



Almost 600 dedicated employees come together each day to create one nib. We are proud to feature many of our people in this year's Shareholder Review and Financial Report.

Contents

Performance Highlights	2
FY11 Financial Snapshot	3
Chairman's Report	4
Managing Director's Report	6
Growth	8
Service	10
Efficiencies	12
Profitability and Shareholder Returns	14
nib foundation	16
Board of Directors	18
Board and Executive Remuneration	20
Four-Year Performance Summary	22
Balance Sheet	23
Income Statement	24
Statement of Cash Flows	24
Information for Shareholders	inside back

The full 2011 nib annual report is available to view on our website:
nib.com.au/shareholders/2011annualreport

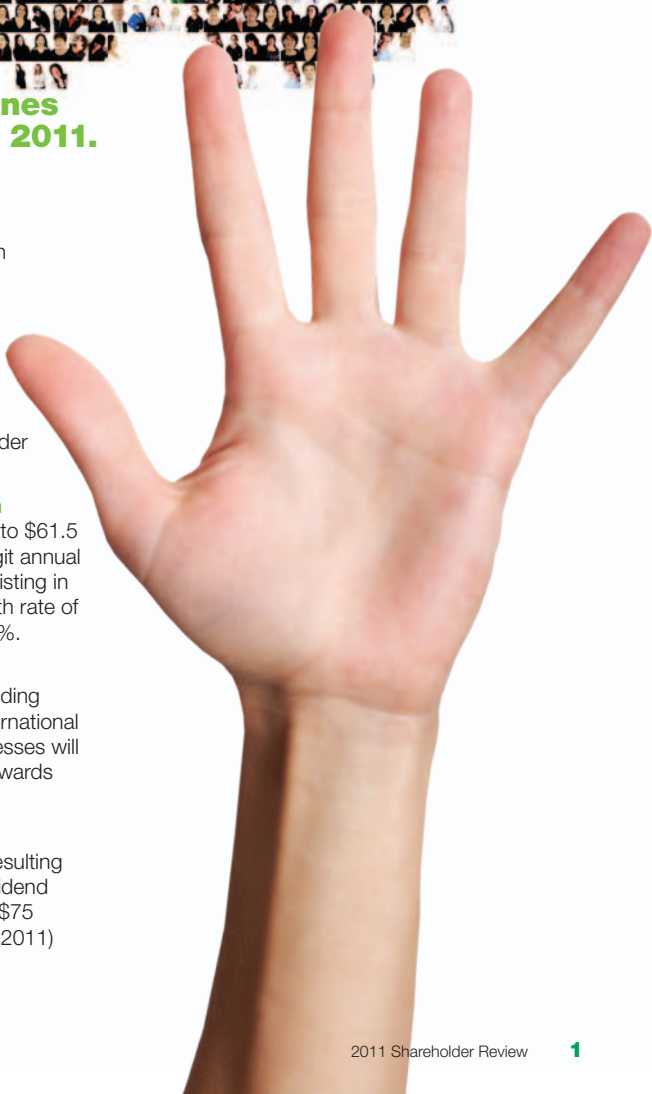


**We're proud to
present our**



**key milestones
achieved in 2011.**

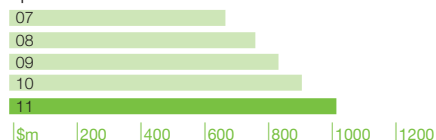
- 1 Premium revenue**
Premium revenue reached \$1 billion for the first time, up 11.8%.
- 2 Policyholder growth**
Net policyholder growth in domestic health insurance business of 6% compared to the industry average of 3.2%. nib has exceeded overall industry policyholder growth for 10 consecutive years.
- 3 Double-digit earnings growth**
Pre-tax underwriting profit up 31% to \$61.5 million, maintaining nib's double-digit annual underlying earnings growth. Since listing in FY07 the cumulative average growth rate of underwriting earnings has been 27%.
- 4 New revenue streams**
Significant progress made in expanding nib's International Workers and International Students businesses. These businesses will increasingly make a contribution towards future earnings.
- 5 Shareholder return**
Focused on capital management resulting in the announcement of special dividend (payable 30 September 2011) and \$75 million Capital Return (paid 21 July 2011) to optimise shareholder returns.



Performance Highlights

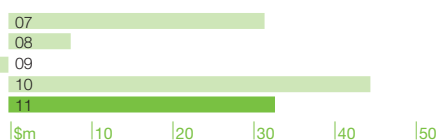
Premium revenue **\$1007.8m**

up 11.8%



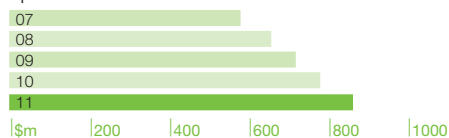
Net investment return² **\$32.1m**

down from \$44.5m



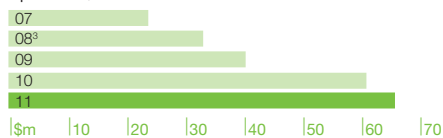
Net claims incurred **\$848.7m**

up 10.5%



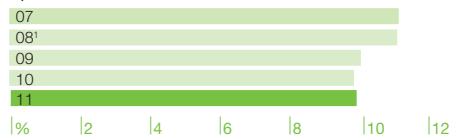
Net profit after tax **\$65.5m**

up from \$61.5m



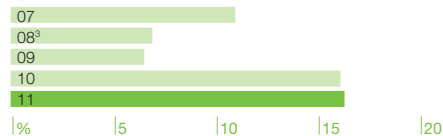
Management expense ratio **9.7%**

up from 9.6%



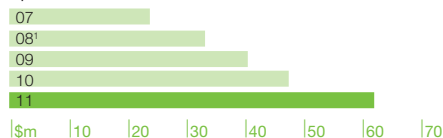
Return on equity⁶ **16.5%**

up from 16.3%



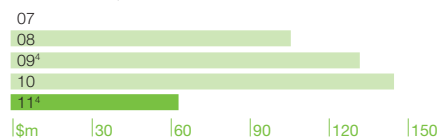
Pre-tax underwriting result **\$61.5m**

up from \$47.1m



Surplus capital⁵ **\$63m**

down from \$144.5m



¹ FY08 result was normalised to remove the impact of costs associated with nib's demutualisation and listing.

² Net of fees.

³ FY08 result was normalised to remove the impact of costs associated with nib's demutualisation and listing, and 'notional' tax.

⁴ nib health's internal benchmark for capital adequacy was revised from 1.5x the minimum capital requirement in FY08 to 1.4x the minimum capital requirement in FY09. The internal benchmark was further revised to 1.3x the minimum capital requirement in FY11.

⁵ As at 30 June 2011, after allowing for the 2011 final dividend payment and capital return.

⁶ Rolling 12 months, using average shareholders' equity and NPAT for a rolling 12 month period.

Financial Snapshot

(\$m)	2011	2010	Change	Change %
Premium revenue	1007.8	901.4	106.4	11.8
Gross margin ¹	159.1	133.5	25.6	19.2
Management expenses ²	(97.6)	(86.4)	11.2	13.0
Net margin	61.5	47.1	14.4	30.6
Net investment return ³	32.1	44.5	(12.4)	(27.9)
Other income	5.7	1.3	4.4	338.5
Other expenses	(7.5)	(5.9)	(1.6)	(27.1)
Profit before tax	91.9	87.0	4.9	5.6
Tax	(26.5)	(25.5)	(1.0)	(3.9)
NPAT	65.5	61.5	4.0	6.5
EPS (cps)	13.7	12.4	1.3	10.3
ROE ⁴ (%)	16.5	16.3	–	–

Total policyholders:⁵

431,173

Market share:⁵

7.5%

Retail and sales centres:

20

Persons covered:⁵

839,282

Net nib policyholder growth rate:⁵

6%

Full time employees:

572

¹ Gross margin is calculated as premium revenue less sum of claims expense, RETF levy and state levies.

² Management expense is calculated as sum of claims handling, acquisition costs and underwriting expenses.

³ Underwriting result is calculated as gross margin less management expenses.

⁴ Rolling 12 months, using average shareholders' equity and NPAT for a rolling 12 month period.

⁵ Health insurance business only.

Since our listing on the ASX in 2007 we have continued to improve our



and increase returns to shareholders.

I'm pleased to report another year of strong financial performance. Since our listing on the ASX in 2007 we have continued to improve our profitability and increase returns to shareholders. The net profit after tax (NPAT) of \$65.5 million in the fiscal year ending 30 June 2011 constitutes a return on invested capital of 16.5%.

The FY11 result and capital position has allowed the Board to declare a full year dividend of 13 cents per share (fully franked), which equates to a payout ratio of 93%. This comprised an ordinary dividend of 8 cents per share and a special dividend of 5 cents per share. The full year dividend is consistent with nib's dividend policy of paying fully franked ordinary dividends of between 50% to 60% of full year NPAT as well as returning capital by way of special dividends, subject to the availability of additional full franking credits. On an ordinary dividend basis, nib's FY11 total dividend of 8 cents per share was up 14% on the FY10 total dividend of 7 cents per share.

Following shareholder approval at the company's General Meeting on 5 July 2011, a Capital Return of approximately

\$75 million (\$0.1607 per nib share) was distributed to shareholders on 21 July 2011. This too, reflects the Board's commitment to sound capital management.

The Board remains confident about the company's future prospects given rising wealth in the nation, the increasing demands faced by the public hospital system and the pressure on Government to fund an ageing population. It is inevitable that the private sector will play an increased role in financing healthcare spending given the Government's fiscal constraints. While there are some risks surrounding Government policy, including the proposal to means test the 30% private health insurance rebate, these risks are manageable.

There is every reason to believe nib will continue to deliver the above-system growth we have been achieving for a number of years. We are also optimistic about our new international business and the contribution it will make to future earnings and shareholder returns.

The Board has long held the view that consolidation within the Australian

FY11 NPAT

\$65.5_m

**FULL YEAR
DIVIDEND**

13_{CPS}



Keith Lynch
Chairman

private health insurance industry will occur despite the obvious inertia. Given our strong capital position, nib is well placed to play a major role in any future consolidation. We also have an open mind about what that role may be. Our emphasis will always be upon maximising nib's enterprise value.

In the absence of any near-term investment opportunities, we have signalled to shareholders our preparedness to return further surplus capital above our prudential target. This explains our dividend policy, recent Capital Return and share buy-back. To what extent we return further capital will depend upon our assessment of investment prospects and the overall circumstances.

Our support of community and charitable organisations that seek to improve health and wellbeing grew further during the year. nib foundation, which was established following our demutualisation, has provided more than \$6 million in funding since inception to support 26 charitable organisations nationwide. I have taken great delight in seeing the difference the foundation makes to the lives of many people throughout Australia.

Brian Keane decided to step down as a Director of nib at our 2010 AGM last October. I would like to thank Brian for his service. He brought significant listed company and insurance industry experience to the Board and played a key role in shaping policy that has guided the direction of the company.

In June this year I also announced my retirement from the Board, effective 30 September 2011. Steve Crane, who was elected to the nib Board in September 2010, will succeed me as Chairman and I wish him well in his new role.

The Board welcomed Christine McLoughlin during the year. Christine brings more than 25 years experience in leading Australian businesses with a background in strategy, communications, commercial law, government regulation and human resources.

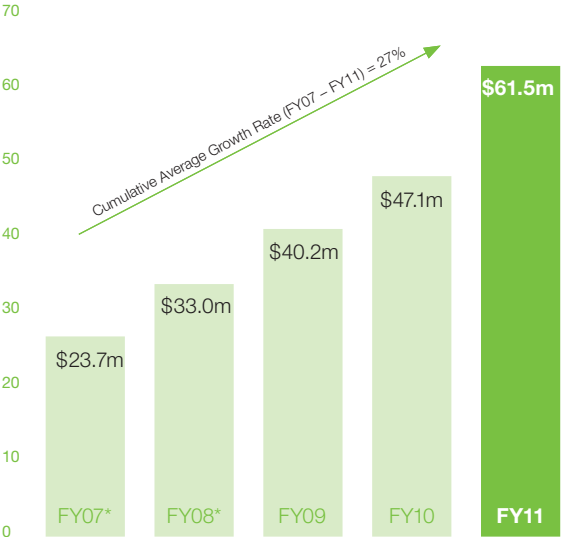
I firmly believe that the nib Board has the appropriate skills mix and experience to successfully guide nib into the future. I thank my fellow Directors for their support and wise counsel throughout my Chairmanship.

I would also like to thank our shareholders for their continued support of the company, nib's talented executive management team and the many dedicated employees who continue to drive nib's success.

Our impressive market growth is largely explained by our successful

nib had another strong year, with an underwriting profit of \$61.5 million, up almost 31% on the previous financial year. Together with investment returns and other income and expenses in the business we reported a net profit after tax (NPAT) of \$65.5 million, up 6.5% on the previous year. The more subdued NPAT growth largely reflects more modest investment returns on our circa \$512 million investment portfolio which returned 6.6% compared with 10.5% in FY10. Having made the portfolio more defensive last year, we expect more stable “normal” returns into the future.

nib underwriting profit



* Result was normalised to remove the impact of costs associated with nib's demutualisation and listing, and "notional" tax.

Since nib listed in 2007, we have produced cumulative average growth in our underwriting results of 27%.

As in previous years, our underlying profitability was driven by a combination of higher than industry policyholder growth and improved margins.

In net terms, we added 24,244 policyholders in our domestic health insurance business (HIB), a net growth rate of 6% compared with the industry average of 3.2%. Since FY07, our cumulative average policyholder growth rate has been 7%, compared with the industry's 3.4%.

Our impressive market growth is largely explained by our success in attracting new, younger policyholders. Last year, we accounted for 24% of industry growth in the 20-39 years of age segment. Younger people like our brand, products and distribution channels. Another factor has been our expansion into interstate markets, which now account for 30% of our customer base, compared to just 13% 10 years ago.

Our net underwriting margin of 6.1% compared favourably with 5.2% the previous year and within our core domestic business is probably as high as we can expect into the future. Nevertheless, a “skinny” 6% margin didn't stop us delivering a good return on invested capital (in our case, equity, given we have no debt) of 16.5% in FY11. We can still improve this return as we further optimise our capital structure. Improved operating



efficiency has contributed to our strong margins. Our HIB management expense ratio of 9.2% is the lowest since we listed and most of the improvement is being reinvested in marketing and organic growth.

During the year we acquired a specialist migrant worker insurer, IMAN, which made a small but meaningful contribution to our pre-tax earnings of \$2.8 million. The acquisition went very smoothly and has become a “beachhead” for us as we make further inroads into this particular market. We also moved into the market for international students by establishing our own capability in-house. We are very confident both businesses will help us continue to grow our underlying earnings.

Capital management remained a focus during the year given our significant surplus capital, zero debt and our inability to acquire another health insurer. During the year we bought back shares valued at \$2 million, more recently we undertook a \$75 million Capital Return (distributed to shareholders on 21 July 2011) and will return \$23.3 million to shareholders by way of a special final dividend of 5 cents per share (payable 30 September 2011). While we won’t be giving up on finding suitable acquisitions, shareholders can anticipate further capital management initiatives as circumstances dictate. I would like to highlight here just how much our success relies on the



**of attracting new,
younger policyholders.**

Mark Fitzgibbon
Managing Director

skills and qualities of our people. Many companies make this claim I know, but as a service company our people are our business. In the end, it’s not proximity to natural resources or manufacturing technology that determines our performance but the near 600 people who work for us.

As Keith has stated in his report, the outlook for nib remains very positive. Worldwide, as populations age and incomes rise, people are spending more on their healthcare. At the same time, the capacity of Governments to fund this demand is rapidly declining. Our challenge is to take advantage of this unfolding scenario to the benefit of our shareholders, our people, our community, and all those who rely upon the success of nib.

**FY11 NET
POLICYHOLDER
GROWTH RATE**

6%

**FY11 NET
UNDERWRITING
MARGIN**

\$61.5m

nib has exceeded average industry policyholder



for 10 consecutive years.

Premium Revenue

Annual premium revenue rose 12% in FY11 to reach \$1 billion for the first time. The result was aided by our organic growth strategy, initiatives to encourage policyholders to upgrade their policies and annual adjustments to premiums. The investment in new and higher-margin revenue streams, in particular nib's International Workers Business, also contributed.

Policyholder Growth

Policyholders in our domestic health insurance business grew 6% in FY11, almost double the industry average of 3.2%. nib's policyholder growth has exceeded average industry growth for 10 consecutive years reflecting our successful brand positioning, product development and focus on customer service.

During FY11 nib accounted for 13.6% of total policyholder growth across the private health insurance industry, and 24% of growth within the 20-39 years of age segment.

New South Wales remains nib heartland, but expansion into Victoria, Queensland and more recently Western Australia continues to yield

positive results. In FY11, 44% of all policyholder sales were generated outside New South Wales.

Policyholder lapse of 9% was up on the FY10 result of 8.9%. Lapse is a focus for the business, with a number of initiatives aimed at reversing this trend underway or planned.

Over the past five years our organic growth strategy has successfully attracted a large number of younger, lower-risk policyholders who are new to the category with entry level products. The challenge now is to move these policyholders to higher value products as their life stage, needs and financial circumstances change. Product migration initiatives are estimated to have boosted revenue by \$9.2 million in FY11.

Premium Increases

On 1 April 2011, we increased premiums on average by 6.19% across all products, compared with an industry average of 5.56%. The increase reflected forecast claims inflation, a number of product and benefit changes across our product portfolio, as well as the increasing costs of the Government's risk equalisation levy.



The levy requires all health insurers to share the costs associated with older and chronically ill Australians and remains a significant contributor to our overall increase in claims expense.

nib is the largest industry contributor to the levy, which is an increasing burden and one that will continue to influence our annual pricing submission to the Federal Government.

International Businesses

The acquisition of IMAN was completed in October 2010 and signalled nib's entry into the International Workers market. The business, which provides health cover for temporary migrant workers in Australia, operates in a higher-margin market than the domestic health insurance industry. With nib only acquiring IMAN in October 2010, the business generated \$16 million in premium revenue for the nine months ending 30 June 2011, with a pre-tax net underwriting profit of \$2.8 million. As at 30 June 2011, nib had 13,899

nib opened its first Western Australian Retail Centre in Booragoon, Perth in May 2011.

international worker policyholders, with policyholder growth for the nine-month period of 16.6%.

nib's International Students business is in the early stages of development and made a loss of \$1.1 million for FY11, due to business investment to establish capabilities within this market. nib's International Students strategy is to target alternative distribution channels and is already yielding positive results with nib having acquired students from the UAE, Kuwait and Malaysia.

Life and Travel Insurance

In FY11 life and travel insurance commissions totalled \$0.9 million, almost double the FY10 result. We also expanded our life insurance portfolio offered in partnership with Tower Australia to include the nib Funeral Plan. More recently we launched nib Bill Relief, an insurance product that covers loan repayments and household expenses if a customer is left without an income.

nib's diverse and

nib's diverse and innovative range of customer service channels is designed to provide our customers with the convenience and flexibility to interact with us when, where and how it suits them.

nib.com.au

nib's website is a key customer channel for sales, service, claiming and information.

During FY11:

- The website attracted approximately 1.7 million unique visitors and accounted for 34% of all new sales.
- The proportion of nib policyholders registered for online services reached 59%.
- Almost 56,000 health cover claims were lodged online; an increase of 39% on FY10.

Beyond these key customer service functions, online videos have also been a major driver of traffic to the site during FY11. They provide informative and easy-to-understand information on complex topics, including the Australian health system and health insurance.

Mobile Internet

Mobile internet is our fastest growing channel for both prospective and current nib customers and accounted for around 10% of all traffic to nib.com.au in FY11.

The success of this channel has been driven by the launch of nib's iPhone app that enables prospective customers to receive a policy quote, while current



range of customer service channels is designed to provide our customers with the convenience and flexibility to interact with us when, where and how it suits them.





customers can manage their health cover, including making a claim, directly from their smartphone. One in five people now own a smartphone with forecasts that there will be more mobile internet users than desktop users by 2013. nib is now well placed to meet and service this growing demand.

Retail Network

During FY11 nib expanded its national retail network, opening a Retail Centre in the Perth suburb of Booragoon in Western Australia and a kiosk-style sales centre in Tuggerah, on the New South Wales Central Coast. The kiosks are an effective face-to-face sales service in high traffic locations such as shopping centres.

Customer Care Centre

Our telephone-based Customer Care Centre remains an important service channel for the business receiving almost 900,000 sales and service calls in FY11.

The rollout of the remote agent workforce was one of the most significant achievements for the Centre during the year. It provides an efficient and effective solution to meeting our customer service goals through the Customer Care Centre. The program provides employees with the flexibility to work from home during hours that suit their needs, while enabling the Centre to scale its workforce according to demand.

nib Express

A self-service customer kiosk, known as nib Express, was developed in FY11. These terminals allow customers to access general information about their nib health cover, procure a quote, make a request to join nib, as well as submit ancillary claims for processing and payment. International Students and International Business policyholders can also process their medical claims via the service.

The kiosks are planned to be deployed in Retail Centres that are without claiming facilities, as well as in nib Dental and Eyecare centres, universities, shopping centres, and other high-traffic areas where nib currently does not have a permanent retail presence.

Whitecoat

A new online service known as Whitecoat is under development by nib and will allow all Australians to search and compare healthcare providers such as dentists, optometrists, chiropractors and physiotherapists.

This development is in response to customer demand for the best information possible when they are choosing a healthcare provider. Whitecoat will be particularly useful for people who have moved to a new area, need treatment for a specialist service for the first time or just want to check out their own healthcare provider's rating.

nib Express will allow customers to obtain a quote, make a request to join or submit a claim.

Efficiencies

nib has invested in business automation initiatives to significantly improve and



claims processing and new business administration.

Continually identifying and improving operational efficiencies, while maintaining price competitiveness, is critical to ensure we keep our net underwriting margin in the target range of 5% to 6%.

Our FY11 HIB management expense ratio (MER) of 9.2% was again below the previous year's result of 9.6% and the lowest since listing on ASX. This reflects the investment nib has made in business automation initiatives to significantly improve claims processing and new business administration.

Our excellent MER result has been achieved despite an increase in marketing and advertising to support our organic growth strategy and entry into new markets, such as Western Australia.

HIB employment costs for the year of \$40.2 million were 8.6% higher than FY10 due to normal wage inflation and an increase in full time equivalents (FTE) to support business initiatives and growth.

Claims Management

nib's HIB claims expenses and levies for FY11 totalled \$841 million. This was an increase of almost 10% on

FY10 and resulted in a claims expense ratio of almost 85%. This represents a return of 84.8 cents in customer benefits paid for every \$1 contributed in premiums.

The risk equalisation levy, a system that requires all health insurers to share the costs associated with older and chronically ill Australians, remains a significant contributor to our overall increase in claims expense.

For FY11, our net risk equalisation levy expense was \$132.7 million, an increase of approximately 21% on FY10. nib remains optimistic that the current risk equalisation scheme will undergo changes in the future to better reward good risk management and encourage funds to offer customer health and wellness initiatives.

Hospital and ancillary claims paid are our two single biggest expenses and were \$463 million and \$221 million respectively in FY11. Managing and understanding the inflationary drivers associated with these areas is a significant opportunity for nib.

During the year hospital benefits paid on behalf of nib customers increased by 8%, reflecting a 4.2% increase in the number of hospital episodes.

Following our resignation from hospital buying group AHSA on 30 June 2010, we have successfully completed the transition to nib hospital contracts. Throughout this process we maintained cost efficiency and retained relationships with 480 hospital facilities across Australia.

Establishing longer-term arrangements with hospital groups will be a focus for future contract negotiations. We will also investigate innovative and mutually-beneficial payment models to improve customer outcomes and reduce service costs.

Operating Costs

Significant progress has been made to reduce the cost of processing customer claims and policy administration, and simplify the way in which our customers can make a claim and receive payment.

Electronic and straight-through processing of customer claims remains a priority for the business as we look to reduce operating costs and provide faster payment to our customers.

The rate of electronic claiming of ancillary benefits by customers remains high due to the widespread use of point-of-service claiming such as HICAPS and i-Soft. This, along with the introduction of new technologies such as the smartphone claiming application, online and tele-claiming, has resulted in 81% of all ancillary claims being processed electronically. The ongoing emergence of these popular service channels will result in continued growth in electronic claims processing in FY12.

A rollout of the Eclipse 6 hospital claiming system continued in FY11 with 35% of all hospital and medical in-patient claims processed through

this electronic channel. This is expected to significantly increase over the next two years as more hospital facilities come online.

The introduction of Healthstream, a new inbound paperwork processor, as well as improvement to our straight-through processing capacity, has significantly improved claims and document processing in FY11. These system improvements have delivered a 30% baseline cost saving per transaction compared with manual processing.

During the year significant progress was also made with the automation of our essential outbound customer correspondence, with an average of 31% of daily customer correspondence now sent by email.

New technologies, such as nib's online services, are increasing the number of claims processed electronically by nib.



nib's continued



underlying profitability and stable investment returns delivered earnings per share of 13.7 cents and a return on equity of 16.5%.

Since 2007 nib has achieved cumulative annual underlying profitability growth of 27%. This has been achieved through improved operating efficiency and premium revenue growth.

In FY11, nib's pre-tax underwriting profit of \$61.5 million was up 31% on the FY10 result of \$47.1 million.

Organic growth within our health insurance business remains a key driver of earnings growth, while the investment in new earnings streams, in particular nib's international business operations, will continue to contribute to nib's annual double-digit underlying earnings growth.

As at 30 June 2011, nib had total investment assets of \$511.9 million, up from \$492.4 million at 30 June 2010. The increase primarily reflects a combination of investment income of \$32.1 million (before tax) and underlying profitability of \$61.5 million (before tax), offset by dividends paid to shareholders in FY11 of \$43.4 million, the purchase of IMAN in October 2010 for \$23 million (net cash outflow) and \$2 million in the on-market share buy-back.

During October 2010 nib transitioned its investment portfolio to MLC as its preferred supplier of investment asset consultancy services. Investment income for the year of \$32.1 million or a 6.6% return is in line with relevant portfolio benchmarks. nib's investment policy is to target an investment allocation of a defensive/growth split of 80/20 (80/20 as at 30 June 2011) for investments required to maintain internal prudential requirements (1.3x), and 100% defensive for capital above our internal prudential target.

Net profit after tax (NPAT) for FY11 was \$65.5 million up 6.5%, compared to \$61.5 million in FY10.

Overall, nib's continued strong underlying profitability and investment returns delivered earnings per share of 13.7 cents and a return on equity of 16.5%.

nib's FY11 full year dividend was 13 cents per share, of which 8 cents per share is classified as an ordinary dividend and 5 cents per share as a special dividend or capital management initiative.

nib's dividend policy will continue to reflect a payout ratio of fully franked



dividends between 50% to 60% of full year NPAT, and to the extent made possible by franking credits, the release of surplus capital. The FY11 full year dividend (13 cents per share) equates to a payout ratio of 93% of FY11 NPAT, highlighting the extent of the surplus capital component. FY11 ordinary full year dividend of 8 cents per share represents a payout ratio of 57%.

Since 2009 nib has returned \$48.2 million of surplus capital to shareholders as special dividends.

In addition to the payment of special dividends, nib has undertaken other capital management initiatives. The Capital Return of approximately \$75 million (\$0.1607 per nib share) was by far the most substantial, and was distributed to shareholders on 21 July 2011. The Capital Return makes good on the promise to shareholders that in the absence of merger and acquisition investments, nib would look to more substantial capital management

initiatives during the 2011 calendar year. The Board will consider an additional Capital Return in 2012 depending upon our capital position.

During the year nib purchased and cancelled 1.6 million shares in an on market share buy-back. Since commencing the buy-back in 2008, 24.1 million shares at a total cost of \$20.7 million have been purchased and cancelled. nib will continue to prudently buy-back up to 10% of its issued capital, approximately 51.8 million shares at the time of the commencement of the buy-back in August 2008, which equates to a potential further buy-back of 27.7 million shares.

At 30 June 2011, nib had capital of \$63 million above its internal prudential target after allowing for the payment of the FY11 final dividend of 9 cents per share (totalling \$42 million) and Capital Return (approximately \$75 million).

nib continued to deliver strong returns for shareholders throughout FY11.

Over the past 12 months nib foundation announced \$650,000 in funding to 10

nib remains committed to improving the health and wellbeing of all Australians through its charitable organisation, nib foundation. Since establishment in 2008 it has allocated more than \$6 million in funding to health and wellbeing initiatives.

During the past year, the foundation continued to support a range of national and community programs which provide innovative and practical approaches to health issues.

Community Grants

Over the past 12 months the foundation announced \$650,000 in funding to 10 community groups across Australia as part of its second annual community grants funding round.

In the Hunter region, nib foundation will contribute an additional 100,000 meals to *Oz Harvest's Food Rescue Program* in the 2011 calendar year, helping to support hundreds of people in need. The grant will allow local charities to reduce their food budgets and redirect their funding for education and rehabilitation.

More than 830 children who enter emergency foster care or domestic violence refuges will receive basic and personal items thanks to the extension of the *Alannah & Madeline Foundation's Buddy Bag Program* into the area.

nib foundation also supported in the region the *Youth off the Street's*



Ali Duncan and Ashlea Stollard are just two of the young people who have lost a parent to cancer, that are supported through Canteen's Offspring Support Program, funded by nib foundation.

Clinical Residential Program based at Holborow House, which prepares young at-risk males for integration into mainstream society.

Hunter wheelchair residents will now have the opportunity to participate in a structured social and sporting program thanks to foundation funding of *Connectability's Sport and More* competition.

In line with the health fund's expansion into Western Australia, nib foundation partnered with two community organisations in the Perth region.

Free health services have been made more accessible to the disadvantaged community of Kwinana with the launch of the *St Patrick's Community Support Centre's Hands on Health Program* in the region. Also in Perth, the 10-week *Kids Are Kids! Know How! Project*



groups across Australia.

is investigating the impact of using technology-based tools in a therapeutic setting for children.

In Victoria, the foundation has funded Australia's first exclusively female, early intervention program for at-risk and disadvantaged youth at Typo Station conducted by *Evolve*. A community grant is also assisting *Brainlink's Carer Education and Support Program* for carers of people with an acquired brain disorder in regional Victoria.

Cystic Fibrosis NSW launched their *Northern New South Wales Outreach Support Service*, providing families throughout the region with support and education, while *Centacare's 12-week If Only* behavioural change program for men who have been perpetrators of domestic and family violence is also underway in Mackay, Queensland.

National Grants

The foundation's major partners continued to deliver results during FY11 through their national three-year programs.

Canteen's unique *Offspring Support Program* began operating in the Hunter, Brisbane and Melbourne during the year. It is helping to improve the wellbeing, resilience and coping mechanisms of young people, aged

12 to 24, living with the diagnosis of a parent with cancer or who are dealing with the loss of a parent to the disease.

More than 400 facilitators have been trained for the *Hunter Institute of Mental Health's Partners in Depression Program* throughout Australia. The six-week, evidence-based, psycho-educational program has already been delivered to around 500 participants and will continue to be rolled out at both public and private facilities across the country during FY12.

The *Hunter Medical Research Institute's Healthy Schools, Healthy Futures Program* has begun surveying 20 schools throughout the Hunter and Northern New South Wales. Action plans designed to prevent the take up of risk-taking behaviours and improve student wellbeing will be developed in conjunction with the schools during 2012.

nib foundation will continue to support programs through its National and Community Grants to help make a tangible difference to health issues facing all Australians.

For more information about nib foundation please visit nibfoundation.com.au

Board of Directors



From left:

Keith Lynch, Mark Fitzgibbon,
Steve Crane, Harold Bentley,
Dr Annette Carruthers,
Philip Gardner, Christine McLoughlin

Keith Lynch CHAIRMAN

BSc (Tech) UNSW, MAICD

Independent Non-Executive Director

Keith has been the Chair of nib health funds limited since 2001 and a Director since 1982. He is a Director of IMAN Australian Health Plans Pty Limited, The Heights Private Hospital Pty Limited and nib servicing facilities pty limited.

Keith is a former Director of Newcastle Grammar School and CW Pope & Associates Pty Ltd. He has also held senior executive positions with several Hunter-based engineering firms.

bodies for licensed clubs and has held several CEO positions in local government, including General Manager of Bankstown Council between 1995 and 1999.

Mark is a Director of nib health funds limited, nib health care services pty limited, nib servicing facilities pty limited and IMAN Australian Health Plans Pty Limited. He is also a Director of the Australian Health Insurance Association Ltd.

Steve Crane DIRECTOR

BCommerce, FAICD, SF Fin

Independent Non-Executive Director

Steve was elected to the nib holdings limited Board in September 2010. He is also a Director of nib health funds limited and IMAN Australian Health Plans Pty Limited.

He has 40 years of financial market experience, as well as an extensive background in publicly-listed companies.

Steve also holds Directorships with Transfield Services Limited, Bank of Queensland Limited, APA Group and Taronga Conservation Society Australia. He is also Chairman of Global Valve Technology Limited and a member of the RBS Group (Australia) Advisory Council.

He was previously the Chief Executive of BZW Australia, ABN AMRO and Investa Property Group, and a Trustee of the Australian Reward Investment Alliance, APA Ethane Limited.

Mark Fitzgibbon CEO AND MANAGING DIRECTOR

MBA, MA, ALCA, FAICD

Executive Director

Mark joined nib health funds limited in 2002 as Chief Executive Officer.

He was previously the CEO of the national and peak industry

Harold Bentley DIRECTOR

MA Hons, FCA, FCIS

Independent Non-Executive Director

Harold has been a Director of nib holdings limited since 7 November 2007. He is also a Director of nib health funds limited and IMAN Australian Health Plans Pty Limited.



Harold has more than 20 years experience in the insurance sector. He was formerly the Chief Financial Officer of Promina Group Ltd and an Audit Manager of PricewaterhouseCoopers specialising in finance and insurance companies.

a range of national, state and regional health care organisations, including The Heights Private Hospital Pty Limited and the National Heart Foundation of Australia (NSW Division).

Christine McLoughlin

DIRECTOR

BA/LLB (Hons) FAICD

Independent Non-Executive Director

Christine was elected to the nib holdings limited Board on 20 March 2011. She is also a Director of nib health funds limited and IMAN Australian Health Plans Pty Limited.

She has more than 25 years experience as a financial services and legal executive, having previously worked for AMP, IAG, Optus and professional services industries in Australia, the UK and Asia.

Christine is also a Company Director of Westpac's Life and General Insurance business, The Australian Nuclear Science & Technology Organisation (ANSTO) and the TAC (Transport Accident Commission). She is a former Director of the AMP Foundation.

Dr Annette Carruthers

DIRECTOR

MBBS (Hons), FRACGP, FAICD, GradCertAppFin

Independent Non-Executive Director

Annette joined nib holdings limited as a Director on 20 September 2007. She is also a Director of nib health funds limited, nib health care services pty limited and IMAN Australian Health Plans Pty Limited.

A general medical practitioner with comprehensive experience in patient care and clinical risk management, Annette also holds Directorships and representative positions in

Philip Gardner

DIRECTOR

BComm, CPA, CCM, FAICD, JP

Independent Non-Executive Director

Philip has been a Director of nib holdings limited since 28 May 2007. He is also a Director of nib health funds limited and IMAN Australian Health Plans Pty Limited.

He is the current Chief Executive Officer of The Wests Group Australia, a Director of Newcastle Airport Limited and an adjunct lecturer in the Faculty of Business and Law at the University of Newcastle.

Board and Executive Remuneration

	Short-term employee benefits		
	Cash salary and fees \$	Cash bonus \$	Non-monetary benefits \$
2011			
Keith Lynch	140,000	–	2,720
Harold Bentley	67,000	–	–
Annette Carruthers	96,590	–	2,905
Steve Crane	82,444	–	–
Philip Gardner	116,514	–	–
Brian Keane	34,502	–	–
Christine McLoughlin	30,136	–	–
Sub-total non-executive Directors	567,186	–	5,625
Mark Fitzgibbon ²	510,797	192,238	98,366
Matthew Henderson ³	225,070	41,908	6,503
Melanie Kneale ²	343,578	85,603	39,131
Rhoderic McKensey ²	291,304	73,875	16,466
Michelle McPherson ²	343,251	101,653	24,698
Sub-total executives	1,714,000	495,277	185,164
Total key management personnel compensation	2,281,186	495,277	190,789
Other group executives			
Wendy Phelps ²	187,555	–	–
2010			
Keith Lynch	100,320	–	672
Harold Bentley	62,564	–	–
Annette Carruthers	92,032	–	2,100
Philip Gardner	111,956	–	–
Brian Keane	72,740	–	–
Sub-total non-executive Directors	439,612	–	2,772
Mark Fitzgibbon ²	515,585	92,282	64,782
Melanie Kneale ²	341,377	106,490	14,407
Rhoderic McKensey ²	245,731	89,404	9,682
Michelle McPherson ²	352,702	124,199	25,334
Sub-total executives	1,455,395	412,375	114,205
Total key management personnel compensation	1,895,007	412,375	116,977
Other group executives			
Mark Bishop ^{2,4}	128,388	–	1,922

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

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

3. Matthew Henderson was appointed Group Executive Corporate and International Business on 1 May 2011. Before this appointment he was the company's Channels Manager. Amounts shown above include all Mr Henderson's remuneration during the reporting period, whether as an executive officer or as Channels Manager. Amounts received in his position as Group Executive Corporate and International Business amounted to \$68,848, made up of cash salary of \$48,938, cash bonus of \$12,702, non-monetary benefits of \$582, superannuation of \$2,533, share based bonus of \$3,175 and performance right of \$918.

Post-employment benefits		Long-term benefits	Termination benefits	Share-based payments				
Super-annuation \$	Retirement benefits \$	Long service leave \$	Termination benefits \$	Salary and fees \$	Bonus ¹ \$	Performance rights \$	Total \$	
50,000	18,349	–	–	–	–	–	211,069	
50,000	–	–	–	–	–	–	117,000	
30,410	4,653	–	–	–	–	–	134,558	
7,420	–	–	–	–	–	–	89,864	
10,486	–	–	–	–	–	–	127,000	
3,220	–	–	–	–	–	–	37,722	
2,712	–	–	–	–	–	–	32,848	
154,248	23,002	–	–	–	–	–	750,061	
50,000	–	9,197	–	–	118,201	310,784	1,289,583	
15,199	–	–	–	–	3,175	918	292,773	
15,199	–	–	–	–	24,204	108,374	616,089	
15,199	–	4,935	–	–	19,750	54,559	476,088	
20,738	–	6,381	–	–	41,191	117,971	655,883	
116,335	–	20,513	–	–	206,521	592,606	3,330,416	
270,583	23,002	20,513	–	–	206,521	592,606	4,080,477	
40,667	–	–	510,283	–	–	–	738,505	
50,000	50,887	–	–	33,780	–	–	235,659	
50,000	–	–	–	–	–	–	112,564	
30,000	6,853	–	–	–	–	–	130,985	
10,076	–	–	–	–	–	–	122,032	
39,824	–	–	–	–	–	–	112,564	
179,900	57,740	–	–	33,780	–	–	713,804	
14,461	–	8,759	–	–	147,052	297,949	1,140,870	
14,461	–	–	–	–	–	76,470	553,205	
14,461	–	21,474	–	–	–	44,527	425,279	
20,000	–	6,157	–	–	6,482	80,703	615,577	
63,383	–	36,390	–	–	153,534	499,649	2,734,931	
243,283	57,740	36,390	–	33,780	153,534	499,649	3,448,735	
14,461	–	2,791	681,557	–	–	–	829,119	

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

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Four-Year Performance Summary

		Consolidated			
		2011	2010	2009	2008
Operating Performance					
Total revenue	\$m	1,007.8	901.4	829.5	758.2
Earnings before interest, tax, depreciation ¹	\$m	86.8	83.1	26.8	38.3
Depreciation	\$m	6.8	4.8	4.1	3.8
Normalised net profit	\$m	65.5	61.5	23.8	26.7
Reported net profit	\$m	65.5	61.5	23.8	0.4
Operating cash flow	\$m	88.3	66.3	44.2	53.2
Capital expenditure	\$m	5.2	4.8	17.6	23.6
Balance Sheet Structure					
Total assets	\$m	639.2	588.0	536.5	565.8
Equity	\$m	411.8	391.4	361.9	384.8
Net debt	\$m	–	–	–	–
Per Share Performance					
Number of shares	m	466.7	495.4	496.1	517.9
Weighted average number of shares – basic ¹	m	478.5	495.8	506.7	517.9
Weighted average number of shares – diluted ¹	m	478.5	495.8	506.7	517.9
Basic earnings per share ¹	cents	13.7	12.4	4.7	5.2
Diluted earnings per share ¹	cents	13.7	12.4	4.7	5.2
Share price at year end	dollars	1.4	1.3	0.9	0.6
Dividend per share	cents	13.0	7.0	7.4	2.1
Dividend payout ratio ¹	%	92.7	56.4	154.8	40.7

1. FY08 result was normalised.

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Balance Sheet

<i>In thousands of AUD</i>	Consolidated	
	2011	2010
Current assets		
Cash & cash equivalents	240,772	197,415
Financial assets at fair value	239,293	264,408
Other current assets	49,469	61,812
Total current assets	529,534	523,635
Non-current assets		
Available-for-sale financial assets	2,206	1,500
Property, plant & equipment and intangibles	80,956	53,470
Other non-current assets	26,554	9,377
Total non-current assets	109,716	64,347
Total assets	639,250	587,982
Current liabilities		
Outstanding claims liability (OSC)	65,883	62,119
Unearned premium liability (UPL)	65,202	54,443
Other current liabilities	95,384	79,151
Total current liabilities	226,469	195,713
Non-current liabilities	991	868
Total liabilities	227,460	196,581
Net assets	411,790	391,401
Equity		
Share capital	42,193	42,437
Retained profits	367,595	347,358
Reserves	2,002	1,606
Total equity	411,790	391,401

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Income Statement

Consolidated

In thousands of AUD

	2011	2010
Premium revenue	1,007,848	901,370
Net claims incurred	(864,914)	(782,279)
Underwriting expenses	(81,432)	(72,026)
Underwriting result	61,502	47,065
Investment income/(loss) (net of fees)	32,126	44,450
Other income	5,750	1,291
Other expenses	(7,462)	(5,840)
Profit before income tax	91,916	86,966
Income tax expense	(26,453)	(25,441)
Profit from continuing operations	65,463	61,525

Statement of Cash Flows

Consolidated

In thousands of AUD

	2011	2010
Cash flows from operating activities		
Receipts from policyholders and customer	1,024,410	912,444
Payments to policyholders, suppliers and employees	(942,516)	(844,003)
Cash generated by operations	81,894	68,441
Dividends, distributions and interest received	25,573	13,782
Transactions costs relating to acquisition of business	(1,056)	(79)
Interest (paid)/refunded	(2)	1
Income taxes paid	(18,129)	(15,969)
Net cash inflow from operating activities	88,280	66,176
Cash flows from investing activities		
Proceeds from disposal of other financial assets at fair value through the profit and loss	322,666	8
Payments for other financial assets at fair value through the profit and loss	(293,393)	(4,729)
Payments for property, plant and equipment and intangibles	(5,230)	(4,770)
Proceeds from sale of property, plant and equipment and intangibles	7	340
Proceeds from sale of subsidiary	–	2,265
Proceeds from sale of Eye Care and Dental businesses	250	250
Payment for acquisition of business	(23,211)	–
Net cash outflow from investing activities	1,089	(6,636)
Cash flows from financing activities		
Payments for share buy-back	(2,028)	(793)
Payments for employee performance and bonus shares	(552)	–
Dividends paid to the company's shareholders	(43,442)	(31,741)
Proceeds from finance lease	–	82
Net cash outflow from financing activities	(46,022)	(32,452)
Net increase (decrease) in cash and cash equivalents	43,347	27,088
Cash and cash equivalents at beginning of the year	193,822	166,734
Cash and cash equivalents at end of the year	237,169	193,822

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2011 Annual General Meeting

The Annual General Meeting (AGM) of nib holdings limited will be held on Wednesday 26 October 2011 at 1.00pm (Australian Eastern Daylight Savings Time) at the Fort Scratchley Multipurpose Centre, 1 Nobbys Road, Newcastle NSW 2300.

A webcast of the meeting will be streamed live at nib.com.au/shareholders

Proxy forms can be lodged by post or online.

Full details of the AGM, including Notice of Meeting are also available at nib.com.au/shareholders

Financial Calendar*

30 August 2011

Ex-dividend date for final dividend

5 September 2011

Record date for final dividend

30 September 2011

Payment date for final dividend

26 October 2011

2011 Annual General Meeting

February 2012**

FY12 Half Year Results Announcement

* Dates are subject to change.

** Date to be confirmed.

Corporate Governance

The Board and management of the Group are committed to achieving and demonstrating the highest standards of corporate governance and to following the ASX Governance Council Corporate Governance Principles and Recommendations 2007 (ASXCGC Recommendations). In addition, the Board and management have made significant progress in the transition to the ASX Governance Council Corporate Governance Principles and Recommendations with 2010 amendments (ASXCGC Recommendations 2010) as reflected in the content of the full financial report.

As part of this process, the Board and management regularly review the Group's policies and practices to ensure that they meet the interests of stakeholders and that the Group continues to maintain and improve its governance

standards. In the last 12 months the Board has adopted a Diversity Policy and reviewed and updated the Travel Policy (related to Directors and Executives), Trading Policy, Code of Conduct and Risk Policy.

In addition, upon review and recommendations from the respective committees, the Board approved updates to the Audit Committee Charter (April 2011) and the Nomination and Remuneration Committee Charter (May 2011). The Board also approved an updated Board Charter in April 2011.

Full details of how nib applies each ASXCGC Recommendation are contained in the corporate governance information section within the nib shareholder website. This website also contains copies of all charters and policies and can be found at nib.com.au/shareholders

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