

nib holdings limited
ABN 51 125 633 856

Half-year report for the period ended 31 December 2019

This report should be read in conjunction with the annual financial report for the year ended 30 June 2019.

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Appendix 4D

For the half year ended 31 December 2019

nib holdings limited

Results for announcement to the market

	6 months to 31 Dec 19 \$m	6 months to 31 Dec 18 \$m	Movement up / (down) \$m	Movement %
Revenue from ordinary activities	1,293.0	1,205.6	87.4	7%
Profit from ordinary activities after tax attributable to members	57.3	74.5	(17.2)	-23%
Net profit attributable to members	57.3	74.5	(17.2)	-23%

	6 months to 31 Dec 19 Amount per security (cps)	6 months to 31 Dec 18 Franking amount per security	6 months to 31 Dec 19 Amount per security (cps)	6 months to 31 Dec 18 Franking amount per security
Interim Dividend				
Ordinary Dividend	10.00	100%	10.00	100%
Special Dividend	0.00	100%	0.00	100%
Total Interim Dividend	10.00	100%	10.00	100%
Record date for determining entitlements to the dividend	6 March 2020			
Date the interim dividend is payable	7 April 2020			

Brief explanation of figures reported above:

Net profit after tax attributable to owners of nib holdings limited for the half year to 31 December 2019 calculated on a statutory basis equated to a profit of \$57.3 million.

For further information, refer to the Directors' Report in the attached Interim Report of nib holdings limited for the period ended 31 December 2019.

Appendix 4D

For the half year ended 31 December 2019

nib holdings limited

Appendix 4D disclosure requirements	nib group Appendix 4D	Note Number
1. Details of the reporting period and the previous corresponding period	All financial data headings	
<p>2. Key information in relation to the following:</p> <p>This information must be identified as “Results for announcement to the market”.</p> <p>2.1 The amount and percentage change up or down from the previous corresponding period of revenue from ordinary activities.</p> <p>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.</p> <p>2.3 The amount and percentage change up or down from the previous corresponding period of profit (loss) attributable to members.</p> <p>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.</p> <p>2.5 The record date for determining entitlements to the dividends (if any).</p> <p>2.6 A brief explanation of any of the figures in 2.1 to 2.4 necessary to enable the figures to be understood.</p>	“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 56.35 (58.39 as at 31 Dec 2018)	
<p>4. Details of entities over which control has been gained or lost during the period, including the following:</p> <p>4.1 Name of entity.</p> <p>4.2 The date of the gain or loss of control.</p> <p>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.</p>	Not applicable – no change in control of entities	
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.	<p>Interim Report 31 December 2019</p> <ul style="list-style-type: none"> Notes to the financial statement - Dividends 	Note 12
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.	The DRP will be available to shareholders for the FY20 interim dividend. Shareholders can participate in the DRP by completing the application form by visiting nib.com.au/easyupdate . DRP elections for the FY20 interim dividend must be received by no later than 5pm (AEST) on Monday 9 March 2020.	
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 – no change in control of associates and joint ventures	

Appendix 4D

For the half year ended 31 December 2019

nib holdings limited

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 contain an independent audit report or review that is subject to a modified opinion, emphasis of matter or other matter paragraph, a description of the modified opinion, emphasis of matter or other matter paragraph.	Not applicable	

R Toms
Company Secretary
nib holdings limited

Date 21 February 2020



Interim Report

31 December 2019



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Directors' Report

For the half year ended 31 December 2019

nib holdings limited

The Directors of nib holdings limited (Company) present their report on the consolidated entity (Group) consisting of nib holdings limited and the entities it controlled at the end of or during the half year ended 31 December 2019.

DIRECTORS

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

Steve Crane
Lee Ausburn
Anne Loveridge
Donal O'Dwyer

Mark Fitzgibbon
Jacqueline Chow
Christine McLoughlin

PRINCIPAL ACTIVITIES

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

REVIEW OF OPERATIONS

Group

\$1.3b

Underlying revenue
up 6.4%



\$83.2m

UOP
down 27.2%



\$57.1m

NPAT¹
down 23.1%

At a Group level, our operating performance for first half fiscal year 2020 (1H20) resulted in all business segments growing membership and premium revenue.

While Group revenue was up 6.4% to \$1.3 billion, higher claims inflation across nib's insurance businesses and the timing of claims development impacted claims reserves resulting in Group Underlying Operating Profit (UOP) of \$83.2 million, a decline of 27.2%.

We've made good progress in driving operational efficiencies while still keeping the member at the heart of everything we do. This has seen Group management expenses (excluding investment in marketing) reduce by 4.0%² compared to first half last year, while maintaining or improving our already high member satisfaction levels.

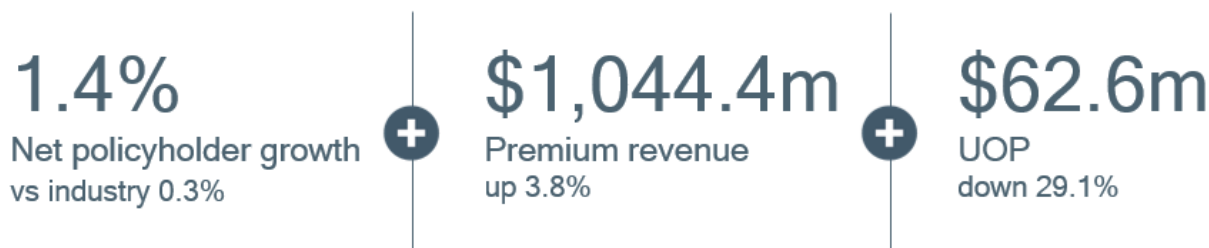
Net profit after tax (NPAT) was \$57.1 million (down 23.1%), with net investment income of \$12.6 million compared to \$1.5 million in first half last year. Earnings per share (statutory) was 12.6 cents per share down 23.2%.

The Board has declared a fully franked interim dividend of 10.0 cents per share. The interim dividend has an ex-dividend and record date of 5 March and 6 March 2020 respectively with payment to be made to shareholders on 7 April 2020.

1. NPAT attributable to owners \$57.3m, excludes nib charitable foundation \$(0.2m).
2. arhi, iih and nz segments only, excludes nib Travel.

REVIEW OF OPERATIONS continued

arhi



Despite challenging industry conditions and macro factors arhi's net policyholder growth of 1.4% was again well ahead of the industry's 0.3%. Our track record of above industry growth points to the success of our multi-channel growth strategy which includes distribution partners such as Qantas, Suncorp Group as well as our own direct to consumer efforts.

While claims inflation and the rate our members' access healthcare services continue to trend broadly in line with our expectations, the 1H20 result was unfavourably impacted by timing of claims development and a recent uptick in industry claims. The combination of these factors largely explains the variation in our 1H20 UOP result of \$62.6 million (down 29.1%) when compared to first half last year. This subsequently means arhi's reported 1H20 net margin is 5.9% versus 8.7% in 1H19.

Adjusting for claims development (1H19 result overstated by \$21.3 million and 1H20 result understated by \$4.8 million which led to a double ended unfavourable variance of \$26.1 million for 1H20), our 1H20 net margin would have been 6.4% (1H19 normalised net margin of 6.6%), bringing underlying performance half on half more in line with net margin targets.

Consistent with our FY20 earnings update (lodged with ASX on 20 January 2020), recent data suggests the industry is experiencing an uptick in claims following a relatively soft claims environment. This in turn means nib's risk equalisation net contribution in FY20 is now expected to be approximately \$20 million or 9% higher than FY19.

As the largest contributor to the private health insurance risk equalisation scheme, because of our much younger member profile compared to other health funds, nib is shouldering much of industry's recent claims growth, placing pressure on this year's earnings.

We're supportive of recent industry suggestions, including from our regulator APRA, for current risk equalisation arrangements to be looked at.

For FY20 we still expect the arhi business to deliver a net margin consistent with our long term target of circa 6%, which is consistent with our claims forecast assumptions and premium pricing strategy.

iihi

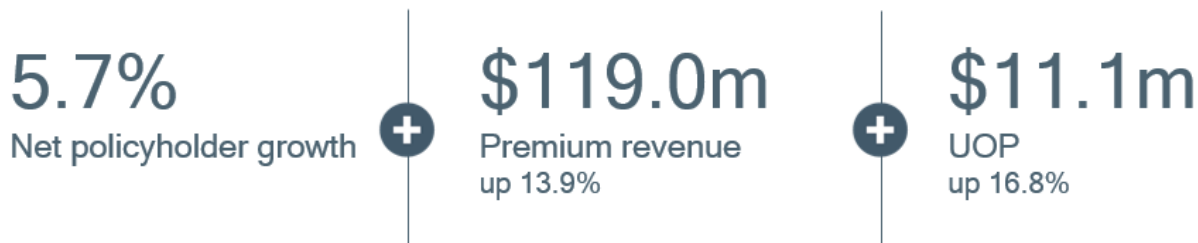


Our international (inbound) health insurance business delivered double digit revenue growth of 15.4%, with net policyholder growth for the period of 7.0%. Our iihi business which provides health insurance to international students and workers while in Australia recently surpassed 184,000 policyholders representing growth (compound annual growth) of 27.2% over the past five years.

The business has been subject to resetting of margins during the period which has been the combination of increasing claims and pricing strategy. This resulted in UOP of \$12.3 million for the first half of the year compared to \$17.9 million same period in 2019. The net margin of 19.0% (1H19: 32.6%) is more consistent with our longer term sustainable target levels going forward.

REVIEW OF OPERATIONS continued

nz

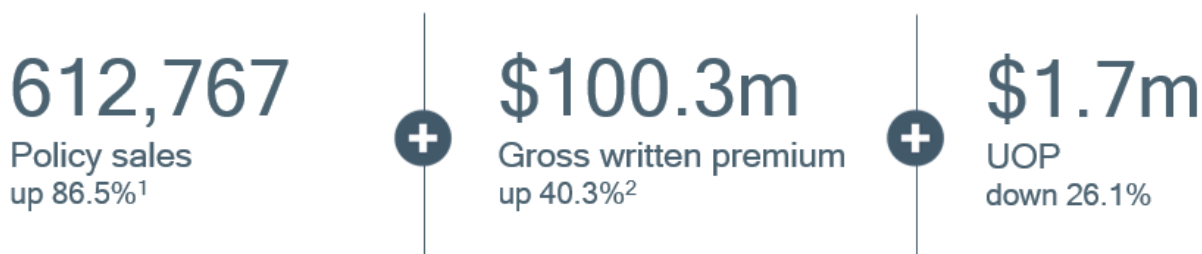


Our New Zealand business delivered a stand-out result with UOP up 16.8% to \$11.1 million. Underpinning the result was an increase in premium revenue of 13.9% reflecting very strong policyholder growth of 5.7% and premium adjustments to account for an increase in claims.

Our New Zealand operations continue to lead the way in terms of enhancing our population health capability with our partnership with Auckland iwi (Māori tribe), Ngāti Whātua Ōrākei. The partnership which provides health insurance to Ngāti Whātua Ōrākei members is aimed at improving health and wellbeing outcomes.

To date around a quarter of participants have completed a wellness assessment, providing population health data to analyse trends and develop preventative programs. The partnership aims to create better health interventions, improve outcomes and tackle existing barriers that Māori experience when accessing healthcare through the public health system. We're looking to expand this program to other communities and populations both in New Zealand and Australia.

nib Travel



nib Travel continues to grow sales and operating income, but profitability was below expectation due to a tough domestic travel insurance sales and business integration challenges, following acquisition of QBE Travel in May last year.

Our international expansion strategy continues to yield encouraging results with international sales up 17.0% compared to same period last year (excluding QBE Travel sales up 14.2%). Domestic sales (excluding QBE Travel) were down 5.8% (up 165.4% including QBE Travel), with the Australian market remaining challenging.

The acquisition of QBE Travel during the period also meant an increase in acquisition and operational expenses associated with the business. Our focus remains on right-sizing the cost base of the nib Travel business, including operational synergies to improve future earnings trajectory.

nib Travel UOP for 1H20 was \$1.7 million compared to \$2.3 million same period last year.

1. Sales up 5.0% excluding acquisition of QBE Travel (completed May 2019)
 2. Gross written premium excluding acquisition of QBE Travel was \$75.3m

CAPITAL MANAGEMENT

At 31 December 2019 the Group had net assets of \$622.3 million (June 2019: \$632.2 million) and a return on equity of 22.5%, using average shareholders' equity and NPAT for the previous 12 months over a rolling 12-month period (December 2018: 24.7%). Further, at 31 December 2019 the Group had available capital of \$69.2 million above our internal benchmark (after allowing for the payment of an interim dividend of 10.0 cents per share, totalling \$45.6 million, in April 2020).

DIVIDENDS

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

	31 Dec 19 \$m	31 Dec 18 \$m
Final dividend for the year ended 30 June 2019 of 13.0 cents (2018 - 11.0 cents) per fully paid share paid on 30 September 2019	59.2	50.0
	59.2	50.0

In addition to these dividends, since the end of the financial half year the Directors have recommended the payment of a fully franked interim dividend of \$45.6 million (10.0 cents per fully paid ordinary share) to be paid on 7 April 2020 out of retained profits at 31 December 2019.

Subject to franking credit availability, the Board's position is that future ordinary dividends will reflect a dividend payout ratio of 60% to 70% of earnings with additional capacity to pay special dividends as part of future capital management.

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 5.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off to the nearest hundred thousand dollars in accordance with that Instrument.

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

On behalf of the Board



Steve Crane
Director



Anne Loveridge
Director

Newcastle, NSW
21 February 2020



Auditor's Independence Declaration

As lead auditor for the review of nib holdings limited for the half-year ended 31 December 2019, 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.

A handwritten signature in black ink, appearing to read 'SK Fergusson', with a horizontal line extending to the right.

SK Fergusson
Partner
PricewaterhouseCoopers

Newcastle
21 February 2020

Financial Report

For the half year ended 31 December 2019

nib holdings limited

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Consolidated Income Statement

For the half year ended 31 December 2019

nib holdings limited

	Notes	Half year	
		31 Dec 19 \$m	31 Dec 18 \$m
Premium revenue	4	1,243.9	1,178.7
Outwards reinsurance premium expense	4	(16.3)	(14.8)
Net premium revenue		1,227.6	1,163.9
Claims expense		(850.9)	(768.7)
Reinsurance and other recoveries revenue		9.4	5.9
RESA levy		(126.5)	(114.7)
State levies		(17.5)	(17.1)
(Increase) / decrease in premium payback liability		0.2	0.2
Claims handling expenses	5	(8.9)	(9.3)
Net claims incurred		(994.2)	(903.7)
Other underwriting revenue		1.5	1.7
Acquisition costs	5	(82.7)	(74.9)
Other underwriting expenses	5	(69.0)	(74.5)
Underwriting expenses		(151.7)	(149.4)
Underwriting result		83.2	112.5
Other income	4	50.2	37.4
Other expenses	5	(58.8)	(42.4)
Share of net profit / (loss) of associates and joint ventures accounted for using the equity method		(1.4)	(0.3)
Operating profit		73.2	107.2
Finance costs	5	(6.0)	(3.8)
Investment income	4	13.7	2.6
Investment expenses	5	(1.1)	(1.1)
Profit before income tax		79.8	104.9
Income tax expense		(22.7)	(30.6)
Profit for the half year		57.1	74.3
Profit for the half year is attributable to:			
Owners of nib holdings limited		57.3	74.5
Charitable foundation		(0.2)	(0.2)
		57.1	74.3
		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company			
Basic earnings per share	13	12.6	16.4
Diluted earnings per share	13	12.6	16.4
Earnings per share for profit attributable to the ordinary equity holders of the company			
Basic earnings per share	13	12.6	16.4
Diluted earnings per share	13	12.6	16.4

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

Consolidated Statement of Comprehensive Income

For the half year ended 31 December 2019

nib holdings limited

	Notes	Half year	
		31 Dec 19 \$m	31 Dec 18 \$m
Profit for the half year		57.1	74.3
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		0.2	2.8
Income tax related to these items		(0.1)	(0.8)
Other comprehensive income for the half year, net of tax		0.1	2.0
Total comprehensive income for the half year		57.2	76.3
Total comprehensive income for the half year is attributable to:			
Owners of nib holdings limited		57.4	76.5
Charitable foundation		(0.2)	(0.2)
		57.2	76.3

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

Consolidated Balance Sheet
For the half year ended 31 December 2019
nib holdings limited

	Notes	31 Dec 19 \$m	30 Jun 19 \$m
ASSETS			
Current assets			
Cash and cash equivalents		146.4	164.7
Receivables		93.2	81.3
Financial assets at amortised cost		88.1	73.9
Financial assets at fair value through profit or loss		674.2	742.7
Deferred acquisition costs	6	51.4	49.7
Current tax assets		3.7	-
Total current assets		1,057.0	1,112.3
Non-current assets			
Receivables		1.8	1.8
Financial assets at fair value through profit or loss		0.6	1.5
Investments accounted for using the equity method		10.2	11.7
Deferred acquisition costs	6	65.8	65.5
Property, plant and equipment		11.6	13.2
Intangible assets		347.9	348.1
Right-of-use assets	7	66.1	-
Total non-current assets		504.0	441.8
Total assets		1,561.0	1,554.1
LIABILITIES			
Current liabilities			
Payables		170.1	197.7
Borrowings	8	1.6	1.4
Outstanding claims liability	9	148.8	143.3
Unearned premium liability		191.7	219.3
Premium payback liability	10	3.2	3.2
Lease liabilities	7	9.9	-
Provision for employee entitlements		5.1	4.8
Current tax liabilities		0.1	10.2
Other liabilities		-	0.4
Total current liabilities		530.5	580.3
Non-current liabilities			
Payables		7.9	10.0
Borrowings	8	232.7	232.5
Unearned premium liability		38.2	38.1
Premium payback liability	10	16.0	16.1
Lease liabilities	7	76.6	-
Provision for employee entitlements		3.2	3.4
Deferred tax liabilities		33.6	37.2
Other liabilities		-	4.3
Total non-current liabilities		408.2	341.6
Total liabilities		938.7	921.9
Net assets		622.3	632.2
EQUITY			
Contributed equity	11	122.0	115.2
Retained profits		486.5	498.9
Reserves		(3.6)	0.5
Capital and reserves attributable to owners of nib holdings limited		604.9	614.6
Charitable foundation		17.4	17.6
Total equity		622.3	632.2

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes

Consolidated Statement of Changes in Equity

For the half year ended 31 December 2019

nib holdings limited

	Attributable to owners of nib holdings limited						
	Notes	Contributed equity	Retained profits	Reserves	Total	Charitable foundation	Total equity
		\$m	\$m	\$m	\$m	\$m	\$m
Balance at 1 July 2018		112.3	445.5	-	557.8	-	557.8
Adjustment on adoption of AASB 9, net of tax		-	(0.1)	-	(0.1)	-	(0.1)
Adjustment on adoption of AASB 15, net of tax		-	(0.8)	-	(0.8)	-	(0.8)
Restated balance at 1 July 2018		112.3	444.6	-	556.9	-	556.9
Profit for the half year		-	74.5	-	74.5	(0.2)	74.3
Movement in foreign currency translation, net of tax		-	-	2.0	2.0	-	2.0
Total comprehensive income for the half year		-	74.5	2.0	76.5	(0.2)	76.3
Consolidation of Charitable foundation		-	-	-	-	18.1	18.1
		-	-	-	-	18.1	18.1
Transactions with owners in their capacity as owners:							
Ordinary shares issued	11	4.2	-	-	4.2	-	4.2
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust	11	(1.9)	-	-	(1.9)	-	(1.9)
Issue of shares held by nib Holdings Ltd Share Ownership Plan Trust to employees	11	4.7	-	(3.1)	1.6	-	1.6
Employee performance rights - value of employee services		-	-	0.4	0.4	-	0.4
Dividends paid	12	-	(50.0)	-	(50.0)	-	(50.0)
		7.0	(50.0)	(2.7)	(45.7)	-	(45.7)
Balance at 31 December 2018		119.3	469.1	(0.7)	587.7	17.9	605.6
Balance at 30 June 2019		115.2	498.9	0.5	614.6	17.6	632.2
Adjustment on adoption of AASB 16, net of tax	7	-	(10.5)	-	(10.5)	-	(10.5)
Restated balance at 1 July 2019		115.2	488.4	0.5	604.1	17.6	621.7
Profit for the half year		-	57.3	-	57.3	(0.2)	57.1
Movement in foreign currency translation, net of tax		-	-	0.1	0.1	-	0.1
Total comprehensive income for the half year		-	57.3	0.1	57.4	(0.2)	57.2
Transactions with owners in their capacity as owners:							
Ordinary shares issued	11	3.9	-	-	3.9	-	3.9
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust	11	(3.0)	-	-	(3.0)	-	(3.0)
Issue of shares held by nib Holdings Ltd Share Ownership Plan Trust to employees	11	5.9	-	(3.9)	2.0	-	2.0
Employee performance rights - value of employee services		-	-	(0.3)	(0.3)	-	(0.3)
Dividends paid	12	-	(59.2)	-	(59.2)	-	(59.2)
		6.8	(59.2)	(4.2)	(56.6)	-	(56.6)
Balance at 31 December 2019		122.0	486.5	(3.6)	604.9	17.4	622.3

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes

Consolidated Statement of Cash Flows

For the half year ended 31 December 2019

nib holdings limited

	Half year	
	31 Dec 19	31 Dec 18
	\$m	\$m
Cash flows from operating activities		
Receipts from policyholders and customers (inclusive of goods and services tax)	1,298.6	1,221.0
Payments to policyholders and customers	(1,011.5)	(933.4)
Receipts from outwards reinsurance contracts	8.5	7.5
Payments for outwards reinsurance contracts	(15.8)	(15.4)
Payments to suppliers and employees (inclusive of goods and services tax)	(252.4)	(217.3)
	27.4	62.4
Dividends received	0.2	0.2
Interest received	3.3	4.6
Distributions received	2.3	5.2
Transaction costs relating to acquisition of business	-	(0.7)
Interest paid	(3.4)	(3.8)
Income taxes paid	(35.7)	(30.8)
Net cash inflow from operating activities	(5.9)	37.1
Cash flows from investing activities		
Proceeds from disposal of other financial assets at fair value through profit or loss	1,094.1	184.7
Payments for other financial assets at fair value through profit or loss	(1,031.5)	(90.0)
Payments for property, plant and equipment and intangibles	(11.4)	(14.3)
Net cash from consolidation of Charitable foundation	-	13.8
Payments for investments in associates and joint ventures	-	(7.9)
Net cash (outflow) from investing activities	51.2	86.3
Cash flows from financing activities		
Proceeds from issue of shares	3.9	4.2
Proceeds from borrowings	67.2	-
Repayment of borrowings	(67.2)	-
Principal elements of lease payments	(5.3)	-
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust	(3.0)	(1.9)
Dividends paid to the company's shareholders	(59.2)	(50.0)
Net cash inflow / (outflow) from financing activities	(63.6)	(47.7)
Net increase / (decrease) in cash and cash equivalents	(18.3)	75.7
Cash and cash equivalents at beginning of the half year	163.2	191.1
Effects of exchange rate changes on cash and cash equivalents	(0.1)	(0.2)
Cash and cash equivalents at the end of the half year	144.8	266.6
Reconciliation to Consolidated Balance Sheet		
Cash and cash equivalents	146.4	268.9
Borrowings - overdraft	(1.6)	(2.3)
	144.8	266.6

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes

Notes to the Consolidated Financial Statements

For the half year ended 31 December 2019

nib holdings limited

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of nib holdings limited and its subsidiaries.

a) Basis of preparation for the half year report

This consolidated interim financial report for the half year reporting period ended 31 December 2019 has been prepared in accordance with AASB 134 Interim Financial Reporting and the *Corporations Act 2001*. nib holdings limited is a for-profit entity for the purpose of preparing the financial statements.

This consolidated 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 2019 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*.

b) Accounting policies

The accounting policies adopted in the preparation of these interim financial statements are consistent with those of the previous financial year except for the policies stated below. Additional accounting policies are shown for new transactions that have occurred since the previous financial year. When the presentation or classification of items in the financial report is amended, comparative amounts have been reclassified.

c) New and amended standards adopted by the Group

The Group has adopted all of the new or amended accounting standards and interpretations issued by the AASB that are mandatory for the current reporting period.

Any new or amended accounting standards or interpretations that are not yet mandatory have not been early adopted.

i) AASB 16 Leases

The Group has adopted AASB 16 retrospectively from 1 July 2019, but has not restated comparatives for FY19, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

The impact on the consolidated financial performance and position of the Group from the adoption of AASB 16 is detailed in note 7.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2019

nib holdings limited

2. FAIR VALUE MEASUREMENT

a) Fair value hierarchy

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

The following tables present the Group's assets and liabilities measured and recognised at fair value at 31 December 2019 and 30 June 2019:

	Level 1	Level 2	Level 3	Total
	\$m	\$m	\$m	\$m
Group at 31 December 2019				
Assets				
Cash and cash equivalents and deposits at call	146.4	-	-	146.4
Receivables	-	1.8	-	1.8
Financial assets at amortised cost				
Short term deposits	88.1	-	-	88.1
Financial assets at fair value through profit or loss				
Equity securities	137.8	-	-	137.8
Interest-bearing securities	464.2	31.6	-	495.8
Mortgage trusts	-	0.4	-	0.4
Property trusts	2.4	1.1	12.3	15.8
Short term deposits	25.0	-	-	25.0
Total assets	863.9	34.9	12.3	911.1

	Level 1	Level 2	Level 3	Total
	\$m	\$m	\$m	\$m
Group at 30 June 2019				
Assets				
Cash and cash equivalents and deposits at call	164.7	-	-	164.7
Receivables	-	1.8	-	1.8
Financial assets at amortised cost				
Short term deposits	73.9	-	-	73.9
Financial assets at fair value through profit or loss				
Equity securities	133.2	1.2	-	134.4
Interest-bearing securities	476.6	41.7	-	518.3
Mortgage trusts	-	0.4	-	0.4
Property trusts	2.4	0.8	12.9	16.1
Short term deposits	75.0	-	-	75.0
Total assets	925.8	45.9	12.9	984.6

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

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

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2019

nib holdings limited

2. FAIR VALUE MEASUREMENT continued

a) Fair value hierarchy continued

Level 1	The fair value of financial instruments traded in active markets (such as financial assets at fair value through profit or loss) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.
Level 2	The fair value of financial instruments that are not traded in active markets (for example interest bearing securities) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. These instruments are included in level 2.
Level 3	If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

b) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

All of the resulting fair value estimates for financial instruments are included in level 2.

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

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

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

The following table presents the changes in level 3 instruments for the periods ended 31 December 2019 and 30 June 2019:

	31 Dec 19	30 Jun 19
	\$m	\$m
Fair value measurement as at 1 July	12.9	13.1
Purchased	0.6	0.6
Sales	(1.2)	(1.3)
Change in fair value	-	0.5
Fair value measurement at end of period	12.3	12.9

i) Transfers between levels 2 and 3 There were no transfers between the levels of the fair value hierarchy during the half year. There were also no changes during the half year to any of the valuation techniques applied as of 30 June 2019.

ii) Valuation process The valuation of unlisted property is based on unit prices provided by investment managers.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2019

nib holdings limited

2. FAIR VALUE MEASUREMENT continued

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

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements:

Description	Fair value \$m	Unobservable inputs	Relationship of unobservable inputs to fair value
At 31 December 2019			
Unlisted property trusts	12.3	Redemption price	Higher/(low er) redemption price (+/- 10%) would increase/(decrease) fair value by \$1.2m
At 30 June 2019			
Unlisted property trusts	12.9	Redemption price	Higher/(low er) redemption price (+/- 10%) would increase/(decrease) fair value by \$1.3m

d) Fair values of other financial instruments

The Group also had another financial instrument which was not measured at fair value in the balance sheet. This had the following fair value as at 31 December 2019 and 30 June 2019:

Non-current borrowings	31 Dec 19		30 Jun 19	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$m	\$m	\$m	\$m
Bank loans	232.7	232.7	232.5	232.5

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

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2019

nib holdings limited

3. SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to Executive management. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Managing Director/Chief Executive Officer (MD/CEO).

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

No information regarding assets, liabilities and income tax is provided for individual Australian Residents Health Insurance and International (Inbound) Health Insurance segments to the MD/CEO. Furthermore, investment income and expenditure for Australia is not allocated to individual Australian segments as this type of activity is driven by the central treasury function, which manages the cash position of the Australian companies.

Management has determined the operating segments based on the reports reviewed by the MD/CEO that are used to make strategic decisions.

The MD/CEO considers the business from both a geographic and product perspective and has identified four reportable segments:

Australian Residents Health Insurance	nib's core product offering within the Australian private health insurance industry
New Zealand Residents Health Insurance	nib's core product offering within the New Zealand private health insurance industry
International (Inbound) Health Insurance	nib's offering of health insurance products for international students and workers
nib Travel	nib's distribution of travel insurance products

'Unallocated to segments' includes life and funeral insurance commission, corporate and share registry, niss and charitable foundation as they do meet the quantitative requirements for reportable segments.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2019

nib holdings limited

3. SEGMENT REPORTING continued

	For the half year ending 31 December 2019					
	Australian Residents Health Insurance \$m	International (Inbound) Health Insurance \$m	New Zealand Health Insurance \$m	nib Travel \$m	Unallocated to segments \$m	Total \$m
Premium revenue	1,050.9	69.0	119.2	4.8	-	1,243.9
Outwards reinsurance premium expense	(6.5)	(7.5)	(0.2)	(2.1)	-	(16.3)
Net premium revenue	1,044.4	61.5	119.0	2.7	-	1,227.6
Claims expense	(739.5)	(35.1)	(73.9)	(2.4)	-	(850.9)
Reinsurance and other recoveries revenue	2.2	4.8	-	2.4	-	9.4
RESA	(126.5)	-	-	-	-	(126.5)
State levies	(17.5)	-	-	-	-	(17.5)
(Increase) / decrease in premium payback liability	-	-	0.2	-	-	0.2
Claims handling expenses	(6.5)	(1.0)	(1.1)	(0.3)	-	(8.9)
Net claims incurred	(887.8)	(31.3)	(74.8)	(0.3)	-	(994.2)
Other underwriting revenue	1.0	0.6	(0.1)	-	-	1.5
Acquisition costs	(52.3)	(8.3)	(19.9)	(2.2)	-	(82.7)
Other underwriting expenses	(42.2)	(10.2)	(13.1)	-	-	(65.5)
Underwriting expenses	(94.5)	(18.5)	(33.0)	(2.2)	-	(148.2)
Underwriting result	63.1	12.3	11.1	0.2	-	86.7
Other income	-	-	-	47.8	2.2	50.0
Other expenses	-	-	-	(46.3)	(5.8)	(52.1)
Share of net profit / (loss) of associates and joint ventures	(0.5)	-	-	-	(0.9)	(1.4)
Underlying operating profit / (loss)	62.6	12.3	11.1	1.7	(4.5)	83.2
Items not included in underlying operating profit						
Amortisation of acquired intangibles	(1.0)	(0.8)	(1.7)	(1.8)	-	(5.3)
One-off transactions, merger, acquisition and new business implementation costs	-	-	-	-	(4.7)	(4.7)
Finance costs					(6.0)	(6.0)
Investment income					13.7	13.7
Investment expenses					(1.1)	(1.1)
Profit before income tax from continuing operations						79.8
Inter-segment other income ¹	3.7	0.2	-	-	-	3.9
Total assets	1,033.1		211.6	172.0	144.3	1,561.0
Total liabilities	555.6		70.8	41.3	271.0	938.7
Insurance liabilities						
Outstanding claims liability	134.2		12.7	1.9	-	148.8
Unearned premium liability	207.2		21.7	1.0	-	229.9
Premium payback liability	-		19.2	-	-	19.2
Total	341.4		53.6	2.9	-	397.9

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

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2019

nib holdings limited

3. SEGMENT REPORTING continued

	For the half year ending 31 December 2018					
	Australian Residents Health Insurance \$m	International (Inbound) Health Insurance \$m	New Zealand Health Insurance \$m	nib Travel \$m	Unallocated to segments \$m	Total \$m
Premium revenue	1,012.8	61.4	104.5	-	-	1,178.7
Outwards reinsurance premium expense	(6.7)	(8.1)	-	-	-	(14.8)
Net premium revenue	1,006.1	53.3	104.5	-	-	1,163.9
Claims expense	(682.3)	(22.7)	(63.7)	-	-	(768.7)
Reinsurance and other recoveries revenue	3.2	2.7	-	-	-	5.9
RESA	(114.7)	-	-	-	-	(114.7)
State levies	(17.1)	-	-	-	-	(17.1)
Decrease in premium payback liability	-	-	0.2	-	-	0.2
Claims handling expenses	(7.7)	(0.9)	(0.7)	-	-	(9.3)
Net claims incurred	(818.6)	(20.9)	(64.2)	-	-	(903.7)
Other underwriting revenue	1.2	0.5	-	-	-	1.7
Acquisition costs	(50.7)	(6.9)	(17.3)	-	-	(74.9)
Other underwriting expenses	(49.5)	(8.1)	(13.5)	-	-	(71.1)
Underwriting expenses	(100.2)	(15.0)	(30.8)	-	-	(146.0)
Underwriting result	88.5	17.9	9.5	-	-	115.9
Other income	-	-	-	33.5	2.9	36.4
Other expenses	-	-	-	(31.2)	(6.5)	(37.7)
Share of net profit / (loss) of associates and joint ventures	(0.2)	-	-	-	(0.1)	(0.3)
Underlying operating profit / (loss)	88.3	17.9	9.5	2.3	(3.7)	114.3
Items not included in underlying operating profit						
Amortisation of acquired intangibles	(0.9)	(0.8)	(1.7)	(1.0)	-	(4.4)
One-off transactions, merger, acquisition and new business implementation costs	-	-	-	-	(2.7)	(2.7)
Finance costs	-	-	-	-	(3.8)	(3.8)
Investment income	-	-	-	-	2.6	2.6
Investment expenses	-	-	-	-	(1.1)	(1.1)
Profit before income tax from continuing operations						104.9
Inter-segment other income ¹	6.5	0.2	-	-	-	6.7
Total assets	997.8		201.1	121.1	115.3	1,435.3
Total liabilities	482.7		58.8	14.5	273.7	829.7
Insurance liabilities						
Outstanding claims liability	122.6		14.4	-	-	137.0
Unearned premium liability	187.2		19.4	-	-	206.6
Premium payback liability	-		18.7	-	-	18.7
Total	309.8		52.5	-	-	362.3

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

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2019

nib holdings limited

4. REVENUE AND OTHER INCOME

	Half year	
	31 Dec 19	31 Dec 18
	\$m	\$m
Premium revenue	1,243.9	1,178.7
Outwards reinsurance premiums	(16.3)	(14.8)
Net premium revenue	1,227.6	1,163.9
Agency fee	0.2	0.2
Sundry income	1.3	1.5
Other underwriting revenue	1.5	1.7
Other income		
Travel insurance commission	47.8	33.5
Life and funeral insurance commission and other commissions	1.5	1.3
Insurance recoveries	0.1	1.0
Sundry income	0.8	1.6
	50.2	37.4
Investment income		
Interest	3.1	4.5
Net realised gain (loss) on financial assets at fair value through profit or loss	20.3	4.6
Net unrealised gain (loss) on financial assets at fair value through profit or loss	(9.9)	(6.7)
Dividends	0.2	0.2
	13.7	2.6

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2019

nib holdings limited

5. EXPENSES

	Notes	Half year	
		31 Dec 19 \$m	31 Dec 18 \$m
Expenses by function			
Claims handling expenses		8.9	9.3
Acquisition costs		82.7	74.9
Other underwriting expenses		69.0	74.5
Other expenses		58.8	42.4
Finance costs		6.0	3.8
Investment expenses		1.1	1.1
Total expenses (excluding direct claims expenses)		226.5	206.0
Expenses by nature			
Amortisation of acquired intangibles		5.3	4.4
Bank charges		3.0	2.4
Communications, postage and telephone expenses		3.1	3.0
Depreciation and amortisation		8.0	7.4
Depreciation of right-of-use assets	7	3.4	-
Employee costs		79.2	75.0
Finance costs		3.0	3.8
Finance costs - interest on lease liabilities	7	3.0	-
Information technology expenses		9.7	8.9
Investment expenses		1.1	1.1
Marketing expenses - excluding commissions		20.6	22.5
Marketing expenses - commissions		64.8	50.2
Merger, acquisition and new business implementation costs		4.6	3.6
Operating lease rental expenses		-	6.7
Professional fees		8.3	9.0
Other expenses		9.4	8.0
Total expenses (excluding direct claims expenses)		226.5	206.0

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2019

nib holdings limited

6. DEFERRED ACQUISITION COSTS

	31 Dec 19 \$m	30 Jun 19 \$m
Current	51.4	49.7
Non-current	65.8	65.5

Movements in the deferred acquisition costs are as follows:

	31 Dec 19 \$m	30 Jun 19 \$m
Balance at beginning of year	115.2	110.7
Acquisition costs deferred during the period	28.9	54.9
Amortisation expense	(27.0)	(51.5)
Exchange differences	0.1	1.1
	117.2	115.2

Deferred acquisition costs by segment are as follows:

	31 Dec 19 \$m	30 Jun 19 \$m
Australian Residents Health Insurance	84.8	84.9
New Zealand Residents Health Insurance	27.6	25.5
International (Inbound) Health Insurance	4.8	4.8
	117.2	115.2

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2019

nib holdings limited

7. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

a) Right-of-use assets

	31 Dec 19	30 Jun 19
	\$m	\$m
Right-of-use assets - properties	68.8	-
Accumulated depreciation - properties	(2.7)	-
	66.1	-

b) Lease liabilities

	31 Dec 19	30 Jun 19
	\$m	\$m
Current	9.9	-
Non current	76.6	-

As at 31 December 2019, the contractual maturities of the Group's lease liabilities were as follows:

	≤ 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total contractual cash flows	Carrying amount
Group at 31 December 2019	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Financial Liabilities							
Lease liabilities	1.0	2.7	6.9	40.9	70.1	121.6	86.5
	1.0	2.7	6.9	40.9	70.1	121.6	86.5

c) Amounts recognised in the statement of profit or loss

The consolidated income statement shows the following amounts related to leases:

	Notes	31 Dec 19	31 Dec 18
		\$m	\$m
Depreciation charge of right-of-use assets - properties	5	3.4	-
Finance costs - interest on lease liabilities	5	3.0	-
Expenses relating to short-term leases (included in other expenses)	5	0.2	-

d) Adoption of AASB 16 Leases

i) Adjustments recognised on adoption of AASB 16

Prior to the adoption of AASB 16, leases previously classified as operating leases under the principles of AASB 117 Leases were disclosed in the expense note. On adoption of AASB 16, the Group has elected to use the modified retrospective approach and has recognised lease liabilities and corresponding right-of-use asset on the balance sheet. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 5.0%.

	\$m
Operating lease commitments disclosed as at 30 June 2019	92.6
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(32.8)
(Less): outgoings recognised on a straight-line basis as expense	(7.6)
Add/(less): adjustments as a result of a different treatment of extension and termination options	35.4
Lease liability recognised as at 1 July 2019	87.6
Of which are:	
Current lease liabilities	11.5
Non-current lease liabilities	76.1
	87.6

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2019

nib holdings limited

7. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES continued

d) Adoption of AASB 16 Leases continued

i) Adjustments on recognised on adoption of AASB 16 continued

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The change in accounting policy resulted in the recognition of right-of-use assets and lease liabilities while increasing deferred tax assets and decreasing other liabilities in the balance sheet on 1 July 2019 as below:

		\$m
Right-of-use assets - properties	increased by	67.9
Deferred tax assets	increased by	4.4
Lease liabilities	increased by	87.6
Other liabilities	decreased by	4.8

The net impact on retained earnings on 1 July 2019 was a decrease of \$10.5m.

The adjustments differ from the amounts disclosed in the FY19 Annual report due to a revision in the incremental borrowing rate performed prior to adoption.

Impact on segment disclosures and earnings per share

Underlying operating profit, segment assets and segment liabilities for December 2019 all increased as a result of the change in accounting policy. Lease liabilities are now included in segment liabilities, whereas finance lease liabilities were previously excluded from segment liabilities.

The following segments were affected by the change in policy:

	Underlying operating profit	Segment assets	Segment liabilities
	\$m	\$m	\$m
Australian Residents Health Insurance	1.0	33.4	(43.3)
International (Inbound) Health Insurance	0.2	6.3	(8.3)
New Zealand Health Insurance	0.2	8.2	(10.8)
nib Travel	0.5	15.9	(21.0)
Unallocated to segments	-	2.3	(3.1)
	1.9	66.1	(86.5)

Earnings per share decreased by 0.2c per share for the six months to 31 December as a result of the adoption of AASB 16.

Practical expedients applied

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying AASB 117 and Interpretation 4 Determining whether an Arrangement contains a Lease.

7. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES continued

e) Accounting policy

The Group leases various offices and retail stores. Rental contracts are typically made for fixed periods of 3 to 15 years but may have extension options as described in (i) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Prior to the 2020 financial year, leases of property were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss 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 right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

i) *Extension and termination options*

Extension and termination options are included in a number of leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2019

nib holdings limited

8. BORROWINGS

	31 Dec 19	30 Jun 19
	\$m	\$m
Current		
Bank overdraft	1.6	1.4
	1.6	1.4
Non-current		
Bank loans	232.7	232.5
	232.7	232.5

The bank overdraft comprises the closing positive balance of the bank account, adjusted for unpresented cheques and outstanding deposits.

Movements in the bank loans are as follows:

	31 Dec 19	30 Jun 19
	\$m	\$m
Balance at beginning of period	232.5	229.5
Proceeds from borrowings	67.2	-
Repayment of borrowings	(67.2)	-
Exchange differences	0.2	3.0
Balance at end of period	232.7	232.5

a) Bank loans

During the half year the Group refinanced its debt facilities and now has the following loans in place.

nib holdings limited has both AUD \$80.5 million and AUD \$85.0 million variable rate loans with NAB with maturity dates of 9 December 2022 and 16 December 2021 respectively. Both loans are carried at amortised cost.

nib nz holdings limited, a wholly owned subsidiary of nib holdings limited, has a NZD \$70.0 million variable rate loan with NAB with a maturity date of 9 December 2022.

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

Financial Covenant	Ratio as at 31 December 2019
Group Gearing Ratio will not be more than 45%	27.9%
Group Interest Cover Ratio will not be less than 3:1.	28:1

nib holdings limited has provided a guarantee and indemnity to NAB on behalf of nib nz holdings limited in respect of the NZD \$70 million term loan facility.

nib holdings limited has subordinated any amounts owing to it from nib nz holdings limited and nib nz limited in favour of all other creditors of these companies.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2019

nib holdings limited

9. OUTSTANDING CLAIMS LIABILITY

	31 Dec 19	30 Jun 19
	\$m	\$m
Outstanding claims - central estimate of the expected future payment for claims incurred ¹	115.4	112.2
Risk margin	9.6	8.4
Claims handling costs	1.8	1.8
Gross outstanding claims liability	126.8	122.4
Outstanding claims - expected payment to the RESA ² in relation to the central estimate	20.6	19.4
Risk margin	1.4	1.5
Net outstanding claims liability	148.8	143.3

1. Includes \$1.9 million of outstanding claims for nib Travel's underwriting company nib Travel Services Europe Limited (formerly Nomadic Insurance Benefits Limited) which is 100% reinsured.

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

Movements in the gross outstanding claims are as follows:

	31 Dec 19	30 Jun 19
	\$m	\$m
Gross outstanding claims at beginning of period	122.4	131.6
Risk margin	(8.4)	(9.4)
Administration component	(1.8)	(1.9)
Central estimate at beginning of period	112.2	120.3
Change in claims incurred for the prior year	2.2	(14.5)
Claims paid in respect of the prior year	(106.8)	(104.6)
Claims incurred during the period (expected)	845.0	1,573.4
Claims paid during the period	(737.2)	(1,463.0)
Effect of changes in foreign exchange rates	-	0.6
Central estimate at end of period	115.4	112.2
Risk margin	9.6	8.4
Administration component	1.8	1.8
Gross outstanding claims at end of period	126.8	122.4

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2019

nib holdings limited

9. OUTSTANDING CLAIMS LIABILITY continued

a) Actuarial assumptions

	31 Dec 19			30 Jun 19		
	Hospital %	Medical %	General %	Hospital %	Medical %	General %
Australian Residents Health Insurance						
Assumed proportion paid to date	91.6%	92.1%	98.5%	92.1%	91.7%	98.2%
Expense rate	1.1%	1.1%	1.1%	1.2%	1.2%	1.2%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	5.8%	5.8%	5.8%	6.1%	6.1%	6.1%
Risk equalisation rate	24.8%	24.8%	0.0%	25.0%	25.0%	0.0%
Risk margin for risk equalisation	6.6%	6.6%	0.0%	7.6%	7.6%	0.0%
International Students Health Insurance						
Assumed proportion paid to date	74.4%	91.5%	98.9%	75.7%	88.5%	98.5%
Expense rate	4.0%	4.0%	4.0%	4.2%	4.2%	4.2%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	29.6%	29.6%	29.6%	24.4%	24.4%	24.4%
International Workers Health Insurance						
Assumed proportion paid to date	72.4%	86.3%	93.3%	76.4%	85.7%	93.3%
Expense rate	4.6%	4.6%	4.6%	4.9%	4.9%	4.9%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	29.6%	29.6%	29.6%	16.7%	16.7%	16.7%
NZ Health Insurance						
	Surgical %	Medical %		Surgical %	Medical %	
Assumed proportion paid to date	92.3%	89.7%		89.9%	85.9%	
Expense rate	2.2%	2.2%		2.3%	2.3%	
Discount rate	0.0%	0.0%		0.0%	0.0%	
Risk margin	6.6%	6.6%		6.9%	6.9%	

b) Sensitivity analysis – impact of key variables

Variable	Movement in variable	Profit after tax		Equity	
		31 Dec 19	31 Dec 19	31 Dec 19	31 Dec 19
		\$m	\$m	\$m	\$m
Recognised amounts in the financial statements attributable to owners of nib holdings limited		57.3		604.9	
		Adjusted amounts	Adjusted amounts	Adjusted amounts	Adjusted amounts
		\$m	\$m	\$m	\$m
Chain ladder development factors	+0.5%	(11.8)	45.5	(11.8)	593.1
	-0.5%	11.8	69.1	11.8	616.7
Bornhuetter-Ferguson unpaid factors	+2.0%	(4.1)	53.2	(4.1)	600.8
	-2.0%	4.1	61.4	4.1	609.0
Expense rate	+1.0%	(0.9)	56.4	(0.9)	604.0
	-1.0%	0.9	58.2	0.9	605.8
Risk equalisation allowance	+2.5%	(1.6)	55.7	(1.6)	603.3
	-2.5%	1.6	58.9	1.6	606.5
Risk margin	+1.0%	(1.0)	56.3	(1.0)	603.9
	-1.0%	1.0	58.3	1.0	605.9

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2019

nib holdings limited

10. PREMIUM PAYBACK LIABILITY

	31 Dec 19	30 Jun 19
	\$m	\$m
Current	3.2	3.2
Non current	16.0	16.1

Movements in the premium payback liability are as follows:

	31 Dec 19	30 Jun 19
	\$m	\$m
Gross premium payback liability at beginning of period	19.3	18.1
Value of payments currently being processed	(0.7)	(0.6)
Risk margin	(0.5)	(0.5)
Central estimate at beginning of period	18.1	17.0
Funding/new accrued	1.0	2.5
Unwind discount rate	0.1	0.3
Interest rate movement impact	-	0.8
Premium payback payments	(1.4)	(3.3)
Others	-	(0.1)
Effect of changes in foreign exchange rates	-	0.9
Central estimate at end of the period	17.8	18.1
Value of payments currently being processed	0.8	0.7
Risk margin	0.6	0.5
Total premium payback liability as at end of period	19.2	19.3

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

	31 Dec 19	30 Jun 19
Lapse rate until 3 years from premium payback date	2.0% - 10.0%	2.0% - 10.0%
Lapse rate within 3 years of premium payback date	0.0% - 1.0%	0.0% - 1.0%
Expense rate	0.0%	0.0%
Discount rate for succeeding and following year	1.15% - 1.34%	1.2% - 1.3%
Risk margin	3.2%	2.8%

The risk margin has been estimated to equate to a 95% probability of adequacy (June 2019: 95%).

Impact of key variables

Variable	Movement in variable	Profit after tax		Equity	
		31 Dec 19		31 Dec 19	
		\$m		\$m	
Recognised amounts in the financial statements attributable to owners of nib holdings limited		57.3		604.9	
		Adjustments	Adjusted amounts	Adjustments	Adjusted amounts
		\$m	\$m	\$m	\$m
Lapse rate	+1.0%	0.4	57.7	0.4	605.3
	-1.0%	(0.4)	56.9	(0.4)	604.5
Discount rate	+1.0%	0.7	58.0	0.7	605.6
	-1.0%	(0.6)	56.7	(0.6)	604.3
Risk margin	+1.0%	(0.1)	57.2	(0.1)	604.8
	-1.0%	0.1	57.4	0.1	605.0

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2019

nib holdings limited

11. CONTRIBUTED EQUITY

a) Share capital

	31 Dec 19	30 Jun 19
	\$m	\$m
Ordinary shares		
Fully paid	124.2	120.3
Other equity securities		
Treasury shares	(2.2)	(5.1)
Total contributed equity	122.0	115.2

b) Movements in share capital

Date	Details	No. of shares	Price \$	\$m
30 Jun 2018	Balance	454,848,869		116.1
1 Jul 2018	Opening balance	454,848,869	-	116.1
5 Oct 2018	Shares issued - Dividend reinvestment plan	702,509	5.99	4.2
30 Jun 2019	Balance	455,551,378		120.3
1 Jul 2019	Opening balance	455,551,378	-	120.3
30 Sep 2019	Shares issued - Dividend reinvestment plan	533,454	7.32	3.9
31 Dec 2019	Balance	456,084,832		124.2

c) Treasury shares

Date	Details	No. of shares	\$m
30 Jun 2018	Balance	614,232	3.8
	Acquisition of shares by the Trust	1,052,953	6.0
	Employee share issue - LTIP	(496,883)	(3.1)
	Employee share issue - STI	(249,542)	(1.6)
30 Jun 2019	Balance	920,760	5.1
	Acquisition of shares by the Trust	402,421	3.0
	Employee share issue - LTIP	(628,895)	(3.9)
	Employee share issue - STI	(283,080)	(2.0)
31 Dec 2019	Balance	411,206	2.2

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2019

nib holdings limited

12. DIVIDENDS

a) Ordinary shares

	31 Dec 19	31 Dec 18
	\$m	\$m
Final dividend for the year ended 30 June 2019 of 13.0 cents (2018 - 11.0 cents) per fully paid share paid on 30 September 2019		
Fully franked based on tax paid at 30%	59.2	50.0
Total dividends provided for or paid	59.2	50.0

b) Dividends not recognised at half year end

	31 Dec 19	31 Dec 18
	\$m	\$m
In addition to the above dividends, since the end of the half year the Directors have recommended the payment of a interim dividend of 10.0 cents (2019 - 10.0 cents) per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 7 April 2020 out of retained profits at 31 December 2019, but not recognised as a liability at the end of the half year, is:	45.6	45.6

13. EARNINGS PER SHARE

		31 Dec 19	31 Dec 18
Profit from continuing operations attributable to the ordinary equity holders of the company used in calculating basic/diluted EPS	\$m	57.3	74.5
Weighted average number of ordinary shares	#m	455.8	455.0
Basic / Diluted EPS	cents	12.6	16.4

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2019

nib holdings limited

14. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group has a number of levers, including adjusting the amount of dividends paid to shareholders, returning capital to shareholders, issuing new shares, selling assets, raising or reducing debt or buying back shares.

nib holdings limited

At 31 December 2019 the Group had available capital of \$69.2 million above our internal benchmark (after allowing for the payment of a fully franked interim ordinary dividend of 10.0 cents per share, totalling \$45.6 million, in April 2020).

Below is a reconciliation of net assets to available capital as at 31 December 2019 (after allowing for payment of an interim dividend):

	31 Dec 19
	\$m
Net assets	622.3
Less:	
nib health fund capital required	(433.7)
nib nz capital required	(91.5)
Investment in associates	(10.2)
Capital required looking forward 12 months	(16.7)
nib nz intangibles	(29.8)
iihi intangibles	(18.7)
nib travel intangibles	(118.5)
Charitable foundation	(17.4)
Borrowings	232.7
Other assets and liabilities	(3.7)
Interim dividend	(45.6)
Available capital (after allowing for payment of interim dividend)	69.2

nib health funds limited

nib health funds limited has a capital management plan which establishes a target for capital held in excess of the regulatory requirement; the aim is to keep a sufficient buffer in line with the Board's attitude to and tolerance for risk. The internal capital target ensures nib has a minimum level of capital given certain stressed capital scenarios. This currently approximates to 19.2% of total projected premiums for the next 12 months.

Any capital in excess of the benchmark, taking a 12-month forward looking view, will be reduced by way of dividend to nib holdings limited. nib health funds limited paid a dividend of \$58.8 million in August 2019 to nib holdings limited.

At 31 December 2019 nib health funds limited acquired the net assets of Grand United Corporate Health Limited.

The surplus assets over benchmark at 31 December 2019 and 30 June 2019 are as follows:

	31 Dec 19	30 Jun 19
	\$m	\$m
Total assets nib health funds limited (excluding unclosed business contributions - unearned)	1040.7	842.5
Capital adequacy requirement	640.3	540.9
Surplus assets for Capital Adequacy	400.4	301.6
Net assets nib health funds limited	445.3	332.0
Internal capital target	433.7	290.1
Surplus assets over internal capital target	11.6	41.8

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2019

nib holdings limited

14. CAPITAL MANAGEMENT continued

The surplus assets over benchmark for Grand United Corporate Health Limited at 30 June 2019 was:

	30 Jun 19
	\$m
Total assets Grand United Corporate Health Limited (per Capital Adequacy Standard)	121.8
Capital adequacy requirement	80.7
Surplus assets for Capital Adequacy	41.1
Net assets Grand United Corporate Health Limited	53.0
Internal capital target	40.1
Surplus assets over internal capital target	12.9

nib nz limited

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

Any capital in excess of the benchmark, taking a 12-month forward looking view, will be reduced by way of dividend to nib nz holdings limited, unless management decide to retain funds for strategic purposes. nib nz limited paid a dividend of NZD \$6.8 million in August 2019 to nib nz holdings limited.

The surplus assets over benchmark at 31 December 2019 and 30 June 2019 are as follows:

	31 Dec 19	30 Jun 19
	\$m	\$m
Actual Solvency Capital	30.2	31.7
Minimum Solvency Capital	11.9	11.2
Solvency Margin	18.3	20.5
Net assets nib nz limited	96.8	97.6
Capital Adequacy Coverage Ratio	2.54	2.83
Internal benchmark	2.00xMSC	2.00xMSC
Internal benchmark requirement	23.7	22.3
Surplus/(deficit) assets over internal benchmark	6.5	9.4

15. CONTINGENT LIABILITIES

a) Australian Competition and Consumer Commission (ACCC) allegations

On 30 May 2017, the Australian Competition and Consumer Commission (ACCC) instituted proceedings in the Federal Court against nib health funds limited (nib). The ACCC alleges that nib engaged in misleading and deceptive conduct, unconscionable conduct and made false or misleading representations by failing to notify certain customers in relation to changes made to its Medigap Scheme. nib denies the ACCC's allegations and intends to defend the claims. In the event that the Court finds in favour of the ACCC, nib may have potential liabilities, including pecuniary penalties. The matter was unsuccessfully mediated in October 2017 and was set down for hearing in June 2018. The hearing date was vacated by the Court in June 2018, as a result of a then-outstanding Full Federal Court decision in similar proceedings brought by the ACCC against Medibank Private Limited (MPL), which had been resolved by the Federal Court at first instance against the ACCC. In December 2018, the Full Federal Court dismissed the ACCC's appeal of the first instance judgment against it in favour of the MPL. The ACCC has since indicated that it intended to press its proceedings against nib. The matter has yet been set down for a new hearing date. Due to the nature of the matter, the outcome is uncertain.

b) Guarantees and financial support

nib holdings limited has provided a guarantee and indemnity to the NAB on behalf of nib nz holdings limited in respect of the NZD \$70 million term loan facility.

nib holdings limited has given an undertaking to extend financial support to a number of subsidiaries within the Group, and Footprints Fundraising Inc. (Footprints) by subordinating repayment of debts owed by the entities to nib holdings limited, in favour of all other creditors. The amount owed from Footprints at balance date is \$24,135. 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 for Footprints is provided for a minimum period of twelve months from 28 November 2019.

16. COMMITMENTS

On 6 December 2019, nib holdings limited (parent entity) entered into a joint venture with Cigna Holdings Overseas, Inc. (Cigna) to incorporate Maestro Pty Limited, a specialist healthcare data science and services company. nib and Cigna have agreed to invest \$10.0m each in start-up funding.

On 24 January 2020, Maestro Pty Limited was renamed Honeysuckle Health Pty Limited.

17. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

As disclosed in note 16, as at 31 December 2019, nib had a commitment to invest \$10.0m in joint venture Honeysuckle Health Pty Limited. On 14 January 2020, the joint venture allotted 9,999,990 shares to nib (an initial 10 shares were allotted on incorporation) with transfer of funds expected in February 2020.

There have not been any other matters or circumstances that have arisen since the end of the financial 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.

18. BUSINESS COMBINATION

a) Prior year

As disclosed in the annual report for the year ended 30 June 2019, the acquisition of QBE's travel insurance business was provisionally determined as the fair values of assets and liabilities may change upon finalisation of the purchase price allocation and alignment with Group accounting policies.

The acquisition has now been finalised and there were no changes from the provisional amounts disclosed in the Annual Report ended 30 June 2019.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2019

nib holdings limited

19. PARENT ENTITY FINANCIAL INFORMATION

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

	31 Dec 19	30 Jun 19
	\$m	\$m
Balance Sheet		
ASSETS		
Current assets	116.3	94.8
Non-current assets	734.0	734.6
Total assets	850.3	829.4
Current liabilities	8.7	10.7
Non-current liabilities	165.9	165.7
Total liabilities	174.6	176.4
NET ASSETS	675.7	653.0
EQUITY		
Share capital	393.5	389.4
Share-based payments	(8.7)	(4.4)
Retained profits	290.9	268.0
Total Equity	675.7	653.0
	31 Dec 19	31 Dec 18
	\$m	\$m
Profit for the half year	82.1	83.6
Total comprehensive income for the half year	82.1	83.6

20. 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 21 February 2020. The company has the power to amend and reissue the Financial Report.

Directors' Declaration

For the half year ended 31 December 2019

nib holdings limited

In the Directors' opinion:

- a) the financial statements and notes set out on pages 6 to 34 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 2019 and of its performance for the financial 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.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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

On behalf of the Board



Steve Crane
Director



Anne Loveridge
Director

Newcastle, NSW
21 February 2020



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 report of nib holdings limited (the Company) and the entities it controlled from time to time during the half-year (together the Group), which comprises the Consolidated Balance Sheet as at 31 December 2019, the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

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 Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a 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 half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 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. 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.

Independence

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

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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 is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive, flowing script.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'SK Fergusson' in a cursive, flowing script.

SK Fergusson
Partner

Newcastle
21 February 2020



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