nib holdings

ASX Announcement

Date **Monday 21 February 2011**

Subject **nib announces continued strong underlying earnings growth and proposed capital return**

Highlights

- **Pre-tax underwriting profit up 34.1% to $40.9 million (1H10: $30.5 million)**
- **Health Insurance Business (HIB) policyholder growth of 2.7% (10,847 net policies) versus estimated industry growth of 1.7%[1]**
- **Net profit after tax of $39.0 million (1H10: $43.1 million)**
- **Interim dividend of 4.0 cps fully franked**
- **Capital return of $75 million (approximately $0.16 per share) planned for June 2011, subject to ATO tax ruling and shareholder approval**

nib holdings limited (nib) today announced a pre-tax underwriting profit of $40.9 million for the six months ended 31 December 2010. The result was up 34% on the first half of last financial year with premium revenue of $495 million, up 11% compared to the corresponding period last year.

nib's Managing Director, Mr Mark Fitzgibbon, said the interim result had all the signs of another strong financial year for nib.

"The result has us on track to exceed our underlying earnings growth target of at least 10% for the full financial year," Mr Fitzgibbon said.

"Very importantly, ROE for the past 12 months was just a tick under 15% and we're confident we can do much better on an ongoing basis, especially given the capital management initiatives we have planned," Mr Fitzgibbon added.

"Our investment in organic growth continues to be a key driver of our earnings improvement. Net policyholder growth in the health insurance business for the first half of 2.7% or 10,847 net new policies was strong and with an anticipated industry growth for the period of 1.7%[1], we will again achieve well above system growth for the year."

Net profit after tax was $39.0 million (EPS: 8.0c), slightly down on the corresponding period last year due to lower investment income of $18.6 million compared to $33.6 million in 1H10 (EPS: 8.7c).In the first half of this year the return on investment was 9.0% (annualised) compared to an extraordinary 15.9% (annualised) in the previous corresponding half year.

nib declared an interim fully franked dividend of 4.0 cents per share totalling $18.7m, equating to a payout ratio of 48% of first half NPAT. nib's dividend policy will continue to reflect a full year payout ratio of between 50-60% of NPAT.

Capital management

The Board of nib has approved a proposed capital return by way of an equal reduction of capital in accordance with Section 256B of the Corporations Act of $75 million (approximately $0.16 per share). The capital return is subject to obtaining the appropriate ruling from the Australian Tax Office and approval from shareholders.

It is anticipated nib shareholders will vote on the 2011 capital return at an EGM in mid June 2011 with the capital return occurring at the end of June 2011.

Other capital management initiatives may include the continuation of the on market share buy-back as well as the payment of special dividends.

"The capital return makes good our promise to shareholders that in the absence of M&A investments we would look to more substantial capital management initiatives during the 2011 calendar year," Mr Fitzgibbon said.

[1] *nib estimated figure using company and industry information to 30 September 2010. As at 21 February 2011 PHIAC had not published 1H11 industry growth rates.*

"We continue to believe very strongly that industry consolidation is inevitable and that there is enormous value to be created through cost synergies and other enhancements. We have no doubt that eventually there will be opportunities for nib within this context. However, the inertia is very evident so for the time being it's best we move towards optimising our capital structure. This won't prevent us seizing initiatives if and when they materialise."

Mr Fitzgibbon added nib will consider an additional capital return in 2012 having regard to the extent of surplus capital and investment prospects such as M&A.

"Based upon our forecasting and over and above the initial $75 million return, there's scope to return more capital. But there are still a couple of investment prospects we're working on so we want to maintain some funding capacity."

nib also advised it had revised its internal target capital adequacy ratio from 1.4x to 1.3x.

As at 31 December 2010 nib had $145.4 million of funds surplus to nib's internal prudential target (1.3x) after allowing for the 2011 interim dividend payment.

New revenue and earnings

nib is continuing to explore and develop new revenue streams, in particular overseas students, overseas visitors health cover and complementary products such as life insurance.

nib's overseas students cover is in the early stages of development and as expected, made a small underwriting loss ($0.3m) for the six months ended 31 December 2010. The underwriting loss is reflective of investment within the business to develop operational capability.

Temporary migrant workers cover, which is offered through IMAN (acquired by nib in September 2010), delivered an underwriting result of $0.8 million for the three month period following completion of the acquisition on 30 September 2010. nib is looking for a return on investment of no less than 15% pa within the next three years.

"The level of investment we have made to date in both overseas students covers and temporary migrant worker cover is reflective of the significant growth potential of these businesses. We see these businesses making meaningful contributions towards our future earnings," Mr Fitzgibbon said.

As at 31 December 2010 nib had 13,151 temporary migrant worker policyholders and 433 international student policyholders.

Revenue from life and travel insurance commissions for the six months to 31 December 2010 totalled $400,000.

FY11 guidance and outlook

nib has revised its FY11 full year forecast pre-tax net underwriting margin from $55 million to $58 million (net underwriting margin of 5.4% to 5.7%) which includes a non-cash benefit of a $2.2 million increase in the value of land and buildings.

Forecast FY11 net policyholder growth rate is now 5.5% to 6% (22,400 to 25,000 net new policies) and nib anticipates an industry average of around 3% for the year.

nib's 2011 pricing submission is currently with the Federal Minister for Health and Ageing for approval. The 2011 price change, subject to the Minister's approval, will be effective 1 April 2011.

MEDIA AND INVESTOR RELATIONS
Matthew Neat
Tel: 02 4914 1777
Mob: 0411 700 006
Email: m.neat@nib.com.au

Financial snapshot

($m)	1H10	1H11		$m Fav/(Unfav)	%
Premium revenue	446.1	**495.0**	↑	48.9	11.0
Management expenses[1]	(40.7)	**(42.2)**	↑	(1.5)	3.7
Net underwriting profit	30.5	**40.9**	↑	10.4	34.1
Net underwriting profit (HIB)*	*30.5*	***40.4***	↑	*9.9*	*32.5*
Net underwriting loss (OSHC)*	-	***(0.3)***	-	*(0.3)*	*NA*
Net underwriting profit (OVC)*	-	***0.8***	-	*0.8*	*NA*
Net investment return	33.6	**18.6**	↓	(15.0)	44.6
Other income [#]	0.7	**0.9**	↑	0.2	28.6
Other expenses	(3.3)	**(4.0)**	↑	(0.7)	21.2
Profit before tax	61.5	**56.4**	↓	(5.1)	8.3
Tax	(18.4)	**(17.4)**	↓	1.0	5.4
NPAT	43.1	**39.0**	↓	(4.1)	9.5

*** HIB = Health Insurance Business, OSHC = Overseas Students Health Cover, OVC = Overseas Visitors Cover**

[1] Includes $2.2m benefit from head office revaluation . [#] Some items rounded up/down for presentation purposes.