	961	590	384	-
Actuarial advice	20	286	-	-
Independent financial expert's fees	-	81	-	-
Retention/ transaction bonuses and restructure costs	9,722	1,150	-	-
Other	1,688	1,975	2,163	-
Equity raising costs offset against share capital	(8,419)	-	(8,419)	-
	18,498	**5,721**	**7,640**	**-**

Demutualisation/listing costs broken down by function are as follows:

	Consolidated		Parent entity	
	2008	2007	2008	2007
Demutualisation/listing expenses	$000	$000	$000	$000
Underwriting expenses	10,858	5,721	-	-
Other expenses	7,640	-	7,640	-
	18,498	**5,721**	**7,640**	**-**

7. INCOME TAX

	Note	Consolidated 2008 $000	Consolidated 2007 $000	Parent entity 2008 $000	Parent entity 2007 $000
a) Income tax expense/(benefit)					
Recognised in the income statement					
Current tax expense/(benefit)	44(i)(b)	10,703	54	(7,410)	-
Deferred tax expense/(benefit)		(16,124)	-	(3,831)	(2)
Under (over) provided in prior years	44(ii)(b)	(54)	-	-	-
		(5,475)	54	(11,241)	(2)
Income tax expense is attributable to:					
Profit from continuing operations		(5,421)	-	(11,241)	(2)
Profit from discontinuing operations	44(ii)(b)	(54)	54	-	-
Aggregate income tax expense/(benefit)		(5,475)	54	(11,241)	(2)
Deferred income tax (revenue) expense included in income tax expense comprises:					
Decrease (increase) in deferred tax assets	15	(16,370)	-	(3,831)	-
(Decrease) increase in deferred tax liabilities	26	246	-	-	-
		(16,124)	-	(3,831)	-

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

	Consolidated 2008 $000	Consolidated 2007 $000	Parent entity 2008 $000	Parent entity 2007 $000
Profit/(Loss) from continuing operations before income tax expense	(5,071)	50,814	59,827	(6)
Profit from discontinuing operations before income tax expense	-	1,737	-	-
	(5,071)	52,549	59,827	(6)
Tax at the Australian tax rate of 30% (2007: 30%)	(1,522)	15,764	17,949	(2)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Write back of provision on consolidation	(19)	320	-	-
Net exempt income	(2,213)	(15,530)	-	-
Assessable income	26	116	-	-
Non-assessable income	(433)	(609)	(28,650)	-
Other deductible expenses	(328)	-	-	-
Other non-deductible expenses	28	151	3	-
Other deductible expenses against equity	(337)	-	(337)	-
Previously unrecognised deferred tax asset recognised	(158)	-	-	-
Prior year revenue losses not recognised now recouped	-	(208)	-	-
Prior year capital losses not recognised now recouped	-	(17)	-	-
Adjustments for current tax of prior periods	(54)	-	-	-
Input tax credits and foreign tax credits	(465)	-	(206)	-
Deferred tax asset not recognised	-	67	-	-
Income tax expense/(benefit)	(5,475)	54	(11,241)	(2)

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 for the period to 1 October 2007. Income of the company was liable to taxation from that date forward.

c) Amounts recognised directly in equity

	Consolidated 2008 $000	Consolidated 2007 $000	Parent entity 2008 $000	Parent entity 2007 $000
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity				
Net deferred tax - debited (credited) directly to equity	2,525	-	2,525	-
	2,525	-	2,525	-

7. INCOME TAX (CONTINUED)

	Consolidated 2008 $000	Consolidated 2007 $000	Parent entity 2008 $000	Parent entity 2007 $000
d) Tax losses				
Unused revenue tax losses for which no deferred tax asset has been recognised	-	1,239	-	-
Unused capital tax losses for which no deferred tax asset has been recognised	-	1,552	-	-
	-	2,791	-	-

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

e) Unrecognised temporary differences

Temporary differences relating to deferred tax assets that have not been recognised				
Doubtful debts	-	30	-	-
Legal expense	-	32	-	-
Depreciation	-	2,041	-	-
Audit expense	-	13	-	-
	-	2,116	-	-

Unrecognised deferred tax assets relating to the above

f) Tax consolidation legislation

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

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	
	2008	2007	2008	2007
	$000	$000	$000	$000
Cash at bank and cash on hand	599	570	-	-
Deposits at call	178,586	17,000	12,372	-
	179,185	17,570	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	
	2008	2007	2008	2007
	$000	$000	$000	$000
Premium Receivable	6,238	5,516	-	-
Other Receivables	25,956	20,688	133	-
Provision for impairment loss	(344)	(258)	-	-
	31,850	25,946	133	-
Lease receivables	123	149	-	-
Prepayments	1,408	1,260	34	-
Receivable from controlled entities	-	-	21,059	-
	33,381	27,355	21,226	-

a) Impaired receivables

As at 30 June 2008 current receivables of the Group with a nominal value of $0.028 million (2007: $0.030 million) were impaired. The individually impaired receivables relate 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 2008 or 2007.

The ageing of these receivables is as follows:

	Consolidated	
	2008	2007
	$000	$000
1 to 3 months	-	-
3 to 6 months	-	-
Over 6 months	28	30
	28	30

9. CURRENT ASSETS - RECEIVABLES (CONTINUED)

a) Impaired receivables (continued)

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

	Consolidated 2008 $000	Consolidated 2007 $000
At 1 July	30	12
Provision for impairment recognised during the year	18	34
Receivables written off during the year as uncollectible	(18)	-
Unused amount reversed	(2)	(16)
	28	30

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 2008, receivables of $0.014 million (2007: $0.034 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 2008 $000	Consolidated 2007 $000	Parent entity 2008 $000	Parent entity 2007 $000
up to 3 months	11	32	-	-
3 to 6 months	-	2	-	-
Over 6 months	3	-	-	-
	14	34	-	-

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 at fair value through profit or loss are all held for trading and include the following:

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$000	$000	$000	$000
Equity Securities	92,447	107,134	87,612	-
Interest-bearing securities	150,377	269,227	-	-
	242,824	376,361	87,612	-

The Group and Parent has not designated any financial assets as at fair value through profit or loss.

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	
	2008	2007	2008	2007
	$000	$000	$000	$000
Investment properties	-	1,335	-	-
Land and buildings	8,554	8,554	-	-
	8,554	9,889	-	-

In May 2007, the directors of nib health funds limited decided to sell the remaining medical suites and Croudace Cottage investment properties. These properties were sold in 2008.

nib has entered into a put-and-call option to sell its current head office buildings at Hunter Street. The call option is exercisable from 19 January 2007 and expires on 12 January 2009, hence the land and buildings at Hunter Street have been classified as held for sale.

12. NON-CURRENT ASSETS - RECEIVABLES

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$000	$000	$000	$000
Other receivables	3,015	6,822	-	-
Lease receivables	82	204	-	-
	3,097	7,026	-	-

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:

Group	2008 Carrying amount	2008 Fair value	2007 Carrying amount	2007 Fair value
	$000	$000	$000	$000
Other receivables	3,015	3,015	6,822	6,822
Lease receivables	82	82	204	204
	3,097	3,097	7,026	7,026

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	
	2008	2007	2008	2007
	$000	$000	$000	$000
Unlisted equity securities	1,588	-	-	-
	1,588	-	-	-

a) Unlisted securities

The fair value of unlisted equity securities is determined based on the sale price of shares traded on 30 June 2008.

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	
	2008	2007	2008	2007
	$000	$000	$000	$000
Shares in controlled entities	-	-	389,783	-
	-	-	389,783	-

These financial assets are carried at cost.

15. NON-CURRENT ASSETS – DEFERRED TAX ASSETS

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$000	$000	$000	$000
The balance comprises temporary differences attributable to:				
Tax losses*	-	-	-	-
Accrued expenses	-	-	-	2
Prepayments	3	-	-	-
Doubtful debts	8	-	-	-
Depreciation	145	-	-	-
Share issue expenses	2,189	-	2,189	-
Asset revaluation	75	-	-	-
Employee benefits	582	-	-	-
Provisions	52	-	14	-
Outstanding claims	548	-	-	-
Demutualisation costs	4,355	-	1,948	-
Unrealised losses on investments	10,602	-	1,871	-
Total deferred tax assets	18,559	-	6,022	2
Set-off of deferred tax liabilities pursuant to set-off provisions (note 26)	(272)	-	-	-
Net deferred tax assets	18,287	-	6,022	2
Deferred tax assets to be recovered within 12 months	12,015	-	1,885	2
Deferred tax assets to be recovered after more than 12 months	6,544	-	4,137	-
	18,559	-	6,022	2

15. NON-CURRENT ASSETS – DEFERRED TAX ASSETS (CONTINUED)

* The deferred tax asset attributable to tax losses does not exceed taxable amounts arising from the reversal of existing assessable temporary differences.

Movements - Consolidated	Tax Losses $'000	Depreciation $'000	Share issue expenses $'000	Employee benefits $'000	Outstanding claims $'000	Demutualisation costs $'000	Managed funds capital movement $'000	Other $'000	Total $'000
At 1 July 2006	-	-	-	-	-	-	-	-	-
(Charged)/credited to the income statement	-	-	-	-	-	-	-	-	-
(Charged)/credited directly to equity	-	-	-	-	-	-	-	-	-
At 30 June 2007	-	-	-	-	-	-	-	-	-
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

Movements - Parent entity	Tax Losses $'000	Depreciation $'000	Share issue expenses $'000	Employee benefits $'000	Outstanding claims $'000	Demutualisation costs $'000	Managed funds capital movement $'000	Other $'000	Total $'000
At 1 July 2006	-	-	-	-	-	-	-	-	-
(Charged)/credited to the income statement	-	-	-	-	-	-	-	2	2
(Charged)/credited directly to equity	-	-	-	-	-	-	-	-	-
At 30 June 2007	-	-	-	-	-	-	-	2	2
At 1 July 2007	-	-	-	-	-	-	-	2	2
(Charged)/credited to the income statement		-	-	-	-	1,948	1,871	12	3,831
(Charged)/credited directly to equity	-	-	2,189	-	-	-	-	-	2,189
At 30 June 2008	-	-	2,189	-	-	1,948	1,871	14	6,022

16. NON-CURRENT ASSETS – INVESTMENT PROPERTIES

At fair value

	Consolidated 2008 $000	Consolidated 2007 $000	Parent 2008 $000	Parent 2007 $000
Opening balance at 1 July	30,000	1,800	-	-
Net gain/(loss) from fair value adjustment	-	1,438	-	-
Net transfer from property, plant and equipment	-	28,562	-	-
Classified as held for sale or disposal	-	(1,800)	-	-
Closing balance at 30 June	30,000	30,000	-	-

16. NON-CURRENT ASSETS – INVESTMENT PROPERTIES (CONTINUED)

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

	Consolidated		Parent	
	2008 $000	2007 $000	2008 $000	2007 $000
Rental income	1,725	144	-	-
Direct operating expenses from property that generated rental income	(207)	-	-	-
Direct operating expenses from property that did not generate rental income	-	(187)	-	-
	1,518	(43)	-	-

b) *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.

c) *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.

d) *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 2006	41,600	10,785	4,424	56,809
Additions	8,324	1,408	393	10,125
Assets included in a disposal group classifed as held for sale or other disposals	(8,554)	(1,784)	(1,065)	(11,403)
Revaluations	(51)	-	-	(51)
Transfers	(30,000)	2	(2)	(30,000)
Balance at 30 June 2007	11,319	10,411	3,750	25,480
Balance at 1 July 2007	11,319	10,411	3,750	25,480
Additions	20,729	472	414	21,615
Assets included in a disposal group classifed as held for sale or other disposals	-	(1,220)	(769)	(1,989)
Revaluations	3,445	-	-	3,445
Balance at 30 June 2008	35,493	9,663	3,395	48,551

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

	Consolidated			
	Land & Buildings $000	Plant & Equipment $000	Leasehold Improvements $000	Total $000
Depreciation and impairment losses				
Balance at 1 July 2006	(947)	(6,578)	(3,056)	(10,581)
Depreciation charge for the year	(893)	(1,596)	(458)	(2,947)
Assets included in a disposal group classifed as held for sale or other disposals	-	1,134	1,057	2,191
Revaluations	324	-	-	324
Transfers	1,437	-	-	1,437
Balance at 30 June 2007	(79)	(7,040)	(2,457)	(9,576)
Balance at 1 July 2007	(79)	(7,040)	(2,457)	(9,576)
Depreciation charge for the year	(46)	(1,258)	(450)	(1,754)
Assets included in a disposal group classifed as held for sale or other disposals	-	945	747	- 1,692
Revaluations	88	-	-	88
Balance at 30 June 2008	(37)	(7,353)	(2,160)	(9,550)
Carrying amounts				
At 1 July 2006	**40,653**	**4,207**	**1,368**	**46,228**
At 30 June 2007	**11,240**	**3,371**	**1,293**	**15,904**
At 1 July 2007	**11,240**	**3,371**	**1,293**	**15,904**
At 30 June 2008	**35,456**	**2,310**	**1,235**	**39,001**

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	
	2008 $000	2007 $000	2008 $000	2007 $000
Land and buildings	27,728	6,999	-	-

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 were independently valued, excluding those in the course of construction, 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 2008.

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:

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

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$000	$000	$000	$000
Freehold land and buildings				
Cost	30,932	10,203	-	-
Accumulated depreciation	(579)	(546)	-	-
Net book amount	30,353	9,657	-	-

18. NON-CURRENT ASSETS – INTANGIBLE ASSETS

`

	Consolidated			
	Private Hospital Bed Licences $000	Goodwill $000	Software $000	Total $000
Fair value/Cost				
Balance at 1 July 2006	322	7,067	10,925	18,314
Additions	-	-	1,557	1,557
Assets included in a disposal group classifed as held for sale or other disposals	(322)	-	-	(322)
Transfers	-	-	-	-
Balance at 30 June 2007	-	7,067	12,482	19,549
Balance at 1 July 2007	-	7,067	12,482	19,549
Additions	-	-	2,001	2,001
Assets included in a disposal group classifed as held for sale or other disposals	-	-	(23)	(23)
Balance at 30 June 2008	-	7,067	14,460	21,527
Amortisation and impairment losses				
Balance at 1 July 2006	-	-	(8,099)	(8,099)
Amortisation charge for the year	-	-	(1,507)	(1,507)
Assets included in a disposal group classifed as held for sale or other disposals	-	-	-	-
Balance at 30 June 2007	-	-	(9,606)	(9,606)
Balance at 1 July 2007	-	-	(9,606)	(9,606)
Amortisation charge for the year	-	-	(2,080)	(2,080)
Assets included in a disposal group classifed as held for sale or other disposals	-	-	9	9
Balance at 30 June 2008	-	-	(11,677)	(11,677)
Carrying amounts				
At 1 July 2006	**322**	**7,067**	**2,826**	**10,215**
At 30 June 2007	**-**	**7,067**	**2,876**	**9,943**
At 1 July 2007	**-**	**7,067**	**2,876**	**9,943**
At 30 June 2008	**-**	**7,067**	**2,783**	**9,850**

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

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

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. Cash flows beyond the three-year period are extrapolated to ten years assuming a conservative growth factor of 0% and a discount factor of 9.4% being the 90-day bank bill rate plus a risk margin of 2%.

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 and claims ratio.

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 and a discount factor of 9.4% being the 90-day bank bill rate plus a risk margin of 2%. The discount rate used reflects nib's capital allocation policy with risk premium for moderate risk projects.

19. CURRENT LIABILITIES – PAYABLES

	Consolidated		Parent entity	
	2008 $000	2007 $000	2008 $000	2007 $000
Trade creditors	3,585	3,372	-	-
Other payables	26,999	27,297	1,214	6
HBRTF/RETF payable*	21,527	14,519	-	-
Annual leave payable	2,980	2,851	-	-
Amounts owed to controlled entities	-	-	14	-
	55,091	48,039	1,228	6

* Health Benefits Reinsurance Trust Fund (HBRTF)/Risk Equalisation Trust Fund (RETF) Levy represents expenses incurred under Health Benefits Reinsurance Trust Fund/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.

19. CURRENT LIABILITIES –PAYABLES (CONTINUED)

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

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$000	$000	$000	$000
Annual leave obligation expected to be settled after 12 months	559	824	-	-

20. CURRENT LIABILITIES – BORROWINGS

Bank overdraft	2,051	1,431	-	-

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	
	2008	2007	2008	2007
	$000	$000	$000	$000
Outstanding claims - central estimate of the expected future payment for claims incurred	48,999	43,773	-	-
Risk Margin	2,725	2,435	-	-
Claims handling costs	1,470	1,313	-	-
Gross outstanding claims liability	53,194	47,521	-	-
Outstanding claims - expected payment to the * HRBTF/RETF in relation to the central estimate	8,681	6,105	-	-
Risk Margin	468	329	-	-
Net outstanding claims liability	62,343	53,955	-	-

* Health Benefits Reinsurance Trust Fund (HBRTF)/Risk Equalisation Trust Fund (RETF) Levy represents expenses incurred under Health Benefits Reinsurance Trust Fund/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 5.4% (June 2007: 5.4%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% (June 2007: 95%).

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

The risk margin has been based on an analysis of the past experience of the 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 3 valuation classes, namely Hospital and Prostheses services combined, Medical services, and Ancillary and Ambulance services combined. Diversification benefits within a valuation class are implicitly allowed for through the model adopted. The determination of the risk margin has also implicitly allowed for

21. CURRENT LIABILITIES – OUTSTANDING CLAIMS LIABILITIES (CONTINUED)

b) Risk margin (continued)

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, an expected claim numbers and average claims size is 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 in 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.

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

	Consolidated			Parent
	2008	**2007**	**2008**	**2007**
	$000	**$000**	**$000**	**$000**
Gross outstanding claims at beginning of period	47,521	50,805	-	-
Administration component	(1,313)	(1,416)	-	-
Risk margin	(2,435)	(2,188)	-	-
Central estimate at beginning of period	43,773	47,201	-	-
Change in claims incurred for the prior year	(2,151)	1,510	-	-
Claims paid in respect of the prior year	(41,622)	(48,711)	-	-
Claims incurred during the year (expected)	553,072	501,823	-	-
Claims paid during the year (expected)	(504,073)	(458,050)	-	-
Central estimate at end of period	48,999	43,773	-	-
Administration component	1,470	1,313	-	-
Risk margin	2,725	2,029	-	-
Change in risk margin assumption	-	406	-	-
Gross outstanding claims at end of period	53,194	47,521	-	-

22. CURRENT LIABILITIES – UNEARNED PREMIUM LIABILITY

	Consolidated			Parent
	2008	**2007**	**2008**	**2007**
	$000	**$000**	**$000**	**$000**
Unearned premium liability as at 1 July	51,580	44,502	-	-
Deferral of premiums on contracts written in the period	46,989	51,580	-	-
Earning of premiums written in previous periods	(51,580)	(44,502)	-	-
Unearned premium liability as at 30 June	46,989	51,580	-	-

23. CURRENT LIABILITIES – UNEXPIRED RISK LIABILITY

No deficiency was identified as at 30 June 2008 and 2007 that resulted in an unexpired risk liability needing to be recognised.

24. CURRENT LIABILITIES – CURRENT TAX LIABILITIES

	Consolidated		Parent	
	2008 $000	**2007 $000**	**2008 $000**	**2007 $000**
Current tax payable	10,366	54	10,366	-

25. PROVISIONS FOR EMPLOYEE ENTITLEMENTS

	Consolidated		Parent	
	2008 $000	**2007 $000**	**2008 $000**	**2007 $000**
CURRENT				
Employee benefits				
Long service leave	1,489	1,275	-	-
Restructure costs	1,149	-	-	-
Retirement benefits	634	627	-	-
	3,272	1,902	-	-

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

The current provision for long service leave 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 accrued long service leave 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	
	2008 $000	**2007 $000**	**2008 $000**	**2007 $000**
Long service leave obligation expected to be settled after 12 months	1,305	1,151		-
NON-CURRENT				
Employee benefits				
Long service leave	814	751	-	-
Retirement benefits	-	122	-	-
	814	873	-	-

26. CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

	Consolidated		Parent	
	2008 $000	2007 $000	2008 $000	2007 $000
The balance comprises temporary differences attributable to:				
Depreciation	64	-	-	-
Capital allowances	182	-	-	-
Available-for-sale financial assets	26	-	-	-
Total deferred tax liabilities	272	-	-	-
Set-off of deferred tax liabilities pursuant to set-off provisions (note 15)	(272)	-	-	-
Net deferred tax liabilities	-	-	-	-
Deferred tax liabilities to be settled within 12 months	90	-	-	-
Deferred tax liabilities to be settled after more than 12 months	182	-	-	-
	272	-	-	-

Movements - Consolidated	Depreciation $'000	Capital allowances $'000	Available-for-sale financial assets $'000	Total $'000
At 1 July 2006	-	-	-	-
(Charged)/credited to the income statement	-	-	-	-
(Charged)/credited directly to equity	-	-	-	-
At 30 June 2007	-	-	-	-
At 1 July 2007	-	-	-	-
(Charged)/credited to the income statement	246	-	-	246
(Charged)/credited directly to equity	-	-	26	26
At 30 June 2008	246	-	26	272

26. CURRENT LIABILITIES – DEFERRED TAX LIABILITIES (CONTINUED)

Movements - Parent entity	Depreciation $'000	Capital allowances $'000	Available-for-sale financial assets $'000	Total $'000
At 1 July 2006	-	-	-	-
(Charged)/credited to the income statement	-	-	-	-
(Charged)/credited directly to equity	-	-	-	-
At 30 June 2007	-	-	-	-
At 1 July 2007	-	-	-	-
(Charged)/credited to the income statement	-	-	-	-
(Charged)/credited directly to equity	-	-	-	-
At 30 June 2008	-	-	-	-

27. SHARE CAPITAL

	Consolidated 2008 $000	Consolidated 2007 $000	Parent 2008 $000	Parent 2007 $000
a) Share Capital				
Ordinary shares				
Fully paid	44,574	-	434,296	-

b) Movements in share capital

Consolidated

Date	Details	No of shares	Issue Price	$000
1 July 2006	Opening balance	-	-	-
30 June 2007	Balance	-	-	-
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

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

27. SHARE CAPITAL (CONTIUNED)

b) Movements in share capital (continued)

must be identified as the acquirer. This is commonly referred to as a reverse acquisition nib health funds limited has been deemed to be the accounting acquirer of nib holdings limited (the legal parent).

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

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

Parent entity

Date	Details	No of shares		Issue Price	$000
1 July 2006	Opening balance	-		-	-
28 May 2007	Initial Shares issued	2	$	2.50	-
30 June 2007	Balance at 30 June 2007	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

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) 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

27. SHARE CAPITAL (CONTINUED)

d) Capital risk management (continued)

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 reserve (Section 5.1 of the Capital Adequacy Standard)

Therefore a fall in the capital adequacy ratio below 1.00 represents a breach of the Private Health Insurance Act 2007.

nib's has a capital management plan which establishes a target for capital held in excess of the regulatory requirement; the aim is to keep a sufficient buffer in line with the board's attitude to and tolerance for risk. The current target capital ratio is 1.5x

Any capital in excess of the target, taking a 12 month forward looking view, will be reduced by way of dividend to nib holdings limited. nib health funds limited paid a dividend of $95,500,000 to nib holdings limited in June 2008.

The excess assets over benchmark at 30 June 2008 and 30 June 2007 were as follows:

	2008 $000	2007 $000
Total Assets nib health funds limited	459,045	508,460
Capital Adequacy Requirement	285,053	310,694
Excess Asset for Capital Adequacy	173,993	197,767
Capital Adequacy Coverage Ratio	*1.61*	*1.64*
Internal benchmark	*1.50*	*1.50*
Internal benchmark requirement	427,579	466,040
Excess assets over internal benchmark	31,466	42,420

nib holdings limited

nib is targeting a return on equity of 15%, and the return on equity as at 30 June 2008 is 6.9%. 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 return of capital. nib currently determines capital as surplus assets over liabilities.

It is also possible that the Group would acquire debt to fund its growth ambitions or to manage its cost of working capital.

28. RETAINED PROFITS

	Consolidated		Parent	
	2008 $000	2007 $000	2008 $000	2007 $000
Balance at beginning of the financial year	329,161	276,665	(4)	-
Net profit/(loss)	404	52,496	71,068	(4)
Balance at the end of the financial year	329,565	329,161	71,064	(4)

29. RESERVES

	Consolidated 2008 $000	Consolidated 2007 $000	Parent 2008 $000	Parent 2007 $000
a) Reserves comprise:				
Property revaluation reserve	10,579	7,053	-	-
Available-for-sale investments revaluation reserve	62	-	-	-
Share-based payments reserve	61	-	61	-
	10,702	7,053	61	-
b) Movements in reserves:				
Property revaluation reserve				
Balance at the beginning of the year	7,053	6,919	-	-
Property revaluation	3,526	134	-	-
Balance at the end of the financial year	10,579	7,053	-	-
Available-for-sale investments revaluation reserve				
Balance at the beginning of the year	-	-	-	-
Revaluation - gross (note 13)	88	-	-	-
Deferred tax (note 26)	(26)	-	-	-
Balance at the end of the financial year	62	-	-	-
Share-based payments reserve				
Balance at the beginning of the year	-	-	-	-
Performance right expense	51	-	-	-
Bonus share rights expense	10	-	-	-
Performance rights issued to employees of subsidiaries	-	-	51	-
Bonus share rights issued to employees of subsidiaries	-	-	10	-
Balance at the end of the financial year	61	-	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) Dividends not recognised at year end

	Parent 2008 $000	Parent 2007 $000
Since the end of the year, the directors have recommended the payment of a final dividend of 2.1 cents per fully paid ordinary share, fully franked based on tax paid at 30% prior to 30 June 2009. The aggregate amount of the proposed dividend expect to be paid on 10 October 2008 out of retained profits at 30 June 2008, but not recognised as a liability at year end, is	10,875	-

b) Franked dividends

The franked portion of the final dividends recommended after 30 June 2008 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 2008.

	Consolidated		Parent	
	2008 $000	2007 $000	2008 $000	2007 $000
Franking credits available for subsequent financial years based on a tax rate of 30% (2007 - 30%)	10,851	-	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	
	2008 $000	2007 $000	2008 $000	2007 $000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
- not longer than one year	1,503	1,597	-	-
- longer than one year and not longer than five years	1,881	2,171	-	-
- longer than five years	1,689	-	-	-
	5,073	3,768	-	-

31. COMMITMENTS FOR EXPENDITURE (CONTINUED)

b) Capital expenditure commitments

Payable:				
- not longer than one year	12,683	23,006	-	-
- longer than one year and not longer than five years	-	2,007	-	-
	12,683	25,013	-	-

The above commitments include capital commitments of $11.748 million (2007: $24.978 million) relating to the construction of the new head office building at Honeysuckle

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.

- not longer than one year	1,664	3,007	-	-
- longer than one year and not longer than five years	-	1,857	-	-
	1,664	4,864	-	-

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 28 August 2008, or if earlier, to the date of sale of the entities should this occur.

33. REMUNERATION OF AUDITORS

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
1. Audit services				
PricewaterhouseCoopers Australian firm:				
Audit and review of financial report and other audit work under the *Corporations Act 2001*	358,750	204,000	155,000	6,000
Total remuneration for audit services	358,750	204,000	155,000	6,000
2. Non-audit services				
Audit-related services				
PricewaterhouseCoopers Australian firm:				
Audit of regulatory returns	32,000	31,050	-	-
Demutualisation and ASX listing	320,035	215,900	313,046	-
Due diligence on potential mergers and acquistions	500,000	20,500	500,000	-
Total remuneration for audit-related services	852,035	267,450	813,046	-
Taxation services				
PricewaterhouseCoopers Australian firm:				
Advice on demutualisation and ASX listing	259,857	311,420	70,760	-
Due diligence on potential mergers and acquistions	214,000	4,225	214,000	-
Tax compliance services	60,693	30,660	2,947	-
Total remuneration for taxation services	534,550	346,305	287,707	-
Other services				
PricewaterhouseCoopers Australian firm:				
Other activities undertaken to support audit of financial report	13,977	64,350	6,989	-
Total remuneration for other services	13,977	64,350	6,989	-
Total remuneration for non-audit services	1,400,562	678,105	1,107,742	-
Total remuneration for audit and non-audit services	1,759,312	882,105	1,262,742	6,000

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	
		2008 $000	2007 $000	2008 $000	2007 $000
Cash and cash equivalents	8	179,185	17,570	12,372	-
Bank overdraft	20	(2,051)	(1,431)	-	-
		177,134	**16,139**	**12,372**	**-**

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

	Consolidated		Parent entity	
	2008 $000	2007 $000	2008 $000	2007 $000
Profit for the year	404	52,496	71,068	(4)
Net (gain)/loss on disposal of non-current assets	6	(8)	-	-
Fair value (gain)/loss on other financial assets through profit or loss	45,324	(8,438)	6,240	-
Net profit on disposal of business	-	(1,445)	-	-
Fair value adjustments to property	(290)	(1,577)	-	-
Reversal of prior year impairment loss on property, plant and equipment	(4)	-	-	-
Non-cash employee benefits expense - share-based payments	528	-	-	-
Reverse acquisition expense	4	-	-	-
Gain on disposal of a subsidiary	-	(601)	-	-
Depreciation and amortisation	3,834	4,454	-	-
Change in operating assets and liabilities, net of effect from purchase of controlled entity				
Decrease (increase) in receivables	(3,222)	(943)	(18,281)	-
Decrease (increase) in inventories	-	31	-	-
Decrease (increase) in deferred tax assets	(15,787)	-	(3,494)	(2)
Increase (decrease) in trade payables	2,231	24,910	1,163	6
Increase (decrease) in current tax payable	10,312	54	10,366	-
Increase (decrease) in provisions	9,884	(1,046)	45	-
Net cash flow from operating activities	53,224	67,887	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.

35. BUSINESS COMBINATION (CONTINUED)

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):

	Place of Incorporation	Percentage of shares held 2008 %	2007 %
nib holdings limited	Australia		
nib health funds limited	Australia	100	
nib servicing facilities pty limited	Australia	100	100
nib health care services limited	Australia	100	100
063 465 949 Pty Limited (formerly nib eye safety pty limited)	Australia	-	100
nib health services limited (formerly IOOF Health Services Limited) (1)	Australia	100	100
The Heights Private Hospital pty limited	Australia	100	100
The NIB Private Hospital Trust	Australia	-	100
Newcastle Private Hospital Trust	Australia	-	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

Matters subsequent to the end of the financial year

Since 30 June 2008 nib holdings limited has resolved to do an on-market buy-back of nib holdings shares, commencing 15 September 2008. Up to 10% of shares issued will be bought back at market price.

Other than the matters noted above there have not been any matters or circumstances that have arisen since the end of the financial year that has significantly affected, or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

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

Newcastle Private Hospital Pty Limited was a wholly owned subsidiary of the Group until disposal on 31 May 2007. Prior to disposal it had a 50% investment in Newcastle Private Imaging Services Pty Limited and a 25% investment in Newcastle Private Imaging Services Trust.

During the year ended 30 June 2007 it had the following transactions with Newcastle Private Imaging Trust:

i) Cash and non-cash advances from Newcastle Private Hospital Pty Limited to Newcastle Private Imaging Service Trust to meet working capital requirements and to cover losses during the year ended 30 June 2007 of $639,148.
ii) Newcastle Private Hospital Pty Limited received fees for equipment and premises leases, and related outgoings, together with theatre procedure fees from Newcastle Private Imaging Service Trust during the year ended 30 June 2007 of $478,693
iii) Newcastle Private Hospital Pty Limited paid Newcastle Private Imaging Service Trust for the provision of radiology services, together with reimbursing Newcastle Private Imaging Service Trust for after hours call out fees unpaid by Newcastle Private Hospital patients during the year ended 30 June 2007 in the amount of $91,477.
iv) Newcastle Private Hospital Pty Limited negotiated the future dissolution of Newcastle Private Imaging Service Trust as part of satisfying the conditions precedent in respect of the sale of the operations of Newcastle Private Hospital (refer to note 44) and agreed to compensate Newcastle Radiology $1,300,000 + GST. This amount was provided for at 30 June 2006 and was paid on 2 March 2007.

The loan balance of $36,729 was written off at 31 May 2007.

39. RELATED PARTIES (CONTINUED)

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, totalling $43,977 (2007: $187,870)
- Rental of property, plant and equipment at cost charged by nib health funds limited to nib health care services pty limited, totalling $nil (2007: $50,820)
- Computer bureau charges charged by nib health funds limited to nib health care services pty limited and Newcastle Private Hospital Pty Limited, totaling $nil (2007: $94,299)

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.

d) Loans to/from related parties

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Loans to subsidiaries				
Beginning of the year	-	-	-	-
Loans advanced	-	-	40,968,100	-
Loan repayments received	-	-	(19,923,364)	-
Interest charged	-	-	-	-
Interest received	-	-	-	-
	-	-	21,044,736	-

40. KEY MANAGEMENT PERSONNEL DISCLOSURES

a) Key management personnel compensation

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Short-term employee benefits	8,342,318	3,506,760	153,647	-
Post-employment benefits	704,653	782,786	261,258	-
Other long-term benefits	126,674	66,536	-	-
Termination benefits	677,404	-	-	-
Share-based payments	590,524	-	64,541	-
	10,441,573	4,356,082	479,446	-

Detailed remuneration disclosures are provided in sections A-C of the remuneration report on pages 10 to 19.

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 19 to 22.

40. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

b) Equity instrument disclosures relating to key management personnel (continued)

ii) *Performance rights holdings*

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

Name	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at the end of the year	Vested and exercisable	Unvested
Consolidated and parent entity - 2008							
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
Michelle McPherson	-	84,329	-	-	84,329	-	84,329
Total	-	286,177	-	-	286,177	-	286,177

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.

2008 Name	Balance at the start of the year	Granted during the year as compensation	Other changes during the year	Balance at the end of the year
Directors of nib group				
Ordinary shares				
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
Michelle McPherson	-	100,000	1,000	101,000
Peter Small	-	-	-	-

40. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

b) Equity instrument disclosures relating to key management personnel

iii) Share holdings (continued)

2007 **Name**	**Balance at the start of the year**	**Granted during the year as compensation**	**Other changes during the year**	**Balance at the end of the year**
Directors of nib group				
Ordinary shares				
Keith Lynch	-	-	1	1
David Brewer	-	-	-	-
Grahame Cannon	-	-	-	-
Annette Carruthers	-	-	-	-
Janet Dore	-	-	-	-
Philip Gardner	-	-	-	-
Michael Slater	-	-	-	-
Other key management personnel of the Group				-
Mark Fitzgibbon	-	-	1	1
Ian Boyd	-	-	-	-
Jayne Drinkwater	-	-	-	-
Diane Lally	-	-	-	-
David Lethbridge	-	-	-	-
Michelle McPherson	-	-	-	-
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 19 to 22.

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

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

There were no performance rights granted under the plan in 2007.

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

The Board has resolved that non-executive directors will receive a minimum of 20% of their annual Directors' fees in the form of shares allocated under the NEDSAP plan. 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.

41. SHARE-BASED PAYMENTS (CONTINUED)

b) Non-Executive director share plan ("NEDSAP") (continued)

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.

	Consolidated		Parent	
	2008	2007	2008	2007
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	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Shares purchased on market under employee share scheme	564	-	-	-
Performance rights granted under LTIP	51	-	-	-
Bonus share rights granted	10	-	-	-
	625	-	-	-

42. SOLVENCY AND CAPITAL ADEQUACY RESERVES

nib health funds limited Solvency Reserve, as per the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is $74.147 million. Total Health Benefits Fund Assets are $459.045 million, representing an excess of $195.017 million over the sum of the Solvency Reserve and total Health Benefits Fund Liabilities ($189.881 million).

nib health funds limited Capital Adequacy Reserve, as per the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is $95.172 million. Total Health Benefits Fund Assets are $459.045 million, representing an excess of $173.993 million over the Capital Adequacy Reserve and total Health Benefits Fund Liabilities ($189.881 million).

43. EARNINGS PER SHARE

	Consolidated	
	2008	2007
	Cents	Cents
a) Basic earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the company	0.1	n/a
Profit from discontinued operations	0.0	n/a
Profit attributable to the ordinary equity holders of the company	0.1	n/a
b) Diluted earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the company	0.1	n/a
Profit from discontinued operations	0.0	n/a
Profit attributable to the ordinary equity holders of the company	0.1	n/a

	Consolidated	
	2008	2007
	Cents	Cents
c) Reconciliations of earnings used in calculating earnings per share		
Basic earnings per share		
Profit from continuing operations	350	n/a
Profit from discontinuing operations	54	n/a
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	404	n/a
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	404	n/a
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	404	n/a

d) Weighted average number of shares used as the denominator

	2008	2007
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	419,436,429	n/a
Adjustments for calculation of diluted earnings per share:		
Performance rights and bonus share rights	-	n/a
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	419,436,429	n/a

43. 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 318,817 performance rights granted on 24 June 2008 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 2008. 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 112,500 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 2008. These bonus share rights could potentially dilute basic earnings per share in the future.

44. DISCONTINUED OPERATIONS

i) Newcastle Private Hospital Pty Limited

a) Description

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

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

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

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

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

During the financial year Newcastle Private Hospital was operated under a management agreement whereby Healthscope Limited managed the operations of Newcastle Private Hospital for Newcastle Private Hospital Pty Ltd and nib health funds limited and received the following payments:

44. DISCONTINUED OPERATIONS (CONTINUED)

i) Newcastle Private Hospital Pty Limited (continued)

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

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

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

b) Financial Performance and cash flow information

The financial performance and cash flow information presented for the financial year ended 30 June 2008 and for the eleven months ended 31 May 2007.

	2008 $000	2007 $000
Revenue	-	40,909
Expenses	-	(41,240)
Profit/(Loss) before income tax	-	(331)
Income tax expense	-	-
Profit/(Loss) after income tax of discontinued operation	-	(331)
Gain on the sale of the operation before income tax	-	601
Income tax expense	-	-
Gain on the sale of the operation after income tax	-	601
Profit/(Loss) from discontinued operations	**-**	**270**
(1) Expenses		
Materials and consumables	-	(11,759)
Employee costs	-	(22,428)
Medical malpractice insurance	-	(417)
Physicians fees	-	(1,156)
Nursing agency fees	-	(1,117)
Other expenses	-	(4,363)
	-	**(41,240)**
Cash flows		
Net cash inflow (outflow) from operating activities	-	417
Net cash inflow (outflow) from investing activities (2007 includes an inflow of $10,249,000 from the sale of the operation)	768	10,659
Net cash inflow (outflow) from financing activities	-	-
Net increase (decrease) in cash generated by the operation	**768**	**11,076**

44. DISCONTINUED OPERATIONS (CONTINUED)

i) Newcastle Private Hospital Pty Limited (continued)

c) Carrying amounts of assets and liabilities

The carrying amounts of assets and liabilities as at 31 May 2007 are:

	2007 $000
Cash and cash equivalents	1,252
Trade and other receivables	6,399
Inventories	867
Plant and equipment	13,789
Intangible assets	396
Total assets	22,703
Trade and other payables	4,316
Employee Benefits	2,282
Total liabilities	6,598
Net assets	16,105

d) Details of the sale of operations

Consideration received or receivable:	
Cash	11,081
Present value of amount due on 1 June 2009	3,574
Present value of amount due on 1 June 2010	2,265
Total disposal consideration	16,920
Carrying amount of net assets sold	(16,105)
Selling costs	(214)
Gain on sale	601

ii) nib eye care and dental businesses

a) Description

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

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

44. DISCONTINUED OPERATIONS (CONTINUED)

ii) nib eye care and dental centres (continued)

a) Description (continued)

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

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

b) Financial Performance and cash flow information

The financial performance and cash flow information are for the five months ended 30 November 2006 (2007 column) and the year ended 30 June 2008.

	2008 $000	2007 $000
Revenue	-	2,153
Expenses	-	(2,132)
Profit before income tax	-	21
Income tax expense	-	-
Profit after income tax of discontinued operation	-	21
Gain on sale of the operation before income tax	-	1,445
Income tax expense	54	(54)
Gain on sale of the operation after income tax	54	1,391
Profit from discontinued operation	**54**	**1,412**

	2008 $000	2007 $000
Cash flows		
Net cash inflow (outflow) from operating activities	-	(453)
Net cash inflow (outflow) from investing activities (2007 includes an inflow of $325,000 from the sale of the operation)	250	266
Net cash inflow (outflow) from financing activities	-	-
Net increase (decrease) in cash generated by the operation	250	(187)

c) Carrying amounts of assets and liabilities

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

Inventories	146
Plant and equipment	180
Total assets	326
Employee benefits	196
Total liabilities	196
Net assets	130

44. DISCONTINUED OPERATIONS (CONTINUED)

ii) nib eye care and dental centres (continued)

d) Details of the sale of the operations

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

45. COMPANY DETAILS

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

384 Hunter Street
NEWCASTLE NSW 2300

The financial report was authorised for issue by the directors on 28 August 2008. The company has the power to amend and reissue the financial report.

nib holdings limited
Shareholder information
30 June 2008

The shareholder information set out below was applicable as at 5 August 2008.

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	103,168
1,001 - 5,000	83,486
5,001 - 10,000	12,285
10,001 - 100,000	241
100,001 and over	32
	199,212

There were 79,871 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:

Name	Ordinary shares Number held	Percentage of issued shares
Aust Executor Trustees Ltd (nib unv & o'seas p'hldrs a/c)	80,961,990	15.63%
National Nominees Limited	18,335,801	3.54%
RBC Dexia Investor Services Australia Nominees P/L (pipooled a/c)	14,387,590	2.78%
J P Morgan Nominees Australia Limited	12,815,100	2.47%
Citicorp Nominees Pty Limited	11,823,999	2.28%
Citicorp Nominees Pty Limited (CFS Future Leader Fund a/c)	9,545,480	1.84%
UBS Nominees Pty Ltd	7,686,506	1.48%
HSBC Custody Nominees (Australia) Limited	7,613,704	1.47%
Cogent Nominees Pty Limited	4,543,156	0.88%
ANZ Nominees Limited (cash income a/c)	4,156,653	0.80%
RBC Dexia Investor Services Australia Nominees P/L (bkcust a/c)	4,050,000	0.78%
Citicorp Nominees Pty Limited (CFS wsle Aust Share Fnd a/c)	3,524,212	0.68%
Suncorp Custodian Services Pty Limited (AET)	2,593,294	0.50%
Citicorp Nominees Pty Limited (CFSIL cwlth small co 7 a/c)	1,919,317	0.37%
Citicorp Nominees Pty Limited (CFSIL cwlth small cos 1 a/c)	1,254,022	0.24%
Vanward Investments Limited	1,050,000	0.20%
Merrill Lynch (Australia) Nominees Pty Limited	1,000,000	0.19%
Fortis Clearing Nominees P/L (settlement a/c)	596,464	0.12%
Suncorp General Insurance Limited	380,483	0.07%
Citicorp Nominees Pty Limited (CFS Australian Shr Fnd a/c)	348,348	0.07%
	188,586,119	36.42%

Unquoted equity securities

	Number on issue	Number of holders
Performance rights issued under the nib holdings Long-term Incentive Plan	318,817	6

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)	80,961,990	15.63%

* 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
450,000	Ordinary shares	2 November 2010