

ASX ANNOUNCEMENT

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nib holdings limited (asx: nhf)

22 August 2016

Strong operating result boosts nib's full year earnings

Highlights:

- Total Group revenue¹ of \$1.9 billion (+14.3%)
- Net profit after tax (NPAT) of \$91.8 million (+22.0%)
- Group underlying operating profit (UOP) of \$132.0² million (+49.9%) and statutory operating profit of \$120.8 million (+47.9%)
- Australian Residents Health Insurance (arhi) business UOP of \$94.5 million (+31.4%)
- Adjacent non-arhi UOP grew to \$37.5 million (+132.3%)
- Earnings per share (Statutory) of 21.2 cents per share (+22.5%)
- Full year dividend of 14.75 cents per share fully franked (+28.3%)

nib holdings limited (ASX: NHF) today announced a full year UOP of \$132.0 million for the 12 months to 30 June 2016. Statutory operating profit was \$120.8 million. NPAT of \$91.8 million was up 22%.

Total Group revenue increased 14.3% to \$1.9 billion with every part of the business growing its customer base and improving earnings.

nib's Managing Director, Mr Mark Fitzgibbon, said the full year result was pleasing and reflected strong execution of business strategy across the Group.

"Our arhi business delivered policyholder growth of 19,501 policies or 3.8%, almost three-times the industry average of 1.3%, which was a solid result given tough market conditions and ferocious competition," Mr Fitzgibbon said.

"arhi continues to be our mainstay business improving full year UOP by more than 31% to \$94.5 million. The full year result was greatly assisted by a slow-down in claims inflation which delivered a gross margin of 14.9% up from 13.3% the previous year," he added.

"Lower claims inflation is certainly a welcome development given the pressure on premiums and affordability. If this continues we can look forward to lower premium increases than those of recent years when the combination of increasing treatment cost and the actual number of treatment episodes have driven claims inflation rates of between 5% and 7%."

"I get a little frustrated when industry commentators talk and write about premium increases being twice the rate of CPI. I'm very sensitive to the impact premium increases have on household budgets and we do need to do more as insurers to rein in spending. But claims inflation is mostly the consequence of people having more healthcare treatment rather than the cost of a treatment."

"In FY16 our total arhi claims expense rose 7.7% to \$1.3 billion recognising that this includes customer growth and not just claims inflation. Hospital paid claims alone were up 12.4% on the previous year," Mr Fitzgibbon added.

nib's adjacent non-arhi businesses increased earnings by more than 130% with an UOP of \$37.5 million. This includes New Zealand, international students and workers, the recently acquired travel insurance provider, World Nomads Group and other insurance commissions.

¹Excludes non-recurring profit from sale of Newcastle office building

²nib's statutory operating profit was up 47.9% to \$120.8 million, and includes \$11.2 million in amortisation of acquired intangibles and one-off transactions and M&A costs.

“Our adjacent businesses accounted for more than 28% of our Group UOP this year, compared to just over 18% last year and a negligible contribution only five years ago,” Mr Fitzgibbon said.

nib New Zealand almost doubled its UOP to \$17.3 million while the World Nomads Group made an inaugural contribution of \$9.7 million.

“Our international inbound health insurance business also delivered terrific top line and earnings growth in a highly competitive market. UOP for this segment increased more than 41% to \$17.2 million and we now provide health insurance to over 100,000 international students and workers while in Australia, up almost 18% on the previous year,” he said.

Mr Fitzgibbon also reported FY16 was another year of considerable business expansion and innovation.

“Our partnership with Qantas, the acquisition of World Nomads Group and our new ‘Whitecoat’ joint venture to be formed with Bupa and HBF all reflect a determination within nib to better prepare ourselves for the future and to meet the wants and needs of consumers,” he added.

nib declared a full year dividend of 14.75 cents per share, fully franked (FY15: 11.5 cents per share) which includes a final dividend of 9.0 cents per share (FY15: 6.0 cents per share). The final dividend has an ex-dividend date and record date of 8 and 9 September 2016 respectively, and will be paid on 7 October 2016.

nib is forecasting FY17 UOP will be in the range of \$130 million to \$140 million (statutory operating profit of \$122 million to \$132 million), with investment income in line with internal benchmarks¹.

“FY16 will be a hard act to follow and the pressures of competition and premium affordability means pressure on margins. We’ll be looking more towards growing our top line across the Group and additional new business opportunities to create shareholder value,” Mr Fitzgibbon said.

Media and Investor Relations

Matthew Neat

Head of Corporate Affairs & Investor Relations

Tel: +61 (0)2 4914 1777 or 0411 700 006 (+61 411 700 006)

Email: m.neat@nib.com.au

¹Internal Investment benchmarks:

- Australian Regulatory capital (79%/21% defensive/growth) - target for portfolio bank bill index plus 1%
- New Zealand regulatory capital (100% defensive) (1) For core portfolio target is a six month bank bill index (2) For premium payback portfolio target is a 3.0 years interest rate swap index
- Surplus capital (100% defensive) - bank bill index