

Date Monday 22 February 2010

Subject nib announces 2010 half year results

Highlights

- **Pre-tax underwriting profit of \$30.5 million up 47% (1H09: \$20.8 million)**
- **Net consolidated profit after tax of \$43.1 million (1H09: \$2.1 million)**
- **Earnings per share of 8.7 cps (1H09: 0.4 cps)**
- **Net policyholder growth of 2.4% vs industry growth of 1.2%**
- **Premium revenue of \$446.1 million up 9% (1H09: \$410.6 million)**
- **Interim dividend of 2.0 cps fully franked**

nib holdings limited (nib) today announced that pre-tax underwriting profit was up 47% to \$30.5 million for the six months ended 31 December 2009. nib's net underwriting margin for the period was 6.8%, up from 5.1% for the same period last year.

nib reported a consolidated profit after tax of \$43.1 million, reflecting the company's strong growth in underlying earnings and significantly improved investment performance.

The nib Board has declared an interim fully franked dividend of 2.0 cents per share (cps).

nib's Managing Director, Mr Mark Fitzgibbon, said the 2010 half year result reflected improved underwriting profitability as well as better investment performance.

"Growing our customer base above system growth, with an emphasis on the under 40 years of age market segment, explains much of the improvement in the underwriting profitability. During the half this segment accounted for almost 77 per cent of our sales, with nib accounting for 23.4 per cent of the industry's net growth in the 20 to 39 age group," Mr Fitzgibbon said.

"Our net underwriting margin of 6.8 per cent was above our 2010 full year guidance of 5 to 5.5 per cent. However, we expect this will be weaker in the second half and we maintain this guidance range for the 2010 financial year. Essentially we expect the second half result to be lower due to some 'one off' lower claims experience in the first half, as well as our increased investment in the second half of the year in organic growth, especially in newer markets.

"In line with improved investment markets over the period, net investment income was \$33.6 million, contributing to a net consolidated profit after tax of \$43.1 million," Mr Fitzgibbon added.

Capital management and dividend

At 31 December 2009, nib had capital of \$156.3 million above its prudential target (after allowing for the interim dividend). nib confirmed that it intends to retain capital above its internal prudential target in the near term to fund potential investment opportunities.

"As we predicted, industry consolidation gained some momentum soon after our listing in late 2007. However, the global financial crisis hit and caused it to stall," Mr Fitzgibbon said.

"We continue to have realistic M&A investment ambitions and engage in discussions. There are also good possibilities to invest in new private health insurance business, such as overseas visitors and student's health care. I see a time when they will make a meaningful contribution to our earnings.

"In the absence of M&A investment opportunities coming to fruition, the Board will consider more significant capital management initiatives to optimise nib's capital structure in the 2011 calendar year. We recognise the 'war chest' we have must find attractive investments, else it's best put into the hands of our investors," Mr Fitzgibbon added.

The Board has declared an interim dividend of 2.0 cps fully franked (\$9.9 million), which reflects a payout ratio of 23% of 1H10 NPAT. The interim dividend unlike last year contains no special dividend component (or capital management initiative) due to franking credits limitation.

nib's dividend policy will continue to reflect a payout ratio of fully franked dividends between 50-60% of earnings in addition to returning capital by way of special dividends, subject to availability of franking credits.

Innovation and product changes

According to Mr Fitzgibbon, as part of nib's stated business strategy the company is continually investigating complementary and additional product offerings to support its core private health insurance business.

"Both travel insurance which we offer in collaboration with Mondial Assistance and life insurance through Tower Life are making a contribution towards earnings and we hope to build upon these further.

"We also launched in January 2010 overseas students' health cover products that targets the 400,000 international students studying in Australia. In addition we are exploring products for overseas workers in Australia on visas.

"Along with M&A and product 'buy-up', developing new revenue and earnings streams is a priority in the business given we will inevitably have less margin 'head room' by which to grow earnings." Mr Fitzgibbon added.

Outlook

nib's positive half year result, combined with an improved domestic economic outlook, and rebound in financial markets provides a strong foundation for the full 2010 financial year and beyond.

"Despite strong competition, we previously forecast that nib's policyholder growth would continue to be above system and believe net growth guidance of 4 to 6 per cent for the 2010 financial year remains valid.

"Our planned additional spending on organic growth as well as other business improvement investments will result in higher operating expenses during the second half of the year. As a result we are forecasting operating expenses in the second half to be \$5 million to \$8 million higher than the first half, with our 2010 financial year management expense ratio in the order of 9.5 to 10 per cent.

"Accordingly, the company's 2010 financial year net underwriting margin guidance of 5 to 5.5 per cent remains unchanged and we are on track to post a pre-tax underwriting profit of between \$45 million to \$50 million.

"We expect that the next 12 months will see further industry consolidation albeit at a slow pace. Hopefully the overwhelming support of members of MBF, ahm, Manchester Unity and nib, for demutualisation will make some of the other mutual health insurers more confident about the opportunity. Interestingly, 71 per cent of the industry is now taxpaying."

Mr Fitzgibbon added he welcomed the Federal Government's efforts to reform the health care system and that the latest intergenerational data should add to its sense of urgency.

"Bottom line is we have an ever declining number of working taxpayers funding public health care spending, which is now more than \$70 billion per annum. With an ever increasing dependency ratio, Governments have no alternative but to allow the private sector to play a greater role in the financing of our health care."

nib's 2010 pricing submission is currently with the Federal Minister for Health and Ageing for approval. The 2010 price change, subject to the Minister's approval, will be effective 1 April 2010.

FOR FURTHER INFORMATION: MEDIA AND INVESTOR RELATIONS

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Financial snapshot

(\$m)	1H08	1H09	1H10	Change 1H10 v1H09	
				\$m	%
Premium revenue	370.9	410.6	446.1	35.5	8.6
Gross underwriting result	51.8	63.6	71.2	7.6	11.9
Management expenses	(37.9)	(42.8)	(40.7)	2.1	4.9
Net underwriting result	13.9	20.8	30.5	9.7	46.6
Net investment return	11.9	(13.9)	33.6	47.5	
Other income	0.6	0.7	0.7	(0.0)	
Other expenses	(1.3)	(5.7)	(3.3)	2.4	
Profit before tax	25.1	1.9	61.5	59.6	
Tax	(7.4)	0.2	(18.4)	(18.6)	
NPAT	17.7	2.1	43.1	41.0	
EPS (cps)	3.4	0.4	8.7		
ROE ¹ (%)	9.1	2.9	18.0		
Gross underwriting margin (%)	14.0	15.5	16.0		
Management expense ratio (%)	10.2	10.4	9.1		
Net underwriting margin (%)	3.8	5.1	6.8		
Net investment return (%)	5.7	(6.5)	15.9		

¹ Rolling 12 months, using average shareholders equity and NPAT for rolling 12 month period

Data sheet

nib	FY05	FY06	1H07	FY07	1H08	FY08	1H09	FY09	1H10
Total policyholders	290,940	302,299	312,315	328,784	350,248	365,389	375,130	384,288	393,524
- Policyholder growth	4.2%	3.9%	3.3%	8.8%	6.5%	11.1%	2.7%	5.2%	2.4%
- Market share	6.2%	6.3%	6.4%	6.6%	6.9%	7.0%	7.1%	7.1%	7.2%
Persons covered	622,298	640,178	656,867	681,013	716,656	732,930	748,673	761,753	776,626
Avg age of hospital persons covered (yrs)	35.8	36.2	36.1	36.1	36.0	36.0	36.1	36.1	36.1
Total policyholders "under 40"	117,206	122,459	128,733	140,084	155,016	166,963	173,014	179,019	184,119
Growth in "under 40" segment	4.0%	4.5%	5.1%	14.4%	10.7%	19.2%	3.6%	7.2%	2.8%
Total hospital persons "20-39"	162,009	167,372	175,762	188,155	207,703	218,445	225,354	231,136	237,693
-Growth in hospital persons "20-39"	3.3%	3.3%	5.0%	12.4%	10.4%	16.0%	3.2%	5.8%	2.8%
- Market share	8.1%	8.2%	8.3%	8.7%	9.2%	9.5%	9.6%	9.8%	10.1%
Retail Centres (across Australia)	37	34	32	32	30	25	21	21 ²	18 ²
Employees (FTEs)	472	481	483	506	484	478	422	458	448

Source: nib / PHIAC data ² Includes nib Retail and Sales Centres