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26 September 2014

The Manager
Company Announcements
ASX Limited
Level 4, Bridge Street
Sydney NSW 2000

2014 Annual Report – nib holdings limited

Please find attached nib's 2014 Annual Report which was distributed to nib shareholders today.

The Annual Report can also be viewed online at nib.com.au/shareholders.

Yours sincerely,

M McPherson

Michelle McPherson
Chief Financial Officer & Company Secretary

nib

ANNUAL REPORT 2014

Contents

2014 ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of nib holdings limited will be held on Wednesday, 29 October 2014 at 11.00am (Australian Eastern Daylight Time) at The Heritage Ballroom, The Westin, 1 Martin Place, Sydney NSW 2000

nib holdings limited
ABN 51 125 633 856

Operating and Financial Review

For the year ended 30 June 2014

MESSAGE FROM THE BOARD

Financial year 2014 (FY14) was another year of strong top line premium growth and improved profitability for the Group, albeit below our original expectations. Operating profit grew 4.3% to $72.3 million and earnings per share by 3.9% to 15.9 cents, compared with 15.3 cents the previous fiscal year. Return on equity remained very impressive at 20.8%.

As will be evident from this report, it wasn't entirely smooth sailing for our core Australian Residents Health Insurance (arhi) business during FY14. High claims experience, in particular on a new extras only product which saw a gross margin loss of $8.8 million during FY14, as well as growing policyholder lapse, were notable headwinds. Our arhi operating profit of $57.0 million was down 3.5% on the previous year and saw our net margin decline to just 4.2%, which is outside our target range of 5.0% to 5.5%. We've moved quickly to redress our arhi profit margin (including a 7.99% average premium increase from 1 April 2014, however our products still remain price competitive) and we are confident about arhi's future earnings growth prospects. Rising healthcare spending and claims experience however leave no room for complacency.

Pleasingly, our established adjacent businesses all performed well in FY14. International workers (iwhi) grew earnings by 12.1% to $9.4 million. International students (ishi) grew revenue by more than 110% and made a profit for the first time since its inception four years ago of $1.9 million. nib New Zealand contributed $7.4 million in earnings and our life and travel insurance lines $2.2 million. Collectively, our non-arhi businesses contributed 25.4% of our Group operating profit, compared to 24.0% in FY13. The performance of these businesses reflect a real determination by the company to diversify and create enterprise value by leveraging existing assets, infrastructure and capability. We continue to explore adjacent business diversification opportunities.

Investment performance was also strong. We achieved a total return of $29.7 million, which represented a yield of approximately 5.6%.

The Board has declared ordinary dividends totalling 11.0 cents per share (fully franked) for the year. This represents a payout ratio of 69.2% of consolidated FY14 after tax earnings. The final fully franked ordinary dividend of 5.75 cents per share will be paid to shareholders on 3 October 2014.

During the year the new Australian capital standards were announced by our industry regulator (PHIAC). As we have previously indicated to shareholders, this resulted in a new capital target for our Australian health insurance businesses and an increase in our Group available capital position. As at 30 June 2014, nib's available capital position (after allowing for the FY14 final fully franked ordinary dividend payment of $25.2 million) was $58.2 million. The Board has decided $39.5 million of this will be returned to shareholders by a FY14 fully franked special dividend of 9.0 cents per share. The remaining available capital of approximately $18.7 million will be reserved for potential investments that form part of our strategic planning.

In May this year, the Federal Government released the report of its National Commission of Audit. The report was welcomed by us as it clearly supported an enhanced future role for private health insurance in our healthcare system. How we actually pursue and commercialise the opportunity is not without its challenges, not withstanding Government policy and regulatory change. But we are undoubtedly moving down a path of greater private health insurance involvement and funding responsibility.

I'd like to thank our leadership team and all employees for their efforts during FY14 and commend them on another solid result. Since its listing on the ASX in 2007, nib has delivered cumulative average EPS growth of 20.5%, which actually understates performance given the significant release of capital by way of special dividends. Total shareholder return* since listing up until the end of FY14 was more than 475%, compared to approximately 9% for the S&P/ASX200.

I'd also like to thank and acknowledge the contribution our Board of Directors are making in guiding and overseeing the company's performance. The Board has an excellent working relationship with our executive management team and engagement with business fundamentals. We're as excited about the future prospects of the company as ever.

Yours sincerely

Steve Crane
Chairman

* TSR rebased to 100 (assumes capital returns and dividends re-invested at the payout date).

INTRODUCTION

This report has been prepared in accordance with ASIC Regulatory Guide 247 Effective disclosure in an operating and financial review.

REVIEW OF GROUP OPERATIONS

Operations and underlying drivers of performance

			Change	
($m)	**2014**	**2013**	**$m**	**%**
Net premium revenue	1,491.6	1,290.4	201.2	15.6
Net claims incurred (excluding claims handling expenses)	(1,255.4)	(1,089.6)	(165.8)	15.2
Gross margin	236.2	200.8	35.4	17.6
	15.8%	15.6%		
Management expense	(162.1)	(127.0)	(35.1)	27.6
	10.9%	9.8%		
Underwriting result	**74.1**	**73.8**	**0.3**	**0.5**
	5.0%	5.7%		
Other income	5.7	3.1	2.6	82.8
Other expenses	(7.5)	(7.6)	0.1	(1.2)
Operating profit	**72.3**	**69.3**	**3.0**	**4.3**
Net investment return	29.7	28.8	0.9	3.0
	5.6%	5.8%		
Finance costs	(2.7)	(1.4)	(1.4)	98.6
Profit before tax	**99.2**	**96.7**	**2.5**	**2.6**
Tax	(29.4)	(29.5)	0.1	(0.4)
NPAT	**69.8**	**67.2**	**2.6**	**3.9**
EPS (cps)	15.9	15.3	0.6	3.9
ROE (%)	20.8%	21.6%		
Operating cash flow	93.7	20.0	73.7	367.6

FY14 Group highlights included:

- Premium revenue up 15.6%
- Consolidated net operating profit of $72.3 million
- Earnings per share of 15.9 cents
- Return on equity of 20.8%
- Operating cash flow of $93.7 million
- Full year ordinary dividend 11.0 cps (fully franked)
- Special dividend 9.0 cps (fully franked) reflecting capital management releasing $39.5 million of available capital

As explained in the Chairman's introduction, these results reflected a weak underwriting performance in our Australian Resident Health Insurance (arhi) business measured against recent historical standards. Reduced profitability in our arhi business was however, more than offset by improved performance in other established business segments.

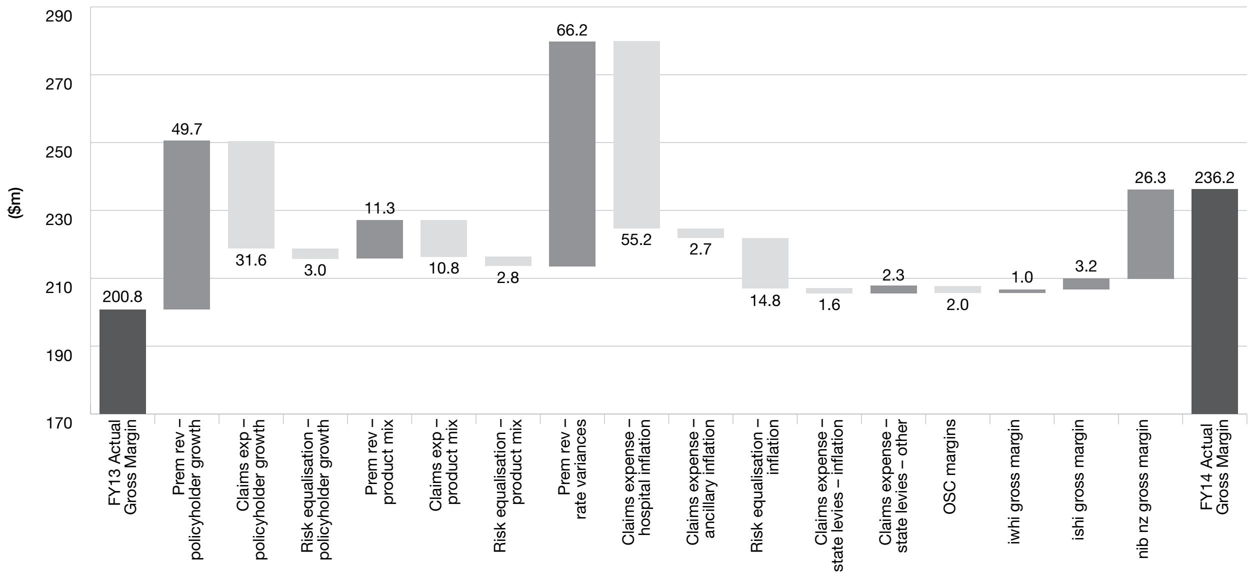
arhi remains at the core of our business and we expect future growth and improved profitability. We expect the private health insurance (PHI) market as a whole will continue to grow at a rate ahead of GDP and that nib will expect to grow above system as it has consistently in the past. Anticipating the weaker arhi profitability, in April 2014 we increased premiums on average by 7.99% and are undertaking a wide range of initiatives throughout the business designed to better control claims costs inflation. It is arguably our biggest challenge.

We are looking to grow future revenue and earnings across all business segments and actively exploring new business opportunities which allow us to leverage our brand, distribution and other capabilities. During the course of FY14 we launched nib Options, a business that facilitates customers receiving major dental and cosmetic surgery treatment in Australia and overseas. nib Options is seeking to ride the global trend of people crossing international borders for healthcare services and treatment. It is not an insurance or underwriting product, rather a single fee for bundled services. There is a heavy emphasis on quality, reliability and safety.

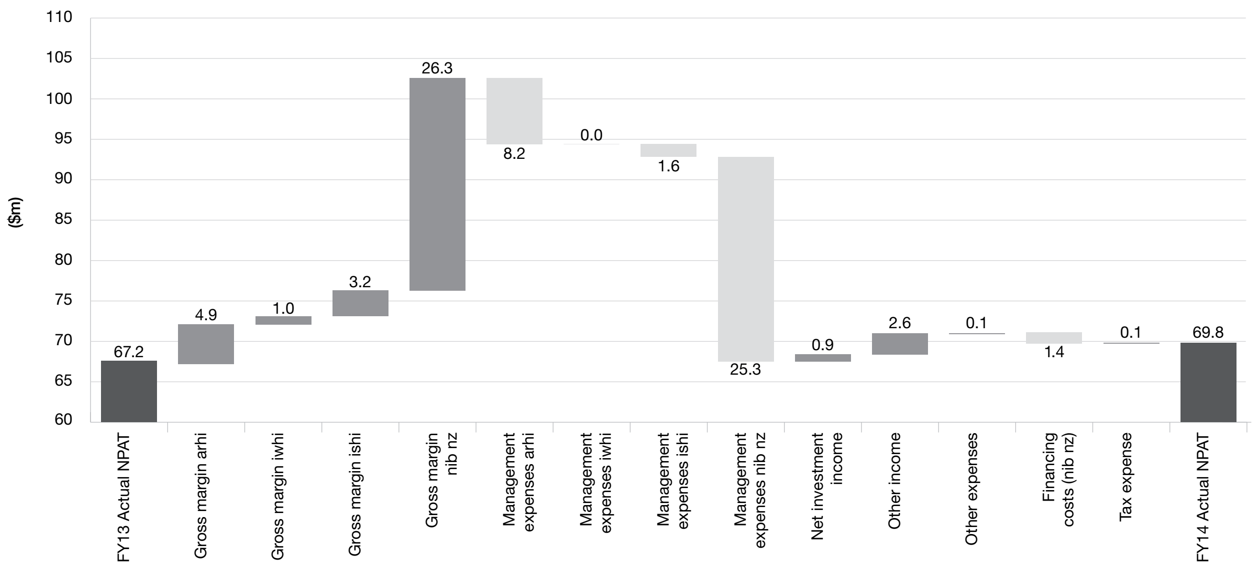
Other non-underwritten business lines, including life and travel insurance, continue to be popular with our customers, with commissions up 14.1% to $2.2 million.

During the reporting period our investment portfolio delivered returns above our annual internal benchmarks, primarily on the back of strong equity market performance. While our portfolio's exposure to equities is only 9.7%, net investment return for the 12 month period was $29.7 million or 5.6%. As at 30 June 2014, our total investment assets were $581.7 million (including our head office building).

Gross profit drivers



NPAT Summary



nib nz variances driven by 12 months result in FY14 compared to seven months in FY13.

REVIEW OF GROUP OPERATIONS continued

Financial Position

			Change	
($m)	2014	2013	$m	%
Assets				
Cash and cash equivalents	148.7	143.1	5.7	4.0
Receivables	44.9	51.9	(7.0)	(13.5)
Financial assets at fair value through profit or loss	410.8	351.8	59.0	16.8
Deferred acquisition costs	40.0	27.2	12.8	47.0
Property, plant and equipment	48.0	41.7	6.2	15.0
Intangible assets	95.2	91.3	3.9	4.3
Other assets	10.5	5.3	5.2	97.0
Total assets	**798.1**	**712.3**	**85.8**	**12.0**
Liabilities				
Payables	111.4	99.2	12.2	12.3
Borrowings	66.8	62.4	4.4	7.0
Outstanding claims liability	93.7	81.4	12.2	15.0
Unearned premium liability	114.2	93.4	20.8	22.2
Premium payback liability	40.8	40.2	0.5	1.3
Other liabilities	14.9	9.5	5.4	57.1
Total liabilities	**441.7**	**386.2**	**55.6**	**14.4**
Net assets	**356.4**	**326.2**	**30.2**	**9.3**
Total equity	**356.4**	**326.2**	**30.2**	**9.3**

Group net profit after tax (NPAT) was $69.8 million, compared to $67.2 million last year, with earnings per share of 15.9 cents and return on equity of 20.8%.

This strong financial performance has allowed the Board to declare full year ordinary dividends for the 2014 financial year of 11.0 cents per share, fully franked (FY13: 10.0 cents per share). This represents a payout ratio of 69.2% of full year net profit after tax. This is consistent with our dividend policy of paying fully franked dividends representing 60% to 70% of full year net profit after tax. nib also declared a special dividend reflecting a $39.5 million capital management initiative of 9.0 cents per share (fully franked).

Operating cash flow increased to $93.7 million for the year ended 30 June 2014 (30 June 2013: $20.0 million). FY13 operating cash flow was abnormally low as a result of a high level of prepayments of premium revenue in FY12. This was due to the implementation of the Australian Government Rebate means testing.

Our current gearing ratio is 15.8% (debt-to-debt plus equity), with the debt put in place to fund the acquisition of TOWER Medical Insurance Limited in New Zealand during the 2013 financial year. In search of an optimal capital structure, nib has an appetite to raise debt up to a level that achieves a long-term average gearing ratio of 30% with a short to medium term target of 25% based on business as usual, with the remaining 5% available for strategic mergers and acquisitions opportunities, noting that for a significant transaction gearing may be above 30% for a short time if necessary to effect the transaction. While it is contemplated that this level of gearing would accompany a major strategic investment, there is some scope for increased gearing through recapitalisation.

AUSTRALIAN RESIDENTS HEALTH INSURANCE

Financial performance and business review

			Change	
($m)	2014	2013	$m	%
Policyholder growth	3.1%	4.6%		
Net premium revenue	1,314.5	1,187.2	127.2	10.7
Net claims incurred (excluding claims handling expenses)	(1,152.3)	(1,030.0)	(122.3)	11.9
Gross margin	162.2	157.2	4.9	3.1
	12.3%	13.2%		
Management expense	(106.4)	(98.2)	(8.2)	8.3
	8.1%	8.3%		
Underwriting result	55.8	59.0	(3.3)	(5.5)
	4.2%	5.0%		
Other income	1.2	0.0	1.2	–
	0.1%	0.0%		
Operating profit	57.0	59.0	(2.1)	(3.5)
	4.3%	5.0%		

arhi had a mixed year with strong sales and top line performance hampered by higher than expected claims experience, including on a new extras only product, as well as policyholder lapse. For the full year we generated more than 71,000 policyholder sales and posted annual policyholder growth of 3.1%. This compares favourably to our expectation of the overall industry average of 2.5% to 3.0% and is the 13th consecutive year nib has achieved above-industry net policyholder growth. More than 50% of our policyholder sales for the 2014 financial year were to customers aged 40 years and under, which continues to reflect our level of marketing investment towards this demographic and the success of those campaigns.

Highlights from the arhi business include:

- Annual net policyholder growth of 3.1% (industry growth: 2.7%)
- Premium revenue growth up 10.7% to $1.3 billion
- Claims expenses (excluding risk equalisation) up 11.5% to $961.7 million
- Management expenses up 8.3%, equating to a management expense ratio of 8.1%
- Operating profit of $57.0 million, down 3.5% on the 2013 financial year on the back of high claims inflation
- Other income includes $1.2 million one-off provider contract sign-on fee

Claims inflation remains easily the most significant challenge confronting arhi. Claims costs grew 11.5% (excluding risk equalisation), while our contribution to the industry system of risk equalisation grew 13.8% to $190.6 million. Controlling claims inflation within an overall macro-environment of rising healthcare spending is problematic. Nevertheless, there is a wide range of efforts underway to ensure utilisation of healthcare services are appropriate and the costs of services no more than they should be.

Despite increasing investment in customer acquisition, our management expense ratio of 8.1% is comparable with the 2013 financial year's result of 8.3%. Monitoring and managing costs as well as continually improving operational efficiencies remain priorities for us in order to maintain our price competitiveness.

While we remain appreciative of the Commonwealth Government's support for private health insurance, a number of regulatory and policy changes have not assisted the arhi performance. In particular, the income testing of the Australian Government Rebate and lifting of the Medicare Levy Surplus income thresholds have contributed towards slower system growth and higher customer lapse.

In June 2014, we announced a new distribution alliance with leading over-50s insurance brand, Apia. As a result, Apia now offers its own branded private health insurance products designed and tailored specifically for its over-50s target market.

We also launched an innovative website, Whitecoat, to help consumers make more informed choices about purchasing decisions. Developed over three years, the website contains the contact details of approximately 30,000 ancillary providers with information and comments from nib customers about their service experience. Almost 100,000 users have visited the site – whitecoat.com.au – since its launch in November.

INTERNATIONAL STUDENTS HEALTH INSURANCE

Financial performance and business review

			Change	
($m)	2014	2013	$m	%
Policyholder growth	187.2%	173.9%		
Net premium revenue	9.2	4.4	4.9	110.8
Net claims incurred (excluding claims handling expenses)	(5.1)	(3.4)	(1.7)	48.9
Gross margin	4.2	1.0	3.2	322.1
	45.4%	22.7%		
Management expense	(2.7)	(1.1)	(1.6)	150.4
	29.1%	24.5%		
Underwriting result	1.5	(0.1)	1.6	2,010.1
	16.3%	(1.8%)		
Other income	0.4	0.0	0.4	–
	4.2%	0.0%		
Operating profit	1.9	(0.1)	2.0	2,506.3
	20.6%	(1.8%)		

nib entered the market for international students more than four years ago keen to take advantage of growing student numbers and the compulsory requirement for them to have health insurance.

The 2014 financial year was significant for us, making our first operating profit. This was on the back of increased scale and a business strategy that is separating us from our competitors. Our operating profit of $1.9 million compared favourably with a loss of around $0.1 million in the 2013 financial year.

It will be evident that profitability reflects strong policyholder growth with more than 26,000 international students now covered, compared to just over 9,000 at the end of financial year 2013. Premium revenue grew more than 110% to $9.2 million.

We expect the market for international students to remain strong and nib to grow our share. With increasing scale and a more focused business strategy we also expect to improve margins.

INTERNATIONAL WORKERS HEALTH INSURANCE

Financial performance and business review

			Change	
($m)	2014	2013	$m	%
Policyholder growth	5.7%	9.7%		
Net premium revenue	28.7	27.6	1.1	4.0
Net claims incurred (excluding claims handling expenses)	(11.9)	(11.8)	(0.1)	0.8
Gross margin	16.9	15.9	1.0	6.3
	58.6%	57.4%		
Management expense	(7.4)	(7.4)	0.0	(0.3)
	25.8%	26.9%		
Underwriting result	9.4	8.4	1.0	12.1
	32.9%	30.5%		
Other income	0.0	0.0	0.0	–
	0.0%	0.0%		
Operating profit	9.4	8.4	1.0	12.1
	32.9%	30.5%		

Despite a softening Australian labour market, our international workers health insurance (iwhi) continued to grow. As at 30 June 2014, nib provided health cover to more than 19,000 migrant workers in Australia compared to just over 18,000 at the beginning of the year. Premium revenue was up 4.0% to $28.7 million.

Profit margins within the business remain strong, with iwhi's 2014 financial year net margin of 32.9% (FY13: 30.5%). iwhi's net operating profit for the period of $9.4 million (FY13: $8.4 million) accounted for 13.1% of our Group operating profit.

The 2015 financial year will see increased investment in marketing and distribution to further grow our share of the skilled migrant worker market and, as a result, further grow Group earnings.

nib NEW ZEALAND

Financial performance and business review

($m)	2014	2013 7 months	Change $m	Change %
Policyholder growth	(0.1%)	–		
Net premium revenue	139.2	71.1	68.1	95.7
Net claims incurred (excluding claims handling expenses)	(86.2)	(44.5)	(41.8)	93.9
Gross margin	53.0	26.7	26.3	98.5
	38.1%	37.5%		
Management expense	(45.6)	(20.3)	(25.3)	124.6
	32.8%	28.5%		
Underwriting result	7.4	6.4	1.0	15.6
	5.3%	9.0%		
Other income	0.0	0.0	0.0	–
	0.0%	0.0%		
Operating profit	7.4	6.4	1.0	15.6
	5.3%	9.0%		

nib acquired TOWER Medical in November 2012 and therefore the FY14 results are not directly comparable with FY13, which was only a seven month result. Nevertheless, we were pleased with the $7.4 million in operating profit the business contributed to the Group especially given the large investment being made in modernising and growing the business. The FY14 operating profit benefited from lower than forecast claims experience.

FY14 was a year focused upon transitioning, integration and business building.

nib New Zealand operates as a wholly owned subsidiary of nib holdings with its own Board of Directors and executive team. Progress during the year was prodigious and included:

- The recruitment of a new executive management team
- The migration of all IT and operational systems such as claims processing, call centre and HR systems from TOWER
- Total business rebranding to nib New Zealand
- The development of a suite of Direct-To-Consumer (DTC) products and their market launch. DTC now is our biggest sales channel (in terms of policies), accounting for 40.6% of all sales in FY14 (FY14 policyholder sales of 10,513)
- A new distribution partnership with Fidelity Life, New Zealand's third-largest life insurer, to sell a bundled health and life insurance product

While launching our DTC strategy has been a key priority for the business, enhancing the relationship we have with financial advisors and further growing the advisor channel has also been in strong focus. In February, nib launched a new range of advisor-only products, which were the first of their type ever offered in New Zealand. The product range has received a top "5-star" rating from an independent insurance rating house.

Lapse, both at an industry level and for nib New Zealand, remains problematic. Prior to acquiring the business in 2012, nib New Zealand's lapse rate was double the industry average at more than 10%.

nib is attempting to play a role in growing market participation and its share of the market especially by positioning itself as a challenger brand and investing in growth. While the New Zealand economy is robust, there are concerns about the current heavy reliance on the public health care system and we are excited about our sales prospects across all distribution channels.

nib OPTIONS

Financial performance and business review

			Change	
($m)	2014	2013	$m	%
Other income	0.4	–	0.4	–
Other expenses	(2.9)	–	(2.9)	–
Operating profit	(2.5) (683.3%)	–	(2.5)	–

After more than two years in development, nib Options was launched in March 2014.

nib Options facilitates customers receiving cosmetic surgery and major dental treatment by highly reputable clinical specialists and facilities, both in Australia and overseas. It is a fee-for-service product that provides safe, simple and reliable choices for consumers wishing to undertake cosmetic and major dental procedures in Australia or overseas. It is not a health insurance offering.

nib Options is only in its infancy and made a $2.5 million loss in the 2014 financial year as we invested in creating the business. Efforts to date have largely focused upon developing marketing plans, systems, resources and hospital networks. FY15 will also see investment in further building the business including significant marketing investment and acceleration of business activity.

BUSINESS STRATEGIES AND PROSPECTS

nib's Business Strategy sets out seven key levers that we believe will increase earnings and grow enterprise value.

1. Grow our arhi business organically at circa 10% annual premium growth (4-5% per annum policyholder growth) through building national brand presence and with an emphasis on <40 market (Virgin Green), >55 market (Virgin Silver), other tactical niche opportunities and improved policyholder retention.
2. Position and develop our new business in New Zealand as a challenger and grow the market and our market share.
3. Grow our inbound international workers and students businesses and create a "global cover" for insuring outbound long stay Australians and New Zealanders.
4. Grow nib Options to capture and commercialise burgeoning demand in Australia and Asia for medical travel, especially cosmetic surgery.
5. Ensure across the nib Group that the design, payment and management of benefits better meets the needs of policyholders, as well as our strategic and commercial objectives.
6. Pursue increased customer satisfaction, productivity and efficiency through continual process improvement and ongoing investment in technology.
7. Actively develop a high performance organisational culture and the engagement of our people.

Aligned to nib's Business Strategy, our key performance targets are:

- Group premium revenue growth
- Group operating profit
- Non-arhi contribution to profit
- Net promoter score (NPS)
- Earnings per share
- Return on equity
- Total shareholder return

Principal risks and uncertainties

nib has established policies for the oversight and management of material business risks. Further information regarding how nib recognises and manages risk is detailed in Principle 7 of our Corporate Governance Statement (pages 42 to 50). In addition, nib's Risk Policy is available on our website at nib.com.au

Principal risks and uncertainties include:

General economic conditions	nib's performance is impacted by Australian economic conditions such as inflation, interest rates, consumer and business spending and employment rates which are outside nib's control. The environment in which nib operates may experience challenging conditions as a result of general uncertainty about future Australian and international economic conditions.
Claims inflation and fraud	nib is subject to significant claims inflation which may not be adequately covered by premium price increases and/or product design changes. Key sources of claims inflation risk include the renewal of key provider contracts on acceptable terms, service utilisation rates, services related to complex and costly members (usually with chronic diseases), claims leakage, provider and member fraud, public hospital claiming, as well as general provider behaviour, which results in a weakening of nib's gross margin and overall profitability.
Performance of adjacent (non-Australian Residents Health Insurance) businesses	In recent years, in addition to focussing on its Australian regulated health insurance business, nib has diversified its business and identified adjacent earnings opportunities, such as international students, international workers, nib New Zealand and nib Options. These adjacent businesses now make a meaningful contribution to nib's operating result and as a result, the performance of these businesses could significantly affect nib's profits.
Investment market performance	A substantial proportion of nib's profits are generated from its investment portfolio. Consequently, investment performance significantly affects nib's profits and financial position.
Competition in the health insurance industry	The industry in which nib operates is competitive. The actions of competitors could result in a reduction in the rate of growth of nib, a decline in the number of people insured by nib and/or declining profit margins.
Pricing risk	Australian health insurance premiums are currently required to be approved by the Minister for Health. Historically, nib and other health funds have only raised premiums once a year. There is a risk that nib's application for a change in its premium rates may only receive approval at a level lower than originally requested, or may be rejected by the Minister. Such an amendment or rejection may have a negative impact on nib's operating and financial performance.
Risk equalisation trust fund arrangements	Since 1 April 2007, risk equalisation arrangements have applied to the registered health insurance industry in Australia. These arrangements, replaced the previous reinsurance arrangements. Under these arrangements, all registered health insurers effectively provide reinsurance support so that the industry as a whole shares the hospital costs of high risk groups, irrespective of whether those claims are attributable to a policyholder of a particular fund.
Changes in government policy or legislation	The business environment in which nib operates is heavily regulated. The Australian Federal Government currently provides a number of regulatory incentives to encourage participation by the public in private health insurance including the: a. Federal Government Rebate; b. Lifetime Health Cover; and c. Medicare Levy Surcharge. The Federal Government has and may in the future change these regulatory incentives from time to time through changes to such things as policy and legislation. There is a risk that such changes may have a negative impact on the private health insurance industry and nib.

BUSINESS STRATEGIES AND PROSPECTS continued

Merger or acquisition opportunities	nib has a business strategy of pursuing merger and acquisition opportunities. The pursuit of merger and acquisition opportunities carries with it risks and there is no guarantee that such a strategy will be successful.
Compliance with regulation	nib is subject to a high degree of regulation concerning how private health insurers conduct their health insurance business. Private health insurers must be registered and must comply with a variety of obligations in relation to the conduct of that business, including a requirement to have appointed actuaries, compliance with prudential, solvency and capital adequacy standards, exclusion of disqualified persons from management and a number of reporting and notification obligations. If nib does not comply with the regulatory requirements that apply to it, it may suffer a penalty, such as a fine or an obligation to pay compensation. In some cases, a regulator may cancel or suspend its authority to conduct business. A significant failure to comply with regulatory requirements may also give rise to adverse comment by the press and other industry commentators, negatively affecting nib's financial performance.
Estimation of claims provisions	nib maintains provisions for claims incurred but not settled, including claims reported but not yet paid and claims incurred but not yet reported. Although nib seeks to maintain claims provisions at a level to ensure a relatively high probability of sufficiency, the establishment of appropriate provisions is an inherently uncertain process.
Operational risk	nib is exposed to a variety of operational and general business risks. Exposure to unexpected financial and non-financial losses arising from the way in which nib conducts its business operations may have an adverse effect on earnings and assets of nib as well as its reputation.
Loss of key personnel	nib's success depends largely on its key personnel, including senior management. The inability to access and retain services of a significant number of such employees could disrupt nib's business.
Tax treatment	The Federal or State Governments may introduce further or increase taxes, duties (including stamp duty on insurance policies) or other imposts or introduce amendments to existing legislation, which may result in an adverse impact on nib and the health insurance industry.
Technology	The health insurance industry relies increasingly on technology to conduct an efficient and cost effective business. nib faces the risk, in common with other participants, that further technology changes will be required which could result in an increase in costs. In addition, information technology systems risks include complete or partial systems failure, lack of systems capacity, inadequacy to meet changing business requirements, inappropriate or unauthorised systems access and unsuccessful systems integrations. Any major failure or inadequacy in the information technology systems could materially affect nib's business.
Litigation and legal action	At any time, nib could be involved in civil proceedings in courts of various jurisdictions. nib may also be exposed to litigation in the future over claims which may affect its business. To the extent that these risks are not covered by nib's insurance policies, litigation or the costs of responding to these legal actions or suggested legal action could have a material adverse impact on nib's financial position, earnings and share price.
Future events	It is not possible to predict or identify all future events which may impact adversely on nib's profitability or financial position.

FIVE-YEAR SUMMARY

		2014 $m	2013 $m	2012 $m	2011 $m	2010 $m
Consolidated Income Statement						
Net premium revenue		1,491.6	1,290.4	1,123.8	1,007.8	901.4
Net claims incurred		(1,255.4)	(1,089.6)	(949.2)	(848.7)	(767.9)
Gross margin		236.2	200.8	174.6	159.1	133.5
Management expenses		(162.1)	(127.0)	(103.8)	(97.6)	(86.4)
Underwriting result		**74.1**	**73.8**	**70.7**	**61.5**	**47.1**
Other income		5.7	3.1	3.6	5.8	1.3
Other expenses		(7.5)	(7.6)	(4.3)	(7.5)	(5.8)
Operating profit		**72.3**	**69.3**	**70.0**	**59.8**	**42.5**
Net investment return		29.7	28.8	25.6	32.1	44.5
Finance costs		(2.7)	(1.4)	0.0	0.0	0.0
Profit before tax		**99.2**	**96.7**	**95.7**	**91.9**	**87.0**
Tax		(29.4)	(29.5)	(28.0)	(26.5)	(25.4)
NPAT		**69.8**	**67.2**	**67.6**	**65.5**	**61.5**
Consolidated Balance Sheet						
Total assets		798.1	712.3	617.8	639.3	588.0
Equity		356.4	326.2	301.6	411.8	391.4
Debt		66.8	62.4	0.0	0.0	0.0
Share Performance						
Number of shares	m	439.0	439.0	439.0	466.7	495.4
Weighted average number of shares – basic	m	439.0	439.0	458.3	478.5	495.8
Weighted average number of shares – diluted	m	439.0	439.0	458.3	478.5	495.8
Basic earnings per share	cps	15.9	15.3	14.8	13.7	12.4
Diluted earnings per share	cps	15.9	15.3	14.8	13.7	12.4
Share price at year end	$	3.26	2.13	1.50	1.45	1.25
Dividend per share – ordinary	cps	11.00	10.00	9.25	8.00	7.00
Dividend per share – special	cps	9.00	0.00	0.00	5.00	0.00
Dividend payout ratio – ordinary	%	69.2%	65.0%	60.0%	57.0%	56.4%
Dividend payout ratio – combined ordinary and special	%	125.8%	65.0%	60.0%	92.7%	56.4%
Other financial data						
ROE	%	20.8%	21.6%	21.7%	16.5%	16.3%
Operating cash flow		93.7	20.0	134.6	88.3	66.3

Directors' Report

For the year ended 30 June 2014

The Directors of nib holdings limited (Company) present their report on the consolidated entity (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 2014.

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:

Steve Crane	Mark Fitzgibbon
Harold Bentley	Annette Carruthers
Philip Gardner	Christine McLoughlin

Lee Ausburn was appointed as a Non-Executive Director on 13 November 2013.

PRINCIPAL ACTIVITIES

The principal continuing activities of the Group consisted of operating as a private health insurer covering Australian residents, New Zealand residents and international visitors and students.

During the year, the Group broadened its business operations with the facilitation of access to cosmetic treatment. Known as nib Options, the Group will leverage the brand and distribution to support and grow the market for cosmetic, dental and surgical treatment both overseas and here in Australia.

REVIEW OF OPERATIONS

Information on the operations and financial position of the Group and its business strategies and prospects is set out in the Operating and Financial Review on pages 1 to 11 of this Annual Report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the Group during the financial year were as follows:

PHIAC introduced new capital standards during FY14. The capital adequacy standard was effective from 31 March 2014 and the solvency standard from 1 July 2014.

Available capital increased during the year as a result of the new PHIAC capital standards. After reviewing the Group's available capital position, a fully franked special dividend of 9.0 cents per share ($39.5 million) has been declared and will be paid in October 2014.

DIVIDENDS

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

	2014 $000	2013 $000
Final dividend for the year ended 30 June 2013 of 5.0 cents (2012: 5.0 cents) per fully paid share paid on 4 October 2013	21,946	21,949
Interim dividend for the year ended 30 June 2014 of 5.25 cents (2013: 5.0 cents) per fully paid share paid on 4 April 2014	23,045	21,950
	44,991	**43,899**

In addition to these dividends, since the end of the financial year the Directors have recommended the payment of a fully franked final dividend of $64.8 million (14.75 cents per fully paid share, made up of 5.75 cents per share ordinary dividend and 9.0 cents per share special dividend) to be paid on 3 October 2014 out of retained profits at 30 June 2014.

Subject to franking credit availability, the Board's position is that future ordinary dividends will reflect a dividend payout ratio of 60% to 70% of earnings with additional capacity to pay special dividends as part of future capital management.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No matter or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect:

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

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

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS FROM OPERATIONS

Additional comments on expected results on operations of the Group are included in this Annual Report under Operating and Financial Review on pages 1 to 11.

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

INFORMATION ON DIRECTORS

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

Steve Crane *BCommerce, FAICD, SF Fin*	**Chairman Independent Non-Executive Director** *Experience and expertise* A Director since 28 September 2010, appointed Chairman on 1 October 2011. Approximately 40 years of financial market experience, as well as an extensive background in publicly-listed companies. Previously the Chief Executive of BZW Australia and ABN AMRO. Member of the CIMB (Australia) Advisory Council. *Other current directorships* Director of Transfield Services Limited, Bank of Queensland Limited, APA Group, including APT Pipelines Limited and the Taronga Conservation Society Australia. He is also Chairman of Global Valve Technology Limited. *Former directorships in the last three years* Director of APA Ethane Limited. *Subsidiary boards and special responsibilities* Chairman of the Board. A Director of nib health funds limited and IMAN Australian Health Plans Pty Limited. *Interests in shares and performance rights* Indirect: 200,000 ordinary shares in nib holdings limited held by Depeto Pty Limited.
Mark Fitzgibbon *MBA, MA, ALCA, FAICD*	**Managing Director/Chief Executive Officer** *Experience and expertise* Joined nib health funds limited in October 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* None. *Former directorships in the last three years* Director of Newcastle Knights Rugby League Football Club, Australian Health Services Alliance and Australian Health Insurance Association Ltd. *Subsidiary boards and special responsibilities* Director of nib health funds limited, nib health care services pty limited, nib servicing facilities pty limited, The Heights Private Hospital Pty Limited, IMAN Australian Health Plans Pty Limited, nib nz holdings limited, nib nz limited, nib options pty limited, RealSurgeons Pty Ltd and RealSelf Pty Ltd. *Interests in shares and performance rights* Direct: 840,424 ordinary shares in nib holdings limited. Indirect: 595,621 ordinary shares in nib holdings limited held by Fitz Family Fund. 235,952 performance rights under FY11-FY14 Long-Term Incentive Plan which may vest from 1 September 2014. 217,545 performance rights under FY12-FY15 Long-Term Incentive Plan which may vest from 1 September 2015. 331,765 performance rights under FY13-FY16 Long-Term Incentive Plan which may vest from 1 September 2016. 273,786 performance rights under FY14-FY17 Long-Term Incentive Plan which may vest from 1 September 2017.

INFORMATION ON DIRECTORS continued

Harold Bentley *MA Hons, FCA, FCSA, FGIA*	**Independent Non-Executive Director** *Experience and expertise* 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 three years* None. *Subsidiary boards and special responsibilities* Director of nib health funds limited, IMAN Australian Health Plans Pty Limited, nib nz holdings limited and nib nz limited. Chairman of the Audit Committee, and Member of the Investment Committee and the Risk and Reputation Committee. Chairman of the nib nz holdings limited's Audit Committee and Chairman of nib nz limited's Board, Audit, Risk and Compliance Committee (BARCC). *Interests in shares and performance rights* Indirect: 100,000 ordinary shares in nib holdings limited held by Sushi Sake Pty Limited.
Dr Annette Carruthers *MBBS (Hons), FRACGP, FAICD, GradDipAppFin*	**Independent Non-Executive Director** *Experience and expertise* A Director since 20 September 2007. A general medical practitioner with comprehensive experience in patient care and clinical risk management. Directorships and representative positions in a range of national, state and regional health care organisations. Conjoint senior lecturer in the School of Medicine & Public Health at the University of Newcastle. Member of the NSW Medical Experts Committee Avant Pty Ltd. *Other current directorships* Director of Hunter Infrastructure and Investment Advisory Board, the NSW Board of the Medical Board of Australia and Hunter Primary Care Ltd. *Former directorships in the last three years* Director of National Heart Foundation of Australia (NSW Division) and Aged Care Investment Services (the Trustee for the AMP Managed Aged Care Investment Trusts). *Subsidiary boards and special responsibilities* Director of nib health funds limited (since 2003), nib health care services pty limited, IMAN Australian Health Plans Pty Limited, The Heights Private Hospital Pty Limited, nib nz holdings limited and nib nz limited. Chairman of the Risk and Reputation Committee, Member of the Audit Committee and Member of the nib nz limited's Board, Audit, Risk and Compliance Committee (BARCC). *Interests in shares and performance rights* Direct: 1,000 ordinary shares in nib holdings limited. Indirect: 71,500 ordinary shares in nib holdings limited held by Carruthers Future Fund Pty Ltd.
Philip Gardner *B.Comm, CPA, CCM, FAICD, JP*	**Independent Non-Executive Director** *Experience and expertise* A Director since 28 May 2007. Current Chief Executive Officer of The Wests Group Australia. *Other current directorships* Director of Enigma Communications Pty Ltd and Hunter Funds Management Pty Ltd. *Former directorships in the last three years* A Director of Newcastle Airport Limited. *Subsidiary boards and special responsibilities* A Director of nib health funds limited (since 2005) and IMAN Australian Health Plans Pty Limited. Chairman of the Investment Committee. Member of the Audit Committee and the People and Remuneration Committee. *Interests in shares and performance rights* Indirect: 108,000 ordinary shares in nib holdings limited held by Sutton Gardner Pty Ltd.

Christine McLoughlin *BA/LLB (Hons) FAICD*	**Independent Non-Executive Director** *Experience and expertise* A Director since 20 March 2011. Over 25 years' experience as a financial services and legal executive with iconic brands in financial services (AMP and IAG), telecommunications (Optus) and professional services industries in Australia, the UK and Asia. *Other current directorships* Director of Whitehaven Coal Limited and Westpac's Insurance Businesses (retiring in September 2014). Member of the Minter Ellison Advisory Board. Chairman of Australian Payments Council. Director of St James Ethics Centre. Deputy Chairman of The Smith Family. *Former directorships in the last three years* Director of the AMP Foundation, TAC (Transport Accident Commission) and The Australian Nuclear Science and Technology Organisation (ANSTO). *Subsidiary boards and special responsibilities* A Director of nib health funds limited and IMAN Australian Health Plans Pty Limited. Chairman of the People and Remuneration Committee and Member of the Risk and Reputation Committee. *Interests in shares and performance rights* Indirect: 97,500 shares in nib holdings limited held by Dundas Street Investments Pty Ltd.
Lee Ausburn *MPharm, BPharm, Dip Hosp Pharm, GAICD*	**Independent Non-Executive Director** *Experience and expertise* A Director of nib holdings limited since November 2013. With more than 30 years' experience in pharmaceuticals, she is an experienced Non-Executive Director with a wealth of knowledge in the global health industry. *Other current directorships* Australian Pharmaceutical Industries Ltd and SomnoMed Ltd. She is also Vice President of the Pharmacy Foundation at the University of Sydney. *Former directorships in the last three years* Director of NSW Health's Clinical Excellence Commission and of Agency for Clinical Innovation. *Subsidiary boards and special responsibilities* A Director of nib health funds limited and IMAN Australian Health Plans Pty Limited. Member of the Risk and Reputation Committee and the People and Remuneration Committee. *Interests in shares and performance rights* Indirect: 20,000 ordinary shares in nib holdings limited held by Leedoc Pty Ltd.

COMPANY SECRETARIES

The Company Secretary is Mrs Michelle McPherson BBUS (Accounting) (UTS), CA, GAICD. Mrs McPherson was appointed to the position of Company Secretary on 1 September 2008. She is currently the Chief Financial Officer and Deputy Chief Executive Officer of the Group, a Director of the Hunter Valley Research Foundation and Hunter Valley Grammar School, a member of the advisory board to the Faculty of Business and Law at the University of Newcastle and a member of the University of Newcastle Foundation Advisory Board. Mrs McPherson is also a member of the Council of the University of Newcastle.

Ms Roslyn Toms (BA (Hons) (UCAN,UTS)/ LLB (UNSW)) also serves as a Company Secretary. Ms Toms was appointed as a Company Secretary on 29 April 2013. She is currently General Counsel of the Group and is also responsible for Risk & Compliance and serves as a Company Secretary of other nib Group companies. Ms Toms has over 10 years' experience as a lawyer in business, government and private practice.

MEETINGS OF DIRECTORS

The number of meetings of nib holdings limited's Board of Directors and of each Board committee held during the year ended 30 June 2014 and the numbers of meetings attended by each Director were:

	Board[1]		Audit Committee		Risk and Reputation Committee		People and Remuneration Committee		Investment Committee	
NAME	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
S Crane[2]	14	14	10	10	4	4	5	5	–	–
M Fitzgibbon[2]	14	14	10	10	4	4	5	5	4	3
L Ausburn[3,4]	9	9	–	–	2	2	2	2	–	–
H Bentley	14	14	10	10	4	4	–	–	4	4
A Carruthers[4]	14	14	10	10	4	4	3	3	–	–
P Gardner	14	12	10	9	–	–	5	5	4	4
C McLoughlin	14	14	–	–	4	4	5	5	–	–

1. Two of the Board meetings that took place were unscheduled meetings.
2. Attendance at Committee meetings in an ex-officio capacity.
3. L Ausburn joined the Board of Directors on 13 November 2013 and has attended all Board meetings since her appointment.
4. A Carruthers resigned from PARCO on 1 January 2014 and L Ausburn was appointed to PARCO on the same day.
5. The Nomination Committee appointed L Ausburn as a Director via a circular resolution.

nib's Non-Executive Directors participated in a number of site visits, work-related functions and staff events during the course of the year in Newcastle, Sydney and Auckland.

REMUNERATION REPORT

The Remuneration Report is set out on pages 19 to 41 of the Annual Report and forms part of this Report.

ENVIRONMENTAL REGULATION

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

SHARES UNDER PERFORMANCE RIGHTS

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

Date performance rights granted	Expiry date	Issue price of shares	Number under performance right
27 May 2011	1 September 2014	nil	412,534
21 December 2011	1 September 2015	nil	392,307
19 November 2012	1 September 2016	nil	553,236
29 November 2013	1 September 2017	nil	559,057

Shares may be issued or acquired on-market at the election of the Company. It is anticipated the performance rights will be satisfied through on-market share purchases administered by the nib Holdings Ltd Share Ownership Plan Trust.

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.

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 disclosed in Note 34 – Remuneration of Auditors.

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 in Note 34, 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*.

INSURANCE OF OFFICERS

During the financial year, the Group paid a premium in respect of a contract insuring the Directors and Officers of the Group against liability incurred as such a Director or Officer, other than conduct involving wilful breach of duty in relation to the Group, to the extent permitted by the *Corporations Act 2001*. 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 18.

CHIEF EXECUTIVE OFFICER/CHIEF FINANCIAL OFFICER DECLARATION

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

ROUNDING OF AMOUNTS

The Company is of a kind referred to in ASIC Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and Financial Report. Amounts in the Directors' Report and Financial Report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

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

On behalf of the Board

Steve Crane
Director

Harold Bentley
Director

Newcastle, NSW
22 August 2014

pwc

Auditor's Independence Declaration

As lead auditor for the audit of nib holdings limited for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

John Campion
Partner
PricewaterhouseCoopers

Newcastle
22 August 2014

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T: +61 2 4925 1100, F: +61 2 4925 1199, www.pwc.com.au

MESSAGE FROM THE BOARD

The Board remains committed to ensuring that nib's remuneration practices are properly aligned with shareholder value creation over the short and long term having regard to the dynamics of the health insurance and financing sector. The Board has taken into account shareholder feedback on remuneration structure and governance and continues to work to appropriately attract, reward, motivate and retain executives.

Dear Shareholder,

We are pleased to present our 2014 Remuneration Report (Report) which covers the remuneration arrangements for our Executives for the financial year ending 30 June 2014 (FY14) and summarises some of the changes we are proposing to make for the coming year. The People and Remuneration Committee (Committee) has continued to monitor our remuneration frameworks, policies and practices to ensure they align with the Group's strategic objectives, the increasingly competitive operating environment, multi-segment operations, nib's planned growth in adjacent businesses, market expectations and regulatory requirements. Being open to engaging with our shareholders and taking account of shareholder feedback is an important part of this process.

Financial Year Ended 30 June 2014

During the year, we implemented the changes detailed in last year's Remuneration Report.

Fixed remuneration adjustments took into account incumbent experience for the position, differences from market remuneration levels, and the Board's policy to ensure remuneration remains appropriate to attract, reward, motivate and retain. Incentive opportunity adjustments reflect the potential the executive has to impact company performance. In summary, the key adjustments made during the year after a review of these factors were:

- Total Fixed Remuneration (TFR) for each of the Managing Director/Chief Executive Officer and Chief Financial Officer/Deputy Chief Executive Officer was increased by 8%
- TFR for the Group Manager Australian Residents Health Insurance was increased by 4% and the maximum Long-Term Incentive (LTI) opportunity was increased from 30% to 40% of TFR
- TFR for the Chief Information Officer was increased by 12%

In light of the growth in nib's business, particularly our strategy to grow adjacent businesses, we continued to strengthen our Executive team with the appointment of Justin Vaughan as Group Manager Benefits and Provider Relations. Recruitment is underway for a new Group Manager International and New Business.

FY14 saw the approach to Executive Short-Term Incentive (STI) targets enhanced with the inclusion of key milestone targets specific to roles in the new and developing areas of the business – IT, nib New Zealand, Benefits and Provider Relations, and International and New Business – to ensure stronger alignment with delivery against nib's strategy.

The FY14 LTI grants were made following shareholder approval of the Managing Director/Chief Executive Officer grant at the 2013 AGM and reflected the three key changes communicated in the FY13 Remuneration Report, being:

- Measuring the TSR performance against the ASX200 (previously ASX300) to reflect the Board's expectations of performance, the company's size and shareholder feedback
- Setting long-term EPS hurdles annually
- Amending the LTI Plan Rules to allow for board discretion to be used in a change of control scenario rather than automatic vesting

At the 2013 AGM shareholders voted to support an increase in the Non-Executive Director (NED) fee pool from \$1.1 million to \$1.5 million. This increase in the NED pool provides sufficient scope for possible Board expansion and ongoing flexibility over the next five years. In this regard and due to the growth and diversification of the business, the Board decided to add an additional Director with specific Asian business development and marketing experience. As a result the Board, with the assistance of a specialist recruitment firm, appointed Lee Ausburn as an additional Director on 13 November 2013. Ms Ausburn is an experienced Non-Executive Director with a successful career in the global health industry, with extensive knowledge and experience throughout Asia. Ms Ausburn's appointment not only complements the current skills set of the nib Board but also the company's business operations and expansion strategy. For the Board generally, there was also an increase in NED fees from 1 July 2013 of 3.92% plus an additional 0.25% superannuation (SGC) contribution, which was in line with nib workforce increases.

MESSAGE FROM THE BOARD continued

For the nib Group, FY14 was another year of building. The team has remained incredibly focused and diligent in a competitive sector. This result is reflected in the STI remuneration of our Executives.

STI awards as a percentage of maximum are determined against set performance indicators and for the Chief Executive Officer New Zealand, the Chief Information Officer and the Group Manager Benefits and Provider Relations these performance indicators include key milestones. The Managing Director/Chief Executive Officer STI award was 67% and for the other Executives an average of 71% reflecting the overall performance, including achievement of key milestones of the Group over the year (refer to page 27).

Claw back arrangements remain in place for the Managing Director/Chief Executive Officer and Deputy Chief Executive Officer/ Chief Financial Officer.

As previously advised, the duration of the LTI was altered from three to four years in the FY11 grant in response to shareholder feedback. As a consequence of the transition there was no vesting of LTI for Executives in FY14. As a result, when comparing KMP remuneration for FY13 and FY14, it would appear KMP have received a material decrease in FY14 remuneration. However, this is primarily the result of no vesting of performance rights for FY13 due to the movement to a four year (from a three year) grant in FY11. The FY11 grant that was in respect of performance over the four years to 30 June 2014 is eligible for vesting on 1 September 2014 (FY15). There will be no vesting for the 50% EPS component of the FY11 LTI grant due to EPS being below the minimum threshold. The 50% TSR component will fully vest.

As with previous Reports, to help shareholders understand how we remunerate our Senior Executives we have again included a table (page 25) showing actual remuneration awarded to the Managing Director & Chief Executive Officer and Executives during FY14. This supplements our statutory disclosures shown on page 33.

The Upcoming Financial Year (FY15)

During the year the Board appointed independent remuneration adviser, Guerdon Associates, to assist with a review of the Group's Short-Term and Long-Term incentive programs and benchmarking our remuneration to a defined comparator group (page 24).

In benchmarking executive remuneration the Board identified some anomalies for our Executives in relation to market median levels and incentive structures arising from success in growing relative company value, the improved ability of executives to manage increased complexity that this brings, and the potential impact they have on company results. The Board has decided to adjust remuneration to address these and importantly to reflect the geographic expansion and increased complexity of the business. The following key changes have been made for the upcoming year:

- The Managing Director/Chief Executive Officer's remuneration increased to be at least in line with the benchmark median of the defined comparator group. TFR has been increased by 10% to $800,000, maximum Short-Term Incentive has been increased to 80% (from 60%) and maximum Long-Term Incentive has been increased to 100% (from 80%). As explained in the 2013 report, over the longer term we plan to move the Managing Director/Chief Executive Officer's total remuneration closer to the 75th percentile reflecting growth of the business in line with our business strategy and with that the added complexity of managing the business. We will continue to progressively address this with the goal of the Managing Director/ Chief Executive Officer being positioned over time around the 75th percentile of benchmarked companies. We will again seek shareholder approval at the upcoming AGM for the Managing Director/Chief Executive Officer's LTI Grant for the coming year.
- The Deputy Chief Executive Officer/Chief Financial Officer's remuneration arrangements were varied to align with the benchmarking and increased responsibility. TFR was increased by 7% to $505,000, maximum Short-Term Incentive remained at 60% and maximum Long-Term Incentive was increased to 50% (from 40%).
- TFR for other executives was increased between 10% and 14% to more closely align with the benchmarking and increased complexity. Maximum Short-Term Incentive for the Group Manager Australian Residents Health Insurance has been increased to 60% (from 50%), and for the Chief Executive Officer New Zealand, Chief Information Officer and Group Manager Benefits and Provider Relations increased to 50% (from 40%). Maximum Long-Term Incentive has been increased to 40% (from 25%) for the Chief Information Officer and Group Manager Benefits and Provider Relations.
- Executive STI terms and conditions effective from the STI period commencing 1 July 2014 have been amended as follows:
  - To increase the amount of any STI award required to be in the form of shares from 30% to 50%, with dividends accruing to the Executive during the deferral period.
  - To move from the current requirement that the share component of the STI be deferred for one year to a deferral period of two years, with half of the deferred shares vesting after one year and the second half vesting after two years.
  - To introduce a real risk of forfeiture during the deferral period.

With the exception of the fee for the Chairman of the Audit Committee, all other fees for Non-Executive Directors have been increased by the expected average for nib individual agreement employees of 3.75%, plus an additional 0.25% superannuation (SGC) contribution. Based on the benchmarking provided by Guerdon Associates, and the increased requirements of the role flowing from both regulatory changes and nib now also having offshore operations, the fee for the Chairman of the Audit Committee has been increased from $23,000 to $30,000 p.a.

The Board, with the assistance of Guerdon Associates, considered if changes should be made to the LTI hurdles. In particular the Board considered the introduction of a capital return hurdle, however, we decided that the LTI hurdles for FY15 should remain consistent with those used for the FY14 LTI grant that is relative TSR and EPS. The EPS hurdle for the LTI is set annually.

As Chairman of our People and Remuneration Committee, I will continue to consider all aspects of the Group's remuneration framework to ensure it meets the expectations of our external stakeholders while continuing to motivate, retain and reward our employees. We will continue to engage with our key stakeholders regarding remuneration. We thank our Executives and their teams for their commitment to nib and, as always, we welcome your feedback.

Yours sincerely

Christine McLoughlin
People and Remuneration Committee Chairman

CONTENTS

KEY TERMS USED IN THIS REPORT

FY12	financial year ended 30 June 2012
FY13	financial year ended 30 June 2013
FY14	financial year ended 30 June 2014
FY15	financial year ended 30 June 2015
AGM	Annual General Meeting
Group	nib holdings limited consolidated entity
KMP	Key Management Personnel (those Directors and Executives who have responsibility for planning, directing and controlling the activities of nib, either directly or indirectly)
KPI	key performance indicator
LTI	long-term incentive
LTIP	long-term incentive plan
NPAT	net profit after tax
STI	short-term incentive
TFR	total fixed remuneration
TSR	total shareholder return

WHO THIS REPORT COVERS

This Report presents the remuneration arrangements for nib's Key Management Personnel.

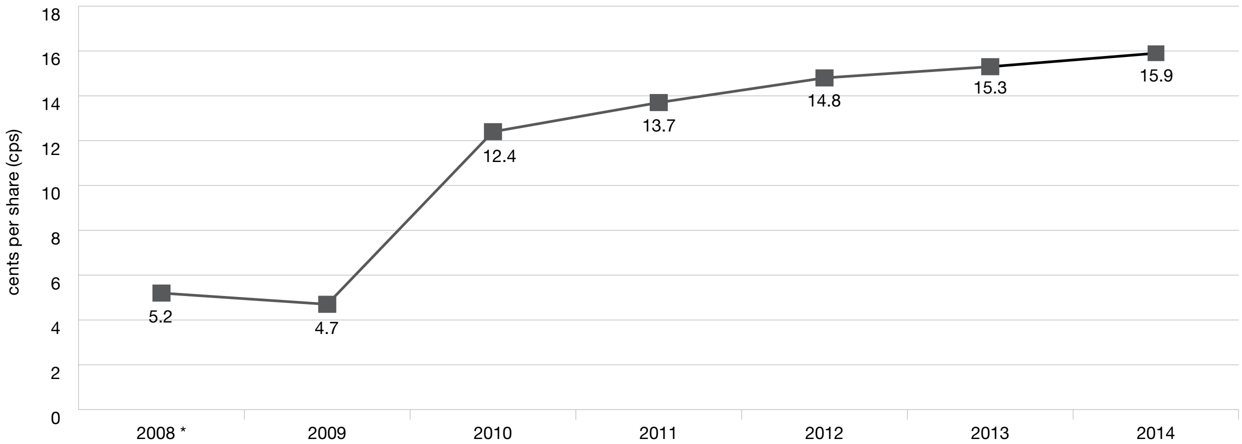
Executive Director	
Mark Fitzgibbon	Managing Director/Chief Executive Officer (MD/CEO)
Other Executives	
Michelle McPherson	Deputy Chief Executive Officer/Chief Financial Officer (DCEO/CFO)
Rhod McKensey	Group Manager Australian Residents Health Insurance (GMARHI)
Rob Hennin	Chief Executive Officer – New Zealand (CEO NZ)
Brendan Mills	Chief Information Officer (CIO)
Justin Vaughan	Group Manager Benefits and Provider Relations (GMBPR)
Marc Nourse (commenced 6/1/2014 until 11/4/2014)	Group Manager International and New Business (GMINB)
Independent Non-Executive Directors	
Steve Crane	Chairman
Lee Ausburn (commenced 13 November 2013)	Member Risk and Reputation Committee and People and Remuneration Committee
Harold Bentley	Chairman Audit Committee, Chairman Board Audit Risk and Compliance Committee New Zealand, Director New Zealand subsidiaries, Member Investment Committee, and Risk and Reputation Committee
Annette Carruthers	Chairman Risk and Reputation Committee, Director New Zealand subsidiaries and Member Audit Committee
Philip Gardner	Chairman Investment Committee, Member Audit Committee and People and Remuneration Committee
Christine McLoughlin	Chairman People and Remuneration Committee, Member Risk and Reputation Committee

PERFORMANCE DRIVES REMUNERATION AT nib

The Remuneration Report shows how nib's actual performance is linked to the payments to our Executives. Across a range of metrics nib have performed strongly and consistently since listing and has achieved sustained policyholder growth ahead of industry average.

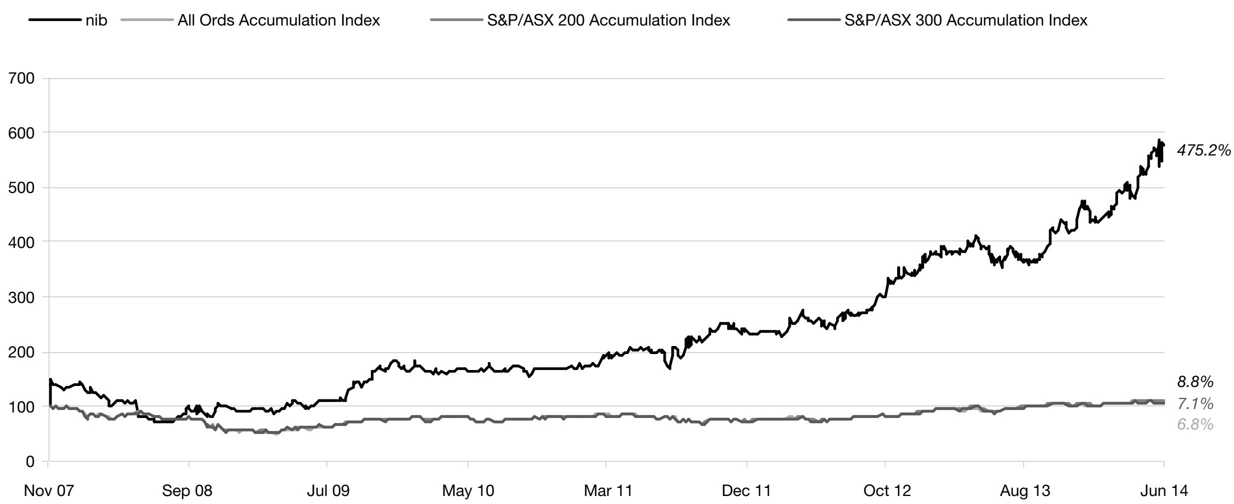
Sustained growth in consolidated operating profit combined with effective capital management has seen strong performance in the key metrics of EPS and TSR as reflected in the graphs below.

Earnings per share since listing



*2008 underwriting result normalised for demutualisation and listing costs.

Total shareholder return since listing



Rebased to 100. Source: IRESS (as at 30 June 2014)

Since nib's listing on ASX in November 2007, the Total Shareholder Return (TSR) of the S&P/ASX All Ordinaries, S&P/ASX200 and S&P/ASX300 indices have performed broadly in line with each other (S&P/ASX All Ordinaries: 6.8%, S&P/ASX200: 8.8%, S&P/ASX300: 7.1%) compared to nib (TSR of 475.2%). Assumes capital returns and dividends are re-invested at the payout date.

OUR REMUNERATION GOVERNANCE

The People and Remuneration Committee (Committee) has been established by the Board and reviews and makes recommendations to the Board on the remuneration strategy for the Group. The Committee seeks advice from external remuneration consultants and specialists.

The Committee has responsibilities in the areas of remuneration, diversity, human resources strategy, succession planning and employee engagement. The Committee Charter is available on the nib website. The Committee is comprised of independent, Non-Executive Directors only.

In fulfilling its duties, the Committee engages an independent remuneration consultant every second year to provide benchmarking of market remuneration levels for Executives and Non-Executive Directors. Guerdon Associates was engaged to conduct the most recent review which was completed in May 2014, and as a result the Board has made changes to remuneration from 1 July 2014 as outlined above.

In summary, the scope of the work undertaken by Guerdon Associates included:

- Undertaking a review and benchmarking of remuneration arrangements against relevant peer group;
- Working with the Board to define a relevant peer group for comparison for Executive remuneration. The principles used for the updated peer group selection were:
  - Given it is not possible in Australia to have remuneration comparator companies consist of insurance companies of a similar size to nib, comparator companies were chosen based on size and broad operational parameters.
  - The primary peer group was chosen based on market capitalisation and pre-tax profit broadly being between 50% and 200% of nib, with nib positioned around the middle of the group.
  - The peer group included companies from the following sector and industries:
    - Health insurance companies
    - Other insurance companies
    - Other finance sector companies
    - Consumer discretionary (including gaming companies given their highly regulated operating environment)
    - Healthcare companies
  - Supplementary comparator companies were used for specialist positions, e.g. Chief Information Officer. Supplementary companies were not necessarily chosen based on market capitalisation. Business unit heads were chosen based on size of the business unit and Chief Information Officer were chosen with reference to the online component of the business
  - The primary peer group contained 20 companies and a further 25 companies were represented in the supplementary comparator company group.
- Undertaking a review of alternative LTI measures, with consideration of capital efficiency as an LTI measure. After extensive consideration the Board decided not to adopt a capital efficiency LTI metric this year. As shareholders are aware the capital requirements for health insurers have changed recently. The Board will consider the appropriateness of performance hurdles each year.

No remuneration recommendations as defined under Division 1, Part 1.2.98 (1) of the *Corporations Act*, were made by Guerdon Associates.

ACTUAL REMUNERATION RECEIVED FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

Actual remuneration paid during FY14 included payment of the FY13 STI. The duration of the LTI was altered from three to four years in the FY11 grant and as a result no LTI vested during FY14, so not like to like. Only a partial FY13 STI was paid reflecting the operating result as measured against KPIs for the year.

Executive KMP remuneration details prepared in accordance with statutory requirements and accounting standards are contained in the Detailed disclosure of Executive remuneration (statutory tables) (page 33) of this Report.

The diagram below outlines the remuneration structure for the Executives covered in this Report for FY14.

Total potential reward						
Total fixed remuneration (cash salary, superannuation, plus insurance cover)	+	Short-Term Incentive (STI), being cash and deferral into shares (from FY14 STI plan)	+	Long-Term Incentive (LTI) being performance rights	=	Total potential reward
Fixed		**Variable**				

The table below shows the key elements of total reward in FY14 as the cash elements actually received by each Executive in FY14 as well as the value of equity held in escrow (not subject to forfeiture conditions), and equity from former years that vested in FY14 and which was originally reported under accounting standards in the year it was granted. No LTI performance rights vested in FY14 due to the performance period for the rights granted in FY11 onwards being extended to four years.

		STI applicable to the FY13 year paid in Sept 2013 (FY14)[2]			
	Total fixed remuneration[1] $	**Cash $**	**Shares held in escrow $**	**LTI vested in FY14[3] $**	**Total reward (received or available) $**
Mark Fitzgibbon	725,500	117,077	50,176	–	892,753
Michelle McPherson	472,000	76,134	32,629	–	580,763
Rhod McKensey	421,000	77,112	33,048	–	531,160
Rob Hennin	313,491	–	–	–	313,491
Brendan Mills	280,000	29,925	12,825	–	322,750
Justin Vaughan (from 1/8/13)	246,884	–	–	–	246,884
Marc Nourse (from 6/1/14 to 11/4/14)	109,288	–	–	–	109,288
	2,568,163	**300,248**	**128,678**	**–**	**2,997,089**

1. Total fixed remuneration comprises Cash Salaries and fees and superannuation.
2. FY13 STI paid in the FY14 year.
3. No LTI performance rights vested in FY14 due to the performance period for the rights granted in FY11 being extended to four years so not like to like.

EXECUTIVE REWARD AT nib

nib's Executive reward is designed to attract, reward and motivate and retain Executives, as well as align their interests with shareholders.

The objective of Executive remuneration arrangements is to ensure that nib's remuneration practices are properly aligned with shareholder value creation over the short and long-term, and that these practices work to appropriately motivate, reward and retain executives.

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

- fixed remuneration, comprising base remuneration package, superannuation and insurance cover;
- short-term incentives, based on predetermined Key Performance Indicator (KPI) targets established by the Board and an assessment of leadership; and
- longer-term incentives, based on predetermined TSR and EPS performance established by the Board.

EXECUTIVE REWARD AT nib continued

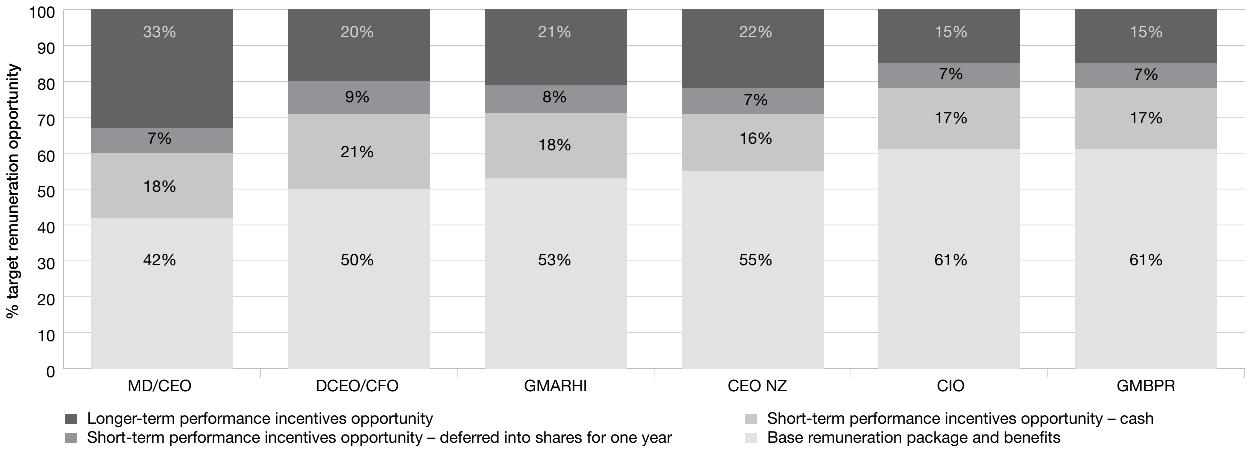
Claw back arrangements are in place for the Managing Director/Chief Executive Officer and Chief Financial Officer/Deputy Chief Executive Officer. Where the Company becomes aware of a material misstatement of the Company's financial accounts or statements and the Company has awarded the Executive a remuneration increase, a Short-Term Incentive (STI) payment or a Long-Term Incentive (LTI) award having regard to financial information which was misstated, the Company may (in its absolute discretion) require the Executive to:

- repay the Company any amount of remuneration, STI or LTI received by the Executive; or
- forfeit or cancel any remuneration increase, STI or LTI award (whether vested or unvested);

which the Executive would not have received had the Company been aware of the misstatement in the Company's financial accounts or statements at the time such remuneration, STI or LTI award has been paid or awarded to the Executive.

Our remuneration mix

The FY14 target remuneration mix was as follows:



Variations in target remuneration mix between the executive roles reflect position responsibilities.

Fixed remuneration

Fixed remuneration for Executives is determined with reference to a benchmarking process and consideration of the expertise of the individual in the role.

Fixed remuneration includes cash salary, superannuation and insurance cover. The fixed remuneration may be salary packaged at no additional cost to the company.

Short-term incentives for the financial year ended 30 June 2014

20% referable to a leadership assessment for each Executive and 80% of the STI was determined with reference to set performance indicators and for the CEO NZ, the CIO and the GMBPR these performance indicators included key milestones.

The Board is responsible for assessing the performance of the MD/CEO and the MD/CEO is responsible for assessing the performance of the other Executives (with approval of the resulting STI awards by the Board following a recommendation from the Committee).

The actual level of STI paid to each Executive is determined at the end of the financial year based on the Executives' achievement of specific KPIs and an annual performance review. The cash component of the bonuses is payable on or before 15 September each year in respect of the prior financial year.

Each Executive has a target STI opportunity. For FY13 and FY14, 30% of the awarded STI each year must be deferred into shares for one year. This has been increased to 50% for FY15 onwards with a deferral period of two years, with half the shares vesting after one year and the second half after two years subject to a real risk of forfeiture during the deferral period being a service condition (refer page 20).

	FY14 Maximum potential STI as a % of TFR	Proportion of actual FY14 STI to be deferred into shares for one year
Mark Fitzgibbon	60%	30%
Michelle McPherson	60%	30%
Rhod McKensey	50%	30%
Rob Hennin[1]	40%	30%
Brendan Mills	40%	30%
Justin Vaughan	40%	30%

1. FY13 STI will be paid as part of a 14 month FY14 STI covering period 6 May 2013 to 30 June 2014.

The specific KPIs and weighting for FY14 for the MD/CEO and DCEO/CFO which constitutes 80% of their total STI are:

KPI Weighting	Mark Fitzgibbon (MD/CEO)	Michelle McPherson (DCEO/CFO)
Group premium revenue	10%	nil
NZ underwriting profit	10%	nil
Group operating profit	50%	50%
Earnings per share (EPS)	20%	20%
Group management expense ratio (excluding acquisition costs)	nil	20%
NPS	10%	10%

The weighting for each of the other KMP has been determined by the MD/CEO and approved by the Committee.

Rob Hennin was appointed as Chief Executive Officer, New Zealand on 6 May 2013. Given less than two months remaining in the FY13 year at the date of appointment, it was determined that the first STI measurement period for Mr Hennin would be from 6 May 2013 to 30 June 2014. Performance indicators for the CEO NZ for the period from appointment to 30 June 2014 included a 40% allocation to key milestones linked to the successful integration of TOWER Medical into the nib Group.

Performance indicators for the CIO and the GMBPR included a 30% allocation to key milestones. As most milestones remain commercially sensitive, they are not disclosed.

The short-term performance targets for verifiable financial performance nominate three levels of award (25%, 75%, 100%) with pro-rata awards occurring where results fall between these levels.

The percentage of the maximum STI that was awarded and the percentage that was forfeited is set out below. A more detailed description of performance against STI KPIs is shown on page 30 in how reward was linked to performance in FY14.

	FY14 STI Bonus		FY13 STI Bonus	
	Awarded %	Forfeited %	Awarded %	Forfeited %
Mark Fitzgibbon	67%	33%	41%	59%
Michelle McPherson	68%	32%	41%	59%
Rhod McKensey	51%	49%	54%	46%
Brendan Mills	78%	22%	43%	57%
Rob Hennin	91%	9%	n/a	n/a
Justin Vaughan	65%	35%	n/a	n/a
	70%	30%	45%	55%

EXECUTIVE REWARD AT nib continued

Long-term incentives for the financial year ended 30 June 2014

LTIs focus executives on sustained EPS and TSR performance. LTIs granted in FY11 covering the four year performance period ending 30 June 2014 do not vest until September 2014. There will be no vesting for the 50% EPS component of the FY11 LTI grant, with the 50% TSR component to vest fully.

The nib LTIP is designed to align the interests of executives and shareholders and to assist nib to attract, reward, motivate and retain Executives.

LTIP participants are granted performance rights that enable the Executive to acquire shares in nib for nil consideration if performance conditions are met and the employees are still employed by nib at the end of the vesting period. No dividends are received on unvested rights.

The vesting date may be accelerated at the Board's discretion in the event of death of a participant, cessation of employment for other reasons; including total and permanent disablement, redundancy and retirement, on winding up, delisting, change of control and reconstruction or amalgamation. The LTIP rules were updated on 25 July 2013 to move away from automatic vesting for LTIP offers from FY14 onwards. Prior to FY14, there was automatic vesting on winding up, delisting, change of control and 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.

Recognising that performance rights have been awarded in each year under the LTIP, it should be noted that the change made in 2010 saw the duration of the LTI move from three years to four years and as a consequence there was no vesting event in FY14.

Performance rights from 1 July 2010

Significant changes made to the LTIP from 1 July 2010 were:

- introducing of a relative total shareholder return (TSR) which applies to half of the LTIP allocation
- extending the performance period to four years
- the requirement for 50% of the LTIP to have a two-year escrow period which extends beyond termination

The performance rights will vest in accordance with the achievement of the following vesting conditions:

Vesting Condition 1	Vesting Condition 2
50% of the performance rights (Tranche 1)	50% of the performance rights (Tranche 2)
Total shareholder return targets (TSR Hurdle) for the relevant performance period are met	Earnings per share growth targets (EPS Hurdle) for the relevant performance period are met

TSR Hurdle (Tranche 1)

The TSR Hurdle applies to half of the LTIP allocation. The TSR Hurdle measures the growth in the price of nib securities, plus nib cash distributions, and compares this to the shareholder returns from the peer group of companies. In order for the Tranche 1 performance rights to vest, the TSR of nib will be compared to companies in the S&P/ASX300 (the peer group) over the performance period. The peer group will be the S&P/ASX200 for grants from 1 July 2013 to reflect the Board's expectations of performance, the company's size and shareholder feedback.

nib's TSR performance compared to the relevant peer group	Performance of Tranche 1 performance rights vesting
>= 75th percentile	100%
>= 50th percentile to 74th percentile	Pro-rata straight line vesting between 50% and 100%
< 50th percentile	0%

EPS Hurdle (Tranche 2)

The EPS Hurdle applies to 50% of the LTIP allocation. Vesting of performance rights is subject to nib holdings limited EPS hurdle as follows:

Percentage of performance rights vesting	EPS Hurdle: CAGR from base EPS	FY11-FY14 LTIP	EPS Hurdle: CAGR from base EPS	FY12-FY15 LTIP	EPS Hurdle: CAGR from base EPS	FY13-FY16 LTIP	EPS Hurdle: CAGR from base EPS	FY14-FY17 LTIP
	Base EPS	12.4 cps	Base EPS	13.7 cps	Base EPS	14.8 cps	Base EPS	15.3 cps
100%	25%	30.3 cps	25%	33.4 cps	15%	25.8 cps	15%	26.8 cps
75%	20%	25.7 cps	20%	28.4 cps	12.5%	23.6 cps	10%	22.4 cps
50%	15%	21.7 cps	15%	23.9 cps	10%	21.6 cps	7%	20.1 cps
25%	10%	18.2 cps	10%	20.0 cps	7.5%	19.7 cps	3%	17.2 cps
0%	<10%	nil	<10%	nil	<7.5%	nil	<3%	nil

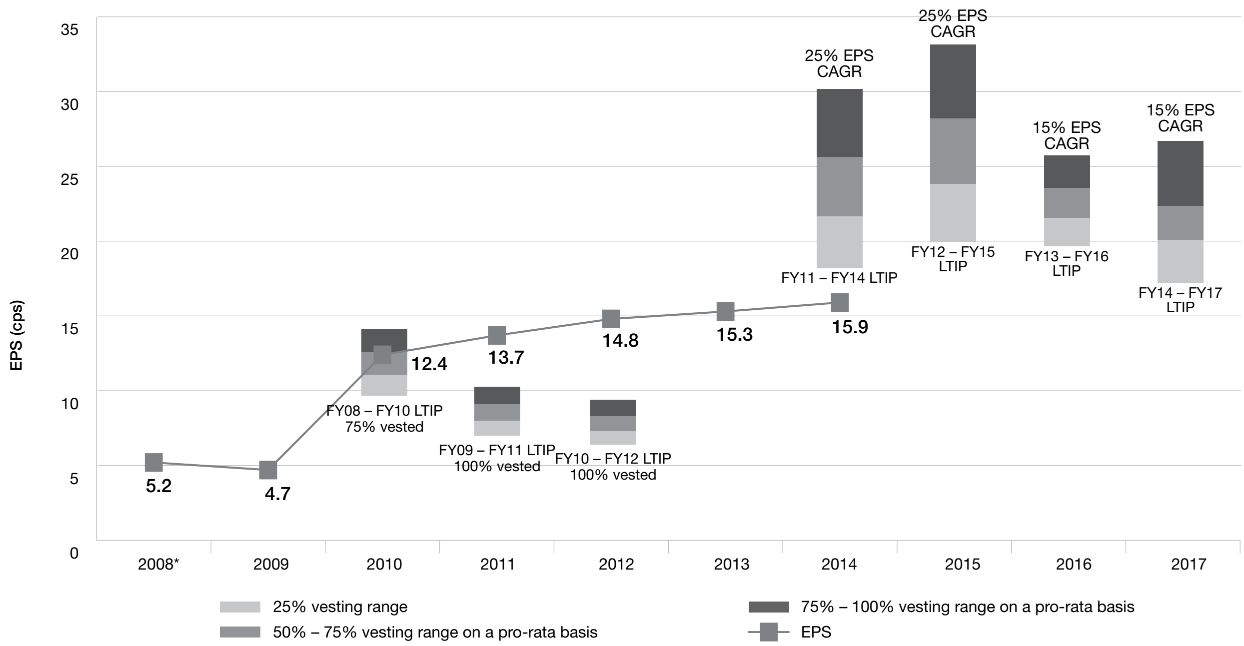
For the purpose of the calculation, 25% to 50% will be discrete thresholds, with performance above the 50% entitlement calculated on a pro rata basis to a maximum entitlement of 100%

For the FY14-FY17 LTIP the EPS CAGR hurdles were updated to reflect the strategy and maturity of the business. EPS hurdles and performance levels for future LTI grants will be set annually. This permits the Board to take into account regulatory pricing re-sets and a focus on performance sustainability over a long-term period.

If vesting conditions are met, the performance rights will vest on 1 September following the end of the measurement period. On the vesting date, Executives who hold vested performance rights will be either issued or transferred shares in nib for each vested performance right. There is no re-testing of performance.

One half of any shares awarded will be required to be held in escrow for a period of two years, even if termination of employment occurs during that period.

The graph below shows the EPS performance of nib since listing, and demonstrates how challenging the EPS targets are for grants of LTI made in FY11 and FY12. For the FY13 and FY14 grants cumulative average growth rate targets were updated to reflect the strategy and maturity of the business. Variability in investment returns from year to year impacts EPS, with EPS targets being set based on an assumption that on average over time investment returns will be in line with benchmark.



There is no vesting event in respect of the FY13 result reflecting the move from three year LTI targets to four year LTI targets.

HOW REWARD WAS LINKED TO PERFORMANCE THIS YEAR

The components of remuneration that are linked to performance are the STI and the LTI plan. 80% of the STI award is determined with reference to set performance indicators and for the CEO NZ, the CIO and the GMBPR these performance indicators included key milestones. 20% is referable to a leadership assessment for each Executive.

The following table shows key performance indicators for the Group over the last five years:

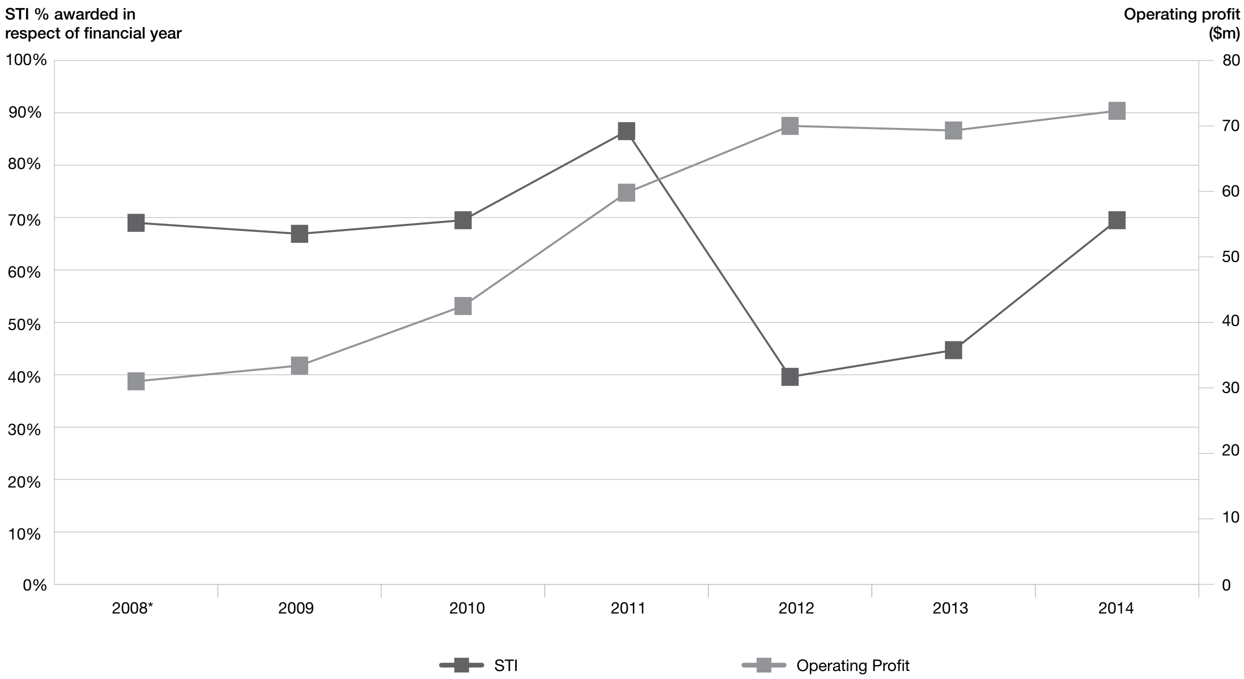
Financial results		2014 $m	2013 $m	2012 $m	2011 $m	2010 $m
Growth						
arhi premium revenue		1,314.5	1,187.2	1,095.6	991.3	901.4
iwhi/ishi premium revenue		38.0	32.0	28.2	16.5	–
nib NZ premium revenue		139.2	71.1	–	–	–
Group premium revenue		1,491.6	1,290.4	1,123.8	1,007.8	901.4
Profitability						
arhi underwriting profit		55.8	59.0	64.6	59.8	47.1
iwhi/ishi underwriting profit		11.0	8.3	6.1	1.7	–
nib NZ underwriting profit		7.4	6.4	–	–	–
nib options profit/(loss)		(2.5)	0.0	–	–	–
nib Group operating profit		72.3	69.3	70.0	59.8	42.5
EPS	cps	15.9	15.3	14.8	13.7	12.4
Cost Control						
nib Group management expense ratio excluding acquisition costs	%	6.3%	5.8%	6.0%	6.0%	6.0%
nib Group gross underwriting margin	%	15.8%	15.6%	15.5%	15.8%	14.8%
Customer satisfaction						
NPS		19.2	16.9	12.4	Not Measured	
Other						
ROE	%	20.8%	21.6%	21.7%	16.5%	16.3%
Share price at year end	$	3.26	2.13	1.50	1.45	1.25
Dividend per share – ordinary	cps	11.00	10.00	9.25	8.00	7.00
Dividend per share – special	cps	9.00	0.00	0.00	5.00	0.00
Dividend payout ratio – ordinary	%	69.2%	65.0%	60.0%	57.0%	56.4%
Dividend payout ratio – combined ordinary and special	%	125.8%	65.0%	60.0%	92.7%	56.4%

Results against verifiable financial performance KPIs are detailed in the table below.

KPI	Result
Growth	
arhi premium revenue	arhi premium revenue up 10.7% to $1.3 billion with 72.9% of maximum STI awarded for this target.
iwhi/ishi premium revenue	iwhi/ishi combined premium revenue up 18.6% on the back of 110% growth in ishi premium revenue and 4% growth in iwhi premium revenue. This KPI saw 70.7% of the maximum STI awarded for this target.
nib NZ premium revenue	nib NZ premium revenue benefited from direct to consumer sales, price increases and a strengthening NZ dollar. 92.2% of the maximum was awarded for this KPI.
Group premium revenue	Group premium revenue up 15.6% or 10.9% excluding nib NZ which was impacted by 12 months versus previous seven months result. 75.5% of this KPI was awarded.

KPI	Result
Profitability	
arhi underwriting profit	arhi net underwriting profit down 5.5% on FY13 on the back of high claims inflation with no award for this KPI.
iwhi/ishi underwriting profit	iwhi/ishi underwriting profit up 31.2% with ishi profitable for the first time and iwhi up 12.1%. 67.7% of this KPI was awarded.
nib NZ underwriting profit	nib NZ underwriting profit of $7.4 million even after investment in growth due to better than expected claims experience and strong NZ dollar. 100% of this KPI was awarded.
nib Options profit/(loss)	Investment in nib Options to build and launch the business was $0.5 million higher than originally estimated resulting in no award for this KPI.
nib Group operating profit	nib Group operating profit impacted by arhi underwriting result with 41.2% award for this KPI.
EPS	EPS benefited from 5.6% investment return during the period with 83.9% of this KPI awarded.
Cost control	
nib Group management expense ratio excluding acquisition costs	Tight cost control across the group saw this KPI being awarded at 100%.
nib Group gross underwriting margin	arhi higher than expected claims resulted in this KPI being awarded at 49.8%.
Customer satisfaction	
arhi NPS	2014 average premium revenue of 7.99% was highest in the industry and impacted NPS result with 32.5% of this KPI awarded.

The graph below illustrates the relationship between percentage of maximum STI awarded and growth in the operating profit, and reflects lower STI awards as growth in the operating profit has slowed from FY12. Recognition of the effort required in establishing and integrating our new business segments has seen the STI percentage awarded improve in FY14 over FY13.



* 2008 operating profit normalised for demutualisation and listing costs

TERMS OF EXECUTIVE CONTRACTS

From 1 July 2014 all nib Executives are on open contracts in line with market best practice.

Executive contracts summarise employment terms and conditions, including remuneration arrangements and compensation.

The table below provides a summary of the agreements.

	Service agreement effective	Term of agreement	Termination provision
Mark Fitzgibbon (MD/CEO)	1 July 2010	Open contract with notice period	The agreement may be terminated early by nib health funds limited giving notice with immediate effect or by the relevant Executive giving three months notice.
Michelle McPherson (DCEO/CFO)	1 July 2010	Open contract with notice period	
Rhod McKensey (GMARHI)	1 July 2014	Open contract with notice period	
Rob Hennin (CEO NZ)	6 May 2013	Open contract with notice period	
Brendan Mills (CIO)	1 June 2012	Open contract with notice period	
Justin Vaughan (GMBPR)	1 August 2013	Open contract with notice period	

Termination payments

For those Australian Executives with open contracts, the Group may terminate the Executive's contract with 12 months written notice and may make a payment in lieu of all or part of the notice period. In the case of a New Zealand Executive, the Group may terminate the Executive's contract with nine months written notice and may make a payment in lieu of all or part of the notice period.

The Executive may also receive the following benefits upon termination:

- a pro rata STI payment based on the period of the financial year during which the Executive worked and the Board's assessment of the Executive's performance against the key performance indicators as at the date of termination.
- the Board has discretion to determine that all or a portion of unvested performance rights of a participant of the LTIP are to be vested upon termination.

The Group received member approval at the 2011 Annual General Meeting of the Group for the payment of termination benefits which may exceed the 12 month salary limit on termination benefits under the *Corporations Act 2001*. In response to shareholder feedback, the Board has since determined that this approval will only be relied upon for people who were Executives at the date of approval. The only current Executives this approval would be applicable to are Mark Fitzgibbon, Michelle McPherson and Rhod McKensey.

DETAILED DISCLOSURE OF EXECUTIVE REMUNERATION (STATUTORY TABLES)

Details of the remuneration of the Executives of the nib holdings Group are set out in the following tables.

	Short-term employee benefits			Post-employment benefits		Long-term benefits	Termination benefits	Share-based payments		
Executives	Cash salary and fees[1] $	Cash bonus $	Non-monetary benefits[5] $	Super-annuation $	Retirement benefits $	Long service leave $	Termination benefits $	Bonus[6] $	Performance rights[7] $	Total $
2014										
Mark Fitzgibbon	680,325	198,061	10,779	22,852	–	11,639	–	84,884	170,496	1,179,036
Michelle McPherson	450,502	132,821	3,469	23,314	–	7,862	–	56,923	59,507	734,398
Rhod McKensey	388,652	75,149	3,094	17,775	–	7,013	–	32,207	45,358	569,248
Rob Hennin	318,730	79,908	–	18,261	–	–	–	34,246	18,879	470,024
Brendan Mills	257,548	61,152	2,058	17,775	–	5,055	–	26,208	17,587	387,383
Justin Vaughan (from 1/8/2013)[2]	235,500	47,349	8,624	17,775	–	–	–	20,293	8,132	337,673
Marc Nourse (from 6/1/2014 to 11/4/2014)[3]	100,035	–	803	9,253	–	–	–	–	–	110,091
	2,431,292	**594,440**	**28,827**	**127,005**	**–**	**31,569**	**–**	**254,761**	**319,959**	**3,787,853**
2013										
Mark Fitzgibbon	641,494	117,076	105,483	25,000	–	11,188	–	50,176	275,118	1,225,535
Michelle McPherson	359,351	76,134	14,436	22,009	–	7,275	–	32,629	91,096	602,930
Rhod McKensey	386,969	77,112	12,530	25,000	–	6,746	–	33,048	61,781	603,186
Rob Hennin (from 6/5/2013)[4]	46,302	12,180	–	2,617	–	–	–	5,220	–	66,319
Brendan Mills	217,845	35,670	3,115	16,470	–	4,520	–	12,825	7,261	297,706
Matthew Henderson (to 8/2/2013)	180,047	35,114	15,028	16,470	–	–	323,551	–	(8,230)	561,980
	1,832,008	**353,286**	**150,592**	**107,566**	**–**	**29,729**	**323,551**	**133,898**	**427,026**	**3,357,656**

1. Includes cash salary and fees and short-term compensated absences, such as annual leave entitlements accrued but not taken during the year.
2. Justin Vaughan was appointed Group Manager Benefits & Provider Relations on 1 August 2013.
3. Marc Nourse was Group Manager - International and New Business from 6 January 2014 to 11 April 2014 and the amounts reflect all remuneration arrangements for that period.
4. Rob Hennin was appointed CEO New Zealand on 6 May 2013.
5. Non-monetary benefits includes insurance cover and cost of benefits and associated Fringe Benefits Tax. In FY13 non-monetary benefits also included the cost of corporate entertainment attended by Executives on behalf of the Group to represent and promote nib to key stakeholders, with no personal benefit being received.
6. Includes bonus share rights. Refer to Share-based compensation.
7. Performance rights in FY14 has reduced from FY13 as no LTI performance rights vested in FY14 due to the performance period for the rights granted in FY11 being extended to four years.

DETAILED DISCLOSURE OF EXECUTIVE REMUNERATION (STATUTORY TABLES) continued

Details of current LTI allocations

The details of the performance rights affecting remuneration in this reporting period are below:

	FY11 to FY14 LTIP	FY12 to FY15 LTIP	FY13 to FY16 LTIP	FY14 to FY17 LTIP	Total
Grant date[1]	27 May 2011	21 Dec 2011	19 Nov 2012	29 Nov 2013	
Vesting and exercise date	1 Sep 2014 (FY15)	1 Sep 2015 (FY16)	1 Sep 2016 (FY17)	1 Sep 2017 (FY18)	
Expiry date	1 Sep 2014	1 Sep 2015	1 Sep 2016	1 Sep 2017	
Exercise price	nil	nil	nil	nil	
Value per performance right at grant date	1.1235	1.1313	1.5437	1.9830	
Performance achieved and % vested	Vesting date yet to occur and performance not yet tested				
% forfeited	Vesting date yet to occur and performance not yet tested				
Number of performance rights yet to vest at the end of the financial year	412,534	392,307	553,236	559,057	1,917,134
Vesting hurdle (refer table on pages 28–29)	50% 4yr EPS / 50% 4yr TSR	50% 4yr EPS / 50% 4yr TSR	50% 4yr EPS / 50% 4yr TSR	50% 4yr EPS / 50% 4yr TSR	

	Number	$	Number	$	Number	$	Number	$	Number	$
Mark Fitzgibbon										
Number of performance rights yet to vest at 1 July 2013	235,952		217,546		331,765		–		785,263	
Number and value at grant date of performance rights granted during the year[2]	–		–		–		273,786	542,918	273,786	
Number of performance rights vested during the year[4]	–		–		–		–		–	
Number of performance rights forfeited during the year	–		–		–		–		–	
Number of performance rights and maximum total value yet to vest at 30 June 2014[3]	235,952	865,969	217,546	709,200	331,765	1,081,554	273,786	892,542	1,059,049	3,549,266
Date of exercise of performance rights	n/a		n/a		n/a		n/a			
Number of shares issued and value on exercise of performance rights during the year[4]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Michelle McPherson										
Number of performance rights yet to vest at 1 July 2013	119,053		109,766		107,871		–		336,690	
Number and value at grant date of performance rights granted during the year[2]	–		–		–		89,060	176,606	89,060	
Number of performance rights vested during the year[4]	–		–		–		–		–	
Number of performance rights forfeited during the year	–		–		–		–		–	
Number of performance rights and maximum total value yet to vest at 30 June 2014[3]	119,053	436,937	109,766	357,837	107,871	351,659	89,060	290,336	425,750	1,436,770
Date of exercise of performance rights	n/a		n/a		n/a		n/a			

	FY11 to FY14 LTIP		FY12 to FY15 LTIP		FY13 to FY16 LTIP		FY14 to FY17 LTIP		Total	
Number of shares issued and value on exercise of performance rights during the year[4]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	Number	**$**	**Number**	**$**	**Number**	**$**	**Number**	**$**	**Number**	**$**
Rhod McKensey										
Number of performance rights yet to vest at 1 July 2013	57,529		64,995		75,013		–		197,537	
Number and value at grant date of performance rights granted during the year[2]	–		–		–		79,437	157,524	79,437	
Number of performance rights vested during the year[4]	–		–		–		–		–	
Number of performance rights forfeited during the year	–		–		–		–		–	
Number of performance rights and maximum total value yet to vest at 30 June 2014[3]	57,529	211,138	64,995	211,884	75,013	244,542	79,437	258,965	276,974	926,528
Date of exercise of performance rights	n/a		n/a		n/a		n/a			
Number of shares issued and value on exercise of performance rights during the year[4]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Brendan Mills (commenced 1 June 2012)										
Number of performance rights yet to vest at 1 July 2013			–		38,587		–		38,587	
Number and value at grant date of performance rights granted during the year[2]	–		–		–		33,020	65,479	33,020	
Number of performance rights vested during the year[4]	–		–		–		–		–	
Number of performance rights forfeited during the year	–		–		–		–		–	
Number of performance rights and maximum total value yet to vest at 30 June 2014[3]	–	–	–	–	38,587	125,794	33,020	107,645	71,607	233,439
Date of exercise of performance rights	n/a		n/a		n/a		n/a			
Number of shares issued and value on exercise of performance rights during the year[4]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Rob Hennin (commenced 6 May 2013)										
Number of performance rights yet to vest at 1 July 2013					–		–		–	
Number and value at grant date of performance rights granted during the year[2]	–		–		–		57,316	113,658	57,316	
Number of performance rights vested during the year[4]	–		–		–		–		–	
Number of performance rights forfeited during the year	–		–		–		–		–	
Number of performance rights and maximum total value yet to vest at 30 June 2014[3]	–	–	–	–	–	–	57,316	186,850	57,316	186,850
Date of exercise of performance rights	n/a		n/a		n/a		n/a			
Number of shares issued and value on exercise of performance rights during the year[4]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

DETAILED DISCLOSURE OF EXECUTIVE REMUNERATION (STATUTORY TABLES) continued

Details of current LTI allocations continued

	FY11 to FY14 LTIP		FY12 to FY15 LTIP		FY13 to FY16 LTIP		FY14 to FY17 LTIP		Total	
	Number	$	Number	$	Number	$	Number	$	Number	$
Justin Vaughan (commenced 1 August 2013)										
Number of performance rights yet to vest at 1 July 2013	–		–		–		–		–	
Number and value at grant date of performance rights granted during the year[2]	–		–		–		26,438	52,427	26,438	
Number of performance rights vested during the year[4]	–		–		–		–		–	
Number of performance rights forfeited during the year	–		–		–		–		–	
Number of performance rights and maximum total value yet to vest at 30 June 2014[3]	–	–	–	–	–	–	26,438	86,188	26,438	86,188
Date of exercise of performance rights	n/a		n/a		n/a		n/a			
Number of shares issued and value on exercise of performance rights during the year[4]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

1. Performance rights granted under the plan carry no dividend or voting rights.
2. 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.
3. The maximum value of performance rights yet to vest has been calculated as the number of performance rights multiplied by the share price. For the FY11 to FY14 LTIP the maximum value is determined as the amount of the performance rights multiplied by the number of shares that each vested performance right will convert to (1.1258) by the share price.
4. Shares will be issued or transferred on exercise of performance rights within 15 business days after the exercise date. Shares may be issued or acquired on-market at the election of the company.

NON-EXECUTIVE DIRECTOR REMUNERATION

Fees and payments to Non-Executive Directors reflect the board role, market fee levels, and the objective of the company to attract highly skilled and experienced Non-Executive Directors. All Non-Executive Directors are required to hold shares in the company to align with shareholders' interests.

Non-Executive Director fees

Fees and payments to Non-Executive Directors reflect board roles and market fee levels. Some nib holdings Directors are also paid fees for sitting on the New Zealand subsidiary boards, which includes additional work unique to that regulatory environment and additional travel. Non-Executive Directors' fees are reviewed annually by the Committee and approved by the Board. Every second year there is an external review, with the most recent review completed in May 2014.

The Board considered the external benchmarking results and with the exception of the fee for the Chairman of nib holdings limited Audit Committee, all other fees for Non-Executive Directors have been increased by the expected average for nib individual agreement employees of 3.75%, plus an additional 0.25% superannuation (SGC) contribution effective 1 July 2014. Based on the benchmarking data provided by Guerdon Associates, the fee for the Chairman of the nib holdings limited Audit Committee has been increased from $23,000 to $30,000 pa from 1 July 2014.

Non-Executive Directors' fees are determined within the $1,500,000 aggregate Directors fee pool limit, which was approved by shareholders in October 2013. Directors' fees and superannuation are paid out of this pool. Travel allowances, non-monetary benefits and retirement benefits are not included in this pool.

The following fees (inclusive of superannuation) for the Australian Boards and Committees have applied:

	2014 $	2013 $
Base fees		
Chairman	224,000	215,000
Other Non-Executive Directors	97,500	93,500
Additional fees*+		
Audit Committee		
Chairman	23,000	22,000
Member	11,500	11,000
Investment Committee		
Chairman	16,000	15,000
Member	9,500	9,000
Risk and Reputation Committee		
Chairman	23,000	22,000
Member	11,500	11,000
People and Remuneration Committee		
Chairman	23,000	22,000
Member	11,500	11,000

* The Chairman of the Board does not receive additional fees for involvement in committees.
\+ No fees are paid to any Non-Executive Director for membership of the Nomination Committee.

The following fees (inclusive of superannuation) for the New Zealand Boards and Committees have applied:

	2014 $	2013 $
NZ Base fees		
Chairman*	59,000	56,693
Member	34,000	32,396
NZ Board, Audit, Risk and Compliance Committee		
Chairman	8,500	8,156
Member	–	–

* The Chairman of the NZ Board is not a member of the nib holdings Board.

NON-EXECUTIVE DIRECTOR REMUNERATION continued

Non-Executive Director fees continued

From 1 July 2013, Directors' fees were increased by an average of 3.92% plus an additional 0.25% superannuation (SGC) contribution.

Refer to Principle 2 in the Corporate Governance Statement for committee membership.

Share ownership by Non-Executive Directors

Directors are required to hold a minimum of 50% of the total annual base Director's fee to be accumulated within three years of appointment based on the share price and fees at the date of joining the Board. All current Non-Executive Directors comply with this requirement as at 30 June 2014.

Retirement allowances for Directors

There are no retirement allowances for Non-Executive Directors other than for Directors appointed by nib health funds limited before 24 November 2005.

Annette Carruthers is the only current Non-Executive Director that is eligible for a retirement allowance.

Annette Carruthers is entitled to a lump sum retirement payment. The benefit is calculated based on 80% of the average Director's fee (paid from any company in the Group) for the last three years multiplied by a factor based on years of service. The factor based on years of service was frozen at 24 November 2005. The factor for A Carruthers is 0.71.

At 30 June 2014, the following retirement benefits are provided for:

Annette Carruthers	$78,313

DETAILED DISCLOSURE OF NON-EXECUTIVE REMUNERATION (STATUTORY TABLES)

Details of the remuneration of the Directors of the nib holdings Group are set out in the following tables.

	Short-term employee benefits			Post-employment benefits		Long-term benefits	Termination benefits	Share-based payments		
Non-Executive Directors	Cash salary and fees[1] $	Cash bonus $	Non-monetary benefits[3] $	Super-annuation $	Retirement benefits $	Long service leave $	Termination benefits $	Bonus $	Performance rights $	Total $
2014										
Steve Crane	206,225	–	–	17,775	–	–	–	–	–	224,000
Lee Ausburn (from 13/11/2013)	70,030	–	–	6,478	–	–	–	–	–	76,508
Harold Bentley	150,211	–	–	33,789	–	–	–	–	–	184,000
Annette Carruthers	157,208	–	–	14,542	9,688	–	–	–	–	181,438
Philip Gardner	124,943	–	–	11,557	–	–	–	–	–	136,500
Christine McLoughlin[2]	144,165	–	–	13,335	–	–	–	–	–	157,500
	852,782	**–**	**–**	**97,476**	**9,688**	**–**	**–**	**–**	**–**	**959,946**
2013										
Steve Crane	197,248	–	–	17,752	–	–	–	–	–	215,000
Harold Bentley[1]	134,309	–	–	25,000	–	–	–	–	–	159,309
Annette Carruthers[1]	143,597	–	11,529	12,924	2,490	–	–	–	–	170,540
Philip Gardner	119,725	–	2,979	10,775	–	–	–	–	–	133,479
Christine McLoughlin[2]	128,547	–	–	11,569	–	–	–	–	–	140,116
	723,426	**–**	**14,508**	**78,020**	**2,490**	**–**	**–**	**–**	**–**	**818,444**

1. Appointed as Director of New Zealand subsidiary boards from 30 November 2012. Refer to table on page 37 detailing Board and committee fees.
2. Appointed as Director of New Zealand subsidiary boards from 31 January 2013 until 31 March 2014. Refer to table on page 37 detailing Board and committee fees.
3. In FY13 non-monetary benefits included the cost of corporate entertainment attended by Directors on behalf of the Group to represent and promote nib to key stakeholders, with no personal benefit being received.

EQUITY INSTRUMENTS HELD BY KEY MANAGEMENT PERSONNEL

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.

2014	Balance at start of the year	Granted as compensation	Exercised[1]	Other forfeitures	Balance at the end of the year	Vested and exercisable	Unvested
Mark Fitzgibbon	785,263	273,786	–	–	1,059,049	–	1,059,049
Michelle McPherson	336,690	89,060	–	–	425,750	–	425,750
Rhod McKensey	197,537	79,437	–	–	276,974	–	276,974
Rob Hennin	–	57,316	–	–	57,316	–	57,316
Brendan Mills	38,587	33,020	–	–	71,607	–	71,607
Justin Vaughan	–	26,438	–	–	26,438	–	26,438
Total	**1,358,077**	**559,057**	**–**	**–**	**1,917,134**	**–**	**1,917,134**

2013	Balance at start of the year	Granted as compensation	Exercised	Other forfeitures	Balance at the end of the year	Vested and exercisable	Unvested
Mark Fitzgibbon	723,778	331,765	(270,280)	–	785,263	–	785,263
Michelle McPherson	315,204	107,871	(86,385)	–	336,690	–	336,690
Rhod McKensey	182,375	75,013	(59,851)	–	197,537	–	197,537
Rob Hennin	–	–	–	–	–	–	–
Brendan Mills	–	38,587	–	–	38,587	–	38,587
Matthew Henderson	106,370	49,515	–	(155,885)	–	–	–
Total	**1,327,727**	**602,751**	**(416,516)**	**(155,885)**	**1,358,077**	**–**	**1,358,077**

1. No LTI performance rights vested in FY14 due to the performance period for the rights granted in FY11 being extended to four years.

To date nib's practice has been to source equity for remuneration awards from shares purchased on market. Accordingly there was no dilution from executive new issue equity awards in 2014.

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.

2014	Balance at the start of the year	Granted during the year as compensation	Other changes during the year	Balance at the end of the year
Ordinary shares				
Directors of nib Group				
Steve Crane	200,000	–	–	200,000
Lee Ausburn	–	–	20,000	20,000
Harold Bentley	100,000	–	–	100,000
Annette Carruthers	72,500	–	–	72,500
Philip Gardner	108,000	–	–	108,000
Christine McLoughlin	77,500	–	20,000	97,500
Other Key Management Personnel of the Group				
Mark Fitzgibbon	1,462,551	23,494	(50,000)	1,436,045
Michelle McPherson	413,177	15,278	–	428,455
Rhod McKensey	188,471	15,474	–	203,945
Rob Hennin	–	–	–	–
Brendan Mills	25,165	6,005	–	31,170
Justin Vaughan	–	–	–	–

2013	Balance at the start of the year	Granted during the year as compensation	Other changes during the year	Balance at the end of the year
Ordinary shares				
Directors of nib Group				
Steve Crane	115,175	–	84,825	200,000
Harold Bentley	70,000	–	30,000	100,000
Annette Carruthers	72,500	–	–	72,500
Philip Gardner	108,000	–	–	108,000
Christine McLoughlin	57,500	–	20,000	77,500
Other Key Management Personnel of the Group				
Mark Fitzgibbon	1,261,142	331,409	(130,000)	1,462,551
Michelle McPherson	334,717	108,460	(30,000)	413,177
Rhod McKensey	114,748	73,723	–	188,471
Rob Hennin	–	–	–	–
Brendan Mills	24,852	313	–	25,165
Matthew Henderson[1]	2,210	4,500	(6,710)	–

1. Other changes represent that at 30 June 2013 they are no longer a KMP.

Other transactions with key management personnel

The wife of Philip Gardner, a Director, is a director and shareholder of XO Digital Pty Limited. RealSurgeons Pty Limited, a subsidiary of nib holdings limited, has entered into a contract with XO Digital Pty Limited during the year for software development and maintenance. The contract was based on normal commercial terms and conditions.

Aggregate amounts of each of the above types of other transactions with Key Management Personnel of nib holdings limited:

a. Amounts recognised as expense

	2014 $'000	2013 $'000
Software maintenance	13	–
	13	**–**

b. Amounts recognised as intangible assets

	2014 $'000	2013 $'000
Software	107	–
	107	**–**

c. Amounts recognised as assets and liabilities

At the end of the reporting period the following aggregate amounts were recognised in relation to the above transactions:

	2014 $'000	2013 $'000
Non–current assets	107	–
	107	**–**

Corporate Governance Statement

For the year ended 30 June 2014

This Corporate Governance Statement for nib holdings limited (nib) sets out details of nib's corporate governance practices for the year ended 30 June 2014 (FY14).

The nib Board and management are committed to achieving and demonstrating the highest standards of corporate governance and ensuring compliance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. The Board is dedicated to, and responsible for, actively promoting ethical and responsible decision making and practices at nib to ensure that practices are in place necessary to maintain confidence in nib's integrity.

Further information about nib's governance policies and practices are available from the corporate governance information section on the nib shareholder website, nib.com.au/shareholders

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

1.1 Functions reserved to the Board and delegations to management

The nib Board has a number of important responsibilities under the *Corporations Act*, ASX Listing Rules and nib's Constitution.

The responsibilities of the nib Board and management are identified in the following ways:

Board Charter

The nib Board is responsible for the governance of the nib Group. The Board Charter sets out the role and responsibilities of the Board, the responsibilities that have been delegated to committees of the Board or to management, as well as the membership and the operation of the Board.

Specifically, the Charter reserves the following specific responsibilities to the Board:

- **Strategy** – overseeing the development of nib's corporate strategy, reviewing and approving strategy plans and performance objectives consistent with the corporate strategy, reviewing the assumptions and rationale underlying the strategy plans and performance objectives, and monitoring the implementation of the strategy plans.
- **Oversight of management** – appointment and (if appropriate) removal of senior executives, including the Chief Executive Officer (CEO), the Chief Financial Officer and Company Secretary, approving senior executive remuneration policies and practices and monitoring performance.
- **Shareholders** – facilitating the effective exercise of shareholder rights, and effective communication with shareholders and reporting to shareholders.
- **Other stakeholders** – establishing and monitoring policies governing nib's relationship with other stakeholders and the broader community.
- **Ethics** – actively promoting ethical decision making, and establishing and maintaining a Code of Conduct to guide nib Directors and employees in meeting standards of practice necessary to maintain confidence in nib's integrity.
- **Oversight of financial and capital management** – reviewing and approving nib's annual and half yearly financial reports, establishing and overseeing nib's accounting and financial management systems, capital management and the dividend policy.
- **Compliance and risk management** – establishing and overseeing nib's system for compliance and risk management.

The Board Charter is available on our website, nib.com.au.

Board Committee Charters

The nib Board currently has five standing committees (Audit Committee, People and Remuneration Committee, Nomination Committee, Risk and Reputation Committee and the Investment Committee). The Board has delegated certain responsibilities to these standing committees. The details of their responsibilities are set out in the committee charters.

The committee charters are available on our website, nib.com.au.

nib New Zealand

nib offers health cover to residents in New Zealand through nib nz limited, a subsidiary of nib holdings limited. Two Directors of the nib Board sit on subsidiary boards and committees in New Zealand to oversee the management and governance of the health insurance business. Details of these subsidiary boards and committees are set out in Information on Directors in this report.

Delegation of Authority

The Chief Executive Officer/Managing Director of nib is responsible for the day-to-day management of the business and its operations, with the Board delegating authority to the Chief Executive Officer/Managing Director to perform this function. The Chief Executive Officer/Managing Director has, in turn, approved sub delegations of authority for nib management. Any matters that fall outside of the delegations of authority must be brought to the Board for its approval.

1.2 nib has, in this statement, set out the process for evaluating the performance of senior executives

In accordance with clause 2.3 of the Board Charter, the Board regularly monitors the performance of senior executives and the implementation of strategy against measurable and qualitative indicators. The performance of the Chief Executive Officer/Managing Director is evaluated and assessed by the Board, assisted by the People and Remuneration Committee, each year. This process was followed in FY14.

- The Chief Executive Officer/Managing Director conducts performance reviews of nib senior executives (key management personnel) by comparing performance against agreed measures, examining the effectiveness and quality of the individual, both as a divisional leader and in their individual capacity, and assessing whether various expectations of stakeholders have been met. This process was followed for FY14.

1.3 nib provides the information indicated in the Guide to reporting on Principle 1

nib complies with Recommendations 1.1, 1.2 and 1.3.

The following documents are available on our website, nib.com.au:

- Board Charter.
- Committee Charters for the Audit Committee, People and Remuneration Committee, Risk and Reputation Committee, Nomination Committee and Investment Committee.

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

2.1 nib's Board comprises a majority of independent Directors

There are currently seven Directors on nib's Board; six Non-Executive Directors, all of whom are independent, and one Executive Director, being the nib CEO, who is also appointed as the Managing Director. The Board Charter requires that all Directors should bring an independent judgment to bear on all Board decisions.

At the date of this report, the Board comprises:

Mr Steve Crane (Chairman; Non-Executive Director/Independent)
Appointed: 28 September 2010 / Appointed as Chairman: 1 October 2011

Mr Mark Fitzgibbon (Chief Executive Officer/Managing Director)
Appointed: 28 May 2007

Ms Lee Ausburn (Non-Executive Director/Independent)
Appointed: 13 November 2013

Mr Harold Bentley (Non-Executive Director/Independent)
Appointed: 7 November 2007

Dr Annette Carruthers (Non-Executive Director/Independent)
Appointed: 20 September 2007

Mr Philip Gardner (Non-Executive Director/Independent)
Appointed: 28 May 2007

Ms Christine McLoughlin (Non-Executive Director/Independent)
Appointed: 20 March 2011

The Director's profiles appear at page 13 of this Annual Report.

Directors' Independence

In accordance with the ASX Corporate Governance Principles and Recommendations, the Board is comprised of a majority of independent, Non-Executive Directors. As noted previously, the Board Charter requires that all Directors bring an independent judgment to bear on all Board decisions.

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

- is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's independent exercise of their judgment;
- is a substantial shareholder of nib or an officer of, or otherwise associated directly with, a substantial shareholder of nib;
- is, or has been employed in, an executive capacity by nib 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 or any other Group member, or an employee materially associated with the service provided, is a material supplier or customer of nib of any other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; or
- has a material contractual relationship with nib or another Group member other than as a Director of nib.

A professional adviser, consultant, supplier or customer will be considered to have a material contractual relationship with nib if:

- from the perspective of a nib Director, the business relationship is significant (directly or indirectly) to their own circumstances.
- from the perspective of nib, the relationship is one that has the potential, if disrupted, to have a significant impact on nib's business operations as assessed by the other Directors.

On appointment, each Director is required to provide information to the Board to assess their independence as part of their consent to act as a Director. The Board regularly assesses the independence of each Director in light of the interests disclosed by them. Each independent Director must provide the Board with all relevant information and keep this information up to date.

The Board has determined that all current Non-Executive Directors, including the Chairman, are independent and free of any relationship which may conflict with the interests of nib and the Group in accordance with the approved criteria for assessing independence.

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.

2.2 nib's Chairman is an independent Director

The nib Board Charter requires the Chairman to be an independent Non-Executive Director. Mr Steve Crane, who is an independent Non-Executive Director, was appointed Chairman of nib on 1 October 2011.

The Chairman's specific responsibilities include (as set out in the Board Charter):

- leading the Board in reviewing and discussing Board matters;
- chairing Board meetings and other shareholder meetings;
- ensuring the efficient organisation and conduct of the Board's function;
- briefing all Directors in relation to issues arising at Board meetings;
- facilitating effective contribution by all Directors and monitoring Board performance;
- overseeing that membership of the Board is skilled and appropriate for nib's 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 with the Company Secretary and reporting on those matters to the Board.

2.3 At nib, the role of the Chairman and CEO is not exercised by the same individual

Mr Steve Crane is the Chairman and Mr Mark Fitzgibbon is the Chief Executive Officer/Managing Director of nib.

2.4 The nib Board has established a Nomination Committee

The Nomination Committee is a standing committee of the nib Board. The Nomination Committee includes all Non-Executive Directors of the Board. The Nomination Committee assists the Board and makes recommendations on the selection and appointment of Directors, the process of evaluating Director performance, the composition of the Board, and succession planning for the Board. The Committee ensures that Directors bring a variety of perspectives, experiences, skills and diversity in the best interests of nib.

2.5 nib discloses in its Nomination Charter and in this statement, the process for evaluating the performance of the Board, its committees and individual Directors

The Nomination Charter sets out the responsibilities, composition, structure, membership requirements and procedures for appointing members to the Board.

Selection and appointment of Directors

When a vacancy on the Board arises, the Nomination Committee undertakes a process using an external recruitment agency to identify non-executive directors who can bring appropriate skills, experience and expertise and an independent judgment on the strategy and performance of the company. The Nomination Committee makes recommendations to the Board and, when the Board considers that a suitable candidate has been found, that person is appointed by the Board, either to fill a casual vacancy or as an addition to the Board, in accordance with nib's Constitution. The Director must stand for election by shareholders at the next Annual General Meeting (AGM).

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

Appointment and re-election of Directors

At each AGM, there must be an election of Directors and at least one Director (excluding the Managing Director) must retire, including any Director who has been appointed since the previous AGM. Retiring Directors are eligible for re-election. A Director must retire from office at least every three years.

Before each AGM, the Board will assess the performance of any Director standing for re-election and will determine their recommendation to shareholders on the re-election of the Director. The Board (excluding the Chairman) conducts the review of the Chairman.

Evaluation of Board and committee performance

The Board undertakes an annual self-assessment of its collective performance, the performance of the Chairman, individual Directors and of its committees. The performance assessment process conducted in FY14 was conducted in-house. The Chairman formally discusses the results of the review with the individual Directors. At that meeting, the Chairman and the individual Director also discuss the effectiveness of the Board and its contribution to the Group, Board discussion, and the composition of the Board and committees.

Each of the Board's committees review their performance annually or whenever there are major changes to the committee structure of nib. All Committees undertook an annual self-assessment in 2014.

Independent professional advice and access to company information

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

2.6 nib provides the information indicated in the Guide to reporting on Principle 2

nib complies with Recommendations 2.1, 2.2, 2.3, 2.4, 2.5 and 2.6.

The following documents are available on our website, nib.com.au:

- Board Charter.
- Committee Charters for the Audit Committee, People and Remuneration Committee, Risk and Reputation Committee, Nomination Committee and Investment Committee.

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

All employees, including the Board and senior management, are expected to uphold the highest levels of integrity and professional behaviour in their relationships with the Group's stakeholders. A summary of the Group's core codes and policies, which apply to all employees, are set out in this Corporate Governance Statement. These policies and codes are available on the nib website, nib.com.au

3.1 nib has a Code of Conduct in place and discloses the code on our website, nib.com.au

nib has adopted a Code of Conduct which applies to all Directors, officers, employees, contractors, consultants and associates of nib and all entities within the Group. The Code of Conduct sets out ethical standards and rules of the Group and provides a framework to guide compliance with legal and other obligations to stakeholders. The Code of Conduct is reviewed annually and was last amended on 1 July 2014. The Code of Conduct is available on our website, nib.com.au.

3.2 nib has a Diversity Policy in place and discloses the Diversity Policy on our website, nib.com.au. The Diversity Policy includes the requirement for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them

nib's Diversity Policy sets out our approach to diversity in the workplace and provides a framework to achieve nib's diversity goals.

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

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

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

3.3 The nib Board has set measureable objectives for achieving gender diversity in accordance with its Diversity Policy and discloses progress towards achieving them

The Board of nib is committed to achieving diversity in accordance with its Diversity Policy. Set out over are the measureable objectives set by the Board for achieving gender diversity.

Objective	Details	Timeframe	Results as at 30 June 2014
Recruitment and selection	Ensure that employees and Directors are selected from diverse candidate pools. A shortlist will be compiled for all management, executive and Board positions with at least one serious female candidate to be present on every shortlist. If this is not possible, there must be objective reasons to support this. Candidates will be interviewed by a diverse group of people through the process.	Ongoing	Our recruitment team are focused on providing guidance to hiring managers throughout the process to ensure diversity is considered with particular focus on Management level positions. Upon review of the recruitment statistics for FY14, it shows that we have had higher levels of female applicants, females interviewed and females successful in manager and team leader positions. The candidates were interviewed by a diverse group of people throughout the process and successful applicants were offered the roles based on merit.

3.3 The nib Board has set measureable objectives for achieving gender diversity in accordance with its Diversity Policy and discloses progress towards achieving them continued

Objective	Details	Timeframe	Results as at 30 June 2014
Flexible work practices	Develop a flexible work practices policy and engender a culture of support for flexible work practices where possible and required.	Ongoing	The Flexible Work Practices policy was revised and implemented in April 2013, providing employees with the option of mutually beneficial flexible work arrangements. Managers continue to implement various flexible work arrangements with their teams, both formally and informally to support this objective. We continue to see an increase in formalised Individual Flexible Arrangements (IFAs) and as at 30 June 2014 have 32 IFAs in place across the business. Further to the formal IFAs in place with employees, a number of strategies are in place to support flexible working arrnagements for employees including working from home, flexible working hours, tertiary study and exam leave, sift and rostering preferences and gradual return from parental leave.
	Educate managers on strategies for supporting and managing flexible work arrangements successfully.	June 2014	There is ongoing education for Managers on how to implement flexible work practices. This is provided on a one-on-one basis through coaching by the People and Development business unit. A formal training program for Managers and Team Leaders is currently being developed that will address this topic and is scheduled to be delivered in FY15.
Representation	Set goals, timeframes and succession plans to improve the number of women in management roles in the business. At a minimum: ■ 40% of manager and team leaders; ■ 30% of business unit managers; ■ Two Non-Executive Directors; and ■ One member of the People & Remuneration Committee.	June 2014	■ 69% of managers and team leaders are women; ■ 39% of business unit managers are women; ■ Three female Non-Executive directors are on the Board; ■ Two female Non-Executive Directors are on the People & Remuneration Committee FY14 has seen an increase in the number of women in Manager and Team Leader, Business Unit Manager and Non-Executive Director level positions resulting in achieving the specific targets set for these positions by June 2014.
Development and Succession	Introduce mentoring, coaching and succession programs that support and encourage women to expand their skills as part of their professional development and to prepare them to take on management or executive roles.	Ongoing	Formal succession planning has identified a number of females as potential successors for key management positions. Individual performance plans include mentoring as a development tool. We are looking at how we can continue to support mentoring with a review and implementation of a formal mentoring program. Employee professional career development is discussed and documented within individual performance planning and we continue to deliver a number of targeted programs on our Learning Curriculum to help develop employees and source external training to develop specific skills and knowledge. Employees also have access to Education Assistance which provides financial support towards formal education to broaden job-related academic knowledge or obtain professional certification.

3.4 nib has in this statement, set out the proportion of women employees across the whole of the organisation, women in senior executive positions and women on the Board

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

At 30 June 2014, 73.2% of nib's total workforce was female.

3.5 nib provides the information indicated in the Guide to reporting on Principle 3

nib complies with Recommendations 3.1, 3.2, 3.3, 3.4 and 3.5.

The following documents are available from our website, nib.com.au:

- Code of Conduct.
- Diversity Policy.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

4.1 The Board of nib has established an Audit Committee

The Audit Committee is a standing committee of the nib Board. The Audit Committee operates in accordance with its charter. The Audit Committee Charter is available on our website, nib.com.au.

4.2 nib's Audit Committee:

- **consists only of Non-Executive Directors**
- **consists only of independent Directors**
- **is chaired by an independent Director, who is not Chairman of the Board**

The Audit Committee includes members who have appropriate financial experience and understanding of the private health insurance industry. There are currently three members of the Audit Committee: Mr Harold Bentley (Committee Chairman), Dr Annette Carruthers and Mr Philip Gardner. The Board Chairman is not a member of the Committee and attends meetings in an ex-officio capacity.

Details of the skills, experience and expertise of the Audit Committee members is set out on page 13 of this Report.

The Audit Committee held ten meetings in FY14.

4.3 nib's Audit Committee has a formal charter

The Audit Committee Charter sets out the role and responsibility of the Audit Committee.

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

- the appointment, remuneration, independence, competence and performance of nib's external audit function;
- the competency, fees, independence and quality of services of nib's Appointed Actuary;
- the adequacy of nib's corporate reporting processes and the integrity of nib's financial statements and other material regulatory documents;
- compliance with relevant financial reporting standards and ASX listing obligations and accounting policies adopted by nib;
- the propriety of related party transactions (if any); and
- monitoring compliance with nib's capital management plan.

In fulfilling its role, the Audit Committee:

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

The Audit Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party, including the Appointed Actuary. The Audit Committee Charter is available on our website, nib.com.au.

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

5.1 nib has written policies designed to ensure compliance with the ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclosure of those policies or summary of those policies

nib has a Disclosure and Communication Policy and Disclosure and Materiality Guidelines, which are provided to all officers and relevant employees upon appointment and are available on the nib website. nib has established a Disclosure Committee which is responsible for managing nib's disclosure obligations under the ASX Listing Rules. The Disclosure Committee comprises the Chief Executive Officer/Managing Director, Chief Financial Officer, General Counsel & Company Secretary and the Corporate Affairs & Investor Relations Manager.

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

nib's Company Secretaries have been nominated as the persons responsible for communications with the ASX.

5.2 nib provides the information indicated in the Guide to reporting on Principle 5

nib complies with Recommendations 5.1 and 5.2.

The following documents are available on our website, nib.com.au:

- Disclosure and Communication Policy.
- Disclosure and Materiality Guidelines.

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

6.1 nib has a Disclosure and Communication policy in place for promoting effective communication with shareholders and encouraging their participation at general meetings. The Disclosure and Communication Policy is available on our website

nib's Disclosure and Communication Policy sets out the way in which nib communicates to shareholders.

The Board and management aim to ensure that shareholders are informed of all information necessary to fully assess the performance of the Group. nib has a dedicated shareholder website that can be found at nib.com.au/shareholders. This website provides relevant information for shareholders in a dedicated place and in an easy-to-navigate manner. All information disclosed to the ASX is posted on the shareholder website soon after release to the market by the ASX.

Shareholder participation

The Board is committed to communicating effectively with shareholders and making it easy to participate in general meetings. Shareholders may elect to receive information electronically as it is posted on nib's shareholder website (the website provides information about how to make this election). Alternatively, a shareholder may elect to receive company reports and shareholder documents, such as the notice of annual general meeting, by post.

Shareholders are encouraged to attend the AGM and use the opportunity to ask questions at the meeting. If a shareholder is unable to attend the AGM, the shareholder can appoint a proxy to attend and vote on their behalf/or use any other means as included in the notice of meeting. Questions can be lodged prior to the AGM by completing the relevant form accompanying the notice of meeting. nib responds in writing to any shareholder who submits a written question. 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 places notices of general meetings and accompanying explanatory material on the nib website. In 2013, shareholders were also able to view the AGM via a webcast available on nib's website. Shareholders will be able to watch and listen to the business of the 2014 AGM by webcast from the nib website.

6.2 nib provides the information indicated in the Guide to reporting on Principle 6

nib complies with Recommendations 6.1 and 6.2.

nib's Disclosure and Communication Policy is available on our website, nib.com.au

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

7.1 nib has established policies for the oversight and management of material business risks. The Risk Policy is available on our website, nib.com.au

Management is responsible for designing, implementing and reporting on the adequacy of nib's risk management and internal control system. The Board has established a Risk and Reputation Committee and the Committee's role includes reviewing and making recommendations to the Board in respect of nib's system of risk management.

There are four members of the Risk and Reputation Committee: Dr Annette Carruthers (Committee Chairman), Ms Lee Ausburn (with effect from 13 November 2013), Mr Harold Bentley and Ms Christine McLoughlin. Details of the skills, experience and expertise of the Risk and Reputation Committee members is set out on page 13 of this Annual Report.

The Risk and Reputation Committee held four meetings in FY14.

The key risks as identified and managed by nib are detailed at pages 9 to 10 of the Operating and Financial Review.

nib's Risk Policy 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's Risk Policy and Risk Management Framework is based on the Australian/New Zealand Standard (AS/NZS ISO 31000:2009) for risk management and also the internationally recognised Committee of Sponsoring Organisations of the Treadway Commission (COSO) Enterprise Risk Management Framework.

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

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

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

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

7.2 nib's Board has required management to design and implement the risk management and internal control systems to manage nib's material business risks and to report to the Board on whether those risks are being managed effectively

The Board and the Risk and Reputation Committee receive regular reports on key enterprise risks that may impede nib in meeting its business objectives. During FY14, management provided reports to support the Risk and Reputation Committee's and the Board's assessment of the effectiveness of nib's risk management framework and the management of material business risks. In addition, the Audit Committee monitors the Group's financial risks and reports to the Board on the adequacy of the Group's internal controls as they apply to financial reporting, financial management systems, accounting and business policies to minimise any financial risks.

In addition to monthly compliance statements, quarterly internal control questionnaires are completed by all divisional and business unit managers (except the Chief Financial Officer). The quarterly reports are reviewed by nib's finance team as part of nib's six monthly and annual reporting and to achieve compliance with section 295A of the *Corporations Act* and Recommendation 7.3.

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

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

Internal audit

nib has a dedicated internal audit function that assists with the identification and control of key enterprise risks. The internal audit function for FY14 was performed by PKF Lawler Partners. The internal auditor provides an independent and objective internal audit review of nib's risks and key controls and how nib's processes and technology are operated and managed to provide the best outcomes for nib.

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

Internal audit reports in relation to key enterprise risks are also considered at meetings of the Risk and Reputation Committee. Representatives from the internal auditors regularly attend meetings of the Risk and Reputation Committee to present internal audit report and answer questions from the Committee.

7.3 nib's Board has received assurance from the Chief Executive Officer and Chief Financial Officer that a declaration in accordance with s295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to reporting financial risks

In August 2014, the Board received a statement in relation to FY14 full year report and results from the Chief Executive Officer/Managing Director and the Chief Financial Officer covering the matters set out in section 295A of the *Corporations Act* and in accordance with Recommendation 7.3.

7.4 nib provides the information indicated in the Guide to reporting on Principle 7

nib complies with Recommendations 7.1, 7.2, 7.3 and 7.4. The Board and its standing committees have received reports from management in accordance with Recommendations 7.2 and 7.3.

nib's Risk Policy is available on our website, nib.com.au.

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

8.1 The nib Board has established a People and Remuneration Committee

The People and Remuneration Committee is a standing committee of the nib Board. The People and Remuneration Committee operates in accordance with its Charter. The People and Remuneration Committee Charter is available on our website, nib.com.au.

8.2 nib's People and Remuneration Committee is structured so that it consists of only of independent Non-Executive Directors, has an independent Chairman and has at least three members

The People and Remuneration Committee includes members who have appropriate experience and understanding of the private health insurance industry. There are three members of the People and Remuneration Committee: Ms Christine McLoughlin (Committee Chairman), Ms Lee Ausburn (with effect from 13 November 2013) and Mr Philip Gardner, with Dr Annette Carruthers retiring from the Committee with effect from 1 January 2014.

Details of the skills, experience and expertise of the People and Remuneration Committee members is set out on page 13 of this Annual Report.

The People and Remuneration Committee held five meetings in FY14.

8.3 nib clearly distinguishes the structure of Non-Executive Directors' remuneration from that of Executive Directors and senior Executives

The People and Remuneration Committee reviews remuneration of senior executives and Non-Executive Directors every year. Every second year, the Committee engages an independent remuneration consultant in relation to executive remuneration and market rates to assist it in making recommendations to the Board for nib's remuneration practices and the structure of Non-Executive Directors' remuneration and the remuneration of senior Executives.

The remuneration of senior Executives (who are Key Management Personnel), including the Chief Executive Officer/Managing Director, have the following remuneration components:

- base salary;
- statutory entitlements (including superannuation and long service leave, as applicable);
- a short-term incentive (subject to performance thresholds); and
- a long-term incentive (subject to performance thresholds).

Further information in relation to nib's remuneration practices for Executives is provided as part of the Remuneration Report (page 25 of this Annual Report).

Remuneration for Non-Executive Directors is fixed. Board and Committee fee rates are reviewed by the People and Remuneration Committee and approved by the Board. The total annual remuneration paid to Non-Executive Directors must not exceed the fee pool set by shareholders at the AGM. The current maximum annual remuneration was set at $1.5 million per annum by shareholders in October 2013 (effective from 1 January 2014). Further information in relation to nib's remuneration practices for Non-Executive Directors is provided as part of the Remuneration Report (page 37 of this Annual Report).

8.4 nib provides the information indicated in the Guide to reporting on Principle 8

nib complies with Recommendations 8.1, 8.2, 8.3 and 8.4.

The following documents are available from our website, nib.com.au:

- People and Remuneration Committee Charter.
- nib Trading Policy.

Financial Report

For the year ended 30 June 2014

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Consolidated Income Statement

For the year ended 30 June 2014

	Notes	2014 $000	2013 $000
Premium revenue	6	1,492,933	1,291,111
Outwards reinsurance premium expense	6	(1,285)	(708)
Net premium revenue		**1,491,648**	**1,290,403**
Claims expense		(1,040,540)	(896,985)
Reinsurance and other recoveries revenue		571	333
RETF levy		(190,604)	(167,430)
State levies		(28,161)	(28,811)
Decrease in premium payback liability		3,291	3,266
Claims handling expenses	7	(17,802)	(16,497)
Net claims incurred		**(1,273,245)**	**(1,106,124)**
Acquisition costs	7	(67,878)	(52,237)
Other underwriting expenses	7	(76,404)	(58,267)
Underwriting expenses		**(144,282)**	**(110,504)**
Underwriting result		**74,121**	**73,775**
Other income	6	5,664	3,098
Other expenses	7	(7,523)	(7,615)
Operating profit		**72,262**	**69,258**
Finance costs	7	(2,744)	(1,382)
Investment income	6	31,235	29,983
Investment expenses	7	(1,584)	(1,199)
Profit before income tax		**99,169**	**96,660**
Income tax expense	8	(29,393)	(29,503)
Profit for the year		**69,776**	**67,157**
Profit is attributable to:			
Owners of nib holdings limited		69,911	67,157
Non-controlling interests	37(b)	(135)	–
		69,776	**67,157**

		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company			
Basic earnings per share	29	15.9	15.3
Diluted earnings per share	29	15.9	15.3
Earnings per share for profit attributable to the ordinary equity holders of the company			
Basic earnings per share	29	15.9	15.3
Diluted earnings per share	29	15.9	15.3

The above Consolidated Income Statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2014

	Notes	2014 $000	2013 $000
Profit for the year		**69,776**	**67,157**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	27(b)	2,337	1,347
Change in fair value of available for sale financial assets	27(b)	776	530
Income tax related to these items	8(c)	(530)	(271)
Items that will not be reclassified to profit or loss			
Revaluation of land and buildings	27(b)	4,518	153
Income tax related to these items	8(c)	(1,355)	(46)
Other comprehensive income for the year, net of tax		**5,746**	**1,713**
Total comprehensive income for the year		**75,522**	**68,870**
Total comprehensive income for the year is attributable to:			
Owners of nib holdings limited		75,657	68,870
Non-controlling interests	37(b)	(135)	–
		75,522	**68,870**

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 30 June 2014

	Notes	2014 $000	2013 $000
ASSETS			
Current assets			
Cash and cash equivalents	9	148,722	143,056
Receivables	10	44,903	51,912
Financial assets at fair value through profit or loss	11	410,779	351,786
Reinsurance and other recoveries receivable	12	108	81
Deferred acquisition costs	13	15,778	11,778
Current tax assets		2,876	–
Total current assets		**623,166**	**558,613**
Non-current assets			
Deferred acquisition costs	13	24,250	15,448
Available-for-sale financial assets	14	3,512	2,735
Deferred tax assets	15	4,031	2,529
Property, plant and equipment	16	47,967	41,722
Intangible assets	17	95,178	91,270
Total non-current assets		**174,938**	**153,704**
Total assets		**798,104**	**712,317**
LIABILITIES			
Current liabilities			
Payables	18	110,720	99,193
Borrowings	19	1,768	3,300
Outstanding claims liability	20	93,652	81,406
Unearned premium liability	21	104,278	90,092
Premium payback liability	22	7,496	8,287
Provision for employee entitlements	23	2,370	2,090
Current tax liabilities		1,264	3,669
Total current liabilities		**321,548**	**288,037**
Non-current liabilities			
Payables	18	672	–
Borrowings	19	65,081	59,149
Unearned premium liability	21	9,924	3,333
Premium payback liability	22	33,254	31,927
Provision for employee entitlements	23	1,268	1,217
Deferred tax liabilities	24	9,989	2,501
Total non-current liabilities		**120,188**	**98,127**
Total liabilities		**441,736**	**386,164**
Net assets		**356,368**	**326,153**
EQUITY			
Contributed equity	25	27,189	27,906
Retained profits	26	320,132	295,212
Reserves	27	9,101	3,035
Capital and reserves attributable to owners of nib holdings limited		**356,422**	**326,153**
Non-controlling interests	37(b)	(54)	–
Total equity		**356,368**	**326,153**

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2014

		Attributable to owners of nib holdings limited					
	Notes	Contributed Equity $000	Retained Profits $000	Reserves $000	Total $000	Non-controlling interests $000	Total Equity $000
Balance at 1 July 2012		**27,581**	**271,954**	**2,063**	**301,598**	**–**	**301,598**
Profit for the year		–	67,157	–	67,157	–	67,157
Gain on revaluation of land and buildings		–	–	107	107	–	107
Revaluation of available for sale financial assets, net of tax		–	–	371	371	–	371
Movement in foreign currency translation, net of tax		–	–	1,235	1,235	–	1,235
Total comprehensive income for the year		**–**	**67,157**	**1,713**	**68,870**	**–**	**68,870**
Transactions with owners in their capacity as owners:							
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust	25(d)	(628)	–	–	(628)	–	(628)
Issue of shares held by nib Holdings Ltd Share Ownership Plan Trust to employees	25(d)	953	–	(877)	76	–	76
Employee performance rights – value of employee services	27(b)	–	–	136	136	–	136
Dividends paid	28	–	(43,899)	–	(43,899)	–	(43,899)
		325	**(43,899)**	**(741)**	**(44,315)**	**–**	**(44,315)**
Balance at 30 June 2013		**27,906**	**295,212**	**3,035**	**326,153**	**–**	**326,153**
Balance at 1 July 2013		**27,906**	**295,212**	**3,035**	**326,153**	**–**	**326,153**
Profit for the year		–	69,911	–	69,911	(135)	69,776
Gain on revaluation of land and buildings, net of tax		–	–	3,163	3,163	–	3,163
Revaluation of available for sale financial assets, net of tax		–	–	543	543	–	543
Movement in foreign currency translation, net of tax		–	–	2,040	2,040	–	2,040
Total comprehensive income for the year		**–**	**69,911**	**5,746**	**75,657**	**(135)**	**75,522**
Transactions with owners in their capacity as owners:							
Transactions with non-controlling interests	37(c)	–	–	–	–	81	81
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust	25(d)	(837)	–	–	(837)	–	(837)
Issue of shares held by nib Holdings Ltd Share Ownership Plan Trust to employees	25(d)	120	–	–	120	–	120
Employee performance rights – value of employee services	27(b)	–	–	320	320	–	320
Dividends paid	28	–	(44,991)	–	(44,991)	–	(44,991)
		(717)	**(44,991)**	**320**	**(45,388)**	**81**	**(45,307)**
Balance at 30 June 2014		**27,189**	**320,132**	**9,101**	**356,422**	**(54)**	**356,368**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 30 June 2014

	Notes	2014 $000	2014 $000
Cash flows from operating activities			
Receipts from policyholders and customers (inclusive of goods and services tax)		1,541,868	1,271,741
Payments to policyholders and customers		(1,242,468)	(1,040,724)
Payments to suppliers and employees (inclusive of goods and services tax)		(191,807)	(199,110)
		107,593	**31,907**
Dividends received		556	79
Interest received		9,366	11,597
Distributions received		9,314	9,789
Transaction costs relating to acquisition of subsidiary	36(a)(ii)	(104)	(3,422)
Interest paid		(2,688)	(1,481)
Income taxes paid		(30,341)	(28,433)
Net cash inflow from operating activities	35(b)	**93,696**	**20,036**
Cash flows from investing activities			
Proceeds from disposal of other financial assets at fair value through profit and loss		180,500	229,963
Payments for other financial assets at fair value through profit and loss		(221,180)	(171,741)
Proceeds from sale of investment properties		10,000	10,000
Proceeds from sale of property, plant and equipment and intangibles		5	–
Payments for property, plant and equipment and intangibles	16,17	(11,241)	(8,946)
Payment for acquisition of subsidiary, net of cash acquired	36(b)	(84)	(35,293)
Net cash inflow (outflow) from investing activities		**(42,000)**	**23,983**
Cash flows from financing activities			
Proceeds from borrowings		–	55,013
Repayment of borrowings		(550)	–
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust	25(d)	(837)	(628)
Transactions with non-controlling interests	37(c)	81	–
Dividends paid to the company's shareholders	28(a)	(44,991)	(43,899)
Net cash inflow (outflow) from financing activities		**(46,297)**	**10,486**
Net increase in cash and cash equivalents		**5,399**	**54,505**
Cash and cash equivalents at beginning of the year		139,756	84,079
Effects of exchange rate changes on cash and cash equivalents		1,799	1,172
Cash and cash equivalents at the end of the year		**146,954**	**139,756**
Reconciliation to Consolidated Balance Sheet			
Cash and cash equivalents	35(a)	148,722	143,056
Borrowings – overdraft	35(a)	(1,768)	(3,300)
		146,954	**139,756**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards (and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. nib holdings limited is a for-profit entity for the purpose of preparing the financial statements.

i. Compliance with IFRS

The consolidated financial statements of nib holdings limited Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

ii. 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.

iii. Critical accounting estimates

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

iv. Comparative information

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

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 2014 and the results of all subsidiaries for the year then ended. nib holdings limited and its subsidiaries together are referred to in this financial report as the Group.

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

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

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to Note 1(o)).

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

ii. Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of nib holdings limited.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset.

iii. Employee Share Trust

The Group has formed a trust to administer the Group's executive management Short-Term Incentive and Long Term-Incentive share plans. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group.

Shares held by the nib Holdings Ltd Share Ownership Plan Trust are disclosed as treasury shares and deducted from contributed equity.

c. Segment reporting

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

d. Foreign currency translation

i. Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is nib holdings limited's functional and presentation currency.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

iii. Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

e. Revenue recognition

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

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

Revenue is recognised for the major business activities as follows:

i. Premium revenue

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

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

The proportion of the premium received or receivable not earned in the income statement at the reporting date is recognised in the balance sheet as an unearned premium liability. Any non-current portion is discounted based on expected settlement dates.

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

ii. Investment income

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

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

iii. Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

f. Unexpired risk liability

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

If the sum of the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability, less related intangible assets and related deferred acquisition costs, then the unearned premium is deemed to be deficient, with the deficiency being recorded in the income statement. The Group 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(h).

g. Outwards reinsurance

Premiums ceded to reinsurers under insurance contracts held by the Group are recognised as an outwards reinsurance expense and are recognised in the income statement from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk ceded.

h. Outstanding claims liability

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

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

i. Premium payback liability

An additional unearned premium liability has been established representing the accrued amount of premium expected to be repaid to certain New Zealand health insurance policyholders. This liability is discounted at the risk-free rate and a liability adequacy test has been performed incorporating a risk margin on some components to cover uncertainty in the central estimate.

j. Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, incurred but not reported (IBNR), and unexpired risk liabilities are recognised as revenue.

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

k. Acquisition costs

Acquisition costs incurred in obtaining health insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the consolidated income statement in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

l. Risk equalisation trust fund levy

The Risk Equalisation Trust Fund Levy is accrued based on the industry survey of eligible paid claims to be submitted to PHIAC. If a Private Health insurer notifies PHIAC of a material variation in paid claims which can be quantified, the Group adjusts the risk equalisation expense.

m. Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

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

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

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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.

nib holdings limited and its wholly-owned Australian controlled entities are a tax consolidated group. Also, nib options pty limited and its wholly-owned Australian controlled entities are a tax consolidated group. As a consequence, the entities within each group are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

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

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

n. Leases

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

Leases in which a significant portion of the risk and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

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

o. Business combinations

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

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

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

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

p. 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.

q. Assets backing private health insurance liabilities

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

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

i. Investments 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(v)).

a. Financial assets and liabilities

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

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

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

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 Group 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.

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

ii. Investment properties

Certain freehold land and buildings are 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 profit or loss as part of investment income.

iii. Amounts due from policyholders

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

A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the value of estimated future cash flows. The impairment charge is recognised in the profit or loss.

r. Derivative financial instruments

Derivatives are initially recognised at fair value, being generally the transaction price on the date a derivative contract is entered into, and are subsequently remeasured to their fair value at the end of each reporting period. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged. Derivatives which are not part of a hedging relationship are valued at fair value through profit or loss, and are included in investment income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

For derivatives traded in an active market, the fair value of derivatives presented as assets is determined by reference to published closing bid price quotations and the fair value of derivatives presented as liabilities is determined by reference to published closing ask price quotations. For derivatives that are not traded or which are traded in a market that is not sufficiently active, fair value is determined using generally accepted valuation techniques.

All derivatives entered into by the Group are classified as held for trading as the Group does not apply hedge accounting.

s. Cash and cash equivalents other than those included in assets backing private health insurance liabilities

For the purpose of the presentation in the consolidated statement of cash flows, 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.

t. Receivables other than those included in assets backing private health insurance liabilities

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

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment) is used where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

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

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

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

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

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

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

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

v. Available-for-sale financial assets

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

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

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

w. Property, plant and equipment

Land and buildings (except for investment properties – refer to Note 1(q)(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 are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of a replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

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

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

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

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

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

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

x. Intangible assets

i. Goodwill

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

ii. Software

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

iii. Brands and trademarks

Brands and trademarks acquired with IMAN Australian Health Plans Pty Ltd have an infinite useful life and are carried at cost less accumulated impairment losses.

Brands and trademarks acquired with nib nz limited (formerly TOWER Medical Insurance Limited) in November 2012 have a useful life of two years and are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses.

iv. Customer Contracts

Customer contracts acquired as part of a business combination are recognised separately from goodwill. The customer contracts are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of projected cash flows of the contracts over their estimated useful lives, which is approximately four years for IMAN Australian Health Plans Pty Ltd and 10 years for nib nz limited.

y. Payables

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

z. Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as non-current liabilities if the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

aa. Employee benefits

i. Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave are recognised in payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. The portion not expected to be settled within 12 months is discounted based on expected settlement dates. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rate paid or payable.

ii. Other long-term employee benefit obligations

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

iii. Bonus plans

A liability for employee benefits in the form of bonus plans is recognised in other creditors when at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit, or
- 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 retirement benefit based on number of years' service. Non-Executive Directors commencing after 24 November 2005 are not entitled to retirement benefits.

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 without possibility of withdrawal. The liabilities for termination benefits are recognised as current provisions, as liabilities for termination benefits are expected to be settled within 12 months of reporting date.

vi. Share-based payments

Share-based compensation benefits are provided to employees via the nib holdings limited Long-Term Incentive Plan, the Employee Share Acquisition (tax exempt) Plan, the nib Salary Sacrifice Plan and Matching Plan and the Short-Term Performance Incentive. Information relating to these plans is set out in Note 39.

The fair value of performance rights granted under the nib holdings Long-Term Incentive Plan is recognised as an employee benefit expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the performance rights granted, which includes any market performance conditions but excludes the impact of any service and non-market performance vesting conditions and the impact of any non-vesting conditions. Non-market vesting conditions are included in assumptions about the number of performance rights that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each period, the Group revises its estimate of the number of performance rights that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The nib holdings Long-Term Incentive Plan is administered by the nib Holdings Ltd Share Ownership Plan Trust; see Note 1(b)(iii). When the performance rights are exercised, the trust transfers the appropriate amount of shares to the employee.

Under the Employee Share Acquisition (tax exempt) Plan, the nib Salary Sacrifice Plan and Matching Plan and the Short-Term Performance Incentive, shares are acquired on-market and expensed.

bb. Contributed equity

Ordinary shares are classified as equity.

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

cc. 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.

dd. 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.

ee. 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.

ff. 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.

gg. Parent entity financial information

The financial information for the parent entity, nib holdings limited, disclosed in Note 40 has been prepared on the same basis as the consolidated financial statements, except as set out below.

i. Investments in subsidiaries, associates and joint venture entities

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

ii. Tax consolidation legislation

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

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

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

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

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

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

hh. 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.

ii. New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2013:

- AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, AASB 128 Investments in Associates and Joint Ventures, AASB 127 Separate Financial Statements and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards.
- AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13.
- AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011).

These standards only affected the disclosures in the notes to the financial statements.

The Group also elected to adopt the following standard early:

- AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets, which had a small impact on the impairment disclosures.

jj. New accounting standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

i. AASB-9 Financial Instruments (effective from 1 January 2017)

AASB 9 Financial Instruments addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2017 but is available for early adoption.

The Group is yet to assess its full impact. However, initial indications are that it may affect the Group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. The Group has not yet decided when to adopt AASB 9.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Group makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgments 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:

- Estimation of deferred acquisition costs – Note 13
- Estimation of goodwill and indefinite life intangibles impairment – Note 17
- Estimation of outstanding claims liability – Note 20
- Estimation of liability adequacy test – Note 21 and Note 22
- Estimation of premium payback liabilities – Note 22

3. RISK MANAGEMENT

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

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

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

The Group's risk management framework manages risks through:

- The establishment of the Audit Committee and the Risk and Reputation Committee to assist the Board in the execution of its responsibilities:
  - The Audit Committee's responsibilities include:
    - reviewing the annual reports and other financial information distributed externally;
    - recommending the appointment and remuneration of the external auditor;
    - reviewing the performance and independence of the external auditor; and
    - reviewing the Group's systems and procedures for compliance with legal and regulatory requirements as they relate to the integrity of the Group's financial statements and other material regulatory documents.

  With effect from 1 July 2014, the Audit Committee's Charter confirms its responsibilities also include:
    - reviewing the performance and independence of the Appointed Actuary;
    - reviewing the adequacy of nib's corporate reporting processes and the integrity of nib's financial statements and other material regulatory documents; and
  - 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.
  - The maintenance of defined underwriting processes where applicable.
- Internal audit which provides independent assurance to senior management and Directors regarding the adequacy of controls over activities where the risks are perceived to be high.
- Regular risk and compliance reporting.

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

b. Insurance risk

In addition to the risk management policies and procedures adopted to manage insurance risk set out in Note 3(a) the provision of private health insurance in Australia is governed by the Act. Private health insurance business (arhi) is the primary focus of the Act which governs the provision of Complying Health Insurance Products (CHIPS). Under the Act, Registered Private Health Insurers may also provide health-related business as prescribed, and the Group provides International Students Cover (ishi) and International Workers Cover (iwhi) in this respect. The industry in Australia, is shaped by a number of regulatory factors:

- **Community Rating:** The principle of community rating prevents private health insurers from improperly discriminating between people who are or who wish to become insured, on the basis of their health status, age, race, gender, religious beliefs, sexuality, frequency of need of health care, lifestyle or claims history. Community rating applies to CHIP (arhi) and ishi, but not to iwhi.
- **Risk Equalisation:** The risk equalisation scheme seeks to share the risks among all registered health insurers by averaging out the cost of hospital treatment across the industry. Money is then transferred from private health insurers with younger healthier policyholders with lower average claims payments (such as nib) to those insurers with older and less healthy policyholders and which have higher average claims payments. The scheme applies to all health insurance business (CHIP) but does not apply to ishi or iwhi.
- **Coverage Requirements:** The Act limits the types of treatments that private health insurers can offer as part of their health insurance business (CHIP). ishi products coverage requirements are set out in a Deed between the insurer and the Commonwealth, while the health services offered under iwhi cover are largely at the discretion of the insurer.
- **Premium Approval:** Under the Act, insurers can only increase CHIP premiums with the approval of the Minister. The Minister must approve the amounts unless the Minister is satisfied that the change would be contrary to the public interest. Insurers can ordinarily only seek one premium increase per annum. ishi products can raise premiums in line with the requirements set out in the Deed, which is also ordinarily annually and requires notification to the Department of Health. iwhi product premiums are not regulated by the Act or under any Deed with the Commonwealth.

In New Zealand, private health insurance is governed by the *Insurance (Prudential Supervision) Act 2010* which requires an insurer to be licensed and requires a licensed insurer to:

- Maintain and disclose a financial strength rating;
- Maintain a fit and proper policy, which apply to Directors and other relevant officers;
- Maintain a risk management program;
- Have an appointed actuary and ensure the actuarial information contained in or used in the preparation of financial statements is reviewed by the appointed actuary; and
- Maintain a solvency margin over the minimum solvency capital required under the solvency standards for non life business issued by the Reserve Bank of New Zealand.

3. RISK MANAGEMENT continued

c. Market risk

i. Fair value interest rate risk

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk if the borrowings are carried at fair value. The Group's borrowings at variable rate were denominated in New Zealand Dollars.

The interest rate swaps have the effect of converting risk from the Premium Payback Liability. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly monthly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

As at the end of the reporting period, the Group had the following variable rate borrowings and interest rate swap contracts outstanding:

	2014		2013	
	Weighted average interest rate %	Balance $000	Weighted average interest rate %	Balance $000
Bank loans	4.2%	65,081	4.1%	59,149
Interest rate swaps (notional principal amount)	5.7%	1,396	5.7%	(2,117)
Net exposure to cash flow interest rate risk		**66,477**		**57,032**

An analysis by maturities is provided at 3(e).

The Group's other interest rate risks arise from receivables, financial assets at fair value through profit and loss and cash and cash equivalents. 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 consultants, JANA Implemented Consulting and Fisher Funds Management Limited. 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.

The table below summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk.

	2014					2013				
Interest Rate Risk		-100bps		+100bps			-100bps		+100bps	
	Carrying amount $000	Profit $000	Equity $000	Profit $000	Equity $000	Carrying amount $000	Profit $000	Equity $000	Profit $000	Equity $000
Financial assets										
Cash and cash equivalents	148,722	(1,041)	(1,041)	1,041	1,041	143,056	(1,001)	(1,001)	1,001	1,001
Other receivables	6,592	(46)	(46)	46	46	15,391	(108)	(108)	108	108
Financial assets at fair value through profit or loss	410,779	3,112	3,112	(3,063)	(3,063)	351,786	3,544	3,544	(3,492)	(3,492)
Unlisted equity securities	3,512	–	–	–	–	2,735	–	–	–	–
Financial liabilities										
Bank loans	(65,081)	456	456	(456)	(456)	(59,149)	414	414	(414)	(414)
Premium payback liability	(40,750)	(985)	(985)	1,181	1,181	(40,214)	(1,140)	(1,140)	909	909
Total Increase / (decrease)		**1,496**	**1,496**	**(1,251)**	**(1,251)**		**1,709**	**1,709**	**(1,888)**	**(1,888)**

ii. Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from foreign currency translation risk through its subsidiaries located in New Zealand. Foreign exchange gains or losses arising on translation of the Group's foreign operations to the Group's Australian dollar presentation currency are recognised directly in equity in accordance with the policy set out in Note 1(d). The Group does not hedge this risk.

The table below summarises the sensitivity of the Group's equity to a 10% strengthening and weakening of the Australian dollar against the New Zealand dollar, with all other variables held constant.

	2014			2013		
Foreign Exchange Risk		-10%	+10%		-10%	+10%
	Exposure $000	Equity $000	$000	Exposure $000	Equity $000	$000
Shareholders equity exposure	13,832	(1,383)	1,383	8,029	(803)	803
Loan from parent entity to nib nz holdings limited	19,258	(1,926)	1,926	17,518	(1,752)	1,752
Total Increase / (decrease)	**33,090**	**(3,309)**	**3,309**	**25,547**	**(2,555)**	**2,555**

iii. Price risk

The Group is exposed to equity securities price risk. This arises from investments held by the Group and classified on the balance sheet as either available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk.

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

Post-tax profit for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as available-for-sale. As the fair value of the available-for-sale financial assets would still be above cost, no impairment loss would be recognised in profit and loss as a result of the decrease in the unit price.

The table below summarises the sensitivity of the Group's financial assets to price risk.

	2014					2013				
Other Price Risk		-10% unit price		+10% unit price			-10% unit price		+10% unit price	
	Carrying amount $000	Profit $000	Equity $000	Profit $000	Equity $000	Carrying amount $000	Profit $000	Equity $000	Profit $000	Equity $000
Financial assets										
Financial assets at fair value through profit or loss	410,779	(3,754)	(3,754)	3,754	3,754	351,786	(2,744)	(2,744)	2,744	2,744
Unlisted equity securities	3,512	–	(246)	–	246	2,735	–	(191)	–	191
Total Increase / (decrease)		**(3,754)**	**(4,000)**	**3,754**	**4,000**		**(2,744)**	**(2,935)**	**2,744**	**2,935**

Methods and assumptions used in preparing sensitivity analysis

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

An interest rate change of 100 basis points will directly affect interest received on cash and cash equivalents and other. 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.

3. RISK MANAGEMENT continued

d. 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, favourable derivative financial instruments, as well as credit exposures to policyholders and Medicare Australia (Health Insurance Contribution (HIC) rebate). nib only deals with major banks in Australia which are independently rated with a minimum rating of 'A-1' and in New Zealand with a minimum rating of 'AA'. nib receives advice from its asset consultants, JANA Implemented 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.

A deferred settlement arrangement was in place for the sale of the Newcastle Private Hospital with the final $10 million instalment paid on 9 July 2013. The deferred settlement arrangement was covered by a mortgage over the property. The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date is the carrying amount, net of any provisions for impairment loss, as disclosed in the balance sheet and notes to the financial statements. The Group does not have any material credit risk to any single debtor or group of debtors under financial instruments entered into.

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

Other Receivables	**2014 $000**	**2013 $000**
Counterparties without external credit rating		
Group 1 – new debtors (less than six months)	1,902	211
Group 2 – existing debtors (more than six months) with no defaults in the past	4,301	14,691
Group 3 – existing debtors (more than six months) with some defaults in the past. All defaults were fully recovered.	389	275
Total Other Receivables	**6,592**	**15,177**

Cash at Bank and short-term bank deposits		
A-1	121,866	143,056
AA	26,856	19,921
	148,722	**143,056**

Financial assets at fair value through profit or loss		
Short term deposits		
A-1	50,138	49,700
Derivative financial instruments		
AA	2,075	2,234
Interest-bearing securities		
AAA	121,090	115,197
AA	101,980	78,013
A	47,867	46,955
BBB	24,539	15,643
Sub Investment Grade	5,186	4,139
Unclassified	4,273	697
	357,148	**312,578**

e. Liquidity risk

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

The bank overdraft within borrowings 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 financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group at 30 June 2014	**≤ 1 month $000**	**1 – 3 months $000**	**3 – 12 months $000**	**1 – 5 years $000**	**>5 years $000**	**Total Contractual Cash flows $000**	**Carrying amount $000**
Financial Liabilities							
Trade creditors	5,445	–	–	–	–	5,445	5,445
Other payables	51,176	4,163	367	–	–	55,706	55,706
Borrowings	2,038	557	2,617	66,630	–	71,842	66,849
	58,659	**4,720**	**2,984**	**66,630**	**–**	**132,993**	**128,000**

Group at 30 June 2013							
Financial Liabilities							
Trade creditors	3,575	–	–	–	–	3,575	3,575
Other payables	48,747	3,258	77	–	–	52,082	52,082
Borrowings	3,300	614	1,822	66,591	–	72,327	62,449
	55,622	**3,872**	**1,899**	**66,591**	**–**	**127,984**	**118,106**

4. FAIR VALUE MEASUREMENT

a. Fair value hierarchy

AASB 13 Fair Value Measurement requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

a. quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

b. inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and

c. inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following tables present the Group's assets and liabilities measured and recognised at fair value at 30 June 2014 and 30 June 2013.

Group at 30 June 2014	**Notes**	**Level 1 $000**	**Level 2 $000**	**Level 3 $000**	**Total $000**
Assets					
Cash and cash equivalents and deposits at call		148,722	–	–	148,722
Financial assets at fair value through profit or loss					
Short term deposits		50,138	–	–	50,138
Derivative financial instruments		–	2,075	–	2,075
Securities		319,515	39,051	–	358,566
Available-for-sale financial assets					
Unlisted equity securities		–	3,512	–	3,512
Property, plant & equipment					
Land & buildings		–	–	40,587	40,587
Total assets		**518,375**	**44,638**	**40,587**	**603,600**
Liabilities					
Contingent consideration payable	36(a)(i)	–	–	672	672
Total liabilities		**–**	**–**	**672**	**672**

Group at 30 June 2013	**Level 1 $000**	**Level 2 $000**	**Level 3 $000**	**Total $000**
Assets				
Cash and cash equivalents and deposits at call	143,056	–	–	143,056
Financial assets at fair value through profit or loss				
Short term deposits	49,700	–	–	49,700
Derivative financial instruments	–	2,234	–	2,234
Securities	269,925	29,927	–	299,852
Available-for-sale financial assets				
Unlisted equity securities	–	2,735	–	2,735
Total assets	**462,681**	**34,896**	**–**	**497,577**

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

There were no transfers between level 1 and level 2 during the year ended 30 June 2014. However, there is a reclassification between the levels. The classification of some of the derivatives, bonds and securities which have historically been disclosed as 'level 1' have been revised to 'level 2' on the basis that, whilst there is a quoted price, the price of the security is based on valuation techniques using market observable inputs. The comparatives have been amended for consistency with current year presentation.

b. Valuation techniques used to derive level 2 and level 3 fair values

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

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for the contingent consideration payable (Note 36(a)(i)).

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

All of the resulting fair value estimates for financial instruments are included in level 2 except for contingent consideration payable explained in c) below.

The Group obtains independent valuations for its freehold land and buildings at least every three years.

At the end of each reporting period, the Directors update their assessment of the fair value of each property, taking into account the most recent independent valuations. The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available the Directors consider current prices in an active market for properties of a different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences.

All resulting fair value estimates for properties are included at level 3.

c. Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 instruments for the year ended 30 June 2014:

	Land & Buildings $000	Contingent consideration payable $000	Total $000
Opening balance 1 July 2013	–	–	–
Adoption of AASB13	37,201	–	37,201
Other increases	–	(672)	(672)
Acquisitions	49	–	49
Gains recognised in other comprehensive income	4,518	–	4,518
Depreciation	(1,181)	–	(1,181)
Closing balance 30 June 2014	**40,587**	**(672)**	**39,915**

i. Transfers between levels 2 and 3

There were no transfers between the levels of the fair value hierarchy during the year. There were also no changes during the year to any of the valuation techniques applied as of 30 June 2013.

ii. Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements:

Description	Fair value at 30 June 2014 $000	Unobservable inputs*	Range of inputs (probability – weighted average)	Relationship of unobservable inputs to fair value
Land & buildings	40,587	Capitalisation rate	7.5% – 9.5% (8.5%)	The higher the capitalisation rate, the lower the fair value.
Contingent consideration payable	672	Risk adjusted discount rate	4.0% – 6.0% (5.0%)	A change in the discount rate by 100 basis points would increase/decrease the fair value by $14,000
		Anticipated payment date	30 September 2016	A change in the anticipated payment date by one year would increase/decrease the fair value by $33,000

* There were no significant inter-relationships between unobservable inputs that materially affect fair values.

4. FAIR VALUE MEASUREMENT continued

iii. Valuation process

The Group engages external, independent and qualified valuers to determine the fair value of the Group's land and buildings at least every three years. As at 30 June 2014, a Directors' valuation has been performed for the land and buildings.

The finance department of the Group includes a team that performs the valuations of non-property assets required for financial reporting purposes, including Level 3 fair values. This team reports directly to the Chief Financial Officer (CFO) and the Audit Committee (AC).

Discussions of valuation processes and results are held between the CFO, AC and the valuation team at least once every six months, in line with the Group's half-yearly reporting dates.

The main Level 3 inputs used by the Group in measuring the fair value of the contingent consideration payable are based on the terms of the share sale agreement, being an estimate of the timing of achieving a predetermined level of subscription income and a discount rate that is applicable to the anticipated payment date (Note 36(a)(i)).

Changes in Level 2 and 3 fair values are analysed at each reporting date during the half-yearly valuation discussion between the CFO, AC and the valuation team. As part of this discussion the team presents a report that explains the reason for the fair value movements.

d. Fair values of other financial instruments

The Group also had another financial instrument which was not measured at fair value in the balance sheet. This had the following fair value as at 30 June 2014:

	2014		2013	
Non-current borrowings	**Carrying amount $000**	**Fair value $000**	**Carrying amount $000**	**Fair value $000**
Bank loans	65,081	65,163	59,149	59,276

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. SEGMENT REPORTING

a. Description of segments

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

The MD/CEO considers the business from both a geographic and product perspective and has identified five reportable segments. Health Insurance consists of nib's core product offering within the Australian private health insurance industry (arhi) and New Zealand Private Health Insurance (nib nz). Health Related consists of two separate segments – International Students Health Insurance (ishi) and International Workers Health Insurance (iwhi). On 1st July 2013, nib commenced nib Options which facilitates access to cosmetic treatment both overseas and here in Australia. The business was launched in March 2014.

Although the ishi segment and the nib Options segments do not meet the quantitative thresholds required by AASB 8, management has concluded that the segments should be reported, as they are closely monitored by the MD/CEO as potential growth segments and are expected to contribute to Group revenue in the future.

b. Segment information provided to Executive management

The segment information provided to the MD/CEO for the reportable segments is as follows:

2014	Australian Residents Health Insurance Australia $000	International Students Health Insurance Australia $000	International Workers Health Insurance Australia $000	New Zealand Residents Health Insurance New Zealand $000	nib Options Australia $000	Unallocated to segments $000	Total $000
Premium revenue	1,314,472	9,248	30,022	139,191	–	–	1,492,933
Outwards reinsurance premium expense	–	–	(1,285)	–	–	–	(1,285)
Net premium revenue	**1,314,472**	**9,248**	**28,737**	**139,191**	**–**	**–**	**1,491,648**
Claims expense	(933,522)	(5,052)	(12,457)	(89,509)	–	–	(1,040,540)
Reinsurance and other recoveries revenue	–	–	571	–	–	–	571
RETF levy	(190,604)	–	–	–	–	–	(190,604)
State levies	(28,161)	–	–	–	–	–	(28,161)
Decrease in premium payback liability	–	–	–	3,291	–	–	3,291
Claims handling expenses	(16,029)	(128)	(543)	(1,102)	–	–	(17,802)
Net claims incurred	**(1,168,316)**	**(5,180)**	**(12,429)**	**(87,320)**	**–**	**–**	**(1,273,245)**
Acquisition costs	(38,962)	(892)	(2,614)	(25,410)	–	–	(67,878)
Other underwriting expenses	(51,409)	(1,667)	(4,253)	(19,075)	–	–	(76,404)
Underwriting expenses	**(90,371)**	**(2,559)**	**(6,867)**	**(44,485)**	**–**	**–**	**(144,282)**
Underwriting result	**55,785**	**1,509**	**9,441**	**7,386**	**–**	**–**	**74,121**
Other income	1,195	392	–	–	371	3,706	5,664
Other expenses	–	–	–	–	(2,906)	(4,617)	(7,523)
Operating profit / (loss)	**56,980**	**1,901**	**9,441**	**7,386**	**(2,535)**	**(911)**	**72,262**
Inter-segment other income[1]	903	–	–	–	–		903
Depreciation and amortisation	6,463	–	745	4,706	28		11,942
Investment income		26,843		3,529	5		30,377
Income tax expense		27,965		3,880	(819)		31,026
Total segment assets		**522,899**		**164,925**	**2,212**		**690,036**
Total segment liabilities		**291,497**		**71,475**	**1,354**		**364,326**
Insurance liabilities							
Outstanding claims liability		82,860		10,792	–		93,652
Unearned premium liability		100,172		14,030	–		114,202
Premium payback liability		–		40,750	–		40,750
Total		**183,032**		**65,572**	**–**		**248,604**

1. Inter-segment other income is eliminated on consolidation and not included in operating profit for Australian Residents Health Insurance.

5. SEGMENT REPORTING continued

b. Segment information provided to Executive management continued

2013	Australian Residents Health Insurance Australia $000	International Students Health Insurance Australia $000	International Workers Health Insurance Australia $000	New Zealand Residents Health Insurance New Zealand 7 months $000	nib Options Australia $000	Unallocated to segments $000	Total $000
Premium revenue	1,187,237	4,387	28,348	71,139	–	–	1,291,111
Outwards reinsurance premium expense	–	–	(708)	–	–	–	(708)
Net premium revenue	**1,187,237**	**4,387**	**27,640**	**71,139**	**–**	**–**	**1,290,403**
Claims expense	(833,754)	(3,393)	(12,119)	(47,719)	–	–	(896,985)
Reinsurance and other recoveries revenue	–	–	333	–	–	–	333
RETF levy	(167,430)	–	–	–	–	–	(167,430)
State levies	(28,811)	–	–	–	–	–	(28,811)
Decrease in premium payback liability	–	–	–	3,266	–	–	3,266
Claims handling expenses	(14,682)	(38)	(1,118)	(659)	–	–	(16,497)
Net claims incurred	**(1,044,677)**	**(3,431)**	**(12,904)**	**(45,112)**	**–**	**–**	**(1,106,124)**
Acquisition costs	(37,466)	(807)	(2,760)	(11,204)	–	–	(52,237)
Other underwriting expenses	(46,054)	(228)	(3,551)	(8,434)	–	–	(58,267)
Underwriting expenses	**(83,520)**	**(1,035)**	**(6,311)**	**(19,638)**	**–**	**–**	**(110,504)**
Underwriting result	**59,040**	**(79)**	**8,425**	**6,389**	**–**	**–**	**73,775**
Other income	–	–	–	–	–	3,098	3,098
Other expenses	–	–	–	–	–	(7,615)	(7,615)
Operating profit / (loss)	**59,040**	**(79)**	**8,425**	**6,389**	**–**	**(4,517)**	**69,258**
Inter-segment other income[1]	907	–	–	–	–		907
Depreciation and amortisation	5,820	–	1,048	2,183	–		9,051
Investment income		28,285		647	–		28,932
Income tax expense		28,295		2,380	–		30,675
Total segment assets		**518,513**		**144,895**	**–**		**663,408**
Total segment liabilities		**253,409**		**66,811**	**–**		**320,220**
Insurance liabilities							
Outstanding claims liability		71,160		10,246	–		81,406
Unearned premium liability		80,591		12,834	–		93,425
Premium payback liability		–		40,214	–		40,214
Total		**151,751**		**63,294**	**–**		**215,045**

1. Inter-segment other income is eliminated on consolidation and not included in operating profit for Australian Residents Health Insurance.

c. Other segment information

The MD/CEO assesses the performance of the operating segments based on operating profit. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as integration costs.

No information regarding assets, liabilities and income tax is provided for individual Australian Health Insurance and Health Related segments to the MD/CEO. Furthermore, investment income and expenditure for Australia is not allocated to individual Australian segments as this type of activity is driven by the central treasury function, which manages the cash position of the Australian companies.

i. Segment underwriting result

A reconciliation of segment underwriting result to operating profit before income tax is provided as follows:

	2014 $000	2013 $000
Segment operating profit	73,173	73,775
Other income – unallocated to segments	3,706	3,098
Other expenses – unallocated to segments	(4,617)	(7,615)
Finance costs	(2,744)	(1,382)
Investment income	31,235	29,983
Investment expenses	(1,584)	(1,199)
Profit before income tax from continuing operations	**99,169**	**96,660**

ii. Segment assets

Assets backing insurance liabilities have been included in segment assets reported. Assets held in nib holdings limited and nib nz holdings limited are not allocated to segments. Reportable segments' assets are reconciled to total assets as follows:

	2014 $000	2013 $000
Segment assets	690,036	663,408
Unallocated assets:		
Cash and cash equivalents	97,465	43,511
Receivables	128	66
Available for sale financial assets	3,512	2,735
Deferred tax assets	4,031	2,529
Current tax assets	2,876	–
Plant, property and equipment	56	68
Total assets as per the balance sheet	**798,104**	**712,317**

iii. Segment liabilities

The Group's borrowings are not considered to be segment liabilities but rather managed by the treasury function. Reportable segments' liabilities are reconciled to total liabilities as follows:

	2014 $000	2013 $000
Segment liabilities	364,326	320,220
Unallocated liabilities:		
Payables	1,076	625
Bank loans	65,081	59,149
Current tax liabilities	1,264	3,669
Deferred tax liabilities	9,989	2,501
Total liabilities as per the balance sheet	**441,736**	**386,164**

6. REVENUE AND OTHER INCOME

	2014 $000	2013 $000
Premium revenue	1,492,933	1,291,111
Outwards reinsurance premiums	(1,285)	(708)
Net premium revenue	**1,491,648**	**1,290,403**
Other Income		
Agency fee	232	143
Life and funeral insurance commission	1,759	1,504
Travel insurance and other commission	387	376
Rental income	868	791
Subscription income	347	–
Sundry income	2,071	284
	5,664	**3,098**
Investment income		
Interest	8,748	9,811
Net realised gain on financial assets at fair value through profit or loss	20,197	15,365
Net unrealised gain on financial assets at fair value through profit or loss	1,734	4,728
Dividends	556	79
	31,235	**29,983**

7. EXPENSES

	2014 $000	2013 $000
Expenses by function		
Claims handling expenses	17,802	16,497
Acquisition costs	67,878	52,237
Other underwriting expenses	76,404	58,267
Other expenses	7,523	7,615
Finance costs	2,744	1,382
Investment expenses	1,584	1,199
Total expenses (excluding direct claims expenses)	**173,935**	**137,197**
Expenses by nature		
Employee costs	69,742	56,366
Depreciation and amortisation	11,963	9,072
Finance costs	2,744	1,382
Net loss on disposal of property, plant and equipment	116	3
Operating lease rental expenses	3,246	2,938
Marketing expenses	28,009	22,456
Marketing expenses – commissions	25,270	13,855
Merger and acquisition costs	794	3,566
Electronic claims processing fees	3,953	3,607
Bank charges	1,908	2,063
Consultancy fees	2,541	2,703
Legal expenses	1,007	403
Postages	1,859	1,511
Share registry expenses	1,213	1,684
Software maintenance	5,585	4,626
Investment expenses	1,584	1,199
Other	12,401	9,763
Total expenses (excluding direct claims expenses)	**173,935**	**137,197**

8. INCOME TAX

	Notes	2014 $000	2013 $000
a. Income tax expense			
Recognised in the income statement			
Current tax expense		25,228	25,136
Deferred tax expense		4,211	4,348
Under (over) provided in prior years		(46)	19
		29,393	**29,503**
Income tax expense is attributable to:			
Profit from continuing operations		29,393	29,503
Aggregate income tax expense		**29,393**	**29,503**
Deferred income tax expense included in income tax expense comprises:			
Decrease in deferred tax assets	15	1,101	301
Increase in deferred tax liabilities	24	3,110	4,047
		4,211	**4,348**
b. Numerical reconciliation of income tax expense to prima facie tax payable			
Profit from continuing operations before income tax expense		**99,169**	**96,660**
Tax at the Australian tax rate of 30% (2013: 30%)		29,751	28,998
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
Differences in foreign tax rates		(103)	(104)
Net assessable trust distributions		130	149
Other deductible expenses		(34)	(263)
Non-deductible merger and acquisition costs		68	1,070
Non-deductible entertainment expenses		122	101
Other non-deductible expenses		104	46
Adjustments for current tax of prior periods		(46)	19
Imputation credits and foreign tax credits		(599)	(513)
Income tax expense		**29,393**	**29,503**
c. Tax expense relating to items of other comprehensive income			
Foreign currency translations	27(b)	297	112
Gain on revaluation of land and buildings	27(b)	1,355	46
Change in value of available for sale financial assets	27(b)	233	159
		1,885	**317**

9. CASH AND CASH EQUIVALENTS

	2014 $000	2013 $000
Cash at bank and cash on hand	123,732	57,408
Short term deposits and deposits at call	24,990	85,648
	148,722	**143,056**

a. Risk exposure

The Group's exposure to interest rate risk is discussed in Note 3(c)(i). The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

10. RECEIVABLES

	2014 $000	2013 $000
Current		
Premium receivable	5,872	5,940
Health Insurance Contribution (HIC) rebate receivable	30,899	29,292
Other receivables	6,592	15,391
Provision for impairment loss	(1,242)	(938)
Prepayments	2,782	2,227
	44,903	**51,912**

A deferred settlement arrangement was in place for the sale of the Newcastle Private Hospital with the final $10 million instalment paid on 9 July 2013. This amount was included in Other receivables in 2013.

a. Impaired receivables

As at 30 June 2014 current receivables of the Group with a nominal value of $1.242 million (2013: $0.938 million) were impaired. The individually impaired receivables relate to premium receivables.

The ageing of these receivables is as follows:

	2014 $000	2013 $000
1 to 3 months	468	451
3 to 6 months	399	127
Over 6 months	375	360
	1,242	**938**

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

	2014 $000	2013 $000
At 1 July 2013	938	366
Provision for impairment acquired with subsidiary	–	173
Provision for impairment recognised during the year	1,242	765
Unused amount reversed	(938)	(366)
	1,242	**938**

b. Past due but not impaired

As of 30 June 2014 and 2013 no receivables were past due but not impaired.

c. Interest rate risk

Information about the Group's exposure to interest rate risk in relation to other receivables is provided in Note 3.

d. Fair value and credit risk

Due to the short-term nature of current 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.

e. Risk exposure

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above. Refer to Note 3 for more information on the risk management policy of the Group and the credit quality of the Group's receivables.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2014 $000	2013 $000
Equity securities	53,631	39,207
Interest-bearing securities	304,935	260,645
Short term deposits	50,138	49,700
Derivative financial instruments – interest rate swap contracts	2,075	2,234
	410,779	**351,786**

Changes in fair values of financial assets at fair value through profit or loss are recorded in investment income in profit or loss in Note 6.

a. Risk exposure

Information about the Group's exposure to price risk and interest rate risk is provided in Note 3.

12. REINSURANCE AND OTHER RECOVERIES RECEIVABLE

	2014 $000	2013 $000
Expected future reinsurance recoveries undiscounted		
on claims paid	141	102
on outstanding claims	(33)	(21)
Reinsurance and other recoveries receivable on incurred claims	**108**	**81**

13. DEFERRED ACQUISITION COSTS

	2014 $000	2013 $000
Current		
Deferred acquisition costs	15,778	11,778
	15,778	**11,778**
Non-current		
Deferred acquisition costs	24,250	15,448
	24,250	**15,448**

Movements in the deferred acquisition costs are as follows:

	2014 $000	2013 $000
Balance at beginning of year	27,226	8,851
Deferred acquisition costs acquired with subsidiary	–	7,628
Acquisition costs deferred during the year	27,072	18,080
Amortisation expense	(15,075)	(7,894)
Exchange differences	805	561
	40,028	**27,226**

Critical accounting judgements and estimates

In accordance with *AASB 1023 General Insurance Contracts*, acquisition costs which lead to future benefits are recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the income statement in subsequent reporting periods.

These deferred acquisition costs are amortised systematically in accordance with the pattern of the incidence of risk under the related insurance contract.

The Group incurs up front commission costs that will give rise to future premium revenue and are able to be directly associated with a particular insurance contract. These costs are deferred and amortised over the life of the insurance contract.

For the arhi and ishi businesses there are two key assumptions required to recognise the acquisition costs over the life of the insurance contract:

1. The period of the insurance contract is assumed to be the average length of insurance for nib policyholders who are the subject of an upfront commission.
2. The average length of insurance for nib policyholders who are the subject of an upfront commission is calculated by extrapolating historical lapse rates for that group of policyholders.

In order to allow for the inherent distortion created by extrapolating historical data the extrapolated life of policyholders used to determine the average contract life has been truncated to 10 years.

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2014 $000	2013 $000
Unlisted equity securities	**3,512**	**2,735**

a. Unlisted securities

Unlisted securities are traded in inactive markets. Their fair value is determined based on valuation techniques and the price of shares traded, where available, during the financial year ended 30 June 2014.

b. Impairment and risk exposure

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 3.

15. DEFERRED TAX ASSETS

	Notes	2014 $000	2013 $000
The balance comprises temporary differences attributable to:			
Depreciation		–	143
Employee benefits		2,377	2,006
Outstanding claims		64	337
Premium payback liabilities		10,995	10,882
		13,436	**13,368**
Other			
Doubtful debts		318	163
Asset revaluation		–	35
Provisions		741	1,808
Merger and acquisition costs		325	175
Tax losses		796	–
Sub-total other		**2,180**	**2,181**
Total deferred tax assets		**15,616**	**15,549**
Set-off of deferred tax liabilities pursuant to set-off provisions	24	(11,585)	(13,020)
Net deferred tax assets		**4,031**	**2,529**
Recovery of Total deferred tax assets:			
Deferred tax assets to be recovered within 12 months		5,261	5,444
Deferred tax assets to be recovered after more than 12 months		10,355	10,105
		15,616	**15,549**

Movements	Depreciation $000	Employee benefits $000	Outstanding claims $000	Unrealised losses on investments $000	Premium payback liabilities $000	Other $000	Total $000
At 1 July 2012	289	1,684	418	277	–	1,452	4,120
(Charged)/credited to the income statement	(146)	230	(81)	(277)	(909)	882	(301)
(Charged)/credited directly to other comprehensive income	–	8	–	–	789	(201)	596
Acquisition of subsidiary	–	84	–	–	11,002	48	11,134
At 30 June 2013	**143**	**2,006**	**337**	**–**	**10,882**	**2,181**	**15,549**
At 1 July 2013	143	2,006	337	–	10,882	2,181	15,549
(Charged)/credited to the income statement	(140)	353	(273)	–	(921)	(120)	(1,101)
(Charged)/credited directly to other comprehensive income	(3)	18	–	–	1,034	9	1,058
Acquisition of subsidiary	–	–	–	–	–	110	110
At 30 June 2014	**–**	**2,377**	**64**	**–**	**10,995**	**2,180**	**15,616**

16. PROPERTY, PLANT & EQUIPMENT

	Notes	Land & Buildings $000	Plant & Equipment $000	Leasehold Improvements $000	Total $000
Fair value/Cost					
Balance at 1 July 2012		38,206	9,624	2,661	50,491
Additions		53	2,012	179	2,244
Acquisition of subsidiary		–	206	–	206
Disposals		–	(106)	(188)	(294)
Revaluations		99	–	–	99
Exchange differences		–	19	–	19
Balance at 30 June 2013		**38,358**	**11,755**	**2,652**	**52,765**
Balance at 1 July 2013		38,358	11,755	2,652	52,765
Additions		49	3,730	1,340	5,119
Acquisition of subsidiary	36(a)	–	38	–	38
Disposals		–	(3,715)	–	(3,715)
Revaluations		2,773	–	–	2,773
Exchange differences		–	136	–	136
Balance at 30 June 2014		**41,180**	**11,944**	**3,992**	**57,116**
Depreciation and impairment losses					
Balance at 1 July 2012		(32)	(6,458)	(1,897)	(8,387)
Depreciation charge for the year		(1,179)	(1,488)	(333)	(3,000)
Disposals		–	103	188	291
Revaluations		54	–	–	54
Exchange differences		–	(1)	–	(1)
Balance at 30 June 2013		**(1,157)**	**(7,844)**	**(2,042)**	**(11,043)**
Balance at 1 July 2013		(1,157)	(7,844)	(2,042)	(11,043)
Depreciation charge for the year		(1,181)	(1,862)	(388)	(3,431)
Disposals		–	3,594	–	3,594
Revaluations		1,745	–	–	1,745
Exchange differences		–	(14)	–	(14)
Balance at 30 June 2014		**(593)**	**(6,126)**	**(2,430)**	**(9,149)**
Carrying amounts					
At 30 June 2013		**37,201**	**3,911**	**610**	**41,722**
At 30 June 2014		**40,587**	**5,818**	**1,562**	**47,967**

a. Valuations of land and buildings

The valuation basis of land and buildings is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition. Freehold land and buildings at 22 Honeysuckle Drive was valued by a member of the Australian Property Institute as at 9 December 2013. Other freehold land and buildings were independently valued by a member of the Australian Property Institute as at 30 June 2013. It is the opinion of the Directors that these valuations represent the fair value of the properties at 30 June 2014 allowing for additions and depreciation subsequent to the independent valuation.

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

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

	2014 $000	2013 $000
Cost	41,580	41,529
Accumulated depreciation	(9,347)	(7,742)
Net book amount	**32,233**	**33,787**

17. INTANGIBLE ASSETS

	Notes	Goodwill $000	Software $000	Brands and Trademarks $000	Customer Contracts $000	Total $000
Fair value/Cost						
Balance at 1 July 2012		25,447	28,460	4,044	3,093	61,044
Additions		–	6,707	–	–	6,707
Acquisition of subsidiary		25,189	2,341	2,360	18,262	48,152
Exchange differences		1,879	188	176	1,363	3,606
Balance at 30 June 2013		**52,515**	**37,696**	**6,580**	**22,718**	**119,509**
Balance at 1 July 2013		52,515	37,696	6,580	22,718	119,509
Additions		–	6,122	–	–	6,122
Acquisition of subsidiary	36(a)	1,423	–	–	–	1,423
Disposals		–	(821)	–	–	(821)
Exchange differences		2,688	341	252	1,949	5,230
Balance at 30 June 2014		**56,626**	**43,338**	**6,832**	**24,667**	**131,463**
Amortisation and impairment losses						
Balance at 1 July 2012		–	(20,013)	–	(2,126)	(22,139)
Amortisation charge for the year		–	(3,729)	(732)	(1,615)	(6,076)
Exchange differences		–	(3)	(8)	(13)	(24)
Balance at 30 June 2013		**–**	**(23,745)**	**(740)**	**(3,754)**	**(28,239)**
Balance at 1 July 2013		–	(23,745)	(740)	(3,754)	(28,239)
Amortisation charge for the year		–	(4,839)	(1,355)	(2,338)	(8,532)
Disposals		–	821	–	–	821
Exchange differences		–	(47)	(113)	(175)	(335)
Balance at 30 June 2014		**–**	**(27,810)**	**(2,208)**	**(6,267)**	**(36,285)**
Carrying amounts						
At 30 June 2013		**52,515**	**13,951**	**5,840**	**18,964**	**91,270**
At 30 June 2014		**56,626**	**15,528**	**4,624**	**18,400**	**95,178**

a. Impairment tests for goodwill and indefinite life intangibles

Goodwill and indefinite life intangibles are allocated to the Group's cash-generating units (CGUs) identified according to operating segments.

Goodwill	Australian Residents Health Insurance Australia $000	International Students Health Insurance Australia $000	International Workers Health Insurance Australia $000	New Zealand Residents Health Insurance New Zealand $000	nib Options Australia $000	Total $000
At 30 June 2014	7,067	–	18,380	29,756	1,423	56,626
At 30 June 2013	7,067	–	18,380	27,068	–	52,515
Brands and Trademarks						
At 30 June 2014	–	–	4,044	–	–	4,044
At 30 June 2013	–	–	4,044	–	–	4,044

The recoverable amount of a CGU is determined based on a value-in-use calculation. The value-in-use calculation uses cash flow projections based on financial budgets and forecast forward projections approved by management covering a three-year period. The recoverable amount exceeds the carrying value of the goodwill or indefinite life intangibles.

17. INTANGIBLE ASSETS continued

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

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

Policyholder 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 in to perpetuity assuming a growth factor of 3%. The Group has applied a post-tax discount rate to discount the forecast future attributable post tax cash flows. For Australian CGUs, the discount rate applied of 10.7% represents the risk free rate of 5.0% plus a risk adjustment of 5.7%. This equates to a pre-tax discount rate of 14.53%. For the New Zealand CGU, the discount rate applied of 11.4% represents the risk free rate of 5.3% plus a risk adjustment of 6.1%. This equates to a pre-tax discount rate of 14.32%.

The following table sets out the key assumptions for those CGUs that have significant goodwill allocated to them:

	Budget/forecast period[1]				Beyond budget/ forecast period		Discount rate	
	Policyholder growth		Claims ratio		Growth rate			
Goodwill	2014 %	2013 %	2014 %	2013 %	2014 %	2013 %	2014 %	2013 %
Australian Residents Health Insurance (arhi)	4.2	3.9	86.2	86.9	3.0	0.0	10.7	9.0
International Workers Health Insurance (iwhi)	19.6	17.9	31.6	39.0	3.0	0.0	10.7	9.0
New Zealand Residents Health Insurance	9.8	11.6	66.3	64.8	3.0	0.0	11.4	11.1

1. The Budget/forecast period for 2014 refers to FY15 to FY17, and for 2013 FY14 to FY16.

The following table sets out the key assumptions for those CGUs that have significant indefinite life intangibles allocated to them:

	Budget/forecast period[1]				Beyond budget/ forecast period		Discount rate	
	Policyholder growth		Royalty Rate		Growth rate			
Brands and trademarks	2014 %	2013 %	2014 %	2013 %	2014 %	2013 %	2014 %	2013 %
International Workers Health Insurance (iwhi)	19.6	17.9	1.125	1.125	3.0	0.0	10.7	9.0

1. The Budget/forecast period for 2014 refers to FY15 to FY17, and for 2013 FY14 to FY16.

These assumptions have been used for analysis of each CGU within an operating segment. Management determined policyholder growth and claims ratios based on past performance and its expectations for the future.

c. Significant estimate: Impact of possible changes in key assumptions

In both 2014 and 2013 there were no reasonably possible changes in any of the key assumptions that would have resulted in an impairment write-down of goodwill in any CGU.

The impact of key assumptions used in the value-in-use calculation for brands and trademarks for the International Workers Insurance segment are detailed below:

- If the budgeted short term policyholder growth rate used was 10% (compared to assumption used of 19.6%), the Group would have to recognise an impairment against intangible assets of $856,000.
- If the long term growth rate used was 0% (compared to assumption used of 3.0%), the Group would have to recognise an impairment against intangible assets of $1,009,000.
- If the discount rate was 1.0% higher (being 11.7%), the Group would have to recognise an impairment against intangible assets of $479,000.

18. PAYABLES

	2014 $000	2013 $000
Current		
Outwards reinsurance expense liability – premiums payable to reinsurers	306	230
Trade creditors	5,445	3,575
Other payables	55,706	50,322
RETF payable*	45,294	41,215
Annual leave payable	3,969	3,851
	110,720	**99,193**
Non-Current		
Deferred settlement	672	–
	672	**–**

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

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

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

	2014 $000	2013 $000
Annual leave obligation expected to be settled after 12 months	**463**	**506**

19. BORROWINGS

	2014 $000	2013 $000
Current		
Bank overdraft	1,768	3,300
	1,768	**3,300**
Non-current		
Bank loans (secured)	65,081	59,149
	65,081	**59,149**

The bank overdraft comprises the closing positive balance of the bank account, adjusted for unpresented cheques and outstanding deposits.

The Group has a line-of-credit facility for corporate credit cards issued to nib employees for a total of $2.0 million. Outstanding amounts as at 30 June 2014 are included in Current Liabilities – Payables under Trade Creditors.

Movements in the bank loans (secured) are as follows:

	2014 $000	2013 $000
Balance at beginning of period	59,149	–
Proceeds from borrowings	–	55,160
Borrowing expenses	–	(147)
Amortisation of borrowing expenses	56	29
Exchange differences	5,876	4,107
Balance at end of period	**65,081**	**59,149**

a. Secured liabilities

nib nz holdings limited, a wholly owned subsidiary of nib holdings limited, has a NZ$70 million variable rate term loan facility in relation to the acquisition of nib nz limited with maturity and repayment at the end of three years being 30 November 2015.

The bank loan is secured by the shares in nib nz holdings limited and a negative pledge that imposes the following covenants on the Group. The negative pledge states that the Group will ensure that the following financial ratios are met:

i. The Group Gearing Ratio will not be more than 35%.
ii. The Group Net Tangible Assets will not be less than $180,000,000.

As at 30 June 2014 the Group Gearing Ratio was 15.8% and the Group Net Tangible Assets were $261.2 million.

nib holdings limited has provided a guarantee and indemnity to the ANZ Bank New Zealand on behalf of nib nz holdings limited in respect of the NZD$70 million term loan facility.

nib holdings limited has subordinated any amounts owing to it from nib nz holdings limited and nib nz limited in favour of all other creditors of these companies.

b. Risk exposure

Information on the sensitivity of the Group's profit and equity to interest rate risk on borrowings is provided in Note 3.

20. OUTSTANDING CLAIMS LIABILITY

	2014 $000	2013 $000
Outstanding claims - central estimate of the expected future payment for claims incurred	74,536	63,048
Risk Margin	3,408	3,771
Administration component	1,375	1,220
Gross outstanding claims liability	**79,319**	**68,039**
Outstanding claims - expected payment to the RETF* in relation to the central estimate	13,742	12,731
Risk Margin	591	636
Net outstanding claims liability	**93,652**	**81,406**

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

Movements in the gross outstanding claims are as follows:

	2014 $000	2013 $000
Gross outstanding claims at beginning of period	68,039	60,041
Administration component	(1,220)	(1,320)
Risk margin	(3,771)	(2,941)
Central estimate at beginning of period	**63,048**	**55,780**
Change in claims incurred for the prior year	(3,247)	(2,056)
Claims paid in respect of the prior year	(60,121)	(62,869)
Claims incurred during the year (expected)	1,034,646	893,219
Claims paid during the year	(960,695)	(831,088)
Outstanding claims acquired with subisidiary	–	9,400
Effect of changes in foreign exchange rates	905	662
Central estimate at end of period	**74,536**	**63,048**
Administration component	1,375	1,220
Risk margin	3,408	3,771
Gross outstanding claims at end of period	**79,319**	**68,039**

a. Actuarial methods

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

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

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

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

20. OUTSTANDING CLAIMS LIABILITY continued

The outstanding claims estimate for Australian segments is derived based on three valuation classes, namely hospital and prostheses services combined, medical services, and general treatment. For the New Zealand segment the outstanding claims estimate is derived based on two valuation classes, surgical and medical. This analysis is supplemented by more granular analysis within classes as appropriate.

In calculating the estimated cost of unpaid claims for arhi and nib nz, two methods are used. For service months April 2014 and earlier for hospital and medical, and for all months for general treatment, a chain ladder method is used; this assumes that the development pattern of the current claims will be consistent with historical experience. For hospital and medical, for the service months of May 2014 and June 2014 the Bornhuetter-Ferguson method is used, which progressively blends payment experience and prior forecasts of incurred costs.

For iwhi and ishi a chain ladder method is used for all service months for the valuation of the cost of unpaid claims.

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

b. Actuarial assumptions

The following assumptions have been made in determining the outstanding claims liability for claims incurred 12 months to the following financial years:

		2014			2013	
Australian Residents Health Insurance	**Hospital %**	**Medical %**	**Ancillary %**	**Hospital %**	**Medical %**	**Ancillary %**
Assumed proportion paid to date	92.1%	89.7%	96.5%	93.3%	88.4%	96.1%
Expense rate	1.7%	1.7%	1.7%	1.8%	1.8%	1.8%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	3.3%	3.3%	3.3%	5.0%	5.0%	5.0%
Risk equalisation rate	26.9%	26.9%	0.0%	30.8%	30.8%	0.0%
Risk margin for risk equalisation	4.3%	4.3%	0.0%	5.0%	5.0%	5.0%
International Students Health Insurance						
Assumed proportion paid to date	74.8%	82.1%	98.6%	76.5%	84.2%	98.7%
Expense rate	1.70%	1.70%	1.70%	1.8%	1.8%	1.8%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	19.6%	19.6%	19.6%	5.0%	5.0%	5.0%
International Workers Health Insurance						
Assumed proportion paid to date	85.5%	82.5%	87.0%	89.3%	86.9%	87.0%
Expense rate	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	23.2%	23.2%	23.2%	10.0%	10.0%	10.0%

	2014		2013	
NZ Health Insurance	**Surgical %**	**Medical %**	**Surgical %**	**Medical %**
Assumed proportion paid to date	88.9%	78.5%	89.1%	77.8%
Expense rate	1.6%	1.6%	1.7%	1.7%
Discount rate	0.0%	0.0%	0.0%	0.0%
Risk margin	8.5%	8.5%	11.5%	11.5%

The risk margin of 3.3% for arhi (2013: 5.0%), ishi 19.6% (2013: 5.0%), 23.2% for iwhi (2013: 10%) and nib nz 8.5% (2013: 11.5%) of the underlying liability has been estimated to equate to a probability of adequacy of 95% for the Group. The 2013 assumptions were estimated to equate a probability of adequacy of 95% for each of health funds limited and nib nz limited and a probability adequacy for the Group greater than 95%. The risk margin within each territory allows for diversification across the entity. There is now also an additional benefit of diversification between the Australian and New Zealand segments, and is allocated to the arhi segment risk margin.

c. Process used to determine assumptions

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

i. Chain Ladder Development Factors

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

ii. Bornhuetter-Ferguson Unpaid Factors

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

iii. Expense rate

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

iv. Discount rate

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

v. Risk equalisation allowance

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

vi. Risk margin

The risk margin has been based on an analysis of the past experience of the Group. This analysis examined the volatility of past payments that has not been explained by the model adopted to determine the central estimate. This past volatility has been assumed to be indicative of the future volatility and has been set at a level estimated to equate to a probability of adequacy of 95% at a consolidated level (June 2013: greater than 95%).

d. Sensitivity analysis

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

20. OUTSTANDING CLAIMS LIABILITY continued

d. Sensitivity analysis continued

ii. Impact of key variables

			Profit 2014 $000		Equity 2014 $000
Recognised amounts in the financial statements			**69,911**		**356,422**
Variable	**Movement in variable**	**Adjustments**	**Adjusted amounts**	**Adjustments**	**Adjusted amounts**
		$000	**$000**	**$000**	**$000**
Chain Ladder Development Factors	+0.5%	(4,405)	65,506	(4,405)	352,017
	-0.5%	4,405	74,316	4,405	360,827
Bornhuetter-Ferguson Unpaid Factors	+2.0%	(3,090)	66,821	(3,090)	353,332
	-2.0%	3,090	73,001	3,090	359,512
Expense rate	+1.0%	(755)	69,156	(755)	355,667
	-1.0%	755	70,666	755	357,177
Risk equalisation allowance	+2.5%	(1,329)	68,582	(1,329)	355,093
	-2.5%	1,329	71,240	1,329	357,751
Risk margin	+1.0%	(829)	69,082	(829)	355,593
	-1.0%	832	70,743	832	357,254

21. UNEARNED PREMIUM LIABILITY AND UNEXPIRED RISK LIABILITY

a. Unearned premium liability

	2014 $000	2013 $000
Current		
Unearned premium liability	104,278	90,092
	104,278	**90,092**
Non-current		
Unearned premium liability	9,924	3,333
	9,924	**3,333**

Movements in the unearned premium liability are as follows:

	2014 $000	2013 $000
Unearned premium liability as at 1 July	93,425	141,666
Unearned premium liability acquired with subsidiary	–	12,566
Deferral of premiums on contracts written in the period	110,869	75,060
Earning of premiums written in previous periods	(90,092)	(135,867)
Unearned premium liability as at 30 June	**114,202**	**93,425**

b. Unexpired risk liability

No deficiency was identified as at 30 June 2014 and 2013 that resulted in an unexpired risk liability needing to be recognised.

Critical accounting judgements and estimates

The adequacy of the unearned premium liability was assessed by considering current estimates of all expected future cash flows relating to future claims against current private health insurance contracts.

A risk margin is applied to achieve the same probability of sufficiency for future claims as is achieved by the estimate of outstanding claims liability, refer Note 20(b).

22. PREMIUM PAYBACK LIABILITY

	2014 $000	2013 $000
Current		
Premium payback liability	7,496	8,287
	7,496	**8,287**
Non current		
Premium payback liability	33,254	31,927
	33,254	**31,927**

Movements in the premium payback liability are as follows:

	2014 $000	2013 $000
Gross premium payback liability at beginning of period	40,214	–
To ensure reserve exceeds current payout on early lapse	(1,167)	–
Value of payments currently being processed	(1,191)	–
Risk margin	(1,954)	–
Central estimate at beginning of period	**35,902**	**–**
Gross outstanding claims acquired with subsidiary	–	40,545
To Ensure Reserve Exceeds current payout on early lapse acquired with subsidiary	–	(751)
Value of payments currently being processed acquired with subsidiary	–	(1,114)
Risk margin acquired with subsidiary	–	(2,114)
Central estimate acquired with subsidiary	**–**	**36,566**
Funding/new accrued	5,878	3,512
Unwind discount rate	1,757	709
Interest rate movement impact	(1,195)	(1,054)
Premium payback payments	(9,765)	(6,564)
Others	759	145
Effect of changes in foreign exchange rates	3,492	2,588
Central estimate at end of year/period	**36,828**	**35,902**
To ensure reserve exceeds current payout on early lapse	1,733	1,167
Value of payments currently being processed	1,033	1,191
Risk margin	1,156	1,954
Gross outstanding claims at end of period	**40,750**	**40,214**

a. Risk exposure

Information about the Group's exposure to interest rate risk in relation to premium payback liability is provided in Note 3(c)(i).

b. Actuarial methods

A number of nib nz limited's health insurance policies have a benefit whereby policyholders receive a proportion of premiums paid less claims received over the life of their policy, "premium payback", if certain conditions are met. This liability represents a long term health insurance contract liability. The liability was determined based on the discounted value of accumulated excess of premiums over claims at an individual policy level, adjusted for GST recoveries and expected future lapses.

A risk margin at 95% probability of sufficiency was estimated by assuming there are no future lapses. Most of the premium payback reserve is held in respect of a group of customers where the historical lapse rate is already very low.

22. PREMIUM PAYBACK LIABILITY continued

The following assumptions have been made in determining the premium payback liability:

	2014	2013
Lapse rate until three years from premium payback date	2.0% – 13.0%	2.0% – 10.0%
Lapse rate within three years of premium payback date	0.0% – 1.0%	0.0% – 1.0%
Expense rate	0.0%	0.0%
Discount rate for succeeding and following year	3.8% – 4.2%	3.0% – 3.5%
Risk margin	2.6%	4.8%

The risk margin has been estimated to equate to a 95% probability of adequacy (2013: 95%).

c. Sensitivity analysis

i. Summary

Variable	Impact of movement in variable
Lapse rate	Rate used in calculating the discounted provision to allow for expected lapses, based on historical experience. An increase or decrease in the lapse assumption would have a corresponding impact on the premium payback liability.
Discount rate	Rate used in calculating the discounted provision to allow for expected investment income, based on the current yields on New Zealand Government debt (risk free rates). An increase or decrease in the discount rate assumption would have a corresponding impact on the premium payback liability.
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 an inverse impact on the premium payback liability.

ii. Impact of key variables

			Profit 2014 $000		Equity 2014 $000
Recognised amounts in the financial statements			**69,911**		**356,422**
Variable	Movement in variable	Adjustments	Adjusted amounts	Adjustments	Adjusted amounts
		$000	$000	$000	$000
Lapse Rate	+1.0%	718	70,629	718	357,140
	-1.0%	(767)	69,144	(767)	355,655
Discount Rate	+1.0%	996	70,907	996	357,418
	-1.0%	(1,196)	68,715	(1,196)	355,226
Risk margin	+1.0%	(27)	69,884	(27)	356,395
	-1.0%	37	69,948	37	356,459

d. Unexpired risk liability

A liability adequacy test was performed allowing for the expected cash flows of each policy over the entire product life.

The future cash flows include:

- Reserves held at 30 June 2014 including the risk margin;
- Expected future payments for claims, policy paybacks and management expenses; and
- Expected future revenue from premiums and investment income.

No deficiency was identified at 30 June 2014 (2013: nil) that resulted in an unexpired risk liability needing to be recognised.

23. PROVISION FOR EMPLOYEE ENTITLEMENTS

	2014 $000	2013 $000
Current		
Long service leave	2,097	1,878
Termination benefits	195	143
Retirement benefits	78	69
	2,370	**2,090**
Non-Current		
Long service leave	1,268	1,217
	1,268	**1,217**

Amounts not expected to be settled within the next 12 months

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

	2014 $000	2013 $000
Long service leave obligation expected to be settled after 12 months	1,882	1,686
Retirement benefit obligation expected to be settled after 12 months	78	69
	1,960	**1,755**

24. DEFERRED TAX LIABILITIES

	Notes	2014 $000	2013 $000
The balance comprises temporary differences attributable to:			
Depreciation		137	–
Deferred acquisition costs		11,382	7,528
Customer contracts		5,848	6,444
Unrealised gains on investments		1,828	1,139
		19,195	**15,111**
Other			
Prepayments		6	7
Income receivables		4	96
Unrealised foreign exchange gains		793	271
Borrowing costs		23	36
Asset revaluation		1,553	–
Sub-total other		**2,379**	**410**
Total deferred tax liabilities		**21,574**	**15,521**
Set-off of deferred tax liabilities pursuant to set-off provisions	15	(11,585)	(13,020)
Net deferred tax liabilities		**9,989**	**2,501**
Recovery of Total deferred tax liabilities:			
Deferred tax liabilities to be settled within 12 months		5,427	3,572
Deferred tax liabilities to be settled after more than 12 months		16,147	11,949
		21,574	**15,521**

24. DEFERRED TAX LIABILITIES continued

Movements	Depreciation $000	Deferred acquisition costs $000	Customer contracts $000	Unrealised gains on investments $000	Other $000	Total $000
At 1 July 2012	–	1,435	290	–	271	1,996
(Charged)/credited to the income statement	–	3,805	(748)	1,139	(149)	4,047
(Charged)/credited directly to other comprehensive income	–	152	473	–	288	913
Acquisition of subsidiary	–	2,136	6,429	–	–	8,565
At 30 June 2013	**–**	**7,528**	**6,444**	**1,139**	**410**	**15,521**
At 1 July 2013	–	7,528	6,444	1,139	410	15,521
(Charged)/credited to the income statement	137	3,616	(1,189)	689	(143)	3,110
(Charged)/credited directly to other comprehensive income	–	238	593	–	2,112	2,943
At 30 June 2014	**137**	**11,382**	**5,848**	**1,828**	**2,379**	**21,574**

25. CONTRIBUTED EQUITY

a. Share capital

	2014 $000	2013 $000
Ordinary shares		
Fully paid	**28,106**	**28,106**
Other equity securities		
Treasury shares	**(917)**	**(200)**
Total contributed equity	**27,189**	**27,906**

b. Movements in share capital

Date	Details	No of shares	Price $	$000
1 July 2013	Opening balance	439,004,182		28,106
30 June 2014	**Balance**	**439,004,182**		**28,106**

Reverse acquisition accounting policy

Post demutualisation of nib health funds limited in 2007, the formation of the Group has been accounted for as a business combination. *AASB 3 Business Combinations* deals with the bringing together of separate businesses into one reporting entity. When a new entity (legal entity) is formed to effect a business combination, an entity that existed before the combination must be identified as the acquirer. This is commonly referred to as a reverse acquisition where nib health funds limited has been deemed to be the accounting acquirer of nib holdings limited (the legal parent).

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

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

c. Ordinary shares

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

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. Treasury shares

Treasury shares are shares in nib holdings limited that are held by the nib Holdings Ltd Share Ownership Plan Trust (trust) for the purpose of issuing shares under the Group's Executive management Short-Term Incentive and Long-Term Incentive share plans. See Note 39 for more information.

Date	Details	No. of shares	$000
1 July 2012	**Opening balance**	**338,000**	**525**
Jul 2012	Acquisition of shares by the Trust	169,000	254
Aug 2012	Acquisition of shares by the Trust	125,000	208
Sep 2012	Employee share issue – LTIP	(561,070)	(877)
Sep 2012	Employee share issue – STI	(49,492)	(76)
Feb 2013	Acquisition of shares by the Trust	14,744	33
Mar 2013	Acquisition of shares by the Trust	14,744	33
Apr 2013	Acquisition of shares by the Trust	14,744	33
May 2013	Acquisition of shares by the Trust	14,744	36
Jun 2013	Acquisition of shares by the Trust	14,744	31
30 June 2013	**Balance**	**95,158**	**200**
1 July 2013	**Opening balance**	**95,158**	**200**
Jul 2013	Acquisition of shares by the Trust	16,280	35
Sep 2013	Employee share issue – STI	(60,251)	(120)
Jun 2014	Acquisition of shares by the Trust	250,000	802
30 June 2014		**301,187**	**917**

26. RETAINED PROFITS

	2014 $000	2013 $000
Balance at the beginning of the year	295,212	271,954
Net profit	69,911	67,157
Dividends	(44,991)	(43,899)
Balance at the end of the financial year	**320,132**	**295,212**

27. RESERVES

a. Reserve comprises

	2014 $000	2013 $000
Revaluation surplus – property, plant and equipment	5,033	1,870
Available-for-sale financial assets	1,408	865
Share-based payments	524	204
Share-based payments exercised	(1,139)	(1,139)
Foreign currency translation	3,275	1,235
	9,101	**3,035**

b. Movements in reserves

	Notes	2014 $000	2013 $000
Revaluation surplus – property, plant and equipment			
Balance at the beginning of the year		1,870	1,763
Property revaluation – gross		4,518	153
Deferred tax	15	(1,355)	(46)
Balance at the end of the financial year		**5,033**	**1,870**
Available-for-sale financial assets			
Balance at the beginning of the year		865	494
Revaluation – gross		776	530
Deferred tax	15	(233)	(159)
Balance at the end of the financial year		**1,408**	**865**
Share-based payments			
Balance at the beginning of the year		204	625
Performance right expense		320	136
Transfer to share-based payments exercised reserve on exercise of performance rights		–	(557)
Balance at the end of the financial year		**524**	**204**
Share-based payments exercised			
Balance at the beginning of the year		(1,139)	(819)
Transfer from share-based payments reserve on exercise of performance rights		–	557
Issue of shares held by nib Holdings Ltd Share Ownership Plan Trust to employees		–	(877)
Balance at the end of the financial year		**(1,139)**	**(1,139)**
Foreign currency translation			
Balance at the beginning of the year		1,235	–
Currency translation differences arising during the year – gross		2,337	1,347
Deferred tax	15	(297)	(112)
Balance at the end of the financial year		**3,275**	**1,235**

c. Nature and purpose of reserves

Revaluation surplus – property, plant and equipment

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

Available-for-sale financial assets

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(v). Amounts are recognised in profit and loss when the associated assets are sold or impaired.

Share-based payments

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

Share-based payments exercised

The share-based payments exercised reserve is used to recognise the difference between fair value of performance rights and bonus share rights accumulated in the share based payments reserve and cost of exercising the rights.

Foreign currency translation

Exchange rate differences arising on translation of foreign controlled entities are recognised in other comprehensive income as described in Note 1(d) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

28. DIVIDENDS

a. Ordinary shares

	2014 $000	2013 $000
Final dividend for the year ended 30 June 2013 of 5.0 cents per fully paid ordinary share, made up of 5.0 cps ordinary dividend (2012: 5.0 cents per fully paid ordinary share, made up of 5.0 cps ordinary dividend) paid on 4 October 2013		
Fully franked based on tax paid @ 30%	21,946	21,949
Interim dividend for the year ended 30 June 2014 of 5.25 cents per fully paid ordinary share, made up of 5.25 cps ordinary dividend (2013: 5.0 cents per fully paid ordinary share, made up of 5.0 cps ordinary dividend) paid on 4 April 2014		
Fully franked based on tax paid @ 30%	23,045	21,950
Total dividends provided for or paid	**44,991**	**43,899**

b. Dividends not recognised at year end

	2014 $000	2013 $000
In addition to the above dividends, since the end of the year the Directors have recommended the payment of a final dividend of 14.75 cents per fully paid ordinary share, made up of 5.75 cps ordinary dividend and 9.0 cps special dividend (2013: 5.0 cents per fully paid ordinary share, made up of 5.0 cps ordinary dividend), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 3 October 2014 out of retained profits at 30 June 2014, but not recognised as a liability at the end of the year, is	**64,753**	**21,950**

c. Franked dividends

The franked portion of the final dividends recommended after 30 June 2014 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 2015.

	2014 $000	2013 $000
Franking credits available for subsequent financial years to equity holders of parent entity based on a tax rate of 30%	**26,316**	**22,157**

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.

29. EARNINGS PER SHARE

a. Basic earnings per share

	2014 Cents	2013 Cents
Profit from continuing operations attributable to the ordinary equity holders of the company	15.9	15.3
Profit from discontinued operations	–	–
Profit attributable to the ordinary equity holders of the company	**15.9**	**15.3**

b. Diluted earnings per share

	2014 Cents	2013 Cents
Profit from continuing operations attributable to the ordinary equity holders of the company	15.9	15.3
Profit from discontinued operations	–	–
Profit attributable to the ordinary equity holders of the company	**15.9**	**15.3**

c. Reconciliations of earnings used in calculating earnings per share

	2014 $000	2013 $000
Basic earnings per share		
Profit from continuing operations	69,911	67,157
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**69,911**	**67,157**
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	69,911	67,157
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	**69,911**	**67,157**

d. Weighted average number of shares used as the denominator

	2014 Number	2013 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	439,004,182	439,004,182
Adjustments for calculation of diluted earnings per share:		
Performance rights and bonus share rights	–	–
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**439,004,182**	**439,004,182**

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 are only 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 Remuneration Report on page 40.

The total 1,917,134 performance rights granted (2013 – 1,358,077) 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 2014. These performance rights could potentially dilute basic earnings per share in the future.

30. CAPITAL MANAGEMENT

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

In order to maintain or adjust the capital structure, the Group has a number of levers, including adjusting the amount of dividends paid to shareholders, returning capital to shareholders, issuing new shares, selling assets, raising or reducing debt or buying back shares.

Available capital increased during the year as a result of the new PHIAC capital standards for Australian health insurers. After reviewing the Group's available capital position a fully franked special dividend of 9.0 cents per share ($39.5 million) has been declared and will be paid on 3 October 2014.

nib holdings limited

The Group through earnings and capital management have achieved a return on equity of 20% or greater for the last three years and continues to target return on equity in the order of 20%. The return on equity as at 30 June 2014 is 20.8%. (2013: 21.6%). While improvement to return on equity can be made through increased profitability, it is also important that capital be managed appropriately, therefore, if funds are not required for strategic reasons the Group will consider a range of capital management initiatives.

At 30 June 2014 the Group had available capital of $18.7 million above our internal benchmark (after allowing for the payment of a fully franked final dividend of 14.75 cents per share, made up of 5.75 cps ordinary dividend and 9.0 cps special dividend, totalling $64.8 million, in October 2014).

Below is a reconciliation of net assets to available capital as at 30 June 2014 (after allowing for payment of a final dividend):

	2014 $m
Net assets	**356.4**
Less: nib health fund capital required	(200.8)
nib nz capital required	(48.4)
nib nz intangibles	(42.6)
International Workers intangibles	(23.9)
nib Options intangibles	(1.4)
Borrowings	65.1
Other assets and liabilities	3.7
Additional capital required to comply with debt covenant	(24.7)
Final dividend	(25.2)
Special dividend	(39.5)
Available capital (after allowing for payment of a final dividend)	**18.7**

nib health funds limited

PHIAC introduced new capital standards during FY14. The Capital Adequacy Standard was effective from 31 March 2014 and the Solvency Standard from 1 July 2014.

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

To comply with the new Solvency Standard (which commenced on 1 July 2014), nib health funds limited:

i. must ensure that, at all times, the value of cash must be equal to or greater than a specified cash management amount, plus any solvency supervisory adjustment (section 4.2 of the Solvency Standard)
ii. must have, and comply with, a board endorsed, liquidity management plan designed to ensure compliance with the solvency requirements described above, and set minimum liquidity requirements and management action triggers (section 4.3 of the Solvency Standard)

To comply with the new Capital Adequacy Standard (which commenced on 31 March 2014), nib health funds limited:

i. must ensure that at all times the value of its assets is not less than the amounts calculated under section 4.2 (a) and (b) of the Capital Adequacy Standard (Capital Adequacy Requirement)
ii. must have, and comply with, a written, board endorsed capital management policy

30. CAPITAL MANAGEMENT continued

nib health funds limited continued

nib health funds limited 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 internal capital target ensures nib has a minimum level of capital given certain stressed capital scenarios. This currently approximates to 13.5% of total projected premiums for the next 12 months.

Any capital in excess of the benchmark, taking a 12-month forward looking view, will be reduced by way of dividend to nib holdings limited. nib health funds limited paid dividends of $9,400,000 in March 2014 and $90,000,000 June 2014 to nib holdings limited.

The surplus assets over benchmark at 30 June 2014 and 30 June 2013 were as follows:

	2014 $000	2013 $000
New capital standards		
Total Assets nib health funds limited (excluding unclosed business contributions – unearned)	506,722	NA
Capital Adequacy Requirement	326,268	NA
Surplus Assets for Capital Adequacy	180,454	NA
Net Assets nib health funds limited	205,933	NA
Internal capital target	200,797	NA
Surplus assets over internal capital target	5,136	NA
Prior capital standards		
Total Assets nib health funds limited	NA	497,127
Capital Adequacy Requirement	NA	375,880
Surplus Assets for Capital Adequacy	NA	121,247
Capital Adequacy Coverage Ratio	NA	1.32
Internal benchmark	NA	1.30
Internal benchmark requirement	NA	488,644
Surplus assets over internal benchmark	NA	8,483

nib nz limited

nib nz limited, a controlled entity, is required to comply with the Solvency Standards for non life insurance business published by the Reserve Bank of New Zealand (RBNZ). The Solvency Standards were introduced in New Zealand under the Insurance (Prudential Supervision) Act 2010 (IPSA) and became effective from 31 December 2012. The Solvency Standards determine the Minimum Solvency Capital required. A requirement of nib nz limited's insurance license is that it maintains capital above the Minimum Solvency Capital.

The overriding objective underpinning nib nz limited's capital management approach is to operate with a level of capital judged to be commercially prudent and within the bounds of the Board's risk appetite which achieves a balance between:

- maintaining a buffer above the RBNZ Minimum Solvency Requirement (MSR) for nib nz limited (as defined by the IPSA Solvency Standard for Non-life Insurance Business);
- maintaining a level of capital that ensures an appropriate financial strength rating; and
- avoiding holding an excessive level of capital, which would otherwise act to reduce returns on capital for the Group.

The benchmark capital adequacy coverage ratio is 1.75x plus $NZ10 million.

The surplus assets over benchmark at 30 June 2014 and 2013 are as follows:

	2014 $000	2013 $000
Actual Solvency Capital	29,615	18,879
Minimum Solvency Capital	7,823	8,526
Solvency Capital	21,792	10,353
Capital Adequacy Coverage Ratio	3.79	2.21
Internal benchmark	1.75+$NZ10m	1.75
Internal benchmark requirement	23,000	14,921
Surplus assets over internal benchmark	6,615	3,958

31. COMMITMENTS FOR EXPENDITURE

a. Operating lease commitments

	2014 $000	2013 $000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
– not longer than one year	3,406	2,242
– longer than one year and not longer than five years	10,140	3,277
– longer than five years	1,733	1,004
	15,279	**6,523**

b. Capital expenditure commitments

	2014 $000	2013 $000
Payable:		
– not longer than one year	477	421
	477	**421**

32. CONTINGENT LIABILITIES

nib holdings limited has provided a guarantee and indemnity to the ANZ Bank New Zealand on behalf of nib nz holdings limited in respect of the NZD$70 million term loan facility.

nib holdings limited has given an undertaking to extend financial support to nib Options pty limited, Realself pty limited and Realsurgeons pty limited by subordinating repayment of debts owed by the entities to nib holdings limited, in favour of all other creditors. This undertaking has been provided as a result of each of these subsidiaries experiencing deficiencies of capital and reserves, and is intended to enable the entities to continue their operations and fulfil all financial obligations now and in the future. The undertaking is provided for a minimum period of 12 months from 22 August 2014, or if earlier, to the date of sale of the entities should this occur.

nib health funds limited has given an undertaking to extend financial support to nib servicing facilities pty limited by subordinating repayment of debts owed by the entity to nib health funds limited, in favour of all other creditors. This undertaking has been provided as a result of the subsidiary experiencing deficiencies of capital and reserves, and is intended to enable the entity to continue its operations and fulfil all financial obligations now and in the future. The undertaking is provided for a minimum period of 12 months from 22 August 2014, or if earlier, to the date of sale of the entity should this occur.

33. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There have not been any other 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.

34. REMUNERATION OF AUDITORS

	2014 $	2013 $
a. PricewaterhouseCoopers Australia		
1. Audit services		
Audit and review of financial report and other audit work under the *Corporations Act 2001*	406,398	435,450
Total remuneration for audit services	**406,398**	**435,450**
2. Non-audit services		
Audit-related services		
Audit of regulatory returns	43,100	39,527
Total remuneration for audit-related services	**43,100**	**39,527**
Taxation services		
Tax compliance services	106,195	95,684
International tax consulting and tax advice on mergers and acquisitions	45,329	21,524
Total remuneration for taxation services	**151,524**	**117,208**
Other services		
Accounting advice and support	27,103	13,000
Review of regulatory returns	11,094	13,862
Total remuneration for other services	**38,197**	**26,862**
Total remuneration for non-audit services	**232,821**	**183,597**
Total remuneration of PricewaterhouseCoopers Australia	**639,219**	**619,047**
b. Network firms of PricewaterhouseCoopers Australia		
1. Audit services		
Audit and review of financial report and other audit work under the *Corporations Act 2001*	141,611	166,622
Total remuneration for audit services	**141,611**	**166,622**
2. Non-audit services		
Audit-related services		
Audit of regulatory returns	10,359	–
Total remuneration for audit-related services	**10,359**	**–**
Taxation services		
Tax compliance services	61,519	36,978
International tax consulting and tax advice on mergers and acquisitions	–	168,291
Total remuneration for taxation services	**61,519**	**205,269**
Other services		
Review of regulatory returns	–	9,424
Total remuneration for other services	**–**	**9,424**
Total remuneration for non-audit services	**71,878**	**214,693**
Total remuneration of network firms of PricewaterhouseCoopers	**213,489**	**381,315**
Total auditors' remuneration	**852,708**	**1,000,362**

35. 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:

	Notes	2014 $000	2013 $000
Cash and cash equivalents	9	148,722	143,056
Bank overdraft	19	(1,768)	(3,300)
		146,954	**139,756**

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

	2014 $000	2013 $000
Profit for the year	69,776	67,157
Net (gain)/loss on disposal of non-current assets	116	3
Fair value (gain)/loss on other financial assets through profit or loss	(11,379)	(8,840)
Impairment loss on property, plant and equipment	–	–
Non-cash employee benefits expense – share-based payments	320	136
Depreciation and amortisation	11,963	9,072
Amortisation of borrowing costs	56	29
Net exchange differences	(5,314)	43
Change in operating assets and liabilities, net of effect from purchase of controlled entity		
Decrease (increase) in current tax assets	(2,876)	–
Decrease (increase) in receivables	(3,221)	22,278
Decrease (increase) in reinsurance receivables	(27)	(81)
Decrease (increase) in deferred acquisition costs	(12,802)	(10,178)
Decrease (increase) in deferred tax assets	(2,062)	11,067
Increase (decrease) in trade payables	11,410	8,994
Increase (decrease) in unearned premium liability	20,777	(61,744)
Increase (decrease) in premium payback liability	536	(3,356)
Increase (decrease) in current tax liabilities	(2,405)	(3,224)
Increase (decrease) in deferred tax liabilities	6,133	(6,703)
Increase (decrease) in provisions	12,695	(4,617)
Net cash flow from operating activities	**93,696**	**20,036**

36. BUSINESS COMBINATION

a. Summary of acquisition

On 13 September 2013, nib Options pty limited (a 92.5% owned subsidiary incorporated on 31 July 2013) acquired 100% of the issued capital of RealSelf pty limited effective 1 July 2013.

Details of the purchase consideration are as follows:

	$000
Purchase consideration	
Cash	331
Contingent consideration	672
Total purchase consideration	**1,003**

The fair values of the assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value $000
Cash and cash equivalents	247
Receivables	91
Deferred tax assets	110
Property, plant and equipment	38
Payables	(110)
Borrowings	(550)
Prepaid subscriptions	(236)
Provision for employee entitlements	(10)
Net identifiable assets acquired	**(420)**
Add: Goodwill	1,423
Net assets acquired	**1,003**

The goodwill is attributable to the future profitability of the acquired business. None of the goodwill is expected to be deductible for tax purposes.

i. Contingent consideration

When a predetermined level of subscription income is achieved by the subsidiary, consideration of $750,000 will be payable in cash. It is anticipated that the required subscription income will be achieved in September 2016, therefore the consideration has been discounted to $672,025 using the risk free rate of 5.0%.

ii. Acquisition related costs

Total acquisition related costs are $247,975, of which $103,621 has been incurred in the current period and are included in other expenses in profit or loss and in operating cash flows in the statement of cash flows.

iii. Revenue and profit contribution

The acquired business contributed to the Group other income of $311,900 and net loss of $40,235 for the period from 1 July 2013 to 30 June 2014.

iv. Acquired receivables

The fair value of acquired receivables is $91,164. The gross contractual amount for trade receivables due is $126,864, of which $35,700 is expected to be uncollectible and has been fully provided for at acquisition.

b. Purchase consideration – cash outflow

	$000
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	331
Less: Cash balances acquired	(247)
Outflow of cash – investing activities	**84**

c. Prior period

On 30 November 2012, nib nz holdings limited (a wholly owned subsidiary of nib holdings limited, incorporated on 31 October 2012) acquired 100% of the issued share capital of nib nz limited (formerly Tower Medical Insurance Limited), New Zealand's second largest private health insurer. Details of this business combination were disclosed in Note 38 of the Group's Annual Financial Statements for the year ended 30 June 2013.

37. CONTROLLED ENTITIES

a. Subsidiaries and trusts

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	Beneficial ownership by Consolidated entity 2014 %	2013 %
nib holdings limited	Australia		
nib health funds limited	Australia	100	100
nib servicing facilities pty limited	Australia	100	100
nib health care services pty limited	Australia	100	100
The Heights Private Hospital pty limited	Australia	100	100
IMAN Australian Health Plans Pty Limited	Australia	100	100
nib nz holdings limited (previously nib nzed limited)	New Zealand	100	100
nib nz limited (previously Tower Medical Insurance Limited)	New Zealand	100	100
nib Options pty limited	Australia	92.5	N/A
RealSurgeons pty limited	Australia	92.5	N/A
RealSelf pty limited	Australia	92.5	N/A

nib holdings limited also controls the following trusts:

- nib Holdings Ltd Share Ownership Plan Trust
- nib salary sacrifice plan and matching plan trust
- nib Salary Sacrifice (NZ) and Matching Plan (NZ) Trust
- nib holdings – nib nz Employee Share Purchase Scheme Trust

37. CONTROLLED ENTITIES continued

b. Non-controlling interests (NCI)

Set out below is summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. The amounts disclosed for each subsidiary are before inter-company eliminations.

	nib Options pty limited consolidated group	
Summarised balance sheet	**2014 $000**	**2013 $000**
Current assets	494	–
Current liabilities	3,186	–
Current net assets	**(2,692)**	**–**
Non-current assets	2,647	–
Non-current liabilities	672	–
Non-current net assets	**1,975**	**–**
Net assets / liabilities	**(717)**	**–**
Accumulated NCI	**(54)**	**–**

	nib Options pty limited consolidated group	
Summarised statement of comprehensive income	**2014 $000**	**2013 $000**
Profit/(loss) for the year	**(1,798)**	**–**
Other comprehensive income	–	–
Total comprehensive income	**(1,798)**	**–**
Profit/(loss) allocated to NCI	**(135)**	**–**
Dividends paid to NCI	**–**	**–**

Summarised cash flows	**2014 $000**	**2013 $000**
Cashflows from operating activities	(2,412)	–
Cashflows from investing activities	(273)	–
Cash flows from financing activities	3,034	–
Net increase / (decrease) in cash and cash equivalents	**349**	**–**

c. Transactions with non-controlling interests

On 13 September 2013, the Group acquired 92.5% of the issued capital of nib Options pty limited (incorporated on 31 July 2013).

The effect on equity attributable to owners of nib holdings limited during the year is summarised as follows:

	2014 $000	**2013 $000**
Consideration paid by non-controlling interests	81	–

There were no non-controlling interests in 2013.

38. RELATED PARTY TRANSACTIONS

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 other entity.

b. Key management personnel compensation

	2014 $	2013 $
Short-term employee benefits	3,907,341	3,073,817
Post-employment benefits	234,169	188,077
Other long-term benefits	31,569	29,729
Termination benefits	–	323,551
Share-based payments	574,720	560,924
	4,747,799	**4,176,098**

Detailed remuneration disclosures are provided in the Remuneration Report on pages 19 to 41.

c. Transactions with other related parties

i. Purchases from entities controlled by key management personnel

The Group acquired the following goods and services from entities that are controlled by a close family member of one of the Group's Key Management Personnel:

- software development and maintenance

d. Outstanding balances arising from sales/purchases of goods and services

There are no outstanding balances at the end of the reporting period in relation to transactions with related parties.

39. SHARE-BASED PAYMENTS

a. Long-term incentive plan (LTIP)

Performance rights to acquire shares in nib holdings limited are granted to Executives under the Long-Term Incentive Plan (LTIP). Information relating to the LTIP is included in the Remuneration Report on pages 19 to 41.

The nib Holdings Ltd Share Ownership Plan Trust administers the Group's Executive management Short-Term Incentive and Long-Term Incentive Share Plans. This Trust has been consolidated in accordance with Note 1(b)(iii).

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

2014

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
27/05/2011	1/09/2014	–	412,534	–	–	–	412,534	–
21/12/2011	1/09/2015	–	392,307	–	–	–	392,307	–
19/11/2012	1/09/2016	–	553,236	–	–	–	553,236	–
29/11/2013	1/09/2017	–	–	559,057	–	–	559,057	–
		–	**1,358,077**	**559,057**	**–**	**–**	**1,917,134**	**–**

2013

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
28/01/2010	31/12/2014	–	416,516	–	(416,516)	–	–	–
27/05/2011	1/09/2014	–	467,878	–	–	(55,344)	412,534	–
21/12/2011	1/09/2015	–	443,333	–	–	(51,026)	392,307	–
19/11/2012	1/09/2016	–	–	602,751	–	(49,515)	553,236	–
			1,327,727	**602,751**	**(416,516)**	**(155,885)**	**1,358,077**	**–**

39. SHARE-BASED PAYMENTS continued

b. Employee Share Acquisition (tax exempt) Plan (ESAP)

Eligible Australian employees were offered the opportunity to receive part of their salary in the form of shares. All permanent employees who were an employee at the date the offer was made were eligible to participate in the scheme. Employees may elect not to participate in the scheme.

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

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

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

	2014	2013
Number of shares purchased on market under the plan to participating employees	157,158	288,712

The shares were allocated in two tranches. The first tranche of shares were allocated on 27 August 2013 following nib's FY13 full year results presentation at a volume weighted average price of $2.14. The remaining tranche of shares were allocated on 25 February 2014 following nib's FY14 half year results presentation at a volume weighted average price of $2.59.

c. nib NZ Employee Share Purchase Scheme (ESPS)

The scheme rules were adopted on 7 November 2013. On 9 December 2013 eligible employees were offered the opportunity to receive part of their salary in the form of shares. All full-time and permanent part-time employees who were an employee as at 9 December 2013 and the date shares were allocated to employees were eligible to participate in the scheme. Employees may elect not to participate in the scheme.

ESPS 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 scheme, participating employees were allocated an aggregate market value up to NZ$1,000 worth of fully paid ordinary shares in nib holdings limited. Subsequent offers under ESPS 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.

	2014	2013
Number of shares purchased on market under the scheme to participating employees	42,126	–

The shares were allocated on 26 February 2014 following nib's FY14 half year results presentation at a volume weighted average price of $2.58.

d. nib Salary Sacrifice Plan and Matching Plan

Business Unit Managers were offered the opportunity to receive part of their salary in the form of shares, with an additional amount of shares contributed by the Company. Employees may elect not to participate in the plan.

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

Under the plan, participating employees were allocated an aggregate market value up to $10,000 worth of fully paid ordinary shares in nib holdings limited, made up of $5,000 salary sacrifice and $5,000 matching company component. Subsequent offers under the plan are at the Board's discretion.

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

	2014	2013
Number of shares purchased on market under the plan to participating employees	69,710	64,210

e. Salary Sacrifice Plan (NZ) and Matching Plan (NZ)

The plan rules were adopted on 28 October 2013. On 9 December 2013 New Zealand business unit managers were offered the opportunity to receive part of their salary in the form of shares, with an additional amount of shares contributed by the Company. Employees may elect not to participate in the scheme.

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

Under the plan, participating employees were allocated an aggregate market value up to NZ$10,000 worth of fully paid ordinary shares in nib holdings limited, made up of NZ$5,000 salary sacrifice and NZ$5,000 matching company component. Subsequent offers under the plan are at the Board's discretion.

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

	2014	2013
Number of shares purchased on market under the plan to participating employees	2,938	–

f. Short-Term Performance Incentive (STI)

All eligible employees have a STI opportunity. For the MD/CEO and CFO the maximum target bonus opportunity is 60% of the base remuneration package with 30% of the calculated entitlement to be deferred into shares for one year. For the GMARHI the maximum target bonus opportunity is 50% of the base remuneration package with 30% of the calculated entitlement deferred into shares for one year. For other Executives the maximum entitlement is 40% of the remuneration package with 30% of the calculated entitlement deferred into shares for one year.

The nib Holdings Ltd Share Ownership Plan Trust administers the Group's Executive management Short-Term Incentive and Long-Term Incentive Share Plans. This Trust has been consolidated in accordance with Note 1(b)(iii).

Shares issued by the trust to the employees are acquired on-market prior to the issue. Shares held by the trust and not yet issued to employees at the end of the reporting period are shown as treasury shares in financial statements; see Note 25(d).

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

g. Expenses arising from share-based payments transactions

	2014 $000	2013 $000
Shares purchased on market under ESAP and ESPS	481	493
Shares purchased on market under nib Salary Sacrifice Plan and Matching Plan and Salary Sacrifice (NZ) and Matching Plan (NZ)	184	126
Performance rights granted under LTIP	320	136
Shares purchased on market under STI	129	79
	1,114	**834**

40. PARENT ENTITY FINANCIAL INFORMATION

a. Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2014 $000	2013 $000
Balance Sheet		
ASSETS		
Current assets	97,867	41,197
Non-current assets	435,833	435,544
Total assets	**533,700**	**476,741**
LIABILITIES		
Current liabilities	4,540	3,443
Non-current liabilities	584	–
Total liabilities	**5,124**	**3,443**
NET ASSETS	**528,576**	**473,298**
EQUITY		
Share Capital	297,178	297,178
Share-based payments	(615)	(935)
Retained Profits	232,013	177,055
Total Equity	**528,576**	**473,298**

	2014 $000	2013 $000
Profit or loss for the year	**99,956**	**66,131**
Total comprehensive income for the year	**99,956**	**66,131**

b. Contingent liabilities of the parent entity

Refer to Note 32.

41. COMPANY DETAILS

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

22 Honeysuckle Drive
NEWCASTLE NSW 2300

The Financial Report was authorised for issue by the Directors on 22 August 2014. The company has the power to amend and reissue the Financial Report.

Directors' Declaration

For the year ended 30 June 2014

In the Director's opinion:

a. the financial statements and notes set out on pages 51 to 114 are in accordance with the *Corporations Act 2001*, including:
   i. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
   ii. giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the financial year ended on that date; and

b. there are reasonable grounds to believe that nib holdings limited will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given declarations by the Chief Executive Officer and 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

Steve Crane
Director

Harold Bentley
Director

Newcastle, NSW
22 August 2014

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 2014, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for nib holdings limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those 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 consolidated 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.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757

Level 3 45 Watt Street, PO Box 798, NEWCASTLE NSW 2300

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pwc

Auditor's opinion

In our opinion:

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

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the remuneration report included in pages 19 to 41 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of nib holdings limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

John Campion

John Campion
Partner

Newcastle
22 August 2014

Shareholder Information

The shareholder information set out below was applicable as at 31 August 2014.

A. DISTRIBUTION OF EQUITY SECURITIES

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

Range	Class of equity security
1 – 1,000	66,734
1,001 – 5,000	83,828
5,001 – 10,000	11,824
10,001 – 100,000	1,170
100,001 and over	55
Total	**163,611**

There were 3,526 holders of less than a marketable parcel of ordinary shares.

B. EQUITY SECURITY HOLDERS

The 20 largest quoted equity security holders

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

	Ordinary Shares	
Name	Number held	Percentage of issued shares %
J P Morgan Nominees Australia Limited	30,993,473	7.06
HSBC Custody Nominees (Australia) Limited	17,643,279	4.02
RBC Investor Services Australia Nominees Pty Limited	17,464,447	3.98
BNP Paribas Noms Pty Ltd	10,376,497	2.36
Citicorp Nominees Pty Limited	9,033,538	2.06
National Nominees Limited	5,784,798	1.32
RBC Investor Services Australia Nominees Pty Limited	1,799,777	0.41
Citicorp Nominees Pty Limited	1,756,573	0.40
UBS Wealth Management Australia Nominees Pty Ltd	871,674	0.20
Questor Financial Services Limited	637,564	0.15
Fitzy (NSW) Pty Ltd	595,621	0.14
Warbont Nominees Pty Ltd	584,511	0.13
Mr Mark Anthony Fitzgibbon	512,649	0.12
Jemon Pty Ltd	500,000	0.11
Computershare Plan Co Pty Ltd	468,913	0.11
Mr Jinyue Zhang + Mrs Ting Wu	372,000	0.08
Mrs Michelle McPherson	315,925	0.07
Mr John Arthur Foyle Turner	260,000	0.06
Concord Pacific Investment Pty Ltd	250,000	0.06
CPU Share Plans Pty Ltd	250,000	0.06
	100,471,239	**22.89**

Unquoted equity securities

	Number on issue	Number of holders
Performance rights issued under the nib holdings Long-term Incentive Plan	1,917,134	6

C. SUBSTANTIAL HOLDERS

Substantial holders in the Company are set out below:

	Number held	Percentage of issued shares %
Perpetual Limited	41,727,027	9.50

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.

Corporate Directory

DIRECTORS

Chairman
Steve Crane

Managing Director/Chief Executive Officer
Mark Fitzgibbon

Lee Ausburn
Harold Bentley
Annette Carruthers
Philip Gardner
Christine McLoughlin

COMPANY SECRETARIES

Michelle McPherson
Roslyn Toms

EXECUTIVE MANAGEMENT

Managing Director/Chief Executive Officer
Mark Fitzgibbon

Deputy Chief Executive Officer and Chief Financial Officer
Michelle McPherson

Group Manager Australian Residents Health Insurance
Rhod McKensey

Chief Information Officer
Brendan Mills

Chief Executive Officer – nib New Zealand
Rob Hennin

Group Manager Benefits and Provider Relations
Justin Vaughan

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of nib holdings limited will be held at The Heritage Ballroom, The Westin, 1 Martin Place, Sydney at 11am on Wednesday, 29 October 2014.

A formal Notice of the Meeting is being distributed with the Annual Report.

SHARE REGISTER

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

1300 664 316

STOCK EXCHANGE LISTING

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

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Newcastle NSW 2300

13 14 63

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PricewaterhouseCoopers Centre
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Newcastle NSW 2300

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