

**nib holdings limited**  
**ABN 51 125 633 856**

**Half-year report for the period ended 31 December 2009**

This report should be read in conjunction with the annual financial report for the year ended 30 June 2009.

**CONTENTS**

Results for announcement to the market	2
Appendix 4D compliance matrix	3
Interim Report of nib holdings limited	4

## APPENDIX 4D

nib holdings limited  
ABN 51 125 633 856

For the period ended 31 December 2009

### Results for announcement to market

	6 months to 31-Dec-09 \$'000	6 months to 31-Dec-08 \$'000	Movement up / (down) \$'000	Movement %
Revenue from ordinary activities	480,936	397,904	83,032	21%
Profit from ordinary activities after tax attributable to members	43,104	2,075	41,029	1977%
Net profit attributable to members	43,104	2,075	41,029	1977%

Dividends (distributions)	Amount per security	Franking amount per security
Interim dividend	2.0 cents	100%
Record date for determining entitlements to the dividend		12 March 2010
Date the interim dividend is payable		8 April 2010

Brief explanation of figures reported above:

Net profit after tax for the half year to 31 December 2009 calculated on a statutory basis equated to a profit of \$43.1 million.

For further information refer to the Directors' Report in the attached Interim Report of nib holdings limited for the period ended 31 December 2009.

<b>Appendix 4D disclosure requirements</b>	<b>nib group Appendix 4D</b>	<b>Note Number</b>
1. Details of the reporting period and the previous corresponding period	All financial data headings	
2. Key information in relation to the following: This information must be identified as "Results for announcement to the market". 2.1 The amount and percentage change up or down from the previous corresponding period of revenue from ordinary activities. 2.2 The amount and percentage change up or down from the previous corresponding period of profit (loss) from ordinary activities after tax attributable to members. 2.3 The amount and percentage change up or down from the previous corresponding period of profit (loss) attributable to members. 2.4 The amount per security and franked amount per security of final and interim dividends or a statement that it is not proposed to pay dividends. 2.5 The record date for determining entitlements to the dividends (if any). 2.6 A brief explanation of any of the figures in 2.1 to 2.4 necessary to enable the figures to be understood.	"Results for announcement to the market" page 1 Appendix 4D	
3. Net tangible assets per security with the comparative figure for the previous corresponding period.	Net tangible asset backing per ordinary security (cents per share) is 74.91 (69.64 as at 31 December 2008)	
4. Details of entities over which control has been gained or lost during the period, including the following: 4.1 Name of entity. 4.2 The date of the gain or loss of control. 4.3 Where material to the understanding of the report – the contribution of such entities to the reporting entity's profit from ordinary activities during the period and the profit or loss of such entities during the whole of the previous corresponding reporting period.	Not applicable	
5. Details of individual and total dividends or distributions and dividend or distribution payments. The details must include the date on which the dividend or distribution is payable and (if known) the amount per security of foreign sourced dividend or distribution.	Interim Report 31 December 2009: • Notes to the financial statement - Dividends	Note 10
6. Details of any dividend or distribution reinvestment plan in operation and the last date for the receipt of an election notice for the participation in any dividend or distribution reinvestment plan.	No dividend reinvestment plan. Not applicable	
7. Details of associates and joint venture entities including the name of the associate or joint venture entity and details of the reporting entity's percentage holding in each of these entities and - where material to the understanding of the report – aggregate share of profits (losses) of these entities, details of contributions to net profit for each of these entities, and with comparative figures for the previous corresponding reporting period.	Not applicable	
8. For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Accounting Standards).	Not applicable	
9. For all entities, if the accounts are subject to audit dispute or qualification, a description of the dispute or qualification.	Not applicable	

**M McPherson**  
**Company Secretary**  
**nib holdings limited**

**Date 22 February 2010**

**nib holdings limited**

**ABN 51 125 633 856**

**Interim Report**

**31 December 2009**

**Contents**

Directors' report	1
Auditor's independence declaration	4
Independent auditor's review report to the members	5
Interim financial report	
Directors' declaration	7
Consolidated statement of comprehensive income	8
Consolidated statement of financial position	9
Consolidated statement of changes in equity	10
Consolidated statement of cash flows	11
Notes to the consolidated financial statements	12

**nib holdings limited**  
**Directors' report**  
**31 December 2009**

The directors of nib holdings limited present their report on the consolidated entity (referred to hereafter as the Group) consisting of nib holdings limited and the entities it controlled at the end of or during the half-year ended 31 December 2009.

**Directors**

The following persons were directors of nib holdings limited during the whole of the half-year and up to the date of this report:

Keith Lynch  
Mark Fitzgibbon  
Harold Bentley  
Annette Carruthers  
Philip Gardner  
Brian Keane

**Review of operations**

nib's vision is to be a leading financier of the nation's healthcare spending with a reputation for innovative products, value for money, outstanding customer service, corporate social responsibility and strong shareholder returns.

The consolidated profit of the Group for the half-year, after income tax expense, was \$43.1 million (2008: \$2.1 million).

The \$41.0 million increase from the 2008 consolidated profit reflects an improved net underwriting profit, significantly improved investment performance, and lower holding company and other expenses, and the associated tax impact of all these variances.

The Group achieved a strong operating result with:

- net underwriting margin of \$30.5 million or 6.8% (\$20.8 million or 5.1% in 2008) with:
  - net policyholder growth of 9,236 or 2.4%, significantly greater than the industry growth rate of 1.2%,
  - Premium revenue of \$446.1 million up \$35.5 million or 8.6% on 2008
  - a management expense ratio of 9.1% compared to 10.4% in 2008.
- investment income (net of fees) of \$33.6 million (\$13.9 million loss in 2008). The \$47.5 million improvement in investment performance represents a 7.7% return on invested assets for the half-year, or 15.9% annualised.
- Holding company and other expenses of \$3.3 million (\$5.7 million in 2008).
- Cash inflow from operating activities of \$20.1 million (\$12.9 million in 2008).
- Earnings per share 8.7 cents (0.4 cents in 2008).
- Return on equity on a rolling 12 months of 18.0%, using average shareholders' equity over rolling 12 month period (2.9% in 2008).

**nib holdings limited**  
**Directors' report (continued)**  
**31 December 2009**

**Capital management**

Capital management was a key focus during the half-year, as nib seeks to balance the competing goals of optimising capital and funding potential investments via mergers and acquisitions.

The most significant capital management initiative was the sale of shares in the unmarketable parcel sale facility to shareholders who were the registered holders of less than a marketable parcel of nib shares on 26 August 2009. The sale facility resulted in 21,978,234 shares being sold to institutional investors.

As a result of the above, at 31 December 2009 the Group had net assets of \$383.3 million (June 2009: \$361.9 million) and a return on equity on a rolling 12 months of 18.0%, using average shareholders' equity over rolling 12 month period (2008: 2.9%).

The Board currently intends to continue to undertake the on-market buyback of up to 10% of issued shares at the time of commencement of the on-market buyback, or 51,786,969 shares, in compliance with the applicable laws and the ASX Listing Rules as surplus capital and other capital management initiatives permit.

At 31 December 2009 the Group had surplus capital of \$156.3 million above our internal benchmark (after allowing for the payment of an interim dividend of 2.0 cents per share, totaling \$9.9 million, in April 2010).

The movement in surplus capital from 30 June 2009 to 31 December 2009 reflects:

	<b>\$000</b>
Surplus capital at 30 June 2009	\$131.6
Profit for the half-year	\$43.1
Allowance for interim dividend	(\$9.9)
Costs of on-market buyback	(\$0.2)
Increase in prudential capital required to meet internal target	(\$8.3)
Surplus capital at 31 December 2009	\$156.3

**nib holdings limited**  
**Directors' report (continued)**  
**31 December 2009**

**Dividends**

Dividends paid to members of nib holdings limited during the half-year were as follows:

	Half-Year	
	31 Dec 09	31 Dec 08
	\$000	\$000
<b>Ordinary Shares</b>		
Dividends paid during the half year	21,823	10,875

In addition to the above dividend, since the end of the half-year the directors have recommended the payment of an interim ordinary dividend of \$9.9 million (2.0 cents per fully paid share) to be paid on 8 April 2010 out of retained profits at 31 December 2009. Subject to franking credit availability, the Board's position is that future dividends will reflect a dividend payout ratio of 50% to 60% of earnings with additional capacity to pay special dividends as part of further capital management.

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set on page 4.

**Rounding of amounts**

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

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

On behalf of the Board



*Keith Lynch*  
Director



*Harold Bentley*  
Director

Newcastle, NSW, 19 February, 2010

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## Auditor's Independence Declaration

As lead auditor for the review of nib holdings limited for the half year ended 31 December 2009, 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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



John Campion  
Partner  
PricewaterhouseCoopers

Newcastle  
19 February 2010

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

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial statements of nib holdings limited, which comprise the statement of financial position as at 31 December 2009, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the nib holdings limited Group (the consolidated entity). The consolidated entity comprises both nib holdings limited (the company) and the entities it controlled during that half-year.

#### *Directors' responsibility for the half-year financial report*

The directors of the company are responsible for the preparation and fair presentation of the half-year 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 half-year 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.

#### *Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of nib holdings limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

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

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

*Matters relating to the electronic presentation of the reviewed financial report*

This review report relates to the financial report of the Company for the half-year ended 31 December 2009 included on nib holdings limited's web site. The company's directors are responsible for the integrity of the nib holdings limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. 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 reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

*Independence*

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

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of nib holdings limited Group (the consolidated entity) is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

*John Campion*  
John Campion  
Partner

Newcastle  
19 February 2010

**nib holdings limited**

**Directors' declaration**

In the director's opinion:

- a) the financial statements and notes set out on pages 8 to 28 are in accordance with the *Corporations Act 2001*, including:
  - i. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - ii. giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- b) there are reasonable grounds to believe that nib holdings limited will be able to pay its debts as and when they become due and payable.

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

On behalf of the Board



*Keith Lynch*  
Director



*Harold Bentley*  
Director

Newcastle, NSW, 19 February, 2010

**nib holdings limited**  
**Consolidated statement of comprehensive income**  
**For the half-year ended 31 December 2009**

	<b>Notes</b>	<b>Half-year</b>	
		<b>31 Dec-09</b>	<b>31 Dec-08</b>
		<b>\$000</b>	<b>\$000</b>
<b>Premium revenue</b>	4	446,105	410,623
Claims expense		(310,694)	(293,391)
RETF Levy		(53,262)	(43,116)
State levies		(10,915)	(10,528)
Claims handling expenses	5	<u>(6,965)</u>	<u>(9,377)</u>
<b>Net claims incurred</b>		<u>(381,836)</u>	<u>(356,412)</u>
Acquisition costs	5	(14,029)	(13,317)
Other underwriting expenses	5	<u>(19,729)</u>	<u>(20,102)</u>
<b>Underwriting expenses</b>		<u>(33,758)</u>	<u>(33,419)</u>
<b>Underwriting result</b>		30,511	20,792
Investment income/(loss)	4	34,216	(13,383)
Other income	4	615	664
Investment expenses	5	(584)	(522)
Other expenses	5	<u>(3,263)</u>	<u>(5,681)</u>
<b>Profit before income tax</b>		<u>61,495</u>	<u>1,870</u>
Income tax (expense)/benefit	6	<u>(18,391)</u>	<u>205</u>
<b>Profit from continuing operations</b>		43,104	2,075
<b>Other comprehensive income</b>			
Revaluation of land and buildings		-	(3,159)
<b>Other comprehensive income for the half-year, net of tax</b>		<u>-</u>	<u>(3,159)</u>
<b>Total comprehensive income for the half-year attributable to equity holders of nib holdings limited</b>		<u>43,104</u>	<u>(1,084)</u>
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company</b>			
Basic earnings per share		8.7	0.4
Diluted earnings per share		8.7	0.4
<b>Earnings per share for profit attributable to the ordinary equity holders of the company</b>			
Basic earnings per share		8.7	0.4
Diluted earnings per share		8.7	0.4

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes

**nib holdings limited**  
**Consolidated statement of financial position**  
**As at 31 December 2009**

	Notes	31 December 2009 \$000	30 June 2009 \$000
<b>Assets</b>			
<i>Current assets</i>			
Cash and cash equivalents		161,556	167,143
Receivables		35,350	32,402
Financial assets at fair value through profit or loss		259,223	230,276
		<u>456,129</u>	<u>429,821</u>
Non-current assets classified as held for sale		-	350
<b>Total current assets</b>		<u>456,129</u>	<u>430,171</u>
<i>Non-current assets</i>			
Receivables		250	500
Available-for-sale financial assets		1,500	1,500
Investment property		30,000	30,000
Property, plant and equipment		42,194	43,752
Intangible assets		11,813	10,915
Deferred tax assets	7	11,239	19,687
<b>Total non-current assets</b>		<u>96,996</u>	<u>106,354</u>
<b>Total assets</b>		<u>553,125</u>	<u>536,525</u>
<b>Liabilities</b>			
<i>Current liabilities</i>			
Payables		56,669	58,758
Borrowings		1,433	409
Outstanding claims liability	8	56,470	56,231
Unearned premium liability		46,387	49,888
Current tax liabilities		5,407	5,973
Provision for employee entitlements		2,543	2,555
<b>Total current liabilities</b>		<u>168,909</u>	<u>173,814</u>
<i>Non-current liabilities</i>			
Provision for employee entitlements		919	828
<b>Total non-current liabilities</b>		<u>919</u>	<u>828</u>
<b>Total liabilities</b>		<u>169,828</u>	<u>174,642</u>
<b>Net assets</b>		<u>383,297</u>	<u>361,883</u>
<b>Equity</b>			
Share capital		42,508	42,528
Retained profits		339,397	317,897
Reserves		1,392	1,458
<b>Total equity</b>		<u>383,297</u>	<u>361,883</u>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

**nib holdings limited**  
**Consolidated statement of changes in equity**  
**For the half-year ended 31 December 2009**

	Notes	Contributed Equity \$000	Reserves \$000	Retained Earnings \$000	Total Equity \$000
<b>Balance at 1 July 2008</b>		44,574	10,702	329,565	384,841
Profit for the half-year		-	-	2,075	2,075
Revaluation of land and buildings		-	(3,159)	-	(3,159)
Transfer to retained earnings on sale of property		-	(1,199)	1,199	-
<b>Total comprehensive income for the half-year</b>		-	(4,358)	3,274	(1,084)
<b>Transactions with owners in their capacity as owners:</b>					
Share buyback	11	(1,705)	-	(13,166)	(14,871)
Employee performance rights - value of employee services		-	90	-	90
Employee bonus share rights - value of employee services		-	17	-	17
Dividends paid		-	-	(10,875)	(10,875)
		(1,705)	107	(24,041)	(25,639)
<b>Balance at 31 December 2008</b>		42,869	6,451	308,798	358,118
<b>Balance at 1 July 2009</b>		42,528	1,458	317,897	361,883
Profit for the half-year		-	-	43,104	43,104
Revaluation of land and buildings		-	-	-	-
Transfer to retained earnings on sale of property		-	(377)	377	-
<b>Total comprehensive income for the half-year</b>		-	(377)	43,481	43,104
<b>Transactions with owners in their capacity as owners:</b>					
Share buyback	11	(20)	-	(158)	(178)
Employee performance rights - value of employee services		-	86	-	86
Employee bonus share rights - value of employee services		-	225	-	225
Dividends paid		-	-	(21,823)	(21,823)
		(20)	311	(21,981)	(21,690)
<b>Balance at 31 December 2009</b>		42,508	1,392	339,397	383,297

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

**nib holdings limited**  
**Consolidated statement of cash flows**  
**For the half-year ended 31 December 2009**

	Notes	Half Year	
		31 Dec-09 \$000	31 Dec-08 \$000
<b>Cash flows from operating activities</b>			
Receipts from policyholders and customers (inclusive of goods and services tax)		443,928	412,163
Payments to policyholders, suppliers and employees (inclusive of goods and services tax)		(419,933)	(407,624)
		23,995	4,539
Dividends received		11	11
Interest received		3,540	5,765
Distributions received		2,472	2,605
Interest (paid)/refunded		-	1
Income taxes paid		(9,952)	-
<b>Net cash inflow (outflow) from operating activities</b>		20,066	12,921
<b>Cash flows from investing activities</b>			
Proceeds from disposal of other financial assets at fair value through the profit and loss		4	9,716
Payments for other financial assets at fair value through the profit and loss		(2,429)	(11,903)
Payments for property, plant and equipment and intangibles		(2,918)	(15,346)
Proceeds from sale of property, plant and equipment and intangibles		335	1,245
Proceeds from sale of Eye Care and Dental businesses		250	250
<b>Net cash (outflow) inflow from investing activities</b>		(4,758)	(16,038)
<b>Cash flows from financing activities</b>			
Payments for share buy-back	11	(178)	(14,871)
Dividends paid to the company's shareholders		(21,823)	(10,875)
Proceeds from finance lease		82	60
<b>Net cash inflow (outflow) from financing activities</b>		(21,919)	(25,686)
<b>Net increase (decrease) in cash and cash equivalents</b>		(6,611)	(28,803)
Cash and cash equivalents at beginning of the half-year		166,734	177,134
<b>Cash and cash equivalents at end of half-year</b>		160,123	148,331

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

**nib holdings limited**  
**Notes to the consolidated financial statements**  
**31 December 2009**

**1. BASIS OF PREPARATION OF HALF-YEAR REPORT**

This general purpose financial report for the interim half-year reporting period ending 31 December 2009 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 30 June 2009 and any public announcements made by nib holdings limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

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

The following comparative information has been reclassified for the 2008 half-year:

- As a result of the reclassification of movements in the Outstanding claims liability relating to the RETF, Claims expense has decreased and RETF Levy has increased by \$1.970 million. There is no effect on net claims incurred.
- As a result of the reclassification of impairment of property, Claims handling expenses have decreased by \$0.560 million and acquisition costs have decreased by \$0.149 million with the corresponding increase of \$0.709 million in other underwriting expenses. There is no effect on underwriting result.
- As a result of understatement of investment management fees, Investment income/(loss) and Investment expenses have both increased by \$0.206 million. There is no effect on profit before income tax.
- As a result of a reallocation of cash flows from policyholders, Receipts from policyholders and customers and Payments to policyholders, suppliers and employees have both decreased by \$3.473 million. There is no effect on net cash inflow from operating activities.

**2. 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 October 2009 and earlier for hospital and medical, and for all months for general treatment, a chain ladder method is used; this assumes that the payment pattern of the current claims will be consistent with historical experience. For hospital and medical, the service months November 2009 and December 2009 are based on the number of benefit eligibility checks undertaken.

**Actuarial assumptions**

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

**nib holdings limited**  
**Notes to the consolidated financial statements (continued)**  
**31 December 2009**

**2. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)**

	31/12/2009	31/12/2009	31/12/2009	30/06/2009	30/06/2009	30/06/2009
	Hospital	Medical	Ancillary	Hospital	Medical	Ancillary
Assumed proportion paid to date	91.9%	88.7%	96.3%	91.5%	89.1%	95.4%
Expense rate	2.5%	2.5%	2.5%	3.0%	3.0%	3.0%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk equalisation rate	28.8%	28.8%	0.0%	23.4%	23.4%	0.0%
Risk margin	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

The risk margin of 5.0% (June 2009: 5.0%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% (June 2009: 95%).

**Process used to determine assumptions**

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

i) Chain Ladder Development Factors

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

ii) Eligibility Check Method Assumptions

The slope and intercept of a linear relationship was determined by regressing the number of eligibility checks against claims incurred for the two year period to October 2009.

iii) Expense rate

Claims handling expenses were calculated by reference to past experience of total claims handling costs as a percentage of total past payments. The expense allocation modeling has been refined in the current financial year, resulting in a 0.5% decrease in claims handling expenses.

iv) Discount rate

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

v) Risk equalisation allowance

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

vi) Risk margin

The risk margin has been based on an analysis of the past experience of the Group. This analysis examined the volatility of past payments that has not been explained by the model adopted to determine the central estimate. This past volatility has been assumed to be indicative of the future volatility and has been set at a level estimated to equate to a probability of adequacy of 95% (June 2009: 95%).

**nib holdings limited**  
**Notes to the consolidated financial statements (continued)**  
**31 December 2009**

**2. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)**

**Sensitivity analysis – insurance contracts**

i) Summary

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

<b>Variable</b>	<b>Impact of movement in variable</b>
Chain Ladder Development Factors	An increase or decrease in the chain ladder factors would lead to a higher or lower projection of the ultimate liability and a corresponding increase or decrease in claims expense respectively.
Eligibility Check Method Assumptions	An increase or decrease in the slope of the linear regression would lead to a higher or lower projection of the ultimate liability and a corresponding increase or decrease in claims expense respectively.
Expense rate	An estimate for the internal costs of handling claims is included in the outstanding claims liability. An increase or decrease in the expense rate assumption would have a corresponding impact on claims expense.
Risk equalisation	An estimate for the risk equalisation cost is included in the outstanding claims liability. An increase or decrease in the risk equalisation allowance would have a corresponding impact on RETF Levy.
Risk margin	An estimate of the amount of uncertainty in the determination of the central estimate. An increase or decrease in the risk margin would have a corresponding impact on claims expense.

ii) Impact of key variables

	<b>Profit</b> <b>31-Dec-09</b> <b>\$000</b>	<b>Equity</b> <b>31-Dec-09</b> <b>\$000</b>
Recognised amounts in the financial statements	43,104	383,297

<b>Variable</b>	<b>Movement in variable</b>	<b>Adjustments</b>	<b>Adjusted profit</b>	<b>Adjustments</b>	<b>Adjusted equity</b>
Chain Ladder Development Factors	+0.5%	(2,852)	40,252	(2,852)	380,445
	-0.5%	2,852	45,956	2,852	386,149
Eligibility Check Method - Slope	+0.5%	(528)	42,576	(528)	382,769
	-0.5%	528	43,632	528	383,825
Expense rate	+1.0%	(447)	42,657	(447)	382,850
	-1.0%	447	43,551	447	383,744
Risk equalisation allowance	+2.5%	(922)	42,182	(922)	382,375
	-2.5%	922	44,026	922	384,219
Risk margin	+1.0%	(538)	42,566	(538)	382,759
	-1.0%	538	43,642	538	383,835

**nib holdings limited**  
**Notes to the consolidated financial statements (continued)**  
**31 December 2009**

**3. PRIVATE HEALTH INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES**

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

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

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

The Group's risk management framework manages risks through:

- The establishment of the audit committee and the risk and reputation committee to assist the Board in the execution of its responsibilities:
  - The audit committee's responsibilities include:
    - reviewing the annual reports and other financial information distributed externally;
    - recommending the appointment and remuneration of the external auditor;
    - reviewing the performance and independence of the external auditor;
    - reviewing the Group's systems and procedures for compliance with legal and regulatory requirements other than those monitored by the risk and reputation committee.
  - The risk and reputation committee's responsibilities include:
    - assisting the Board to review the effectiveness of the Group's system of internal control;
    - recommending the appointment and remuneration of the internal auditor;
    - reviewing the performance and independence of the internal auditor;
    - monitoring the risk management system; and
    - reviewing the Group's systems and procedures for compliance with legal and regulatory requirements other than those monitored by the audit committee.
- The Group's internal policies and procedures designed to mitigate such risks 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 patterns. Past experience and statistical methods are used as part of the process;
  - A rigorous approach to product design to mitigate the risk of the Group being exposed to adverse selection;
  - Maintenance of reserves in excess of solvency and capital adequacy regulatory requirements;
  - An investment strategy which delivers a diversified portfolio with a higher weighting to defensive assets versus growth assets;
  - An internal audit function which provides independent assurance to senior management and directors regarding the adequacy of controls over activities where the risks are perceived to be high;

**nib holdings limited**  
**Notes to the consolidated financial statements (continued)**  
**31 December 2009**

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

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

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

**b) Insurance Risk**

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

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

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

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

**c) Credit risk**

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, financial assets and deposits with banks and financial institutions, as well as credit exposures to policyholders, Medicare Australia (Health Insurance Contribution (HIC) rebate) and entities that have purchased discontinued operations under deferred settlement terms. nib only deals with major banks in Australia which are independently rated with a minimum rating of 'A-1.' nib receives advice from its asset consultant, Mercer Investment Consulting, who provide a rating of investment managers to nib as

**nib holdings limited**  
**Notes to the consolidated financial statements (continued)**  
**31 December 2009**

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

**c) Credit risk (continued)**

part of their advice. Credit risk for premium receivables are minimal due to the diversification of policyholders. The HIC rebate receivable is due from a government organisation under legislation. Credit risk for deferred settlement is minimised, in part, by obtaining bank guarantees from the purchaser.

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

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

	December 2009 \$'000	June 2009 \$'000
<b>Other Receivables</b>		
<i>Counterparties without external credit rating*</i>		
<b>Group 1</b>	657	-
<b>Group 2</b>	27,848	26,526
<b>Group 3</b>	-	-
<b>Total Other Receivables</b>	28,505	26,526
*Group 1 - new debtors (less than 6 months) Group 2 - existing debtors (more than 6 months) with no defaults in the past Group 3 - existing debtors (more than 6 months) with some defaults in the past. All defaults were fully recovered		
<b>Cash at Bank and short-term bank deposits</b>		
A-1	161,556	167,143
	161,556	167,143
<b>Financial assets at fair value through profit or loss</b>		
Interest-bearing securities		
AAA	112,855	93,300
AA	21,697	29,718
A	19,864	20,479
BBB	12,639	11,344
BB	-	-
B	-	-
Sub Inv Grade *	4,475	5,321
Unclassified	58	37
	171,588	160,199

\* Sub investment grade assets represent underlying assets in the overseas fixed interest portfolio. The grade of these assets has declined due to the global financial crisis. The overseas fixed interest portfolio at 31 December 2009 and 30 June 2009 has not changed from that which was held at 30 June 2008. At 30 June 2008 none of the underlying investments were graded as sub investment grade.

**nib holdings limited**  
**Notes to the consolidated financial statements (continued)**  
**31 December 2009**

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

**d) Liquidity risk**

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

Borrowings in the balance sheet refer to the bank overdraft. The bank overdraft comprises the closing positive balances of the bank account, adjusted for unrepresented cheques and outstanding deposits. There are no overdraft facilities.

*Maturities of financial liabilities*

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

31-Dec-09	≤1 month \$000	1 - 3 months \$000	3 - 12 months \$000	1 - 5 years \$000	>5 years \$000	Total Contractual Cashflows \$000	Carrying amount \$000
<b>Financial Liabilities</b>							
Trade Creditors	1,845	-	-	-	-	1,845	1,845
Other payables	24,731	-	859	-	-	25,590	25,590
Borrowings	1,433	-	-	-	-	1,433	1,433
	28,009	-	859	-	-	28,868	28,868

30-Jun-09	≤1 month \$000	1 - 3 months \$000	3 - 12 months \$000	1 - 5 years \$000	>5 years \$000	Total Contractual Cashflows \$000	Carrying amount \$000
<b>Financial Liabilities</b>							
Trade Creditors	3,496	-	-	-	-	3,496	3,496
Other payables	28,235	1,708	-	-	-	29,943	29,943
Borrowings	409	-	-	-	-	409	409
	32,140	1,708	-	-	-	33,848	33,848

**e) 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 either available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk.

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

**nib holdings limited**  
**Notes to the consolidated financial statements (continued)**  
**31 December 2009**

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

**e) Market risk (continued)**

Post-tax profit for the half-year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as available-for-sale.

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

ii) Fair value interest rate risk

The Group does not have long-term borrowings. The Group's interest rate risks arise from receivables, financial assets at fair value through profit and loss and cash and cash equivalents. Receivables arising from the deferred settlement of discontinued operations sold are subject to 90 day bank bill rates. All other receivables are non-interest bearing. There is an interest-bearing component of financial assets at fair value through profit and loss. nib receives advice from its asset consultant, Mercer Investment Consulting, who provide a rating of investment managers to nib as part of their advice. The Group has adopted an investment strategy that delivers a diversified portfolio with a higher weighting to defensive assets versus growth assets. Defensive assets consist of Australian and overseas fixed interest investments and cash and cash equivalents.

*Summarised sensitivity analysis*

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

*Methods and assumptions used in preparing sensitivity analysis:*

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

An interest rate change of 100 basis points will directly affect interest received on cash and cash equivalents and other receivables. An interest rate change of 100 basis points will inversely affect the unit price of fixed interest investments, this change has been calculated by multiplying the average duration of underlying investments in each portfolio by the interest rate change. All other investments are not directly affected by interest rate changes but would be revalued through profit or loss as their unit price changes.

**nib holdings limited**  
**Notes to the consolidated financial statements (continued)**  
**31 December 2009**

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

**e) Market risk (continued)**

	Carrying amount	Interest Rate Risk				Other Price Risk			
		-100bps		+100bps		-10% unit price		+10% unit price	
		Profit \$000	Equity \$000	Profit \$000	Equity \$000	Profit \$000	Equity \$000	Profit \$000	Equity \$000
<b>31 December 2009</b>									
<b>Financial assets</b>									
Cash and cash equivalents	161,556	(1,121)	(1,121)	1,121	1,121	-	-	-	-
Other Receivables	28,505	(19)	(19)	19	19	-	-	-	-
Financial assets at fair value through profit or loss	259,223	4,897	4,897	(4,897)	(4,897)	(6,134)	(6,134)	6,134	6,134
Unlisted equity securities	1,500	-	-	-	-	(105)	(105)	-	105
Total Increase/(decrease)		3,757	3,757	(3,757)	(3,757)	(6,239)	(6,239)	6,134	6,239

	Carrying amount	Interest Rate Risk				Other Price Risk			
		-100bps		+100bps		-10% unit price		+10% unit price	
		Profit \$000	Equity \$000	Profit \$000	Equity \$000	Profit \$000	Equity \$000	Profit \$000	Equity \$000
<b>30 June 2009</b>									
<b>Financial assets</b>									
Cash and cash equivalents	167,143	(1,170)	(1,170)	1,170	1,170	-	-	-	-
Other Receivables	26,526	(21)	(21)	21	21	-	-	-	-
Financial assets at fair value through profit or loss	230,276	4,545	4,545	(4,545)	(4,545)	(4,905)	(4,905)	4,905	4,905
Unlisted equity securities	1,500	-	-	-	-	(167)	(105)	-	105
Total Increase/(decrease)		3,354	3,354	(3,354)	(3,354)	(5,072)	(5,010)	4,905	5,010

**f) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in active markets (for example investments in unlisted subsidiaries) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date.

The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values due to their short-term nature.

**nib holdings limited**  
**Notes to the consolidated financial statements (continued)**  
**31 December 2009**

**4. REVENUE AND OTHER INCOME**

	<b>Half-Year</b>	
	<b>31 Dec-09</b>	<b>31 Dec-08</b>
	<b>\$000</b>	<b>\$000</b>
<b>Premium revenue</b>	446,105	410,623
<b>Investment income/(loss)</b>		
Rent received	863	863
Interest	3,823	5,830
Net realised gain/(loss) on financial assets at fair value	2,997	(6,701)
Net unrealised gain/(loss) on financial assets at fair value through profit or loss	26,522	(13,386)
Dividends	11	11
	34,216	(13,383)
<b>Other income</b>		
Sundry income	615	664

**5. EXPENSES**

	<b>Half-Year</b>	
	<b>31 Dec-09</b>	<b>31 Dec-08</b>
	<b>\$000</b>	<b>\$000</b>
<b>Expenses by function</b>		
Claims handling expenses	6,965	9,377
Investment expenses	584	522
Acquisition costs	14,029	13,317
Other underwriting expenses	19,729	20,102
Other expenses	3,263	5,681
<b>Total expenses (excluding direct claims expenses)</b>	44,570	48,999

The expense allocation modeling has been refined in the current financial year. If the 2008 expense allocation was recalculated using the same assumptions, it would result in a reduction of \$3.036 million in claims handling expenses and a corresponding increase in other underwriting expenses.

**nib holdings limited**  
**Notes to the consolidated financial statements (continued)**  
**31 December 2009**

	<b>Half-Year</b>	
	<b>31 Dec-09</b>	<b>31 Dec-08</b>
	<b>\$000</b>	<b>\$000</b>
<b>Expenses by nature</b>		
Employee costs	18,481	18,790
Depreciation and amortisation	2,373	1,735
Net loss on disposal of property, plant and equipment and investment properties	219	1,235
Impairment of property, plant and equipment	1,000	1,739
Operating lease rental expenses	1,355	1,285
Marketing expenses	7,688	8,517
Share registry expenses - non-recurring	719	1,102
Share registry expenses - ongoing	857	1,513
Due diligence expenses	-	1,283
Other	11,878	11,800
<b>Total expenses (excluding direct claims expenses)</b>	<b>44,570</b>	<b>48,999</b>

**6. INCOME TAX EXPENSE**

	<b>Half Year</b>	
	<b>31 Dec-09</b>	<b>31 Dec-08</b>
	<b>\$000</b>	<b>\$000</b>
<b>a) Income tax expense/(benefit)</b>		
<b>Recognised in the income statement</b>		
Current tax expense	9,888	3,600
Deferred tax expense/(benefit)	8,448	(4,142)
Under (over) provided in prior years	55	337
	<b>18,391</b>	<b>(205)</b>
Income tax expense is attributable to:		
Profit from continuing operations	18,391	(205)
Profit from discontinuing operations	-	-
Aggregate income tax expense/(benefit)	<b>18,391</b>	<b>(205)</b>
Deferred income tax (revenue) expense included in income tax expense comprises:		
Decrease (increase) in deferred tax assets	8,213	(4,497)
(Decrease) increase in deferred tax liabilities	235	355
	<b>8,448</b>	<b>(4,142)</b>

**nib holdings limited**  
**Notes to the consolidated financial statements (continued)**  
**31 December 2009**

**Half Year**  
**31 Dec-09    31 Dec-08**  
**\$000            \$000**

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

Profit/(Loss) from continuing operations before income tax expense	61,495	1,870
	61,495	1,870
Tax at the Australian tax rate of 30% (2008: 30%)	18,449	561
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Assessable income	6	18
Other deductible expenses	(213)	(219)
Other non-deductible expenses	94	-
Recognise deferred tax asset on devaluation	-	(902)
Adjustments for current tax of prior periods	55	337
Income tax expense/(benefit)	18,391	(205)

**7. DEFERRED TAX ASSETS**

**31 Dec 09    30 June 09**  
**\$000            \$000**

**The balance comprises temporary differences attributable to:**

Capital losses	183	-
Doubtful debts	89	75
Depreciation	1,035	411
Share issue expenses	1,431	1,684
Asset revaluation	900	1,483
Employee benefits	1,169	1,154
Provisions	290	35
Demutualisation costs	2,818	3,330
Unrealised losses on investments	4,099	12,055
Total deferred tax assets	12,014	20,227
Set-off of deferred tax liabilities pursuant to set-off provisions	(775)	(540)
Net deferred tax assets	11,239	19,687
Deferred tax assets to be recovered within 12 months	7,765	14,452
Deferred tax assets to be recovered after more than 12 months	4,249	5,775
	12,014	20,227

**nib holdings limited**  
**Notes to the consolidated financial statements (continued)**  
**31 December 2009**

**Deferred tax liabilities set-off**

	<b>31 Dec 09</b>	<b>30 June 09</b>
	<b>\$000</b>	<b>\$000</b>
<b>The balance comprises temporary differences attributable to:</b>		
Prepayments	39	13
Capital allowances	547	425
Income receivable	189	102
<b>Total deferred tax liabilities</b>	<b>775</b>	<b>540</b>
Set-off of deferred tax liabilities pursuant to set-off provisions	775	540
Net deferred tax liabilities	-	-
Deferred tax liabilities to be settled within 12 months	228	115
Deferred tax liabilities to be settled after more than 12 months	547	425
	775	540

**8. CURRENT LIABILITIES – OUTSTANDING CLAIMS LIABILITY**

**a) Outstanding claims liability**

	<b>31 Dec 09</b>	<b>30 June 09</b>
	<b>\$000</b>	<b>\$000</b>
Outstanding claims - central estimate of the expected future payments for claims incurred	42,603	44,098
Risk Margin	2,183	2,272
Claims handling costs	1,065	1,323
<b>Gross outstanding claims liability</b>	<b>45,851</b>	<b>47,693</b>
Outstanding claims - expected payment to the RETF* in relation to the central estimate	10,114	8,132
Risk Margin	505	406
<b>Net outstanding claims liability</b>	<b>56,470</b>	<b>56,231</b>

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

**b) Risk margin**

The risk margin of 5.0% (June 2009: 5.0%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% (June 2009: 95%).

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

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

**nib holdings limited**  
**Notes to the consolidated financial statements (continued)**  
**31 December 2009**

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. Diversification benefits within a valuation class are implicitly allowed for through the model adopted. The determination of the risk margin has also 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, expected claim numbers and average claims size are used instead for the most recent two months. The calculation was determined taking into account one month of actual post balance date claims.

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

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

	<b>31 Dec 09</b>	<b>30 June 09</b>
	<b>\$000</b>	<b>\$000</b>
Gross outstanding claims at beginning of period	47,693	53,194
Administration component	(1,323)	(1,470)
Risk margin	(2,272)	(2,725)
Central estimate at beginning of period	<u>44,098</u>	<u>48,999</u>
Change in claims incurred for the prior period	(858)	1,876
Claims paid in respect of the prior period	(41,123)	(50,875)
Claims incurred during the period (expected)	312,025	598,488
Claims paid during the period	<u>(271,539)</u>	<u>(554,390)</u>
Central estimate at end of period	42,603	44,098
Administration component	1,065	1,323
Risk margin	2,183	2,453
Change in risk margin assumption	-	(181)
Gross outstanding claims at end of period	<u>45,851</u>	<u>47,693</u>

**9. CONTINGENT LIABILITIES**

nib health funds limited has given an undertaking to extend financial support to nib servicing facilities Pty Limited and nib health care services Pty Limited by subordinating repayment of debts owed by the entities to nib health funds limited, in favour of all other creditors. This undertaking has been provided as a result of each of these subsidiaries experiencing deficiencies of capital and reserves, and is intended to enable the entities to continue their operations and fulfil all financial obligations now and in the future. nib health funds limited confirms its position on an annual basis. The current confirmation covers the period from 14 August 2009 to 13 August 2010.

**nib holdings limited**  
**Notes to the consolidated financial statements (continued)**  
**31 December 2009**

**10. DIVIDENDS**

**a) Ordinary Shares**

	<b>Half-Year</b>	
	<b>31 Dec 09</b>	<b>31 Dec 08</b>
	<b>\$000</b>	<b>\$000</b>
<b>Ordinary Shares</b>		
Dividends paid during the half year	21,823	10,875
	<u>21,823</u>	<u>10,875</u>

**b) Dividends not recognised at period end**

	<b>Half-Year</b>	
	<b>31 Dec 09</b>	<b>31 Dec 08</b>
	<b>\$000</b>	<b>\$000</b>
In addition to the above dividends, since the end of the half-year the directors have recommended the payment of an interim dividend of 2.0 cents per fully paid ordinary share (2008 - 3.0 cents), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 8 April 2010 out of retained profits at 31 December 2009, but not recognised as a liability at the end of the half-year, is	9,919	14,990
	<u>9,919</u>	<u>14,990</u>

**c) Franked dividends**

The franked portion of the interim dividend recommended after 31 December 2009 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2010.

	<b>31 Dec 09</b>	<b>30 June 09</b>
	<b>\$000</b>	<b>\$000</b>
Franking credits available for subsequent financial years based on a tax rate of 30% (30 June 2009 - 30%)	10,077	9,488
	<u>10,077</u>	<u>9,488</u>

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

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

**nib holdings limited**  
**Notes to the consolidated financial statements (continued)**  
**31 December 2009**

**11. EQUITY SECURITIES ISSUED/ (CANCELLED)**

	2009 Shares	2009 \$000	2008 Shares	2008 \$000
<b>Buyback of ordinary shares during the half-year</b>				
Transactions six months to December	(186,058)	(20)	(18,213,260)	(1,705)

During the six months to December 2009, the company cancelled 186,058 ordinary shares purchased on-market as part of the group's capital management initiatives announced in the 2008 annual report. 136,058 of these shares had been purchased prior to 30 June 2009 at a cost of \$121,197, but were not cancelled until July 2009. The remaining 50,000 shares were purchased and cancelled during September-October 2009 and were acquired for \$57,111 at an average price of \$1.14 per share, with prices ranging from \$1.14 to \$1.145. The total cost of the 186,058 shares cancelled was \$178,308. \$20,443 was deducted from ordinary share equity and the remaining \$157,865 was deducted from retained profits representing the portion of shares assumed to be purchased from policyholders under the reverse acquisition requirements of AASB 3 *Business Combinations*.

nib currently intends to continue to undertake the buyback in compliance with applicable laws and the ASX Listing Rules.

**12. SEGMENT REPORTING**

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

**13. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**

There have not been any matters or circumstances that have arisen since the end of the half-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.

**14. SOLVENCY AND CAPITAL ADEQUACY RESERVES**

nib health funds limited Solvency Reserve, as per the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is \$73.147 million. Total Health Benefits Fund Assets are \$382.690 million, representing an excess of \$138.817 million over the sum of the Solvency Reserve and total Health Benefits Fund Liabilities (\$170.726 million). This equates to a solvency coverage ratio of 1.57x.

nib health funds limited Capital Adequacy Reserve, as per the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is \$83.367 million. Total Health Benefits Fund Assets are \$382.690 million, representing an excess of \$128.597 million over the Capital Adequacy Reserve and total Health Benefits Fund Liabilities (\$170.726 million). This equates to a capital adequacy coverage ratio of 1.51x.

**nib holdings limited**  
**Notes to the consolidated financial statements (continued)**  
**31 December 2009**

**15. COMPANY DETAILS**

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

22 Honeysuckle Drive  
NEWCASTLE NSW 2300

The financial report was authorised for issue by the directors on 19 February 2010. The company has the power to amend and reissue the financial report.