nib holdings limited
Head Office
22 Honeysuckle Drive
Newcastle NSW 2300
abn 51 125 633 856

t 13 14 63
f 02 4925 1999

e nib@nib.com.au
w nib.com.au

27 September 2018

Company Announcements Office
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

2018 Annual Report - nib holdings limited

Please find attached nib's 2018 Annual Report which was distributed to nib shareholders today.

Please note that the Earnings per Share (EPS) metric included on page 33 of nib's Annual Report (lodged with ASX on 20 August 2018 as part of the Appendix 4E & 2018 Annual Report) incorrectly referenced underlying EPS. The statement "underlying EPS was 31.9cps" should have been "EPS was 29.4cps". This has been corrected on page 34 of the typeset version of the report (attached).

nib's 2018 Annual Report can also be viewed online at nib.com.au/shareholders.

Yours sincerely,

Roslyn Toms
Company Secretary

For further information please contact:

Matthew Neat
Head of Corporate Affairs & Investor Relations
T: +61 (0)2 4914 1777
M: +61 (0)411 700 006
E: m.neat@nib.com.au

2018 ANNUAL REPORT

CONTENTS

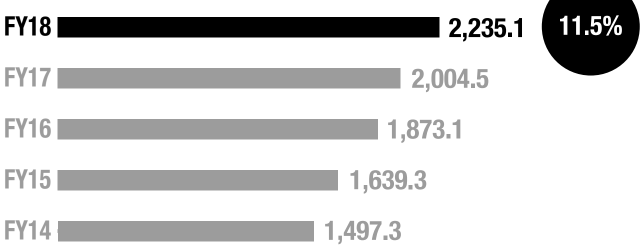
nib holdings limited
ABN 51 125 633 856

NOTICE OF ANNUAL GENERAL MEETING

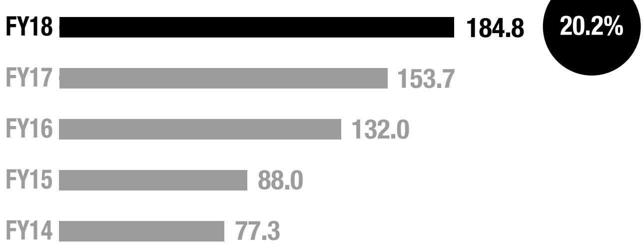
The Annual General Meeting of nib holdings limited will be held on Wednesday, 31 October 2018 at 11am (AEDT) at The Westin, 1 Martin Place, Sydney NSW 2000.

GROUP PERFORMANCE HIGHLIGHTS

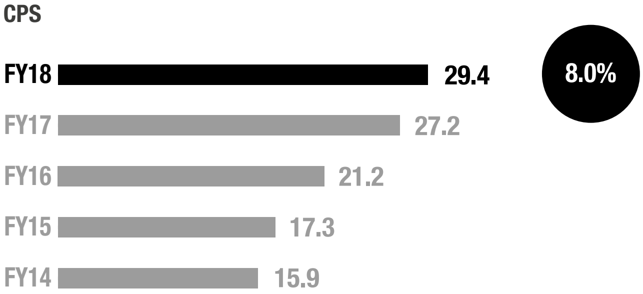
TOTAL UNDERLYING REVENUE
$m



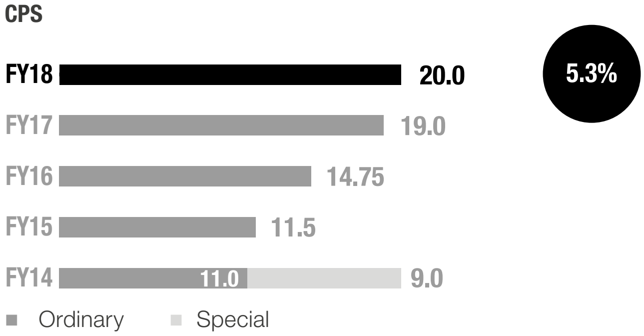
UNDERLYING OPERATING PROFIT
$m



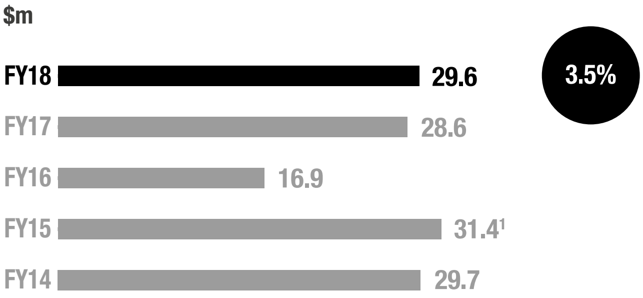
EARNINGS PER SHARE (STATUTORY)
CPS



DIVIDENDS
CPS

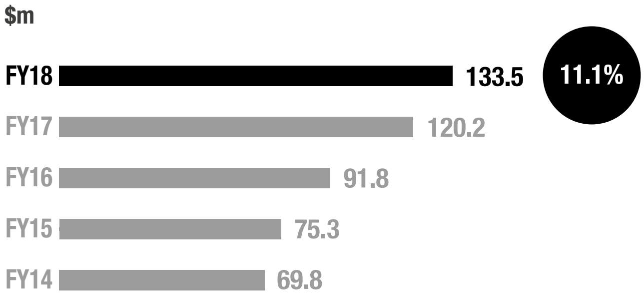


NET INVESTMENT INCOME
$m

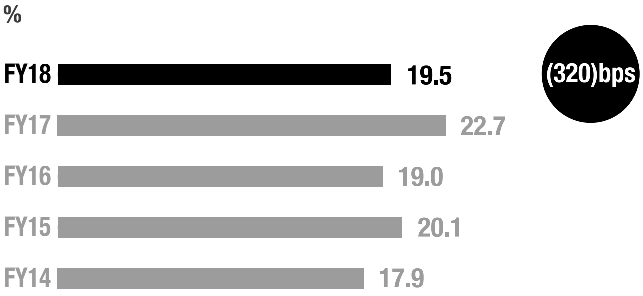


1. Includes profit on sale of PSG shares of $5.4m in FY15

NET PROFIT AFTER TAX
$m

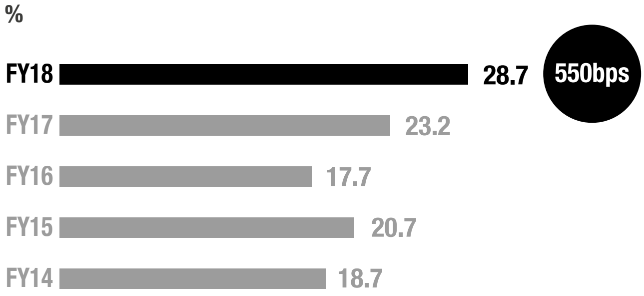


RETURN ON INVESTED CAPITAL[2]
%



2. ROIC calculated using average shareholders' equity including non-controlling interests and average interest-bearing debt over a rolling 12 month period.

NET PROMOTER SCORE (arhi[3])
%



3. Australian Residents Health Insurance only (excludes GU Health)

All figures quoted are in Australian dollars unless otherwise stated.

OUR PURPOSE
YOUR BETTER HEALTH

BUSINESS STRATEGY

Personalised healthcare

Better "personalise" our relationship with members and customers and the products and services we connect them with through technology and data science. As such, become a trusted "health partner" as a means of enhancing the value proposition, differentiating nib in the market, improving individual and population health as well as better influencing costs and affordability.

Grow the core (arhi)

Strive for above "system" organic arhi growth with measured brand and acquisition investment, risk selection, product choice, channel diversification and "personalising" the value proposition. Consider and pursue M&A as opportunities present.

Economies of scope

Leverage existing Group assets and capabilities to pursue adjacent business opportunities for the purposes of both growing enterprise value and diversifying risk. Amplify investment in growing international workers and students, New Zealand and travel insurance businesses and deliver identified new prospects.

Racing the Red Queen

Create competitive advantage across the Group through constant innovation, our RRQ principles of "natural selection", having world class talent and prudent risk management.

Affordability and sustainability

Improve the affordability of financial protection through improved operating efficiency, disciplined benefits management and helping members and customers better manage their health and healthcare decisions. Ensure governance and operations across the Group we are sensitive and responsive to our broader social, economic and the environmental responsibilities.

OPERATING AND FINANCIAL REVIEW

for the year ended 30 June 2018

CHAIRMAN'S REPORT

I don't recall a time in my corporate life when the demands for accountability have been so loud. And I don't just mean the demands of shareholders and regulators. Companies, their Boards and management are being increasingly challenged to meet both their commercial objectives and the various social and environmental responsibilities which come with being a good corporate citizen.

We've always maintained that strong commercial results will follow being good at what you're meant to be doing; in our case protecting our members and customers against the financial risk of disease and injury and allowing them to quickly access world class healthcare.

Of course that's a vitally important social responsibility in its own right. Yet in the pursuit of this mission, it's just as important we ensure our business operations are sensitive to the impact we have upon the communities we serve and with that, our own long term sustainability.

We've had another busy year with significant progress on numerous fronts. Mark outlines commercial and strategic highlights in more detail in his report. Sufficient for me to observe here, that despite many market, political and regulatory challenges we once again managed to grow our domestic and international footprint and our enterprise value. In the past 10 years our Group revenue has increased 185.2% and our net profit after tax by 321.0% to $133.5 million in FY18. Significantly, about 30% of our underlying operating profits today are derived from businesses that didn't exist a decade ago.

While still relatively modest, an increasing feature of the nib Group is our growing presence in markets beyond Australia and New Zealand. Sales in our international workers, students, and travel insurance businesses are both escalating supported by "in country" nib resources. During the year we formally established our new business in China with our partners Tasly. Subject to regulatory approvals, we expect to sell our first health insurance product in the second half of FY19.

Unfortunately, there is considerable nervousness across the Australian private healthcare sector and among members, shareholders and stakeholders about policies proposed by the Federal Opposition. Our view remains that health insurance prices and the consumer interest are best served by competition not more Government regulation. Instead we urge the Government of the day to work with private health insurers, private hospitals and doctors to improve competition and efficiency and relieve pressure on costs and premiums.

Health reform and Government policy cannot just be about health insurance premiums as the prices our members pay for health insurance are basically a function of the costs associated with treatment in hospitals and other clinical settings. We think a more sensible approach is a Productivity Commission investigation first to understand and address the underlying affordability and cost inflation challenges.

We are committed to passing on any additional benefits from such a review via lower premiums.

While premium affordability is a key factor when consumers are considering health insurance, so is the assurance of financial protection and value. During the year, approximately 77,000 of our arhi policyholders claimed more in healthcare costs and treatment than what they paid in premiums. In fact our highest single claim for a member was almost $300,000.

I can assure members, shareholders and stakeholders that we will continue to engage with policy makers and seek more substantial and meaningful policy reform. And most importantly, that we will adapt to whatever circumstances arrive.

More than ever communities across Australia and New Zealand need private health insurance in order to cope with burgeoning healthcare spending and already stressed public systems. There are challenges ahead for us but the social and business fundamentals behind private health insurance remain compelling.

I would like to conclude by thanking my fellow Directors, our Executive leaders and everyone at nib for another tremendous year. I'd like to especially thank and pay tribute to Non-Executive Director, Philip Gardner who announced his retirement from the nib Board this year after more than 11 years of service. Phil has been an exceptional Director providing relevant and current strategic insight. We also welcome Jacqueline Chow to the Board. Jacqueline has more than 20 years' experience working globally particularly with consumer brands and is already making a valuable contribution to our Board.

Steve Crane
Chairman

OPERATING AND FINANCIAL REVIEW continued

for the year ended 30 June 2018

MANAGING DIRECTOR'S REPORT

As Steve has mentioned we had another very positive year built on the back of good strategic execution and meeting member and customer expectations. Total Group revenue grew by 11.5% to $2.2 billion, underlying earnings by 20.2% to $184.8 million and net profit after tax 11.1% to $133.5 million. And apart from the $1.7 billion[1] in benefits we paid to members and customers we also paid $138.5 million in taxes (income and other taxes).

Our flagship Australian Residents Health Insurance (arhi) business paid $1.5 billion in claims and helped fund over 280,000 hospital admissions (over 50,000 in public hospitals) and almost 1.1 million dental visits. In very tough and competitive market conditions we grew our membership base by 3.0%[2] against an average industry growth rate below 1%[3], improved our Net Promoter Score to 28.7% (compared to 23.2% in FY17) and added a new business GU Health. This growth helped fuel impressive underlying earnings growth of 22.1% to $130.7 million.

Performance across other parts of the Group were also impressive.

Our international workers and students business grew its top line by 24.7% and underlying earnings by 16.5% to $29.6 million. In addition to Australia, we now have people and operations directly supporting this business in China with near term plans for India, New Zealand and the USA. Today we cover over 160,000 workers and students residing in Australia and courtesy of a new digital platform, aspire to become a global health insurance business for workers and students whatever their destination country.

Our New Zealand business also had a good year aided by membership growth and stable margins. Our efforts to grow the market is gaining traction through a direct-to-consumer and whitelabel channels which accounted for almost half of all sales. While our underlying operating profit in New Zealand was slightly down to $23.4 million, the FY18 result was always going to be impacted by the loss of a large corporate account in June last year and a weaker kiwi dollar.

Significantly, in New Zealand we launched our first ever Maori population health initiative with Ngāti Whātua Ōrākei. It's a noble pursuit and we're hoping to demonstrate a business like ours can help discrete populations better manage their health and wellbeing.

Although not yet delivering the economic returns we're very confident it will, our still nascent travel insurance business had another year of powerful growth. Sales of 689,529 we're up 7.3% on the previous year with 46% made overseas. This is another genuinely global business with people and operations in the USA, Ireland, UK and Brazil. As a reminder, more than 60% of claims paid are for medically related incidents. For this and other reasons, travel insurance is much closer to health insurance than many imagine.

And as Steve has already mentioned we finalised our joint venture in China. It's an initiative which is going to take some time to develop but the commercial possibilities in China are inestimable.

It's hopefully very clear from this annual report that our arhi business remains very much our core business and economic engine. Where many see threats such as a proposal by the Federal Opposition to cap premiums at 2% for 2 years if elected, we mainly see opportunity. While not dismissing the deleterious short-term impact such a policy would have, I'm very confident we'd adapt to whatever conditions arrive and I'm excited about the many medium to longer term prospects for arhi.

Across our insured population I especially see enormous potential for us to improve our value proposition as well as actual health outcomes for people through sophisticated data science and "personalisation". Through data science and knowing much more about a person's individual health profile and risks there's a future much closer than most imagine in which prevention becomes as much a priority as cure. We need to be at the vanguard of this transformation.

All members and stakeholders stand to benefit from industry consolidation and even globalisation I think is inevitable. Like every part of the financial services sector, health insurers require scale to better innovate, lower operating costs and make the investment in new technologies necessary to remain relevant.

I also believe there's an attractive future for health insurers to eventually take on the actual delivery of government mandated and funded healthcare programs.

nib's FY18 results reflect a fundamental truth that people across Australia and New Zealand need more rather than less private health insurance. Challenges lie ahead for us to be sure. However, with Australians now spending about $180 billion per annum on their healthcare at a rate of growth between 5% to 6% and an increasing welfare dependency ratio, private health insurers will be required to carry more of the load. It's an almost identical outlook for New Zealand.

Mark Fitzgibbon
Managing Director

1. Claims figure is for underwriting segments only
2. Excludes GU Health
3. Source: APRA

AUSTRALIAN RESIDENTS HEALTH INSURANCE

$1.9b

premium revenue up 12.1%

almost 10,000 participants in health management programs

$130.7m

UOP up 22.1%

28.7% net promoter score[1]

$298,742

highest cost claim

3.0% net policyholder growth[1]

As the health insurer of choice for more than one million Australian residents, we play a critical role in helping people access and afford healthcare as well as empowering them to better manage their health and wellbeing.

We've made good progress during the year addressing concerns about healthcare costs, in particular out-of-pocket expenses. We will keep working to enhance private health insurance affordability, value and transparency. Our energy remains focused on putting members at the heart of everything we do.

In terms of financial performance, our Australian Residents Health Insurance (arhi) business again delivered an outstanding result with underlying operating profit up 22.1% to $130.7 million.

Our track record of above industry membership growth is a key driver of arhi's earnings trajectory. We grew at six times the industry rate and accounted for over 45% of total industry growth for the year.[2]

Membership growth is a direct function of delivering value and first class service to our members. That's why we are focused on more than just delivering financial protection. Our goal is to be a healthcare partner, enhancing the value for our members by helping them make better health and healthcare decisions.

A great example is our Going to Hospital tool. The tool which launched earlier this year, helps members work out whether they are covered for a specific hospital procedure, how much it might cost and which specialist they should see. This capability is available online at nib.com.au, with further enhancements coming, including patient reported experience measures.

During the year we've supported our members by funding over 280,000 hospital admissions and almost 3.7 million ancillary and dental visits. We continue to look for and invest in new health pathways, providing alternatives to surgical or hospital treatment, particularly for our members with chronic illnesses. For example, nib has a team of health professionals who liaise with "at-risk" members to offer personalised health management programs.

We know health insurance affordability is a major issue for members. Holding down premium inflation remains a top priority. Our 2018 premium increase of 3.93% was the lowest in 15 years, and it's the fourth year running we've delivered an increase lower than the previous year.

We continue to take a leading role driving change, including working with the Health Minister and the Department of Health to deliver the PHI reforms announced in October last year.

First off was the significant reduction in the price insurers pay for medical prosthetics, such as artificial hips and knees. Those savings were passed on in full to members in the form of lower-than-otherwise premiums.

Also proving popular is the introduction of the mental health waiver, which allows members to access a one-off right to upgrade cover, gaining immediate access to applicable in-hospital services.

The second wave of reforms, expected from April 2019, include the launch of premium discounts for customers under 30 and the introduction of standard product classifications.

Operational efficiencies during the year have improved the speed with which we process and pay claims, exceeding members' expectations. In most cases, we finalise payment for an ancillary, hospital or medical expense within 24 hours of receiving a completed claim.

Our genuine focus on improving the member experience and addressing frustration with growing out-of-pocket expenses has driven the expansion of our First Choice Network. The network, which features a growing community of trusted ancillary health professionals, provides members with peace of mind, lower costs and reduced out-of-pocket expenses.

Our acquisition of specialist corporate private health insurer, GU Health, completed in October last year, also made a positive contribution to arhi's full year result. GU Health has developed significant expertise in providing health insurance plans to corporate groups. The business is performing well under nib ownership. Full integration is on track.

We continue to place a strong emphasis on improving our members' experience. This is reflected in our Net Promoter Score for the year of 28.7% up 550bps on the previous year.

1. Excludes GU Health
2. Source: APRA

OPERATING AND FINANCIAL REVIEW continued

for the year ended 30 June 2018

nib NEW ZEALAND

$198.1m

premium revenue down 0.6%

launch of NZ's first Maori population health insurance partnership

$23.4m

UOP down 0.4%

2.8% net policyholder growth

$217,011

highest cost claim[1]

over 90% of providers participating in First Choice Network

Our New Zealand business continues to challenge the status quo through innovation, enhanced member services and value for money healthcare products.

By putting the member at the heart of everything we do, the business delivered a solid result and stable earnings. For FY18, premium revenue was $198.1 million down 0.6% and UOP down 0.4% to $23.4 million. The result was negatively impacted by currency exchange rates and on a New Zealand dollar basis the business grew premium revenue by 1.9% and UOP by 3.8%.

Our multi-channel distribution strategy made good progress during the year with net policyholder growth of 2.8%. We recently revamped our direct-to-consumer (DTC) line launching a product range specifically tailored for millennials, new families and migrant families, which also includes offering bilingual services to members.

Our DTC and whitelabel portfolio, which includes leading Kiwi brands such as Stuff and AA, now account for almost 20% of all our inforce policies. When we acquired the business just over five years ago, it was virtually zero.

We've also enhanced our product range for our financial advisor channel, providing members with the ability to access New Zealand's first combined health and travel insurance cover. Under our 'Ultimate Health' products members are covered for sickness or accident whether at home or travelling overseas.

Like many other countries, we think there's significant opportunity to enhance consumer empowerment and transparency in relation to medical cost variation as well as improve health outcomes for our members.

During the year we launched our First Choice Network, one of the country's largest networks of medical professionals. First Choice helps members connect with in-network medical specialists to reduce out-of-pocket expenses for hospital medical treatment. This gives members an enhanced claiming experience and the ability for nib to better control claims and premium inflation drivers.

We've also recently launched our successful Whitecoat online platform locally. Another first for New Zealand, Whitecoat allows consumers to search, rate, review and compare local healthcare providers. Free and publically available, the site already features almost 10,000 healthcare providers across a range of disciplines including specialists, GPs, dentists and physiotherapists.

Improving population health and wellness as well as helping members access affordable healthcare, saw us launch the first ever Maori population health trial during the year in partnership with Auckland iwi, Ngāti Whātua Ōrākei. The partnership provides free universal private health insurance as well as wellness programs for all their members to help improve their health and wellbeing outcomes.

Personalising service and engagement saw us launch a virtual consultant for health insurance to make it easier for our members with service enquiries. Using artificial intelligence, our virtual consultant 'Frankie' helps direct enquiries or providing members with responses to everyday questions regarding their health insurance cover.

Providing our members with first class service is a high priority and we've continued to make good progress which is demonstrated through our Net Promoter Score almost doubling from 12.2% in FY17 to 21.1% in FY18.

Our commitment to diversity was also recognised during the year with nib becoming one of the first corporate organisations in New Zealand to be awarded the "CQ Tick" for cultural intelligence and capability. The certification reflects our commitment to exploring and responding to gender and cultural diversity both within our own workplace and our member base.

1. Figure is in NZD

INTERNATIONAL AND NEW BUSINESS

$29.6m
iihi UOP up 16.5%

$142.0m
WNG GWP up 7.7%

$8.1m
WNG UOP up 8.0%

18.8% iihi policyholder growth[1]

$593,595
largest travel insurance claim paid

7.3% WNG policyholder sales growth

International inbound health insurance (iihi)

Australia's popularity as a destination for international students and workers continues to reap significant national economic benefits. For students coming to Australia to study or workers migrating for employment, nib is providing peace of mind and financial protection to cover any unexpected health needs.

We've seen strong policyholder growth during the year and we now provide health cover to more than 160,000 international students and workers. Underlying operating profit rose 16.5% to $29.6 million.

Because healthcare systems are different across the world, a major focus has been helping our international members navigate the Australian healthcare system, access treatment and minimise their potential out-of-pocket expenses.

During the year we rolled out the nib app to our international students and workers allowing them to submit claims immediately following treatment, which helps payment to be made as soon as possible. Members can also find an nib registered provider, such as a GP or dentist, which in most cases results in no out-of-pocket expenses.

The outlook for our iihi business remains positive and is supported by strong growth prospects.

World Nomads Group (WNG)

Accessibility of travel and increased affordability are growing macro global trends underpinning our travel insurance business, World Nomads Group.

During the year we've provided financial protection to almost 700,000 customers worldwide, helping them plan and experience their journey, as well as return home safely.

Tapping into nib Group operational efficiencies and synergies to enhance the customer experience continues to deliver positive outcomes. Our travel insurance customers now have access to Group hospital networks both locally and abroad, ensuring they receive the right treatment at the right time.

During the year we also launched New Zealand's first health and travel insurance combined product, meaning customers who purchase this cover have complete peace of mind that they are covered whether at home or travelling overseas.

Our strong appetite to pursue and invest in growth is also building momentum with our sales up more than 7% this year. In particular our growing international footprint and investment is delivering results with international sales lifting 16.5%. More than 46% of our sales come from international markets; with the United States a standout and now our largest international market.

FY18 UOP of $8.1 million is up 8.0% from $7.5 million in FY17 with investment to capture growth opportunities showing progress. Our post-balance date acquisition of QBE Travel (announced 3 August 2018) will consolidate our domestic market position.

Adjacent insurance lines and new business

Exploring new business initiatives through experimentation and capitalising on evolving market conditions in pursuit of growing enterprise value is a key business philosophy.

During the year we announced a partnership with Tasly Holding Group, a large Chinese pharmaceutical company, with plans to sell a critical illness product in China. While nib will not carry any underwriting risk, the joint venture will leverage our product design, pricing and sales distribution expertise. We are on track to be selling our first product to Chinese nationals in the second half of FY19, subject to regulatory approval.

We've also partnered with TAL, a leading life insurance specialist, to distribute whitelabelled health insurance to their customer base. We expect to have our first TAL-branded health insurance product in FY19.

Leveraging existing business assets and capabilities saw us recently launch nib International Student Services (niss), a start-up service provider for international students beyond Australia. niss is a service to assist foreign students organise their health cover in the country of destination before they leave home. Currently, there are five million students across the globe studying internationally and it's growing, with this first-mover opportunity representing significant market and earnings potential.

1. Excludes GU Health

OPERATING AND FINANCIAL REVIEW continued

for the year ended 30 June 2018

PROFITABILITY AND SHAREHOLDER RETURN

$2.2b total Group revenue up 11.5%	$184.8m Group UOP up 20.2%	$29.6m net investment income
$133.5m NPAT up 11.1%	29.4cps statutory EPS up 8.0%	20.0cps full year dividend

The strong performance of our core arhi (Australian Residents Health Insurance) business combined with the continued growth and expansion of our adjacent businesses, delivered a solid fiscal performance for the nib Group.

Group revenue was $2.2 billion up 11.5% and UOP increased by an impressive 20.2% to $184.8 million (statutory operating profit up 12.2% to $169.0 million). The difference between our UOP and statutory operating profit reflects one-off transactions and non-cash items associated with business acquisitions.

Our arhi business, which accounted for approximately 70% of our Group UOP, improved earnings more than 22% to $130.7 million, while premium revenue rose 12.1% to $1.9 billion. Despite weak market conditions, arhi still managed to grow six times the industry rate. Aided by our multi-channel growth strategy which includes our own direct-to-consumer, plus our whitelabel partners Qantas and Suncorp, we have again delivered annual policyholder growth above the industry average.

Our adjacent businesses, which include travel insurance, international workers and students health insurance and our New Zealand operations, improved their Group earnings contribution, with almost 30% of Group UOP coming from non-arhi businesses. We are still of the view that these businesses will account for as much as 50% of our earnings in the years to come.

We continue to push hard as a business to grow and leverage our capabilities across the Group through organic growth but also acquisitions. Applying our strict return on investment criteria, we acquired specialist corporate health private health insurer, GU Health, for $155.7 million in October 2017. We also announced post-balance date the acquisition of QBE's Travel Insurance business, QBE Travel, (announced 3 August 2018) for up to $25 million[1], which was funded through available existing capital. Both acquisitions deliver on our strategic ambition and growth aspirations.

The GU Health acquisition was successfully funded through the combination of a $60 million institutional equity placement and a $15 million Share Purchase Plan (SPP). Both the equity placement and SPP received strong demand from shareholders, with the SPP closing oversubscribed, raising approximately $29.5 million. This strong support from shareholders resulted in no scaling back of valid applications with shareholders receiving their full requested entitlement.

Our investment portfolio generated strong returns with investment income of $29.6 million. Net profit after tax (NPAT) was $133.5 million, up 11.1% on the previous year's result, while statutory earnings per share rose 8.0% to 29.4 cents per share.

Based on our strong financial results, the Board declared a full year dividend of 20.0 cents per share fully franked (FY17: 19.0 cents per share). The full year dividend comprises an interim of 9.0 cents per share (paid 3 April 2018) and a final dividend of 11.0 cents per share, payable to shareholders on 5 October 2018.

On 20 August 2018, the Board announced the introduction of a Dividend Reinvestment Plan (DRP) for eligible nib shareholders. A DRP allows eligible shareholders to reinvest all or part of their dividends in ordinary nib shares without paying brokerage or other transaction costs. The option of offering a DRP is by far one of the most frequently asked questions from our shareholders, so it's pleasing we can now offer this to our shareholders.

The DRP will be available to shareholders for the FY18 final dividend payable on 5 October 2018. Shareholders can participate in the DRP by completing the application form which will be sent to them in late August, or alternatively by visiting nib.com.au/easyupdate.

1. Final total consideration is dependent on the level of business generated

SUSTAINABILITY

$17.3m nib foundation funding to 123 charities since 2008	$4.0m WNG Footprint Network funding to 29 charities since 2006
$78k nib make a difference (MAD) committee donations to 45 charities since 2008	$136k in Small Steps donations to 3 charities since 2015

Our commitment to fostering healthy futures for our members, employees and shareholders drives nib's approach to sustainability.

Our vision is to create better healthcare for the communities we serve. We understand that the sustainability of our business relies upon having sustainable communities.

Making healthcare more accessible, affordable and cost effective

We recognise our members have different needs for financial protection and access to healthcare information, products, services and facilities. During the year, we've made significant progress helping our members make better decisions to improve their health outcomes. We've also addressed concerns about affordability.

Following comprehensive consultation across the industry, the Australian Government announced private health insurance reforms designed to improve affordability, value and make health insurance easier to understand. We've been working with the Government for a number of years to make sure we've had a voice in any reform, and we welcome changes that improve value and affordability for members.

We know that out-of-pocket expenses, bill shock and medical cost variation are member pain points. As can be read in this year's report, our First Choice Provider Networks in Australia and New Zealand are growing rapidly, delivering real savings for members.

Empowering our members

We strive to be a trusted partner, helping members engage with healthcare systems and live healthier lives. Health insurance, while vitally important, is just one component in our value proposition that includes empowerment, financial protection and connectivity.

A great example of how nib is improving consumer empowerment, transparency and decision making is our Going to Hospital tool. Launched in February in Australia, the tool helps answer important questions before a hospital admission, such as: am I covered, who can I see and how much will my admission cost? We have big plans for the tool over the coming 12 months to further improve transparency and increase the amount of information we can provide our members.

Health provider website, Whitecoat[1] also continues to deliver information to our members to help them make better decisions about their healthcare. Whitecoat allows customers to search and find a healthcare provider, as well as share their healthcare experiences and outcomes.

nib's preventative health programs allow members to better manage their health. The purpose of our programs is to provide tailored health management programs to help our members access high quality health care and lead healthier lives.

A productive, diverse and safe workplace

Our rapid growth over recent years has resulted in a much larger and more geographically diverse nib. To best handle this expansion, we kicked off a Group workplace accommodation strategy earlier this year, aimed at driving a different and more open work environment. The first phase will be the move to an agile workplace for our Sydney and Melbourne-based employees in early FY19.

In FY18, we were pleased to see a rise in the number of women in senior leadership roles. Female representation in manager and team leader roles exceeded our own ambitious targets. This financial year, nib became one of just 14 organisations added to the Australian Institute of Company Directors' list of firms where at least 30 per cent of directors are women. In addition to this, during the year our New Zealand business became one of the first companies to be awarded the Cultural Quotient (CQ) Tick, reflecting our commitment to gender and cultural diversity at work and in our member base.

Our ongoing stance against discrimination of any kind is unwavering. At nib, we have no room for arrogance, intemperance or bullying within our business or supply chain.

nib's approach to health, safety and wellbeing includes tailored wellbeing programs and initiatives for our employees across the nib Group, ranging from free fruit baskets each week to our nibWell program which provides employees access to preventative health services and programs.

1. nib is a part owner of Whitecoat through a joint venture arrangement

OPERATING AND FINANCIAL REVIEW continued

for the year ended 30 June 2018

SUSTAINABILITY continued

Protecting the natural environments in which we or our supply chain partners operate

nib cares for the environment and is committed to lightening the impact of our operations. As a good corporate citizen, we are mindful of future generations, especially the potential health impacts of climate change on individuals and communities. We recognise we have a role to play in supporting carbon reducing initiatives.

In FY18, nib began working toward more comprehensive tracking and reporting of our environmental performance. We are also investigating nib's climate change stewardship, with the assistance of the Carbon Disclosure Project's reporting framework. We will submit to the Project for the first time in 2018.

We continue to provide opportunities for our employees to participate in sustainable practices, including reducing paper and waste, responsible recycling and transport programs such as carpooling.

Connecting with and supporting others in our communities

Through the nib foundation, which was established following nib's demutualisation and ASX-Listing we continue to harness the power of our people, brands and resources to support healthy communities and fantastic causes. In FY18, the foundation aligned its focus to preventative health programs. Almost half of all Australians live with a chronic health condition. Nearly a third of this burden of disease is linked to preventable risk factors, but only 1.5% of our national health spending is allocated to prevention.

This year, the foundation's Community Grants program funded 11 programs and its Multi-Year Partnerships continued to tackle the health and wellbeing challenges facing Australians. Since the foundation was established in 2008, it has donated over $17 million to worthy organisations devoted to improving the health of Australians.

Our World Nomads Group in association with the Footprints Network continues to make a tangible difference to the lives of people living in impoverished communities. More than 1.5 million customers, making online micro donations, have raised almost $4 million for 29 projects around the world since 2006, via the Footprints Network.

This year also saw the exciting introduction of a corporate volunteering program for nib employees, called nibGIVE. The program, supported by the nib foundation, offers more ways for our people to contribute to the community. In the first six months, over 100 employees volunteered over 550 hours to charities, worth around $20,000 of in-kind value.

Further nib sustainability information and downloads are available at nib.com.au/shareholders.

EMPLOYEES	1,323 employees across 8 countries	38 years average age of employees	33% female representation executives
CUSTOMERS	1.5m members covered Underwriting segments only.	$1.7b paid in claims Net claims incurred (excluding claims handling), underwriting segments only.	28.7% arhi NPS Excludes GU Health.

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. The Corporate Governance Statement is available on our website at nib.com.au

Further to the Sustainability risks and approaches detailed in on page 9, principal risks and uncertainties for nib include:

Insurance risks	
Claims inflation and affordability	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 members with high cost needs (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. Additionally, members are increasingly facing household affordability pressures. If growth of premiums over time were to be uncontrolled, it could result in a reduced value proposition leading to significant numbers of policy holders reducing their cover.
Pricing risk	Australian health insurance premium increases for existing products are 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. Furthermore, there are operational risks associated with pricing and forecasting involving process, people and system. Control failures could negatively impact pricing decisions, financial performance and regulations such ASX Continuous Disclosure obligations.
Government policies and regulations	A number of regulatory policy settings and incentives notably impact the Australian private health insurance market. Examples include Federal or State Governments taxes and duties, risk equalisation arrangements supporting the community rating principle, PHI Rebates and Life Time Health Cover Loading. Unanticipated modifications to regulations in the future may result in an adverse financial impact on nib and the structure of the wider private health insurance industry.
Financial risks	
Investment and capital management	A substantial proportion of nib's profits are generated from its investment portfolio. Consequently, investment performance significantly affects nib's profits and financial position. Effective management of investments and capital is required in order to meet Return On Investment (ROI) objectives, nib's prudential requirements and in order to satisfy stakeholder expectations.
General economic conditions	nib's performance is impacted by the broader Australian economic conditions such as inflation, interest rates, exchange rates, credit markets, 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.

OPERATING AND FINANCIAL REVIEW continued

for the year ended 30 June 2018

PRINCIPAL RISKS AND UNCERTAINTIES continued

Strategic risks	
Performance of adjacent (non-Australian Residents Health Insurance) businesses	In recent years, in addition to focusing on its Australian regulated health insurance business, nib has diversified its business and identified adjacent earnings opportunities, such as International (Inbound) Health Insurance, New Zealand, World Nomads Group and Grand United Corporate Health. 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.
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.
Operational risks	
Business continuity	There is uncertainty surrounding events that have the potential to prevent nib from continuing to operate its businesses and in the effectiveness of the processes nib has established to manage those events. Impacts of events such as natural disasters or a major failure or inadequacy in information technology systems, may have an adverse effect on nib's earnings, assets and reputation.
Cyber Security	The health insurance industry relies increasingly on technology to conduct an efficient and cost effective business. nib's approach is also increasingly reliant on the personalisation of our relationship with members using digital and data strategies. nib faces the risk, in common with other participants, that a cyber-attack or major security incident could result in adverse impacts to members, disruption to nib's business continuity, non-compliance with regulations and data standards and negative reputational effects.
Regulatory compliance and legal risks	nib is subject to a high degree of regulation concerning how private health insurers conduct their health insurance business. If nib does not comply with its regulatory requirements, it may suffer results including financial penalties, cancellation of authorisations and / or negative reputational impacts. In terms of legal risk, 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 could have a material adverse impact on nib's financial position, earnings and share price.
Worker Health & Safety	nib is responsible for managing the physical and mental health and safety of employees and the broader range of individuals that visit our premises or undertake work on our behalf. Given the nature of our business and our physical work environment, the likelihood of death or serious injury is rare. However if realised, a threat to the physical and mental/psychological health and safety of employees could have a significant impact in terms of reputation, employee morale, financial cost to the company and legal consequences.

FIVE YEAR SUMMARY

		2018 $m	2017 $m	2016 $m	2015 $m	2014 $m
Consolidated Income Statement						
Net premium revenue		2,162.6	1,943.1	1,818.7	1,634.9	1,491.6
Net claims incurred		(1,694.3)	(1,545.8)	(1,481.0)	(1,367.1)	(1,255.4)
Gross margin		**468.3**	**397.3**	**337.7**	**267.8**	**236.2**
Other underwriting revenue		**3.0**	**1.0**	**–**	**–**	**–**
Management expenses		(287.1)	(242.1)	(209.3)	(175.6)	(157.9)
Underwriting result		**184.2**	**156.2**	**128.4**	**92.2**	**78.4**
Other income		69.5	60.4	54.4	4.4	5.7
Other expenses		(68.4)	(62.6)	(50.8)	(8.5)	(6.8)
Share of net profit / (loss) of associates and joint ventures		(0.5)	(0.3)	–	–	–
Underlying operating profit		**184.8**	**153.7**	**132.0**	**88.0**	**77.3**
Amortisation of acquired intangibles		(8.4)	(7.6)	(7.8)	(3.5)	(4.2)
One-off transactions and M&A costs		(7.4)	4.5	(3.4)	(2.8)	(0.8)
Statutory operating profit		**169.0**	**150.6**	**120.8**	**81.7**	**72.3**
Finance costs		(6.3)	(4.8)	(5.3)	(3.4)	(2.7)
Net investment income		29.6	28.6	16.9	31.4	29.7
Profit before tax		**192.3**	**174.4**	**132.4**	**109.6**	**99.2**
Tax		(58.8)	(54.2)	(40.6)	(34.3)	(29.4)
NPAT		**133.5**	**120.2**	**91.8**	**75.3**	**69.8**
Consolidated Balance Sheet						
Total assets		1,447.5	1,136.1	1,045.6	837.1	798.1
Equity		557.8	427.6	386.1	344.3	356.4
Debt		230.6	153.2	151.9	63.9	66.8
Share Performance						
Number of shares	m	454.8	439.0	439.0	439.0	439.0
Weighted average number of shares – basic	m	450.6	439.0	439.0	439.0	439.0
Weighted average number of shares – diluted	m	450.6	439.0	439.0	439.0	439.0
Basic earnings per share	cps	29.4	27.2	21.2	17.3	15.9
Diluted earnings per share	cps	29.4	27.2	21.2	17.3	15.9
Underlying earnings per share	cps	31.9	27.7	22.9	18.3	16.8
Share price at year end	$	5.73	5.75	4.22	3.36	3.26
Dividend per share – ordinary	cps	20.00	19.00	14.75	11.50	11.00
Dividend per share – special	cps	0.00	0.00	0.00	0.00	9.00
Dividend payout ratio – ordinary	%	68.5	70.0	70.0	66.6	69.2
Dividend payout ratio – combined ordinary and special	%	68.5	70.0	70.0	66.6	125.8
Other financial data						
ROIC	%	19.5	22.7	19.0	20.1	17.9
Group underlying operating revenue	$m	2,235.1	2,004.5	1,873.1	1,639.3	1,497.3
Operating cash flow	$m	179.9	171.7	148.4	114.2	93.7

DIRECTORS' REPORT

for the year ended 30 June 2018

The Directors of nib holdings limited (Company) present their report on the consolidated entity (Group) consisting of nib holdings limited and the entities it controlled at the end of or during the year ended 30 June 2018.

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
Lee Ausburn
Philip Gardner
Donal O'Dwyer
Mark Fitzgibbon
Anne Loveridge
Christine McLoughlin

Harold Bentley retired as a Director on 30 September 2017.

Jacqueline Chow was appointed as a Director on 5 April 2018.

PRINCIPAL ACTIVITIES

The principal activities of the nib Group during the financial year were as a private health insurer in Australia and New Zealand, whereby it underwrites and distributes private health insurance to Australian and New Zealand residents as well as international students and visitors to Australia. Through its World Nomads Group business, it also specialises in the sale and distribution of travel insurance policies globally.

During the year, the Group acquired specialist corporate private health insurer GU Health.

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 3 to 13 of this Annual Report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no other significant changes in the state of affairs of the Group during the financial year.

DIVIDENDS

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

	2018 $m	2017 $m
Final dividend for the year ended 30 June 2017 of 10.5 cents (2016 – 9.0 cents) per fully paid share paid on 6 October 2017	46.1	39.5
Interim dividend for the year ended 30 June 2018 of 8.5 cents (2017 – 8.5 cents) per fully paid share paid on 3 April 2018	40.9	37.3
	87.0	**76.8**

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 $50.0 million (11.0 cents per fully paid ordinary share) to be paid on 5 October 2018 out of retained profits at 30 June 2018.

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

On 3 August 2018, nib announced that its subsidiary, World Nomads Group, would acquire QBE's travel insurance business (QBE Travel), for a total consideration of up to $25.0 million.

QBE Travel is Australia's fourth largest travel insurer and has an extensive distribution network including partnerships with well-known Australian brands, as well as a national network of more than 2,000 travel insurance agents.

No other matter or circumstance has arisen since 30 June 2018 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.

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 *BCom, FAICD, SF Fin*	**Chairman, Independent Non-Executive Director** *Experience and expertise* Mr Crane has been a Director of the Group since September 2010 and was appointed Chairman in October 2011. He has approximately 40 years of financial market experience, as well as an extensive background in publicly-listed companies. Mr Crane has expertise in developing and leading international businesses, reviewing, scrutinising and implementing corporate strategy, people leadership, and government interactions at senior levels. He was previously the Chief Executive of BZW Australia and ABN AMRO. *Directorships of listed entities* Director of APA Group (since January 2011). *Other current directorships* Mr Crane's other Directorships include Chairman of the Taronga Conservation Society Australia, Chairman of Global Valve Technology Limited. He is also a consultant member of the Advisory Board with Morgans Financial Ltd. *Former directorships of listed entities in the last 3 years* Director of Transfield Services Limited (Tenure: 7 years) and Bank of Queensland Limited (Tenure: 7 years and 1 month). *Subsidiary boards and special responsibilities* Chairman of nib holdings limited, nib health funds limited and Grand United Corporate Health Limited. Steve is also Chairman of the Nomination Committee. *Interests in shares and performance rights* Indirect: 250,000 ordinary shares in nib holdings limited held by Depeto Pty Ltd.
Mark Fitzgibbon *MBA, MA, ALCA, FAICD*	**Managing Director/Chief Executive Officer** *Experience and expertise* Mark joined nib health funds limited in October 2002 as Chief Executive Officer (CEO) and led nib through its demutualisation and listing on the ASX in May 2007 when he was appointed Managing Director of nib holdings limited. *Directorships of listed entities* None. *Other current directorships* None. *Former directorships of listed entities in the last 3 years* None. *Subsidiary boards and special responsibilities* Managing Director of nib holdings limited. Director of nib health funds limited, Grand United Health Funds Limited, nib health care services pty limited, nib servicing facilities pty limited, nib Global Pty Limited, IMAN Australian Health Plans Pty Limited, nib nz holdings limited, nib nz limited, nib Options Pty Limited, RealSurgeons Pty Ltd, RealSelf Pty Ltd, nib Asia Pty Ltd and World Nomads Group Pty Ltd. Mark is also a member of the Nomination Committee. *Interests in shares and performance rights* Direct: 1,453,348 ordinary shares in nib holdings limited. Indirect: 660,621 ordinary shares in nib holdings limited held by Fitzy (NSW) Pty Ltd. 234,714 performance rights under FY15-FY18 Long Term Incentive Plan which may vest from 1 September 2018. 284,320 performance rights under FY16-FY19 Long Term Incentive Plan which may vest from 1 September 2019. 225,978 performance rights under FY17-FY20 Long Term Incentive Plan which may vest from 1 September 2020. 222,298 performance rights under FY18-FY21 Long Term Incentive Plan which may vest from 1 September 2021.

DIRECTORS' REPORT continued

for the year ended 30 June 2018

INFORMATION ON DIRECTORS continued

Lee Ausburn *MPharm, BPharm, Dip Hosp Pharm, FAICD*	**Independent Non-Executive Director** Ms Ausburn has been a Director of the Group since November 2013. With more than 30 years in leadership roles in the global pharmaceuticals industry, she is an experienced Non-Executive Director with a wealth of knowledge of the international healthcare industry and has expertise in corporate strategy, marketing and people and culture. *Directorships of listed entities* A Director of Australian Pharmaceutical Industries Ltd (since October 2008, also Chair of the Nomination Committee and member of Audit and Risk Committee) and SomnoMed Ltd (since September 2011). *Other current directorships* None. *Former directorships of listed entities in the last 3 years* None. *Subsidiary boards and special responsibilities* A Director of nib health funds limited and Grand United Corporate Health Limited. Chairman of the People and Remuneration Committee and a member of the Risk and Reputation Committee and Nomination Committee. *Interests in shares and performance rights* Indirect: 20,000 ordinary shares in nib holdings limited held by Leedoc Pty Ltd and 30,885 ordinary shares in nib holdings limited held by MIML Pension Consolidator (Lee Ausburn).
Jacqueline Chow *BSc (Hons), MBA, GAICD*	**Independent Non-Executive Director** *Experience and expertise* Jacqueline was appointed as an additional Director of the Group in April 2018 and will stand for election at the 2018 Annual General Meeting. Jacqueline has more than 20 years' experience working with global blue-chip consumer product multinationals in a range of executive and non-executive positions in general management, strategy, marketing as well as technology and innovation. *Directorships of listed entities* None. *Other current directorships* Ms Chow's other directorships include Fisher & Paykel Appliances Ltd in New Zealand. She is also a Senior Advisor at McKinsey & Company RTS. *Former directorships of listed entities in the last 3 years* None. *Subsidiary boards and special responsibilities* A Director of nib health funds limited and Grand United Corporate Health Limited. A member of Nomination Committee, Audit Committee and People and Remuneration Committee. *Interests in shares and performance rights* Direct: 4,000 shares in nib holdings limited.

Philip Gardner *BCom, CPA, CCM, FAICD, JP*	**Independent Non-Executive Director** *Experience and expertise* Mr Gardner has been a Director of the Group since May 2007. Current Chief Executive Officer of The Wests Group Australia, a position he has held for more than a decade in which time he has led the Group's significant growth and expansion. Mr Gardner has also developed extensive experience in developing and implementing corporate strategy, interacting with government and influencing public policy and marketing, branding and customer management strategies. *Directorships of listed entities* None. *Other current directorships* None. *Former directorships of listed entities in the last 3 years* None. *Subsidiary boards and special responsibilities* A Director of nib health funds limited and Grand United Corporate Health Limited. Chairman of the Investment Committee and a member of the Audit Committee, People and Remuneration Committee and Nomination Committee. *Interests in shares and performance rights* Indirect: 150,000 ordinary shares in nib holdings limited held by Sutton Gardner Pty Ltd.
Anne Loveridge *BA (Hons), FCA, GAICD*	**Independent Non-Executive Director** *Experience and expertise* Ms Loveridge has been a Director of the Group since February 2017. Over 30 years' experience in financial services, risk management, regulatory reporting, and people leadership including senior positions at PricewaterhouseCoopers (Australia). *Directorships of listed entities* Non-Executive Director of Platinum Asset Management Limited (since September 2016, also Chairman of Audit, Risk & Compliance Committee), Non-Executive Director of National Australia Bank Limited (since December 2015, also Chairman – Remuneration Committee). *Other current directorships* Ms Loveridge's other directorships include Chairman of Bell Shakespeare Limited. *Former directorships of listed entities in the last 3 years* None. *Subsidiary boards and special responsibilities* A Director of nib health funds limited and Grand United Corporate Health Limited. Chairman of the Audit Committee and member of the Risk and Reputation Committee, Nomination Committee and Investment Committee. She is also Chairman of nib nz holdings limited's Audit Committee and nib nz limited's Board, Audit, Risk and Compliance Committee (BARCC). *Interests in shares and performance rights* Direct: 23,885 ordinary shares in nib holdings limited.

DIRECTORS' REPORT continued

for the year ended 30 June 2018

INFORMATION ON DIRECTORS continued

Christine McLoughlin *BA, LLB (Hons), FAICD*	**Independent Non-Executive Director** *Experience and expertise* Ms McLoughlin has been a Director of the Group since 20 March 2011. Prior to becoming a professional director, Ms McLoughlin had a range of executive roles in the financial services, telecommunications and professional services sectors. Her work in leading companies with iconic brands included leadership roles spanning Australia, UK and South East Asia. *Directorships of listed entities* Non-Executive Director of Suncorp Group Limited (since February 2015, also Chairman of the Remuneration Committee and member of the Risk Committee). *Other current directorships* Ms McLoughlin's other directorships include Chairman of Venues NSW. She is also a member of ASIC's Director Advisory Panel. *Former directorships of listed entities in the last 3 years* Director of Spark Infrastructure Group (October 2014 to October 2017) and Whitehaven Coal Limited (May 2012 to February 2018). Chairman of Australian Payments Council. *Subsidiary boards and special responsibilities* A Director of nib health funds limited and Grand United Corporate Health Limited. Chairman of Risk and Reputation Committee and a member of the Audit and Nomination Committees. *Interests in shares and performance rights* Indirect: 110,885 shares in nib holdings limited held by Dundas Street Investments Pty Ltd.
Donal O'Dwyer *MBA, BE*	**Independent Non-Executive Director** *Experience and expertise* Mr O'Dwyer has been a Director of the Group since March 2016. He is a highly experienced Non-Executive Director and former executive as the worldwide President at Cordis Cardiology (a Johnson & Johnson company) and President of the Cardiovascular Group, Europe with Baxter Healthcare (now Edwards Lifesciences). Mr O'Dwyer has broad international business experience in the healthcare technology sector and particular expertise in driving innovation and business growth through existing and emerging technology. *Directorships of listed entities* Chairman of AtCor Medical Holdings Limited (Director since September 2004, Chairman since November 2004. Member of the Audit & Risk and Remuneration & Nomination Committees). A Director of Cochlear Ltd (since August 2005, member of the Audit, Medical Science, Nomination and Technology and Innovation Committees), Mesoblast Ltd (since September 2004) and Fisher & Paykel Healthcare Corporation Ltd (since December 2012) (listed on NZ Stock Exchange). *Other current directorships* Mr O'Dwyer's other directorships include Endoluminal Sciences Pty Limited *Former directorships of listed entities in the last 3 years* None. *Subsidiary boards and special responsibilities* A Director of nib health funds limited and Grand United Corporate Health Limited. A member of the Risk and Reputation Committee, Investment Committee, People and Remuneration Committee and Nomination Committee. *Interests in shares and performance rights* Indirect: 41,485 shares in nib holdings limited held by Dundrum Investments Pty Ltd.

Harold Bentley *MA Hons, FCA, FCSA, FGIA*	**Independent Non-Executive Director until 30 September 2017** *Experience and expertise* Mr Bentley was a Director of the Group from November 2007 to September 2017. Has over 20 years experience in the insurance sector. Formerly the Chief Financial Officer of Promina Group Ltd and an Audit Manager with PricewaterhouseCoopers specialising in finance and insurance companies. *Directorships of other listed entities* None. *Other current directorships* None. *Former directorships of listed entities in the last 3 years* None. *Subsidiary boards and special responsibilities* Director of nib health funds limited, nib nz holdings limited and nib nz limited. Chairman of the Audit Committee and a member of the Investment Committee, Risk and Reputation Committee and Nomination 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: 50,000 ordinary shares in nib holdings limited held by Sushi Sake Pty Ltd as at the date of Mr Bentley's retirement on 30 September 2017.

COMPANY SECRETARIES

Ms Roslyn Toms (LLB (UNSW), BA Comms (Hons) (UCAN/UTS)) was appointed Company Secretary on 29 April 2013. Ms Toms is also Group Executive – Legal and Chief Risk Officer and is responsible for managing legal, risk, compliance and governance across the nib group businesses in Australia and its global operations. Ms Toms has over 15 years' experience in-house and in private practice and is a member of the Law Society of NSW and the Governance Institute.

Mr Jordan French (BSc (Hons) LLB (Macquarie)) was appointed Company Secretary on 15 August 2017. Mr French also acts in the role of Senior Corporate Counsel for the nib Group, as well as the Company Secretary for nib foundation Ltd.

Mrs McPherson resigned from her position as Company Secretary effective 15 August 2017.

DIRECTORS' REPORT continued

for the year ended 30 June 2018

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 2018, and the numbers of meetings attended by each Director are noted below:

	Board		Audit Committee		Risk and Reputation Committee		People and Remuneration Committee		Investment Committee		Nomination Committee	
Name	Held[5]	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
S Crane	17	17	8	8*	5	4*	6	5*	5	–	2	2
M Fitzgibbon	17	17	8	8*	5	5*	6	6*	5	4*	2	2
L Ausburn	17	17	8	8*	5	5	6	6	5	1*	2	2
H Bentley[1]	6	6	3	3	2	2	3	1*	2	2	1	1
J Chow[2]	5	5	–	–	–	–	1	1	–	–	1	–
P Gardner	17	17	8	8	5	4*	6	6	5	5	2	2
A Loveridge[3]	17	15	8	8	5	5	6	5*	5	4	2	2
C McLoughlin	17	16	8	8	5	5	6	4*	5	–	2	2
D O'Dwyer[4]	17	17	8	8*	5	5	6	6*	1	1	2	2

* Director not a member of the stated Committee as at the date of the relevant meeting(s). Attendance by non-members is optional, and any attendance is in an ex-officio capacity.
1. H Bentley retired as a Director on 30 September 2017. The stated number of meetings held for Mr Bentley are those that were convened during the term of his appointment.
2. J Chow commenced as a director on 5 April 2018, and was appointed a member of the People and Remuneration Committee. On 25 May 2018, Ms Chow was appointed as a member of the Audit Committee. The stated number of meetings held for Ms Chow are those that were convened during the term of her appointment.
3. A Loveridge was appointed as Chairman of the Audit Committee and a member of the Investment Committee from 1 October 2017.
4. D O'Dwyer was appointed a member of the Investment Committee on 26 April 2018. The stated number of meetings held for the Investment Committee for Mr O'Dwyer are those that were convened during the term of his appointment to that Committee.
5. Includes six unscheduled board meetings called at short notice.

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

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 3 to 13.

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.

REMUNERATION REPORT

The Remuneration Report is set out on pages 24 to 43 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
22 December 2014	1 September 2018	nil	473,927
13 May 2015	1 September 2018	nil	22,956
18 January 2016	1 September 2019	nil	628,895
23 September 2016	1 September 2019	nil	14,099
5 December 2016	1 September 2020	nil	591,224
24 October 2017	1 September 2020	nil	6,530
15 December 2017	1 September 2021	nil	644,023

Shares may be issued or acquired on-market at the election of the Company. It is anticipated that 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 31 – 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 1, 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.

DIRECTORS' REPORT continued

for the year ended 30 June 2018

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 23.

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 Instrument 2016/191, 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 hundred thousand dollars in accordance with that Instrument.

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

On behalf of the Board

Anne Loveridge

Steve Crane
Director

Anne Loveridge
Director

Newcastle, NSW
17 August 2018

AUDITOR'S INDEPENDENCE DECLARATION

for the year ended 30 June 2018

pwc

Auditor's Independence Declaration

As lead auditor for the audit of nib holdings limited for the year ended 30 June 2018, 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.

C. Mara

Caroline Mara
Partner
PricewaterhouseCoopers

Newcastle
17 August 2018

PricewaterhouseCoopers, ABN 52 780 433 757
Level 3, 45 Watt Street, PO Box 798, NEWCASTLE NSW 2300
T: +61 2 4925 1100, F: +61 2 4925 1199, www.pwc.com.au

REMUNERATION REPORT

for the year ended 30 June 2018

MESSAGE FROM THE BOARD

Dear Shareholder

We are pleased to present our Remuneration Report for the financial year to 30 June 2018 (FY18).

As many of you know, last November we celebrated nib's 10-year ASX-listing anniversary; a significant milestone for a company that began operations more than 65-years ago as a small, sick and accident hospital fund for workers at Newcastle's BHP steelworks.

It has been a big decade since we transformed into a listed entity. During this time, our well-defined business strategy, coupled with a focus on delivering great value products and world-class service to our members, has delivered outstanding results and created significant value for our almost 145,000 shareholders. Since listing, our Total Shareholder Return has been 1,200%[1] compared to 50% for the ASX 200, while our market capitalisation has grown from $440 million to $2.6 billion today.

To mark this major milestone, and recognise the significant contribution of our people to our success, every eligible nib employee across the Group was given $1,000 worth of nib shares during the year.

The growth and diversification of nib during this time has also driven a lot of change, particularly for our people. We've expanded beyond our Hunter roots to have over 1,300 employees operating in eight countries around the world. During the year, our Directors spent considerable time getting around the business to see our operations and meet our people, as well as engaging with them in a range of activities such as diversity events and nib awards functions. We feel this is a great way for Directors to get a feel for the pulse of the organisation.

As a Board we're proud of the growth and progress of our company. It is a credit to nib's senior management team that we have created a culture which:

- admires and supports intellectual rigour;
- places a high value on educational and professional development;
- welcomes diversity of thought;
- embraces innovation;
- understands that being an employer of choice reflects the benefits, engagement and recognition we offer our employees;
- is aligned to our organisational values;
- and puts the member at the heart of everything we do.

As Chair of our People and Remuneration Committee, I'm also mindful of how our remuneration and executive reward strategy keeps pace with our overall business strategy and growth aspirations, and that we continue to attract, motivate and retain the right people to lead the nib Group into the future.

Our approach to remuneration is simple and remains unchanged:

1. our philosophy needs to be fit for purpose and aligned to our organisational strategy;
2. our shareholders need to understand what we pay our people and they need to know how performance is measured and rewarded – transparency is key; and
3. remuneration must be linked to short and long-term shareholder value creation, the two are inextricably linked.

Consistent with our approach in previous years, we remain actively engaged and regularly consult with a range of key interest groups including shareholders, proxy advisors and other representative groups such as the Australian Shareholders' Association.

At last year's Annual General Meeting, our shareholders again voted overwhelmingly in favour of our Remuneration Report. We take from this that our shareholders think that our remuneration and executive reward strategy is aligned to their own interests.

Our remuneration framework, which remains unchanged, is reflected in the Remuneration Report for FY18. Further information regarding our Executive remuneration, as well as the total remuneration mix and performance against both short and long-term incentive hurdles for FY18, can be found on pages 32 to 34 of the Annual Report.

1. Source: Bloomberg as at 30 June 2018. nib's total shareholder return represents the simple return over the holding period due to the change in the share price plus dividends re-invested on the ex-dividend date

As we have stated previously, both in consultations with key stakeholders and in past Remuneration Reports, the Board's aim has been to position the fixed remuneration of our Executive team between the 50th and 75th percentile of benchmarked companies.

We recently engaged specialist firm, EY, to undertake a remuneration benchmarking analysis. Given the significant growth of nib since the previous analysis in 2016, the Committee also looked to redefine our peer group of companies (refer to page 28 for further details).

The People and Remuneration Committee used the benchmarking analysis together with a range of other factors and supplementary data, to inform our FY19 remuneration review. As a result of this process, the Managing Director/Chief Executive Officer's FY19 Total Fixed Remuneration will increase by 7%, which is consistent with the Board's aim to target the 50th and 75th percentile of benchmarked companies.

As part of our annual remuneration review, we have also made changes to improve and strengthen the process of granting the variable remuneration component for each of our Executives, such as STI and LTI Awards. These changes, which are effective for Awards relating to the FY18 performance period, require the Board to ensure any governance, adverse risk taking, or audit issues are factored into the quantum of any payment to each Executive.

Succession planning and ensuring we have the right skills mix, diversity and experience both at a Board and senior management level remain a priority for the business. As the Chairman has previously touched on in his year in review, Non-Executive Director, Philip Gardner announced his retirement from the nib Board during the year. Philip has been a trusted and invaluable member of our People and Remuneration Committee for more than 4 years and has played a pivotal and guiding role in helping shape our organisation's approach to people and remuneration. We're fortunate that Jacqueline Chow who was recently appointment as a Non-Executive Director and is a very experienced and professional Director, has joined the People and Remuneration Committee following Philip's retirement announced this year.

To position nib for ongoing growth and success in the years ahead, we'll continue to focus on ensuring we have an appropriate remuneration framework and executive reward strategy that is aligned to the nib Group strategy. We must have the right skills mix, experience, diversity and capacity to position nib for future growth and success.

As always, we welcome your feedback on our 2018 Remuneration Report.

Yours sincerely

Lee Ausburn

Lee Ausburn
Chairman
People and Remuneration Committee

REMUNERATION REPORT continued
for the year ended 30 June 2018

CONTENTS

KEY TERMS USED IN THIS REPORT

FY17	Financial year ended 30 June 2017
FY18	Financial year ended 30 June 2018
FY19	Financial year ended 30 June 2019
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	
Rob Hennin	Chief Executive Officer – New Zealand (CEO NZ)
David Kan	Group Executive International and New Business (GEINB)
Wendy Lenton	Group Executive People and Culture (GEPC) (appointed 28 August 2017)
Rhod McKensey	Group Executive Australian Residents Health Insurance (GEARHI)
Michelle McPherson	Deputy Chief Executive Officer/Chief Financial Officer (DCEO/CFO)
Brendan Mills	Chief Information Officer (CIO)
Roslyn Toms	Group Executive Legal and Chief Risk Officer (GELCRO)
Justin Vaughan	Group Executive Benefits and Provider Relations (GEBPR)
Independent Non-Executive Directors	
Steve Crane	Chairman
Lee Ausburn	Chairman People and Remuneration Committee Member Risk and Reputation Committee
Harold Bentley	Chairman Audit Committee (until 30 September 2017) Chairman Board, Audit, Risk and Compliance Committee New Zealand (until 30 September 2017) Director New Zealand subsidiaries (until 30 September 2017) Member Investment Committee (until 30 September 2017) Member Risk and Reputation Committee (until 30 September 2017)
Jacqueline Chow	Member People and Remuneration Committee (appointed 5 April 2018) Member Audit Committee (appointed 25 May 2018)
Philip Gardner	Chairman Investment Committee Member Audit Committee Member People and Remuneration Committee
Anne Loveridge	Chair of Audit Committee (appointed 1 October 2017) and member of Audit Committee (until 30 September 2017) Chairman Board, Audit, Risk and Compliance Committee New Zealand (appointed 1 October 2017) Director New Zealand subsidiaries (appointed 1 October 2017) Member Risk and Reputation Committee Member Investment Committee (appointed 1 October 2017)
Christine McLoughlin	Chair of Risk and Reputation Committee Member Audit Committee
Donal O'Dwyer	Member People and Remuneration Committee Member Risk and Reputation Committee Member Investment Committee (appointed 26 April 2018)

REMUNERATION REPORT continued

for the year ended 30 June 2018

OUR REMUNERATION GOVERNANCE

The role of our People and Remuneration Committee (Committee) is to ensure alignment of nib's remuneration framework and executive reward strategy to the short-term and long-term performance of the nib Group. As part of this process the Committee seeks advice and feedback from a range of external remuneration consultants, specialists, major shareholders and shareholder advisory groups.

When assessing our remuneration framework the Committee ensures there is a clear link to nib's culture, values and business strategy, diversity, people and development strategy, succession planning and employee development and engagement. The Committee includes the following independent Non-Executive Directors:

Lee Ausburn (Chairman)

Jacqueline Chow

Philip Gardner

Donal O'Dywer

Shareholders can view the Committee Charter on the nib website (nib.com.au/shareholders).

Our Executive remuneration arrangements are set against a comparator group of listed organisations or peers, which nib determines in consultation with external remuneration advisors. The Board's aim is to position the fixed remuneration of our Executive team between the 50th and 75th percentile of benchmarked companies. In February 2018, EY provided remuneration data, which the Committee used together with a range of other factors and supplementary data, such as the ongoing growth of the company and external competitive landscape, to inform our FY19 and FY20 analysis.

As part of the benchmarking analysis the Committee also looked to redefine our peer companies, given the significant growth of nib since the previous analysis in 2016. The companies which make up our peer group include the following sectors and industries:

- Australian market capitalisation comparator group (all roles except nib New Zealand Chief Executive Officer): this includes ASX200 companies within 50%-200% of nib's market capitalisation (using one-month average market capitalisation to 30 November 2017).
- Australian industry-based comparator group (All roles): This includes selected ASX200 financial services and health care companies as well as relevant unlisted health care companies (where data is available).
- New Zealand industry-based comparator group (nib New Zealand Chief Executive Officer only): both listed and unlisted financial services companies in New Zealand.

At the forefront of the Committee's approach to setting our remuneration framework and Executive reward strategy, is to ensure alignment with shareholder interests. As our shareholders have seen, the remuneration paid to our Executives has increased over time; pleasingly however, this has been in parallel with the significant creation of shareholder value. This is shown in our Managing Director/CEO's Total Fixed Remuneration (TFR), which has increased 55% over the past five years. Over the same five-year period our revenue has grown 73%, underlying operating profit has risen 145%, total shareholder return[1] has been 234% compared to 64% for S&P/ASX 200 companies, market capitalisation has increased from approximately $944 million to more than $2.6 billion and our arhi net promoter score has risen from 16.9% to 28.7%.[2]

1. Source: Bloomberg. Total shareholder return represents the simple return over the holding period due to the change in the share price plus dividends re-invested on the ex-dividend date.
2. Excludes GU Health

EXECUTIVE REMUNERATION STRUCTURE

nib's remuneration framework and executive reward strategy provides a mix of fixed and variable remuneration with a blend of short and long-term incentives. There are three components to total remuneration:

- fixed remuneration, comprising base remuneration package, superannuation and insurance cover;
- short-term incentives based on pre-determined Key Performance Indicator (KPI) targets established by the Board as well as individual and leadership assessment; and
- longer-term incentives based on pre-determined Total Shareholder Return (TSR) and Earnings Per Share (EPS) performance established by the Board.

A significant portion of remuneration for our Executives is performance-based through Short Term Incentives (STI) and Long Term Incentives (LTI) arrangements. In the case of our Managing Director/CEO 72% of his FY18 Remuneration mix was performance based. From FY18, all Executives' performance-based incentives have claw-back arrangements and a malus condition included by way of amendment to the STI and LTI Plan Rules.

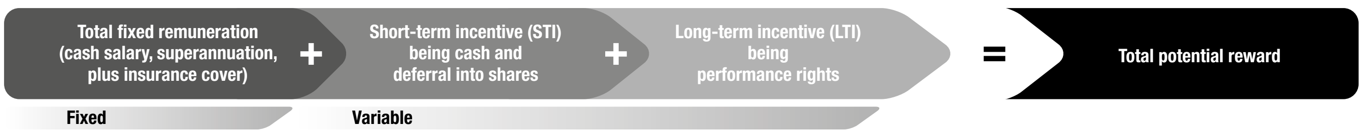
If the Board becomes aware of a material misstatement of our financial accounts or statements, and nib has awarded an Executive an incentive payment or award, short or long-term, having regard to misstatement, the Board may (in its absolute discretion), require the Executive to:

- repay the Company, short or long term incentive received by the Managing Director/CEO and Chief Financial Officer/Deputy Chief Executive Officer; or
- forfeit or cancel any, short or long-term award (vested or unvested).

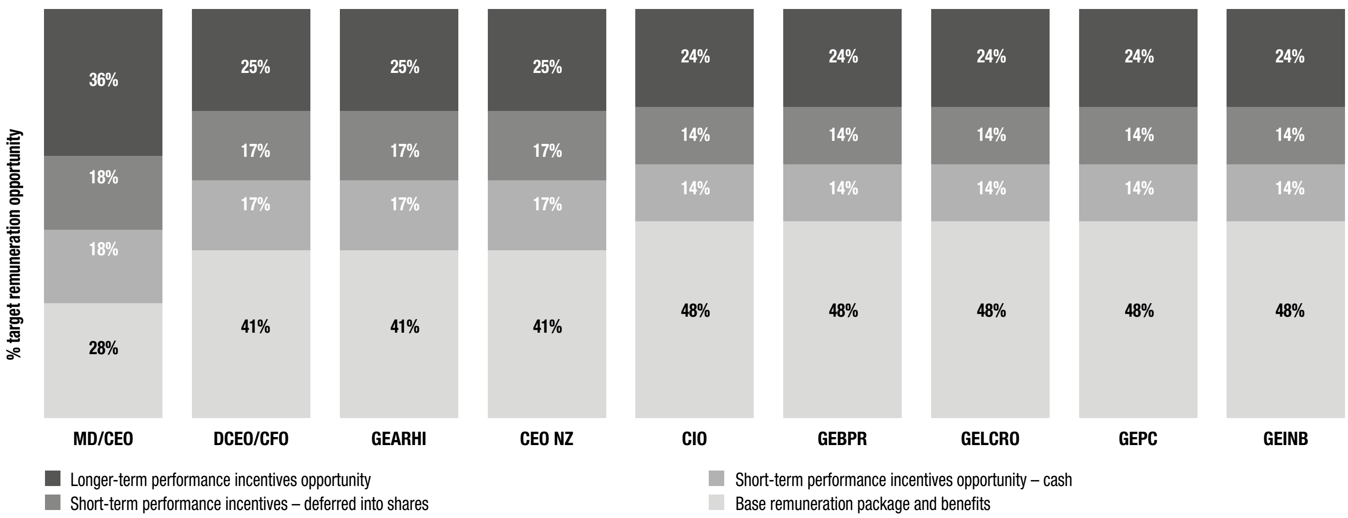
During the year the Board put in place changes to improve and strengthen the process when granting variable remuneration component for Executives, such as STI and LTI Awards. These changes, which are effective for Awards relating to the FY18 performance period, require the Board to ensure any governance, adverse risk taking, or audit issues are factored into the quantum of any payments to each Executive.

EXECUTIVE REMUNERATION MIX

The remuneration structure for each executive is made up of the following components:



The graph below illustrates the FY18 remuneration mix for our Executives. Any variations in target remuneration mix between executive roles reflect position responsibilities. As can be seen from the graph a large portion of Executive remuneration is "at risk" and subject to meeting performance hurdles as set out through the STI and LTI for each Executive.



REMUNERATION REPORT continued

for the year ended 30 June 2018

EXECUTIVE REMUNERATION MIX – FIXED REMUNERATION

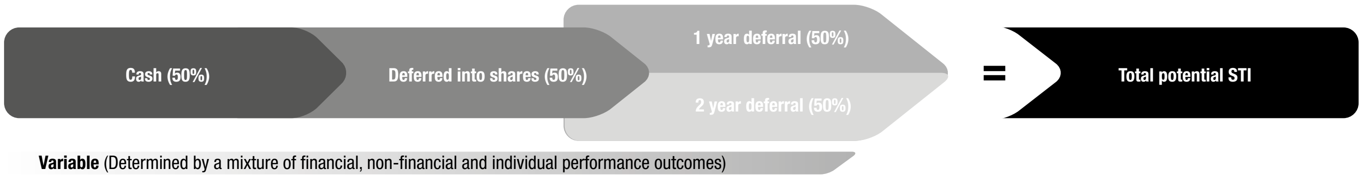
Fixed remuneration for Executives is determined with reference to a benchmarking process, external market factors, competition to attract and retain talent, as well as consideration of the expertise of the individual in the role.

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

EXECUTIVE REMUNERATION MIX – VARIABLE REMUNERATION

Short-term incentives (STI)

nib's short-term incentive (STI) plan for each Executive is structured as follows.



Performance criteria for STI is based on two components:

1. Individual and leadership assessment, which makes up 20% of the total STI. The individual and leadership component ensures we continue to focus and recognise the contribution of our Executives in developing a high performance organisational culture and seek a balance between the financial and non-financial performance of our business. The leadership component for the MD/CEO is assessed as part of an annual performance review by the Board, factors which are considered include:
   - Leadership
   - Strategic planning
   - Shareholder return
   - Member/Customer satisfaction
   - Operations and people
   - Financial management
   - Board relations
   - Public image and professional development

   The Board also takes into account the MD/CEO's progress in achieving the various goals set out in nib's strategic plan.

   In determining the leadership component for other members of the Executive team, the MD/CEO provides a detailed assessment of each Executive's progress and achievements in relation to their individual performance plans for the year. The individual's performance plans are based upon nib's strategic plan and reflect their primary accountability. The Board considers and determines the leadership component for each Executive based upon the MD/CEO's recommendations.

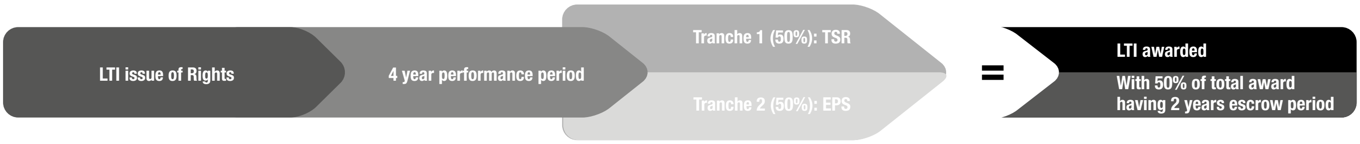
2. Performance assessment that makes up 80% of the total STI. The performance component is assessed against predetermined financial and non-financial performance milestones for each Executive and is weighted accordingly (for FY18 this is set out on Page 32). In some instances an Executive's STI assessment may also include strategic 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 Executive's achievement of pre-determined performance milestones and an annual performance review.

Long-term incentives (LTI)

nib's long-term incentive (LTI) plan for each executive is structured as follows.



The purpose of the LTI is to balance short-term performance objectives with the creation of long-term shareholder value by focusing overall Group performance over a multi-year period.

The nib LTI is an incentive provided to eligible Executives if specific measures are met over a four-year period. LTI targets are set in the interests of creating long-term shareholder value and to assist nib to attract, reward, motivate and retain executives.

LTI participants are granted performance rights that enable the Executive to acquire shares in nib for nil consideration if performance conditions are met and the Executive is 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;
- on cessation of employment for other reasons (including total and permanent disablement, redundancy and retirement); or
- 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.

The performance hurdles for the nib LTI are Total Shareholder Return (TSR) relative to the S&P/ASX200 over four years and EPS growth over the performance period. The LTI is allocated in two equal tranches; 50% for TSR and 50% for EPS. The Board's view is that our current LTI performance hurdles being EPS and TSR relative to S&P/ASX200 group of companies remain appropriate and aligned to our remuneration philosophy. We will continue to assess the appropriateness of these performance hurdles each year and consult with shareholders, proxy advisors and other shareholder representative groups regarding any future amendments to ensure they are aligned to shareholders' interests.

A condition of acceptance for each Executive in the LTI Plan is the requirement for 50% of the LTI to have a two-year escrow period. This escrow period extends beyond employment at nib ceasing, including termination.

If vesting conditions are met, the performance rights will vest on 1 September following the end of the performance 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.

REMUNERATION REPORT continued

for the year ended 30 June 2018

EXECUTIVE REMUNERATION FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

Actual remuneration for each Executive in FY18 included a fixed component, as well as a variable or at risk component, made up of an STI payment and LTI award.

A full breakdown of executive remuneration details has been prepared in accordance with statutory requirements and accounting standards. This detailed disclosure (statutory tables) is located on page 39 of this Report.

The table below shows the key elements of total reward for each Executive for FY18. This includes the STI cash component paid to each Executive in the year, as well as the value of equity held in escrow (not subject to forfeiture conditions), and equity from previous years that vested in FY18 and which was originally reported under accounting standards in the year they were granted.

		STI applicable to the FY17 year paid in Sept 2017 (FY18)[2]			
	Total fixed remuneration[1] $	Cash $	Shares held in escrow $	LTI vested in FY18[3] $	Total reward (received or available) $
Mark Fitzgibbon	1,042,400	493,350	493,350	1,601,429	3,630,529
Rob Hennin	423,221	109,319	107,730	335,253	975,523
David Kan	515,000	135,000	135,000	–	785,000
Wendy Lenton	336,193	–	–	–	336,193
Rhod McKensey	597,400	160,950	160,950	464,643	1,383,943
Michelle McPherson	612,800	161,245	161,245	520,930	1,456,220
Brendan Mills	367,701	96,390	96,390	193,141	753,622
Roslyn Toms	351,748	52,966	16,203	–	420,917
Justin Vaughan	360,500	102,375	102,375	154,641	719,891
	4,606,963	**1,311,595**	**1,273,243**	**3,270,037**	**10,461,838**

1. Total fixed remuneration comprises Cash salaries and fees and superannuation.
2. FY17 STI paid in the FY18 year.
3. Value of shares issued during the year on exercise of performance rights.

Short-term incentives for the financial year ended 30 June 2018

The specific KPIs and weighting for FY18 for our Managing Director and CFO which constitutes 80% of their total STI are:

KPI Weighting	Mark Fitzgibbon (MD/CEO)	Michelle McPherson (CFO/DCEO)
Growth		
Group underlying operating revenue	20%	–
Profitability		
Group underlying operating profit	40%	40%
Underlying EPS	20%	20%
Cost control		
Group underlying management expense ratio (excluding acquisition costs)	–	30%
Customer satisfaction		
arhi customer satisfaction	20%	10%

Short-term performance targets are set for achieving specific financial business and individual performance outcomes and awards are made relative to stretch performance. Due to the commercial and strategic nature of the STI targets for our other Executives, nib does not disclose the specific KPIs for these key management personal.

Each Executive has a target STI opportunity. For FY18, 50% of the awarded STI must be deferred into shares, with half the shares vesting after one year and the second half after two years. These shares are subject to a risk of forfeiture during the deferral period under bad leaver and clawback conditions.

Actual FY18 STIs awarded and forfeited (as a percentage of total STI) for each Executive are set out below. A more detailed description of performance against STI performance hurdles is shown on page 35.

	FY18 STI Bonus		FY17 STI Bonus	
	Awarded %	Forfeited %	Awarded %	Forfeited %
Mark Fitzgibbon[1]	91.5%	8.5%	97.5%	2.5%
Rob Hennin[1]	90.2%	9.8%	89.8%	10.2%
David Kan[1]	80.3%	19.7%	90.0%	10.0%
Wendy Lenton	84.0%	16.0%	na	na
Rhod McKensey[1]	90.6%	9.4%	92.5%	7.5%
Michelle McPherson[1]	83.5%	16.5%	90.3%	9.7%
Brendan Mills[1]	81.7%	18.3%	90.0%	10.0%
Roslyn Toms[1]	81.2%	18.8%	92.3%	7.7%
Justin Vaughan	90.8%	9.2%	97.5%	2.5%
Group average	86.0%	14.0%	92.5%	7.5%

1. The above FY18 STI awarded percentages do not reflect the impact miscalculation made in the 2016 and 2017 STI allocations (refer to page 39).

Long-term incentives for the financial year ended 30 June 2018

nib LTI performance rights 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) – 100% vesting

For the four year performance period ended 30 June 2018, nib's TSR was ranked at the 80th percentile to our peer group (S&P/ASX 200). As per the TSR vesting conditions for the FY15-FY18 LTI (as set out below) this translates to a 100% vesting of the performance rights for tranche 1.

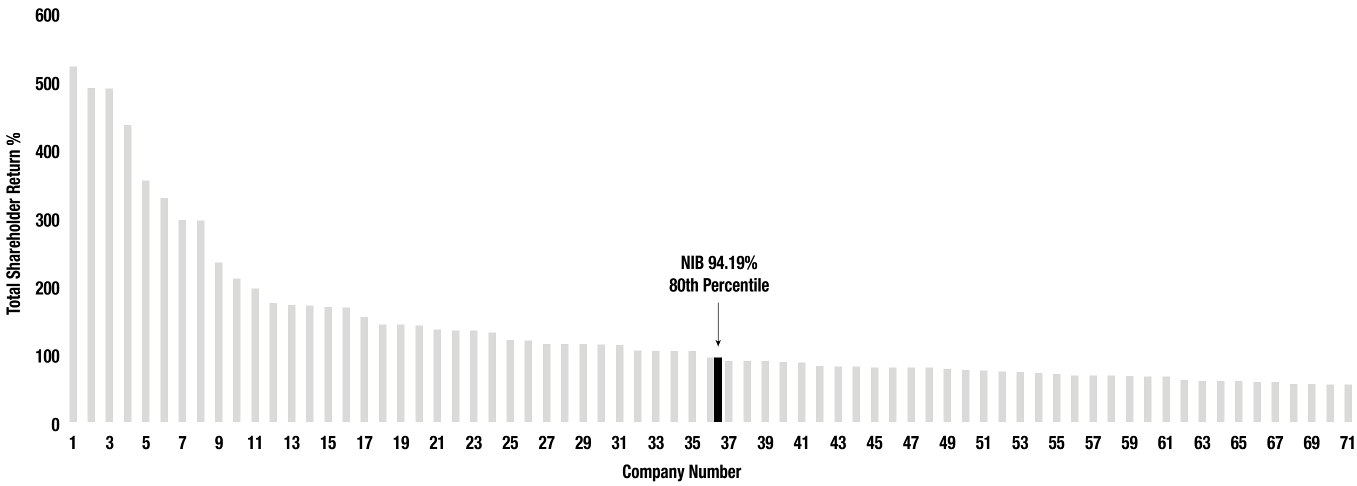
nib's TSR performance compared to the relevant peer group	Performance of Tranche 1 performance rights vesting
>= 75th percentile	100%
>= 50th percentile to 74th percentile	Pro-rata straight line vesting between 50% and 100%
< 50th percentile	0%

REMUNERATION REPORT continued

for the year ended 30 June 2018

EXECUTIVE REMUNERATION FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 continued

Long-term incentives for the financial year ended 30 June 2018 continued



Source: IRESS (as at 30 June 2018)

EPS Hurdle (Tranche 2) – 100% vesting

For the 12 months to 30 June 2018 nib's EPS was 29.4cps. As per the EPS vesting conditions for the FY15-FY18 LTI (as set out below) this translates to EPS CAGR of 26.1% from the base EPS of 15.9cps and 100% vesting of the performance rights for tranche 2.

Percentage of performance rights vesting	FY15-FY18 LTIP
	15.9 cps
100%	22.4 cps
75%	20.8 cps
50%	19.7 cps
25%	18.6 cps
0%	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%

LINKING REMUNERATION WITH PERFORMANCE

The components of remuneration that are linked to performance are the STI and LTI plans. Set performance indicators determine 80% of the STI award, while 20% is assessed on the leadership of each Executive.

Commercially sensitive and strategic milestone targets were set for some of our Executives which are dependent and assessed on their segment and area of responsibility.

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

Financial results		FY18 $m	FY17 $m	FY16 $m	FY15 $m	FY14 $m
Growth						
Group underlying operating revenue		2,235.1	2,004.5	1,873.1	1,639.3	1,497.3
Profitability						
nib Group underlying operating profit		184.8	153.7	132.0	88.0	77.3
Underlying EPS	cps	31.9	27.7	22.9	18.3	16.8
Cost Control						
Group underlying management expense ratio excluding acquisition costs	%	6.1	6.6	6.3	5.9	6.0

Results against KPIs (excluding leadership component) are detailed in the table below.

KPI	Result
Growth	
Group underlying operating revenue	Group underlying operating revenue is up 11.5% to $2.2 billion, with approximately 47% of maximum STI awarded for this target.
Profitability	
nib Group underlying operating profit	Group underlying operating profit is up 20.2% to $184.8 million, with 100% of maximum STI awarded for this target.
Underlying EPS	Underlying EPS of 31.9cps up 14.8%, with 100% of maximum STI awarded for this target.
Cost control	
Group underlying management expense ratio excluding acquisition costs	Approximately 30% of maximum STI awarded for this target.
Customer satisfaction	
arhi customer satisfaction	A range metrics are used to measure customer satisfaction, including NPS which resulted in 100% of maximum STI awarded for this target.

REMUNERATION REPORT continued

for the year ended 30 June 2018

EXECUTIVE EMPLOYMENT CONDITIONS

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

A significant portion of remuneration for our Executives is performance based through STI and LTI arrangements. Executives have claw-back arrangements and a malus condition in place for performance-based remuneration such as STI and LTI received.

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 giving notice with immediate effect or by the relevant Executive giving three months notice.
Rob Hennin (CEO NZ)	6 May 2013	Open contract with notice period	
David Kan (GEINB)	19 December 2014	Open contract with notice period	
Wendy Lenton (GEPC)	28 August 2017	Open contract with notice period	
Rhod McKensey (GEARHI)	1 July 2014	Open contract with notice period	
Michelle McPherson (CFO/DCEO)	1 July 2010	Open contract with notice period	
Brendan Mills (CIO)	1 June 2012	Open contract with notice period	
Roslyn Toms (GELCRO)	1 May 2017	Open contract with notice period	
Justin Vaughan (GEBPR)	1 August 2013	Open contract with notice period	

Termination payments

For our Australian Executives with open contracts effective pre-August 2014, 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. For our Australian Executives with open contracts effective post August 2014, the Group may terminate the Executive's contract with six 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 was employed and the Board's assessment of the Executive's performance against the key performance indicators as at the date of termination; and/or
- 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.

At the 2011 Annual General Meeting nib received shareholder approval for the payment of termination benefits that 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 undertaken for Executives who held this position at the date of shareholder approval. The only current Executives this approval would be applicable to are Mark Fitzgibbon (MD/CEO), Michelle McPherson (Deputy CEO/CFO) and Rhod McKensey (Group Executive Australian Residents Health Insurance).

Minimum shareholding requirements

While nib does not set minimum shareholding requirements on our Executives, the Board's view is that the deferral arrangements under the STI and LTI means all Executives have an appropriate minimum equity holding.

NON-EXECUTIVE DIRECTOR REMUNERATION

Fees and payments to Non-Executive Directors reflect the Board role, market fee levels, and the objective of the Group to attract highly skilled and experienced non-executive directors.

Non-Executive Director fees

Our Non-Executive Directors are paid a base fee and an additional fee for being members of other nib Board Committees. Non-Executive Director fees are reviewed annually by the Committee and approved by the Board.

In 2018, nib engaged the services of Ernst & Young (EY) to conduct a benchmarking and market remuneration analysis, which the Committee used together with a range of other factors and supplementary data to inform our FY19 and FY20 analysis.

Non-Executive Director fees are determined within the $1.9 million aggregate nib Directors' fee pool limit. This includes Non-Executive Directors on the nib holdings limited Board, our nib New Zealand subsidiary, as well as our World Nomads Group business. 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 current aggregate fee pool was set at the AGM in November 2017.

The following table shows the fees (inclusive of superannuation) for nib's Australian Boards and committees:

	2018 $	2017 $
Base fees		
Chairman	300,000	278,300
Other Non-Executive Directors	124,400	120,750
Additional fees*		
Audit committee		
Chairman	31,950	31,000
Member	12,900	12,500
Investment committee		
Chairman	17,500	17,000
Member	10,300	10,000
Risk and Reputation committee		
Chairman	25,750	25,000
Member	12,900	12,500
People and Remuneration committee		
Chairman	25,750	25,000
Member	12,900	12,500
Nomination committee		
Chairman	–	–
Member	–	–

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

REMUNERATION REPORT continued

for the year ended 30 June 2018

NON-EXECUTIVE DIRECTOR REMUNERATION continued

Non-Executive Director fees continued

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

	2018 $	2017 $
NZ Base fees		
Chairman*	71,610	73,355
Member	39,500	38,306
NZ Board, Audit, Risk and Compliance committee		
Chairman	9,600	9,318
Member	–	–

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

Principle 2 of nib's Corporate Governance Statement (which is available at ww.nib.com.au/shareholders/company-profile/corporate-governance) includes the committee membership of each of nib's NEDs (Non-Executive Directors).

Minimum shareholding requirements

nib requires all Non-Executive Directors (nib holdings limited only) to hold a minimum of 50% of their first year's total annual base director's fee in shares, which is to be accumulated within three years of appointment (based on the share price at the date of joining the Board). All current Non-Executive Directors (nib holdings limited) comply with this requirement as at 30 June 2018.

DETAILED DISCLOSURE OF EXECUTIVE REMUNERATION

The following table shows details of the remuneration expense recognised for the Group's Key Management Personnel. The remuneration is measured in accordance with the requirements of the accounting standards with additional information provided for performance rights vested during the year.

	Short-term employee benefits			Post-employment benefits		Long-term benefits	Termination benefits	Share-based payments			
Executives	Cash salary and fees[1] $	Cash bonus[6] $	Non-monetary benefits[4] $	Superannuation $	Retirement benefits $	Long service leave $	Termination benefits $	Bonus[5,6] $	Performance rights expense $	Performance rights additional value at vesting[7] $	Total $
2018											
Mark Fitzgibbon[6]	1,057,492	590,643	37,853	25,000	–	17,371	–	590,643	609,269	1,187,183	4,115,454
Rob Hennin[6]	383,591	145,308	11,313	31,022	–	–	–	143,719	119,538	248,532	1,083,023
David Kan[6]	502,874	122,150	10,727	20,049	–	–	–	122,150	117,049	–	894,999
Wendy Lenton[2]	316,816	84,783	11,290	18,567	–	–	–	84,783	22,252	–	538,491
Rhod McKensey[6]	567,742	212,888	8,009	25,000	–	9,945	–	212,888	168,073	344,452	1,548,997
Michelle McPherson[6]	586,453	184,611	16,540	25,000	–	10,209	–	184,611	190,740	386,180	1,584,344
Brendan Mills[6]	343,409	82,279	3,711	20,049	–	6,125	–	82,279	92,316	143,181	773,349
Roslyn Toms[6]	326,758	124,194	6,527	20,049	–	9,008	–	87,431	34,164	–	608,131
Justin Vaughan	352,930	98,237	6,515	20,049	–	–	–	98,237	87,356	114,640	777,964
	4,438,065	**1,645,093**	**112,485**	**204,785**	**–**	**52,658**	**–**	**1,606,741**	**1,440,757**	**2,424,168**	**11,924,752**
2017											
Mark Fitzgibbon	976,942	493,350	12,828	35,000	–	16,857	–	493,350	619,596	671,934	3,319,857
Rob Hennin	389,766	105,500	11,004	30,844	–	–	–	107,350	115,789	–	760,253
David Kan	518,790	135,000	3,846	19,616	–	–	–	135,000	86,118	–	898,370
Rhod McKensey	539,962	162,570	4,461	30,000	–	9,656	–	162,570	172,401	151,926	1,233,546
Michelle McPherson	577,865	161,245	4,576	33,154	–	9,911	–	161,245	203,484	218,473	1,369,953
Brendan Mills	334,604	95,589	2,746	19,616	–	5,947	–	95,589	91,105	78,148	723,344
Roslyn Toms[3]	258,005	49,453	2,145	19,616	–	–	–	16,203	–	–	345,422
Justin Vaughan	319,372	100,919	2,692	30,000	–	–	–	100,919	77,629	–	631,531
	3,915,306	**1,303,626**	**44,298**	**217,846**	**–**	**42,371**	**–**	**1,272,226**	**1,366,122**	**1,120,481**	**9,282,276**

1. Includes cash salary and fees and short-term compensated absences, such as annual leave entitlements accrued but not taken during the year.
2. Wendy Lenton was appointed Group Executive People and Culture on 28 August 2017. Prior to Ms Lenton's appointment she was paid $69,804 in consultancy fees in addition to amounts disclosed above.
3. Roslyn Toms was appointed Group Executive Legal and Chief Risk Officer on 1 May 2017. Before this appointment she was the company's General Counsel/Company Secretary. Amounts shown above include all Ms Toms' remuneration during the reporting period, whether as an Executive Officer or General Counsel/Company Secretary. Amounts received in her position as Group Executive Legal and Chief Risk Officer amounted to $92,994, made up of cash salary of $56,871, cash bonus of $16,203, non-monetary benefits of $448, superannuation of $3,269 and share based bonus of $16,203.
4. Non-monetary benefits includes insurance cover and cost of benefits and associated Fringe Benefits Tax.
5. Includes bonus share rights. Refer to Share-based payments.
6. There was a miscalculation made in the 2016 and 2017 STI allocations which resulted in overpayments to the Executive team totalling $85,097 over the two years and spread across eligible Executives. This amount is being repaid to the company by the executives affected.
7. The Performance rights additional value at vesting represents the difference between fair value at grant date and the value at vesting date which is not included in statutory remuneraton.

DETAILED DISCLOSURE OF NON-EXECUTIVE REMUNERATION

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		
Non-Executive Directors	Cash salary and fees $	Non-monetary benefits $	Superannuation $	Retirement benefits $	Total $
2018					
Steve Crane	279,951	–	20,049	–	300,000
Lee Ausburn	148,904	–	14,146	–	163,050
Harold Bentley (until 30/9/17)	32,163	–	25,000	–	57,163
Jacqueline Chow (from 5/4/18)	32,335	–	3,072	–	35,407
Philip Gardner	153,151	–	14,549	–	167,700
Anne Loveridge	190,902	–	18,136	–	209,038
Christine McLoughlin	148,904	–	14,146	–	163,050
Donal O'Dywer	137,169	–	13,031	–	150,200
	1,123,479	**–**	**122,129**	**–**	**1,245,608**
2017					
Steve Crane	258,684	–	19,616	–	278,300
Lee Ausburn	144,521	–	13,729	–	158,250
Harold Bentley	186,874	–	35,000	–	221,874
Annette Carruthers (until 28/9/16)	43,516	4,863	4,134	1,443	53,956
Philip Gardner	148,630	–	14,120	–	162,750
Anne Loveridge (from 20/2/2017)	48,251	–	4,584	–	52,835
Christine McLoughlin	141,796	–	13,471	–	155,267
Donal O'Dywer	133,105	–	12,645	–	145,750
	1,105,377	**4,863**	**117,298**	**1,443**	**1,228,982**

EQUITY INSTRUMENTS HELD BY KEY MANAGEMENT PERSONNEL

Reconciliation of performance rights help by KMP

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.

								Balance at the end of the year	
Name & Grant dates	Balance at start of the year Unvested	Granted as compensation	Vested and exercised Number	%	Forfeited Number	%	Other changes	Vested and exercisable	Unvested
Mark Fitzgibbon									
29 Nov 2013 (FY14 – FY17 LTIP)	273,786	–	273,786	100%	–	0%	–	–	–
22 Dec 2014 (FY15 – FY18 LTIP)	234,714	–	–	–	–	–	–	–	234,714
22 Jan 2016 (FY16 – FY19 LTIP)	284,320	–	–	–	–	–	–	–	284,320
5 Dec 2016 (FY17 – FY20 LTIP)	225,978	–	–	–	–	–	–	–	225,978
15 Dec 2017 (FY18 – FY21 LTIP)	–	222,298	–	–	–	–	–	–	222,298
Rob Hennin									
29 Nov 2013 (FY14 – FY17 LTIP)	57,316	–	57,316	100%	–	0%	–	–	–
22 Dec 2014 (FY15 – FY18 LTIP)	40,384	–	–	–	–	–	–	–	40,384
22 Jan 2016 (FY16 – FY19 LTIP)	49,492	–	–	–	–	–	–	–	49,492
5 Dec 2016 (FY17 – FY20 LTIP)	56,624	–	–	–	–	–	–	–	56,624
15 Dec 2017 (FY18 – FY21 LTIP)	–	42,252	–	–	–	–	–	–	42,252
David Kan									
22 Dec 2014 (FY15 – FY18 LTIP)	22,956	–	–	–	–	–	–	–	22,956
22 Jan 2016 (FY16 – FY19 LTIP)	56,450	–	–	–	–	–	–	–	56,450
5 Dec 2016 (FY17 – FY20 LTIP)	55,824	–	–	–	–	–	–	–	55,824
15 Dec 2017 (FY18 – FY21 LTIP)	–	43,930	–	–	–	–	–	–	43,930
Wendy Lenton									
15 Dec 2017 (FY18 – FY21 LTIP)	–	28,699	–	–	–	–	–	–	28,699
Brendan Mills									
29 Nov 2013 (FY14 – FY17 LTIP)	33,020	–	33,020	100%	–	0%	–	–	–
22 Dec 2014 (FY15 – FY18 LTIP)	36,145	–	–	–	–	–	–	–	36,145
22 Jan 2016 (FY16 – FY19 LTIP)	41,394	–	–	–	–	–	–	–	41,394
5 Dec 2016 (FY17 – FY20 LTIP)	39,858	–	–	–	–	–	–	–	39,858
15 Dec 2017 (FY18 – FY21 LTIP)	–	31,365	–	–	–	–	–	–	31,365
Rhod McKensey									
29 Nov 2013 (FY14 – FY17 LTIP)	79,437	–	79,437	100%	–	0%	–	–	–
22 Dec 2014 (FY15 – FY18 LTIP)	55,744	–	–	–	–	–	–	–	55,744
22 Jan 2016 (FY16 – FY19 LTIP)	69,787	–	–	–	–	–	–	–	69,787
5 Dec 2016 (FY17 – FY20 LTIP)	77,708	–	–	–	–	–	–	–	77,708
15 Dec 2017 (FY18 – FY21 LTIP)	–	61,151	–	–	–	–	–	–	61,151
Michelle McPherson									
29 Nov 2013 (FY14 – FY17 LTIP)	89,060	–	89,060	100%	–	0%	–	–	–
22 Dec 2014 (FY15 – FY18 LTIP)	74,081	–	–	–	–	–	–	–	74,081
22 Jan 2016 (FY16 – FY19 LTIP)	89,819	–	–	–	–	–	–	–	89,819
5 Dec 2016 (FY17 – FY20 LTIP)	79,717	–	–	–	–	–	–	–	79,717
15 Dec 2017 (FY18 – FY21 LTIP)	–	62,727	–	–	–	–	–	–	62,727
Roslyn Toms									
27 Oct 2017 (FY17 – FY20 LTIP)	–	6,530	–	–	–	–	–	–	6,530
15 Dec 2017 (FY18 – FY21 LTIP)	–	30,751	–	–	–	–	–	–	30,751
Justin Vaughan									
29 Nov 2013 (FY14 – FY17 LTIP)	26,438	–	26,438	100%	–	0%	–	–	–
22 Dec 2014 (FY15 – FY18 LTIP)	32,859	–	–	–	–	–	–	–	32,859
22 Jan 2016 (FY16 – FY19 LTIP)	37,633	–	–	–	–	–	–	–	37,633
5 Dec 2016 (FY17 – FY20 LTIP)	39,076	–	–	–	–	–	–	–	39,076
15 Dec 2017 (FY18 – FY21 LTIP)	–	30,751	–	–	–	–	–	–	30,751

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 2018.

REMUNERATION REPORT continued

for the year ended 30 June 2018

EQUITY INSTRUMENTS HELD BY KEY MANAGEMENT PERSONNEL continued

The terms and conditions of each grant of options affecting remuneration in the current or a future reporting period are:

LTIP	Grant date	Date vested and exercisable	Expiry date	Exercise price	Value per performance right at grant date	Performance achieved	% vested
FY14-FY17	29 Nov 2013	1 Sep 2017	1 Sep 2017	nil	$1.9830	100.0%	100.0%
FY15-FY18	22 Dec 2014	1 Sep 2018	1 Sep 2018	nil	$2.6689	to be determined	n/a
FY15-FY18	13 May 2015	1 Sep 2018	1 Sep 2018	nil	$3.2289	to be determined	n/a
FY16-FY19	22 Jan 2016	1 Sep 2018	1 Sep 2019	nil	$3.0246	to be determined	n/a
FY17-FY20	5 Dec 2016	1 Sep 2019	1 Sep 2020	nil	$4.0096	to be determined	n/a
FY17-FY20	27 Oct 2017	1 Sep 2020	1 Sep 2020	nil	$4.0096	to be determined	n/a
FY18–FY21	15 Dec 2017	1 Sep 2021	1 Sep 2021	nil	$6.0813	to be determined	n/a

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.

2018	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	250,000	–	–	250,000
Lee Ausburn	50,000	–	885	50,885
Harold Bentley[1]	50,000	–	(50,000)	–
Jacqueline Chow	–	–	4,000	4,000
Philip Gardner	150,000	–	–	150,000
Anne Loveridge	12,500	–	11,385	23,885
Christine McLoughlin	110,000	–	885	110,885
Donal O'Dwyer	40,600	–	885	41,485
Other key management personnel of the Group				
Mark Fitzgibbon	2,025,838	358,131	(270,000)	2,113,969
Rob Hennin	63,579	75,734	–	139,313
David Kan	31,766	23,080	–	54,846
Wendy Lenton	–	–	–	–
Rhoderic McKensey	398,739	106,954	–	505,693
Michelle McPherson	707,190	116,627	(29,115)	794,702
Brendan Mills	97,776	49,499	(3,845)	143,430
Roslyn Toms	11,155	2,770	(3,662)	10,263
Justin Vaughan	29,219	43,940	–	73,159

1. Harold Bentley retired as a Director on 30 September 2017, with the change in shareholding reflecting Harold no longer being a Director.

2017	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	250,000	–	–	250,000
Lee Ausburn	50,000	–	–	50,000
Harold Bentley	100,000	–	(50,000)	50,000
Annette Carruthers[1]	72,500	–	(72,500)	–
Philip Gardner	150,000	–	–	150,000
Anne Loveridge	–	–	12,500	12,500
Christine McLoughlin	110,000	–	–	110,000
Donal O'Dwyer	25,600	–	15,000	40,600
Other key management personnel of the Group				
Mark Fitzgibbon	1,783,277	292,561	(50,000)	2,025,838
Rob Hennin	38,663	24,916	–	63,579
David Kan	11,926	19,840	–	31,766
Rhoderic McKensey	320,209	78,530	–	398,739
Michelle McPherson	608,048	99,142	–	707,190
Brendan Mills	58,827	38,949	–	97,776
Roslyn Toms	–	–	11,155	11,155
Justin Vaughan	24,056	15,163	(10,000)	29,219

1. Annette Carruthers retired as a Director on 28 September 2016, with the change in shareholding reflecting Annette no longer being a Director.

In addition to the above shareholding in nib holdings limited, David Kan holds one share in both nib Options Holdings (Thailand) Co Ltd and nib Options (Thailand) Co Ltd, and Michelle McPherson holds one share in nib Options Holdings (Thailand) Co Ltd, as this is a requirement to operate this business in Thailand.

Other transactions with key management personnel

The wife of Philip Gardner, a Director, is a director and shareholder of XO Digital Pty Limited and Enigma Communications Pty Limited. The nib holdings limited Group has entered into contracts with XO Digital Pty Limited for software development and maintenance, and Enigma Communications Pty Limited for graphic design and creative services. The contracts were based on normal commercial terms and conditions.

Aggregate amounts of each of the above types of other transactions with key management personnel of the Group:

a) Amounts recognised as expense

	2018 $	2017 $
Software maintenance	15,333	11,656
Advertising and promotions	147,282	170,239
Printing and stationery	16,200	82,947
	178,815	**264,842**

CORPORATE GOVERNANCE STATEMENT

for the year ended 30 June 2018

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 (3rd edition).

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 to maintain confidence in nib's integrity.

The 2018 Corporate Governance Statement is dated as at 30 June 2018 and reflects the corporate governance practices in place throughout the 2018 financial year. The Corporate Governance Statement was approved by the Board on 17 August 2018. A description of the Group's current corporate governance practices is set out in the Group's Corporate Governance Statement which can be viewed at www.nib.com.au/shareholders/company-profile/corporate-governance

FINANCIAL REPORT

for the year ended 30 June 2018

CONTENTS

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2018

	Notes	2018 $m	2017 $m
Premium revenue	6	2,186.9	1,944.4
Outwards reinsurance premium expense	6	(24.3)	(1.3)
Net premium revenue		**2,162.6**	**1,943.1**
Claims expense		(1,469.5)	(1,344.5)
Reinsurance and other recoveries revenue		9.9	0.7
RESA levy		(206.4)	(176.3)
State levies		(32.3)	(30.0)
Decrease / (increase) in premium payback liability		4.0	4.3
Claims handling expenses	7	(18.6)	(16.6)
Net claims incurred		**(1,712.9)**	**(1,562.4)**
Other underwriting revenue	**6**	**3.0**	**0.9**
Acquisition costs	7	(149.4)	(118.8)
Other underwriting expenses	7	(125.3)	(111.5)
Underwriting expenses		**(274.7)**	**(230.3)**
Underwriting result		**178.0**	**151.3**
Other income	6	70.5	66.1
Other expenses	7	(79.0)	(66.5)
Share of net profit / (loss) of associates and joint ventures accounted for using the equity method	33	(0.5)	(0.3)
Operating profit		**169.0**	**150.6**
Finance costs	7	(6.3)	(4.8)
Investment income	6	31.6	30.5
Investment expenses	7	(2.0)	(1.9)
Profit before income tax		**192.3**	**174.4**
Income tax expense	8	(58.8)	(54.2)
Profit For the year		**133.5**	**120.2**
Profit for the year is attributable to:			
Owners of nib holdings limited		132.4	119.6
Non-controlling interests		1.1	0.6
		133.5	**120.2**

		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company			
Basic earnings per share	26	29.4	27.2
Diluted earnings per share	26	29.4	27.2
Earnings per share for profit attributable to the ordinary equity holders of the company			
Basic earnings per share	26	29.4	27.2
Diluted earnings per share	26	29.4	27.2

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 2018

	Notes	2018 $m	2017 $m
Profit for the year		**133.5**	**120.2**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	24	(2.6)	(0.3)
Income tax related to these items	8(a)(iii)	0.6	0.2
Other comprehensive income for the year, net of tax		**(2.0)**	**(0.1)**
Total comprehensive income for the year		**131.5**	**120.1**
Total comprehensive income for the year is attributable to:			
Owners of nib holdings limited		130.4	119.5
Non-controlling interests		1.1	0.6
		131.5	**120.1**

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

CONSOLIDATED BALANCE SHEET

As at 30 June 2018

	Notes	2018 $m	2017 $m
ASSETS			
Current assets			
Cash and cash equivalents	9	192.2	119.0
Receivables	10	78.6	53.2
Financial assets at fair value through profit or loss	11	731.9	626.1
Deferred acquisition costs	12	45.4	41.3
Assets classified as held for sale		–	1.9
Total current assets		**1,048.1**	**841.5**
Non-current assets			
Receivables	10	1.7	1.6
Financial assets at fair value through profit or loss	11	3.0	–
Investments accounted for using the equity method	33	2.1	2.3
Deferred acquisition costs	12	65.3	60.3
Property, plant and equipment	13	10.4	11.8
Intangible assets	14	316.9	218.6
Total non-current assets		**399.4**	**294.6**
Total assets		**1,447.5**	**1,136.1**
LIABILITIES			
Current liabilities			
Payables	15	195.3	147.9
Borrowings	16	1.1	1.5
Outstanding claims liability	17	152.2	120.2
Unearned premium liability	18	205.1	174.7
Premium payback liability	19	3.7	9.5
Provision for employee entitlements	20	4.2	3.8
Current tax liabilities		5.7	18.6
Other liabilities	21	0.4	0.4
Total current liabilities		**567.7**	**476.6**
Non-current liabilities			
Payables	15	4.6	3.3
Borrowings	16	229.5	151.7
Unearned premium liability	18	32.7	28.9
Premium payback liability	19	14.4	13.5
Provision for employee entitlements	20	2.4	2.4
Deferred tax liabilities	8	33.6	26.9
Other liabilities	21	4.8	5.2
Total non-current liabilities		**322.0**	**231.9**
Total liabilities		**889.7**	**708.5**
Net assets		**557.8**	**427.6**
EQUITY			
Contributed equity	22	112.3	25.0
Retained profits	23	445.5	399.0
Reserves	24	–	4.6
Capital and reserves attributable to owners of nib holdings limited		**557.8**	**428.6**
Non-controlling interests		–	(1.0)
Total equity		**557.8**	**427.6**

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 2018

		Attributable to owners of nib holdings limited					
	Notes	Contributed equity $m	Retained profits $m	Reserves $m	Total $m	Non-controlling interests $m	Total equity $m
Balance at 1 July 2016		**26.5**	**356.2**	**5.0**	**387.7**	**(1.6)**	**386.1**
Profit for the year		–	119.6	–	119.6	0.6	120.2
Movement in foreign currency translation, net of tax		–	–	(0.1)	(0.1)	–	(0.1)
Total comprehensive income for the year		**–**	**119.6**	**(0.1)**	**119.5**	**0.6**	**120.1**
Transactions with owners in their capacity as owners:							
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust	22	(4.0)	–	–	(4.0)	–	(4.0)
Issue of shares held by nib Holdings Ltd Share Ownership Plan Trust to employees	22	2.5	–	(1.5)	1.0	–	1.0
Employee performance rights – value of employee services	24	–	–	1.2	1.2	–	1.2
Dividends paid	25	–	(76.8)	–	(76.8)	–	(76.8)
		(1.5)	**(76.8)**	**(0.3)**	**(78.6)**	**–**	**(78.6)**
Balance at 30 June 2017		**25.0**	**399.0**	**4.6**	**428.6**	**(1.0)**	**427.6**
Balance at 1 July 2017		**25.0**	**399.0**	**4.6**	**428.6**	**(1.0)**	**427.6**
Profit for the year		–	132.4	–	132.4	1.1	133.5
Movement in foreign currency translation, net of tax		–	–	(2.0)	(2.0)	–	(2.0)
Transfer to retained profits on sale of land and buildings, net of tax		–	1.1	(1.1)	–	–	–
Total comprehensive income for the year		**–**	**133.5**	**(3.1)**	**130.4**	**1.1**	**131.5**
Transactions with owners in their capacity as owners:							
Contributions of equity net of transaction costs and tax	22	88.0	–	–	88.0	–	88.0
Transactions with non-controlling interests		–	–	–	–	(0.1)	(0.1)
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust	22	(5.0)	–	–	(5.0)	–	(5.0)
Issue of shares held by nib Holdings Ltd Share Ownership Plan Trust to employees	22	4.3	–	(3.0)	1.3	–	1.3
Employee performance rights – value of employee services	24	–	–	1.5	1.5	–	1.5
Dividends paid	25	–	(87.0)	–	(87.0)	–	(87.0)
		87.3	**(87.0)**	**(1.5)**	**(1.2)**	**(0.1)**	**(1.3)**
Balance at 30 June 2018		**112.3**	**445.5**	**–**	**557.8**	**–**	**557.8**

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 2018

	Notes	2018 $m	2017 $m
Cash flows from operating activities			
Receipts from policyholders and customers (inclusive of goods and services tax)		2,316.4	2,063.1
Payments to policyholders and customers		(1,677.1)	(1,558.6)
Receipts from outwards reinsurance contracts		8.3	0.6
Payments for outwards reinsurance contracts		(23.3)	(1.3)
Payments to suppliers and employees (inclusive of goods and services tax)		(390.5)	(312.0)
		233.8	**191.8**
Interest received		7.5	7.1
Distributions received		15.7	24.7
Transaction costs relating to acquisition of business combination		(3.3)	(0.1)
Interest paid		(6.3)	(4.7)
Income taxes paid		(67.5)	(47.1)
Net cash inflow from operating activities	9	**179.9**	**171.7**
Cash flows from investing activities			
Proceeds from disposal of other financial assets at fair value through profit or loss		268.9	270.1
Payments for other financial assets at fair value through profit or loss		(347.0)	(318.6)
Proceeds from sale of assets classified as held for sale		1.9	–
Proceeds from sale of property, plant and equipment and intangibles		0.1	0.1
Payments for property, plant and equipment and intangibles	13,14	(20.3)	(15.8)
Proceeds from sale of business		–	4.7
Payment for acquisition of business combination, net of cash acquired	32	(85.3)	–
Loans provided		–	(1.5)
Payments for investments in associates		(0.3)	–
Net cash (outflow) from investing activities		**(182.0)**	**(61.0)**
Cash flows from financing activities			
Proceeds from issue of shares	22	89.5	–
Proceeds from borrowings	16	80.5	35.0
Repayment of borrowings	16	–	(35.0)
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust	22	(5.0)	(4.0)
Share issue transaction costs	22	(2.1)	–
Transactions with non-controlling interests	33	(0.1)	–
Dividends paid to the company's shareholders	25	(87.0)	(76.8)
Net cash inflow / (outflow) from financing activities		**75.8**	**(80.8)**
Net increase / (decrease) in cash and cash equivalents		**73.7**	**29.9**
Cash and cash equivalents at beginning of the year		117.5	89.4
Effects of exchange rate changes on cash and cash equivalents		(0.1)	(1.8)
Cash and cash equivalents at the end of the year		**191.1**	**117.5**
Reconciliation to Consolidated Balance Sheet			
Cash and cash equivalents	9	192.2	119.0
Borrowings – overdraft	16	(1.1)	(1.5)
		191.1	**117.5**

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 2018

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.

Significant and other accounting policies that summarise the measurement basis used and are relevant to the understanding of financial statements are provided throughout the notes to the financial statements.

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) Comparatives

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with the current year.

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 2018 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 (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated 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 32(c)).

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) Associates

Associates are all entities over which the group has significant influence but not control or joint control. This is generally the case where the group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (iii) below), after initially being recognised at cost.

iii) Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

iv) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

c) 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.

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.

d) 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.

The Group has determined that all financial assets of nib health funds limited, nib nz limited and Grand United Corporate Health Limited are held to back private health insurance liabilities.

e) Rounding of amounts

The company is of a kind referred to in Instrument 2016/191, 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 Instrument to the nearest hundred thousand dollars, or in certain cases, the nearest dollar.

f) New and amended standards adopted by the Group

The Group has not applied any new standards or amendments during the annual reporting period commencing 1 July 2017.

g) New accounting standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2018 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

Title of standard	Nature of change and impact	Mandatory application date
AASB 9 Financial Instruments	AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 July 2018: • The Group's investments are currently measured at fair value through profit or loss (FVPL) which will continue to be measured on the same basis under AASB 9. Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets. • There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. • The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement, and have not been changed. • The Group does not currently participate in any hedge arrangements. • The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses, as is the case under AASB 139. The Group anticipates that it will use the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Based on the assessments undertaken to date, the Group does not expect a material impact of the new impairment model. • The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.	Under AASB 17 Insurance Contracts, the Group is eligible to defer application of AASB 9 until financial years commencing on or after 1 January 2021. At this stage, the Group does not intend to adopt the standard before its effective date.
AASB 15 Revenue from Contracts with Customers	The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The majority of the Group's revenue is recognised under AASB 1023 General Insurance Contracts which is not impacted by AASB 15. There is no material impact of this standard on the Group's non-insurance revenue.	Mandatory for financial years commencing on or after 1 January 2018. The Group will apply the new accounting standard from 1 July 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

g) New accounting standards and interpretations not yet adopted continued

Title of standard	Nature of change and impact	Mandatory application date
AASB 16 Leases	AASB 16 will primarily affect the accounting of leases by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinctions between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for almost all the lease contracts. The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating lease expenses will be replaced with interest and depreciation. As at the reporting date, the Group has non-cancellable operating lease commitments of $108.7 million (see Note 28). The Group is currently undertaking a detailed assessment of the impact of this standard.	Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.
AASB 17 Insurance Contracts	On 19 July 2017, Australian Accounting Standard Board issued AASB 17 Insurance Contracts, incorporating the recently issued IFRS 17 Insurance Contracts. This will replace AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts. IFRS 17 will change the accounting for insurance contracts by nib. The standard introduces three new measurement approaches for accounting for insurance contracts. These include the Building Block Approach for long term contracts, the Premium Allocation Approach for short term contracts and a Variable Fee Approach for direct participating products. The Group, being the Ultimate Parent nib holdings limited and its subsidiaries, has formed a project team to assess the impact of this change on the operations and financial statements of the business. This assessment has identified that a number of key requirements of AASB 17 remain subject to interpretation. We note the ongoing potential for changes in interpretation of the standard during 2018/2019 as the International Accounting Standards Board addresses challenges identified in relation to the practical implementation of the standard. Initial investigation into the application for the standard indicates it is likely that the Simplified Premium Allocation Approach will apply to the majority of the Group's insurance contracts. For insurance contracts less than 12 months acquisition costs can be expensed. The Group considers it likely that acquisition costs will be expensed. The Group will apply the transitional conditions of the standard to the Deferred Acquisitions balance at the date it applies the new standards.	Mandatory for financial years commencing on or after 1 January 2021. At this stage, the Group does not intend to adopt the standard before its effective date.

2. CRITICAL ACCOUNTING JUDGEMENTS AND 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 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:

Note 12	Deferred acquisition costs
Note 14	Goodwill and indefinite life intangibles impairment and useful life of brand names and trademarks
Note 10 and 17	Outstanding claims liability
Notes 18 and 19	Liability adequacy test
Note 19	Premium payback liabilities
Note 29	Contingent liabilities – ACCC matter

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

3. RISK MANAGEMENT

The Board of nib is ultimately responsible for the Group's risk management framework and oversees the Groups operations by ensuring that management operates within the approved risk appetite statement. The Board approved the Group's overall risk management strategy, risk appetite and policies and practices to ensure that risks are identified and managed within the context of this appetite.

The Board's sub committees, including the Audit Committee and the Risk and Reputation Committee assist the Board in the execution of its responsibilities. The responsibilities of these Committees are detailed in their respective Charters.

The Group's risk management framework is based on a three lines of defence model and provides defined risk ownership responsibilities with functionally independent oversight and assurance. The Group manages risks through:

- the governance structure established by the Board,
- implementation of the risk management framework by management,
- oversight of the risk management framework by the Risk function,
- the Group's internal policies and procedures designed to identify and mitigate risks,
- internal audit which provides independent assurance to the Board regarding the appropriateness, effectiveness and adequacy of controls over activities where risks are perceived to be high,
- regular risk and compliance reporting to the Board and relevant Board Committees,
- application of solvency and capital adequacy standards for nib health funds limited, Grand United Corporate Health Limited (both regulated by APRA) and nib New Zealand (regulated RBNZ).

The Group's objective is to manage the Group's risks in line with the Board approved risk appetite statement. Various procedures are in place to identify, mitigate and monitor the risks faced by the Group. Management are responsible for understanding and managing risks, including financial and non-financial risks. The Group's exposure to all high and critical risks, and other Key Enterprise Risks, is reported quarterly to the Board via the Risk and Reputation Committee.

During the year we continued to strengthen our resourcing and capability to reflect our strong commitment to risk and compliance. This has seen the establishment of a separate Group division with oversight and responsibility for risk and compliance as well as the appointment of a Chief Risk Officer to the nib Group Executive team.

The financial condition and operations of the Group are affected by a number of Principle Risks and Uncertainties. High level descriptions of these risks are included in the Operating and Financial Review (see pages 3 to 13), including Insurance Risks, Financial Risks, Strategic Risks and Operational Risks as categorised in nib's Risk Management Strategy. Realisation of these risks can have both financial and / or non-financial impacts.

Further material is contained in the notes below on the exposures and mitigation of specific risks with discrete financial impacts.

Category	Risks
Insurance risk	Pricing risk Claims inflation Risk equalisation (Australia only)
Financial risks	Fair value interest rate risk Foreign exchange risk Price risk Credit risk Liquidity risk Capital management (see Note 27)

a) Insurance risk

Insurance risk is the risk that inadequate or inappropriate underwriting, claims management, product design and pricing will expose the Group to financial loss from claims expenditure exceeding the amount implicit in premium income.

Insurance risk is seen as a key risk to our PHI focused businesses. There are a number of sources of risk that as a collective require nib to closely review and monitor our control strategies. These risks have Board oversight. These sources include:

Description	Exposure	Mitigation
Pricing risk	Australian health insurance premium increases for existing products are 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 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. New Zealand policies do not require approval by the regulator and can be changed at any time during the year. International students health insurance products can raise premiums in line with a Deed set out between the Insurer and the Commonwealth; prices are ordinarily set annually and require notification to the Department of Health. International workers health insurance product premiums do not require approval by a regulator.	This risk is managed by establishing product premiums through the use of actuarial models based on historical claims costs and forecast claims inflation. Pricing recommendations are internally prepared by an actuarial team and externally reviewed by the Appointed Actuary. The Group works collaboratively with Government, regulators and other stakeholders to improve health insurance premium affordability through industry reforms and health policy setting.
Claims inflation	nib is subject to significant claims inflation which may not be adequately covered by premium price increases and/or product design changes. In Australia the principle of community rating prevents private health insurers from improperly discriminating between people who are or wish to be 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 only applies to Australian residents health insurance and international student health insurance, but not to international workers health Insurance or New Zealand health insurance.	Claims patterns are monitored and premiums calculated accordingly. A rigorous approach to product design mitigates the risk of the group being exposed to adverse selection. Maintenance of reserves in excess of minimum solvency and capital requirements allows the Group to withstand increased levels of claims inflation. Robust claims handling processes and controls which are well documented. Defined underwriting processes in New Zealand.
Risk equalisation special account arrangements	Risk equalisation arrangements apply to the registered health insurance industry in Australia. Under these arrangements all registered health insurers effectively provide reinsurance support so that the industry as a whole shares the hospital cost of high risk groups irrespective of whether those claims are attributable to a policyholder of a particular fund. Risk equalisation is only applicable to Australian residents health insurance.	Risk equalisation provides some protection to high cost claims however exposes the Group to claims from other health insurers. Actuarial models are used to monitor past experience and predict future costs, premiums are calculated accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

3. RISK MANAGEMENT continued

b) Fair value interest rate risk

Description	Exposure	Mitigation
Risk of fluctuations in interest rates impacting the Group's financial performance or the fair value of its financial instruments.	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 Australian and New Zealand Dollars. 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.	The Group mitigates interest rate risk on long term borrowings by maintaining an appropriate gearing ratio and monitoring and forecasting key indicators such as interest expense coverage. nib receives advice on its investments from its asset consultants.

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

	2018		2017	
	Weighted average interest rate %	Balance $m	Weighted average interest rate %	Balance $m
Bank loans	3.1%	229.5	3.1%	151.7
Net exposure to cash flow interest rate risk		**229.5**		**151.7**

The bank overdraft comprised of the closing positive balance of the bank account, adjusted for unpresented cheques and outstanding deposits is not included in bank loans.

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

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

	2018					2017				
Interest rate risk		–100bps		+100bps			–100bps		+100bps	
	Carrying amount $m	Profit $m	Equity $m	Profit $m	Equity $m	Carrying amount $m	Profit $m	Equity $m	Profit $m	Equity $m
Financial assets										
Cash and cash equivalents	192.2	(1.3)	(1.3)	1.3	1.3	119.0	(0.8)	(0.8)	0.8	0.8
Other receivables	17.9	(0.1)	(0.1)	0.1	0.1	10.8	(0.1)	(0.1)	0.1	0.1
Financial assets at fair value through profit or loss	734.9	6.6	6.6	(6.6)	(6.6)	626.1	6.0	6.0	(6.0)	(6.0)
Financial liabilities										
Bank loans	(229.5)	1.6	1.6	(1.6)	(1.6)	(151.7)	1.1	1.1	(1.1)	(1.1)
Premium payback liability	(18.1)	(0.6)	(0.6)	0.7	0.7	(23.0)	(0.7)	(0.7)	0.8	0.8
Total increase / (decrease)	**697.4**	**6.2**	**6.2**	**(6.1)**	**(6.1)**	**581.2**	**5.5**	**5.5**	**(5.4)**	**(5.4)**

c) Foreign exchange risk

Description	Exposure	Mitigation
Risk of fluctuations in foreign exchange rates impacting the Group's financial performance.	The Group operates internationally and is exposed to foreign exchange risk arising from foreign currency translation risk through its subsidiaries located in overseas jurisdictions. In accordance with the policy set out in Note 1(c), 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. Foreign exchange gains or losses arising on assets and liabilities denominated in foreign currencies are recognised directly in profit and loss.	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 foreign currency, with all other variables held constant.

	2018					2017				
Foreign exchange risk		–10%		+10%			–10%		+10%	
	Exposure $m	Profit $m	Equity $m	Profit $m	Equity $m	Exposure $m	Profit $m	Equity $m	Profit $m	Equity $m
Brazilian real	0.1	–	–	–	–	(0.4)	–	–	–	–
Canadian dollar	0.1	–	–	–	–	(0.1)	–	–	–	–
European euro	3.1	(0.1)	(0.1)	0.1	0.1	(0.1)	–	–	–	–
Great Britain pound	0.3	–	–	–	–	0.2	–	–	–	–
New Zealand dollar	62.8	–	(6.3)	–	6.3	63.6	–	(6.3)	–	6.3
United States dollar	1.0	(0.1)	0.1	0.1	(0.1)	(0.8)	–	–	–	–
Thai baht	0.3	–	–	–	–	0.5	–	–	–	–
Total increase / (decrease)	**67.7**	**(0.2)**	**(6.3)**	**0.2**	**6.3**	**62.9**	**–**	**(6.3)**	**–**	**6.3**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

3. RISK MANAGEMENT continued

d) Price risk

Description	Exposure	Mitigation
Risk of fluctuations in price of equity securities impacting the Group's fair value of its financial instruments.	The Group is exposed to equity securities price risk. This arises from investments held by the Group and classified on the balance sheet as 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.

Profit after tax for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through profit or loss. The table below summarises the sensitivity of the Group's financial assets to price risk.

	2018					2017				
Other price risk		–10% unit price		+10% unit price			–10% unit price		+10% unit price	
	Carrying amount $m	Profit $m	Equity $m	Profit $m	Equity $m	Carrying amount $m	Profit $m	Equity $m	Profit $m	Equity $m
Financial assets										
Financial assets at fair value through profit or loss	734.9	(9.9)	(9.9)	9.9	9.9	626.1	(6.5)	(6.5)	6.5	6.5
Total increase / (decrease)	**734.9**	**(9.9)**	**(9.9)**	**9.9**	**9.9**	**626.1**	**(6.5)**	**(6.5)**	**6.5**	**6.5**

Methods and assumptions used in preparing sensitivity analysis

The after tax effect on profit and equity of movements in foreign exchange, interest rate and price have been calculated using 'reasonably possible' changes in the risk variables, based on recent interest rate and market movements.

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

e) Credit risk

Description	Exposure	Mitigation
Risk that a counterparty will default on its contractual obligations, or from the decline in the credit quality of a financial instrument, resulting in financial loss to the Group.	Credit risk arises from: • cash and cash equivalents; • financial assets and deposits with banks and financial institutions; • favourable derivative financial instruments; and • credit exposures to policyholders and the Department of Human Services (Private Health Insurance Premiums Reduction Scheme). 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. Apart from the Department of Human Services the Group does not have any material credit risk to any other single debtor or group of debtors under financial instruments entered into.	Term deposits are held with institutions that have at least an A-2 credit rating. nib receives advice from its asset consultants. Credit risk for premium receivables are minimal due to the diversification of policyholders. The Private Health Insurance Premiums Reduction Scheme receivable is due from a government organisation under legislation.

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	2018 $m	2017 $m
Group 1 – new debtors (relationship less than 6 months)	–	1.7
Group 2 – existing debtors with no defaults in the past	17.7	8.8
Group 3 – existing debtors with some defaults in the past. All defaults were fully recovered	0.2	0.3
Total other receivables	**17.9**	**10.8**
Cash at bank and Short term bank deposits[1]		
A-1	161.9	118.4
A-2	26.6	0.3
BBB	–	0.3
Sub investment grade	3.7	–
Total cash at bank and Short term bank deposits	**192.2**	**119.0**
Financial assets at fair value through profit or loss		
Short term deposits		
A-1	95.1	55.1
Interest-bearing securities[2]		
AAA	121.9	131.1
AA	212.6	161.6
A	103.4	101.5
BBB	59.2	58.0
Sub investment grade	5.0	5.5
Unclassified	(3.2)	2.8
Total financial assets at fair value through profit or loss	**594.0**	**515.6**

1. Balances rated below A-2 are not term deposits in accordance with the Group's credit risk policy above.
2. The financial assets at fair value through profit and loss with credit risk are held in unit trusts. The above table summarises the underlying investments of the unit trusts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

3. RISK MANAGEMENT continued

f) Liquidity risk

Description	Exposure	Mitigation
Risk that the Group won't be able to meet its financial obligations as they fall due, because of lack of liquid assets or access to funding on acceptable terms.	Liquidity risk arises from: • trade creditors; • other payables; and • borrowings.	The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and holding 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 table below analyses 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 are the contractual undiscounted cash flows.

Group at 30 June 2018	≤ 1 month $m	1-3 months $m	3-12 months $m	1-5 years $m	> 5 years $m	Total contractual cash flows $m	Carrying amount $m
Financial Liabilities							
Trade creditors	17.4	0.5	0.3	–	–	18.2	18.2
Other payables	84.7	9.8	1.8	4.9	0.8	102.0	102.0
Borrowings	0.2	1.7	5.7	241.2	–	248.8	230.6
	102.3	**12.0**	**7.8**	**246.1**	**0.8**	**369.0**	**350.8**

Group at 30 June 2017	≤ 1 month $m	1-3 months $m	3-12 months $m	1-5 years $m	> 5 years $m	Total contractual cash flows $m	Carrying amount $m
Financial Liabilities							
Trade creditors	14.5	0.4	0.3	–	–	15.2	15.2
Other payables	72.5	6.4	1.6	3.7	0.6	84.8	84.8
Borrowings	0.2	1.0	3.7	158.8	–	163.7	153.2
	87.2	**7.8**	**5.6**	**162.5**	**0.6**	**263.7**	**253.2**

4. FAIR VALUE MEASUREMENT

a) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows below the table.

The following tables present the Group's assets and liabilities measured and recognised at fair value at 30 June 2018 and 30 June 2017:

Group at 30 June 2018	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets				
Cash and cash equivalents and deposits at call	192.2	–	–	192.2
Receivables	–	1.7	–	1.7
Financial assets at fair value through profit or loss				
Equity securities	121.6	3.1	–	124.7
Interest-bearing securities	469.7	29.2	–	498.9
Mortgage trusts	–	0.5	–	0.5
Property trusts	2.0	0.6	13.1	15.7
Short term deposits	95.1	–	–	95.1
Total assets	**880.6**	**35.1**	**13.1**	**928.8**

Group at 30 June 2017	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets				
Cash and cash equivalents and deposits at call	119.0	–	–	119.0
Receivables	–	1.6	–	1.6
Financial assets at fair value through profit or loss				
Equity securities	110.5	–	–	110.5
Interest-bearing securities	444.2	16.3	–	460.5
Short term deposits	55.1	–	–	55.1
Total assets	**728.8**	**17.9**	**–**	**746.7**

There were no transfers between level 1 and level 2 during the year.

The Group's policy is to recognise transfers into and transfers out of the fair value hierarchy levels as at the end of the reporting period.

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.

Level 1	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.
Level 2	The fair value of financial instruments that are not traded in active markets (for example interest bearing securities) is determined using valuation techniques. The Group uses 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.
Level 3	If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

4. FAIR VALUE MEASUREMENT continued

b) Valuation techniques used to determine fair values

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.

In the circumstances where a valuation technique for financial instruments is based on significant unobservable inputs, those instruments are included in level 3. For the Group this includes the valuation of certain property trusts.

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

The Group's level 3 investments comprise units in property trusts which hold illiquid investments in unlisted property.

The following table presents the changes in level 3 instruments for the year ended 30 June 2018:

	Note	2018 $m	2017 $m
Fair value measurement as at 1 July		–	–
Acquisition of business	32	4.9	–
Purchased		9.5	–
Sales		(1.2)	–
Change in fair value		(0.1)	–
Fair value measurement as at 30 June		**13.1**	**–**

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy level as at the end of the reporting period.

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 2017.
ii) Valuation process	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 following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements:

Description	Fair value at 30 June	Unobservable inputs	Relationship of unobservable inputs to fair value
At 30 June 2018			
Unlisted property trusts	13,133	Redemption price	Higher/(lower) redemption price (+/- 10%) would increase/(decrease) fair value by $1.3m
At 30 June 2017			
Unlisted property trusts	–	Redemption price	N/A

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 2018:

	2018		2017	
Non-current borrowings	Carrying amount $m	Fair value $m	Carrying amount $m	Fair value $m
Bank loans	229.5	229.5	151.7	151.7

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

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 Managing Director/Chief Executive Officer (MD/CEO).

The MD/CEO assesses the performance of the operating segments based on underlying operating profit. This measurement basis excludes from the operating segments the effects of non-recurring gain on sale of controlling interest of Whitecoat business and profit on sale of the head office building, and non-recurring expenditure such as integration costs, merger and acquisition costs, new business implementation costs and amortisation of acquired intangibles.

No information regarding assets, liabilities and income tax is provided for individual Australian Residents Health Insurance and International (Inbound) Health Insurance 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.

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 four reportable segments:	
Australian Residents Health Insurance	nib’s core product offering within the Australian private health insurance industry
New Zealand Residents Health Insurance	nib’s core product offering within the New Zealand private health insurance industry
International (Inbound) Health Insurance	nib’s offering of health insurance products for international students and workers
World Nomads Group	nib’s distribution of travel insurance products

On 31 October 2017, nib holdings limited acquired Grand United Corporate Health Limited (Grand United), refer to Note 32 Business Combination. The Grand United business offers both Australian Residents Health Insurance and International Workers Health Insurance products and accordingly included across both the Australian Residents Health Insurance and International (Inbound) Health Insurance segments. Underlying operating profit for Grand United for year ending 30 June 2018 was $10.9 million.

In May 2017, the Group commenced winding down the operations of nib Options with business termination costs provided for at 30 June 2017. The results of nib Options are immaterial and now reported in the unallocated to segments column. Underlying operating loss for the year ending 30 June 2018 was $0.1 million (June 2017: $3.3 million loss).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

5. SEGMENT REPORTING continued

	For the year ending 30 June 2018					
	Australian Residents Health Insurance $m	International (Inbound) Health Insurance $m	New Zealand Health Insurance $m	World Nomads Group $m	Unallocated to segments $m	Total $m
Premium revenue	1,879.9	108.9	198.1	–	–	2,186.9
Outwards reinsurance premium expense	(8.7)	(15.6)	–	–	–	(24.3)
Net premium revenue	**1,871.2**	**93.3**	**198.1**	**–**	**–**	**2,162.6**
Claims expense	(1,309.8)	(42.5)	(117.2)	–	–	(1,469.5)
Reinsurance and other recoveries revenue	4.0	5.9	–	–	–	9.9
RESA	(206.4)	–	–	–	–	(206.4)
State levies	(32.3)	–	–	–	–	(32.3)
Decrease in premium payback liability	–	–	4.0	–	–	4.0
Claims handling expenses	(15.2)	(1.5)	(1.9)	–	–	(18.6)
Net claims incurred	**(1,559.7)**	**(38.1)**	**(115.1)**	**–**	**–**	**(1,712.9)**
Other underwriting revenue	**1.6**	**1.4**	**–**	**–**	**–**	**3.0**
Acquisition costs	(104.6)	(9.9)	(34.9)	–	–	(149.4)
Other underwriting expenses	(77.3)	(17.1)	(24.7)	–	–	(119.1)
Underwriting expenses	**(181.9)**	**(27.0)**	**(59.6)**	**–**	**–**	**(268.5)**
Underwriting result	**131.2**	**29.6**	**23.4**	**–**	**–**	**184.2**
Other income	–	–	–	66.1	3.4	69.5
Other expenses	–	–	–	(58.0)	(10.4)	(68.4)
Share of net profit / (loss) of associates and joint ventures accounted for using the equity method	(0.5)	–	–	–	–	(0.5)
Underlying operating profit / (loss)	**130.7**	**29.6**	**23.4**	**8.1**	**(7.0)**	**184.8**
Items not included in underlying operating profit						
Amortisation of acquired intangibles	(1.2)	(1.4)	(3.6)	(2.2)	–	(8.4)
One-off transactions, merger, acquisition and new business implementation costs	–	–	–	–	(7.4)	(7.4)
Finance costs					(6.3)	(6.3)
Investment income					31.6	31.6
Investment expenses					(2.0)	(2.0)
Profit before income tax from continuing operations						**192.3**
Inter-segment other income[1]	9.5	–	0.4	0.1	–	10.0
Depreciation and amortisation	9.7	3.3	6.8	4.3	0.3	24.4
Total assets	1,072.9		193.8	119.8	61.0	1,447.5
Total liabilities	546.9		57.8	13.2	271.8	889.7
Insurance liabilities						
Outstanding claims liability	138.0		14.2	–	–	152.2
Unearned premium liability	220.2		17.6	–	–	237.8
Premium payback liability	–		18.1	–	–	18.1
Total	**358.2**		**49.9**	**–**	**–**	**408.1**

1. Inter-segment other income is eliminated on consolidation and not included in operating profit.

For the year ending 30 June 2017

	Australian Residents Health Insurance $m	International (Inbound) Health Insurance $m	New Zealand Health Insurance $m	World Nomads Group $m	Unallocated to segments $m	Total $m
Premium revenue	1,669.0	76.1	199.3	–	–	1,944.4
Outwards reinsurance premium expense	–	(1.3)	–	–	–	(1.3)
Net premium revenue	**1,669.0**	**74.8**	**199.3**	**–**	**–**	**1,943.1**
Claims expense	(1,194.9)	(28.7)	(120.9)	–	–	(1,344.5)
Reinsurance and other recoveries revenue	–	0.7	–	–	–	0.7
RESA	(176.3)	–	–	–	–	(176.3)
State levies	(30.0)	–	–	–	–	(30.0)
Decrease in premium payback liability	–	–	4.3	–	–	4.3
Claims handling expenses	(13.6)	(1.0)	(2.0)	–	–	(16.6)
Net claims incurred	**(1,414.8)**	**(29.0)**	**(118.6)**	**–**	**–**	**(1,562.4)**
Other underwriting revenue	**0.6**	**0.4**	**–**	**–**	**–**	**1.0**
Acquisition costs	(73.5)	(9.6)	(35.7)	–	–	(118.8)
Other underwriting expenses	(74.0)	(11.2)	(21.5)	–	–	(106.7)
Underwriting expenses	**(147.5)**	**(20.8)**	**(57.2)**	**–**	**–**	**(225.5)**
Underwriting result	**107.3**	**25.4**	**23.5**	**–**	**–**	**156.2**
Other income	–	–	–	57.6	2.8	60.4
Other expenses	–	–	–	(50.1)	(12.5)	(62.6)
Share of net profit / (loss) of associates and joint ventures accounted for using the equity method	(0.3)	–	–	–	–	(0.3)
Underlying operating profit / (loss)	**107.0**	**25.4**	**23.5**	**7.5**	**(9.7)**	**153.7**
Items not included in underlying operating profit						
Amortisation of acquired intangibles	–	(0.8)	(4.0)	(2.8)	–	(7.6)
One-off transactions, merger, acquisition and new business implementation costs	–	–	–	(0.2)	4.7	4.5
Finance costs					(4.8)	(4.8)
Investment income					30.5	30.5
Investment expenses					(1.9)	(1.9)
Profit before income tax from continuing operations						**174.4**
Inter-segment other income[1]	4.9	–	0.3	0.2	–	5.4
Depreciation and amortisation	8.1	2.2	6.9	4.0	0.5	21.7
Total assets	777.6		200.3	117.4	40.8	1,136.1
Total liabilities	435.0		63.0	11.8	198.7	708.5
Insurance liabilities						
Outstanding claims liability	106.2		14.0	–	–	120.2
Unearned premium liability	185.7		17.9	–	–	203.6
Premium payback liability	–		23.0	–	–	23.0
Total	**291.9**		**54.9**	**–**	**–**	**346.8**

1. Inter-segment other income is eliminated on consolidation and not included in operating profit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

6. REVENUE AND OTHER INCOME

	2018 $m	2017 $m
Premium revenue	2,186.9	1,944.4
Outwards reinsurance premiums	(24.3)	(1.3)
Net premium revenue	**2,162.6**	**1,943.1**
Agency fee	0.3	0.4
Sundry income	2.7	0.5
Other underwriting revenue	**3.0**	**0.9**
Other income		
Travel insurance commission	66.1	57.6
Life and funeral insurance commission and other commissions	2.6	2.5
Deferred profit on sale and leaseback of head office building	0.4	0.4
Gain on sale of controlling interest of Whitecoat business	–	5.6
Insurance recoveries	1.0	–
Sundry income	0.4	–
	70.5	**66.1**
Investment income		
Interest	7.7	7.0
Net realised gain on financial assets at fair value through profit or loss	17.2	31.5
Net unrealised gain on financial assets at fair value through profit or loss	6.7	(8.0)
	31.6	**30.5**

a) Accounting policy

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. 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.
iii) 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.
iv) Revenue from travel insurance commission	Revenue in the form of commissions is recognised when the sale of an insurance policy to a customer occurs. Revenue is also generated on travel services activities and recognised as the service is performed.

7. EXPENSES

	2018 $m	2017 $m
Expenses by function		
Claims handling expenses	18.6	16.6
Acquisition costs	149.4	118.8
Other underwriting expenses	125.3	111.5
Other expenses	79.0	66.5
Finance costs	6.3	4.8
Investment expenses	2.0	1.9
Total expenses (excluding direct claims expenses)	**380.6**	**320.1**
Expenses by nature		
Amortisation of acquired intangibles	8.4	7.6
Bank charges	4.6	4.4
Communications, postage and telephone expenses	5.5	5.2
Depreciation and amortisation	16.0	14.1
Employee costs	135.8	114.8
Finance costs	6.3	4.8
Information technology expenses	12.5	8.4
Investment expenses	2.0	1.9
Marketing expenses – excluding commissions	49.0	47.0
Marketing expenses – commissions	90.0	74.7
Merger, acquisition and new business implementation costs	6.5	0.7
Operating lease rental expenses	9.5	8.3
Professional fees	17.0	13.2
Other expenses	17.5	15.0
Total expenses (excluding direct claims expenses)	**380.6**	**320.1**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

8. TAXATION

a) Income tax

	Notes	2018 $m	2017 $m
i) Income tax expense			
Recognised in the income statement			
Current tax expense		54.1	50.7
Deferred tax expense		4.4	3.5
Under (over) provided in prior years		0.1	0.2
Under (over) provided in prior years – research and development tax credit		0.2	(0.2)
		58.8	**54.2**
Income tax expense is attributable to:			
Profit from continuing operations		58.8	54.2
Aggregate income tax expense		**58.8**	**54.2**
Deferred income tax expense included in income tax expense comprises:			
Increase in deferred tax assets	8(b)	3.7	(0.6)
Increase in deferred tax liabilities	8(c)	0.7	4.1
		4.4	**3.5**
ii) Numerical reconciliation of income tax expense to prima facie tax payable			
Profit from continuing operations before income tax expense		**192.3**	**174.4**
Tax at the Australian tax rate of 30% (2017: 30%)		57.7	52.3
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
Sundry items		1.0	1.9
Net assessable trust distributions		0.2	0.2
Imputation credits and foreign tax credits		(0.8)	(0.6)
Adjustment for current tax of prior periods		0.1	0.2
Current year – research and development tax credit		–	(0.3)
Adjustment for current tax of prior periods - research and development tax credit		0.2	(0.2)
Unrecognised tax losses and deferred tax assets		0.2	0.8
Differences in foreign tax rates		0.2	(0.1)
Income tax expense		**58.8**	**54.2**
iii) Tax expense relating to items of other comprehensive income			
Foreign currency translations	24	(0.6)	(0.2)
		(0.6)	**(0.2)**
iv) Amounts recognised directly to equity			
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:			
Share issue costs	22	0.6	–
Transfer from revaluation reserve on sale of land and buildings	24	0.1	–
		0.7	**–**
v) Tax losses			
Unused tax losses for which no deferred tax asset has been recognised		–	11.6
Potential tax benefit at 30%		**–**	**3.5**

b) Deferred tax assets

	Notes	2018 $m	2017 $m
The balance comprises temporary differences attributable to:			
Deferred profit on sale and leaseback of head office building		1.5	1.7
Employee benefits		4.9	4.1
Premium payback liabilities		4.7	6.0
Unrealised losses on investments		0.4	2.8
		11.5	**14.6**
Other			
Doubtful debts		0.5	0.5
Merger and acquisition costs		0.1	0.2
Outstanding claims		1.6	0.2
Provisions		5.7	3.4
Share issue costs		0.5	–
Tax losses		0.2	–
		8.6	**4.3**
Total deferred tax assets		**20.1**	**18.9**
Set-off of deferred tax liabilities pursuant to set-off provisions	8(c)	(20.1)	(18.9)
Net deferred tax assets		**–**	**–**
Recovery of total deferred tax assets:			
Deferred tax assets to be recovered within 12 months		11.2	6.9
Deferred tax assets to be recovered after more than 12 months		8.9	12.0
		20.1	**18.9**

Movements	Notes	Deferred profit on sale and leaseback of head office building $m	Employee benefits $m	Premium payback liabilities $m	Unrealised losses on investments $m	Other $m	Total $m
At 1 July 2016		1.8	4.2	7.2	0.6	4.5	18.3
(Charged)/credited to the income statement		(0.1)	(0.1)	(1.2)	2.2	(0.2)	0.6
At 30 June 2017		**1.7**	**4.1**	**6.0**	**2.8**	**4.3**	**18.9**
At 1 July 2017		1.7	4.1	6.0	2.8	4.3	18.9
(Charged)/credited to the income statement		(0.2)	0.5	(1.1)	(1.9)	(1.0)	(3.7)
(Charged)/credited directly to other comprehensive income		–	–	(0.2)	–	–	(0.2)
(Charged)/credited directly to equity		–	–	–	–	0.6	0.6
Acquisition of business	32	–	0.3	–	(0.5)	4.7	4.5
At 30 June 2018		**1.5**	**4.9**	**4.7**	**0.4**	**8.6**	**20.1**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

8. TAXATION continued

c) Deferred tax liabilities

	Notes	2018 $m	2017 $m
The balance comprises temporary differences attributable to:			
Brands and trademarks and customer contracts and relationships		21.3	15.4
Deferred acquisition costs		31.3	28.4
Depreciation and amortisation		0.1	0.4
Unrealised foreign exchange gains		0.6	0.9
		53.3	**45.1**
Other			
Asset revaluation		–	0.1
Investment in associates and joint ventures		0.1	0.3
Unearned premium liability		0.3	0.3
		0.4	**0.7**
Total deferred tax liabilities		**53.7**	**45.8**
Set-off of deferred tax liabilities pursuant to set-off provisions	8(b)	(20.1)	(18.9)
Net deferred tax liabilities		**33.6**	**26.9**
Recovery of total deferred tax liabilities:			
Deferred tax liabilities to be settled within 12 months		13.6	12.6
Deferred tax liabilities to be settled after more than 12 months		40.1	33.2
		53.7	**45.8**

Movements	Notes	Brands and trademarks and customer contracts and relationships $m	Deferred acquisition costs $m	Depreciation and amortisation $m	Unrealised foreign exchange losses $m	Other $m	Total $m
At 1 July 2016		15.9	23.7	0.9	1.1	0.3	41.9
(Charged)/credited to the income statement		(0.3)	4.7	(0.5)	(0.2)	0.4	4.1
(Charged)/credited directly to other comprehensive income		(0.2)	–	–	–	–	(0.2)
At 30 June 2017		**15.4**	**28.4**	**0.4**	**0.9**	**0.7**	**45.8**
At 1 July 2017		15.4	28.4	0.4	0.9	0.7	45.8
(Charged)/credited to the income statement		(1.9)	3.1	(0.4)	0.1	(0.2)	0.7
(Charged)/credited directly to other comprehensive income		(0.3)	(0.2)	–	(0.4)	–	(0.9)
(Charged)/credited directly to equity		–	–	–	–	(0.1)	(0.1)
Acquisition of business	32	8.1	–	0.1	–	–	8.2
At 30 June 2018		**21.3**	**31.3**	**0.1**	**0.6**	**0.4**	**53.7**

d) Accounting policy

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to 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. nib options pty limited and its wholly-owned Australian controlled entities were a separate tax consolidated group prior to joining the nib holdings limited tax consolidated group on 4 January 2018. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

9. CASH AND CASH EQUIVALENTS

	2018 $m	2017 $m
Cash at bank and cash on hand	88.7	55.4
Short term deposits and deposits at call	103.5	63.6
	192.2	**119.0**

a) Accounting policy

Cash and cash equivalents, and bank overdrafts, are carried at face value of the amounts deposited or drawn. 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.

b) Risk exposure

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

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

	2018 $m	2017 $m
Profit for the year	133.5	120.2
Net (gain) / loss on disposal of property, plant and equipment	0.1	0.1
Deferred profit on sale and leaseback of head office building	(0.4)	(0.4)
Fair value (gain) / loss on other financial assets through profit or loss	(6.2)	3.1
Share of net (profit) / loss of associates and joint ventures	0.5	0.3
Non-cash employee benefits expense – share-based payments	1.5	1.2
Depreciation and amortisation	24.4	21.7
Gain on sale of controlling interest of Whitecoat business	–	(5.6)
Net exchange differences	2.0	0.2
Change in operating assets and liabilities, net of effect from purchase of controlled entity		
Decrease (increase) in receivables	5.3	0.9
Decrease (increase) in deferred acquisition costs	(9.0)	(18.4)
Decrease (increase) in deferred tax assets	4.9	0.8
Increase (decrease) in trade payables	11.2	8.6
Increase (decrease) in unearned premium liability	13.4	27.4
Increase (decrease) in premium payback liability	(4.9)	(4.4)
Increase (decrease) in current tax liabilities	(13.2)	3.6
Increase (decrease) in deferred tax liabilities	(0.8)	2.6
Increase (decrease) in provisions	17.6	9.8
Net cash flow from operating activities	**179.9**	**171.7**

d) Net debt

This section sets out an analysis and movements in net debt:

	2018 $m
Cash and cash equivalents	192.2
Liquid investments	731.9
Borrowings – repayable within one year	(1.1)
Borrowings – repayable after one year	(229.5)
Net debt	**693.5**
Cash and liquid investments	924.1
Gross debt – fixed interest rates	–
Gross debt – variable interest rates	(230.6)
	693.5

	Cash / Bank overdraft $m	Liquid investments $m	Borrowings due within 1 year $m	Borrowings due after 1 year $m	Total $m
Net debt as at 1 July 2017	119.0	626.1	(1.5)	(151.7)	591.9
Cashflows	2.8	58.1	0.4	(80.5)	**(19.2)**
Acquisition of business	70.4	27.9	–	–	**98.3**
Foreign exchange adjustments	–	(3.3)	–	2.7	**(0.6)**
Other non-cash movements	–	23.1	–	–	**23.1**
Net debt as at 30 June 2018	**192.2**	**731.9**	**(1.1)**	**(229.5)**	**693.5**

Liquid investments comprise current investments that are traded in an active market, being the Group's financial assets held at fair value through profit and loss.

e) Off-balance sheet arrangements

World Nomads Group Pty Limited (WNG), a wholly owned subsidiary of nib holdings limited, operates bank accounts held in their name on behalf of their underwriters in accordance with contractual terms governing the arrangements. These accounts are not considered part of the cash and cash equivalents of WNG as they do not have the control over the cash. At 30 June 2018 this amounted to $14,032,703 (2017: $15,839,278).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

10. RECEIVABLES

	2018 $m	2017 $m
Current		
Premium receivable	11.7	5.7
Private Health Insurance Premiums Reduction Scheme receivable	39.2	36.7
Other receivables	16.2	9.2
Provision for impairment loss	(1.7)	(1.9)
Prepayments	7.0	3.3
Expected future reinsurance recoveries undiscounted		
on claims paid	4.2	0.1
on outstanding claims	2.0	0.1
	78.6	**53.2**
Non-current		
Other receivables	1.7	1.6
	1.7	**1.6**

As at 30 June 2018, current receivables of the Group with a nominal value of $1.716 million (2017: $1.858 million) were impaired. The individually impaired receivables relate to premium receivables.

The ageing of these receivables is as follows:

	2018 $m	2017 $m
1 to 3 months	1.0	1.1
3 to 6 months	0.6	0.8
Over 6 months	0.1	–
	1.7	**1.9**

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

	Note	2018 $m	2017 $m
At 1 July		1.9	1.1
Acquisition of business	32	0.2	–
Provision for impairment recognised during the year		0.9	1.5
Receivables written off during the year as uncollectible		(0.1)	–
Unused amount reversed		(1.2)	(0.7)
		1.7	**1.9**

As of 30 June 2018 and 2017 no receivables were past due but not impaired.

a) Accounting policy

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

i) 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.
ii) Interest rate risk	Information about the Group's exposure to interest rate risk in relation to other receivables is provided in Note 3.
iii) 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.
iv) 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.
v) 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 (see Note 17).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 $m	2017 $m
Current		
Equity securities	124.7	110.5
Interest-bearing securities	498.9	460.5
Mortgage trusts	0.2	–
Property trusts	13.0	–
Short term deposits	95.1	55.1
	731.9	**626.1**
Non-current		
Mortgage trusts	0.3	–
Property trusts	2.7	–
	3.0	**–**

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.

The redemption terms for investments in certain managed trusts can be varied by their responsible entities in response to market conditions. For those investments which cannot be redeemed entirely within one year from reporting date, the amounts have been allocated between current and non-current in accordance with the maximum percentage redeemable within one year as per the most recent advice from the manager at the end of the reporting period.

a) Accounting policy

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.
ii) 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. Shares, fixed interest securities, options and units in trusts listed on stock exchanges are initially recognised at cost and the subsequent fair value adjustment is taken as the quoted bid price of the instrument at the balance sheet date. All purchases and sales of financial assets that require delivery of the asset within the timeframe established by regulation or market convention (“regular way” transactions) are recognised at trade date, being the date on which the 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.
iii) Risk exposure	Information about the Group’s exposure to price risk and interest rate risk is provided in Note 3.

12. DEFERRED ACQUISITION COSTS

	2018 $m	2017 $m
Current	**45.4**	**41.3**
Non-current	**65.3**	**60.3**

Movements in the deferred acquisition costs are as follows:

	2018 $m	2017 $m
Balance at beginning of year	101.6	83.2
Acquisition costs deferred during the year	57.1	60.1
Amortisation expense	(47.1)	(41.7)
Exchange differences	(0.9)	–
	110.7	**101.6**

Deferred acquisition costs by segment are as follows:

	2018 $m	2017 $m
Australian Residents Health Insurance	83.7	77.3
New Zealand Residents Health Insurance	23.1	21.2
International (Inbound) Health Insurance	3.9	3.1
	110.7	**101.6**

a) Accounting policy

Direct acquisition costs incurred in obtaining health insurance contracts, including broker commissions, 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. This pattern of amortisation reflects the earning pattern of the corresponding premium revenue.

b) Critical accounting judgements and estimates

i) Australian Residents Health Insurance

Deferred acquisition costs are amortised on a straight line basis over a period of 5 years (2017: 5 years), in accordance with the expected pattern of the incidence of risk under the open ended insurance contracts to which they relate, which includes expectations of customers remaining insured.

The Group pays an upfront commission to retail brokers on signing up new members to the business. These upfront commissions will give rise to future premium revenue beyond the current period and are able to be measured and directly associated with a particular insurance contract. The Group does not capitalise the indirect administration costs associated with acquiring new members due to the difficulty in measurement. The Group considers the duration of a health insurance contract to be an open ended agreement as the Group stands ready to continue to insure its customers under continuing policies. The Group uses average retention rates to determine the appropriate customer contract life and related amortisation period for customers who purchase insurance through these broker channels. The analysis included extrapolating historical lapse rates for broker acquired customers but truncating the data at 10 years in order to allow for the inherent distortion created by extrapolating historical data. The analysis identified the amortisation period to be 5 years. The Group re-performs this analysis at least every six months for reassessment. A decrease in the expected contract periods of one year would increase amortisation expense by $11.0 million for 30 June 2018.

The recoverability of the related deferred acquisition costs is also considered as part of the liability adequacy test performed. As described in Note 18, the Group has no deficiency in the unearned premium liability at 30 June 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

12. DEFERRED ACQUISITION COSTS continued

b) Critical accounting judgements and estimates continued

Alternative view

General insurers amortise deferred acquisition costs usually over one year, as their policies generally have a defined term of one year. With health insurance, if the contract term is considered to be only the term to which the customer has agreed to, or paid to, the deferred acquisition cost would be amortised over a period of between one and two months, which is the period paid in advance by the customer. However, the Group believes that does not reflect the open ended nature of a health insurance contract, the contract periods to which future premium revenue will arise, nor the expected pattern of the incidence of risk under the insurance contracts to which the costs relate. For these reasons the Group believes the current adopted treatment is more appropriate.

ii) nib New Zealand

The Group incurs upfront 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. The Group does not capitalise the indirect administration costs associated with acquiring new members due to the difficulty in identifying and associating those indirect costs with acquiring particular insurance contracts.

There are two key assumptions required to recognise the acquisition costs over the life of the insurance contract:

- the period of the insurance contract is assumed to be the average length of insurance for nib nz limited policyholders who are the subject of an upfront commission; and
- the average length of insurance for nib nz limited policyholders who are the subject of an upfront commission is calculated by extrapolating historical lapse rates for that group of policyholders.

13. PROPERTY, PLANT & EQUIPMENT

	Note	Land & Buildings $m	Plant & Equipment $m	Leasehold Improvements $m	Total $m
At 1 July 2016					
Cost		1.9	17.4	12.3	31.6
Accumulated depreciation and impairment		–	(11.8)	(4.3)	(16.1)
Net book amount		**1.9**	**5.6**	**8.0**	**15.5**
Year ended 30 June 2017					
Opening net book amount		1.9	5.6	8.0	15.5
Additions		–	1.9	0.3	2.2
Assets included in a disposal group classified as held for sale and other disposals[1]		(1.9)	–	–	(1.9)
Depreciation charge for the year		–	(2.7)	(1.3)	(4.0)
Exchange differences		–	–	–	–
Closing net book amount		**–**	**4.8**	**7.0**	**11.8**
At 30 June 2017					
Cost		–	18.9	12.5	31.4
Accumulated depreciation and impairment		–	(14.1)	(5.5)	(19.6)
Net book amount		**–**	**4.8**	**7.0**	**11.8**
Year ended 30 June 2018					
Opening net book amount		–	4.8	7.0	11.8
Additions		–	1.6	1.2	2.8
Acquisition of subsidiary	32	–	0.1	–	0.1
Disposals		–	–	(0.1)	(0.1)
Depreciation charge for the year		–	(2.4)	(1.8)	(4.2)
Exchange differences		–	–	–	–
Closing net book amount		**–**	**4.1**	**6.3**	**10.4**
At 30 June 2018					
Cost		–	18.7	13.5	32.2
Accumulated amortisation and impairment		–	(14.6)	(7.2)	(21.8)
Net book amount		**–**	**4.1**	**6.3**	**10.4**

1. Land and buildings were transferred to assets classified as held for sale in FY17.

a) Accounting policy

All 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.

Depreciation 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:

- Plant and equipment 3 to 10 years
- Leasehold improvements 3 to 10 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 14(a)(v)).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

14. INTANGIBLE ASSETS

	Note	Goodwill $m	Software $m	Brands and Trademarks $m	Customer Contracts and Relationships $m	Total $m
At 1 July 2016						
Cost		135.2	69.0	28.9	47.2	280.3
Accumulated amortisation and impairment		–	(38.7)	(4.0)	(13.6)	(56.3)
Net book amount		**135.2**	**30.3**	**24.9**	**33.6**	**224.0**
Year ended 30 June 2017						
Opening net book amount		135.2	30.3	24.9	33.6	224.0
Additions		–	13.6	–	–	13.6
Disposals		–	(0.9)	–	–	(0.9)
Amortisation charge for the year		–	(12.5)	(0.8)	(4.4)	(17.7)
Exchange differences		(0.2)	(0.1)	–	(0.1)	(0.4)
Closing net book amount		**135.0**	**30.4**	**24.1**	**29.1**	**218.6**
At 30 June 2017						
Cost		135.0	77.5	28.9	47.1	288.5
Accumulated amortisation and impairment		–	(47.1)	(4.8)	(18.0)	(69.9)
Net book amount		**135.0**	**30.4**	**24.1**	**29.1**	**218.6**
Year ended 30 June 2018						
Opening net book amount		135.0	30.4	24.1	29.1	218.6
Additions		–	17.5	–	–	17.5
Acquisition of business	32	75.8	1.1	4.8	22.5	104.2
Disposals		–	(0.1)	–	–	(0.1)
Amortisation charge for the year		–	(13.8)	(1.2)	(5.2)	(20.2)
Exchange differences		(1.7)	(0.3)	–	(1.1)	(3.1)
Closing net book amount		**209.1**	**34.8**	**27.7**	**45.3**	**316.9**
At 30 June 2018						
Cost		209.1	91.7	33.6	68.0	402.4
Accumulated amortisation and impairment		–	(56.9)	(5.9)	(22.7)	(85.5)
Net book amount		**209.1**	**34.8**	**27.7**	**45.3**	**316.9**

a) Accounting policy

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 as part of a business combination are carried at fair value at the date of acquisition less accumulated amortisation. Amortisation is calculated on the asset's estimated useful life which is five years for IMAN Australian Health Plans Pty Ltd and 10 years for Grand United Corporate Health Limited. Brands and trademarks acquired with World Nomads Group in July 2015 have an indefinite useful life and are carried at fair value at the date of acquisition.
iv) Customer Contracts and relationships	Customer contracts and relationships 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, 10 years for both nib nz limited and Grand United Corporate Health Limited; and approximately 2.5 years for World Nomads Group.
v) Impairment	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 impairment are reviewed for possible reversal of the impairment at each reporting date.

b) Impairment tests for goodwill and indefinite life intangibles

Goodwill and indefinite life intangibles such as brands and trademarks are allocated to a cash-generating unit (CGU) which may be at a level lower than operating segments.

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.

Goodwill	Australian Residents Health Insurance Australia $m	International Workers Health Insurance Australia $m	New Zealand Residents Health Insurance New Zealand $m	World Nomads Group Australia $m	Grand United Corporate Health Insurance Australia $m	Total $m
At 30 June 2018	7.1	18.4	40.1	67.7	75.8	209.1
At 30 June 2017	7.1	18.4	41.8	67.7	–	135.0

Brands and trademarks	WorldNomads.com $m	Travel Insurance Direct $m	Suresave $m	Total $m
At 30 June 2018	12.7	6.2	2.9	21.8
At 30 June 2017	12.7	6.2	2.9	21.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

14. INTANGIBLE ASSETS continued

c) 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 into perpetuity assuming a growth factor of 3.0%. The Group has applied a post-tax discount rate to discount the forecast future attributable post tax cash flows.

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

d) Significant estimate: Impact of possible changes in key assumptions

In both 2018 and 2017 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 following table sets out the key assumptions for those CGUs that have significant goodwill allocated to them.

	Policyholder growth		Claims ratio		Long term growth rate		Pre-tax discount rate	
Goodwill	**2018 %**	**2017 %**	**2018 %**	**2017 %**	**2018 %**	**2017 %**	**2018 %**	**2017 %**
Australian Residents Health Insurance[1]	3.8	4.8	83.6	84.3	3.0	3.0	10.1	10.0
International Workers Health Insurance[1]	10.9	10.7	33.8	29.4	3.0	3.0	10.1	10.0
New Zealand Residents Health Insurance	6.7	9.2	58.9	60.8	3.0	3.0	10.5	11.0
Grand United Corporate Health Insurance	1.4	N/A	81.1	N/A	3.0	N/A	10.1	N/A

1. Excluding Grand United Corporate Health Insurance.

	Gross written premium growth rate		Long term growth rate		Pre-tax discount rate	
	2018 %	**2017 %**	**2018 %**	**2017 %**	**2018 %**	**2017 %**
World Nomads Group	18.1	24.7	3.0	3.0	10.1	10.0

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

	Gross written premium growth rate		Royalty rate		Long term growth rate		Pre-tax discount rate	
Brand names and trademarks	**2018 %**	**2017 %**	**2018 %**	**2017 %**	**2018 %**	**2017 %**	**2018 %**	**2017 %**
WorldNomads.com	21.7	26.6	2.5	2.5	3.0	3.0	10.1	10.0
Travel Insurance Direct	13.7	11.4	2.0	2.0	3.0	3.0	10.1	10.0
Suresave	6.1	8.3	1.5	1.5	3.0	3.0	10.1	10.0

15. PAYABLES

	2018 $m	2017 $m
Current		
Outwards reinsurance expense liability – premiums payable to reinsurers	8.0	0.3
Trade creditors	18.2	15.2
Other payables	102.0	84.8
RESA payable[1]	59.8	41.8
Annual leave payable	7.3	5.8
	195.3	**147.9**
Non-current		
Other payables	4.6	3.3
	4.6	**3.3**

1. Risk Equalisation Special Account (RESA) levy, represents expenses incurred under Risk Equalisation Trust Fund arrangements which are provided for within the legislation to support the principle of community rating.

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.

	2018 $m	2017 $m
Annual leave obligation expected to be settled after 12 months	**0.5**	**0.5**

a) Accounting policy

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.

i) Risk Equalisation Special Account levy	The Risk Equalisation Special Account Levy is accrued based on the industry survey of eligible paid claims to be submitted to APRA. If a private health insurer notifies APRA of a material variation in paid claims which can be quantified, the Group adjusts the risk equalisation expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

16. BORROWINGS

	2018 $m	2017 $m
Current		
Bank overdraft	1.1	1.5
	1.1	**1.5**
Non-current		
Bank loans (secured)	229.5	151.7
	229.5	**151.7**

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 $4.3 million. Outstanding amounts as at 30 June 2018 are included in Current Liabilities – Payables under Trade Creditors.

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

	2018 $m	2017 $m
Balance at beginning of period	151.7	151.9
Proceeds from borrowings	80.5	35.0
Repayment of borrowings	–	(35.0)
Exchange differences	(2.7)	(0.2)
Balance at end of period	**229.5**	**151.7**

a) Accounting policy

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 that 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.

b) Secured liabilities

During the year, nib holdings limited established an AUD $80.5 million variable rate loan with NAB. The loan relates to the acquisition of Grand United Corporate Health Limited and has a maturity date of 31 October 2020. This is in addition to the existing $85.0 million variable rate loan with NAB that has a maturity date of 16 December 2019. Both loans are carried at amortised cost.

nib nz holdings limited, a wholly owned subsidiary of nib holdings limited, has a NZD $70.0 million variable rate term loan facility with a maturity date of 18 December 2019. The bank loan is secured by the shares in nib nz holdings limited and a negative pledge that imposes covenants on the Group.

The above loans have the following covenants that must be met by the Group:

Financial Covenant	Ratio as at 30 June 2018
Group Gearing Ratio will not be more than 45%	29.2%
Group Interest Cover Ratio will not be less than 3:1.	31:1

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 $70.0 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.

c) Risk exposure

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

17. OUTSTANDING CLAIMS LIABILITY

	2018 $m	2017 $m
Outstanding claims – central estimate of the expected future payment for claims incurred	120.3	96.7
Risk margin	9.4	6.6
Administration component	1.9	1.6
Gross outstanding claims liability	**131.6**	**104.9**
Outstanding claims – expected payment to the RESA[1] in relation to the central estimate	19.1	14.3
Risk margin	1.5	1.0
Net outstanding claims liability	**152.2**	**120.2**

1. Risk Equalisation Special Account (RESA) 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:

	Note	2018 $m	2017 $m
Gross outstanding claims at beginning of period		104.9	96.7
Risk margin		(6.6)	(4.8)
Administration component		(1.6)	(1.4)
Central estimate at beginning of period		**96.7**	**90.5**
Change in claims incurred for the prior year		(10.2)	(1.7)
Claims paid in respect of the prior year		(93.6)	(86.6)
Claims incurred during the period (expected)		1,465.9	1,335.1
Claims paid during the period		(1,347.9)	(1,240.6)
Acquisition of business	32	10.0	–
Effect of changes in foreign exchange rates		(0.6)	–
Central estimate at end of period		**120.3**	**96.7**
Risk margin		9.4	6.6
Administration component		1.9	1.6
Gross outstanding claims at end of period		**131.6**	**104.9**

a) Actuarial methods and critical accounting judgements and estimates

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 Special Account (RESA) 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 and risk margin is made of the amounts that will be recoverable from or payable to the RESA based upon the gross provision.

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 two methods are used. For recent service months 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 recent service months the Bornhuetter-Ferguson method is given some weight, which progressively blends payment experience and prior forecasts of incurred costs.

As most 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:

		2018			2017	
Australian Residents Health Insurance	**Hospital %**	**Medical %**	**General %**	**Hospital %**	**Medical %**	**General %**
Assumed proportion paid to date	90.6%	90.9%	98.1%	91.9%	91.5%	98.0%
Expense rate	1.3%	1.3%	1.3%	1.4%	1.4%	1.4%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	6.4%	6.4%	6.4%	5.6%	5.6%	5.6%
Risk equalisation rate	21.5%	21.5%	0.0%	20.5%	20.5%	0.0%
Risk margin for risk equalisation	7.9%	7.9%	0.0%	6.6%	6.6%	0.0%
International Students Health Insurance						
Assumed proportion paid to date	67.3%	85.6%	100.0%	74.0%	87.8%	100.0%
Expense rate	3.5%	3.5%	3.5%	2.0%	2.0%	2.0%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	24.9%	24.9%	24.9%	24.8%	24.8%	24.8%
International Workers Health Insurance						
Assumed proportion paid to date	75.6%	86.7%	94.1%	72.3%	79.8%	94.4%
Expense rate	4.6%	4.6%	4.6%	6.0%	6.0%	6.0%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	16.3%	16.3%	16.3%	18.5%	18.5%	18.5%
NZ Health Insurance	**Surgical %**	**Medical %**		**Surgical %**	**Medical %**	
Assumed proportion paid to date	89.0%	85.1%		88.8%	84.2%	
Expense rate	2.1%	2.1%		2.2%	2.2%	
Discount rate	0.0%	0.0%		0.0%	0.0%	
Risk margin	6.9%	6.9%		5.8%	5.8%	

The risk margin of the underlying liability has been estimated to equate to a probability of adequacy of 95% (June 2017: 95%) for the Group. The risk margin within each territory allows for diversification across the entity. The benefit of diversification across the Group is again allocated to the Australian Residents Health Insurance segment. Although the variability assumptions used in determining the risk margins are unchanged from the prior year for each Australian segment, differences appear due to the incorporation of Grand United Corporate Health Limited into 2018 numbers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

17. OUTSTANDING CLAIMS LIABILITY continued

c) Process used to determine assumptions

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 table below describes how a change in each assumption will affect the insurance liabilities.

Key variable	Description	Impact of movement in variable
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.	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	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.	An increase or decrease in the level of unpaid factors would lead to a higher or lower projection of the ultimate liability and a corresponding increase or decrease on claims expense respectively.
Expense rate	Claims handling expenses were calculated by reference to past experience of total claims handling costs as a percentage of total past payments.	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.
Discount rate	As most 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.	N/A
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.	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 RESA Levy.
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 2017: 95%).	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.

d) Sensitivity analysis – impact of key variables

	Profit after tax 2018 $m	Equity 2018 $m
Recognised amounts in the financial statements attributable to owners of nib holdings limited	**132.4**	**557.8**

Variable	Movement in variable	Adjustments	Adjusted amounts	Adjustments	Adjusted amounts
		$m	$m	$m	$m
Chain ladder development factors	+0.5%	(10.6)	121.8	(10.6)	547.2
	-0.5%	10.6	143.0	10.6	568.4
Bornhuetter-Ferguson unpaid factors	+2.0%	(3.6)	128.8	(3.6)	554.2
	-2.0%	3.6	136.0	3.6	561.4
Expense rate	+1.0%	(0.9)	131.5	(0.9)	556.9
	-1.0%	0.9	133.3	0.9	558.7
Risk equalisation allowance	+2.5%	(1.7)	130.7	(1.7)	556.1
	-2.5%	1.7	134.1	1.7	559.5
Risk margin	+1.0%	(1.0)	131.4	(1.0)	556.8
	-1.0%	1.0	133.4	1.0	558.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

18. UNEARNED PREMIUM LIABILITY AND UNEXPIRED RISK LIABILITY

a) Unearned premium liability

	2018 $m	2017 $m
Current	**205.1**	**174.7**
Non-current	**32.7**	**28.9**

The unearned premium liability reflects premiums paid in advance by customers.

Movements in the unearned premium liability are as follows:

	Notes	2018 $m	2017 $m
Unearned premium liability as at 1 July		203.6	176.2
Acquisition of business	32	20.9	–
Deferral of premiums on contracts written in the period		188.0	179.3
Earning of premiums written in previous periods		(174.7)	(151.9)
Unearned premium liability as at 30 June		**237.8**	**203.6**

b) Unexpired risk liability

No deficiency was identified as at 30 June 2018 and 2017 that resulted in an unexpired risk liability needing to be recognised.

c) Critical accounting judgements and estimates

A liability adequacy test is required to be performed for the period over which the insurer is "on risk" in respect of premiums paid in advance. 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 arising from the rights and obligations created. 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 and an unexpired risk liability created. The Group applies a risk margin to achieve a 75% (June 2017: 95%) probability of adequacy for future claims which is lower than the 95% achieved in the estimate of the outstanding claims liability, refer to Note 17(b) as the former is in effect an impairment test used to test the sufficiency of the unearned premium liability whereas the latter is a measurement accounting policy used in determining the carrying value of the outstanding claims liability. No deficiency was identified as at 30 June 2018 and 2017 that resulted in an unexpired risk liability needing to be recognised.

This test is also extended beyond recognised unearned premium liability to include premiums renewable until the next repricing review, usually 1 April each year.

19. PREMIUM PAYBACK LIABILITY

	2018 $m	2017 $m
Current	**3.7**	**9.5**
Non-current	**14.4**	**13.5**

Movements in the premium payback liability are as follows:

	2018 $m	2017 $m
Gross premium payback liability at beginning of period	23.0	27.4
Adjustment to ensure reserve exceeds current payout on early lapse	(0.1)	–
Value of payments currently being processed	(0.9)	(1.1)
Risk margin	(0.6)	(0.7)
Central estimate at beginning of period	**21.4**	**25.6**
Funding/new accrued	2.7	3.0
Unwind discount rate	0.5	0.7
Interest rate movement impact	0.4	(0.7)
Premium payback payments	(7.1)	(6.9)
Others	(0.1)	(0.1)
Effect of changes in foreign exchange rates	(0.8)	(0.2)
Central estimate at end of the year	**17.0**	**21.4**
Adjustment to ensure reserve exceeds current payout on early lapse	–	0.1
Value of payments currently being processed	0.6	0.9
Risk margin	0.5	0.6
Total premium payback liability as at 30 June	**18.1**	**23.0**

Risk exposure

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

a) Actuarial methods and critical accounting judgements and estimates

The premium payback liability represents the accrued amount of premium expected to be repaid to certain New Zealand health insurance policyholders. 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.

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

	2018	2017
Lapse rate until 3 years from premium payback date	2.0% – 10.0%	2.0% – 10.0%
Lapse rate within 3 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	1.8% – 2.2%	2.0% – 2.7%
Risk margin	2.6%	2.6%

The risk margin has been estimated to equate to a 95% probability of adequacy (2017: 95%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

19. PREMIUM PAYBACK LIABILITY continued

b) Sensitivity analysis

i) Summary

The Group conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying actuarial assumptions. The movement in any key variable will impact the performance and equity of the Group. The table below provides a description of the processes used to determine these assumptions, as well as how a change in each assumption will affect the insurance liabilities.

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

ii) Impact of key variables

	Profit after tax 2018 $m	Equity 2018 $m
Recognised amounts in the financial statements attributable to owners of nib holdings limited	132.4	557.8

Variable	Movement in variable	Adjustments	Adjusted amounts	Adjustments	Adjusted amounts
		$m	$m	$m	$m
Lapse rate	+1.0%	0.4	132.8	0.4	558.2
	–1.0%	(0.4)	132.0	(0.4)	557.4
Discount rate	+1.0%	0.6	133.0	0.6	558.4
	–1.0%	(0.7)	131.7	(0.7)	557.1
Risk margin	+1.0%	(0.1)	132.3	(0.1)	557.7
	–1.0%	0.1	132.5	0.1	557.9

c) 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 2018 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 2018 (2017: nil) that resulted in an unexpired risk liability needing to be recognised.

20. PROVISION FOR EMPLOYEE ENTITLEMENTS

	2018 $m	2017 $m
Current		
Long service leave	4.0	3.1
Termination benefits	0.2	0.7
	4.2	**3.8**
Non-current		
Long service leave	2.4	2.4
	2.4	**2.4**

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.

	2018 $m	2017 $m
Long service leave obligation expected to be settled after 12 months	**3.3**	**2.8**

a) Accounting policy

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 G100 treasury discount rates 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) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

21. OTHER LIABILITIES

	2018 $m	2017 $m
Current		
Deferred profit on sale and leaseback of head office building	0.4	0.4
	0.4	**0.4**
Non-current		
Deferred profit on sale and leaseback of head office building	4.8	5.2
	4.8	**5.2**

a) Accounting policy

The deferred profit relates to the sale and leaseback of the head office building at 22 Honeysuckle Drive, Newcastle in February 2016. The excess of the proceeds received over fair value relating to the leaseback portion of the building was deferred and is amortised over the lease term of 15 years. The subsequent leasing agreement is treated as an operating lease. The non-current portion of the deferred profit will be amortised between 2016 and the end of the lease term.

22. CONTRIBUTED EQUITY

a) Share capital

	2018 $m	2017 $m
Ordinary shares		
Fully paid	**116.1**	**28.1**
Other equity securities		
Treasury shares	**(3.8)**	**(3.1)**
Total contributed equity	**112.3**	**25.0**

b) Movements in share capital

Date	Details	No. of shares	Price $	$m
1 July 2016	Opening balance	439,004,182		**28.1**
30 June 2017	**Balance**	**439,004,182**		**28.1**
1 July 2017	Opening balance	439,004,182	–	28.1
26 Sep 2017	Shares issued – Institutional placement[1]	10,619,470	5.65	60.0
27 Oct 2017	Shares issued – Share purchase plan[1]	5,225,217	5.65	29.5
	Share issue transaction costs	–	–	(2.1)
	Deferred tax component	–	–	0.6
30 June 2018	**Balance**	**454,848,869**		**116.1**

1. The majority of the shares issued during the year were used to fund the acquisition of Grand United Corporate Health Limited. See Note 32 Business Combination.

c) 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 35 for more information.

Date	Details	No. of shares	$m
1 July 2016	**Balance**	**370,396**	**1.6**
	Acquisition of shares by the Trust	787,278	4.0
	Employee share issue – LTIP	(345,771)	(1.5)
	Employee share issue – STI	(223,330)	(1.0)
1 July 2017	**Balance**	**588,573**	**3.1**
	Acquisition of shares by the Trust	802,394	5.0
	Employee share issue – LTIP	(559,057)	(3.0)
	Employee share issue – STI	(217,678)	(1.3)
30 June 2018	**Balance**	**614,232**	**3.8**

d) Accounting policy

i) Ordinary shares

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.

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.

ii) 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.

23. RETAINED PROFITS

	2018 $m	2017 $m
Balance at the beginning of the year	399.0	356.2
Net profit	132.4	119.6
Transfer from revaluation reserve on sale of land and buildings, net of tax	1.1	–
Dividends	(87.0)	(76.8)
Balance at the end of the financial year	**445.5**	**399.0**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

24. RESERVES

	2018 $m	2017 $m
Revaluation surplus – property, plant and equipment	–	1.1
Share-based payments	3.2	2.5
Share-based payments exercised	(5.6)	(3.4)
Foreign currency translation	2.4	4.4
	–	**4.6**

Movements in reserves

	Note	2018 $m	2017 $m
Revaluation surplus – property, plant and equipment			
Balance at the beginning of the year		1.1	1.1
Transfer to retained profits on sale of land and buildings – gross		(1.2)	–
Deferred tax	8(a)(iv)	0.1	–
Balance at the end of the financial year		**–**	**1.1**
Share-based payments			
Balance at the beginning of the year		2.5	1.7
Performance right expense		1.5	1.2
Transfer to share-based payments exercised reserve on exercise of performance rights		(0.8)	(0.4)
Balance at the end of the financial year		**3.2**	**2.5**
Share-based payments exercised			
Balance at the beginning of the year		(3.4)	(2.3)
Transfer from share-based payments reserve on exercise of performance rights		0.8	0.4
Issue of shares held by nib Holdings Ltd Share Ownership Plan Trust to employees		(3.0)	(1.5)
Balance at the end of the financial year		**(5.6)**	**(3.4)**
Foreign currency translation			
Balance at the beginning of the year		4.4	4.5
Currency translation differences arising during the year – gross		(2.6)	(0.3)
Deferred tax	8(a)(iii)	0.6	0.2
Balance at the end of the financial year		**2.4**	**4.4**

a) Nature and purpose of reserves

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

25. DIVIDENDS

a) Ordinary shares

	2018 $m	2017 $m
Final dividend for the year ended 30 June 2017 of 10.5 cents (2016 – 9.0 cents) per fully paid share paid on 6 October 2017		
Fully franked based on tax paid at 30%	46.1	39.5
Interim dividend for the year ended 30 June 2018 of 9.0 cents (2017 – 8.5 cents) per fully paid share paid on 3 April 2018		
Fully franked based on tax paid at 30%	40.9	37.3
Total dividends provided for or paid	**87.0**	**76.8**

b) Dividends not recognised at year end

	2018 $m	2017 $m
In addition to the above dividends, since the end of the year the Directors have recommended the payment of a final dividend of 11.0 cents (2017 – 10.5 cents) per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 5 October 2018 out of retained profits at 30 June 2018, but not recognised as a liability at the end of the year, is:	**50.0**	**46.1**

c) Franked dividends

The franked portion of the final dividends recommended after 30 June 2018 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 2018.

	2018 $m	2017 $m
Franking credits available for subsequent financial years to equity holders of parent entity based on a tax rate of 30%	**63.8**	**51.7**

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

- Franking credits that will arise from the payment of the amount of the provision for income tax;
- Franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

d) Accounting policy

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

26. EARNINGS PER SHARE

		2018	2017
Profit from continuing operations attributable to the ordinary equity holders of the company used in calculating basic/diluted EPS	$m	132.4	119.6
Weighted average number of ordinary shares	#m	450.6	439.0
Basic / Diluted EPS	cents	**29.4**	**27.2**

a) Accounting policy

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; and • 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.

b) 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 the Remuneration Report on page 41. The total 2,381,654 performance rights granted (2017 - 2,290,162) 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 2018. These performance rights could potentially dilute basic earnings per share in the future.

27. 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.

nib holdings limited

The Group, through earnings and capital management, has achieved a return on equity of 20% or greater for the last five years and continues to target return on equity in the order of 20%. The return on equity as at 30 June 2018 is 26.2% (2017: 29.5%). 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 2018 the Group had available capital of $25.5 million above our internal benchmark (after allowing for the payment of a fully franked final ordinary dividend of 11.0 cents per share, totalling $50.0 million, in October 2018).

Below is a reconciliation of net assets to available capital as at 30 June 2018 (after allowing for payment of a final dividend):

		2018 $m
Net assets		**557.8**
Less:	nib health fund capital required	(282.8)
	nib nz capital required	(85.0)
	Grand United capital required	(49.2)
	Joint venture in China capital required	(11.2)
	Acquisition of QBE Travel capital required	(36.0)
	Capital required looking forward 12 months	(3.7)
	nib nz intangibles	(34.6)
	Grand United intangibles	(101.3)
	iihi intangibles	(19.9)
	World Nomads Group intangibles	(98.5)
	Borrowings	229.5
	Other assets and liabilities	10.4
	Final dividend	(50.0)
Available capital (after allowing for payment of final dividend)		**25.5**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

27. CAPITAL MANAGEMENT continued

nib health funds limited and Grand United Corporate Health Limited

nib health funds limited and Grand United Corporate Health Limited, controlled entities, are 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 Solvency Standard, nib health funds limited and Grand United Corporate Health 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 Capital Adequacy Standard, nib health funds limited and Grand United Corporate Health 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.

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 14.4% 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 $41.7 million in September 2017 and $47.8 million in February 2018 to nib holdings limited.

The surplus assets over benchmark at 30 June 2018 and 30 June 2017 were as follows:

	2018 $m	2017 $m
Total assets nib health funds limited (excluding unclosed business contributions – unearned)	818.2	756.3
Capital adequacy requirement	530.4	499.1
Surplus assets for Capital Adequacy	287.8	257.2
Net assets nib health funds limited	322.2	294.7
Internal capital target	282.8	270.4
Surplus assets over internal capital target	39.4	24.3

Grand United Corporate Health Limited has a capital management plan which establishes a target for capital held in excess of the regulatory requirement; the aim is to maintain a sufficient buffer in line with the Board's risk appetite and risk tolerances. The internal capital target ensures Grand United maintain the preferred range of capital adequacy ratio (CAR) given certain stressed capital scenarios. Grand United targets the lower end of this CAR range currently approximating to 1.35x the Capital Adequacy Requirement.

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. No dividends were paid from Grand United Corporate Health to nib holdings limited for the year.

The surplus assets over benchmark at 30 June 2018 are as follows:

	2018 $m	2017 $m
Total assets Grand United Corporate Health Limited (per Capital Adequacy Standard)	130.4	N/A
Capital adequacy requirement	77.9	N/A
Surplus assets for Capital Adequacy	52.5	N/A
Net assets Grand United Corporate Health Limited	70.3	N/A
Internal capital target	45.0	N/A
Surplus assets over internal capital target	25.3	N/A

nib nz limited

nib nz limited, a controlled entity, is required to comply with the *Solvency Standard for Non-Life Insurance Business (2014)* published by the Reserve Bank of New Zealand (RBNZ). The Solvency Standards determine the Minimum Solvency Capital (MSC) required. A requirement of nib nz limited's insurance licence is that it maintains capital above the MSC.

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 MSC for nib nz limited;
	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.

Any capital in excess of the benchmark, taking a 12-month forward looking view, will be reduced by way of dividend to nib nz holdings limited, unless management decide to retain funds for strategic purposes. nib nz limited paid dividends of NZD $13.2 million in February 2018 to nib nz holdings limited.

The surplus assets over benchmark at 30 June 2018 and 30 June 2017 are as follows:

	2018 $m	2017 $m
Actual Solvency Capital	28.2	24.4
Minimum Solvency Capital	10.4	10.2
Solvency Margin	17.8	14.2
Net assets nib nz limited	91.8	90.1
Capital Adequacy Coverage Ratio	2.71	2.40
Internal benchmark	2.00xMSC	2.00xMSC
Internal benchmark requirement	20.8	20.3
Surplus/(deficit) assets over internal benchmark	7.4	4.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

28. COMMITMENTS FOR EXPENDITURE

a) Operating lease commitments

	2018 $m	2017 $m
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
– not longer than one year	12.5	8.2
– longer than one year and not longer than five years	41.7	22.5
– longer than five years	54.5	35.9
	108.7	**66.6**

The Group entered into an agreement to lease Auckland premises for a lease term of 6 years commencing 1st November 2014. As part of the lease a $0.9 million bank guarantee was required.

b) Capital expenditure commitments

	2018 $m	2017 $m
Payable:		
– not longer than one year	3.5	0.3
	3.5	**0.3**

c) Related parties commitments

Refer to Note 33(c)(ii) for commitments to related parties.

29. CONTINGENT LIABILITIES

On 30 May 2017, the Australian Competition and Consumer Commission (ACCC) instituted proceedings in the Federal Court against nib health funds limited (nib). The ACCC alleges that nib engaged in misleading and deceptive conduct, unconscionable conduct and made false or misleading representations by failing to notify customers in relation to changes made to its Medigap Scheme. nib denies the ACCC's allegations and intends to defend the claims. In the event that the Court finds in favour of the ACCC, nib may have potential liabilities, including pecuniary penalties. The matter was unsuccessfully mediated in October 2017 and was set down for hearing in June 2018. The hearing date was vacated in June 2018. The matter has yet been set down for a new hearing date. Due to the nature of the matter, the outcome is uncertain. Costs incurred to date should be partially recoverable under nib's corporate insurance program.

nib operates in an industry where an increasing number of Australians are facing affordability challenges and are more regularly reviewing their health insurance cover to maximise value from their policy. nib regularly engages with customers and other industry stakeholders to understand potential areas of concern and to implement improvements that enhance the customer experience and improve transparency. Taking into consideration feedback from a range of industry stakeholders, nib has undertaken a comprehensive end-to-end review of our customer communications and the way we advise customers of changes to their nib health cover products. This review has resulted in improvements to nib's practices.

On an ongoing basis there is the possibility that nib may receive complaints related to past practices which could give rise to nib incurring costs. The Directors are not currently aware of any complaints that could give rise to costs that will materially impact nib's financial position.

Members of the Group have identified a potential miscalculation of stamp duty that may have resulted in an underpayment of the duty they remitted to the relevant State Revenues on behalf of their underwriting partners. Although the Group believes the responsibility for stamp duty lies with their underwriting partners, the Group have no further exposure to the States and Territories with respect to this miscalculation as they have settled the voluntary disclosures. The Group's Professional Indemnity insurer has been notified, granted indemnity and has exercised its right of subrogation.

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, Realsurgeons pty limited, Realself pty limited and nib Global 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 twelve months from 18 August 2018, or if earlier, to the date of sale of the entities should this occur.

30. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 3 August 2018, nib announced that its subsidiary, World Nomads Group, would acquire QBE's travel insurance business (QBE Travel), for a total consideration of up to $25.0 million.

QBE Travel is Australia's fourth largest travel insurer and has an extensive distribution network including partnerships with well-known Australian brands, as well as a national network of more than 2,000 travel insurance agents.

The transaction will be funded through existing available capital.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

31. REMUNERATION OF AUDITORS

	2018 $	2017 $
a) PricewaterhouseCoopers Australia		
1. Audit services		
Audit and review of financial report and other audit work under the *Corporations Act 2001*	701,953	450,244
Total remuneration for audit services	**701,953**	**450,244**
2. Non-audit services		
Audit-related services		
Audit of regulatory returns	101,966	55,284
Total remuneration for audit-related services	**101,966**	**55,284**
Taxation services		
Tax compliance services	80,562	257,448
International tax consulting and tax advice on mergers and acquisitions	82,465	84,662
Total remuneration for taxation services	**163,027**	**342,110**
Other services		
Accounting advice and support including one off transactions	266,872	13,464
Review of regulatory returns	11,628	11,628
Cyber security consulting services	9,000	15,500
Total remuneration for other services	**287,500**	**40,592**
Total remuneration for non-audit services	**552,493**	**437,986**
Total remuneration of PricewaterhouseCoopers Australia	**1,254,446**	**888,230**
b) Network firms of PricewaterhouseCoopers Australia		
1. Audit services		
Audit and review of financial report and other audit work under the *Corporations Act 2001*	203,356	172,483
Total remuneration for audit services	**203,356**	**172,483**
2. Non-audit services		
Audit-related services		
Audit of regulatory returns	11,800	11,716
Total remuneration for audit-related services	**11,800**	**11,716**
Taxation services		
Tax compliance services	26,238	34,736
Tax consulting services	11,507	37,549
International tax consulting and tax advice on mergers and acquisitions	–	–
Total remuneration for taxation services	**37,745**	**72,285**
Other services		
Accounting advice and support	–	4,724
Cyber security consulting services	–	26,071
Total remuneration for other services	**–**	**30,795**
Total remuneration for non-audit services	**49,545**	**114,796**
Total remuneration of network firms of PricewaterhouseCoopers	**252,901**	**287,279**
Total auditors' remuneration	**1,507,347**	**1,175,509**

32. BUSINESS COMBINATION

a) Summary of acquisition

On 31 October 2017 nib holdings limited acquired 100% of the issued capital of Grand United Corporate Health Limited (GU Health) Australia's only established specialised corporate group private health insurer for a consideration of $155.7 million. The transaction was funded by a fully underwritten institutional equity placement of $60.0 million, a non-underwritten Share Purchase Plan of $15.0 million and a new debt facility of $80.5 million.

Details of the purchase consideration are as follows:

	$m
Purchase consideration	
Cash	155.7
Total purchase consideration	**155.7**

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

	Fair value $m
Cash and cash equivalents	70.4
Receivables	13.6
Prepayments	0.7
Financial assets at fair value through profit or loss	27.9
Property, plant and equipment	0.1
Software	1.1
Intangible assets: Brand	4.8
Intangible assets: Customer contracts	10.1
Intangible assets: Distribution relationships	12.4
Deferred tax assets	4.5
Payables	(20.5)
Outstanding claims liability	(15.3)
Unearned premium liability	(20.9)
Deferred tax liabilities	(8.2)
Provision for employee entitlements	(0.8)
Net identifiable assets acquired	**79.9**
Add: Goodwill	75.8
Net assets acquired	**155.7**

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

i) Acquisition related costs

Total acquisition related costs of $3.3 million that were not directly attributable to the issue of shares are included in other expenses in profit or loss and in operating cash flows in the statement of cash flows.

ii) Revenue and profit contribution

The acquired business contributed $115.5 million to Group revenue and $9.5 million to net profit after tax for the period 31 October 2017 to 30 June 2018. If the acquisition had occurred on 1 July 2017, consolidated pro-forma revenue and profit for the year ended 30 June 2018 would have been $2,292.2 million and $148.3 million respectively. These amounts have been calculated using the subsidiary's results.

iii) Acquired receivables

The fair value of acquired receivables is $13.6 million. The gross amount due is $13.8 million of which $0.2 million has been provided for.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

32. BUSINESS COMBINATION continued

b) Purchase consideration – cash outflow

	$m
Cash consideration	155.7
Less: Cash balances acquired	(70.4)
Outflow of cash – investing activities	**85.3**

c) Accounting policy

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.

33. INTEREST IN OTHER 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 2018 %	2017 %
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
nib Global Pty Limited	Australia	100	100
IMAN Australian Health Plans Pty Limited	Australia	100	100
nib nz holdings limited	New Zealand	100	100
nib nz limited	New Zealand	100	100
nib Options Pty Limited	Australia	100	92.5
Realsurgeons Pty Limited	Australia	100	92.5
Realself Pty Limited	Australia	100	92.5
nib Options Holdings (Thailand) Co Limited	Thailand	100	46.23
nib Options (Thailand) Co Limited	Thailand	100	69.36
Digital Health Ventures Pty Limited	Australia	50	50
nib Philippines Pty Limited	Australia	100	100
nib Asia Pty Ltd	Australia	100	100
Nuo Ban Business Information Consulting (Shanghai) Co Ltd	China	100	N/A
nib International Student Services Pty Ltd	Australia	100	N/A
Grand United Corporate Health Limited	Australia	100	N/A
World Nomads Group Pty Limited	Australia	100	100
WNG Services Pty Limited	Australia	100	100
World Experiences Assist Pty Limited	Australia	100	100
Suresave Pty Limited	Australia	100	100
SureSave Net Limited	New Zealand	100	100
Sure-Save.net Pty Ltd	Australia	100	100
Travel Insurance Direct Holdings Pty Limited	Australia	100	100
Travel Insurance Direct Pty Ltd	Australia	100	100
Travel Insurance Direct (New Zealand) Ltd	New Zealand	100	100
Cheap Travel Insurance Pty Limited	Australia	100	100
nib Travel Insurance Distribution Pty Limited (formerly Holiday Travel Insurance Pty Limited)	Australia	100	100
Surecan Technology Pty Ltd	Australia	100	100
The World Nomads Group Holdings Pty Ltd	Australia	100	100
World Nomads Pty Ltd	Australia	100	100
World Nomads Inc	United States of America	100	100
World Nomads Limited	United Kingdom	100	100
World Nomads (Canada) Ltd	Canada	100	100
WorldNomads.com Pty Ltd	Australia	100	100
Cerberus Special Risks Pty Limited	Australia	100	100
Get Insurance Group Pty Limited	Australia	100	100
World Experiences International Holdings Pty Ltd	Australia	100	100
World Experiences Seguros De Viagrem Brasil LTDA	Brazil	100	100
Nomadic Insurance Benefits Holdings Limited	Ireland	100	100
Nomadic Insurance Benefits Limited	Ireland	100	100
World Nomads Travel Lifestyle (Europe) Ltd	Ireland	100	100
NIB Travel Services Ireland Limited	Ireland	100	100
Nomadic Insurance Limited (Cayman Co.)	Cayman Islands	100	N/A
Travellr Pty Limited	Australia	100	100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

33. INTEREST IN OTHER ENTITIES continued

a) Subsidiaries and trusts continued

	Place of Incorporation	Beneficial ownership by Consolidated entity 2018 %	2017 %
Travel Insurance Compared Pty Limited	Australia	100	100
TravelClear Pty Limited	Australia	100	100
Travellers Assistance Group Pty Limited (deregistered on 15 February 2018)	Australia	100	100
Hello Travel Insurance Pty Limited	Australia	100	100
World Experiences Pty Limited	Australia	100	100
World Experiences Group Pty Limited	Australia	100	100
World Experiences Travel Pty Limited	Australia	100	100

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

b) Non-controlling interests (NCI)

During the year, the Group acquired the non-controlling interest held in nib Options group for $0.1 million.

There are no non-controlling interests at 30 June 2018.

c) Interest in associates and joint ventures

i) Whitecoat Holdings Pty Ltd

The Group holds a 35.3% (2017: 35.0%) ownership interest in Whitecoat Holdings Pty Ltd which is the parent company of Whitecoat Operating Pty Ltd.

	2018 $m	2017 $m
Aggregate carrying amount of individually immaterial associates and joint ventures	**2.1**	**2.3**
Aggregate amounts of the Group's share of:		
Profit/(loss) from continuing operations	(0.5)	(0.3)
Total comprehensive income	**(0.5)**	**(0.3)**

ii) Tasly Holding Group Co. Ltd.

On 27 June 2018 nib Asia Pty limited (a wholly owned subsidiary of nib holdings limited) executed joint venture contracts with Tasly Holding Group Co. Ltd. One of the conditions of the contracts is that nib contributes of RMB50.0 million (AUD $11.2 million) to the Chinese joint venture entities when they are incorporated. This is required to fund the set-up of a health insurance distribution business in China.

34. RELATED PARTY TRANSACTIONS

a) Related party transactions with key management personnel

Key management personnel are entitled to insurance policies provided at a discount dependant on length of service. These are provided under normal terms and conditions.

There were no other 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

	2018 $	2017 $
Short term employee benefits	7,319,125	6,373,468
Post-employment benefits	326,913	336,587
Other long-term benefits	52,659	42,371
Termination benefits	–	–
Share-based payments	3,047,497	2,638,349
	10,746,192	**9,390,775**

Detailed remuneration disclosures are provided in the Remuneration Report on pages 24 to 43.

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:

- advertising and promotions
- printing and stationery
- software development and maintenance

Further details of the above transactions with key management personnel are disclosed in the Remuneration Report on page 43.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

35. 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 page 42. 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).

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

2018	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	1,018,800	222,298	(273,786)	–	967,312	–	967,312
Michelle McPherson	332,676	62,727	(89,060)	–	306,343	–	306,343
Rhod McKensey	282,676	61,151	(79,437)	–	264,390	–	264,390
Rob Hennin	203,816	42,252	(57,316)	–	188,752	–	188,752
Brendan Mills	150,419	31,365	(33,020)	–	148,764	–	148,764
Justin Vaughan	136,006	30,751	(26,438)	–	140,319	–	140,319
Wendy Lenton	–	28,699	–	–	28,699	–	28,699
Roslyn Toms	–	37,281	–	–	37,281	–	37,281
David Kan	135,230	43,930	–	–	179,160	–	179,160
Total	**2,259,623**	**560,454**	**(559,057)**	**–**	**2,261,020**	**–**	**2,261,020**

2017	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	1,124,585	225,980	(207,353)	(124,412)	1,018,800	–	1,018,800
Michelle McPherson	360,831	79,716	(67,419)	(40,452)	332,676	–	332,676
Rhod McKensey	279,981	77,708	(46,883)	(28,130)	282,676	–	282,676
Rob Hennin	147,192	56,624	–	–	203,816	–	203,816
Brendan Mills	149,146	39,860	(24,116)	(14,471)	150,419	–	150,419
Justin Vaughan	96,930	39,076	–	–	136,006	–	136,006
David Kan	79,406	55,824	–	–	135,230	–	135,230
Total	**2,238,071**	**574,788**	**(345,771)**	**(207,465)**	**2,259,623**	**–**	**2,259,623**

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.

	2018	2017
Number of shares purchased on market under the plan to participating employees	152,600	67,343

The shares were allocated in two tranches. The first tranche of shares were for allocated on 23 August 2017 following nib's FY17 full year results presentation at a volume weighted average price of $5.80. The remaining tranche of shares were allocated on 21 February 2018 following nib's FY18 half year results presentation at a volume weighted average price of $6.93.

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 NZD $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.

	2018	2017
Number of shares purchased on market under the plan to participating employees	19,840	2,409

The shares were allocated on 23 August 2017 following nib's FY17 full year results presentation at a volume weighted average price of $5.80.

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.

	2018	2017
Number of shares purchased on market under the plan to participating employees	49,216	47,452

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 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 NZD $10,000 worth of fully paid ordinary shares in nib holdings limited, made up of NZD $5,000 salary sacrifice and NZD $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.

	2018	2017
Number of shares purchased on market under the plan to participating employees	4,725	1,650

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

35. SHARE–BASED PAYMENTS continued

f) Short term Performance Incentive (STI)

All eligible employees have a STI opportunity. For the MD/CEO the maximum target bonus opportunity is 125% of the base remuneration package with 50% of the calculated entitlement to be deferred into shares. For the CFO/DCEO, GEARHI and CEO NZ the maximum target bonus opportunity is 80% of the remuneration package with 50% of the calculated entitlement deferred into shares. For other executives the maximum entitlement is 60% of the remuneration package with 50% of the calculated entitlement deferred into shares.

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 Note1(b).

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 22(b).

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

g) Expenses arising from share-based payments transactions

	2018 $m	2017 $m
Shares purchased on market under ESAP and ESPS	1.0	0.3
Shares purchased on market under nib salary sacrifice plan and matching plan and salary sacrifice (NZ) rules and matching plan (NZ)	0.3	0.3
Performance rights granted under LTIP	1.5	1.2
Shares purchased on market under STI	1.3	1.0
	4.1	**2.8**

h) Accounting policy

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 22(d)(ii). 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.

36. PARENT ENTITY FINANCIAL INFORMATION

The individual financial statements for the parent entity show the following aggregate amounts:

	2018 $m	2017 $m
Balance Sheet		
ASSETS		
Current assets	56.8	50.2
Non-current assets	698.7	548.4
Total assets	**755.5**	**598.6**
LIABILITIES		
Current liabilities	3.9	17.1
Non-current liabilities	165.5	85.9
Total liabilities	**169.4**	**103.0**
NET ASSETS	**586.1**	**495.6**
EQUITY		
Share capital	385.2	297.2
Share-based payments	(2.4)	(0.9)
Retained profits	203.3	199.3
Total Equity	**586.1**	**495.6**

	2018 $m	2017 $m
Profit for the year	**91.0**	**85.2**
Total comprehensive income for the year	**91.0**	**85.2**

Refer to Note 29 for contingent liabilities of parent entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

36. PARENT ENTITY FINANCIAL INFORMATION continued

a) Accounting policy

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

i) Investments in subsidiaries, associates and joint venture entities	Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of nib holdings limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.
ii) Tax consolidation legislation	nib holdings limited and its wholly-owned Australian controlled entities have implemented the tax consolidated legislation. The head entity, nib holdings limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a 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.

37. 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 17 August 2018. The company has the power to amend and reissue the Financial Report.

DIRECTORS' DECLARATION

for the year ended 30 June 2018

In the Directors' opinion:

a. the financial statements and notes set out on pages 45 to 116 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 2018 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

Anne Loveridge

Steve Crane
Director

Anne Loveridge
Director

Newcastle
17 August 2018

INDEPENDENT AUDITOR'S REPORT
to the members of nib holdings limited
for the year ended 30 June 2018

Independent auditor's report

To the members of nib holdings limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of nib holdings limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

a. giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended

b. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2018
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated income statement for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

PricewaterhouseCoopers, ABN 52 780 433 757
Level 3, 45 Watt Street, PO Box 798, NEWCASTLE NSW 2300
T: +61 2 4925 1100, F: +61 2 4925 1199, www.pwc.com.au

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Materiality

- For the purpose of our audit we used overall Group materiality of $9.6 million, which represents approximately 5% of the Group's profit before tax.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.
- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit Scope

- The nib holdings limited group provides health and medical insurance to Australian and New Zealand residents, medical insurance to international inbound workers and students, as well as distributing travel insurance products both in Australia and internationally.
- Our audit focused on where the consolidated entity made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- We decided the nature, timing and extent of work that needed to be performed by us and component auditors from other PwC network firms or other networks operating under our instruction. We then structured our audit approach as follows:
    - We audited the financial information of the nib holdings limited group and focussed on entities within the group that have financial significance
    - We performed specified risk focused audit procedures over revenue, debtors, intangible assets, tax and business combination accounting, focussing on entities recently acquired by the group
    - Work was performed by component auditors in New Zealand. For these procedures, we decided on the level of involvement required from us to be able to conclude whether sufficient appropriate audit evidence had been obtained. Our involvement included discussions and written instructions and reporting throughout the year with the component auditors,
    - We performed further audit procedures at a Group level, including over the consolidation of the Group's reporting units and the preparation of the financial report.
- PwC specialists in taxation, information technology, actuarial and valuations assisted the audit.
- Our audit also focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.

INDEPENDENT AUDITOR'S REPORT continued

to the members of nib holdings limited

for the year ended 30 June 2018

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit Committee.

Key audit matter	*How our audit addressed the key audit matter*
Amortisation and recoverability of Australian residents health insurance (arhi) Deferred Acquisition Costs (DAC) $83.7m (2017 $77.3m) *(Refer to note 12)* The Group recognises an asset (DAC) for the upfront commission paid to retail brokers on signing new members. The Group considers the duration of a health insurance contract to be an open ended agreement as the Group insure their customers under continuing policies. The DAC is required to be amortised over the expected customer contract life, which the Group, at 30 June 2018, measures at 5 years, being the typical tenure period for an arhi customer policy. The Group also is required to assess whether the DAC is recoverable. This is determined by assessing whether the arhi unearned premiums, net of associated DAC, are adequate to cover future claims on those related policies. This is a key audit matter as • judgement is made over the expected customer contract life of an arhi customer remaining with the Group • there is judgement and estimation made in relation to future claims costs which affect the required calculation over recoverability of the DAC asset. This calculation of the expected customer contract life is inherently difficult to estimate as, although it is based on the most up to date information of arhi customer lapse experienced by the Group, it is susceptible to change as more data becomes available.	We tested the accuracy of acquisition costs capitalised by vouching a sample of acquisition costs to supporting documentation. Our actuarial team re-performed the Group's calculation for the average expected arhi policyholder contract life. This was based on historical customer lapse periods. We agreed that the policyholder contract life of 5 years was applied to the DAC in order to calculate amortisation expense for the year. We performed testing over the accuracy of the amortisation calculations. We also checked the accuracy and reasonableness of the calculation for any potential loss making contracts and note that there is no deficiency recognised. By comparison to past claims experience, we tested the assumptions and inputs into the recoverability assessment including: • expected claims experience • risk margins • claims handling costs • policy administration expenses and • the period over which the test was conducted.

Key audit matter	*How our audit addressed the key audit matter*
Impairment testing of World Nomads Group goodwill $67.7m (2017 $67.7m) and indefinite lived intangibles $21.8m (2017 $21.8m) *(Refer to note 14)* nib holds within its intangibles balance, goodwill and brand names in relation to its acquisitions, including the acquisition of the World Nomads Group in July 2015. We focused our work in particular on the World Nomads Group goodwill and brand names, given they comprised 28% (2017:41%) of the Group's intangible assets. In preparing the value in use model used to assess the value of this intangible asset, the Group makes a number of key assumptions that are judgemental. These assumptions are discussed in detail in note 14 which indicates that the value in use model remains sensitive to a range of assumptions, in particular to the revenue growth rates of the business.	We performed the following procedures, amongst others: • Assessed whether the division of the Group into Cash Generating Units (CGUs), was consistent with our knowledge of the Group's operations and internal Group reporting • Agreed that forecast cashflows used in the impairment model were consistent with the most up-to-date budgets and business plans formally approved by the Board • Considered whether the cashflows for the forecast period (three years and then terminal) were reasonable and based on supportable assumptions, by comparing them to actual cashflows for previous years and industry data and future developments • Performed sensitivity analysis on the assumptions. We determined that the calculations were more sensitive to assumptions for gross written premium growth and related costs, and focused our testing on these assumptions. • Considered whether the discount rate appropriately reflected the risks of the CGUs by comparing the discount rate to external market data. We also tested the sensitivity of the impairment test by increasing the discount rate.

INDEPENDENT AUDITOR'S REPORT continued

to the members of nib holdings limited

for the year ended 30 June 2018

Key audit matter	*How our audit addressed the key audit matter*
Estimation of outstanding claims liability $152.2m (2017 $120.2) *(Refer to note 17)* We focused on this balance because of the size of the liability and the complexity and judgements involved in the estimation process. The liability is an estimate of expected payments to customers for unsettled insurance claims. This includes an estimate for known and reported claims as well as incurred but not yet reported claims. Determining a central estimate involves significant judgement and is based on a number of factors including historical claims rates, timeliness of reporting of claims and evidence around any changes in the cost of claims. The Group use July 2018 claims payment data to assist in determining the liability at 30 June 2018. The estimation of outstanding claims relied on the quality of the underlying data. It involved complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts to the estimate.	Our audit procedures included, amongst others, evaluating the design effectiveness and implementation of key controls over claims payments, including key data reconciliations and the Group's review of the estimates. We were assisted by our actuarial experts to understand and evaluate the Group's actuarial practices and the provisions established. Our audit procedures included: • Evaluating whether the Group's actuarial methodologies were consistent with accepted industry practice. We noted the actuarial methods used to calculate the central estimate were consistent with accepted industry practice • Assessing changes made this year in the selection of the actuarial method • Assessed the appropriateness of key actuarial assumptions. We challenged these assumptions by comparing them with our expectations based on the Group's historical experience, current trends and our own industry knowledge • Assessing the Probability of Adequacy (PoA) of the liability and the adopted risk margin. We reconciled this data for accuracy and reviewed the assumptions made for reasonableness.
Litigation and regulatory action, including related disclosures *(Refer to note 29)* We focused on this area because the Group operates in a highly regulated industry and is therefore subject to legal, regulatory and competition matters. In assessing and measuring potential liabilities of the Group, the Group are required to make judgements based on available information of the probability and estimation of potential financial outcomes, which may be dependent on legal and regulatory processes. These judgements are subject to inherent uncertainty. In particular, the Group have had to consider the impact of the Australian Competition and Consumer Commission (ACCC) matter as disclosed in note 29 of the financial statements.	Our procedures included, amongst others, confirming our understanding of the Group's processes for identifying and assessing the impact of legal, regulatory and competition matters. We discussed legal and regulatory matters with Group Executive Legal and Chief Risk Officer and external legal counsel and sought and obtained access to relevant documents in order to develop our understanding of these matters. For outstanding legal and regulatory matters, we considered the Group's judgement as to whether there is potential material financial exposure for the Group. We assessed the adequacy of the related disclosures in note 29 in light of the requirements of Australian Accounting Standards.

Key audit matter	*How our audit addressed the key audit matter*

Business combination
The Group acquired Grand United Corporate Health Limited (Grand United) for total consideration of $155.7m, as described in note 32 of the financial report.
The accounting for the acquisition was a key audit matter because it was a significant transaction for the year given the financial and operational impacts on the Group.
In addition, the Group made complex judgements when accounting for the acquisition, including identifying all assets and liabilities of the newly acquired business and estimating the fair value of each asset and liability for initial recognition by the Group. This included the fair value of intangible assets including customer contracts, distribution relationships and brand. The Group was assisted by an external valuation expert in this process.
The accounting for the acquisitions is final at the time of authorisation of the financial report.
	Assisted by PwC valuation experts in aspects of our work, our procedures included the following, amongst others:
	• evaluating the Group's accounting against the requirements of Australian Accounting Standards, key transaction agreements and our understanding of the business acquired and the Private Health Insurance industry.
	• assessing the fair values of the acquired assets and liabilities recognised, including
	    • considering key assumptions used in the models (the models) that estimated fair value in light of historical performance and Private Health Insurance industry trends and forecasts
	    • considering the discount rate assumptions used in the models in light of other market participants' average cost of capital taking into account a country risk premium
	    • subjecting the key assumptions in the models to sensitivity analysis
	    • considering the valuation methodology in the models in light of the requirements of Australian Accounting Standards
	    • assessing the competence and capability of management's expert
	• assessing if transaction costs were recognised as an expense in the period they were incurred
	• considering the adequacy of the business combination disclosures in light of the requirements of Australian Accounting Standards

INDEPENDENT AUDITOR'S REPORT continued

to the members of nib holdings limited

for the year ended 30 June 2018

Other information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, including the Operating and Financial Review, Directors' Report, Corporate Governance Statement, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors 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 *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 24 to 43 of the directors' report for the year ended 30 June 2018.

In our opinion, the remuneration report of nib holdings limited for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of nib holdings limited for the year ended 30 June 2018 included on nib holdings limited's web site. The directors of the Company are responsible for the integrity of nib holdings limited's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

C. Mara

Caroline Mara — Newcastle

Partner — 17 August 2018

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 31 August 2018.

A. DISTRIBUTION OF EQUITY SECURITIES

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

	Class of equity security
1 – 1,000	60,473
1,001 – 5,000	72,059
5,001 – 10,000	9,848
10,001 – 100,000	845
100,001 and over	61
	143,286

There were 272 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 %
HSBC Custody Nominees (Australia) Limited	57,132,357	12.56
J P Morgan Nominees Australia Limited	39,870,673	8.77
Citicorp Nominees Pty Limited	27,110,083	5.96
National Nominees Limited	11,879,581	2.61
BNP Paribas Noms Pty Ltd	11,711,735	2.57
BNP Paribas Nominees Pty Ltd	6,300,966	1.39
HSBC Custody Nominees (Australia) Limited-Gsco Eca	2,033,888	0.45
Citicorp Nominees Pty Limited	1,876,397	0.41
AMP Life Limited	1,608,520	0.35
Mr Mark Anthony Fitzgibbon	1,393,348	0.31
HSBC Custody Nominees (Australia) Limited	823,609	0.18
CPU Share Plans Pty Ltd	821,796	0.18
Mrs Michelle Mcpherson	754,702	0.17
Warbont Nominees Pty Ltd	711,118	0.16
HSBC Custody Nominees (Australia) Limited	690,170	0.15
Fitzy (NSW) Pty Ltd	660,621	0.15
IOOF Investment Management Limited	634,099	0.14
Jemon Pty Ltd	550,000	0.12
BNP Paribas Nominees Pty Ltd	541,119	0.12
Mr Jinyue Zhang + Mrs Ting Wu	456,165	0.10
	167,560,947	**36.85**

Unquoted equity securities

	Number on issue	Number of holders
Performance rights issued under the nib holdings Long-term Incentive Plan	2,381,654	11

C. SUBSTANTIAL HOLDERS

There were no substantial holders.

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

Jacqueline Chow

Philip Gardner

Anne Loveridge

Christine McLoughlin

Donal O'Dwyer

COMPANY SECRETARIES

Roslyn Toms

Jordan French

EXECUTIVE MANAGEMENT

Managing Director/Chief Executive Officer
Mark Fitzgibbon

Deputy Chief Executive Officer and Chief Financial Officer
Michelle McPherson

Group Executive Australian Residents Health Insurance
Rhod McKensey

Group Executive International and New Business
David Kan

Group Executive – nib New Zealand
Rob Hennin

Group Executive – Legal and Chief Risk Officer
Roslyn Toms

Chief Information Officer
Brendan Mills

Group Executive – Benefits and Provider Contracting
Justin Vaughan

Group Executive – People and Culture
Wendy Lenton

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of nib holdings limited will be held on Wednesday, 31 October 2018 at 11am (AEDT) at The Westin, 1 Martin Place Sydney NSW 2000.

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.

PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

22 Honeysuckle Drive
Newcastle NSW 2300
13 14 63

AUDITOR

PricewaterhouseCoopers
PricewaterhouseCoopers Centre
Level 3, 45 Watt Street
Newcastle NSW 2300

LEGAL ADVISERS

King & Wood Mallesons
Level 61, Governor Philip Tower
1 Farrer Place
Sydney NSW 2000

BANKERS

National Australia Bank Limited
1 Old Castle Hill Road
Castle Hill NSW 2154

WEBSITE

nib.com.au

nib.com.au