NIB annual report 2007

nib
Health Funds

It's been a big year for **nib**

nib
Health Funds

NIB HEALTH FUNDS LIMITED
ABN 83 000 124 381

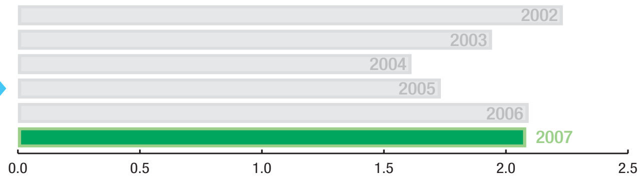
CONTENTS

...but it's been worth it!

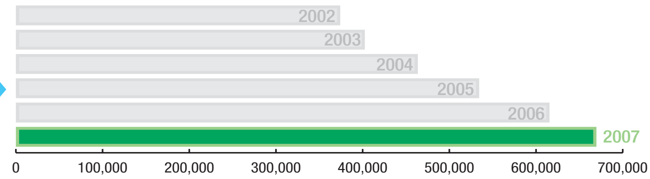
NIB'S MISSION IS TO SHAPE THE FUTURE OF PRIVATE HEALTHCARE FUNDING IN A WAY THAT INCREASES PARTICIPATION, ENHANCES HEALTH OUTCOMES AND CREATES ENTERPRISE VALUE.

HIGHLIGHTS

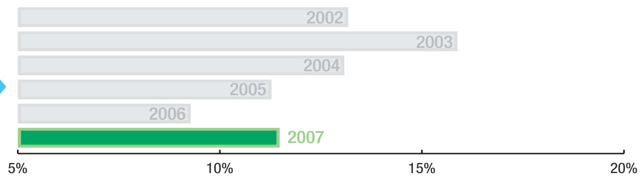
Solvency ratio
STABLE



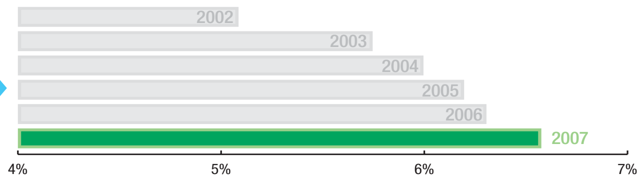
Premium revenue
UP 8.8% TO $666M



Management expense ratio
(% contribution income)



Market share (%)
UP FROM 6.3% TO 6.6%

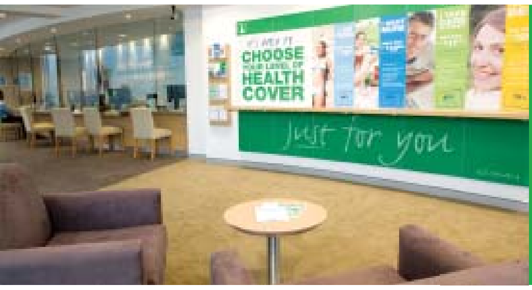


JUNE 06

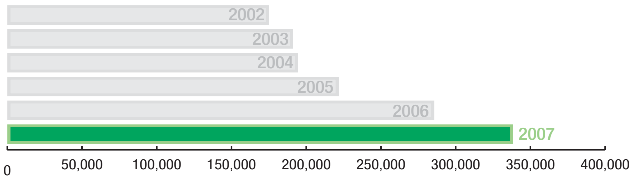
NIB launches a new product portfolio. The new range of products further enhances NIB's strategic position as a provider of affordable health cover.

JANUARY 07

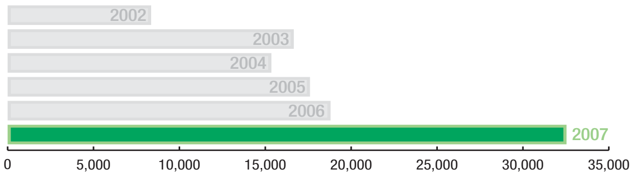
NIB launches a major marketing and brand awareness campaign targeting national policyholder growth in key target demographics.



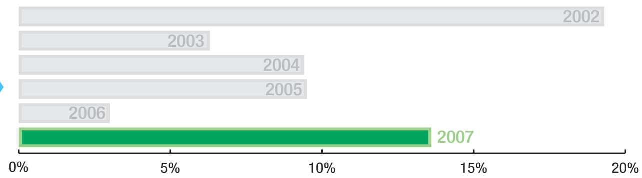
Net assets
UP 19% TO $336M



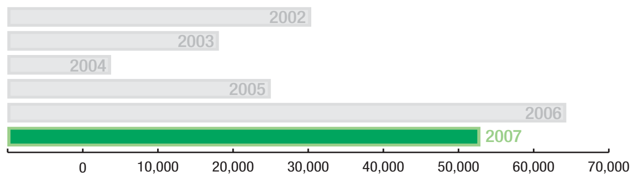
Investment income
UP 74% TO $32M



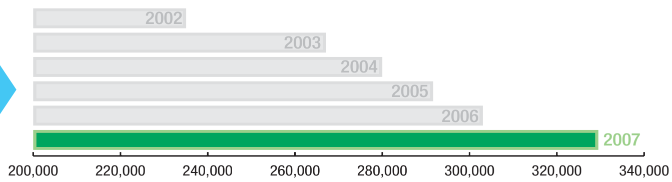
Claims inflation
(% growth in benefits per person)



Consolidated profit ($'000)
DOWN 18% TO $52M



Policies
UP 8.8% TO 328,784



FEBRUARY 07

NIB Board votes in favour of NIB to demutualise and list on the Australian Securities Exchange (ASX). NIB is Australia's first private health insurer to pursue demutualisation and ASX listing.

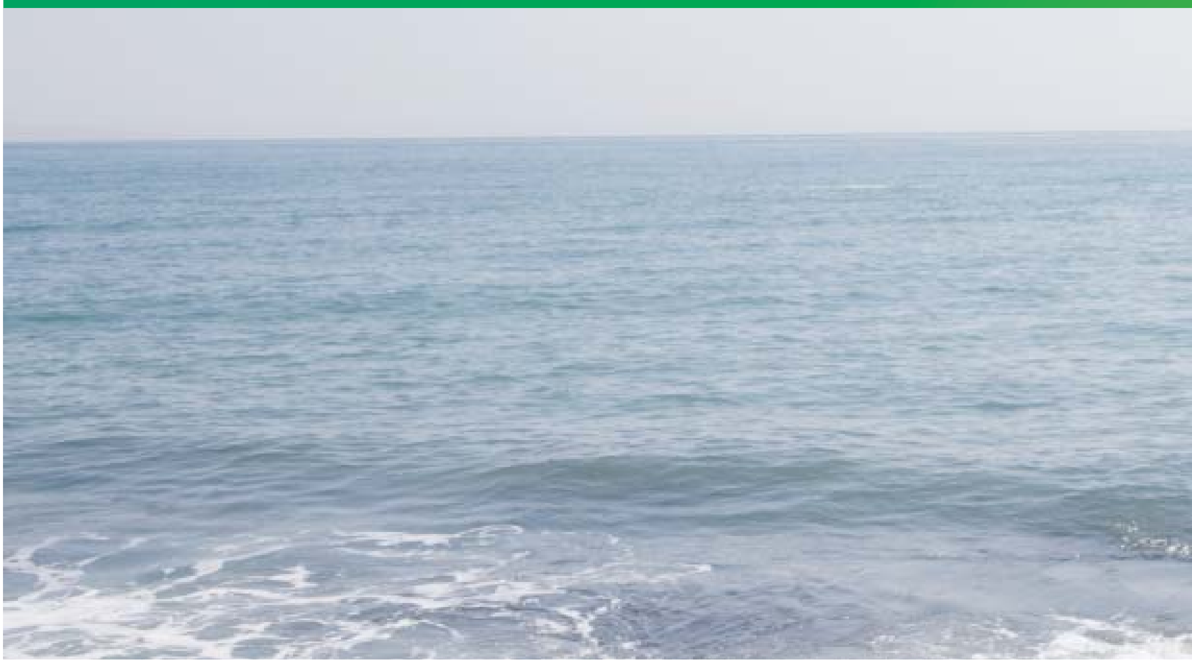
APRIL 07

The Federal Government introduces Broader Health Cover to enable health funds to increase their offering to include medical treatments that are considered 'beyond the hospital gate'.

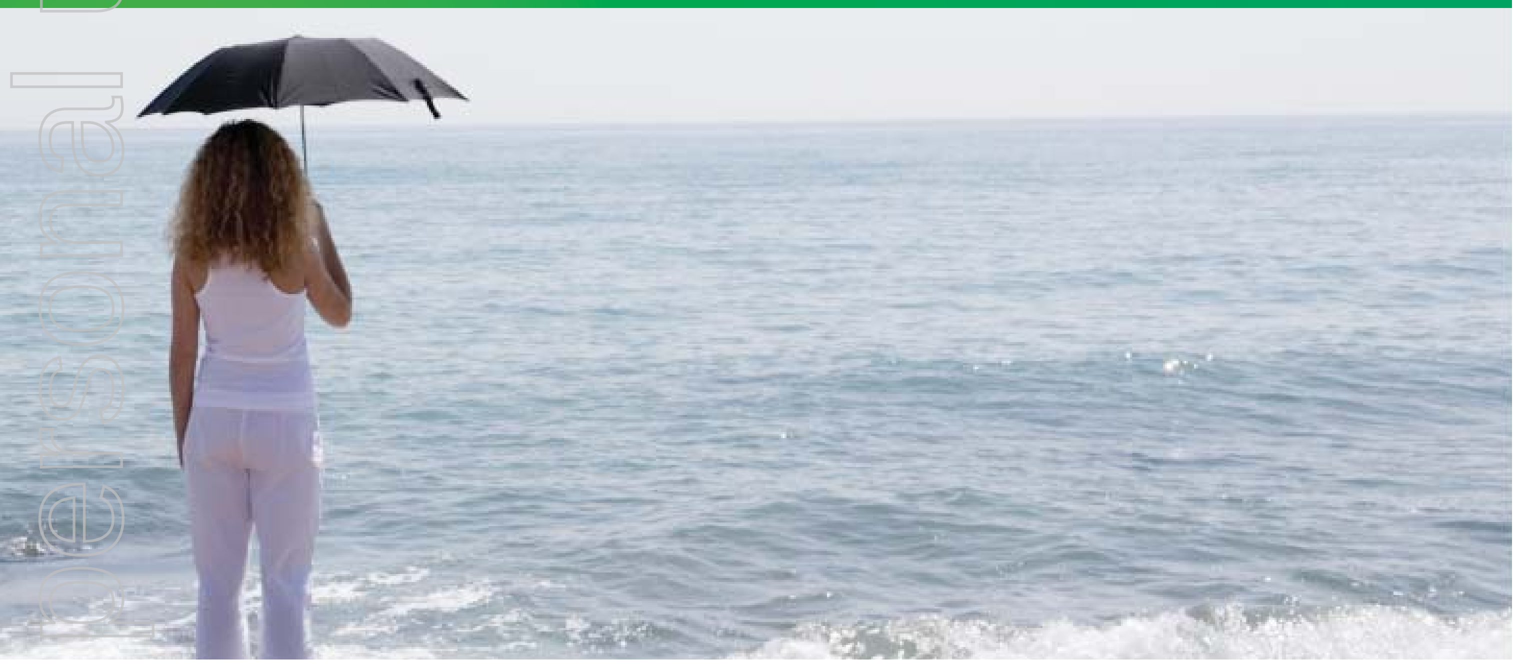
JUNE 07

Construction begins on NIB's new national head office building at Honeysuckle. The new state-of-the-art building will feature efficient operational workspaces that will meet the ongoing needs of a growing national organisation.

the industry



AS AUSTRALIA'S POPULATION CONTINUES TO GROW, SO DOES THE RELIANCE ON HEALTH SERVICES. THIS HAS PLACED ADDED PRESSURE ON THE FEDERAL GOVERNMENT TO INCREASE SPENDING WITHIN THE HEALTH SECTOR.



In response the Government introduced legislation to support the private health industry and to encourage more of the Australian population to join a health fund. Broader Health Cover was introduced on 1 April 2007 to enable health funds to increase their scope of cover to include medical treatments that can be conducted ‘beyond the hospital gate’.

This allows health funds to generate greater value in their product offering and reduce the burden on both the public and private hospital systems.

The legislation changes were supported by a national advertising campaign highlighting the benefits of private health insurance.

CHAIRMAN'S REPORT

The past 12 months have seen tremendous change for NIB and the health insurance industry we operate in. The Federal Government's announcement in 2006 of its intention to privatise Australia's largest health fund, Medibank Private, set a platform for a new era in the Australian private health insurance industry.

Currently there are 38 funds operating in a relatively fragmented industry. However, the top six funds collectively hold a combined market share of approximately 77%.

NIB is the sixth largest health insurer in Australia, yet has only 6.6% market share, making it vulnerable to more aggressive competition which is certain to flow from the proposed privatisation and rationalisation across the industry.

Fundamental to NIB's future success is the ability to generate significant and sustained growth, particularly among people aged 20 to 39 years. Growth is positive for both NIB and its policyholders. Growth will improve the fund's risk profile, spread fixed business costs over more policies and enable the fund to accrue additional resources to invest in new and improved services.

In the pursuit of our growth strategy we continue to significantly invest in product and service innovation. We have also been executing brand building and marketing campaigns, particularly in New South Wales, Victoria and Queensland.

While this strategy has been successful in delivering organic growth, our mutual structure had reached the point where it was limiting the potential to build an even greater national business and brand. To meet our strategic growth goals we needed a corporate and capital structure that provided the ability to raise funds from investors, efficiently distribute our profits and better manage our capital.

This was the basis for the Board's extensive examination of a number of options that would enable NIB to meet its growth aspirations. The principal focus was to maximise value for policyholders, while ensuring protection of their interests.

Keith Lynch
Chairman

At the core of our growth strategy was a new product portfolio, launched in June 2006. This new range of products was designed to maintain and further build our strategic position as a provider of affordable health cover.

As a result, in February 2007, the Board voted and unanimously agreed to demutualise NIB and list on the Australian Securities Exchange (ASX) – the first Australian private health insurer to pursue this path. This was viewed as the most appropriate strategy to support the company's ongoing sustainability and future growth.

The Board strongly believes this direction, and change in the fundamental corporate structure, will best position the company to meet its aspirations of becoming a truly national business that offers innovative products and services and greater value to policyholders. The proposal will provide the strategic flexibility required to achieve these goals.

The demutualisation will also allow our eligible policyholders to realise their share of the value which is currently embedded in the business and which will continue to accumulate over time. These policyholders will receive NIB shares or cash (if they choose to take advantage of the sale facility) when the company lists on the ASX, which is expected to take place in early November 2007.

Equally important for policyholders is that these changes will not have a direct impact on future premiums or policy entitlements. Competition and efficiency will be the greatest determinates of these factors, not company structure. We will continue to be extremely price conscious to enable us to achieve our overall growth goals.

While our path through to demutualisation and now on to listing on the ASX will result in a number of changes for the health fund, we have an established corporate governance framework that will assist in the successful transition to a publicly listed company.

Another significant change following the decision to demutualise is that NIB will become a company limited by shares rather than a company limited by guarantee. In doing so, the former Company Member classification will no longer exist. It is appropriate for me to use this opportunity to thank our former Company Members for their contribution to the success of NIB over many years. Collectively they have shared the Board's vision and have actively participated in its realisation.

The significance of the role that NIB's Board has played during financial year 2007 cannot be understated. I thank the Directors for their dedication, counsel and unwavering support as we move to undertake the most significant change in NIB's history.

I would like to thank our Chief Executive Officer, Mark Fitzgibbon, and the NIB Executive team for our continued success over the past 12 months and the role they have played in driving the business towards this new and challenging phase.

Finally, my thanks must go to all NIB employees who continue to deliver outstanding service to our customers right across Australia.

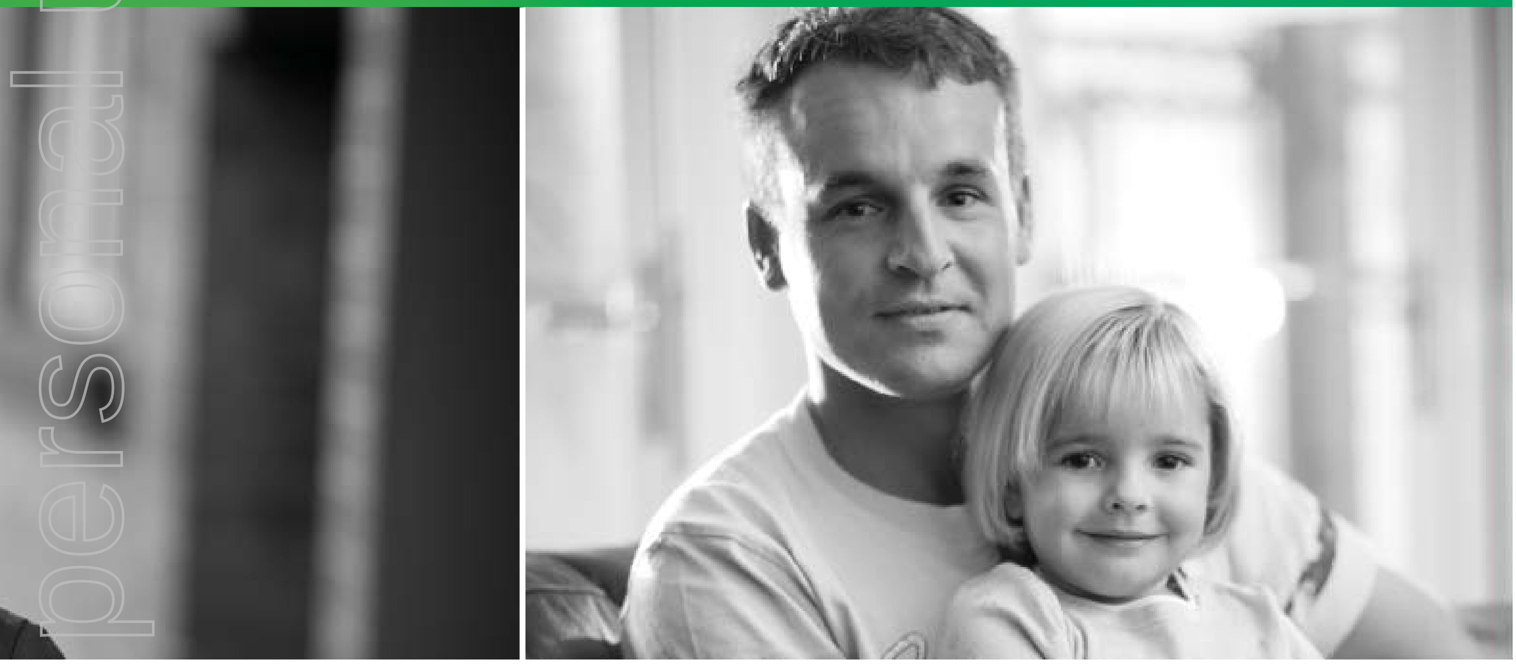
Keith Lynch
Chairman

THE BOARD VOTED AND UNANIMOUSLY AGREED TO DEMUTUALISE NIB AND LIST ON THE ASX – THE FIRST AUSTRALIAN PRIVATE HEALTH INSURER TO PURSUE THIS PATH

For personal use only

the fund

NIB'S DEMUTUALISATION AND LISTING ON THE AUSTRALIAN SECURITIES EXCHANGE IS SET TO DELIVER SIGNIFICANT CHANGES AND BENEFITS FOR THE HEALTH FUND AS IT AIMS TO MEET ITS ASPIRATIONS OF BECOMING A TRULY NATIONAL BUSINESS.



This fundamental change to NIB's corporate structure will also allow NIB's approximately 320,000 policyholders to realise their share of the value which is currently embedded in the business and which will continue to grow over time.

Eligible Policyholders will each receive between 100 and 6,000 shares in NIB Holdings. Shares will be allocated to all eligible policyholders based on the type of policy they hold and how long they have been with the health fund.

CEO'S REPORT

As the Chairman has outlined in his report, NIB will soon be demutualised and is now on a path to listing on the Australian Securities Exchange (ASX) in early November 2007. I also make this observation because so much effort during financial year 2007 was devoted to preparing our business for this historic transformation. We invested enormously in examining strategic options, business valuation, completing a scheme of arrangement, policyholder and Company Member engagement and necessary regulatory approvals.

Our experience and performance served to underscore the very reason for our demutualisation and upcoming listing. During the year it became increasingly evident that NIB has attributes and the potential to play a much larger role in the market but that a more contemporary capital funding and ownership model was necessary. Most notably, over the past 12 months we have demonstrated:

- the latent potential in the market for more affordable, appealing and creative products. Having launched a completely new product portfolio in June 2006 we sold 49,757 new policies during financial year 2007, with 74.4% of these policyholders new to private health insurance. Overall, our growth rate was 8.8% – more than double industry growth.
- the power and efficacy of market segmentation and focus. In keeping with our deliberate skew towards people aged 20 to 39 years, 76.5% of new policies sold came from within this underdeveloped market segment.
- the giant strides we have made towards building a truly national brand. Sales outside our traditional geographic base of NSW accounted for 32.2% of total sales and with a significant proportion of new sales made online our distribution already has national reach. Our sponsorship of the Geelong Football Club and the NIB Lorne Pier to Pub ocean swim in Victoria have proved to be very powerful brand building initiatives.
- the inherent difficulties associated with encouraging sensible industry consolidation with a mutual structure.

Mark Fitzgibbon
Chief Executive Officer

NIB policyholders have received information about the demutualisation and ASX Listing via direct mailouts, the NIB website and the media.

Growth remains the pre-eminent goal of our business strategy. More than any other initiative it will keep premiums down, stimulate product innovation, enhance customer service and drive enterprise value. Our impending ASX listing should assist our growth ambitions by providing us with the ability to raise shareholder capital and create a ‘ready made’ shareholder platform for other like minded health funds to convert their own businesses.

And importantly, for our policyholders, it unlocks the enormous value they effectively own in the business.

Our end of year financial results were heavily affected by our escalating investment in growth and creation of a national brand. While we made a consolidated profit of $52.5 million, the net underwriting margin for the Health Fund was just 3.1% compared to 9.0% the previous year. The difference reflecting:

- additional benefit expenses arising out of our new loyalty rewards program for customers, which enables them to claim more ancillary benefits;
- additional costs associated with brand building and marketing given our aggressive national organic growth strategy; and
- an extraordinary result in financial year 2006 following our unfounded fears in pricing year 2005 about claims inflation.

Going forward, we expect a more certain underwriting environment and we are working towards a commercial model in which each year we achieve an ongoing target gross margin with earnings growth a function of increased volume, product value ‘buy-up’ and lower unit running costs.

The success during 2007 of our new product portfolio demonstrates just how important innovation is to our future and our capacity to challenge current industry mindsets and practice. Innovation at both a product and business model level will remain a feature of our business.

I would like to thank and commend everyone at NIB for their efforts and contribution in what was a year of tremendous change and progress.

My thanks also to our Chairman, Keith Lynch, and the Board of Directors for their vision and leadership. I have no doubt that financial year 2007 will be viewed in years to come as the most important milestone year in the company’s history and evolution.

Mark Fitzgibbon
Chief Executive Officer

OUR IMPENDING ASX LISTING SHOULD ASSIST OUR GROWTH AMBITIONS BY PROVIDING US WITH THE ABILITY TO RAISE SHAREHOLDER CAPITAL AND CREATE A ‘READY MADE’ SHAREHOLDER PLATFORM FOR OTHER LIKE MINDED HEALTH FUNDS TO CONVERT THEIR OWN BUSINESSES.

the policyholders

NIB IS ONE OF THE FASTEST GROWING HEALTH FUNDS IN AUSTRALIA.

FOR FINANCIAL YEAR 2007 NIB'S POLICYHOLDER BASE INCREASED BY 8.8%. THIS RESULT WAS LARGELY DUE TO THE SUCCESS OF NIB'S NEW AND INNOVATIVE PRODUCT PORTFOLIO AND THE ROLL OUT OF A NATIONAL BRAND AWARENESS CAMPAIGN.

NIB continues to enjoy strong growth within its traditional market of New South Wales, however greater awareness of the health fund, coupled with its competitive product offering, has seen outstanding growth in the Queensland and Victorian markets.

In the six months to 30 June 2007, NIB was one of the fastest growing health funds in Victoria with a 12.1% increase in policyholders, while an increase of 15.8% was experienced in Queensland.

REVIEW OF OPERATIONS

CUSTOMER GROWTH

Products driving customer acquisition

Growing the customer base is fundamental to our future success. In financial year 2007, we made significant progress in driving growth across our traditional and non-traditional markets.

At the core of our growth strategy was a new product portfolio, launched in June 2006. This new range of products was designed to maintain and further build our strategic position as a provider of affordable health cover. In addition, the products were presented as simple to understand, easy to claim on and meeting the needs of consumers according to their life stage.

These products were also positioned in the market to target two key potential growth areas – the 56% of Australians who do not have private health insurance and those aged between 20 and 39 years.

Enhancements to the new product portfolio were implemented on 1 April 2007. These changes focused on the provision of additional ancillary benefits to enhance our customer value proposition and included:

- removing the limit on the number of prescription glasses or contact lenses customers can claim each year;
- expanding the range of Natural Therapies to include Bowen Therapy and Shiatsu massage; and
- improving physiotherapy services to include a benefit for Exercise Physiology.

Our product-driven growth strategy has been highly successful in driving overall policyholder growth, which increased by 8.8% during financial year 2007 against an industry growth rate of 4.2%. Of particular significance, with regard to these results, is the level of growth in our key target markets.

We saw strong growth in the 20 to 39 year age bracket, with 76.5% of all new policyholders falling into this key demographic. In addition, 74.4% of our new policyholders did not have private health insurance, which is important in growing the base across the entire industry.

Corporate products

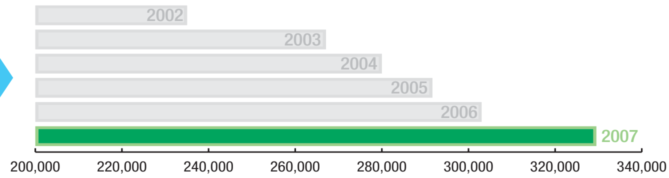
An extensive review of corporate products was completed during the first half of financial year 2007. This resulted in a change in the corporate offering to make it consistent with the fund's retail product portfolio and included the introduction of a new product in response to demand from the corporate sector.

The new *Premier Plus* corporate product strongly positions NIB in this very competitive market while also allowing the fund to improve product penetration with existing clients.

Over the past financial year NIB achieved a policyholder growth rate of 8.8% - more than double the industry average.

Policies

UP 8.8% TO 328,784



In addition, we are working with larger corporate clients to develop more efficient joining processes and customer support mechanisms through interfaces with corporate intranet systems.

Additional work is being undertaken to develop and expand NIB's corporate products to include wellness and lifestyle programs that drive even greater value for customers and employers.

Growing NIB nationally

Our move into the national market started in 1993, with the opening of retail centres in Queensland, Victoria and South Australia. However, limited public awareness of the NIB brand in comparison to the established private health insurance providers in these states resulted in minimal growth.

The strong performance of our new product portfolio launched in June 2006 provided the platform for us to execute strategies aimed at meeting long held ambitions to successfully compete at a national level.

A new advertising agency was appointed in November 2006 to develop a highly visible, integrated marketing campaign that would be rolled out on a scale not experienced previously by the fund. The agency's brief was to effectively communicate product messages and build brand awareness to assist our pursuit of growth in the youth segment and outside of NSW.

Launched on 1 January 2007, the campaign messages focus on a combination of brand, price and value in order to reach the many consumers who still consider private health insurance a 'grudge' purchase. This strategy has been successful in providing NIB with distinct category differentiation among its highly competitive and price sensitive target markets.

The television campaign featured NIB's long-standing brand ambassador – rugby league icon and television personality Paul Harragon. While Paul's recognition and popularity is high in the rugby league heartlands of New South Wales and Queensland, his personal presence has also been extremely effective in other states.

Independent research conducted in Victoria showed that he possessed the necessary attributes – sincere, fit and healthy – to front a health fund campaign specifically targeting 20 to 39 year olds.

Beyond the strong focus on advertising in traditional media such as television and radio, we have also invested heavily in online and outdoor marketing. The increasing emergence of the internet as a primary means of obtaining health insurance information, and the interest in online transactions for our target 20 to 39 age demographic, encouraged us to develop and execute a range of online strategies.

Display and banner advertising placed through a number of national and state-based websites drove significant new customer enquiries to the NIB website. Search engine marketing through Google, Yahoo and Ninemsn also played a key role in promoting the fund to people conducting online research on private health insurance.

During financial year 2007 we undertook a review of our brand awareness to support the fund's national growth strategy. It was identified that the brand did not yield the levels of recognition needed to obtain acquisition targets in areas of growth. As a result, we implemented a number of strategies based purely on increasing brand awareness.

We secured stadium signage at Brisbane's Suncorp Stadium and Melbourne's Telstra Dome for the respective National Rugby League and Australian Football League seasons. The stadium signage promotes the NIB brand among the thousands of spectators that attend matches at the venues and the millions who watch match broadcasts from these venues on free-to-air and pay television.

Securing and leveraging high profile sponsorships in Victoria and Queensland has also provided us with the opportunity to generate significant brand awareness at a state and national level.

In February 2007, we announced a three-year major sponsorship agreement with AFL team, the Geelong Football Club. The sponsorship was tailored to maximise exposure of the NIB brand and includes NIB logo placement on the playing shorts, match ball and stadium signage.

We continued our support of the NIB Lorne Pier to Pub event in 2007. Held on the Victorian holiday coast during January, the world's largest open water swim attracts around 5,000 competitors and more than 25,000 spectators. The sponsorship provides NIB with brand awareness through naming rights, signage, promotional activity as well as media and public relations activities.

In June 2007, we announced a three-year major sponsorship of the NIB Coolangatta Gold, Australia's ultimate Ironman and Ironwoman endurance race. Conducted by Surf Life Saving Australia, the event will take place on Queensland's Gold Coast and surrounding beaches on 14 October 2007.

Like the Victorian sponsorships, the NIB Coolangatta Gold will play a similar role in building brand awareness and customer growth in Queensland.

We also sponsor a number of other organisations and activities that contribute to our overall brand awareness strategy. These include the National Rugby League team, Newcastle Knights; National Netball League team, Hunter Jaegers; and Sydney-based corporate sport competition, NIB Lunchtime Legends.

REVIEW OF OPERATIONS (continued)

This strategy to build brand awareness has assisted to achieve the solid growth we have experienced across all states, in particular Victoria and Queensland. In the six months to 30 June 2007, we achieved a 12.1% increase in policyholders in Victoria – compared with an industry average for the state of 2.3%. We were also the fastest growing fund in the 20 to 39 year demographic in Victoria growing by 20.4% during this period. There were similar growth trends across Queensland, with policyholders in the state increasing by 15.8% in the six months to 30 June 2007. In the 20 to 39 year demographic we increased our policyholders by 23.7%.

Results in our traditional market of New South Wales remain strong, where, in the same period, we had the highest growth rates of all funds in terms of percentage and number of new policyholders.

Our strong growth has been achieved in a market that is faced with increased regulation imposed by the Federal Government. New legislation introduced on 1 April 2007 makes it more difficult for health funds to differentiate themselves through unique offers due to tight restrictions placed on rebates, incentives and promotional offers.

Customer retention

During the past year we have implemented a range of initiatives that form the basis of the fund's retention strategy. The introduction of the NIB Loyalty Bonus in June 2006, combined with a number of other retention initiatives, saw the overall policyholder lapse rate reduce and customer satisfaction increase.

Loyalty Bonus replaced the Health Rewards Program, and has been an outstanding success in providing added value for existing and long term customers. It has allowed customers to claim additional benefits on ancillary items such as optical, dental, and orthodontic work.

NIB research has shown that customers want private health insurance that provides products and benefits that are matched to their current life stage. Understanding what products and benefits are best suited to customers is an integral part of our retention strategy.

Highlighting the importance we have placed on retention as part of our overall growth strategy, a specialist team was established during the financial year to deliver a range of key retention initiatives. This has delivered a 9.8% reduction in the number of cancellations compared to the previous year, despite significant growth in policyholders.

Our ability to manage and resolve customer issues and complaints is an ongoing priority for the health fund and is crucial to ensuring customer retention. We are committed to delivering a best practice complaints handling system that aims to ensure that customer issues are responded to quickly and in a transparent and accountable manner to provide an effective resolution for the customer.

Despite recent policyholder growth, the number of complaints recorded has remained static over the past year. This reflects continued improvement in service levels generally and the effectiveness of our processes in identifying and resolving issues before they are escalated to complaints.

We are committed to providing customers with clear and transparent information regarding product offerings. This commitment is vital in negating customer issues and complaints and has been underpinned in 2007 with the fund's adoption of the Australian Health Insurance Association (AHIA) Code of Conduct.

The Code was introduced to complement the existing regulations that funds work under and to enhance the relationship between consumers and health funds by adopting voluntary industry self-regulation.

GROWING VALUE FOR CUSTOMERS

Claims

NIB paid out $571.1 million in claims, reinsurances and state levies to policyholders during financial year 2007. This represents a 17.2% increase on the 2006 figure of $487.4 million.

The increase in claims can be largely attributed to our continued growth, the improved product benefits provided as part of NIB's new product portfolio, and the introduction of Loyalty Bonus in June 2006.

Total benefits paid for hospital claims increased 14.1% to $336.7 million, while there was a 27.4% increase to $169.4 million on Extras claims. The introduction of NIB's Loyalty Bonus was the major contributor to the increase in Extras claims. We paid out $18.6 million in Loyalty Bonus claims – more than double the amount that was paid out for Health Rewards in financial year 2006. This highlights the real value the new loyalty program is providing for NIB customers.

Over the past 12 months we have seen an increase in the use of electronic channels by customers making claims. This is attributable to the increased availability of these payment systems and customers' appreciation of their convenience.

A total of 67.3% of all Extras claims are now processed through the point-of-sale systems HICAPS and IBA as well as our online services. We have also increased the range of Extras that can be processed through these systems to include occupational therapy, dietetics, acupuncture, speech therapy and psychology.

We have developed and implemented a series of new systems that have improved policy administration and increased efficiencies across hospital and Extras claims processing.

Examples include the introduction of Electronic Data Interchange enabling customer information and claims data to be exchanged electronically with hospitals

and, the Eclipse system that allows the health fund to communicate electronically with health care providers and Medicare Australia.

These systems provide the foundation for greater automation of back-office claims processing and are scaleable to support the fund's growth aspirations.

Our Investigations Unit continues to play an important and proactive role in detecting and reducing the incidence of fraudulent claims by service providers and customers. During financial year 2007 the work of the Investigations Unit resulted in savings to the health fund of $2.2 million through the detection and management of fraudulent behaviour.

A number of new initiatives have also been introduced at NIB to further reduce fraudulent claiming. These include limiting point-of-service claiming to one service per customer for each ancillary benefit per day, tooth identification collection to prevent duplication of dental treatments and the implementation of phantom shopping to identify and gather evidence on fraudulent providers.

The launch of a Fraud Code of Conduct is also set to increase the detection of incidents across the industry by allowing health funds to share information regarding fraud experiences. This practice was previously prohibited under government legislation.

Contributions

During financial year 2007 we collected $666.0 million in contributions, up from $611.9 million the previous year – representing an 8.8% increase. This growth in contribution income was driven by the 8.8% net growth in policyholders combined with a 4.65% rate increase, partially off-set by the policyholder growth largely being in lower value products.

As with claims processing, we have seen a significant shift towards electronic methods for contribution payments. Currently 80.7% of contributions are paid electronically through BPAY®, Direct Debit and Payroll.

Provision of health service

During 2007 we completed the process of divesting our provider businesses with the sale of our Dental and Eye Care businesses and Newcastle Private Hospital.

Hunter-based company Pacific Smiles Group (PSG) now operates NIB Dental Centres in Sydney, Newcastle and Wollongong under a licensing agreement with the health fund, while its affiliate Pacific Optical, now operates NIB's four Eye Care Centres under a similar agreement.

These agreements will see the NIB Dental Care and Eye Care network continue to expand, allowing more policyholders the opportunity to access these facilities and the quality products and services they provide.

A new co-located Dental and Eye Care Centre incorporating an NIB Retail Centre is being developed in Melbourne and is due to open early in 2008. Planning is also underway to establish Centres in South-East Queensland as well as a second NIB Dental and Eye Care Centre in Sydney.

To provide customers with greater access to quality dental services we have also implemented a preferred provider relationship with Pacific Smiles Dental Care Centres in Newcastle, the Hunter, Lake Macquarie, Port Stephens and Mid North Coast regions.

Newcastle Private Hospital, the Hunter region's flagship 162-bed private hospital, has operated very successfully under our ownership and management since opening in 1994.

However, without access to the buying and leveraging power of the larger hospital groups, the operation was not profitable for the health fund. Accordingly, we decided to sell the hospital operation to Healthscope Limited, one of Australia's largest operators of private hospitals. After managing the hospital on our behalf for a 13 month period, the sale of the hospital business was finalised on 31 May 2007.

Provider Relations

Providing access to both affordable and quality health care is a core function of NIB.

Over the past year we have continued to streamline operations to ensure the process of credentialing health care providers is of the highest standard. While the vast majority of providers continue to deliver a quality service, we have a rigorous system in place that will recognise and deregister those providers that do not meet best practice or where fraudulent activity has been detected.

NIB PAID OUT $571.1 MILLION IN CLAIMS, REINSURANCES AND STATE LEVIES TO POLICYHOLDERS DURING FINANCIAL YEAR 2007

GROWING ACCESS FOR CUSTOMERS

nib.com.au

The past year has seen significant growth in the use of our website – nib.com.au – as a key sales and service channel for new and existing customers.

The most significant addition to the NIB website has been the Join Online capability. Launched in June 2006, the online system is fully automated, incorporating live policyholder enrolment and a new payment gateway that accepts credit card payments in real time.

The introduction of the new system has resulted in a 221% increase in the number of online policyholder sales received compared with the previous year.

Our online services continue to provide customers with comprehensive policy and health related information. Since its introduction in September 2005, more than 63,000 policyholders have registered to use the system.

A number of enhancements, designed to provide greater functionality and service for customers were made to online services during the past financial year. These include the expansion of the number of Extras services that can be claimed online, a live credit card gateway for contribution payments, as well as improvements to the site's overall look and navigation.

Our website also played an important role in the facilitation of our demutualisation process. A new site was launched in March 2007 following the announcement of NIB's intention to demutualise and list on the ASX. The site provided key information and support for eligible policyholders during the process.

In the lead-up to the Scheme Meeting in July 2007, where eligible policyholders and Company Members voted on the demutualisation process, the site was expanded to incorporate online voting and address verification capabilities. To the end of the financial year, the demutualisation site received close to 50,000 visits.

The overall look of the website was refreshed during the year, which was well received by visitors to the site. The Customer Satisfaction Survey showed that 86% of visitors to the site were satisfied with its visual appeal. This was an increase from 79% the previous year.

Health and Wellness information, an increased presence for our sponsorship activity and the role of NIB in the community have also been features added to the site during the year.

Customer Care Centre

While an increasing number of new and existing customers are using the Internet to contact the health fund, our Customer Care Centre continues to be an important service channel.

The Centre received 706,612 inbound calls during financial year 2007, averaging over 2,000 enquiries per business day. Outbound call activity also increased as the Centre delivered a range of contact campaigns that focused on both customer retention and acquisition.

We continue to work towards ensuring the service and information provided by Customer Care Centre employees is of the highest level. This is reflected in the annual Customer Satisfaction Survey. The survey areas that achieved the highest results were employee friendliness, where 98% of customers interviewed rated a score of 7 or higher out of 10, and the ability of employees to explain details, where 93% of customers interviewed rated a score of 7 or higher out of 10.

Retail Network

Our Retail Network continues to provide an essential, personalised service to new and existing customers across Australia.

NIB's 32 Retail Centres receive high levels of general enquiries and during the year delivered more than 20% of all new policy sales.

The services provided throughout the Retail Network also scored well in our Customer Satisfaction Survey. Employee friendliness and product knowledge achieved the best results with 94% of customers interviewed rating these as a score of 7 or higher out of 10.

Our Retail Centre refurbishment program continued during the year at the Charlestown, Parramatta and Shellharbour centres. The refurbishments incorporate a new open-plan layout and functional design that allows for more personal interaction with customers.

We remain committed to maintaining a strong retail presence with a focus on those areas where demand for these services is increasing.

We opened a co-located Retail and Dental Care Centre in Glendale (NSW) to better service the growing population in the north western Lake Macquarie area of the Hunter Region. The new centre provides customers with traditional Retail Centre services as well as the latest technologically-advanced dental facilities and services.

As a result of declining patronage the Belmont and Toronto Retail Centres were closed in October 2006.

Work started this year on a new head office building located at the Honeysuckle precinct overlooking Newcastle Harbour. It is anticipated that NIB will occupy the new building by the end of 2008.

GROWING OPPORTUNITIES FOR OUR EMPLOYEES

Our success in growing the business is a testament to the high quality service and dedication of our employees.

We are committed to investing in programs that enhance the professional skills and personal wellbeing of employees, as well as creating a working environment that encourages and enhances safety and productivity.

During financial year 2007 we invested more than $500,000 in learning and education programs aimed at providing employees with career pathways within the organisation, while also focussing on areas of personal development.

A Certificate III in Business Awareness was introduced for the first time as part of NIB's suite of employee training programs. The NSW TAFE-accredited program provides employees with the necessary business fundamentals required to perform in the frontline, operations or administration areas of NIB. Two employee groups have graduated from the program with more expected to undertake the course in 2008.

We have a philosophy of promoting wellbeing and encouraging the take up of healthy lifestyle options for our customers. In addition, we are actively engaged in assisting employees to make those same choices. In 2007, we continued to deliver initiatives promoting healthy lifestyle choices among employees. Along with improving individual health and wellbeing, these programs can also lead to positive outcomes for the organisation through increased productivity and workplace morale.

One of the initiatives was the introduction of a pilot program known as *Healthy Living @ NIB* that was rolled out to 91 employees. Conducted in partnership with an external provider, Good Health Solutions, the program offered participants a comprehensive and integrated program to better understand their current state of health and the support mechanisms to initiate positive lifestyle changes.

While work on the pilot program is ongoing, with vital feedback from employees being incorporated, initial participant response has been very positive. Once completed, we aim to use this model to develop similar programs to be integrated with corporate and retail products offered by the health fund.

One lifestyle factor proven to have detrimental effects on health and wellbeing is smoking. During 2007 we launched an innovative program to help employees quit the habit. The six-week program was offered free to employees who were given the option of using hypnotherapy, nicotine patches or gum to help quit smoking. From this initial program 10% of participants quit smoking while a further 50% significantly reduced their habit.

Recognising the highly addictive nature of cigarettes and the difficulties faced in trying to quit, we will continue to deliver the program and provide support for employees who are attempting to quit smoking.

Our annual employee flu vaccination program was again successful and well received. More than 200 employees received the free flu vaccination in 2007 – up from 186 the previous year.

Continued investment in Occupational Health and Safety (OH&S) programs over the past five years highlights the value we place on the wellbeing of our employees. This commitment has resulted in a significant improvement in the work environment and greater awareness of OH&S issues among employees.

A measure of the effectiveness of our OH&S program is the Lost Time Injury Frequency Rate[1], which for 2007 was 7.2 which equates to one lost time incident every two months. While this is a pleasing result, we aim to eliminate all lost time injuries. Work will continue in 2008 to meet this target by continuing to provide a safe work environment and promote safe work practices.

Work started this year on our new state-of-the-art head office building located at the Honeysuckle precinct overlooking Newcastle Harbour. The new building will feature efficient operational workspaces that will meet the ongoing needs of a growing national organisation. The new head office remains on track to be completed in the second half of the 2008 calendar year.

The fifth annual survey of employee satisfaction was conducted in January 2007 by the Hunter Valley Research Foundation on behalf of NIB. It sought to measure the level of employee satisfaction across 20 key business dimensions. The survey highlighted 15 dimensions that scored higher or maintained a current high result by comparison with 2006 benchmarks. Work Area Goals, Work Commitment, Customer Focus and Work Area Performance were the highest performing areas, while Workplace Flexibility saw the greatest improvement. We will focus resources on improving areas identified in the survey as having the greatest potential for improvement, including Mission and Values, Training and Job Security.

1. LTIFR = (incidents x 1,000,000)/hours worked

the community

THE HEALTH FUND SUPPORTED A RANGE OF COMMUNITY AND HEALTH-RELATED PROGRAMS,

EVENTS AND INITIATIVES THAT PROMOTE HEALTHIER LIFESTYLES FOR OUR CUSTOMERS, EMPLOYEES AND THE BROADER COMMUNITY.

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SUPPORTING OUR COMMUNITY

NIB provides support that aims to make a real difference to the communities it services.

Below are some of the initiatives supported by NIB.

HUNTER MEDICAL RESEARCH INSTITUTE

NIB is a foundation sponsor of Hunter Medical Research Institute (HMRI) and is currently sponsoring a Doctoral Research Scholarship that aims to provide long-term benefits to the health of stroke patients.

The research team at the University of Newcastle, in conjunction with John Hunter Hospital in Newcastle, has been investigating the links between high blood sugar levels in the first 48 hours after a stroke, and depression and disability at three months post-stroke.

It is hoped that the research findings will one day improve the quality of life for stroke victims throughout the world.

We have been a long-time supporter of research that aims to develop preventative measures, improved medical treatments and where possible, cures.

HUNTER ACADEMY OF SPORT

Long-term health problems such as diabetes and obesity can start in juvenile years. That is why we support programs that promote the health and wellbeing of young people.

One such program is the Hunter Academy of Sport and its flagship event, the NIB Festival of Sport.

The Hunter Academy of Sport now hosts 30 talent development programs in various sports across the region involving 550 elite young athletes and 200 coaches, coordinators and program managers.

The Academy's flagship event, NIB Festival of Sport, consists of a range of programs and activities aimed at encouraging young people to get active and participate in sport. In 2007 the Festival attracted more than 10,000 participants from across the region.

SALVATION ARMY

We contribute to the ongoing social service performed by the Salvation Army through its support of the Hunter Red Shield Appeal Business Luncheon.

In addition, we opted to make an annual donation to the Salvation Army in lieu of producing a printed Christmas Card.

REDKITE

NIB has continued its support of the Hunter Red Kite Corporate Quiz.

The event raises awareness and funds for the Redkite organisation, which supports children, young people and their families through cancer treatment by providing emotional guidance, financial relief and educational services. We were a round sponsor and participant at the 2007 Quiz. The NIB corporate team took out the Quiz and was crowned the 'Hunter's smartest company'.

REGIONAL RELIEF FUND

In June 2007 storms and flooding affected many Hunter and Central Coast families and businesses.

We assisted in raising much needed funds for regional charities and community service organisations through support of the Regional Relief Fund Dinner.

LIFE ACTIVITIES

Life Activities provides opportunities, training and support to people who have a disability or who are disadvantaged.

As one of Life Activities '50 Kindest Companies' and supporter of the 'NIB Music and Moonlight' concert, we are proud to aid Life Activities fundraising efforts so they can continue to provide innovative education and support programs that improve the quality of life of those people living with a disability.

DELTA SOCIETY PET PARTNERS

The Delta Society Pet Partner Program brings joy to many people staying in health and community facilities across Australia. A Delta Society Pet Partner Team consists of a trained volunteer and their Delta accredited pet dog.

NIB supports six Delta Society Pet Partner Teams as they spread happiness and provide companionship to many children at the John Hunter Hospital.

EMPLOYEE PARTICIPATION

Our employees have continued their generous support of community awareness and fund raising events in 2007. These activities are conducted independent of NIB's corporate sponsorships and were well supported by employees at the head office and throughout the retail network.

The major beneficiaries of employee fundraising activities were the World's Biggest Morning Tea supporting the Cancer Council, Bandaged Bear Day supporting the Children's Hospital at Westmead, the Starlight Foundation, Genes for Jeans Day and Daffodil Day.

OUR EMPLOYEES HAVE CONTINUED THEIR GENEROUS SUPPORT OF COMMUNITY AWARENESS AND FUND RAISING EVENTS IN 2007

NIB BUSINESS LISTING

Directors	**Chairman** Keith Lynch David Brewer Grahame Cannon Dr Annette Carruthers Janet Dore Michael Slater Philip Gardner
Company Secretary	David Lethbridge
Executive Management	**Chief Executive Officer** Mark Fitzgibbon **Medical Director** Ian Boyd **Chief Marketing Officer** Jayne Drinkwater **Human Resources Director** Diane Lally **Executive Manager – Strategy & Governance** David Lethbridge **Chief Financial Officer** Michelle McPherson **Chief Operating Officer** Peter Small
Principal registered office in Australia	384 Hunter Street NEWCASTLE NSW 2300
Auditor	PricewaterhouseCoopers PricewaterhouseCoopers Centre 26 Honeysuckle Drive Newcastle NSW 2300
Website address	nib.com.au

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financial report

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DIRECTOR'S REPORT
YEAR ENDED 30 JUNE 2007

The directors of NIB Health Funds Limited present their report on the consolidated entity (referred to hereafter as the Group) consisting of NIB Health Funds Limited and the entities it controlled at the end of or during the year ended 30 June 2007.

Directors

The following persons were directors of NIB Health Funds Limited during the whole of the financial year and up to the date of this report:

- Keith Lynch
- David Brewer
- Grahame Cannon
- Annette Carruthers
- Janet Dore
- Philip Gardner
- Michael Slater

Principal Activities

During the year the principal continuing activities of the Group consisted of:

- Operating as a private health insurer under the Private Health Insurance Act 2007 (and formally a registered health benefits organisation under the National Health Act 1953)
- Operating a Private Hospital (Subsidiary activity)
- Operating Eye Care Centres (Subsidiary activity)
- Operating an Eye Safety business (Subsidiary activity)

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

a) Newcastle Private Hospital Pty Limited, which operated Newcastle Private Hospital, was sold to Healthscope Limited on 31 May 2007. Healthscope entered into a lease with NIB Health Funds Limited effective 1 June 2007 to lease the land and buildings that house the operations of Newcastle Private Hospital.

b) The Dental and Eye Care businesses operated by NIB Health Care Services Pty Limited were sold to Pacific Smiles Group Pty Limited and Pacific Optical Pty Limited respectively on 30 November 2006.

Newcastle Private Hospital sale

As a result of the Conditions Precedent being satisfied on 31 May 2007, the Share Sale Agreement between NIB Servicing Facilities Pty Limited, NIB Health Funds Ltd and Healthscope Limited was finalised, completing the sale of Newcastle Private Hospital Pty Limited to Healthscope Limited.

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

During the financial year Newcastle Private Hospital was operated under a management agreement whereby Healthscope Limited managed the operations of Newcastle Private Hospital for Newcastle Private Hospital Pty Ltd and NIB Health Funds Limited and received the following payments:

1. all manager's costs and expenses incurred in providing the services and managing the operations, totalling $617,518 (2006: $62,166)
2. a fixed proportion of the manager's overheads, totalling $275,000 (2006:$50,000)
3. a further proportion of the manager's overheads up to a maximum amount subject to a defined financial savings target being achieved, totalling $216,667 (2006:$nil).
4. a Management Fee up to a maximum amount subject to a defined financial target being achieved, totalling $1,303,183 (2006:$nil).

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

Dental and Eye Care Centre sale

During the year NIB Health Care Services Pty Limited operated an Eye Care Centre business and an Eye Safety business. The Eye Care and Eye Safety businesses were sold to Pacific Optical Pty Limited on 30 November 2006. The centres continue to be branded as NIB Eye Care Centres. NIB Health Care Services Pty Limited receives a percentage of retail product sales revenue from the Eye Care Centres.

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

NIB Servicing Facilities Pty Limited and NIB Eye Safety Pty Limited did not trade during the financial year.

Review of Operations

The consolidated profit of the Group for the financial year, after income tax expense, was $52.496 million (2006: $63.918 million).

NIB's strategy is centred on growing market share through the provision of innovative, low cost health insurance products. Key business initiatives include:

- Aggressively pursuing growth both in the under 40 segment and outside of NSW, by utilising NIB's strong brand and well designed and competitively priced products and online capacity;
- Retaining existing members through improved customer service and the NIB Loyalty Bonus and migrating

policyholders through different products as they age or their life circumstances change; and

- Merging with and/or acquiring other health funds to enable rapid growth, lower unit costs and provide a larger national platform.

The demutualisation and listing of NIB, discussed below, is intended to allow NIB to more effectively pursue its strategy through an improved capital and corporate structure. As a listed company NIB will have access to equity and greater access to debt markets and be able to offer a more attractive platform for potential mergers with other health insurers.

On 1 April 2007, the Private Health Insurance Act 2007 (Cth) and associated legislation came into force, repealing the National Health Act 1953 (Cth). We continue to operate in a highly regulated environment, and these changes have no significant implications for the operation of the business. Importantly, the Australian Government continues to provide a number of regulatory incentives (the Federal Government Rebate, Lifetime Health Cover and the Medicare Levy Surcharge) under the new legislation, to encourage participation in private health insurance.

NIB's experience and performance during the 2007 financial year served to underscore the very reason for demutualisation and listing of NIB on the ASX. During the year it became even more evident that the business has attributes and the potential to play a much larger role in the market. Most notable during the year was NIB demonstrating:

- The latent potential in the market for more affordable, appealing and creative products. Having launched a new product portfolio at the beginning of the year, we sold 49,757 new policies and 74.4% of these policyholders were new to private health insurance.
- The positive impact of a focus on retention of existing customers. The introduction of the NIB Loyalty Bonus in June 2006 combined with a number of other retention initiatives saw the overall lapse rate reduce by 13.2% and membership satisfaction increase.
- The power and efficacy of market segmentation and focusing efforts. In keeping with our deliberate skew towards the <40s, 78.5% of new policies sold came from within this underdeveloped market segment.
- The giant strides we have made towards building a truly national brand. Sales interstate accounted for 32.2% of total sales and with 32.6% made online, our distribution already has national reach. Our sponsorship of the Geelong Football Club and the Lorne Pier to Pub community swim in Victoria proved to be very powerful brand building initiatives.
- A willingness to invest in growing the business and delivering against our strategy. Although NIB Health Funds Limited's management expense ratio grew from 9.2% for the 2006 financial year to 11.4%, this included an additional $6.4 million on advertising, sponsorship and publicity, and $5.7 million expenditure associated with the demutualisation and listing. NIB Health Funds Limited's management expense ratio would have otherwise been 9.6%.
- An investment strategy that resulted in a solid return of 8.7% (2006: 6.5%) driven by an appropriately diversified investment portfolio.
- A strong capital position with the net asset position of $336.2 million (2006: $283.6 million), an increase of 19%, and a solvency ratio of 2.07, well in excess of regulatory requirements.

The 2007 financial year results also emphasise the challenges we face:

- A need to deliver greater underwriting certainty and stability. The gross underwriting margin of 14.4% (2006:18.3%) compares unfavourably with the prior year. In a regulated environment where we only have the opportunity to change prices once a year, the main reasons behind the lower 2007 margin were claims inflation having been overestimated in the setting of the prior year price and the launch of the new NIB Loyalty Bonus in June 2006. Moving forward we are working towards a commercial model in which we aim to achieve a gross margin in the order of 15% with earnings growth a function of increased volume, product value "buy-up" and lower per unit management expenses.
- Growing revenue in a generally stagnant market place and enhancing our value proposition to garner more interest in private health insurance.
- The need for continued focus on occupational health and safety, with our lost time injury frequency rate increasing to 7.2 (2006:5.4).
- Encouraging sensible industry consolidation and improved efficiency. To date, we have had limited success in convincing other health funds to consider merging with NIB notwithstanding some compelling logic and economic advantages for each business and its customers.

Significant changes in the State of Affairs

There were no other significant changes in the nature of activities conducted by the Group during the year.

Matters Subsequent to the End of the Financial Year

NIB referred to in this report is defined as NIB Health Funds Limited and NIB Holdings is defined as NIB Holdings Limited.

As set out in "Proposal to Demutualise – Explanatory Statement" dated 11 June 2007, the Board unanimously recommended the Proposal as being in the best interest of both Policyholders and Company Members. In summary, the Proposal involves a change to NIB's corporate and company membership structure. The approval of the Proposal means that NIB will change its structure from being a mutual company limited by guarantee (which has no share capital), to a company limited by shares.

In essence, the Proposal involves:

- Eligible Policyholders and Company Members (in their capacity as Eligible Policyholders) receiving Shares;
- the cancelling of Company Members' existing rights and obligations as Company Members; and
- NIB Holdings acquiring 100% of NIB.

The Proposal will result in Eligible Policyholders becoming Shareholders in NIB Holdings. Following Demutualisation, the Board intends to List NIB Holdings on the ASX within six months (circumstances permitting).

Since 30 June 2007 all required approvals have been received. Given the required approvals have been received, the implementation steps are expected to occur on or about the dates shown below:

1. NIB converts from a company limited by guarantee to a company limited by Shares and NIB issues Shares to Eligible Policyholders – 31 August 2007;
2. NIB issues Shares to NIB Holdings – 31 August 2007;
3. NIB cancels the Shares it has issued to the Eligible Policyholders (the Shares NIB has issued to NIB Holdings are not cancelled) and NIB Holdings becomes the parent company of NIB – 1 October 2007;
4. NIB Holdings issues the same number of Shares as cancelled in step 3 to Eligible Policyholders – 1 October 2007; and
5. NIB Holdings lists on the ASX – November 2007.

Other than the change in NIB's corporate and company membership structure discussed above, there has not been any other matter or circumstance, that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Likely Developments and Expected Results of Operations

Given the expectation that NIB Holdings will list on the ASX in November 2007, it is contemplated that the initial public offering and listing of NIB Holdings will comprise the following key steps:

Step 1 NIB Holdings shareholders ("Shareholders") invited to offer their ordinary shares in NIB Holdings ("Shares") for sale ("Sale Facility").

Step 2 NIB Holdings conducts an institutional bookbuild ("Bookbuild") to raise approximately $50,000,000 of new capital and to sell to the institutions the Shares offered by NIB Holdings shareholders under Step 1.

Step 3 NIB lists on ASX.

The final price at which the Shares will be sold pursuant to the Sale Facility and the Bookbuild ("Final Price") will be determined through the Bookbuild at Step 2.

Forecast information in respect of the financial year ended 30 June 2008 will be provided as part of steps 1 and 2 and has not yet been finalised as at the date of this report.

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

Environmental Regulation

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

Information on directors

Details of the qualifications, experience and special responsibilities of the directors are as follows:

Name and qualifications	Age	Experience and special responsibilities
Keith Lynch BSc (Tech) UNSW, MAICD, Chair Independent Non-Executive Director	65	Chair of Kip McGrath Education Centres Limited since May 2005. Previously held senior executive positions with Hunter-based engineering firms. Formerly a director of Newcastle Grammar School and CW Pope & Associates Pty Ltd. Mr Lynch's NIB responsibilities are as Chair of NIB Health Services Limited, The Heights Private Hospital Pty Limited, NIB Servicing Facilities Pty Limited, the Corporate Governance Committee and a member of the Remuneration Committee. A director since 1982 – appointed Chair 28 November 2001. Mr Lynch is also a director of NIB Holdings Limited.

Information on directors (continued)

Name and qualifications	Age	Experience and special responsibilities
David Brewer BSc, FAICD, Independent Non-Executive Director	61	Executive General Manager Queensland Regional Freight. Formerly Chief Operating Officer Central Mines, Rio Tinto Coal Australia, General Manager of Port Waratah Coal Services and General Manager of New Zealand Aluminium Smelters Limited. Formerly a director of TUNRA, University of Newcastle, the Royal Newcastle Aero Club and a member of the Salvation Army Advisory Board. Mr Brewer's NIB responsibilities are as a director of NIB Health Services Limited and The Heights Private Hospital Pty Limited, a member of the Finance and Investment Committee, Remuneration Committee and Membership Committee. A director since 2003.
Grahame Cannon FAICD, JP, Independent Non-Executive Director	66	A former state manager, NSW/ACT Health Insurance Commission. Previous directorships include Australian Administrative Staff College Limited and Psychiatric Rehabilitation Association of NSW. Mr Cannon's NIB responsibilities are as a director of NIB Health Services Limited and The Heights Private Hospital Pty Limited, and a member of the Audit and Compliance Committee and Finance and Investment Committee. A director since 1998.
Dr Annette Carruthers MBBS (Hons), FRACGP, FAICD, Independent Non-Executive Director	52	Currently a general practitioner and a director of the National Heart Foundation of Australia (NSW Division). Dr Carruthers is also a Clinical Director at Hunter Urban Division of General Practice. Formerly a director of Hunter Area Health Service and Hunter Urban Division of General Practice. Dr Carruthers' NIB responsibilities are as a director of NIB Health Services Limited, NIB Health Care Services Limited and The Heights Private Hospital Pty Limited, and a member of the Audit and Compliance Committee and Chair of the Remuneration Committee. A director since 2003.
Janet Dore B.App.Sc (Planning), MBA, FAICD, FAIM, FAPI, FIMM, Independent Non-Executive Director	58	Currently General Manager of Newcastle City Council and a former Chief Executive Officer City of Ballarat. Currently a director of Newcastle Airport Ltd, Newcastle Alliance, Hunter Councils Inc, Hunter Integrated Resources and Life Activities Incorporated. Ms Dore is also a member of the NSW Heritage Council and the Premier's Advisory Council on Women. Formerly a director of Hunter Economic Development Corporation, Hunter Regional Tourism Organisation and the Sustainability Advisory Council (Planning NSW), Newcastle and Hunter Events Corporation and a member of the Newcastle Graduate School of Business Advisory Board. Ms Dore sat on the Metropolitan Strategy Reference Panel and NSW Greenhouse Advisory Panel from 2004 to 2006. Ms Dore's NIB responsibilities are as Chair of NIB Health Care Services Pty Limited, a director of NIB Health Services Limited and The Heights Private Hospital Pty Limited, Chair of the Audit and Compliance Committee and a member of the Corporate Governance committee. A director since 2002.

Information on directors (continued)

Name and qualifications	Age	Experience and special responsibilities
Philip Gardner B. Comm, CPA, CCM, FAICD, JP, Independent Non-Executive Director	49	Currently Chief Executive Officer of the Wests Hospitality Group, a Director of Newcastle Airport Limited, Treasurer of Western Suburbs Rugby League Football Club, and a member of the Gaming Advisory Committee for Clubs NSW. Mr Gardner was appointed by the State Government to the Club Industry Working Group and is an adjunct lecturer in the Department of Commerce and Law at Newcastle University. Formerly Chair of the Hunter Regional Tourism Organisation, the Hunter Area Health Service, the Hunter Medical Research Foundation and the Club Gaming Council of Australia. Mr Gardner's NIB responsibilities are as a member of the Audit and Compliance Committee and Membership Committee. A director since 2005. Mr Gardner is also a director of NIB Holdings Limited.
Michael Slater B. Comm, MBA, FCPA, FCIS, FTIA, FAICD, FAIM, FCIM, Independent Non-Executive Director	61	Currently Deputy Chair of the Newcastle Permanent Building Society, Director of Dennis Veitch and Associates Pty Ltd, Corporate Internet Business Information Systems Pty Ltd, Hunter Westpac Rescue Helicopter Service and the University of Newcastle Foundation Board. Previously held Executive positions with Shortland Electricity, Orion Energy, Energy Australia, Singleton Council and previously served as Director on both the Hunter Economic Development Corporation and the Hunter Regional Development Organisation. Mr Slater's NIB responsibilities are as a Director of NIB Health Services Limited and The Heights Private Hospital Pty Ltd, Chair of the Finance and Investment Committee and member of the Corporate Governance Committee. A director since 2001.
Company Secretary		
David Lethbridge LLB (Otago NZ), GAICD Company Secretary	48	Currently Executive Manager Strategy and Governance at NIB Health Funds Limited. Formally Board Secretary/Senior Legal Adviser New Zealand Apple and Pear Marketing Board and Legal Adviser New Zealand Dairy Board. Mr Lethbridge is Company Secretary for all companies in the NIB group and a director of NIB Servicing Facilities Pty Limited. Company Secretary since 2002.

In addition to Keith Lynch and Philip Gardner holding the office of director of NIB Holdings Limited, Mark Fitzgibbon is also a director of NIB Holdings Limited.

Meetings of Directors

The number of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2007, and the numbers of meetings attended by each director were:

	Board of Directors		Finance & Investment Committee		Audit & Compliance Committee		Corporate Governance Committee		Remuneration Committee	
	Scheduled meetings	Meetings attended	Scheduled meetings	Meetings attended	Scheduled meetings	Meetings attended	Scheduled meetings	Meetings attended	Scheduled meetings	Meetings attended
Keith Lynch	16	16	–	–	–	–	–	–	3	3
David Brewer	16	14	7	7	–	–	–	–	3	3
Grahame Cannon	16	16	7	7	7	7	–	–	–	–
Annette Carruthers	16	16	–	–	7	7	–	–	3	3
Janet Dore	16	15	–	–	7	5	–	–	–	–
Philip Gardner	16	15	–	–	7	6	–	–	–	–
Michael Slater	16	15	7	7	–	–	–	–	–	–

Remuneration report

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

A Principles used to determine the nature and amount of remuneration

B Details of remuneration

C Service agreements

D Details of Remuneration – cash bonuses

The information provided under these headings includes remuneration disclosures that are required under Accounting Standard AASB 124 *Related Party Disclosures*. These disclosures have been transferred from the financial report and have been audited. The disclosures in section D are additional disclosures required by the *Corporations Act 2001* and the *Corporations Regulations 2001* which have not been audited.

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

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

- competitiveness and reasonableness
- acceptability to policyholders
- performance linkage/alignment of executive compensation
- transparency
- capital management.

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

Alignment to policyholders' interests:

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

Alignment to executives' interests:

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

Non-executive directors

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

Directors' fees

The current base remuneration was last reviewed with effect from 1 July 2006. The Chairman's and directors' remuneration is inclusive of committee fees.

Non-executive directors' fees are determined within an aggregate directors fee pool limit, which is periodically recommended for approval by members. The maximum currently stands at $652,500. Directors fees and superannuation are to be paid out of this pool. Additional compensation of travel allowances, non-monetary benefits and retirement benefits are not included in this pool.

Retirement allowances for directors

On 24 November 2005, the Board resolved to remove retirement allowances for non-executive directors appointed on or after that date, in line with recent guidance on non-executive directors' remuneration.

Retirement benefits are provided for in the financial statements. Non executive directors employed before 24 November 2005 are entitled to a lump sum defined benefit based on number of years service.

Executive pay

The executive pay and reward framework has three components:

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

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

The overall level of executive reward takes into account the performance of the Group for the year ended 30 June 2007.

Remuneration Package

The remuneration package may be delivered as a combination of cash, vehicle allowance (inclusive of FBT if appropriate), other allowances (inclusive of FBT if appropriate) and superannuation (which must meet the superannuation guarantee charge minimum set by legislation). The total of all these components is at the discretion of the company, while the breakdown and combination of components is at the discretion of the employee.

Remuneration report (continued)

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

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

Prescribed non-financial benefits

Executives receive prescribed non financial benefits including car parking, group life (death benefit) insurance, salary continuance (income protection) insurance and motor vehicle operating expenses. These are provided under company policy and are at the company's discretion.

Short-term incentives

Should the group achieve pre determined performance targets set by the Board's Remuneration Committee then a short-term incentive (STI) pool is available for executives for allocation during the annual review. Cash incentives (bonuses) are payable prior to 15 October each year. The incentive pool is leveraged for performance above the pre determined performance targets to provide an incentive for executive out-performance.

Each executive has a target STI opportunity depending on the accountabilities of the role and impact on the organisation or business unit performance. For executives the maximum target bonus opportunity is 40% of total executives' remuneration package. There is no minimum entitlement to STI.

Each year, the Remuneration Committee considers the appropriate targets and key performance indicators (KPIs) to link the STI plan and the level of payout if targets are met. This includes setting any maximum payout under the STI plan, and minimum levels of performance to trigger payment of the STI.

For the year ended 30 June 2007, the KPIs linked to the STI plans were grouped into three components:

- Group performance which included measures such as profitability and cost control for the entire Group
- Strategic functional objectives relating to the individual executive's functional responsibilities
- Individual personal competencies.

Each of the three components were weighted evenly in calculating the bonus payable for the individual executive, and were chosen as the most appropriate basis for aligning members and executives interests.

The Remuneration Committee is responsible for assessing whether the KPIs are met by the CEO. The CEO is responsible for assessing whether the KPIs are met for other executives and recommends to the Remuneration Committee bonus payments for the other executives. To help make this assessment, the Remuneration Committee receives reports and documented evidence on performance from management either specifically for the Remuneration Committee or via other board and committee reporting.

The short term bonus payments may be adjusted up or down in line with under or over achievement against the target performance levels. This is at the discretion of the Remuneration Committee. The STI target annual payment is reviewed annually.

Amounts forfeited in any year are not available to be recouped in future years.

B. Details of remuneration (audited)

Details of the remuneration of each director of NIB Health Funds Limited and other key management personnel are set out in the following tables. The cash bonuses are dependent on the satisfaction of performance conditions as set out in the section headed "Short-term incentives" above. All other elements of remuneration are not directly related to performance.

The key management personnel of NIB Health Funds Limited, the "parent", and the Group, consisting of NIB Health Funds Limited and its subsidiaries, includes the directors as per pages 28 to 30 and the following executive officers who have the authority and responsibility for planning, directing and controlling the activities of the Group:

Mark Fitzgibbon	Chief Executive Officer
Ian Boyd	Medical Director
Jayne Drinkwater	Chief Marketing Officer
Diane Lally	Human Resources Director
David Lethbridge	Executive Manager – Strategy & Governance
Michelle McPherson	Chief Financial Officer
Peter Small	Chief Operating Officer

Remuneration report (continued)

B. Details of remuneration (audited) (continued)

2007

	Short-term employee benefits			Post-employment		
Name	Cash fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Total $
Keith Lynch	26,383	–	3,738	116,117	40,979	187,217
David Brewer	16,678	–	3,738	68,322	3,436	92,174
Grahame Cannon	36,829	–	3,738	52,940	9,499	103,006
Annette Carruthers	52,196	–	–	33,012	3,528	88,736
Janet Dore	14,438	–	–	70,562	4,020	89,020
Philip Gardner	77,982	–	–	7,018	–	85,000
Michael Slater	38,991	–	3,738	46,009	5,074	93,812
Sub-total directors	**263,497**	**–**	**14,952**	**393,980**	**66,536**	**738,965**
Mark Fitzgibbon*	442,416	388,000	12,995	27,174	–	870,585
Ian Boyd*	221,348	220,500	7,377	19,397	–	468,622
Jayne Drinkwater*	183,604	224,100	6,086	48,522	–	462,312
Diane Lally	173,190	214,500	2,844	28,101	–	418,635
David Lethbridge*	50,020	217,500	10,070	181,342	–	458,932
Michelle McPherson*	243,422	232,500	10,926	33,509	–	520,357
Peter Small	148,183	210,000	8,730	50,761	–	417,674
Sub-total executives	**1,462,183**	**1,707,100**	**59,028**	**388,806**	**–**	**3,617,117**
Total key management personnel compensation	**1,725,680**	**1,707,100**	**73,980**	**782,786**	**66,536**	**4,356,082**

2006

	Short-term employee benefits			Post-employment		
Name	Cash fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Total $
Keith Lynch	16,100	–	3,883	96,455	24,810	141,248
David Brewer	61,311	–	–	5,518	20,689	87,518
Grahame Cannon	34,592	–	3,883	36,174	20,225	94,874
Annette Carruthers	61,311	–	–	5,518	20,682	87,511
Janet Dore	22,826	–	–	44,002	20,644	87,472
Philip Gardner (24/11/2005–30/6/2006)	38,916	–	–	3,502	–	42,418
John Graham (1/7/2005–24/11/2005)	2,641	–	–	27,371	7,236	37,248
Michael Slater	61,311	–	3,883	5,518	20,563	91,275
Sub-total directors	**299,008**	**–**	**11,649**	**224,058**	**134,849**	**669,564**
Mark Fitzgibbon*	347,678	112,500	7,137	28,000	–	495,315
Ian Boyd*	211,187	66,000	3,683	18,165	–	299,035
Jayne Drinkwater*	211,823	70,500	4,351	38,702	–	325,376
Diane Lally	191,978	60,000	2,453	16,291	–	270,722
David Lethbridge*	192,544	60,000	5,033	15,074	–	272,651
Michelle McPherson*	228,131	72,000	7,005	18,577	–	325,713
Christine Morriss	119,130	–	2,883	5,104	–	127,117
Peter Small	50,596	–	1,754	3,551	–	55,901
Sub-total executives	**1,553,067**	**441,000**	**34,299**	**143,464**	**–**	**2,171,830**
Total key management personnel compensation	**1,852,075**	**441,000**	**45,948**	**367,522**	**134,849**	**2,841,394**

* Denotes one of the 5 highest paid executives of the Group, as required to be disclosed under the *Corporations Act 2001*.

Remuneration report (continued)

C. Service agreements (audited)

On appointment, all executives enter into a service agreement with the company. The agreement summarises employment terms and conditions, including compensation, relevant to the executive's position. Each of these agreements provide for the provision of performance-related cash bonuses and other entitlements.

All executives in employment at 30 June 2007 executed service agreements commencing 01 July 2006 with the following identical terms:

- Remuneration packages including superannuation are set out below in Details of Remuneration – cash bonuses. There is no share based compensation.
- Term of Agreement – 3 years ending 30 June 2009.
- Termination Provisions – Payment of a termination benefit on early termination by the Company, other than for gross misconduct is equal to the remuneration package for the remaining term of the agreement, up to a maximum of 12 months of the remuneration package. The agreement may be terminated early by either party with three months notice.

Retention Payments and Transaction Bonuses

NIB has executive retention arrangements to cover key personnel who the Board believes are critical to the "Proposal to Demutualise" (Proposal) or are critical to the continuation of the business of NIB. Under these arrangements, executives receive a transaction bonus conditional on matters relating to the successful implementation of the Proposal and a retention payment conditional on either the successful implementation of the Proposal or the executive remaining employed at NIB, whichever date is the earlier.

If the Proposal is implemented, the transaction bonuses will be triggered by the completion of the transaction. The transaction bonus is calculated in accordance with a formula that is dependent on the value of the Shares at Listing. The retention payment arrangements have an aggregate maximum cost of approximately $2.3 million. The retention payment arrangements were designed to be in respect of the 3 years ended 30 June 2009 or the period from 1 July 2006 to a date 6 months post a defined transaction. Given that the most likely outcome is a transaction, being the listing of NIB Holdings, occurring in November 2007, the retention payment is being accrued over the period 1 July 2006 to 30 June 2008.

D. Details of Remuneration – cash bonuses (unaudited)

Included in the table below are details of the accruals as at 30 June 2007 in respect of the retention payment (as discussed above) and the normal short term incentive (STI) payment for each executive.

Each executive has a target STI opportunity depending on the accountabilities of the role and impact on the organisation or business performance. The executive STI has three components (group performance, individual goals and personal competencies) upon which each executive is measured. For executives the maximum target bonus opportunity is 40% of remuneration package.

Included in the financial statements for the year ended 30 June 2007 is a provision equal to 30% of each executives remuneration package, which was based on a preliminary assessment of performance against the KPI criteria. The final bonus amount is subject to determination by the Remuneration Committee.

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

	Remuneration Package including Superannuation $	Retention Payment Provided $	STI Maximum Bonus $	STI Bonus Provided $
Mark Fitzgibbon	460,000	250,000	184,000	138,000
Ian Boyd	235,000	150,000	94,000	70,500
Jayne Drinkwater	247,000	150,000	98,800	74,100
Diane Lally	215,000	150,000	86,000	64,500
David Lethbridge	225,000	150,000	90,000	67,500
Michelle McPherson	275,000	150,000	110,000	82,500
Peter Small	200,000	150,000	80,000	60,000
	1,857,000	**1,150,000**	**742,800**	**557,100**

Insurance of Officers

During the financial year, the Group paid a premium in respect of a contract insuring the directors and officers of the Group against a liability incurred as such a director or officer, other than conduct involving a wilful breach of duty in relation to the Group, to the extent permitted by the *Corporations Act*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

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 company and/or the Group are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services during the year are set out below.

The board of directors has considered the position and, in accordance with advice received from the audit and compliance committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit and compliance committee to ensure that they did not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

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

	Consolidated		Parent Entity	
	2007 $	2006 $	2007 $	2006 $
1. Audit services				
PricewaterhouseCoopers				
Audit and review of financial report and other audit work under the *Corporations Act 2001*	204,000	181,950	191,200	154,902
Total remuneration for audit services	204,000	181,950	191,200	154,902
2. Non-audit services				
Audit-related services				
PricewaterhouseCoopers				
Audit of regulatory returns	31,050	33,710	31,050	33,710
Total remuneration for audit-related services	31,050	33,710	31,050	33,710
Taxation services				
PricewaterhouseCoopers				
Advice on demutualisation	311,420	–	311,420	–
Other	34,885	72,205	34,885	72,205
Total remuneration for taxation services	346,305	72,205	346,305	72,205
Other services				
PricewaterhouseCoopers				
IFRS accounting services	–	66,552	–	66,552
Advice on demutualisation	215,900	–	215,900	–
Other activities undertaken to support audit of financial report	84,850	12,400	84,850	12,400
Total remuneration for other services	300,750	78,952	300,750	78,952
Total Remuneration	**882,105**	**366,817**	**869,305**	**339,769**

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 42.

Rounding of Amounts

The company is of a kind referred to in ASIC Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars or in certain cases nearest dollar.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

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

On behalf of the Board

Keith Lynch
Director

Janet Dore
Director

Newcastle, NSW, 30 August 2007

CORPORATE GOVERNANCE
YEAR ENDED 30 JUNE 2007

NIB Health Funds Limited (the Company) and the board are committed to achieving and demonstrating the highest standards of corporate governance for the company and the Group. The board continues to review the framework and practices to ensure they meet the interests of its policyholders.

The relationship between the board and senior management is critical to the Company's long-term success. The board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Company. The board has the final responsibility for the successful operations of the Company.

Day to day management of the Company's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the board to the Chief Executive Officer who then delegates to the senior executives as set out in the Company's delegations policy.

A description of the company's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year.

The Board of Directors

The board operates in accordance with the broad principles set out in its Corporate Governance Manual. The Corporate Governance Manual details the board's composition and responsibilities.

Board Composition

The Corporate Governance Manual states:

- The Company shall be headed by an effective board, which shall lead and control the Company.
- The Chairman is elected by the full board and is required to meet regularly with the Chief Executive Officer.
- The Company is to maintain a mix of directors on the board providing a balance of special knowledge, experience and personal attributes to ensure the continuing success and prosperity of the Company.
- The board is required to undertake an annual board performance review and consider the appropriate mix of skills required by the board to maximise its effectiveness and its contribution to the Company.

Responsibilities

The responsibilities of the board include:

- Providing strategic guidance to the Company including contributing to the development of and approving the strategic direction of the Company.
- Reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives.
- Overseeing and monitoring:
  - Organisational performance and the achievement of the Group's strategic goals and objectives.
  - Compliance with the company's Expectations of Our Employees Policy.
  - Progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments.
- Monitoring financial performance including approval of the annual and half-year financial reports and liaison with the company's auditors.
- Appointment and performance assessment of the Chief Executive Officer.
- Ratifying the appointment and/or removal and contributing to the performance assessment for the members of the executive management team.
- Ensuring there are effective management processes and policies in place and approving major corporate initiatives and certain expenditure in accordance with the delegations manual.
- Establishing and determining the powers and functions of the committees of the board.
- Overseeing the operation of the Group's system for compliance and risk management reporting.

Board Members

Details of the members of the board, their experience, expertise, qualifications, term of office and independent status are set out in the directors' report under the heading "information on directors". There are seven non-executive directors, all of whom are deemed independent under the principles set out below.

The seven non-executive directors meet prior to each board meeting without the presence of management, to discuss the operation of the board and a range of other matters.

The board seeks to ensure that:

- At any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Company and directors with an external or fresh perspective.
- The size of the board is conducive to effective discussion and efficient decision-making.

Directors' Independence

The board has adopted specific principles in relation to directors' independence. These state that to be deemed independent, a director must be a non-executive and:

- Not be an officer of the Company.
- Within the last three years, not have been employed in an executive capacity by the company or a controlled entity, or have been a director after ceasing to hold any such employment.

The Board of Directors (continued)

Directors' Independence (continued)

- Within the last three years not have been a principal of a material professional adviser or a material consultant to the company or any other Company member, or an employee materially associated with the service provided
- Not be a material supplier or customer of the company or any other member of the NIB group, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- Must have no material contractual relationship with the company or a controlled entity other than as a director of the Company
- Not have been on the board for a period which could, or could reasonable be perceived to, materially interfere with the director's ability to act in the best interests of the Company
- Be free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

Term of Office

The company's Constitution specifies that all non-executive directors must retire from office no later than the third annual general meeting (AGM) following their last election. Where eligible, a director may stand for re-election.

Chairman and Chief Executive Officer

The Chairman is responsible for leading the board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating board discussions and managing the board's relationship with the company's senior executives.

The CEO is responsible for implementing Company strategies and policies.

Commitment

The number of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2007, and the number of meetings attended by each director is disclosed on page 30. An additional corporate strategy workshop was also held during the year.

Non-executive directors are expected to spend at least 25 days a year preparing for and attending board and committee meetings and associated activities.

The commitments of non-executive directors are considered by the corporate governance committee prior to the directors' appointment to the board of the company and are reviewed each year as part of the annual performance assessment.

Prior to appointment or being submitted for re-election, each non-executive director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the company.

Conflict of Interests

The Newcastle City Council of which Janet Dore is General Manager considers matters from time to time that relate to the operations of the Company, notably development applications relating to the establishment of a car park at Newcastle Private Hospital and the construction of new head office premises for the Company. In accordance with Corporate Governance Manual Janet Dore declared an interest in those matters and took no part in decisions relating to them. In addition, Janet Dore did not receive any papers from the Company pertaining to those dealings and, in respect of the development application for the Newcastle Private Hospital, was absent from the meeting during the time the matter was discussed by the board.

Independent Professional Advice

Directors and board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense.

Performance Assessment

The board undertakes an annual self assessment of its collective performance, the performance of the Chairman and of its committees which is facilitated by an independent third party. The results and any action plans are documented together with specific performance goals which are agreed for the coming year. This assessment was undertaken during December 2006.

The Chairman undertakes an annual assessment of the performance of individual directors and meets privately with each director to discuss this assessment.

Corporate Reporting

The CEO and CFO have made the following certifications to the board:

- That the company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Group and its controlled entities and are in accordance with relevant accounting standards; and
- That the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

Board Committees

The board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the board are the remuneration, corporate governance, audit and compliance, and the finance and investment committees. Other than the finance and investment committee which has Mr John O'Connor, an independent advisor from Forsythes, as a member, each is comprised entirely of non-executive directors. The committee structure and membership is reviewed on an

The Board of Directors (continued)

Board Committees (continued)

annual basis. A policy of rotation of non-executive director committee members applies.

Each committee has its own written terms of reference setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All matters determined by committees are submitted to the full board as recommendations for board decisions.

Minutes of committee meetings are tabled at the subsequent board meeting. Additional requirements for specific reporting by the committees to the board are addressed in the terms of reference of the individual committees.

Remuneration Committee

The remuneration committee consists of the following non-executive directors:

- Annette Carruthers (Chairman)
- David Brewer
- Keith Lynch

Details of these directors' qualifications and attendance at remuneration committee meetings are set out in the directors' report on pages 28–30.

The remuneration committee operates in accordance with its terms of reference which is available on the Company's website.

The remuneration committee advises the board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for senior executives and non-executive directors.

Committee members receive regular briefings from an external remuneration expert on recent developments on remuneration and related matters.

Further information on directors' and executives' remuneration, including principles used to determine remuneration, is set out in the directors' report under the heading "Remuneration report".

The committee also assumes responsibility for overseeing management succession planning.

Corporate Governance Committee

The corporate governance committee consists of the following non-executive directors:

- Keith Lynch (Chairman)
- Janet Dore
- Michael Slater

Details of these directors' qualifications and attendance at corporate governance committee meetings are set out in the directors' report on pages 28–30.

The Committee did not meet during the year. The Committee's functions were either performed by the Board as a whole or delegated to the Chairman to undertake (the latter being most notably the evaluation of Board performance and recommendations relating to the appointment and removal of directors).

The corporate governance committee operates in accordance with its terms of reference.

The committee reviews specific aspects of corporate governance and the terms of reference for each of the board's committees.

The committee also performs the function of a nomination committee and undertakes the following:

- assess the manner in which good corporate governance can be promoted within the Company;
- review the role, function and composition of each committee of the board on not less than an annual basis;
- review compliance with the Corporate Governance Manual;
- assess the necessary and desirable competencies of board members;
- review board succession plans;
- evaluate board performance; and
- recommend the appointment and removal of directors.

New directors are provided with a letter of appointment setting out the company's expectations, their responsibilities, rights and the terms and conditions of their employment. All new directors participate in an induction program which covers the operation of the board and its committees and financial, strategic, operations and risk management issues.

Audit and Compliance Committee

The audit committee consists of the following non-executive directors:

- Janet Dore (Chairman)
- Grahame Cannon
- Annette Carruthers
- Philip Gardner

Details of these directors' qualifications and attendance at audit and compliance committee meetings are set out in the directors' report on pages 28–30.

The audit and compliance committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industry in which the Company operates.

The audit and compliance committee operates in accordance with its terms of reference. The main responsibilities of the committee are to:

- Understand and evaluate the overall effectiveness of the internal control and risk management frameworks and consider whether recommendations made by the

Audit and Compliance Committee (continued)

internal and external auditors have been implemented by management.

- Oversee the periodic financial reporting process implemented by management and review the annual financial statements and such other financial statements as the Committee may, from time to time, determine.
- Review the effectiveness of the system for monitoring compliance with laws and regulations.
- Review on an annual basis the performance of the external auditors and make recommendations to the board for the appointment, reappointment or termination of the appointment of the external auditors.
- Ensure that significant findings and recommendations made by the external auditors and management's proposed response are received, discussed and appropriately acted on.
- Review the activities, resources and organisational structure of the internal audit function and ensure no unjustified restrictions or limitations are made.
- Ensure that significant findings and recommendations made by the Internal Auditors and management's proposed response are received, discussed and appropriately acted on.
- Have responsibility for the oversight of the continuous development of risk management policy at NIB and the implementation of risk management in compliance with the principles established.
- Review the adequacy and effectiveness of risk management at NIB.
- Ensure the board is aware of matters that may significantly impact on the financial condition or affairs of the business.
- Report to the board on matters relevant to the committee's role and responsibilities.

In fulfilling its responsibilities, the audit and compliance committee:

- Receives regular reports from management, the internal and external auditors.
- Meets with the internal and external auditors at each meeting of the Committee or more frequently if necessary.
- Reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved.
- Meets separately with the external auditors and the chief internal auditor at least twice a year without the presence of management.
- Provides the internal and external auditors with a clear line of direct communication at any time to either the Chairman of the audit and compliance committee or the Chairman of the board.

The audit and compliance committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

Finance and Investment Committee

The finance and investment committee consists of four members of which three are non-executive directors:

- Michael Slater (Chairman)
- David Brewer
- Grahame Cannon
- John O'Connor (independent adviser)

Details of these directors' qualifications and attendance at finance and investment committee meetings are set out in the directors' report on pages 28–30.

The finance and investment committee operates in accordance with its terms of reference.

The main responsibilities of the committee are to make recommendations on:

- The appointment, compensation, retention and oversight and performance of the work of the Asset Consultant and individual Fund Managers.
- The appropriate investment objectives, strategic benchmark, investment structure and investment managers' target allocation for NIB's investment portfolio.
- Financial policies including those that address NIB's fund raising and funding, capital expenditure and investment strategy.
- Capital expenditure proposals and their compliance with NIB's policies.

External Auditors

The company and audit and compliance committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is considered by the committee annually. PricewaterhouseCoopers was appointed as the external auditor in 2003. It is PricewaterhouseCoopers' policy to rotate audit engagement partners on listed companies at least every five years, and in accordance with that policy a new audit engagement partner will be introduced for the year commencing 1 July 2008 if PricewaterhouseCoopers are successful in retaining the external audit which will be market tested during the first half of 2008.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the directors' report and note 30 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the audit and compliance committee.

The external auditor will attend the annual general meeting and be available to answer questions about the conduct of the audit and the preparation and content of the audit report.

Risk Assessment and Management

The board, through the audit and compliance committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. These policies are available on the company website. In summary, the company policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority.

The company risk management policy and the operation of the risk management and compliance system are managed by the company secretary. The board receives monthly reports on material risks that may impede meeting business objectives.

Detailed control procedures cover management accounting, financial reporting, project appraisal, environment, health and safety, IT security, compliance and other risk management issues. Internal audit, undertaken by KPMG, carries out regular systematic monitoring of control activities and report to both relevant business unit management and the audit and compliance committee.

Refer to note 4 for Private Health Insurance Contracts – Risk Management Policies and Procedure.

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Auditor's Independence Declaration

As lead auditor for the audit of NIB Health Funds Limited for the year ended 30 June 2007, 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 Health Funds Limited and the entities it controlled during the period.

W M Russell
Partner
PricewaterhouseCoopers

Newcastle
30 August 2007

PRICEWATERHOUSECOOPERS

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Independent auditor's report to the members of NIB Health Funds Limited

Report on the financial report and the AASB 124 Remuneration disclosures contained in the directors' report

We have audited the accompanying financial report of NIB Health Funds Limited (the company), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both NIB Health Funds Limited and the NIB Health Funds Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "remuneration report" in pages 31 to 34 of the directors' report and not in the financial report.

Directors' responsibility for the financial report and the AASB 124 Remunerations disclosures contained in the directors' report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

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Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

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

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

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

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

Matters relating to the electronic presentation of the audited financial report

This audit report relates to the financial report and remuneration disclosures of NIB Health Funds Limited (the company) for the financial year ended 30 June 2007 included on the NIB Health Funds Limited web site. The company's directors are responsible for the integrity of the NIB Health Funds Limited web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report and remuneration disclosures identified above. It does not

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provide an opinion on any other information which may have been hyperlinked to/from the financial report or remuneration disclosures. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration disclosures to confirm the information included in the audited financial report and remuneration disclosures presented on this web site.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion on the financial report

In our opinion:

(a) the financial report of NIB Health Funds Limited is in accordance with the *Corporation Act 2001*, including:

   (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements and notes also complies with International Financial Reporting Standards as disclosed in Note 1.

Auditor's opinion on the AASB 124 Remuneration disclosures contained in the directors' report

In our opinion, the remuneration disclosures that are contained in pages 31 to 34 of the directors' report comply with Accounting Standard AASB 124.

PricewaterhouseCoopers

Wayne Russell
Partner

Newcastle
30 August 2007

DIRECTORS' DECLARATION

YEAR ENDED 30 JUNE 2007

In the Directors' opinion:

a) the financial statements and notes set out on pages 47 to 88 are in accordance with the *Corporations Act 2001*, including:
   i. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
   ii. giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the financial year ended on that date; and

b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and

c) the audited remuneration disclosures set out on pages 31 to 34 of the directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*.

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

On behalf of the Board

Keith Lynch
Director

Janet Dore
Director

Newcastle, NSW, 30 August 2007

INCOME STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

		Consolidated		Parent Entity	
	Notes	2007 $000	2006 $000	2007 $000	2006 $000
Premium revenue	5	665,964	611,869	665,964	611,869
Claims expense		(505,315)	(441,196)	(505,315)	(441,196)
HBRTF/RETF Levy		(46,939)	(42,830)	(46,939)	(42,830)
State levies		(17,599)	(16,095)	(17,599)	(16,095)
Claims handling expenses	6	(16,295)	(15,944)	(16,295)	(15,944)
Net claims incurred		(586,148)	(516,065)	(586,148)	(516,065)
Acquisition costs		(18,982)	(11,343)	(18,982)	(11,343)
Other underwriting expenses		(41,643)	(33,104)	(40,487)	(29,155)
Underwriting expenses	6	(60,625)	(44,447)	(59,469)	(40,498)
Underwriting result		**19,191**	**51,357**	**20,347**	**55,306**
Investment income	5	32,353	18,616	31,094	18,570
Other revenue	5	1,263	1,054	1,512	1,683
Impairment of investment in subsidiary		–	–	(88)	(15,082)
Investment expenses	6	(1,099)	(675)	(1,099)	(776)
Other expenses	6	(894)	(905)	–	–
Profit before income tax		50,814	69,447	51,766	59,701
Income tax expense	7	–	–	–	–
Profit from continuing operations		50,814	69,447	51,766	59,701
Profit/(Loss) from discontinued operations	7,8(i)(b),8(ii)(b)	1,682	(5,529)	–	–
Profit attributable to members	**26**	**52,496**	**63,918**	**51,766**	**59,701**

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

BALANCE SHEETS
AS AT 30 JUNE 2007

	Notes	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Assets					
Current assets					
Cash and cash equivalents	9	17,570	11,368	17,522	11,261
Receivables	10	27,355	24,036	26,616	24,571
Inventories	11	–	195	–	–
Financial assets at fair value through profit or loss	12	376,361	308,995	376,361	308,995
		421,286	344,594	420,499	344,827
Non-current assets classified as held for sale	13	9,889	–	9,889	13,918
Assets of disposal group classified as held for sale	8(i)(c)	–	20,956	–	–
Total Current assets		431,175	365,550	430,388	358,745
Non-current assets					
Receivables	14	7,026	353	7,684	1,051
Other financial assets	15	–	–	14,583	14,583
Investment properties	16	30,000	1,800	30,000	31,800
Property, plant and equipment	17	15,904	46,228	15,862	16,842
Intangible assets	18	9,943	10,215	9,943	10,215
Total Non-current assets		62,873	58,596	78,072	74,491
Total Assets		494,048	424,146	508,460	433,236
Liabilities					
Current liabilities					
Payables	19	45,188	26,722	59,651	40,927
Borrowings	20	1,431	2,989	1,381	2,946
Outstanding claims liability	21	53,955	55,331	53,955	55,331
Unearned premium liability	22	51,580	44,502	51,580	44,502
Current tax liabilities	8(ii)(b),24	54	–	–	–
Provision for employee entitlements	25	4,753	4,694	4,753	4,427
		156,961	134,238	171,320	148,133
Liabilities directly associated with assets of a disposal group classified as held for sale	8(i)(c)	–	5,588	–	–
Total Current liabilities		156,961	139,826	171,320	148,133
Non-Current liabilities					
Provision for employee entitlements	25	873	736	873	736
Total Non-current liabilities		873	736	873	736
Total Liabilities		157,834	140,562	172,193	148,869
Net Assets		**336,214**	**283,584**	**336,267**	**284,367**
Equity					
Retained profits	26	329,161	276,665	329,214	277,448
Reserves	27	7,053	6,919	7,053	6,919
Total Equity		**336,214**	**283,584**	**336,267**	**284,367**

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

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2007

	Notes	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Total equity at the beginning of the financial year		283,584	219,666	284,367	224,666
Revaluation of land and buildings, net of tax	27	134	–	134	–
Net income recognised directly in equity		134	–	134	–
Profit for the year	26	52,496	63,918	51,766	59,701
Total recognised income and expense for the year		52,630	63,918	51,900	59,701
Total equity at the end of the financial year		**336,214**	**283,584**	**336,267**	**284,367**

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

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

	Notes	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Cash flows from operating activities					
Receipts from policyholders and customers (inclusive of goods and services tax)		719,419	665,352	671,298	618,768
Payments to members, suppliers and employees (inclusive of goods and services tax)		(673,713)	(597,228)	(625,541)	(546,753)
		45,706	68,124	45,757	72,015
Dividends received		–	62	–	62
Interest received		22,210	11,476	22,304	11,605
Interest paid		(29)	(6)	(29)	(4)
Net cash provided by operating activities	31(b)	67,887	79,656	68,032	83,678
Cash flows from investing activities					
Proceeds from sale of available-for-sale investment properties		479	686	479	686
Proceeds from disposal of other financial assets at fair value through the profit and loss		105,716	27,670	105,716	27,670
Payments for other financial assets at fair value through the profit and loss		(164,644)	(108,067)	(164,644)	(108,067)
Payments for property, plant and equipment and intangibles	17,18	(11,682)	(6,230)	(11,213)	(4,885)
Proceeds from sale of property, plant and equipment and intangibles		80	7,165	438	6,009
Proceeds from sale of subsidiary, net of cash disposed	8(i)(d)	8,997	–	10,249	–
Proceeds from sale of Eye Care and Dental businesses	8(ii)(d)	325	–	–	–
Loans to related parties		–	–	(1,231)	(4,693)
Net cash (used in) investing activities		(60,729)	(78,776)	(60,206)	(83,280)
Cash flows from financing activities					
Proceeds from finance lease		177	165	–	–
Net cash inflow from financing activities		177	165	–	–
Net increase (decrease) in cash and cash equivalents		7,335	1,045	7,826	398
Cash and cash equivalents at beginning of the financial year	31(a)	8,804	7,759	8,315	7,917
Cash and cash equivalents at the end of the financial year	31(a)	**16,139**	**8,804**	**16,141**	**8,315**
Non-cash financing and investing activities	31(c)				

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for NIB Health Funds Limited as an individual entity and the Group consisting of NIB Health Funds Limited and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with International Financial Reporting Standards (IFRSs)

Australian Accounting Standards include AIFRSs. Compliance with AIFRSs ensures that the consolidated financial statements and notes of NIB Health Funds Limited comply with IFRSs. The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Disclosure and Presentation*.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through profit or loss, certain classes of property, plant and equipment and investment properties.

Critical accounting estimates

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

Functional and presentation currency

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 Health Funds Limited's functional and presentation currency.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of NIB Health Funds Limited ("company" or "parent entity") as at 30 June 2007 and the results of all subsidiaries for the year then ended. NIB Health Funds Limited and its subsidiaries together are referred to in this financial report as the Group.

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

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

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

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between the consideration paid and the relevant share acquired of the carrying value of identifiable net assets of the subsidiary.

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

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements of NIB Health Funds Limited and NIB Servicing Facilities Pty Limited.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, 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 associate.

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

(c) Segment reporting

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

(d) Revenue recognition

Revenues are recognised at the fair value of the consideration received or receivable, net of the amount of goods and services tax (GST) payable to the taxation authority.

(i) Premium revenue

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

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

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

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

(ii) Investment income

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

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

(iii) Other revenue

Revenue from the sale of goods is net of returns, discounts and other allowances, and is recognised when control of the goods passes to the customer.

(e) Unexpired risk liability

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

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability, less related intangible assets and related deferred acquisition costs, then the unearned premium is deemed to be deficient. The company applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability, refer to note 1(f).

(f) Outstanding claims liability

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

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

A risk margin is applied to the outstanding claims liability to reflect the inherent uncertainty in the central estimate of the outstanding claims liability.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Acquisition costs

Acquisition costs incurred in obtaining private health insurance contracts are recognised in the income statement as incurred and are not deferred due to the nature of private health insurance contracts.

(h) Income tax

The company, being a Registered Private Health Insurer, is exempt from income tax pursuant to Section 50-30 of the Income Tax Assessment Act 1997 as amended.

In respect of subsidiaries, tax effect accounting procedures are followed whereby the income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

(i) Leases

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

Leases in which a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term.

(j) Business combinations

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets of the subsidiary acquired is recorded as goodwill (refer to note 18). If the cost of acquisition is less than the Group's share of the fair value of identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is implicit in the transaction.

(k) Impairment of assets

The carrying amounts of assets, including goodwill and intangible assets that have an indefinite useful life and are not subject to amortisation, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

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).

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Assets backing private health insurance liabilities

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

With the exception of property, plant and equipment, the Company has determined that all assets are held to back private health insurance liabilities and their accounting treatment is described below.

(i) Financial assets

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

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

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

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

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

(ii) Investment properties

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

Investment properties are initially recorded at cost. Costs incurred subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the Group.

Subsequent to initial recognition as assets and once completed, investment properties are revalued to fair value as determined by external independent valuers, on a periodic basis, but at least every three years. Investment properties are maintained at a high standard and, as permitted by accounting standards, the properties are not depreciated.

Changes in fair value are recognised in the income statement as part of investment income.

(iii) Receivables

Amounts due from policyholders are initially recognised at fair value, being the amounts due. They are subsequently measured at fair value which is approximated to 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 Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset’s carrying amount and the value of estimated future cash flows. The impairment charge is recognised in the income statement.

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

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, and bank overdrafts. Bank overdrafts are shown within borrowings on the balance sheet.

(n) Receivables other than those included in assets backing private health insurance liabilities

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

Collectibility of trade and other receivables is reviewed on a ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the income statement.

(o) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs are assigned to inventory on hand based on actual cost.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

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

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

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

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

(q) Property, plant and equipment

Land and buildings (except for investment properties – refer to note 1 (l)(ii)) are shown at fair value, based on periodic, but at least every three years, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

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

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

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

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

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

(r) Intangible assets

(i) Goodwill

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

(ii) Bed licences

Bed licences are carried at cost, less accumulated impairment losses. Licences do not have a finite life and as such, have not been amortised. The carrying amount of bed licences is tested annually for impairment and is carried at cost less accumulated impairment losses.

(iii) Software Licences

Software licences have a finite useful life and are carried at cost, less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the licences over their useful lives being two and half years.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Payables

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

(t) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in other creditors and current provision in respect of employees' services up to the reporting date and measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rate paid or payable.

(ii) Long service leave

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

(iii) Bonus plans

A liability for employee benefits in the form of bonus plans is recognised in other creditors when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

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

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

(iv) Retirement benefits

Directors' retirement benefits are provided for in the financial statements. Non-executive directors employed before 24 November 2005 are entitled to a lump sum defined benefit based on number of years service, after five years service. Benefits for those directors that have served for five years are recognised as current provisions, and benefits for those directors that have not yet served for five years are recognised as non-current provisions. The benefit for each director is calculated based on the average director's fee for the last three years multiplied by a factor based on years of service.

(v) Termination benefits

Liabilities for termination benefits, not in connection with the acquisition of an entity or operation, are recognised when a detailed plan for the terminations has been developed and a valid expectation has been raised with those employees affected that the terminations will be carried out. The liabilities for termination benefits are recognised as current provisions, as liabilities for termination benefits are expected to be settled within 12 months of reporting date.

(u) Goods and Services Tax (GST)

Revenues, expenses, assets and liabilities are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense recognised in the income statement.

Receivables and payables are stated inclusive of the amount of GST recoverable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

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

(v) Rounding of amounts

The company is of a kind referred to in ASIC Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(w) New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Group's assessment of these new standards and interpretations is set out below.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) New accounting standards and UIG interpretations (continued)

(i) AASB 7 *Financial Instruments: Disclosures* and AASB 2005-10 *Amendments to Australian Accounting Standards [AASB s132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038]*

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's financial instruments.

(ii) AASB2007-4 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments [AASB 1, 2, 3, 4, 5, 6, 7, 102, 107, 108, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127, 128, 129, 130, 131, 132, 133, 134, 136, 137, 138, 139, 141, 1023 & 1038]*

AASB 2007-4 is applicable to annual reporting periods beginning on or after 1 July 2007. The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements.

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Company makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key area in which critical estimates are applied are described below.

The ultimate liability arising from claims made under private heath insurance contracts

Provision is made at the year 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 Company. The expected future payments include those in relation to claims reported but not yet paid and claims incurred but not yet reported. This 'central estimate' of outstanding claims is an estimate which is intended to contain no intentional over or under estimation. For this reason the inherent uncertainty in the central estimate must also be considered and a risk margin is added. The estimated cost of claims includes allowances for Risk Equalisation Trust Fund ('RETF') consequences and claims handling expense.

The Company 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 Company 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 Company processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods.

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

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

The central estimates are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from or payable to the RETF based upon the gross provision.

Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in note 3.

3. ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial methods

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

In calculating the estimated cost of unpaid claims, two methods are used. For service months March 2007 and earlier for hospital, medical and ancillary, a chain ladder method is used; this assumes that the development pattern of the current claims will be consistent with historical experience. For hospital, the service months for April 2007 to June 2007 a case estimate method is used.

3. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

Actuarial assumptions

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

	2007			2006		
	Hospital	Medical	Ancillary	Hospital	Medical	Ancillary
Average weighted term to settlement from reporting date (months)	1.2	1.8	2.7	1.3	1.6	2.7
Expense rate	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Discount rate	0%	0%	0%	0%	0%	0%

The risk margin of 5.4% (2006: 4.5%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% (2006: 95%).

Process used to determine assumptions

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

(i) Average weighted term to settlement

The assumption made in the chain ladder method is for cumulative development per service month, calculated separately by valuation class, based on historic settlement patterns. The average weighted term to settlement summarises the speed of development assumed. Where a case estimate method is used, an expected claim numbers and average claims size has been determined on the basis of recent hospital and medical claims experience.

(ii) Expense rate

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

(iii) Discount rate

The business written by the Company is short tail in nature. Based on historic experience, approximately 80% of outstanding claims are paid within two months of balance date; for this reason, expected future payments are not discounted.

Sensitivity analysis – insurance contracts

(i) Summary

The Company 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 Company. The tables below describe how a change in each assumption will affect the insurance liabilities.

Variable	Impact of movement in variable
Average weighted term to settlement	A decrease in the average term to settlement would lead to more claims being paid sooner than anticipated. Expected cumulative development patterns are used in determining the outstanding claims liability. An increase or decrease in the average weighted term would have a corresponding increase or decrease on claims expense respectively.
Expense rate	An estimate for the internal costs of handling claims is included in the outstanding claims liability. An increase or decrease in the expense rate assumption would have a corresponding impact on claims expense.
Discount rate	The outstanding claims liability is calculated by reference to expected future payments. These payments are not discounted to adjust for the time value of money. An allowance for discounting would decrease the total claims expense.

3. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

Sensitivity analysis – insurance contracts (continued)

ii) Impact of changes in key variables

		Profit		Equity	
		Consolidated 2007	Parent entity 2007	Consolidated 2007	Parent entity 2007
Recognised amounts in the financial statements		52,496	51,766	336,214	336,267
		Adjusted amounts			
Variable	**Movement in variable**	**$000**	**$000**	**$000**	**$000**
Average weighted term to be settled	+0.1 Month	49,076	48,346	332,794	332,847
	–0.1 Month	55,916	55,186	339,634	339,687
Expense rate	+1%	52,017	51,287	335,735	335,788
	–1%	52,975	52,245	336,693	336,746
Application of a discount rate of	6.35%	52,981	52,161	336,609	336,662

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

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

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

The Company manages risks by:

- establishing Committees to assist the Board in the execution of its responsibilities;
- maintaining a robust risk management framework;
- the application of standards for solvency and capital adequacy legislated under division 140 and 143 of the Private Health Insurance Act 2007; and
- the Company's internal policies and procedures designed to mitigate such risks.

Two of these committees have oversight for the various risks the Company faces. These committees are:

1. the Audit and Compliance Committee whose responsibilities include:
   - reviewing the annual reports and other financial information distributed externally;
   - assisting the Board to review the effectiveness of the Company's system of internal control;
   - monitoring the risk management system;
   - monitoring the activities of the internal audit function; and
   - reviewing the nomination and performance of the external auditor.
2. the Finance and Investment Committee whose responsibilities include:
   - recommending the appointment and reviewing the performance of the Company's Asset Consultant and Fund Managers;
   - recommending the appropriate investment objectives, strategic benchmarks and individual allocations for investment managers; and
   - reviewing the Company's financial policies and particular those policies that relate to the Company's fund raising and funding, capital expenditure and investment strategy.

The Board, both directly and through the Audit and Compliance Committee, and senior management of the Company have developed, implemented and maintain a sound and prudent Risk Management Framework (RMF).

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

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

The RMF identifies the Company's policies, procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the Company. Annually, the Company, as a Registered Private Health Insurer certifies to the Private Health Insurance Administration Council (PHIAC) that:

- The insurer has referred to the Australian Standard for Risk Management (AS/NZ 4360) as an accepted measure of appropriate risk management processes;
- The Board has approved the risk management system in place, and understands its contents;
- The risk management system in place has been formulated from a framework for establishing the context, identification, analysis, evaluation, treatment, monitoring and communication of risk;
- The system in place includes comprehensive written policies and procedures and adequate control systems to measure, monitor and manage risk;
- The Board reviews the policies and procedures, at least annually, to assess their implementation, effectiveness, and to endorse them;
- The Board receives regular reports on the operation of the risk management system and is satisfied with the level of adherence to those polices and procedures; and
- The Board has ensured that there has been, at all times, appropriate Director's and Officer's (D&O) insurance cover in place.

The solvency and capital adequacy standards are established under The Private Health Insurance Act 2007 (The Act), and are an integral component of the prudential reporting and management regime for registered private health insurers under the Act.

These standards impose a two tier capital requirement on private health insurers with each tier considering the capital requirements in a different set of circumstances.

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

Key aspects of the processes established in the RMF to mitigate risks include:

- The maintenance and use of management information systems which provide up to date, reliable data on the risks which the business is exposed to at any point in time.
- Actuarial models, using information from the management information systems, are used to calculate premiums and monitor claims pattens. Past experience and statistical methods are used as part of the process.
- A rigorous approach to product design to mitigate the risk of the Company being exposed to adverse selection.
- Maintenance of reserves in excess of solvency and capital adequacy regulatory requirements.
- An investment strategy which delivers a diversified portfolio with a heavier weighting to defensive assets verses growth assets.

(b) Insurance risk

The provision of private health insurance in Australia is governed by the Private Health Insurance Act 2007 (the Act) and shaped by a number of regulatory factors.

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

The second is risk equalisation which supports the principle of community rating. Private health insurance averages out the cost of hospital treatment across the industry. The risk equalisation scheme transfers money from money from private health insurers with younger healthier members with lower average claims payments (such as NIB) to those insurers with an older and less healthy membership and which have higher average claims payments. Thirdly the Act limits the types of treatments that private health insurers are able to offer as part of their health insurance business and fourthly premiums for health insurance can only be changed with the approval of the Minister.

(c) Development of claims

The outstanding claims liability (note 1(f) and note 21) recognises that claims are fully developed within 12 months of being incurred.

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

(d) Interest rate risk

The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate on those financial assets are as follows:

Class of asset	Effective Weighted average interest rate
Receivables	6.56% (2006: 7.0%)
Financial assets at fair value through profit and loss	6.39% (2006: 5.65%)
Cash and cash equivalents	6.36% (2006: 5.70%)

All other financial assets and liabilities are non-interest bearing.

(e) Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognise financial assets is the carrying amount, net of any provisions for impairment loss, as disclosed in the balance sheet and notes to the financial statements. The Group does not have any material credit risk to any single debtor or group of debtors under financial instruments entered into.

(f) Liquidity risk

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

(g) Market risk

(i) Price risk

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

(ii) Fair value interest rate risk

Refer to (d) above

5. REVENUE

	Notes	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Premium revenue		665,964	611,869	665,964	611,869
Investment Income					
Rent received		144	261	144	261
Net fair value gains on financial assets at fair value through profit or loss		30,771	18,355	30,950	18,309
Fair value adjustment on investment properties		1,438	–	–	–
		32,353	18,616	31,094	18,570
Other revenue					
Interest received – controlled entities		–	–	189	193
Net gain on disposal of property, plant and equipment and investment properties		8	227	8	227
Fair value adjustment to property, plant and equipment		140	–	140	–
Sundry income		1,115	827	1,175	1,263
		1,263	1,054	1,512	1,683

6. UNDERWRITING AND OTHER OPERATING EXPENSES

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Expenses by function				
Claims handling expenses	16,295	15,944	16,295	15,944
Investment expenses	1,099	675	1,099	776
Underwriting expenses	60,625	44,447	59,469	40,498
Other expenses	894	905	–	–
Total expenses	78,913	61,971	76,863	57,218
Expenses by nature				
Employee costs	37,847	33,181	37,138	31,889
Depreciation and amortisation	4,454	4,020	3,740	3,155
Impairment loss or provision for impairment loss	–	–	(1,156)	(3,949)
Impairment of property, plant & equipment	–	246	–	199
Impairment of investment properties	–	11	–	59
Operating lease rental expenses	2,543	2,891	2,377	2,534
Demutualisation/listing expenses	5,721	–	5,721	–
Other	28,348	21,622	29,043	23,331
Total expenses	78,913	61,971	76,863	57,218

Demutualisation/listing expenses are non-recurring items.

7. INCOME TAX

(a) Income tax expense

	Notes	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Recognised in the income statement					
Current tax expense	8(i)(b)	54	–	–	–
Deferred tax expense		–	–	–	–
Under (over) provided in prior years		–	–	–	–
		54	–	–	–
Income tax expense is attributable to:					
Profit from continuing operations		–	–	–	–
Profit from discontinuing operations		54	–	–	–
Aggregate income tax expense		54	–	–	–

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

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Profit from continuing operations before income tax expense	50,814	69,448	51,766	59,701
Profit from discontinuing operations before income tax expense	1,736	(5,529)	–	–
	52,550	63,919	51,766	59,701
Tax at the Australian tax rate of 30% (2006: 30%)	15,764	19,175	15,530	17,910
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Write back of provision on consolidation	320	(3,196)	–	–
Net exempt income	(15,530)	(17,910)	(15,530)	(17,910)
Net income from disposed entity	116	–	–	–
Special building write-off	–	(8)	–	–
Non-assessable income	(614)	390	–	–
Other non-deductible expenses	151	128	–	–
Prior year revenue losses not recognised now recouped	(208)	–	–	–
Prior year capital losses not recognised now recouped	(17)	–	–	–
Deferred tax asset not recognised	72	1,421	–	–
Income tax expense	54	–	–	–

NIB Health Funds Limited is exempt from income tax under the provisions of Section 50-30 of the Income Tax Assessment Act 1997 as amended.

(c) Amounts recognised directly in equity

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity				
Net deferred tax – debited (credited) directly to equity	–	–	–	–
	–	–	–	–

7. INCOME TAX (CONTINUED)

(d) Tax losses

	Notes	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Unused revenue tax losses for which no deferred tax asset has been recognised		1,239	8,697	–	–
Unused capital tax losses for which no deferred tax asset has been recognised		1,552	2,401	–	–
		2,791	11,098	–	–
Potential tax benefit @ 30%		837	3,329	–	–

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

(e) Unrecognised temporary differences

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Temporary differences relating to deferred tax assets have not been recognised				
Doubtful Debts	30	1,112	–	–
Legal expense	32	68	–	–
Income from finance lease	–	(530)	–	–
Depreciation	2,041	2,234	–	–
Employee entitlements	–	2,469	–	–
Insurance	–	9	–	–
Audit expense	13	–	–	–
Deductible temporary differences	–	38	–	–
	2,116	5,400	–	–
Unrecognised deferred tax assets relating to the above temporary differences	635	1,620	–	–

8. DISCONTINUED OPERATIONS

(i) Newcastle Private Hospital Pty Limited

(a) Description

On 28 April 2006 NIB Health Funds Limited and its subsidiaries, NIB Servicing Facilities Limited and Newcastle Private Hospital Pty Limited, following decisions taken by the Boards of the companies, resolved to enter into the following agreements with Healthscope Limited:

a) Share Sale Agreement – whereby all the shares held by NIB Health Funds Limited and NIB Servicing Facilities Pty Ltd in Newcastle Private Hospital Pty Ltd are sold to Healthscope Limited, and in regard to this:

   i. NIB Health Funds Limited subscribed for 29,000,000 shares of $1.00 each in Newcastle Private Hospital Pty Limited on 27 April 2006 in satisfaction of the advances made to Newcastle Private Hospital Pty Limited by the ultimate parent entity, NIB Health Funds Limited in current and prior years;

   ii. the Share Sale Agreement was subject to certain conditions precedent which were satisfied on 31 May 2007;

   iii. subject to the completion of the Share Sale Agreement, NIB Health Funds Limited will lease the land and buildings that house the operations of Newcastle Private Hospital to Healthscope for a term of up to 13 years. Healthscope has within that lease an option to acquire the land and buildings, which is able to be exercised within the initial three (3) years of the lease.

8. DISCONTINUED OPERATIONS (CONTINUED)

(i) Newcastle Private Hospital Pty Limited (continued)

(a) Description (continued)

b) Management Agreement – whereby Healthscope Limited manages the operations of Newcastle Private Hospital for Newcastle Private Hospital Pty Ltd and NIB Health Funds Limited, and in regard to this:

   i. the term of the management agreement commenced 1 May 2006 and continued until the completion of the Share Sale Agreement.

   ii. Healthscope Limited as manager received the following payments:

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

As a result of the Conditions Precedent being satisfied on 31 May 2007, the Share Sale Agreement between NIB Servicing Facilities Pty Limited, NIB Health Funds Ltd and Healthscope Limited was finalised, completing the sale of Newcastle Private Hospital Pty Limited to Healthscope Limited.

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

During the financial year Newcastle Private Hospital was operated under a management agreement whereby Healthscope Limited managed the operations of Newcastle Private Hospital for Newcastle Private Hospital Pty Ltd and NIB Health Funds Limited and received the following payments:

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

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

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

(b) Financial Performance and cash flow information

The financial performance and cash flow information presented are for the eleven months ended 31 May 2007 and the year ended 30 June 2006:

	2007 $000	2006 $000
Revenue	40,909	42,342
Expenses	(41,240)	(48,346)
Profit/(Loss) before income tax	(331)	(6,004)
Income tax expense	–	–
Profit/(Loss) after income tax of discontinued operation	(331)	(6,004)
Gain on the sale of the operation before income tax	601	–
Income tax expense	–	–
Gain on the sale of the operation after income tax	601	–
Profit/(Loss) from discontinued operations	**270**	**(6,004)**

8. DISCONTINUED OPERATIONS (CONTINUED)

(i) Newcastle Private Hospital Pty Limited (continued)

(b) Financial Performance and cash flow information (continued)

	2007 $000	2006 $000
(1) Expenses		
Materials and consumables	(11,759)	(13,022)
Employee costs	(22,428)	(24,860)
Depreciation and amortisation	–	(2,049)
Finance costs	–	(1)
Medical malpractice insurance	(417)	(643)
Compensation payment	–	(1,300)
Physicians fees	(1,156)	(1,318)
Nursing Agency Fees	(1,117)	(835)
Other expenses	(4,363)	(4,318)
	(41,240)	(48,346)
Cash flows		
Net cash inflow (outflow) from operating activities	417	(4,429)
Net cash inflow (outflow) from investing activities (2007 includes an inflow of $10,248,697.90 from the sale of the operation)	10,659	(132)
Net cash inflow (outflow) from financing activities	–	–
Net increase (decrease) in cash generated by the operation	**11,076**	(4,561)

(c) Carrying amounts of assets and liabilities

The carrying amounts of assets and liabilities as at 31 May 2007 and 30 June 2006 are:

	2007 $000	2006 $000
Cash and cash equivalents	1,252	425
Trade and other receivables	6,399	6,212
Inventories	867	849
Plant and equipment	13,789	13,373
Intangible assets	396	97
Total assets	**22,703**	**20,956**
Trade and other payables	4,316	3,316
Employee Benefits	2,282	2,272
Total liabilities	**6,598**	**5,588**
Net assets	**16,105**	**15,368**

(d) Details of the sale of the operations

Consideration received or receivable:

	2007 $000	2006 $000
Cash	10,249	–
Present value of amount due on or about 31 August 2007	39	–
Present value of amount due on 31 May 2008	810	–
Present value of amount due on 31 May 2009	3,564	–
Present value of amount due on 31 May 2010	2,258	–
Total disposal consideration	16,920	–
Carrying amount of net assets sold	(16,105)	–
Selling costs	(214)	–
Gain on sale	601	–

8. DISCONTINUED OPERATIONS (CONTINUED)

(i) Newcastle Private Hospital Pty Limited (continued)

(e) Commitments and Contingent Liabilities

The terms of the Newcastle Private Hospital Operations Management Agreement gave rise to commitments as at 30 June 2006 for payments to the Manager as set out in (a) (1) and (2) above.

The terms of the Newcastle Private Hospital Operations Management Agreement gave rise to contingent liabilities as at 30 June 2006 for payments to the Manager as set out in (a) (3) and (4) above.

The required disclosure on commitments and contingent liabilities due under the above agreement is included in notes 28 and 29.

(ii) NIB Eye Care and Dental businesses

(a) Description

During the year NIB Health Care Services Pty Limited operated an Eye Care Centre business and an Eye Safety business. The Eye Care and Eye Safety businesses were sold to Pacific Optical Pty Limited on 30 November 2006. The centres continue to be branded as NIB Eye Care Centres. NIB Health Care Services Pty Limited receives a percentage of retail product sales revenue from the Eye Care Centres.

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

The Eye Care, Eye Safety and Dental businesses disposed of are reported in this this financial report as a discontinuing operation. Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

(b) Financial Performance and cash flow information

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

	2007 $000	2006 $000
Revenue	2,153	4,481
Expenses	(2,132)	(4,006)
Profit before income tax	21	475
Income tax expense	–	–
Profit after income tax of discontinued operation	21	475
Gain on the sale of the operation before income tax	1,445	–
Income tax expense	(54)	–
Gain on the sale of the operation after income tax	1,391	–
Profit from discontinued operations	**1,412**	**475**
Cash flows		
Net cash inflow (outflow) from operating activities	(453)	459
Net cash inflow (outflow) from investing activities (2007 includes an inflow of $325,297.42 from the sale of the operation)	266	(43)
Net cash inflow (outflow) from financing activities	–	–
Net increase (decrease) in cash generated by the operation	**(187)**	**416**

8. DISCONTINUED OPERATIONS (CONTINUED)

(ii) NIB Eye Care and Dental businesses (continued)

(c) Carrying amounts of assets and liabilities

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

	$000
Inventories	146
Plant and equipment	180
Total assets	**326**
Employee Benefits	196
Total liabilities	**196**
Net assets	**130**

(d) Details of the sale of the operations

Consideration received or receivable:

Cash	325
Present value of amount due on 30 November 2007	250
Present value of amount due on 30 November 2008	250
Present value of amount due on 30 November 2009	250
Present value of amount due on 30 November 2010	250
Present value of amount due on 30 November 2011	250
Total disposal consideration	1,575
Carrying amount of net assets sold	(130)
Gain on sale before income tax	1,445
Income tax expense	(54)
Gain on sale after income tax	1,391

9. CASH AND CASH EQUIVALENTS

	Notes	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Cash at bank and cash on hand		**17,570**	**11,368**	**17,522**	**11,261**

(a) Interest rate risk

The Group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following tables:

	Floating interest rate $'000	Fixed Interest maturing in: 1 year or less $'000	Over 1 to 2 years $'000	Over 2 to 3 years $'000	Over 3 to 4 years $'000	Non-interest bearing $'000	Total $'000
2007							
Cash at bank and cash on hand	9,000	8,000	–	–	–	570	17,570
	9,000	8,000	–	–	–	570	17,570
Weighted average interest rate	6.2%	6.6%	–	–	–	–	
2006							
Cash at bank and cash on hand	11,000	–	–	–	–	368	11,368
	11,000	–	–	–	–	368	11,368
Weighted average interest rate	5.7%	–	–	–	–	–	

10. CURRENT ASSETS – RECEIVABLES

	Notes	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Premium receivable		5,516	6,000	5,516	6,000
Other receivables		20,688	17,431	20,077	17,155
Provision for impairment loss		(258)	(258)	(228)	(246)
		25,946	23,173	25,365	22,909
Lease receivables		149	177	–	–
Prepayments		1,260	686	1,251	660
Receivable from controlled entities		–	–	–	1,002
		27,355	**24,036**	**26,616**	**24,571**

(a) Effective interest rates

Information concerning the effective interest rate of both current and non-current receivables is set out in the non-current receivables note (note 14).

11. CURRENT ASSETS – INVENTORIES

	Consolidated 2007	Consolidated 2006	Parent Entity 2007	Parent Entity 2006
Raw materials and stores – at cost	**–**	**195**	**–**	**–**

12. CURRENT ASSETS – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

		Consolidated		Parent Entity	
	Notes	2007 $000	2006 $000	2007 $000	2006 $000
Equity securities		107,134	53,820	107,134	53,820
Interest-bearing securities		269,227	255,175	269,227	255,175
		376,361	**308,995**	**376,361**	**308,995**

(a) Interest rate risk

The Group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following tables.

		Fixed Interest maturing in:					
	Floating interest rate $'000	1 year or less $'000	Over 1 to 2 years $'000	Over 2 to 3 years $'000	Over 3 to 4 years $'000	Non-interest bearing $'000	Total $'000
2007							
Equity securities	–	–	–	–	–	107,134	107,134
Interest-bearing securities	127,218	142,009	–	–	–	–	269,227
	127,218	142,009	–	–	–	107,134	376,361
Weighted average interest rate	6.0%	6.8%	–	–	–	–	
2006							
Equity securities	–	–	–	–	–	53,820	53,820
Interest-bearing securities	144,854	110,321	–	–	–	–	255,175
	144,854	110,321	–	–	–	53,820	308,995
Weighted average interest rate	5.6%	5.7%	–	–	–	–	

13. NON-CURRENTS ASSETS CLASSIFIED AS HELD FOR SALE

		Consolidated		Parent Entity	
	Notes	2007 $000	2006 $000	2007 $000	2006 $000
Investment properties		1,335	–	1,335	–
Land & buildings		8,554	–	8,554	–
Shares in controlled entities		–	–	–	29,000
Provision for impairment		–	–	–	(15,082)
		9,889	**–**	**9,889**	**13,918**

14. NON-CURRENT ASSETS – RECEIVABLES

		Consolidated		Parent Entity	
	Notes	2007 $000	2006 $000	2007 $000	2006 $000
Amounts receivable from controlled entities		–	–	6,667	6,819
Provision for impairment		–	–	(4,611)	(5,768)
		–	–	2,056	1,051
Other receivables		6,822	–	5,628	–
Lease receivables		204	353	–	–
		7,026	**353**	**7,684**	**1,051**

(a) Interest rate risk

The Group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following tables.

		Fixed Interest maturing in:					
	Floating interest rate $'000	1 year or less $'000	Over 1 to 2 years $'000	Over 2 to 3 years $'000	Over 3 to 4 years $'000	Non-interest bearing $'000	Total $'000
2007							
Premium receivable	–	–	–	–	–	5,288	5,288
Other receivables	7,882	–	–	–	–	19,598	27,480
Lease receivables	–	149	123	81	–	–	353
	7,882	149	123	81	–	24,886	33,121
Weighted average interest rate	6.4%	7.0%	7.0%	7.0%	–	–	
2006							
Premium receivable	–	–	–	–	–	5,633	5,633
Other receivables	–	–	–	–	–	17,540	17,540
Lease receivables	–	177	149	123	81	–	530
	–	177	149	123	81	23,173	23,703
Weighted average interest rate	–	7.0%	7.0%	7.0%	7.0%	–	

15. NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

		Consolidated		Parent Entity	
	Notes	2007 $000	2006 $000	2007 $000	2006 $000
Shares in controlled entities		–	–	15,255	15,255
Provision for impairment loss		–	–	(672)	(672)
		–	**–**	**14,583**	**14,583**

16. NON-CURRENT ASSETS – INVESTMENT PROPERTIES

	Notes	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Investment properties					
At Directors' valuation – 30 June 2006		–	1,800	–	31,800
At Directors' valuation – 30 June 2007		30,000	–	30,000	–
		30,000	**1,800**	**30,000**	**31,800**

The basis of the valuation of investment properties is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. Freehold land and buildings were independently valued, excluding those in the course of construction, by a member of the Australian Property Institute during 2005. It is the opinion of the Directors that these valuations represent the fair value of the properties at 30 June 2007.

Reconciliation

A reconciliation of the carrying amounts of investment properties at the beginning and end of the current financial year is set out below:

At Fair Value

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Opening balance at 1 July 2006	1,800	3,285	31,800	32,085
Capitalised subsequent expenditure	–	11	–	59
Net gain/(loss) from fair value adjustment	1,438	(11)	–	(59)
Net transfer from property, plant and equipment	28,562	–	–	–
Classified as held for sale or disposals	(1,800)	(1,485)	(1,800)	(285)
Closing balance at 30 June 2007	**30,000**	**1,800**	**30,000**	**31,800**

(a) Amounts recognised in profit and loss for investment property

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Rental income	144	277	144	277
Rental income in discontinued operations	–	115	–	–
Direct operating expenses from property that generated rental income	–	(16)	–	(16)
Direct operating expenses from property that generated rental income in discontinued operations	–	(29)	–	–
Direct operating expenses from property that did not generate rental income	(187)	–	(187)	(3)
	(43)	**347**	**(43)**	**258**

(b) Leasing arrangements

The investment properties are leased to tenants under long term operating leases with rental payable monthly. Minimum lease payments receivable on leases of investment properties are as follows:

Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Within one year	–	110	–	124
Later than one year but not later than 5 years	–	163	–	225
	–	**273**	**–**	**349**

On completion of the Share Sale Agreement on 31 May 2007, NIB Health Funds Limited entered into an agreement to lease the land and buildings that house the operations of Newcastle Private Hospital to Healthscope Limited for a term of up to 13 years. Healthscope has within that lease an option to acquire the land and buildings, which is able to be exercised within the initial three years of the lease.

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

(c) Contractual obligations

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

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

	Consolidated			
	Land & Buildings $000	Plant & Equipment $000	Leasehold Improvements $000	Total $000
Fair value/Cost				
Balance at 1 July 2005	41,600	30,185	4,762	76,547
Additions	246	2,959	522	3,727
Assets included in a disposal group classified as held for sale or other disposals	–	(22,248)	(961)	(23,209)
Revaluations	(246)	–	–	(246)
Transfers	–	(111)	101	(10)
Balance at 30 June 2006	41,600	10,785	4,424	56,809
Balance at 1 July 2006	41,600	10,785	4,424	56,809
Additions	8,324	1,408	393	10,125
Assets included in a disposal group classified as held for sale or other disposals	(8,554)	(1,784)	(1,065)	(11,403)
Revaluations	(51)	–	–	(51)
Transfers	(30,000)	2	(2)	(30,000)
Balance at 30 June 2007	11,319	10,411	3,750	25,480
Depreciation and impairment losses				
Balance at 1 July 2005	–	(11,787)	(3,429)	(15,216)
Depreciation charge for the year	(951)	(3,557)	(502)	(5,010)
Assets included in a disposal group classified as held for sale or other disposals	4	8,679	953	9,636
Revaluations	–	–	–	–
Transfers	–	87	(78)	9
Balance at 30 June 2006	(947)	(6,578)	(3,056)	(10,581)
Balance at 1 July 2006	(947)	(6,578)	(3,056)	(10,581)
Depreciation charge for the year	(893)	(1,596)	(458)	(2,947)
Assets included in a disposal group classified as held for sale or other disposals		1,134	1,057	2,191
Revaluations	324	–	–	324
Transfers	1,437	–	–	1,437
Balance at 30 June 2007	(79)	(7,040)	(2,457)	(9,576)
Carrying amounts				
At 1 July 2005	**41,600**	**18,398**	**1,333**	**61,331**
At 30 June 2006	**40,653**	**4,207**	**1,368**	**46,228**
At 1 July 2006	**40,653**	**4,207**	**1,368**	**46,228**
At 30 June 2007	**11,240**	**3,371**	**1,293**	**15,904**

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

	Parent Entity			
	Land & Buildings $000	Plant & Equipment $000	Leasehold Improvements $000	Total $000
Fair Value/Cost				
Balance at 1 July 2005	11,600	8,570	3,697	23,867
Additions	199	1,632	497	2,328
Disposals/write off	–	(316)	(953)	(1,269)
Revaluations	(199)	–	–	(199)
Transfers	–	(111)	101	(10)
Balance at 30 June 2006	11,600	9,775	3,342	24,717
Balance at 1 July 2006	11,600	9,775	3,342	24,717
Additions	8,324	967	366	9,657
Assets included in a disposal group classified as held for sale or other disposals	(8,554)	(338)	(1)	(8,893)
Revaluations	(51)	–	–	(51)
Transfers	–	2	(2)	–
Balance at 30 June 2007	11,319	10,406	3,705	25,430
Depreciation and impairment losses				
Balance at 1 July 2005	–	(4,563)	(2,446)	(7,009)
Depreciation charge for the year	(201)	(1,488)	(429)	(2,118)
Disposals	4	287	953	1,244
Revaluations	–	–	–	–
Transfers	–	87	(79)	8
Balance at 30 June 2006	(197)	(5,677)	(2,001)	(7,875)
Balance at 1 July 2006	(197)	(5,677)	(2,001)	(7,875)
Depreciation charge for the year	(206)	(1,577)	(450)	(2,233)
Disposals	–	215	1	216
Revaluations	324	–	–	324
Transfers	–	–	–	–
Balance at 30 June 2007	(79)	(7,039)	(2,450)	(9,568)
Carrying amounts				
At 1 July 2005	**11,600**	**4,007**	**1,251**	**16,858**
At 30 June 2006	**11,403**	**4,098**	**1,341**	**16,842**
At 1 July 2006	**11,403**	**4,098**	**1,341**	**16,842**
At 30 June 2007	**11,240**	**3,367**	**1,255**	**15,862**

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

(a) Assets in the course of construction

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

		Consolidated		Parent Entity	
	Notes	2007 $000	2006 $000	2007 $000	2006 $000
Land & Buildings		**6,999**	–	**6,999**	–

(b) Valuations of land and buildings

The valuation basis of land and buildings is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction based on current prices in an active market for similar properties in the same location and condition. Freehold land and buildings were independently valued, excluding those in the course of construction, by a member of the Australian Property Institute during 2005. It is the opinion of the Directors that these valuations represent the fair value of the properties at 30 June 2007.

(c) Carrying amounts that would have been recognised if land and buildings were stated at cost

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

Freehold land and buildings				
Cost	10,203	48,381	10,203	9,704
Accumulated depreciation	(546)	(6,515)	(546)	(3,315)
Net book amount	**9,657**	**41,866**	**9,657**	**6,389**

18. NON-CURRENT ASSETS – INTANGIBLE ASSETS

	Consolidated			
	Private Hospital Bed Licences $000	Goodwill $000	Software $000	Total $000
Balance at 1 July 2005	396	7,067	8,877	16,340
Additions	–	–	2,267	2,267
Assets included in a disposal group classified as held for sale or other disposals	(74)	–	(449)	(523)
Transfers	–	–	230	230
Balance at 30 June 2006	322	7,067	10,925	18,314
Balance at 1 July 2006	322	7,067	10,925	18,314
Additions	–	–	1,557	1,557
Assets included in a disposal group classified as held for sale or other disposals	(322)	–	–	(322)
Transfers	–	–	–	–
Balance at 30 June 2007	–	7,067	12,482	19,549
Depreciation and impairment losses				
Balance at 1 July 2005	–	–	(7,449)	(7,449)
Depreciation charge for the year	–	–	(1,059)	(1,059)
Assets included in a disposal group classified as held for sale or other disposals	–	–	409	409
Balance at 30 June 2006	–	–	(8,099)	(8,099)
Balance at 1 July 2006	–	–	(8,099)	(8,099)
Depreciation charge for the year	–	–	(1,507)	(1,507)
Assets included in a disposal group classified as held for sale or other disposals	–	–	–	–
Balance at 30 June 2007	–	–	(9,606)	(9,606)
Carrying amounts				
At 1 July 2005	**396**	**7,067**	**1,428**	**8,891**
At 30 June 2006	**322**	**7,067**	**2,826**	**10,215**
At 1 July 2006	**322**	**7,067**	**2,826**	**10,215**
At 30 June 2007	**–**	**7,067**	**2,876**	**9,943**

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

	Parent Entity			
	Private Hospital Bed Licences $000	Goodwill $000	Software $000	Total $000
Balance at 1 July 2005	322	7,067	3,848	11,237
Additions	–	–	2,266	2,266
Assets included in a disposal group classified as held for sale or other disposals	–	–	(380)	(380)
Transfers	–	–	230	230
Balance at 30 June 2006	322	7,067	5,964	13,353
Balance at 1 July 2006	322	7,067	5,964	13,353
Additions	–	–	1,557	1,557
Assets included in a disposal group classified as held for sale or other disposals	(322)	–	–	(322)
Transfers	–	–	–	–
Balance at 30 June 2007	–	7,067	7,521	14,588
Depreciation and impairment losses				
Balance at 1 July 2005	–	–	(2,465)	(2,465)
Depreciation charge for the year	–	–	(1,037)	(1,037)
Assets included in a disposal group classified as held for sale or other disposals	–	–	364	364
Balance at 30 June 2006	–	–	(3,138)	(3,138)
Balance at 1 July 2006	–	–	(3,138)	(3,138)
Depreciation charge for the year	–	–	(1,507)	(1,507)
Assets included in a disposal group classified as held for sale or other disposals	–	–	–	–
Balance at 30 June 2007	–	–	(4,645)	(4,645)
Carrying amounts				
At 1 July 2005	**322**	**7,067**	**1,383**	**8,772**
At 30 June 2006	**322**	**7,067**	**2,826**	**10,215**
At 1 July 2006	**322**	**7,067**	**2,826**	**10,215**
At 30 June 2007	**–**	**7,067**	**2,876**	**9,943**

(a) Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment. NIB Health Funds Limited has one CGU being private health insurance.

Goodwill relates to the acquisition of a subsidiary, NIB Health Services Limited (formerly IOOF Health Services Limited). The recoverable amount of a CGU is determined based on value-in-use calculation, and the recoverable amount exceeds the carrying value of the goodwill. The value-in-use calculation uses cash flow projections based on financial budgets approved by management covering a three-year period and financial forecasts covering a further two-year period.

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

(b) Key assumptions used for value-in-use calculations

The assumptions are in line with the current board approved budget. Key assumptions include membership growth, claims ratio and discount rate.

Membership growth is calculated by forecasting the number of sales each month based on budgeted advertising and promotions spend, less the number of expected lapses each month. Claims ratios are targeted that generate price increases that maintain price competitiveness, cover expected increases in claims costs, do not adversely affect the funds capital adequacy position and enable funding of future business growth. The discount rate used reflects NIB's capital allocation policy with risk premium for moderate risk projects.

19. CURRENT LIABILITIES – PAYABLES

	Notes	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Trade creditors		3,372	712	3,362	619
Other payables		27,297	14,012	27,137	13,684
HBRTF/RETF payable		14,519	11,998	14,519	11,998
Amounts owed to controlled entities		–	–	14,633	14,626
		45,188	**26,722**	**59,651**	**40,927**

20. CURRENT LIABILITIES – BORROWINGS

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Bank overdraft	**1,431**	**2,989**	**1,381**	**2,946**

The bank overdraft is made of the closing balances of the bank account, less unpresented cheques and addition of outstanding deposits. As at the balance dates, the bank accounts had positive bank balances, however due to unpresented cheques, are represented in the accounts as a bank overdraft.

21. CURRENT LIABILITIES – OUTSTANDING CLAIMS LIABILITY

(a) Outstanding claims liability

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Outstanding claims – central estimate of the expected future payments for claims incurred	43,773	47,201	43,773	47,201
Risk Margin	2,221	2,188	2,221	2,188
Claims handling costs	1,313	1,416	1,313	1,416
Gross outstanding claims liability	47,307	50,805	47,307	50,805
Outstanding claims – expected payment to the HRBTF/RETF in relation to the central estimate	6,105	4,331	6,105	4,331
Risk Margin	543	195	543	195
Net outstanding claims liability	**53,955**	**55,331**	**53,955**	**55,331**

21. CURRENT LIABILITIES – OUTSTANDING CLAIMS LIABILITY (CONTINUED)

(b) Risk margin

The risk margin of 5.4% (2006: 4.5%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95.0% (2006: 95%).

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

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

The outstanding claims estimate is derived based on 3 valuation classes, namely Hospital and Prostheses services combined, Medical services, and Ancillary and Ambulance services combined. Diversification benefits within a valuation class are implicitly allowed for through the model adopted. The determination of the risk margin has also implicitly allowed for diversification between valuation classes based on an analysis of past correlations in deviations from the adopted model.

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

The business written by the Company is short tail in nature. Based on historic experience, approximately 80% of outstanding claims are received within two months of balance date, and accordingly only 20% of the outstanding claims provision requires an estimate. For this reason, expected future payments are not discounted. Accordingly, reasonable changes in assumptions would not have a material impact on the outstanding claims balance.

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

	Parent and Consolidated Entity	
	2007 $000	2006 $000
Gross outstanding claims at 1 July	50,805	38,382
Administration component	(1,416)	(1,262)
Risk margin	(2,188)	(1,828)
Central estimate at 1 July	47,201	35,292
Change in claims incurred for the prior year	1,510	(1,167)
Claims paid in respect of the prior year	(48,711)	(34,125)
Claims incurred during the year (expected)	501,823	441,445
Claims paid during the year (expected)	(458,050)	(394,244)
Central estimate at 30 June	43,773	47,201
Administration component	1,313	1,651
Change in administration component assumptions	–	(235)
Risk margin	2,029	2,431
Change in risk margin assumption	406	(243)
Gross outstanding claims at 30 June	47,521	50,805

22. CURRENT LIABILITIES – UNEARNED PREMIUM LIABILITY

	Notes	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Unearned premium liability as at 1 July		44,502	41,544	44,502	41,544
Deferral of premiums on contracts written in the period		51,580	44,502	51,580	44,502
Earning of premiums written in previous periods		(44,502)	(41,544)	(44,502)	(41,544)
Unearned premium liability as at 30 June		**51,580**	**44,502**	**51,580**	**44,502**

23. CURRENT LIABILITIES – UNEXPIRED RISK LIABILITY

No deficiency was identified as at 30 June 2007 and 2006 that resulted in an unexpired risk liability needing to be recognised.

24. CURRENT LIABILITIES – CURRENT TAX LIABILITIES

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Current tax payable	**54**	**–**	**–**	**–**

25. PROVISIONS FOR EMPLOYEE ENTITLEMENTS

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Current				
Employee benefits				
Annual leave	2,851	2,803	2,851	2,669
Long service leave	1,275	1,319	1,275	1,186
Retirement benefits	627	572	627	572
	4,753	**4,694**	**4,753**	**4,427**
Non-current				
Employee benefits				
Long service leave	751	625	751	625
Retirement benefits	122	111	122	111
	873	**736**	**873**	**736**

26. RETAINED PROFITS

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Balance at the beginning of the financial year	276,665	212,747	277,448	217,747
Net profit	52,496	63,918	51,766	59,701
Balance at the end of the financial year	**329,161**	**276,665**	**329,214**	**277,448**

27. RESERVES

(a) Reserves comprise:

	Notes	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Property revaluation		7,053	6,919	7,053	6,919
		7,053	6,919	7,053	6,919

(b) Movements in reserves:

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Property revaluation reserve				
Balance at the beginning of the year	6,919	6,919	6,919	6,919
Property revaluation	134	–	134	–
Balance at the end of the year	7,053	6,919	7,053	6,919

(c) Nature and purpose of reserves

The property revaluation reserve is used to record increments and decrements on the revaluation of non-current assets, as described in note1(q).

28. COMMITMENTS FOR EXPENDITURE

(a) Operating lease commitments

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
– not longer than one year	1,597	2,246	1,597	1,878
– longer than one year and not longer than five years	2,171	3,461	2,171	3,390
	3,768	**5,707**	**3,768**	**5,268**

(b) Capital expenditure commitments

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
– not longer than one year	29,749	117	29,749	106
– longer than one year and not longer than five years	3,652	–	3,652	–
	33,401	**117**	**33,401**	**106**

The above commitments include capital commitments of $33,366,759 (2006 – $ nil) relating to the construction of the new head office building at Honeysuckle.

(c) Other expenditure commitments

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
– not longer than one year	**–**	**250**	**–**	**–**

(d) Remuneration commitments

Commitments for the payment of salaries, wages and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities:

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
– not longer than one year	3,007	1,670	3,007	1,670
– longer than one year and not longer than five years	1,857	5,640	1,857	5,640
	4,864	**7,310**	**4,864**	**7,310**

29. CONTINGENT LIABILITIES

At the date of this financial report, NIB Health Funds Limited has given an undertaking to extend financial support to subsidiaries NIB Servicing Facilities Pty Limited and NIB Health Care Services Pty Limited by subordinating repayment of debts owed by the entities to NIB Health Funds Limited, in favour of all other creditors. This undertaking has been provided as a result of each of these subsidiaries experiencing deficiencies of capital and reserves, and is intended to enable the entities to continue their operations and fulfil all financial obligations now and in the future. The undertaking is provided for a minimum period of twelve months from 30 August 2007, or if earlier, to the date of sale of the entities should this occur.

30. REMUNERATION OF AUDITORS

		Consolidated		Parent Entity	
	Notes	2007 $	2006 $	2007 $	2006 $
1. Audit services					
PricewaterhouseCoopers					
Audit and review of financial report and other audit work under the *Corporations Act 2001*		204,000	181,950	191,200	154,902
Total remuneration for audit services		204,000	181,950	191,200	154,902
2. Non-audit services					
Audit-related services					
PricewaterhouseCoopers					
Audit of regulatory returns		31,050	33,710	31,050	33,710
Total remuneration for audit-related services		31,050	33,710	31,050	33,710
Taxation services					
PricewaterhouseCoopers					
Advice on demutualisation		311,420	–	311,420	–
Other		34,885	72,205	34,885	72,205
Total remuneration for taxation services		346,305	72,205	346,305	72,205
Other services					
PricewaterhouseCoopers					
IFRS accounting services		–	66,552	–	66,552
Advice on demutualisation		215,900	–	215,900	–
Other activities undertaken to support audit of financial report		84,850	12,400	84,850	12,400
Total remuneration for other services		300,750	78,952	300,750	78,952
		882,105	**366,817**	**869,305**	**339,769**

31. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of cash

For the purpose of the statement of cash flows, cash includes cash on hand and in banks net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items on the balance sheet as follows:

	Notes	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Cash and cash equivalents	9	17,570	11,368	17,522	11,261
Bank overdraft	20	(1,431)	(2,989)	(1,381)	(2,946)
Cash on hand in disposal group classified as held for sale	8(i)(c)	–	425	–	–
		16,139	**8,804**	**16,141**	**8,315**

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

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Profit for the year	52,496	63,918	51,766	59,701
Net (gain)/loss on disposal of non-current assets	(8)	(112)	(8)	31
Fair value (gain)/loss on other financial assets at fair value through profit or loss	(8,438)	(6,865)	(8,350)	8,217
Net profit on disposal of business	(1,445)	–	–	–
Fair value adjustments to property	(1,577)	258	(140)	–
Gain on disposal of subsidiary	(601)	–	(263)	–
Depreciation and amortisation	4,454	6,069	3,740	3,155
Change in operating assets and liabilities, net of effect from purchase of controlled entity				
Decrease (increase) in receivables	(943)	(5,373)	(1,891)	(7,480)
Decrease (increase) in inventories	31	38	–	–
Increase (decrease) in trade payables	24,910	8,376	24,233	7,004
Increase (decrease) in current tax payable	54	–	–	–
Increase (decrease) in provisions	(1,046)	13,347	(1,055)	13,050
Net cash flow from operating activities	**67,887**	**79,656**	**68,032**	**83,678**

(c) Non-cash investing activities

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Acquisition of shares in subsidiary	–	–	–	29,000
	–	**–**	**–**	**29,000**

32. SUBSIDIARIES

	Place of incorporation	Percentage of shares held 2007 %	2006 %
NIB Health Funds Limited	Australia		
NIB Servicing Facilities Pty Limited	Australia	100	100
NIB Health Care Services Pty Limited	Australia	100	100
Newcastle Private Hospital Pty Limited (formerly NIB Private Hospital Pty Limited)(i)	Australia	–	100
063 465 949 Pty Limited (formerly NIB Eye Safety Pty Limited)	Australia	100	100
NIB Health Services Limited (formerly IOOF Health Services Limited)	Australia	100	100
The Heights Private Hospital Pty Limited	Australia	100	100
The NIB Private Hospital Trust	Australia	100	100
Newcastle Private Hospital Trust	Australia	100	100

The ultimate parent entity is NIB Health Funds Limited.

(i) A share sale agreement was completed on 31 May 2007. Refer to note 8 for further information.

33. INVESTMENTS IN ASSOCIATES

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the parent entity. Information relating to the associates is set out below:

		Ownership interest		Consolidated carrying amount		Parent entity carrying amount	
Name of company	Principal activity	2007 %	2006 %	2007 $000	2006 $000	2007 $000	2006 $000
Newcastle Private Imaging Services Pty Limited	Trustee company	–	50%	–	–	–	–
Newcastle Private Imaging Service Trust	Medical imaging services	–	25%	–	–	–	–

Consolidated carrying amounts of investments are Nil at 30 June 2007 and were less than $500 at 30 June 2006, and hence have been rounded to nil.

34. FINANCIAL REPORTING BY SEGMENT

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

35. EVENTS OCCURRING AFTER REPORTING DATE

As set out in "Proposal to Demutualise – Explanatory Statement" dated 11 June 2007, the Board unanimously recommended the Proposal as being in the best interest of both Policyholders and Company Members. In summary, the Proposal involves a change to NIB's corporate and company membership structure. If the Proposal is approved, NIB will change its structure from being a mutual company limited by guarantee (which has no share capital), to a company limited by shares.

In essence, the Proposal involves:

- Eligible Policyholders and Company Members (in their new capacity as Eligible Policyholders) receiving Shares;
- the cancelling of Company Members' existing rights and obligations as Company Members; and
- NIB Holdings acquiring 100% of NIB.

The Proposal will result in Eligible Policyholders becoming Shareholders in NIB Holdings. Following Demutualisation, the Board intends to List NIB Holdings on the ASX within six months (circumstances permitting).

Since 30 June 2007 all required approvals have been received. Given the required approvals have been received, the implementation steps are expected to occur on or about the dates shown below:

1. NIB converts from a company limited by guarantee to a company limited by Shares and NIB issues Shares to Eligible Policyholders – 31 August 2007;
2. NIB issues Shares to NIB Holdings – 31 August 2007;
3. NIB cancels the Shares it has issued to the Eligible Policyholders (the Shares NIB has issued to NIB Holdings are not cancelled) and NIB Holdings becomes a parent company of NIB – 1 October 2007;
4. NIB Holdings issues the same number of Shares as cancelled in step 3 to Eligible Policyholders – 1 October 2007; and
5. NIB Holdings lists on the ASX – November 2007.

Other than change in NIB's corporate and company membership structure discussed above, there has not been any other matter or circumstance, that has 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.

36. RELATED PARTIES

(a) Related party transactions with key management personnel

There were no related party transactions during the year, whereby neither party had the presence of control, joint control or significant influence to effect the financial and operating policies of the entity.

(b) Transactions with associated companies

Details of ownership interests in these associate entities are set out in note 33.

Newcastle Private Imaging Service Trust

When Newcastle Private Hospital Pty Limited was a wholly owned subsidiary of the Group, it had the following transactions with Newcastle Private Imaging Trust:

i) Cash and non-cash advances from Newcastle Private Hospital Pty Limited to Newcastle Private Imaging Service Trust to meet working capital requirements and to cover losses during the year ended 30 June 2007 of $639,148 (2006: $664,808)

ii) Newcastle Private Hospital Pty Limited received fees for equipment and premises leases, and related outgoings, together with theatre procedure fees from Newcastle Private Imaging Service Trust during the year ended 30 June 2007 of $478,693 (2006: $712,560).

iii) Newcastle Private Hospital Pty Limited paid Newcastle Private Imaging Service Trust for the provision of radiology services, together with reimbursing Newcastle Private Imaging Service Trust for after hours call out fees unpaid by Newcastle Private Hospital patients during the year ended 30 June 2007 in the amount of $91,477 (2006: $120,509).

36. RELATED PARTIES (CONTINUED)

(b) Transactions with associated companies (continued)

Newcastle Private Imaging Service Trust (continued)

iv) Newcastle Private Hospital Pty Limited negotiated the future dissolution of Newcastle Private Imaging Service Trust as part of satisfying the conditions precedent in respect of the sale of the operation of Newcastle Private Hospital (refer note 8) and agreed to compensate Newcastle Radiology $1,300,000 + GST. This amount was provided for at 30 June 2006 and was paid on 2 March 2007.

The outstanding loan for the year ended 30 June 2006 was $66,735. This amount was fully provided for during the year ended 30 June 2006, and recognised as an expense in the income statement. The loan balance of $36,729 was written off at 31 May 2007.

(c) Transactions with related parties in the wholly owned consolidated group

The wholly-owned group consists of NIB Health Funds Limited and its controlled entities. Details of ownership interests in these controlled entities are set out in note 32.

Details of interest revenue and charges and provision for impairment in respect of transactions with entities in the wholly-owned group are disclosed in notes 5 and 6 to the financial statements.

a) Other transactions that occurred during the financial year between entities in the wholly-owned group were:
   - Accounting and administration services at cost, totalling $187,780 (2006: $270,771)
   - Rental of property, plant and equipment at cost, totalling $50,820 (2006: $123,500)
   - Computer bureau charges, totalling $94,299 (2006: $200,595)

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

(d) Loans to/from related parties

		Consolidated		Parent Entity	
	Notes	2007 $	2006 $	2007 $	2006 $
Loans to subsidiaries					
Beginning of the year		–	–	7,820,803	32,126,385
Loans advanced		–	–	2,815,838	4,372,770
Loan repayments received		–	–	(2,688,154)	(4,884,767)
Loans advanced to discontinuing operations		–	–	3,891,278	20,074,542
Loan repayments received from discontinuing operations		–	–	(2,766,077)	(43,850,661)
Loans repaid on disposal of discontinuing operation		–	–	(2,390,739)	–
Interest Charged		–	–	188,594	192,853
Interest received		–	–	(204,066)	(210,319)
End of the year		**–**	**–**	**6,667,477**	**7,820,803**

During the year the Parent entity has advanced funds to wholly owned entities to meet operating cash flow requirements. These outstanding balances are unsecured and are repayable in cash.

Loan from NIB Health Services Limited					
Beginning of the year		–	–	14,626,478	14,624,849
Loans advanced		–	–	6,111	1,629
Loan repayments received		–	–	–	–
End of the year		**–**	**–**	**14,632,589**	**14,626,478**

A provision for impairment has been raised in the relation to the related parties loans, and a release of a prior years provision has been made in the amount of $1,156,041 in the income statement, largely due to the profit on sale on the Eye Care and Dental businesses. In 2006, a release of a prior years provision was made in the amount of $3,948,645 in the income statement.

37. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

The following persons were directors of NIB Health Funds Limited during the financial year:

(i) Chairman – non-executive

- Keith Lynch

(ii) Non-executive directors

- David Brewer
- Grahame Cannon
- Annette Carruthers
- Janet Dore
- Philip Gardner
- Michael Slater

(b) Key management personnel (Executives)

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	Position	Employer
Mark Fitzgibbon	Chief Executive Officer	NIB Health Funds Limited
Ian Boyd	Medical Director	NIB Health Funds Limited
Jayne Drinkwater	Chief Marketing Officer	NIB Health Funds Limited
Diane Lally	Human Resources Director	NIB Health Funds Limited
David Lethbridge	Executive Manager – Strategy & Governance	NIB Health Funds Limited
Michelle McPherson	Chief Financial Officer	NIB Health Funds Limited
Peter Small	Chief Operating Officer	NIB Health Funds Limited

(c) Key management personnel compensation

		Consolidated		Parent Entity	
	Notes	2007 $	2006 $	2007 $	2006 $
Short-term employee benefits		3,506,760	2,339,023	3,506,760	2,339,023
Post-employment benefits		782,786	367,522	782,786	367,522
Other long-term benefits		66,536	134,849	66,536	134,849
Termination benefits		–	–	–	–
		4,356,082	2,841,394	4,356,082	2,841,394

The company has taken advantage of the relief provided by *Corporations Regulation* 2M.6.04 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections A-C of the remuneration report on pages 31 to 34.

38. SOLVENCY REQUIREMENT

NIB Health Funds Limited Solvency Reserve, as per the Solvency Standard in the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is $73.905 million. Total Health Benefits Fund Assets are $508.460 million, representing an excess of $262.362 million over the Solvency Reserve and Health Benefits Fund Liabilities.

39. COMPANY DETAILS

NIB Health Funds Limited is a company limited by guarantee, incorporated and domiciled in Australia. The registered office of the company is:

384 Hunter Street
NEWCASTLE NSW 2300

The financial report was authorised for issue by the directors on 30 August 2007. The company has the power to amend and reissue the financial report.

COMPANY DETAILS

NIB Retail Centre Locations

NSW

Blacktown	Shop T26E, Westpoint Shopping Centre, Blacktown 2148
Brookvale	Shop 190, Level 1, Warringah Mall, Brookvale 2100
Campbelltown	Shop 1, 274-276 Queen Street, Campbelltown 2560
Cessnock	73 Vincent Street, Cessnock 2325
Charlestown	Suite 2, 190 Pacific Highway, Charlestown 2290
Chatswood	Shop 235, Westfield Shoppingtown, Anderson Street, Chatswood 2067
Eastgardens	Shop 182, Westfield Shoppingtown, 152 Bunnerong Road, Eastgardens 2035
Erina	Shop T71A, Erina Fair Shopping Centre, Terrigal Drive, Erina 2250
Glendale	593 Main Rd, Glendale 2285
Hurstville	Shop 235B, Forest Road, Hurstville 2220
Kotara	Shop 1/19, Westfield Kotara, Kotara 2289
Liverpool	Shop 16, Liverpool Plaza, Macquarie Street, Liverpool 2170
Maitland	371 High Street, Maitland 2320
Miranda	Shop 1014, Westfield Shoppingtown, Miranda 2228
Muswellbrook	49 Bridge Street, Muswellbrook 2333
Newcastle	Ground Floor, 384 Hunter Street, Newcastle 2300
North Ryde	Shop 43, Level 2, Macquarie Shopping Centre, Crn. Waterloo & Herring Roads, North Ryde 2113
Parramatta	Shop 1138, Westfield Shoppingtown, Church Street, Parramatta 2150
Penrith	Shop 31, Centro Nepean, Station Street, Penrith 2750
Raymond Terrace	Shop 3, Raymond Terrace Marketplace, 35-39 William Street, Raymond Terrace 2324
Salamander Bay	1/67 Salamander Way, Salamander Bay 2315
Shellharbour	Shop 37, Stockland Shellharbour, Shellharbour 2529
Singleton	101 John Street, Singleton 2330
Sydney City	Shop 3B, 5 Hunter Street, Sydney 2000
Tamworth	Shop C, 430 Peel Street, Tamworth 2340
Taree	Hunter Arcade, 19 Manning Street, Taree 2430
Wollongong	136 Crown Street, Wollongong 2500

ACT

Belconnen	Shop 140A, Level 3 Westfield Shoppingtown, Belconnen 2617
Woden	Shop GD72, Woden Plaza, Woden 2606

QLD

Brisbane	Level 1, Store E150, Wintergarden, Queen Street Mall, Brisbane 4000

VIC

Melbourne	140 Queen Street, Melbourne 3000

SA

Adelaide	13 Grenfell Street, Adelaide 5000

NIB Dental Care Centres

Glendale	593 Main Rd, Glendale NSW 2285
Newcastle	366 Hunter Street, Newcastle NSW 2300
Sydney	Level 10, 333 George Street, Sydney NSW 2000
Wollongong	104 Crown St, Crown St Mall, Wollongong NSW 2500

NIB Eye Care Centres

Charlestown	190 Pacific Highway, Charlestown NSW 2290
Newcastle	366 Hunter St, Newcastle NSW 2300
Sydney	Level 10, 333 George St, Sydney NSW 2000
Wollongong	104 Crown St, Crown St Mall, Wollongong NSW 2500

NIB Corporate Office

Newcastle	384 Hunter Street, Newcastle NSW 2300

NIB Corporate Sales Office

Parramatta	Level 5, Suite 4, 20-22 Macquarie Street, Parramatta NSW 2150

Website

nib.com.au

Member Care Centre

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