

29 October 2014

The Manager
Company Announcements
Australia Securities Exchange Limited
Level 4, Bridge Street
SYDNEY NSW 2000

Subject: 2014 Annual General Meeting Presentation

Attached nib's 2014 Annual General Meeting Presentation.

Yours sincerely



Michelle McPherson
Company Secretary/Chief Financial Officer

nib

**ANNUAL GENERAL
MEETING 2014**

Wednesday 29 October

STEVE CRANE

CHAIRMAN

INTRODUCTION

nib's BOARD & EXECUTIVE

- LEE AUSBURN – Independent Non-Executive Director
- HAROLD BENTLEY – Independent Non-Executive Director
- DR ANNETTE CARRUTHERS – Independent Non-Executive Director
- PHILIP GARDNER – Independent Non-Executive Director
- CHRISTINE McLOUGHLIN – Independent Non-Executive Director
- MARK FITZGIBBON – Chief Executive Officer & Managing Director
- MICHELLE McPHERSON – Chief Financial Officer, Deputy CEO & Company Secretary

MEETING SCHEDULE

- **Chairman's address**
- **Managing Director's address**
- **Notice of Meeting**
 - **Consideration of Reports for the financial year ended 30 June 2014**
 - **Consideration of the Remuneration Report**
 - **Election of Independent Non-Executive Director, Ms Lee Ausburn**
 - **Re-election of Non-Executive Director, Mr Harold Bentley**
 - **Re-election of Non-Executive Director, Ms Christine McLoughlin**
 - **Consideration of the resolution approving Mr Fitzgibbon's participation in the Long-Term Incentive Plan**
- **Meeting Closes**

SOLID GROUP RESULTS

- Strong top line consolidated premium growth at 15.6% to \$1.5b.
- Operating profit grew 4.3% to \$72.3m.
- Earnings per share grew 3.9% to 15.9 cents (FY13: 15.3c).
- Return on equity remained very strong at 20.8%.

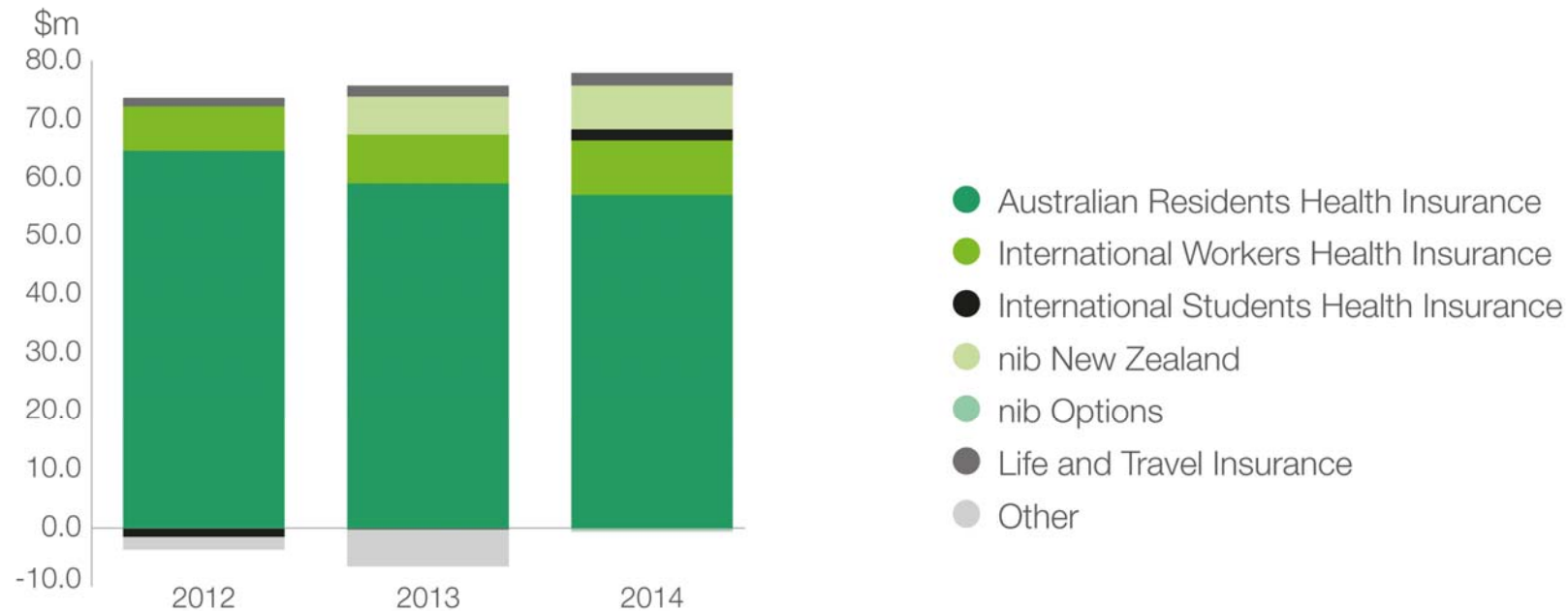
AUSTRALIAN RESIDENTS HEALTH INSURANCE

- Not all smooth sailing for the core Australian Residents Health Insurance (arhi) business in FY14.
- High claims experience, in particular on a new extras only product dampened gross margin profitability.
- This combined with growing policyholder lapse, were notable headwinds.
- arhi business operating profit of \$57.0m was down 3.5% on FY13 result.
- Net margin declined to 4.2%, outside target range of 5.0% to 5.5%.
- We've moved quickly to redress our arhi business profit margin, largely through a premium increase effective 1 April 2014. It's important to note that despite this increase our products still remain price competitive.
- We remain confident about arhi business' future earnings growth prospects. Rising claims experience and lapse leave no room for complacency.

ADJACENT BUSINESSES

- Established non-arhi businesses all performed well in FY14.
- International Workers (iwhi) grew earnings by 12.1% to \$9.4m.
- International Students (ishi) grew revenue by 110% posting a profit for the first time since being launched of \$1.9m.
- nib New Zealand contributed \$7.4m in earnings.
- Travel and life insurance contributed \$2.2m in earnings.

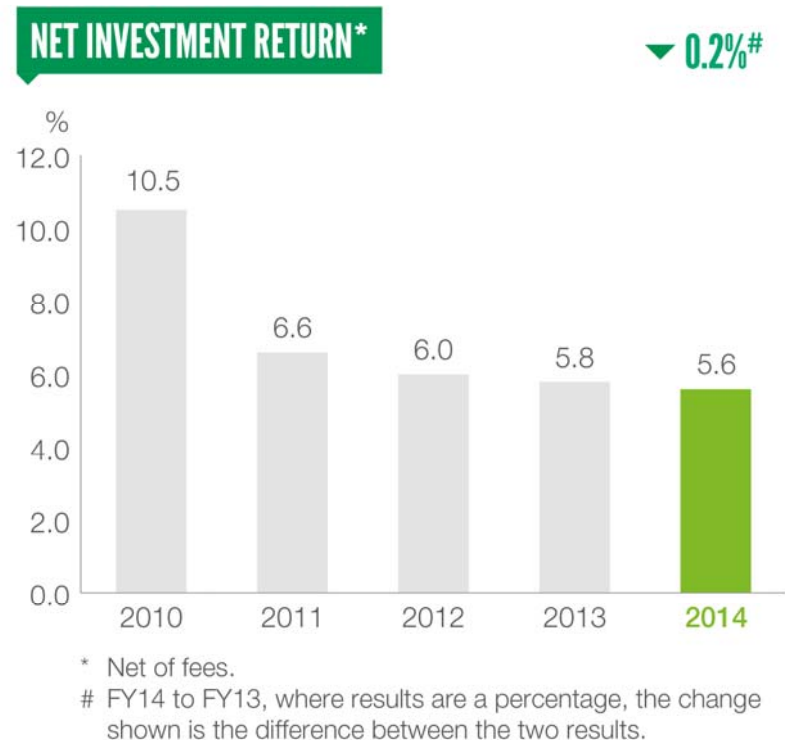
NON-ARHI BUSINESS CONTRIBUTION



- **The performance of these businesses reflects a real determination to diversify and create enterprise value by leveraging our nib brand and existing assets and expertise.**
- **We continue to explore additional business diversification opportunities to take advantage of new market opportunities and bolster future earnings.**

NET INVESTMENT RETURNS

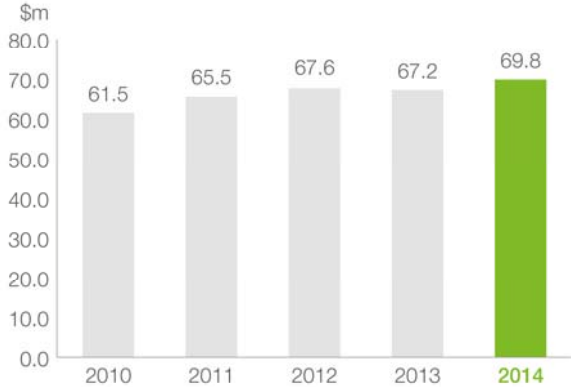
- Investment portfolio delivered strong returns above our annual internal benchmarks, primarily on the back of strong equity market performance.
- Whilst exposure to equities is only 9.7%, net investment return for the 12-month period was \$29.7m or 5.6%.
- As at 30 June 2013, total net investment assets were \$581.7m.



OTHER KEY PERFORMANCE METRICS

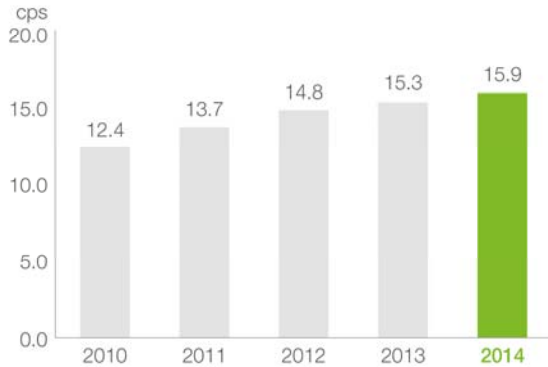
NET PROFIT AFTER TAX

▲ 3.9%



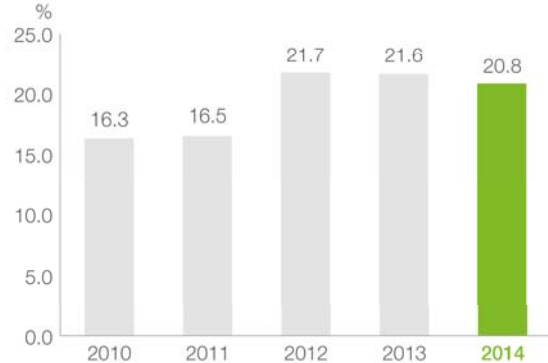
EARNINGS PER SHARE

▲ 3.9%



RETURN ON EQUITY

▼ 0.8%#



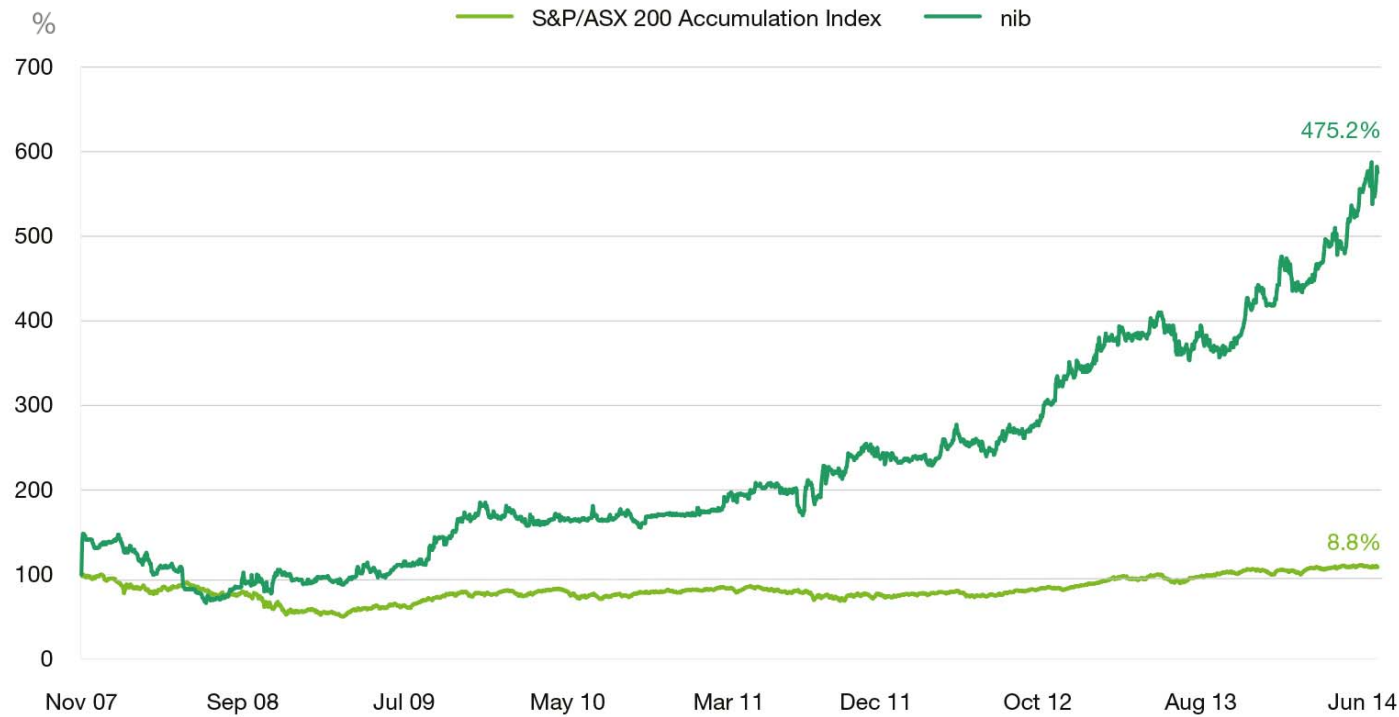
FY14 to FY13, where results are a percentage, the change shown is the difference between the two results.

- NPAT: \$69.8m

- EPS: 15.9c

- ROE: 20.8%

TOTAL SHAREHOLDER RETURNS



- Since listing in 2007, nib's TSR has been more than 475%, compared to approximately 9% for the S&P/ASX200 for the same period.

DIVIDENDS

- The Board declared ordinary dividends totaling 11.0 cents per share, fully franked for FY14 (FY13: 10.0cps, fully franked).
- The full year dividend represents a payout ratio of 69.2% of consolidated FY14 after tax earnings. This is consistent with our dividend policy of paying fully franked dividends representing 60% to 70% of full year NPAT.
- The final fully franked ordinary dividend of 5.75 cents per share was paid to shareholders on 3 October 2014. This is in addition to the payment of a special dividend of 9 cents per share, reflecting a capital management initiative.

NEW CAPITAL STANDARDS & CAPITAL POSITION

- During FY14, industry regulator, PHIAC, announced new Australian capital standards. This resulted in a new capital target for Australian health insurance businesses and an increase in the nib Group's available capital position.
- As at 30 June 2014, nib Group's available capital position, after allowing for the FY14 final fully franked ordinary dividend payment of \$25.2m, was \$58.2m.
- The Board decided \$39.5m would be returned to shareholders by a FY14 fully franked special dividend of 9.0 cents per share.
- Consistent with the final dividend of 5.75 cents per share, the special dividend of 9.0 cents per share was paid to shareholders on 3 October, equating to a total payment of 14.75 cents per share.

NEW CAPITAL STANDARDS & CAPITAL POSITION

- The remaining available capital of approximately \$18.7m will be reserved for potential strategic investment opportunities, such as business acquisitions if they arise.
- In the event that a strategic investment opportunity does not eventuate, the Board will consider a range of capital management initiatives in the second half of FY15.
- The fact that our debt to total capitalisation is low at 15.8% at 30 June 2014 also gives us some additional flexibility if required.

nib foundation

- nib foundation has now contributed \$12m in funding to aid the development and delivery of unique and practical initiatives.
- It has made a positive difference to the lives of more than 45,000 Australians through its partnerships with 60 Australian charities at both a local and national level.
- In FY14, the foundation formed 13 new community partnerships in areas including youth mental health, family and youth disadvantage, chronic and rare disease, disability and food security.
- nib foundation received nearly 500 applications for its 2014 Community Grant funding round, up 150% on last year.
- The nib foundation corpus remains at \$22.5m, meaning it will continue to play an important role in helping to meet the health and wellbeing funding needs of charities across the country.

FY15 & BEYOND

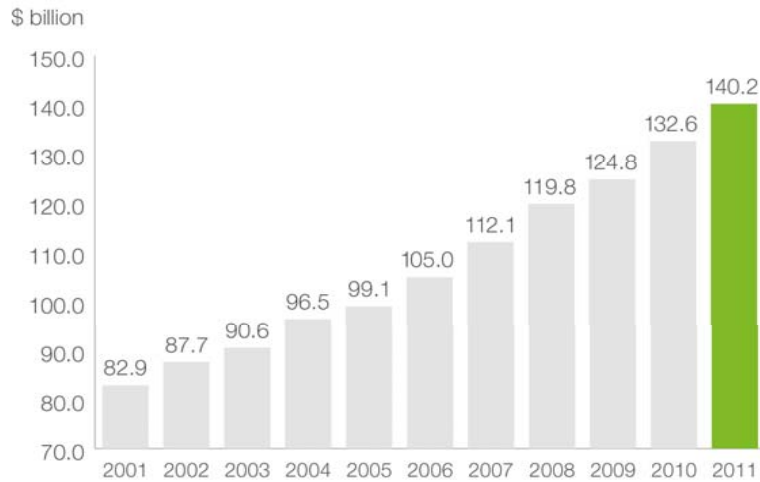
- **Strong and profitable growth remains a key focus for the Board and management team.**
- **The investment thesis for private health insurance, both in Australia and New Zealand are very positive. The combination of ever increasing healthcare spending and growing fiscal pressure on Federal and State governments to support their relative funding contribution is a strong industry tailwind.**
- **We are undoubtedly moving down a path of greater private health insurance involvement and funding responsibility and nib is well placed to capitalise on these opportunities.**

MARK FITZGIBBON

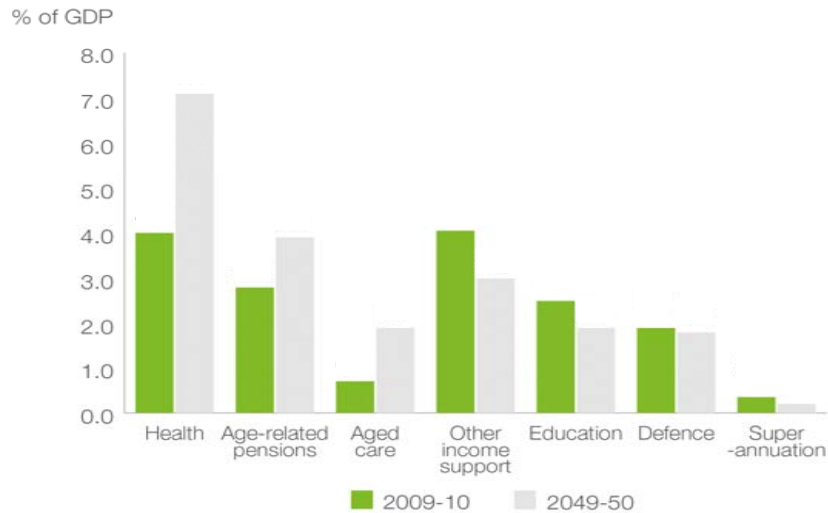
MANAGING DIRECTOR

BROAD THEMATIC

Australian healthcare spending¹



Australian Treasury projections²



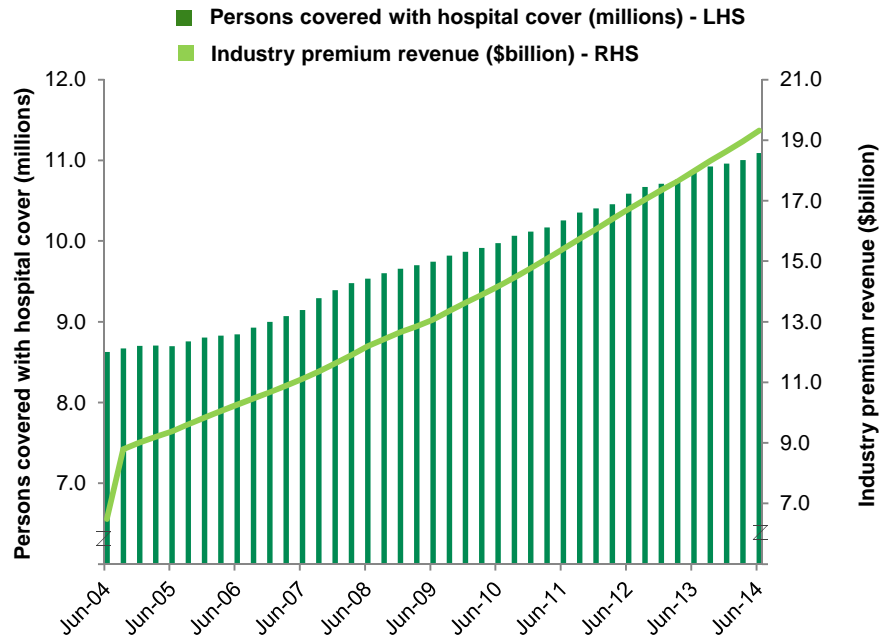
1. We're spending more and more on our healthcare.
2. Governments cannot sustain their relative funding share.
3. The private sector and private funding will increasingly play an enhanced role.
4. Globalisation of healthcare is real.

¹ Source: AIHW 2013. Health expenditure Australia 2011-12.

² Graph relates to Australian Government spending Source: The 2010 Intergenerational Report (Treasury)

PHI INDUSTRY THEMATIC

Australian PHI coverage



Source: Private Health Insurance Administration Council

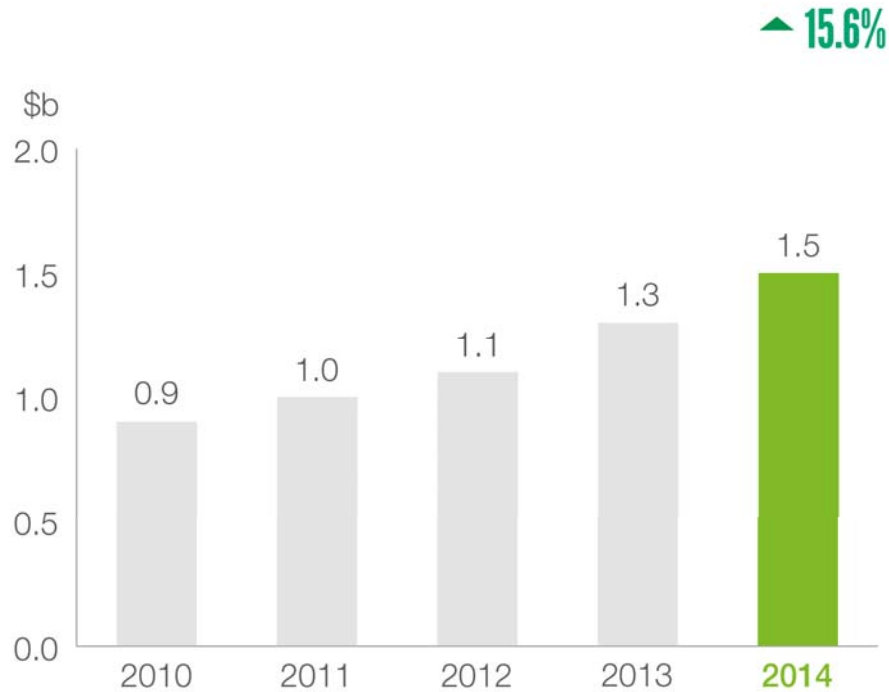
- PHI coverage will continue to grow 2%-3% pa.
- Government will increasingly look to PHI to play an expanded role and deregulate market.
- Growing claims inflation will create pressure for more sophisticated purchasing of health services - both on demand and supply side.
- Various pressures will encourage PHI consolidation and internationalisation.

GROUP BUSINESS STRATEGY

1	Organic arhi growth
2	nib New Zealand
3	International students & workers
4	nib Options & IPMI
5	Claims management
6	Innovation & technology
7	People

CONTINUED STRONG TOP LINE FOCUS & GROWTH

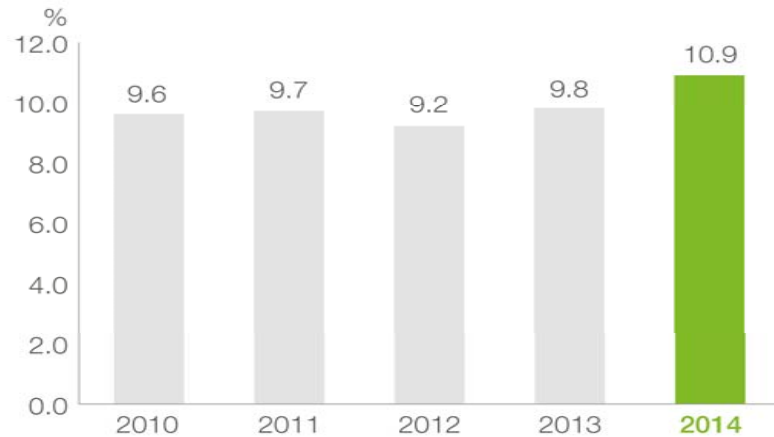
GROUP PREMIUM REVENUE



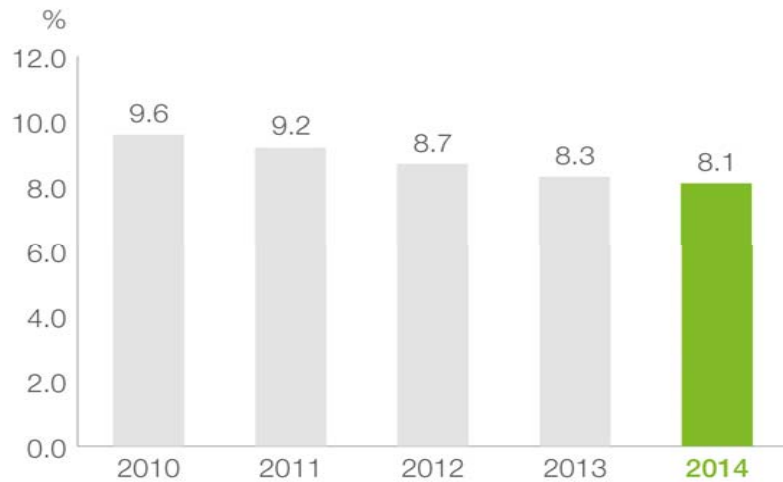
- Group premium revenue up 15.6% to \$1.5b due to
 - arhi policyholder growth, higher API per sale and premium increases.
 - Strong performance of adjacent businesses, including full year contribution of nib New Zealand.

AND DISCIPLINED COST CONTROL

nib GROUP MER



nib arhi MER



- Group management expense ratio (MER) of 10.9%, up 1.1% includes investment in brand and growth in New Zealand.
- arhi MER of 8.1% lowest since listing in 2007.
- arhi management expenses per average policy* (FY13):
 - nib: \$211
 - BUPA: \$262
 - Medibank Private: \$270

*Source: Private Health Insurance Administration Council

BUT WITH HIGH CLAIMS EXPERIENCE (arhi)

arhi CLAIMS EXPENSE

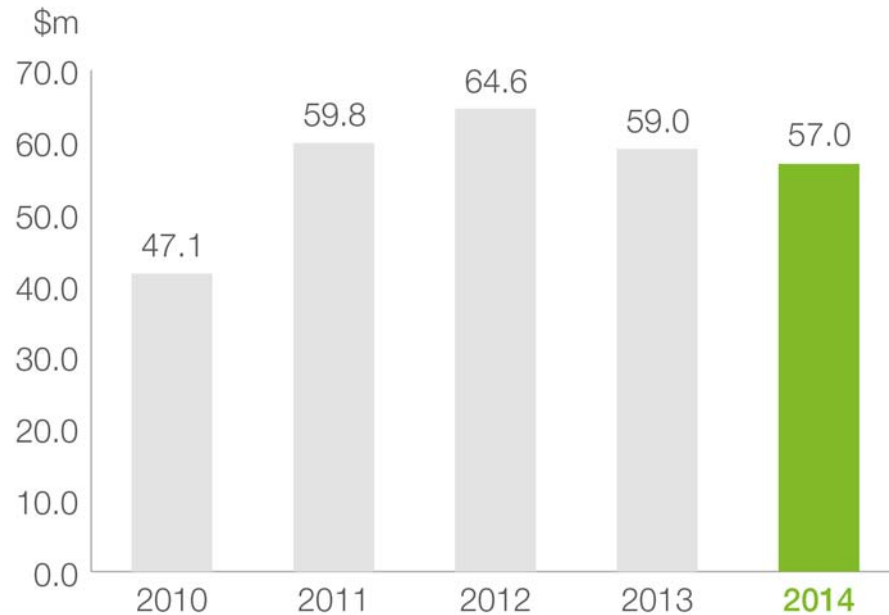


- Hospital benefits
\$609.5 million (up 8.6% on FY13)
- Ancillary benefits
\$314.7 million (up 14.6% on FY13)
- Risk equalisation levy
\$190.6 million (up 13.8% on FY13)
- State levies
\$28.2 million (down 2.3% on FY13)

- Group claims expense up 15.2% to \$1.3b (includes full year impact of nib New Zealand)
- arhi claims expense up 11.9% to \$1.2b (including risk equalisation) versus premiums up 10.7%.
- arhi gross margin of 12.3%, compared to 13.2% in FY13, resulted in net margin of 4.2% (FY13: 5.0%).
- A number of measures in place or planned to improve arhi gross margin and towards our target net margin range of 5.0%-5.5%.

arhi REMAINS OUR CORE ECONOMIC ENGINE

arhi OPERATING PROFIT



- arhi premium revenue of \$1.3b, driven by policyholder growth, higher API per sale and premium increases.
- For FY14, arhi generated more than 71,000 policyholder sales, with net annual growth of 3.1% (industry average 2.7%).
- arhi operating profit of \$57.0m was 3.5% below FY13 reflecting weak gross margin.

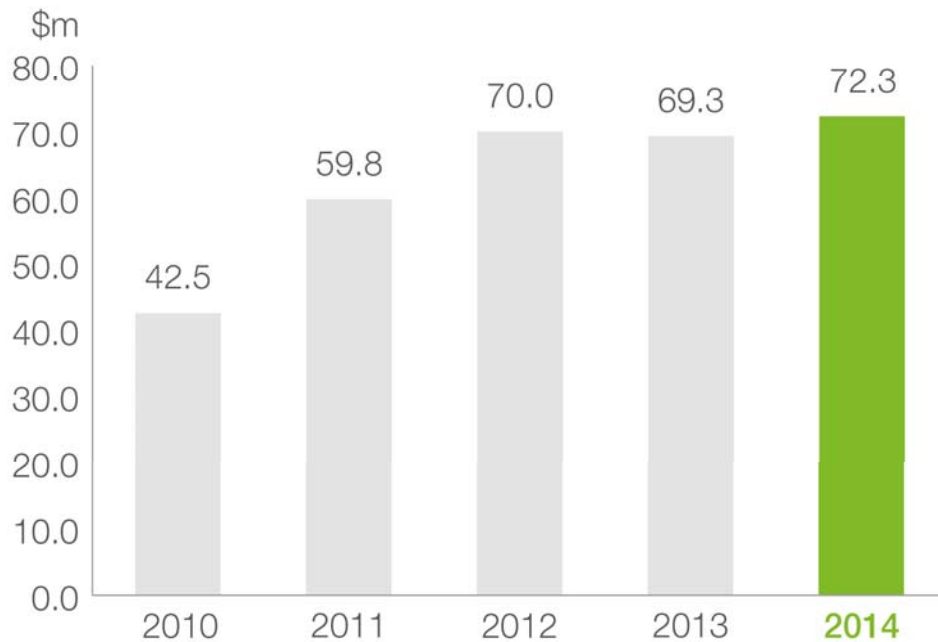
YET ESTABLISHED ADJACENT BUSINESSES ARE PERFORMING WELL

- **International Students Health Insurance (ishi) operating profit of \$1.9m (FY13: \$(0.1)m).**
- **International Workers Health Insurance (iwhi) operating profit of \$9.4m (FY13: \$8.4m).**
- **Other insurance commissions (non-underwritten) of \$2.2m (FY13: \$1.9m).**
- **nib New Zealand operating profit of \$7.4m.**

GROUP EARNINGS CONTINUE TO GROW

GROUP OPERATING PROFIT

▲ 4.3%



- Group operating profit up 4.3% to \$72.3m.
- Adjacent business accounted for 25.4% of FY14 Group operating profit.

BUSINESS INNOVATION A KEY EMPHASIS



nib Options provides access to cosmetic and dental treatment in Australia or overseas. Launched March 2014.



Whitecoat allows consumers to search and compare ancillary providers. Launched November 2013.



Rewarding experience

Alliance with Apia whereby they sell a “whitelabelled” nib health insurance product to their existing and new customers (over 55s). Launched June 2014.

OUTLOOK – ARHI

ANNUAL NET POLICYHOLDER GROWTH



*Source: Private Health Insurance Administration Council (PHIAC)

¹ Revenue is based on quarterly PHIAC data, and does not include any adjustments that Funds may have made as part of finalising their financial accounts for both half year and full year reporting. Hospital Single Equivalent Units (SEU) have been calculated using hospital policies as released through PHIAC A reporting. Average hospital SEU over the pricing year is calculated by taking the simple average of the prior March and current March calculated SEU.

- Total demand for private health insurance expected to grow circa 2%-3% (net annual policyholder growth) - with nib continuing to do better.
- Steps have and are being taken to restore net margin towards target 5.0%-5.5% range, include
 - 2014 premium increase.
 - Product changes.
 - Benefits and utilisation management.
- Ongoing nib price competitiveness and affordability (2013 pricing year revenue per average hospital SEU¹ – nib: \$2,102 versus industry (excluding nib): \$2,437).
- Possible favourable regulatory reforms around premium approvals and expanded PHI cover (e.g. GPs).
- Medibank Private IPO a watch point.

OUTLOOK – ADJACENT AND NEW BUSINESSES

INTERNATIONAL BUSINESS SEGMENTS

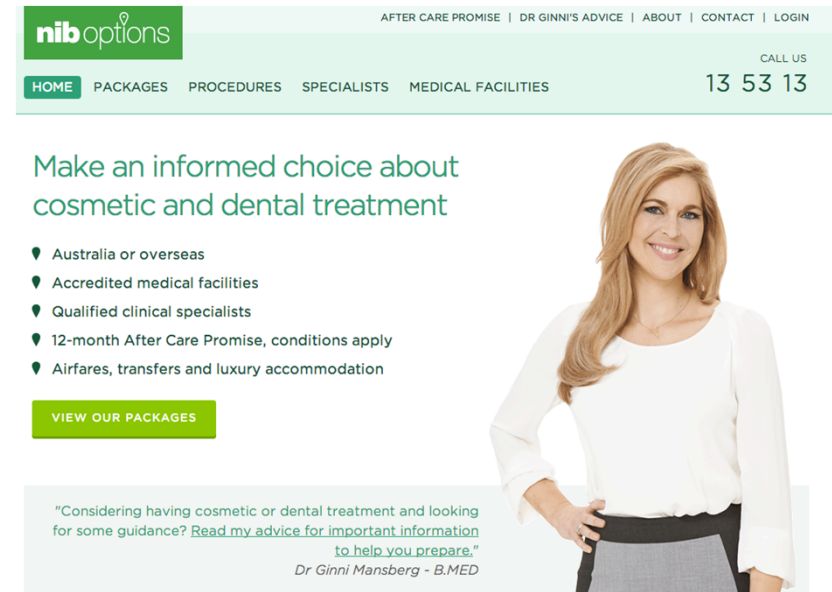
- iwhi and ishi markets forecast to grow with opportunities for nib to increase market share and profitability.
- nib New Zealand investment to be maintained especially in relation to direct-to-consumer channel with short term impact upon profitability.
- Launch of International Private Medical Insurance (IPMI) in New Zealand in September 2014 with intention to launch into Australia within 18 months.

OTHER INSURANCE LINES

- Adjacent insurance lines earnings will continue to increase with possible additional product lines.

nib Options

- nib Options in the early stages of development and more concerted marketing effort launched this month.
- Not expected to be profitable until FY16.



The screenshot shows the nib Options website. At the top, there is a navigation bar with the nib options logo on the left and links for 'AFTER CARE PROMISE', 'DR GINNI'S ADVICE', 'ABOUT', 'CONTACT', and 'LOGIN' on the right. Below this is a secondary navigation bar with 'HOME', 'PACKAGES', 'PROCEDURES', 'SPECIALISTS', and 'MEDICAL FACILITIES'. On the far right of this bar, it says 'CALL US 13 53 13'. The main content area features a heading 'Make an informed choice about cosmetic and dental treatment' followed by a list of benefits: 'Australia or overseas', 'Accredited medical facilities', 'Qualified clinical specialists', '12-month After Care Promise, conditions apply', and 'Airfares, transfers and luxury accommodation'. A green button labeled 'VIEW OUR PACKAGES' is positioned below the list. To the right of the text is a photograph of a smiling woman with long blonde hair, wearing a white top and a grey skirt. At the bottom of the screenshot, there is a testimonial: '"Considering having cosmetic or dental treatment and looking for some guidance? [Read my advice for important information to help you prepare.](#)" Dr Ginni Mansberg - B.MED'

CAPITAL MANAGEMENT & FY15 GUIDANCE

- Dividend payout ratio of 60%-70% full year NPAT.
- Capacity to better optimise nib's capital structure with additional debt.
- M&A opportunities although not clear, have been provided for in capital planning.
- FY15 consolidated operating profit in the range of \$75m to \$82m.
- FY15 investment income forecast to be line with relevant internal benchmarks*.

* Internal Investment benchmarks

- Australian Regulatory capital (80/20 defensive/growth) - target for portfolio UBS bank bill index plus 1%
- New Zealand regulatory capital (100% defensive) (1) For core portfolio target is a 6 month bank bill index (2) For premium payback portfolio target is a 3.0 years interest rate swap index
- Surplus capital (100% defensive) - UBS bank bill index

nib

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MEETING 2014**

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