

nib holdings limited
ABN 51 125 633 856

Half-year report for the period ended 31 December 2013

This report should be read in conjunction with the annual financial report for the year ended 30 June 2013.

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Appendix 4D

For the half year ended 31 December 2013

nib holdings limited

Results for announcement to the market

	6 months to 31 Dec 13 \$'000	6 months to 31 Dec 12 \$'000	Movement up / (down) \$'000	Movement %
Revenue from ordinary activities	755,452	633,340	122,112	19%
Profit from ordinary activities after tax attributable to members	39,671	36,294	3,377	9%
Net profit attributable to members	39,671	36,294	3,377	9%

	Amount per security (cps)	Franking amount per security
Interim Dividend		
Ordinary Dividend	5.25	100%
Special Dividend	0.00	100%
Total Interim Dividend	5.25	100%
Record date for determining entitlements to the dividend	7 March 2014	
Date the interim dividend is payable	4 April 2014	

Brief explanation of figures reported above:

Net profit after tax attributable to owners of nib holdings limited for the half year to 31 December 2013 calculated on a statutory basis equated to a profit of \$39.7 million.

For further information refer to the Directors' Report in the attached Interim Report of nib holdings limited for the period ended 31 December 2013.

Appendix 4D

For the half year ended 31 December 2013

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: 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 57.75 (53.97 as at 31 Dec 2012)			
<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>	<p>4.1 nib Options pty limited</p> <p>4.2 Control gained 31 July 2013</p> <p>4.3 n/a</p>	<p>4.1 RealSurgeons Pty Limited</p> <p>4.2 Control gained 1 August 2013</p> <p>4.3 n/a</p>	<p>4.1 RealSelf Pty Limited</p> <p>4.2 Control gained 1 July 2013</p> <p>4.3 n/a</p>	
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 2013:</p> <ul style="list-style-type: none"> Notes to the financial statement - Dividends 			Note 14
6. Details of any dividend or distribution reinvestment plan in operation and the last date for the receipt of an election notice for the participation in any dividend or distribution reinvestment plan.	No dividend reinvestment plan. Not applicable			
7. Details of associates and joint venture entities including the name of the associate or joint venture entity and details of the reporting entity's percentage holding in each of these entities and - where material to the understanding of the report – aggregate share of profits (losses) of these entities, details of contributions to net profit for each of these entities, and with comparative figures for the previous corresponding reporting period.	Not applicable			
8. For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Accounting Standards).	Not applicable			

Appendix 4D

For the half year ended 31 December 2013
nib holdings limited

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	
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M McPherson
Company Secretary
nib holdings limited

Date 21 February 2014



nib holdings limited

**Interim Report
31 December 2013**

ABN 51 125 633 856

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Directors' Report

For the half year ended 31 December 2013

nib holdings limited

The Directors of nib holdings limited (Company) present their report on the consolidated entity (hereafter as the Group) consisting of nib holdings limited and the entities it controlled at the end of or during the half year ended 31 December 2013.

Directors

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

Steve Crane
Mark Fitzgibbon
Harold Bentley
Annette Carruthers
Philip Gardner
Christine McLoughlin

Lee Ausburn was appointed as a Non-Executive Director on 13 November 2013.

Principal Activities

The principal continuing activities of the Group consisted of operating as a private health insurer covering Australian residents (under the *Private Health Insurance Act 2007*), New Zealand residents and international visitors and students.

During the half year, the Group broadened its business operations with the facilitation of access to cosmetic treatment. Known as nib Options, nib will leverage the brand and distribution to support and grow the market for cosmetic, dental and surgical treatment both overseas and here in Australia. The business is still in development stage with an expected launch in March 2014.

Review of operations

(\$m)	Half year		Change	
	31 Dec 13	31 Dec 12	\$m	%
Net premium revenue	735.4	612.8	122.6	20.0
Net claims incurred	(613.3)	(518.0)	(95.3)	(18.4)
Gross margin	122.1	94.8	27.3	28.8
<i>Gross margin (%)</i>	16.6%	15.5%		
Management expense	(79.4)	(55.7)	(23.7)	(42.5)
<i>Management expense ratio (%)</i>	10.8%	9.1%		
Underwriting result	42.7	39.1	3.6	9.3
Other income	2.1	1.6	0.5	36.6
Other expenses	(3.5)	(5.7)	2.2	39.8
Operating profit	41.4	34.9	6.5	18.5
Net investment income	16.5	18.2	(1.7)	(9.2)
<i>Net investment return (%)</i>	3.2%	3.7%		
Finance costs	(1.3)	(0.2)	(1.1)	(561.1)
Profit before tax	56.6	52.9	3.7	7.0
Income tax	(17.0)	(16.6)	(0.4)	(2.2)
Net profit after tax (NPAT)	39.6	36.3	3.3	9.2
Earnings per share (cps)	9.0	8.3	0.7	8.4
Return on equity (%) ¹	21.9%	21.7%		
Operating cash flow	26.3	5.0	21.3	424.1

1. Using average shareholder's equity and NPAT for the previous 12 months over a 12 month rolling period.

For the six months ended 31 December 2013, Group premium revenue grew 20.0% to \$735.4 million, compared to the same period last year. The Group operating revenue result included nib New Zealand, noting the business was acquired in November 2012 and only contributed a one month result for the same period last year.

Overall our Group operating profit was up 18.5% on first half last year to \$41.4 million, with all segments showing improved growth and profitability.

Directors' Report

For the half year ended 31 December 2013

nib holdings limited

Review of operations continued

Australian Residents Health Insurance

Our Australian Residents Health Insurance (arhi) business continues to be the main economic driver for the Group, accounting for approximately 80% of our Group operating profit. Strong policyholder growth and premium increases continue to drive the arhi top line, with revenue up 10.7% on first half last year. However, claims inflation and industry cost shifting, particularly from the public hospital sector, continues to place pressure on our gross margin. The Government's approval of our 7.99% premium increase (effective 1 April 2014) will help maintain our net margin within our target range of 5% to 5.5%.

The outlook for Australian private health insurance industry looks positive and we are forecasting net policyholder growth in the range of 4% for FY14, which we expect will be 1.5 times the industry growth rate. Our growth will continue to focus on the under 40 years of age segment as well as look to further increase our penetration in the over 55 years of age cohort.

International Workers Health Insurance

Our International Workers Health Insurance (iwhi) continues to perform strongly and in the first half of the year accounted for more than 11% of our Group operating result. iwhi's net underwriting result was up more than 25% to \$4.7 million for the half year. Policyholder and revenue growth are expected to continue for the full year, with the skilled migrant visa pipeline expected to remain strong as well as our relationship with distribution agents, including United Healthcare, forecast to grow. We are also looking to expand iwhi into the New Zealand market to further grow the business.

International Students Health Insurance

Our International Students Health Insurance (ishi) is now profitable, with a net underwriting result of \$0.8 million for the period. The turnaround of this business, which we launched in FY10, has been due to benefits of scale and improved gross margin. We expect this business will continue to drive very strong policyholder growth, which for the period was up almost 230%, top line growth and further profitability. Like iwhi, we are looking to expand our international students business into New Zealand.

nib New Zealand

During December nib completed on time and within budget the transition of nib nz limited (formerly TOWER Medical Insurance Limited). With the business acquired in November 2012, it is now operating completely independent of its previous owner TOWER Limited. With the transition of the business complete, we will now look to apply nib Group learnings, expertise and resource including provider relations and contracting, IT as well as online and mobile technology and innovation to the business.

During the period we also successfully designed and launched a direct-to-consumer product range, rebranded the business as nib New Zealand and launched a significant marketing campaign to grow private health insurance participation, and with that nib's market share.

For the six months to 31 December 2013, nib New Zealand's net underwriting result was \$3.2 million. The underwriting result absorbed the significant investment we are making in marketing and advertising, which will also impact the business' full year result.

nib Options

After almost 12 months developing the business, nib Options, our Australian and international medical travel business is ready and will be launched in the coming months. The launch of nib Options is in response to the growing demand for safe, reliable and affordable overseas medical treatment. With initial efforts focussing on cosmetic surgery and major dental, consumers will be provided with the option of having the procedure done by a plastic surgeon or dental specialist in Australia or overseas. The business will have a strong emphasis on clinical governance and quality, as well as provide an "after care promise" for procedures to provide reassurance for customers.

Capital management

At 31 December 2013 the Group had net assets of \$349.5 million (December 2012: \$315.9 million) and a return on equity of 21.9%, using average shareholders' equity and NPAT for the previous 12 months over a rolling 12-month period (December 2012: 21.7%).

Further, at 31 December 2013 the Group had available capital of \$15.1 million above our internal benchmark (after allowing for the payment of an interim dividend of 5.25 cents per share, totalling \$23.0 million, in April 2014).

Directors' Report

For the half year ended 31 December 2013

nib holdings limited

Review of operations continued

Below is a reconciliation of total assets to available capital as at 31 December 2013:

	31 Dec 13
	\$m
Total assets	749.1
Less: nib health fund capital required (based on projection over next 12 months)	(532.6)
nib nz capital required	(107.6)
nib nz intangibles	(43.7)
International Workers intangibles	(24.1)
nib Options intangibles	(1.6)
Other liabilities	(1.4)
Interim dividend	(23.0)
Available capital	15.1

In September 2013 the Private Health Insurance Administration Council (PHIAC) released new solvency and capital adequacy standards. The new standards will replace the existing arrangements in stages from 31 March 2014 to 1 July 2014.

The new PHIAC standards are expected to allow nib health funds limited to reduce its capital target. Current estimates suggest this will increase available capital by \$30 million to \$40 million.

Dividends

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

	Half year	
	31 Dec 13	31 Dec 12
	\$000	\$000
Final dividend for the year ended 30 June 2013 of 5.0 cents per fully paid ordinary share, made up of 5.0 cps ordinary dividend (2012: 5.0 cents per fully paid ordinary share) per fully paid share paid on 4 October 2013	21,948	21,950

In addition to these dividends, since the end of the half year the Directors have recommended the payment of an interim dividend of \$23.0 million (5.25 cps ordinary dividend) to be paid on 4 April 2014 out of retained profits at 31 December 2013.

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 4.

Rounding of amounts

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

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

On behalf of the Board



Steve Crane
Director
Newcastle, NSW
21 February 2014



Harold Bentley
Director



Auditor's Independence Declaration

As lead auditor for the review of nib holdings limited for the half-year ended 31 December 2013, 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 blue ink that reads 'John Campion'.

John Campion
Partner
PricewaterhouseCoopers

Newcastle
21 February 2014

Financial Report

For the half year ended 31 December 2013

nib holdings limited

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Consolidated Income Statement

For the half year ended 31 December 2013

nib holdings limited

	Notes	Half year	
		31 Dec 13	31 Dec 12
		\$000	\$000
Premium revenue	5	736,033	613,003
Outwards reinsurance premium expense	5	(621)	(232)
Net premium revenue		735,412	612,771
Claims expense		(501,354)	(419,536)
Reinsurance and other recoveries revenue		302	137
RETF levy		(100,886)	(83,891)
State levies		(14,122)	(15,256)
Decrease / (increase) in premium payback liability	2(b)	2,727	574
Claims handling expenses	6	(9,187)	(7,748)
Net claims incurred		(622,520)	(525,720)
Acquisition costs	6	(33,403)	(22,319)
Other underwriting expenses	6	(36,781)	(25,642)
Underwriting expenses		(70,184)	(47,961)
Underwriting result		42,708	39,090
Other income	5	2,136	1,564
Other expenses	6	(3,462)	(5,747)
Operating profit		41,382	34,907
Finance costs	6	(1,309)	(198)
Investment income	5	17,283	18,773
Investment expenses	6	(749)	(572)
Profit before income tax		56,607	52,910
Income tax expense	7	(16,987)	(16,616)
Profit for the half year		39,620	36,294
Profit is attributable to:			
Owners of nib holdings limited		39,671	36,294
Non-controlling interests	15	(51)	-
		39,620	36,294
		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company			
Basic earnings per share		9.0	8.3
Diluted earnings per share		9.0	8.3
Earnings per share for profit attributable to the ordinary equity holders of the company			
Basic earnings per share		9.0	8.3
Diluted earnings per share		9.0	8.3

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 2013

nib holdings limited

	Notes	Half year	
		31 Dec 13	31 Dec 12
		\$000	\$000
Profit for the half year		39,620	36,294
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		2,306	(231)
Change in fair value of available for sale financial assets		653	529
Income tax related to these items	7(c)	(742)	(72)
<i>Items that will not be reclassified to profit or loss</i>			
Revaluation of land and buildings		4,518	-
Income tax related to these items	7(c)	(1,355)	-
Other comprehensive income for the half year, net of tax		5,380	226
Total comprehensive income for the half year		45,000	36,520
Total comprehensive income for the half year is attributable to:			
Owners of nib holdings limited		45,051	36,520
Non-controlling interests	15	(51)	-
		45,000	36,520

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

Consolidated Balance Sheet

As at 31 December 2013

nib holdings limited

	Notes	Half year	
		31 Dec 13	30 Jun 13
		\$000	\$000
ASSETS			
Current assets			
Cash and cash equivalents		115,950	143,056
Receivables		43,412	51,912
Financial assets at fair value through profit or loss	8	404,663	351,786
Reinsurance and other recoveries receivable		134	81
Deferred acquisition costs		14,620	11,778
Current tax assets		464	-
Total current assets		579,243	558,613
Non-current assets			
Deferred acquisition costs		20,798	15,448
Available-for-sale financial assets		3,388	2,735
Deferred tax assets	9	2,679	2,529
Property, plant and equipment		47,054	41,722
Intangible assets	10	95,979	91,270
Total non-current assets		169,898	153,704
Total assets		749,141	712,317
LIABILITIES			
Current liabilities			
Payables		102,456	99,193
Borrowings	11	1,825	3,300
Derivative financial instruments		14	-
Outstanding claims liability	12	83,043	81,406
Unearned premium liability		85,905	90,092
Current tax liabilities		-	3,669
Provision for employee entitlements		2,517	2,090
Premium payback liability	13	7,928	8,287
Total current liabilities		283,688	288,037
Non-current liabilities			
Payables		712	-
Borrowings	11	64,305	59,149
Unearned premium liability		6,017	3,333
Deferred tax liabilities	9	10,806	2,501
Provision for employee entitlements		1,187	1,217
Premium payback liability	13	32,913	31,927
Total non-current liabilities		115,940	98,127
Total liabilities		399,628	386,164
Net assets		349,513	326,153
EQUITY			
Contributed equity		27,991	27,906
Retained profits		312,935	295,212
Reserves		8,557	3,035
Capital and reserves attributable to owners of nib holdings limited		349,483	326,153
Non-controlling interests	15	30	-
Total equity		349,513	326,153

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 2013

nib holdings limited

	Attributable to owners of nib holdings limited				Non-controlling interests	Total Equity	
	Contributed Equity	Retained Profits	Reserves	Total			
	Notes	\$000	\$000	\$000			\$000
Balance at 1 July 2012		27,581	271,954	2,063	301,598	-	301,598
Profit for the half year		-	36,294	-	36,294	-	36,294
Revaluation of property, net of tax		-	-	370	370	-	370
Movement in foreign currency translation, net of tax		-	-	(144)	(144)	-	(144)
Total comprehensive income for the half year		-	36,294	226	36,520	-	36,520
Transactions with owners in their capacity as owners:							
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust		(461)	-	-	(461)	-	(461)
Issue of shares held by nib Holdings Ltd Share Ownership Plan Trust to employees		953	-	(877)	76	-	76
Employee performance rights - value of employee services		-	-	113	113	-	113
Dividends paid	14	-	(21,950)	-	(21,950)	-	(21,950)
		492	(21,950)	(764)	(22,222)	-	(22,222)
Balance at 31 December 2012		28,073	286,298	1,525	315,896	-	315,896
Balance at 1 July 2013		27,906	295,212	3,035	326,153	-	326,153
Profit for the half year		-	39,671	-	39,671	(51)	39,620
Gain on revaluation of land and buildings, net of tax		-	-	3,163	3,163	-	3,163
Revaluation of available for sale financial assets, net of tax		-	-	457	457	-	457
Movement in foreign currency translation, net of tax		-	-	1,760	1,760	-	1,760
Total comprehensive income for the half year		-	39,671	5,380	45,051	(51)	45,000
Transactions with owners in their capacity as owners:							
Transactions with non-controlling interests	15	-	-	-	-	81	81
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust		(35)	-	-	(35)	-	(35)
Issue of shares held by nib Holdings Ltd Share Ownership Plan Trust to employees		120	-	-	120	-	120
Employee performance rights - value of employee services		-	-	142	142	-	142
Dividends paid	14	-	(21,948)	-	(21,948)	-	(21,948)
		85	(21,948)	142	(21,721)	81	(21,640)
Balance at 31 December 2013		27,991	312,935	8,557	349,483	30	349,513

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 2013

nib holdings limited

	Notes	Half year	
		31 Dec 13	31 Dec 12
		\$000	\$000
Cash flows from operating activities			
Receipts from policyholders and customers (inclusive of goods and services tax)		749,354	607,439
Payments to policyholders, suppliers and employees (inclusive of goods and services tax)		(713,502)	(595,859)
		35,852	11,580
Dividends received		88	35
Interest received		5,378	6,672
Distributions received		1,087	4,245
Transaction costs relating to acquisition of subsidiary	17(a)(ii)	(104)	(3,300)
Interest paid		(1,282)	53
Income taxes paid		(14,695)	(14,262)
Net cash inflow from operating activities		26,324	5,023
Cash flows from investing activities			
Proceeds from disposal of other financial assets at fair value through profit and loss		87,837	119,945
Payments for other financial assets at fair value through profit and loss		(123,800)	(99,559)
Proceeds from sale of investment properties		10,000	10,000
Payments for property, plant and equipment and intangibles		(5,443)	(3,228)
Payment for acquisition of subsidiary, net of cash acquired	17(b)	(84)	(35,770)
Net cash inflow (outflow) from investing activities		(31,490)	(8,612)
Cash flows from financing activities			
Proceeds from borrowings		-	55,017
Repayment of borrowings		(550)	-
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust		(35)	(461)
Transactions with non-controlling interests	15	81	-
Dividends paid to the company's shareholders		(21,948)	(21,950)
Net cash inflow (outflow) from financing activities		(22,452)	32,606
Net increase (decrease) in cash and cash equivalents			
		(27,618)	29,017
Cash and cash equivalents at beginning of the half year		139,756	84,079
Effects of exchange rate changes on cash and cash equivalents		1,987	185
Cash and cash equivalents at the end of the half year		114,125	113,281
Reconciliation to Consolidated Balance Sheet			
Cash and cash equivalents		115,950	113,358
Borrowings - overdraft		(1,825)	(77)
		114,125	113,281

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 2013

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 periods presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of nib holdings limited and its subsidiaries.

a) Basis of preparation of half year report

This consolidated interim financial report for the half-year reporting period ending 31 December 2013 has been prepared in accordance with Accounting Standard 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 2013 and any public announcements made by nib holdings limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year. 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.

b) Principles of consolidation

i) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of nib holdings limited.

When the group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset.

In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2013

nib holdings limited

2. ACTUARIAL ASSUMPTIONS AND METHODS

a) Outstanding Claims

Actuarial methods

The outstanding claims estimate for Australian segments is derived based on three valuation classes, namely hospital and prostheses services combined, Medical services, and General Treatment. For the New Zealand segment the outstanding claims estimate is derived based on two valuation classes, surgical and medical. This analysis is supplemented by more granular analysis within classes as appropriate.

In calculating the estimated cost of unpaid claims for the Australian Residents Health Insurance (arhi), two methods are used. For service months October 2013 and earlier for hospital and medical, and for all months for general treatment, a chain ladder method is used; this assumes that the development pattern of the current claims will be consistent with historical experience. For hospital and medical, for the service months of November 2013 and December 2013 the Bornhuetter-Ferguson method is used, which progressively blends payment experience and prior forecasts of incurred costs.

For International Workers Health Insurance (iwhi) and International Students Health Insurance (ishi) a chain ladder method is used for all service months for the valuation of the cost of unpaid claims.

In calculating the estimated cost of unpaid claims for the New Zealand Health Insurance Business (nib nz), two methods are used. For service months October 2013 and earlier, a chain ladder method is used; this assumes that the development pattern of the current claims will be consistent with historical experience. For the service months of November 2013 and December 2013 the Bornhuetter-Ferguson method is used, which progressively blends payment experience and prior forecasts of incurred costs.

Actuarial assumptions

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

	31 December 13			30 June 13		
	Hospital	Medical	Ancillary	Hospital	Medical	Ancillary
Australian Residents Health Insurance	%	%	%	%	%	%
Assumed proportion paid to date	93.1%	90.1%	96.7%	93.3%	88.4%	96.1%
Expense rate	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk equalisation rate	33.6%	33.6%	0.0%	30.8%	30.8%	0.0%
Risk margin	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
International Students Health Insurance						
Assumed proportion paid to date	82.6%	87.5%	98.7%	76.5%	84.2%	98.7%
Expense rate	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
International Workers Health Insurance						
Assumed proportion paid to date	84.0%	83.0%	87.3%	89.3%	86.9%	87.0%
Expense rate	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
NZ Health Insurance	Surgical	Medical		Surgical	Medical	
	%	%		%	%	
Assumed proportion paid to date	88.9%	79.5%		89.1%	77.8%	
Expense rate	1.7%	1.7%		1.7%	1.7%	
Discount rate	0.0%	0.0%		0.0%	0.0%	
Risk margin	13.5%	13.5%		13.5%	13.5%	

The risk margin of 5.0% for arhi and ishi, 10% for iwhi and 13.5% for nib nz of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% for each individual segment. This equates to a probability of adequacy for the Group of greater than 95%.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2013

nib holdings limited

2. ACTUARIAL ASSUMPTIONS AND METHODS continued

Sensitivity analysis – insurance contracts

i) Summary

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

Variable	Impact of movement in variable
Chain Ladder Development Factors	An increase or decrease in the chain ladder factors would lead to a higher or lower projection of the ultimate liability and a corresponding increase or decrease in claims expense respectively.
Bornhuetter-Ferguson Unpaid Factors	An increase or decrease in the level of unpaid would lead to a higher or lower projection of the ultimate liability and a corresponding increase or decrease on claims expense respectively.
Expense rate	An estimate for the internal costs of handling claims is included in the outstanding claims liability. An increase or decrease in the expense rate assumption would have a corresponding impact on claims expense.
Risk equalisation	An estimate for the risk equalisation cost is included in the outstanding claims liability. An increase or decrease in the risk equalisation allowance would have a corresponding impact on RETF Levy.
Risk margin	An estimate of the amount of uncertainty in the determination of the central estimate. An increase or decrease in the risk margin would have a corresponding impact on claims expense.

ii) Impact of key variables

	Profit 31 Dec 13 \$000	Equity 31 Dec 13 \$000
Recognised amounts in the financial statements	39,671	349,483

Variable	Movement in variable	Adjusted amounts		Adjusted amounts	
		Adjustments \$000	Adjusted amounts \$000	Adjustments \$000	Adjusted amounts \$000
Chain Ladder Development Factors	+0.5%	(4,419)	35,252	(4,419)	345,064
	-0.5%	4,422	44,093	4,422	353,905
Bornhuetter-Ferguson Unpaid Factors	+2.0%	(3,049)	36,622	(3,049)	346,434
	-2.0%	3,052	42,723	3,052	352,535
Expense rate	+1.0%	(646)	39,025	(646)	348,837
	-1.0%	648	40,319	648	350,131
Risk equalisation allowance	+2.5%	(1,109)	38,562	(1,109)	348,374
	-2.5%	1,109	40,780	1,109	350,592
Risk margin	+1.0%	(760)	38,911	(760)	348,723
	-1.0%	762	40,433	762	350,245

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2013

nib holdings limited

2. ACTUARIAL ASSUMPTIONS AND METHODS continued

b) Premium payback liability

Actuarial methods

A number of nib nz limited's health insurance policies have a benefit whereby policyholders receive a proportion of premiums paid less claims received over the life of their policy, "premium payback", if certain conditions are met. This liability represents a long term health insurance contract liability. The liability was determined based on the discounted value of accumulated excess of premiums over claims at an individual policy level, adjusted for GST recoveries and expected future lapses.

Actuarial assumptions

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

	31 Dec 13	30 Jun 13
Lapse rate until 3 years from premium payback date	2.0% - 12.0%	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	3.5% - 4.3%	3.0% - 3.5%
Risk margin	5.0%	6.8%

The risk margin has been estimated to equate to a 95% probability of adequacy.

Sensitivity analysis – premium payback liability

Variable	Impact of movement in variable
Lapse rate	Rate used in calculating the discounted provision to allow for expected lapses, based on historical experience. An increase or decrease in the lapse assumption would have a corresponding impact on profit.
Discount rate	Rate used in calculating the discounted provision to allow for expected investment income, based on the current yields on New Zealand government debt (risk free rates). An increase or decrease in the discount rate assumption would have a corresponding impact on profit.
Risk margin	An estimate of the amount of uncertainty in the determination of the central estimate. An increase or decrease in the risk margin would have an inverse impact on profit.

Impact of key variables

	Profit 31 Dec 13 \$000	Equity 31 Dec 13 \$000
Recognised amounts in the financial statements	39,671	349,483

Variable	Movement in variable	Adjustments	Adjusted amounts	Adjustments	Adjusted amounts
		\$000	\$000	\$000	\$000
Lapse Rate	+1.0%	682	40,353	682	350,165
	-1.0%	(731)	38,940	(731)	348,752
Discount Rate	+1.0%	1,157	40,828	1,157	350,640
	-1.0%	(1,268)	38,403	(1,268)	348,215
Risk margin	+1.0%	(284)	39,387	(284)	349,199
	-1.0%	284	39,955	284	349,767

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2013

nib holdings limited

3. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

a) Fair value hierarchy

AASB 13 Fair Value Measurement requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following tables present the Group's assets and liabilities measured and recognised at fair value at 31 December 2013 and 30 June 2013.

Group at 31 December 2013	Level 1	Level 2	Level 3	Total
	\$000	\$000	\$000	\$000
Assets				
Cash and cash equivalents and deposits at call	115,950	-	-	115,950
Financial assets at fair value through profit or loss				
Short term deposits	138	-	-	138
Derivative financial instruments	2,020	-	-	2,020
Securities	401,798	707	-	402,505
Available-for-sale financial assets				
Unlisted equity securities	-	3,388	-	3,388
Total assets	519,906	4,095	-	524,001
Liabilities				
Contingent consideration payable	-	-	712	712
Derivative financial instruments	14	-	-	14
Total liabilities	14	-	712	726

Group at 30 June 2013	Level 1	Level 2	Level 3	Total
	\$000	\$000	\$000	\$000
Assets				
Cash and cash equivalents and deposits at call	143,056	-	-	143,056
Financial assets at fair value through profit or loss				
Short term deposits	49,700	-	-	49,700
Derivative financial instruments	2,234	-	-	2,234
Securities	299,135	717	-	299,852
Available-for-sale financial assets				
Unlisted equity securities	-	2,735	-	2,735
Total assets	494,125	3,452	-	497,577

The fair value of financial instruments traded in active markets (such as financial assets at fair value through profit and loss) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2013

nib holdings limited

3. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS continued

b) Valuation techniques used to derive level 2 and level 3 fair values

The fair value of financial instruments that are not traded in active markets (for example available-for-sale financial assets) is determined using valuation techniques. The Group use 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.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for the contingent consideration payable (Note 17(a)(i)).

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 are included in level 2 except for a contingent consideration payable explained in c) below.

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

The following table presents the changes in level 3 instruments for the half-year ended 31 December 2013:

	Contingent consideration payable	Total
	\$000	\$000
Opening balance 30 June 2013	-	-
Other increases	712	712
Closing balance 31 December 2013	712	712

i) Transfers between levels 2 and 3

There were no transfers between the levels of the fair value hierarchy in the six months to 31 December 2013. There were also no changes to any of the valuation techniques applied as of 30 June 2013.

ii) Valuation inputs and relationships to fair value

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

Description	Fair value at 31 December 2013 \$000	Valuation technique(s)	Unobservable inputs *	Input	Relationship of unobservable inputs to fair value
Contingent consideration payable	712	Discounted cash flow s	Risk adjusted discount rate	2.65%	A change in the discount rate by 100 basis points would increase/decrease the fair value by \$14,000
			Anticipated payment date	30 June 2015	A change in the anticipated payment date by one year would increase/decrease the fair value by \$18,000

*There were no significant inter-relationships between unobservable inputs that materially affect fair values.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2013

nib holdings limited

3. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS continued

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

iii) Valuation process

The finance department of the Group includes a team that performs the valuations of non-property assets required for financial reporting purposes, including level 3 fair values. This team reports directly to the chief financial officer (CFO) and the audit committee (AC). Discussions of valuation processes and results are held between the CFO, AC and the valuation team at least once every six months, in line with the Group's half-yearly reporting dates.

The main level 3 inputs used by the Group in measuring the fair value of the contingent consideration payable are based on the terms of the share sale agreement, being an estimate of the timing of achieving a predetermined level of subscription income and a discount rate that is applicable to the anticipated payment date (Note 17(a)(i)).

Changes in level 2 and 3 fair values are analysed at each reporting date during the half-yearly valuation discussion between the CFO, AC and the valuation team. As part of this discussion the team presents a report that explains the reason for the fair value movements.

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 2013:

	Carrying amount	Fair value
	\$000	\$000
Non-current borrowings		
Bank loans	64,305	64,414

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 2013

nib holdings limited

4. SEGMENT REPORTING

a) Description of segments

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 five reportable segments. Health Insurance consists of nib's core product offering within the Australian private health insurance industry (arhi) and New Zealand Private Health Insurance (nib nz). Health Related consists of two separate segments – International Students Health Insurance (ishi) and International Workers Health Insurance (iwih). On 1st July 2013, nib commenced nib Options which facilitates the access to cosmetic treatment both overseas and here in Australia. The business is still in development stage with an expected launch in March 2014.

Although the ishi and nib Options segments do not meet the quantitative thresholds required by AASB 8, management has concluded that the segments should be reported, as they are closely monitored by the MD/CEO as potential growth segments and are expected to contribute to Group revenue in the future.

b) Segment information provided to Executive management

The segment information provided to the MD/CEO for the reportable segments is as follows:

	For the half year ending 31 December 2013						Total \$000
	Health Insurance Australia \$000	International Students Australia \$000	International Workers Australia \$000	Health Insurance New Zealand \$000	nib Options Australia \$000	Unallocated to segments Australia \$000	
Premium revenue	649,685	3,925	14,967	67,456	-	-	736,033
Outwards reinsurance premium expense	-	-	(621)	-	-	-	(621)
Net premium revenue	649,685	3,925	14,346	67,456	-	-	735,412
Claims expense	(447,981)	(1,925)	(6,290)	(45,158)	-	-	(501,354)
Reinsurance and other recoveries revenue	-	-	302	-	-	-	302
RETF levy	(100,886)	-	-	-	-	-	(100,886)
State levies	(14,122)	-	-	-	-	-	(14,122)
Decrease / (increase) in premium payback liability	-	-	-	2,727	-	-	2,727
Claims handling expenses	(8,017)	(79)	(555)	(536)	-	-	(9,187)
Net claims incurred	(571,006)	(2,004)	(6,543)	(42,967)	-	-	(622,520)
Acquisition costs	(18,695)	(601)	(1,315)	(12,792)	-	-	(33,403)
Other underwriting expenses	(25,959)	(565)	(1,768)	(8,489)	-	-	(36,781)
Underwriting expenses	(44,654)	(1,166)	(3,083)	(21,281)	-	-	(70,184)
Underwriting result	34,025	755	4,720	3,208	-	-	42,708
Other income	-	-	-	-	236	1,900	2,136
Other expenses	-	-	-	-	(1,197)	(2,265)	(3,462)
Operating profit / (loss)	34,025	755	4,720	3,208	(961)	(365)	41,382
Total segment assets	560,632			156,427	1,911		718,970
Total segment liabilities	253,311			69,684	928		323,923
Insurance liabilities							
Outstanding claims liability	73,207			9,836			83,043
Unearned premium liability	77,467			14,455			91,922
Premium payback liability	-			40,841			40,841
Total	150,674			65,132			215,806

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2013

nib holdings limited

4. SEGMENT REPORTING continued

b) Segment information provided to executive management continued

	For the half year ending 31 December 2012						Total
	Health Insurance Australia	International Students Australia	International Workers Australia	Health Insurance New Zealand 1 month	nib Options Australia	Unallocated to segments Australia	
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Premium revenue	586,724	2,146	14,062	10,071	-	-	613,003
Outwards reinsurance premium expense	-	-	(232)	-	-	-	(232)
Net premium revenue	586,724	2,146	13,830	10,071	-	-	612,771
Claims expense	(404,694)	(1,788)	(6,687)	(6,367)	-	-	(419,536)
Reinsurance and other recoveries revenue	-	-	137	-	-	-	137
RETF levy	(83,891)	-	-	-	-	-	(83,891)
State levies	(15,256)	-	-	-	-	-	(15,256)
Decrease / (increase) in premium payback liability	-	-	-	574	-	-	574
Claims handling expenses	(6,998)	(17)	(621)	(112)	-	-	(7,748)
Net claims incurred	(510,839)	(1,805)	(7,171)	(5,905)	-	-	(525,720)
Acquisition costs	(19,415)	(298)	(1,161)	(1,445)	-	-	(22,319)
Other underwriting expenses	(23,038)	(111)	(1,730)	(763)	-	-	(25,642)
Underwriting expenses	(42,453)	(409)	(2,891)	(2,208)	-	-	(47,961)
Underwriting result	33,432	(68)	3,768	1,958	-	-	39,090
Other income	-	-	-	-	-	1,564	1,564
Other expenses	-	-	-	-	-	(5,747)	(5,747)
Operating profit / (loss)	33,432	(68)	3,768	1,958	-	(4,183)	34,907
Total segment assets	526,030			135,047			661,077
Total segment liabilities	259,712			67,016			326,728
Insurance liabilities							
Outstanding claims liability	71,470			8,861			80,331
Unearned premium liability	101,526			12,314			113,840
Premium payback liability	-			43,146			43,146
Total	172,996			64,321			237,317

Notes to the Consolidated Financial Statements continued

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nib holdings limited

4. SEGMENT REPORTING continued

c) Other segment information

The MD/CEO assesses the performance of the operating segments based on operating profit. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as integration costs. Furthermore, investment income and expenditure, and other income and expenses including financing costs, are not allocated to segments as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

No information regarding assets and liabilities for individual Australian Health Insurance and Health Related segments is provided to the MD/CEO.

i) Segment underwriting result

A reconciliation of segment underwriting result to operating profit before income tax is provided as follows:

	31 Dec 13	31 Dec 12
	\$000	\$000
Segment operating profit	41,747	39,090
Other income - unallocated to segments	1,900	1,564
Other expenses - unallocated to segments	(2,265)	(5,747)
Finance costs	(1,309)	(198)
Investment income	17,283	18,773
Investment expenses	(749)	(572)
Profit before income tax from continuing operations	56,607	52,910

ii) Segment assets

Assets backing insurance liabilities have been included in segment assets reported. Assets held in nib holdings limited and nib nz holdings limited are not allocated to segments. Reportable segments' assets are reconciled to total assets as follows:

	31 Dec 13	30 Jun 13
	\$000	\$000
Segment assets	718,970	663,408
Unallocated assets:		
Cash and cash equivalents	23,329	43,511
Receivables	245	66
Current tax assets	464	-
Available for sale financial assets	3,388	2,735
Deferred tax assets	2,679	2,529
Plant, property and equipment	66	68
Total assets as per the balance sheet	749,141	712,317

iii) Segment liabilities

The Group's borrowings are not considered to be segment liabilities but rather managed by the treasury function. Reportable segments' liabilities are reconciled to total liabilities as follows:

	31 Dec 13	30 Jun 13
	\$000	\$000
Segment liabilities	323,923	320,218
Unallocated liabilities:		
Payables	594	627
Bank loans	64,305	59,149
Current tax liabilities	-	3,669
Deferred tax liabilities	10,806	2,501
Total liabilities as per the balance sheet	399,628	386,164

Notes to the Consolidated Financial Statements continued

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nib holdings limited

5. REVENUE AND OTHER INCOME

	Half year	
	31 Dec 13	31 Dec 12
	\$000	\$000
Premium revenue	736,033	613,003
Outwards reinsurance premiums	(621)	(232)
Net premium revenue	735,412	612,771
Other Income		
Agency fee	102	62
Life and funeral insurance commission	859	715
Travel insurance and other commission	195	191
Rental income	400	392
Subscription income	236	-
Sundry income	344	204
	2,136	1,564
Investment income		
Interest	4,678	4,750
Net realised gain on financial assets at fair value through profit or loss	3,649	5,819
Net unrealised gain on financial assets at fair value through profit or loss	8,868	8,169
Dividends	88	35
	17,283	18,773

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2013

nib holdings limited

6. EXPENSES

	Half year	
	31 Dec 13	31 Dec 12
	\$000	\$000
Expenses by function		
Claims handling expenses	9,187	7,748
Acquisition costs	33,403	22,319
Other underwriting expenses	36,781	25,642
Other expenses	3,462	5,747
Finance costs	1,309	198
Investment expenses	749	572
Total expenses (excluding direct claims expenses)	84,891	62,226
Expenses by nature		
Employee costs	34,307	25,472
Depreciation and amortisation	5,837	3,399
Finance costs	1,309	198
Net loss on disposal of property, plant and equipment	71	3
Operating lease rental expenses	1,508	1,384
Marketing expenses	13,523	12,045
Marketing expenses - commissions	12,318	3,424
Merger and acquisition costs	196	3,344
Electronic claims processing fees	1,829	1,634
Bank charges	962	952
Consultancy fees	1,245	1,292
Legal expenses	620	143
Postages	1,127	753
Share registry expenses	645	1,146
Software maintenance	2,650	2,184
Investment expenses	749	572
Other	5,995	4,281
Total expenses (excluding direct claims expenses)	84,891	62,226

Notes to the Consolidated Financial Statements continued

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nib holdings limited

7. INCOME TAX

	Half year	
	31 Dec 13	31 Dec 12
Notes	\$000	\$000
a) Income tax expense		
Recognised in the income statement		
Current tax expense	10,642	11,577
Deferred tax expense	6,345	5,039
	16,987	16,616
Income tax expense is attributable to:		
Profit from continuing operations	16,987	16,616
Aggregate income tax expense	16,987	16,616
Deferred income tax expense included in income tax expense comprises:		
Decrease in deferred tax assets	1,646	840
Increase in deferred tax liabilities	4,699	4,199
	6,345	5,039
b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	56,607	52,910
Tax at the Australian tax rate of 30% (2012: 30%)	16,982	15,873
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Differences in foreign tax rates	(42)	(33)
Other deductible expenses	-	(265)
Non-deductible merger and acquisition costs	31	990
Other non-deductible expenses	42	62
Imputation credits and foreign tax credits	(26)	(11)
Income tax expense	16,987	16,616
c) Tax expense relating to items of other comprehensive income		
Foreign currency translations	546	(87)
Gain on revaluation of land and buildings	1,355	-
Change in value of available for sale financial assets	196	159
	2,097	72

Notes to the Consolidated Financial Statements continued

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nib holdings limited

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets are designated at fair value through profit or loss and include the following:

	31 Dec 13	30 Jun 13
	\$000	\$000
Equity securities	75,707	39,207
Interest-bearing securities	326,798	260,645
Short term deposits	138	49,700
Derivative financial instruments - interest rate sw ap contracts	2,020	2,234
	404,663	351,786

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2013

nib holdings limited

9. DEFERRED TAX ASSETS AND LIABILITIES

a) Deferred Tax Assets

Notes	31 Dec 13 \$000	30 Jun 13 \$000
The balance comprises temporary differences attributable to:		
Depreciation	53	143
Employee benefits	2,106	2,006
Outstanding claims	349	337
Premium payback liabilities	11,025	10,882
	13,533	13,368
<i>Other</i>		
Doubtful debts	224	163
Asset revaluation	-	35
Provisions	626	1,808
Merger and acquisition costs	153	175
Tax losses	293	-
Sub-total other	1,296	2,181
Total deferred tax assets	14,829	15,549
Set-off of deferred tax liabilities pursuant to set-off provisions	(12,150)	(13,020)
Net deferred tax assets	2,679	2,529

b) Deferred Tax Liabilities

Notes	31 Dec 13 \$000	30 Jun 13 \$000
The balance comprises temporary differences attributable to:		
Prepayments	92	7
Deferred acquisition costs	10,146	7,528
Income receivables	-	96
Customer contracts	6,386	6,444
Unrealised gains on investments	4,058	1,139
Unrealised foreign exchange gains	727	271
Borrowing costs	31	36
Asset revaluation	1,516	-
Total deferred tax liabilities	22,956	15,521
Set-off of deferred tax liabilities to set-off provisions	(12,150)	(13,020)
Net deferred tax liabilities	10,806	2,501

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2013

nib holdings limited

10. INTANGIBLE ASSETS

	Notes	Goodwill \$000	Software \$000	Brands and Trademarks \$000	Customer Contracts \$000	Total \$000
Fair value/Cost						
Balance at 1 July 2012		25,447	28,460	4,044	3,093	61,044
Additions		-	6,707	-	-	6,707
Acquisition of subsidiary		25,189	2,341	2,360	18,262	48,152
Disposals		-	-	-	-	-
Exchange differences		1,879	188	176	1,363	3,606
Balance at 30 June 2013		52,515	37,696	6,580	22,718	119,509
Balance at 1 July 2013		52,515	37,696	6,580	22,718	119,509
Additions		-	3,001	-	-	3,001
Acquisition of subsidiary	17(a)	1,572	-	-	-	1,572
Disposals		-	-	-	-	-
Exchange differences		2,346	287	220	1,701	4,554
Balance at 31 December 2013		56,433	40,984	6,800	24,419	128,636
Amortisation and impairment losses						
Balance at 1 July 2012		-	(20,013)	-	(2,126)	(22,139)
Amortisation charge for the year		-	(3,729)	(732)	(1,615)	(6,076)
Disposals		-	-	-	-	-
Exchange differences		-	(3)	(8)	(13)	(24)
Balance at 30 June 2013		-	(23,745)	(740)	(3,754)	(28,239)
Balance at 1 July 2013		-	(23,745)	(740)	(3,754)	(28,239)
Amortisation charge for the year		-	(2,340)	(660)	(1,142)	(4,142)
Acquisition of subsidiary		-	-	-	-	-
Disposals		-	-	-	-	-
Exchange differences		-	(38)	(93)	(145)	(276)
Balance at 31 December 2013		-	(26,123)	(1,493)	(5,041)	(32,657)
Carrying amounts						
At 30 June 2013		52,515	13,951	5,840	18,964	91,270
At 31 December 2013		56,433	14,861	5,307	19,378	95,979

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2013

nib holdings limited

11. BORROWINGS

	31 Dec 13	30 Jun 13
	\$000	\$000
Current		
Bank overdraft	1,825	3,300
	1,825	3,300
Non-current		
Bank loans (secured)	64,305	59,149
	64,305	59,149

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

Changes in the bank loans (secured) can be analysed as follows:

	31 Dec 13	30 Jun 13
	\$000	\$000
Balance at beginning of period	59,149	-
Proceeds from borrowings	-	55,160
Borrowing expenses	-	(147)
Amortisation of borrowing expenses	27	29
Exchange differences	5,129	4,107
Balance at end of period	64,305	59,149

a) Secured liabilities

nib nz holdings limited, a wholly owned subsidiary of nib holdings limited, has a NZ\$70 million variable rate term loan facility in relation to the acquisition of nib nz limited (formerly Tower Medical Insurance Limited) with maturity and repayment at 30 November 2015.

The bank loan is secured by the shares in nib nz holdings limited and a negative pledge that imposes the following covenants on the Group. The negative pledge states that the Group will ensure that the following financial ratios are met:

- (i) The Group Gearing Ratio will not be more than 35%
- (ii) The Group Net Tangible Assets will not be less than \$180,000,000.

As at 31 December 2013 the Group Gearing Ratio was 15.9% and the Group Net Tangible Assets were \$253.5 million.

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

nib holdings limited has 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 2013

nib holdings limited

12. OUTSTANDING CLAIMS LIABILITY

a) Outstanding claims liability

	31 Dec 13	30 Jun 13
	\$000	\$000
Outstanding claims - central estimate of the expected future payment for claims incurred	63,118	63,048
Risk Margin	3,756	3,771
Claims handling costs	1,258	1,220
Gross outstanding claims liability	68,132	68,039
Outstanding claims - expected payment to the *RETF in relation to the central estimate	14,201	12,731
Risk Margin	710	636
Net outstanding claims liability	83,043	81,406

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

b) Risk margin

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

	31 Dec 13	30 Jun 13
Notes	\$000	\$000
Gross outstanding claims at beginning of period	68,039	60,041
Administration component	(1,220)	(1,320)
Risk margin	(3,771)	(2,941)
Central estimate at beginning of period	63,048	55,780
Change in claims incurred for the prior year	(3,165)	(2,056)
Claims paid in respect of the prior year	(56,360)	(62,869)
Claims incurred during the year (expected)	499,301	893,219
Claims paid during the year	(440,451)	(831,088)
Outstanding claims acquired with subsidiary	-	9,400
Effect of changes in foreign exchange rates	745	662
Central estimate at end of period	63,118	63,048
Administration component	1,258	1,220
Risk margin	3,756	3,771
Gross outstanding claims at end of period	68,132	68,039

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2013

nib holdings limited

13. PREMIUM PAYBACK LIABILITY

	31 Dec 13	30 Jun 13
	\$000	\$000
Current		
Premium payback liability	7,928	8,287
	7,928	8,287
Non current		
Premium payback liability	32,913	31,927
	32,913	31,927

Changes in the premium payback liability can be analysed as follows:

	31 Dec 13	30 Jun 13
	\$000	\$000
Balance at beginning of period	40,214	-
Premium payback liability acquired with subsidiary	-	40,545
New funding	2,743	3,512
Benefits paid	(5,455)	(6,563)
Other	(26)	(169)
Exchange differences	3,365	2,889
Balance at end of period	40,841	40,214

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2013

nib holdings limited

14. DIVIDENDS

a) Ordinary shares

	Half year	
	31 Dec 13	31 Dec 12
	\$000	\$000
Final dividend for the year ended 30 June 2013 of 5.0 cents per fully paid ordinary share, made up of 5.0 cps ordinary dividend (2012: 5.0 cents per fully paid ordinary share, made up of 5.0 cps ordinary dividend) paid on 4 October 2013		
Fully franked based on tax paid @ 30%	21,948	21,950

b) Dividends not recognised at half-year

	Half year	
	31 Dec 13	31 Dec 12
	\$000	\$000
In addition to the above dividends, since the end of the half year the Directors have recommended the payment of an ordinary interim dividend of 5.25 cents per fully paid ordinary share (2012: 5.0 cents ordinary dividend), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 4 April 2014 out of retained profits at 31 December 2013, but not recognised as a liability at the end of the half year, is	23,048	21,950

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2013

nib holdings limited

15. CONTROLLED ENTITIES

	Place of Incorporation	Beneficial ownership by	
		Consolidated entity	
		31 Dec 13	30 Jun 13
		%	%
nib holdings limited	Australia		
nib health funds limited	Australia	100	100
nib servicing facilities pty limited	Australia	100	100
nib health care services pty limited	Australia	100	100
The Heights Private Hospital pty limited	Australia	100	100
IMAN Australian Health Plans Pty Limited	Australia	100	100
nib nz holdings limited (previously nib nzed limited)	New Zealand	100	100
nib nz limited (previously Tower Medical Insurance Limited)	New Zealand	100	100
nib Options pty limited	Australia	92.5	N/A
RealSurgeons pty limited	Australia	92.5	N/A
RealSelf pty limited	Australia	92.5	N/A

nib holdings limited also controls the following trusts:

- nib Holdings Ltd Share Ownership Plan Trust
- nib salary sacrifice plan and matching plan trust
- nib Salary Sacrifice (NZ) and Matching Plan (NZ) Trust
- nib holdings – nib nz Employee Share Purchase Scheme Trust

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2013

nib holdings limited

16. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

In September 2013 the Private Health Insurance Administration Council (PHIAC) released new solvency and capital adequacy standards. The new standards will replace the existing arrangements in stages from 31 March 2014 to 1 July 2014.

The new PHIAC standards are expected to allow nib health funds limited to reduce its capital target. Current estimates suggest this will increase available capital by \$30 million to \$40 million.

There have not been any other matters or circumstances that have arisen since the end of the half year that has significantly affected, or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2013

nib holdings limited

17. BUSINESS COMBINATION

a) Summary of acquisition

On 13 September 2013 nib Options Pty Limited (a 92.5% owned subsidiary incorporated on 31 July 2013) acquired 100% of the issued capital of RealSelf Pty Limited effective 1 July 2013.

Details of the provisional purchase consideration are as follows:

	\$000
Provisional purchase consideration	
Cash	331
Contingent consideration	712
Total provisional purchase consideration	1,043

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

	Provisional Fair value \$000
Cash and cash equivalents	247
Receivables	91
Property, plant and equipment	38
Payables	(109)
Borrowings	(550)
Prepaid subscriptions	(236)
Provision for employee entitlements	(10)
Net identifiable assets acquired	(529)
Add: Goodwill	1,572
Net assets acquired	1,043

The fair values assigned are currently provisionally determined due to the short period between acquisition and interim reporting date. The fair value of assets and liabilities acquired may change upon finalisation of the purchase price allocation and alignment with Group accounting policies.

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

i) Contingent consideration

When a predetermined level of subscription income is achieved by the subsidiary, consideration of \$750,000 will be payable in cash. It is anticipated that the required subscription income will be achieved in 2015, therefore the consideration has been discounted to \$711,776 using a two-year government bond rate of 2.65%.

ii) Acquisition related costs

Total acquisition related costs are \$247,975, of which \$103,621 has been incurred in the current period and are included in other expenses in profit or loss and in operating cash flows in the statement of cash flows.

iii) Revenue and profit contribution

The acquired business contributed to the Group other income of \$200,267 and net loss of \$186,315 for the period from 1 July 2013 to 31 December 2013.

iv) Acquired receivables

The fair value of acquired receivables is \$91,164. The gross contractual amount for trade receivables due is \$126,864, of which \$35,700 is expected to be uncollectible and has been fully provided for at acquisition.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2013

nib holdings limited

17. BUSINESS COMBINATION continued

b) Provisional purchase consideration – cash outflow

	\$000
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	331
Less: Cash balances acquired	(247)
Outflow of cash – investing activities	84

c) Prior period

On 30 November 2012 nib nz holdings limited (a wholly owned subsidiary of nib holdings limited, incorporated on 31 October 2012) acquired 100% of the issued share capital of nib nz limited (formerly Tower Medical Insurance Limited), New Zealand's second largest private health insurer. Details of this business combination were disclosed in Note 38 of the Group's Annual Financial Statements for the year ended 30 June 2013.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2013

nib holdings limited

18. SOLVENCY AND CAPITAL ADEQUACY RESERVES

nib health funds limited Solvency Reserve, as per the *Private Health Insurance (Health Benefits Fund Administration) Rules 2007*, is \$130.003 million. Total Health Benefits Fund Assets are \$542.667 million, representing a surplus of \$148.613 million over the sum of the Solvency Reserve and total Health Benefits Fund Liabilities (\$264.051 million). This equates to a solvency coverage ratio of 1.38x and a solvency/capital risk multiple of 2.14.

nib health funds limited Capital Adequacy Reserve, as per the *Private Health Insurance (Health Benefits Fund Administration) Rules 2007*, is \$130.003 million. Total Health Benefits Fund Assets are \$542.667 million, representing a surplus of \$148.613 million over the sum of the Capital Adequacy Reserve and total Health Benefits Fund Liabilities (\$264.051 million). This equates to a capital adequacy coverage ratio of 1.38x and a capital adequacy/risk multiple of 2.14.

nib nz limited has capital (net assets) of \$48.230 million. After this capital is adjusted for deductions required under the Reserve Bank of New Zealand Solvency standard for non life business nib nz limited has solvency capital of \$24.068 million. This compares to a minimum solvency capital required under the solvency standard of \$7.582 million representing a solvency surplus of \$16.486 million equating to a solvency ratio of 3.17x.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2013

nib holdings limited

19. PARENT ENTITY FINANCIAL INFORMATION

a) Summary financial information

	31 Dec 13	30 Jun 13
	\$000	\$000
Balance Sheet		
ASSETS		
Current assets	18,647	41,197
Non-current assets	437,032	435,544
Total assets	455,679	476,741
LIABILITIES		
Current liabilities	2,844	3,443
Non-current liabilities	553	-
Total liabilities	3,397	3,443
NET ASSETS	452,282	473,298
EQUITY		
Share Capital	297,178	297,178
Share-based payments	(794)	(935)
Retained Profits	155,898	177,055
Total Equity	452,282	473,298
	31 Dec 13	31 Dec 12
	\$000	\$000
Profit or loss for the half year	793	38,923
Total comprehensive income for the half year	793	38,923

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2013

nib holdings limited

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 2014. The company has the power to amend and reissue the Financial Report.

Directors' Declaration

For the half year ended 31 December 2013

nib holdings limited

In the Director's opinion:

- a) the financial statements and notes set out on pages 5 to 37 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 2013 and of its performance for the half year ended on that date; and
- b) there are reasonable grounds to believe that nib holdings limited will be able to pay its debts as and when they become due and payable.

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

On behalf of the Board



Steve Crane
Director



Harold Bentley
Director

Newcastle, NSW
21 February 2014



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"), which comprises the balance sheet as at 31 December 2013, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the nib group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during the half-year.

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 (including the Australian Accounting Interpretations) 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 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 financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 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*.



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:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

A handwritten signature in blue ink that reads 'John Champion'.

John Champion
Partner

Newcastle
21 February 2014