



# 2013 FULL YEAR RESULTS Investor Presentation

MONDAY 26 AUGUST 2013



**nib**

**MARK FITZGIBBON**  
CEO and Managing Director

## FY13 highlights

- Group premium revenue of \$1,290.4m (up 14.8% on FY12) with solid growth in all segments and acquisition of New Zealand business (up 8.5% ex nib New Zealand)
- Group underwriting profit was \$73.8m (up 4.3%) and includes amortisation of acquisition intangibles of \$2.4m with Group underwriting margin of 5.7%
- Australian resident health insurance (arhi) business increased policyholders by 4.6% and premium revenue by 8.4% notwithstanding more challenging market conditions and increasing industry lapse/churn. Sales results continue to reflect business strategy of Virgin Green (<40s), Virgin Silver (>55s), interstate expansion, online engagement, retail brokers and new to category
- arhi encountered profit margin pressures with net underwriting profit of \$59.0m (down 8.6%). Increasing utilisation, public hospital cost shifting and pricing constraints all major factors
- International workers (iwhi) and students (ishi) performed well. iwhi underwriting profit was \$8.4m (up 12.8%) and accounted for 11.4% of Group underwriting profit. ishi underwriting loss of just \$0.1m was a dramatic improvement upon previous year loss of \$1.4m and is now reaching a viable scale
- Transition and integration of New Zealand business is progressing as planned. Business accounted for 8.7% of Group underwriting profit with 7 months of trading
- Underwriting profit other than arhi accounted for 20.0% of Group result (FY12: 8.6%)
- NPAT of \$67.2m (FY12: \$67.6m), with result impacted by one-off costs (FY13 normalised NPAT of \$70.6m)
- EPS was 15.3 cents (up 3.4%) and ROE 21.6% (down slightly from 21.7%)
- Full year dividend of 10.0cps fully franked (up 8.1%)

## Group key metrics

	FY13	FY12	%*
Group premium revenue <sup>1</sup>	<b>\$1,290.4m</b>	\$1,123.8m	14.8
- Australian Resident Health Insurance (arhi)	<b>\$1,187.2m</b>	\$1,095.6m	8.4
- International Workers Health Insurance (iwhi) <sup>1</sup>	<b>\$27.6m</b>	\$25.2m	9.9
- International Students Health Insurance (ishi)	<b>\$4.4m</b>	\$3.0m	45.7
- nib New Zealand (7 months)	<b>\$71.1m</b>	-	na
Net underwriting profit	<b>\$73.8m</b>	\$70.7m	4.3
- Australian Resident Health Insurance (arhi)	<b>\$59.0m</b>	\$64.6m	(8.6)
- International Workers Health Insurance (iwhi)	<b>\$8.4m</b>	\$7.5m	12.8
- International Students Health Insurance (ishi)	<b>\$(0.1)m</b>	\$(1.4)m	94.2
- nib New Zealand (7 months)	<b>\$6.4m</b>	-	na
Group underwriting margin	<b>5.7%</b>	6.3%	(0.6)
Operating profit	<b>\$69.3m</b>	\$70.0m	(1.1)
Net investment income	<b>\$28.8m</b>	\$25.6m	12.3
NPAT	<b>\$67.2m</b>	\$67.6m	(0.7)
EPS	<b>15.3cps</b>	14.8cps	3.4
ROE	<b>21.6%</b>	21.7%	(0.1)
Full year dividend (fully franked)	<b>10.0cps</b>	9.25cps	8.1

\* Change favourable/(unfavourable), FY13 to FY12, where results are a percentage change shown is difference between two results

<sup>1</sup> Net of reinsurance

**MICHELLE MCPHERSON**  
Chief Financial Officer and Deputy CEO

## Finance highlights

- Group underwriting profit of \$73.8m (Group underwriting margin of 5.7%) includes \$2.4m of amortisation of acquisition intangibles
- arhi gross margin pressure given high claims experience, one-off costs (\$2.3m) and premium pricing constraints
- arhi risk equalisation growth slowed due to lower rate of growth in the overall pool, increase in amount nib claimed from the pool and reduction in risk equalisation margin in outstanding claims provision
- Maintained focus on operating efficiencies with arhi MER of 8.3% lowest since listing (FY12: 8.7%) as well as reductions in iwhi and ishi MER
- arhi net underwriting margin at 5.0% still within 5%-5.5% target range
- Continued strong iwhi underwriting margins of 30.5% (FY12: 29.8%) with the ishi underwriting margin improved to (1.8)% (FY12: (44.9)%)
- nib New Zealand on track to be significant contributor to future earnings, noting planned significant investment in brand and growth during FY14 (FY13 net underwriting margin of 9.0% for 7 months)
- NPAT impacted by one-off acquisition costs (\$3.4m) and debt funding (\$1.4m in finance costs, 7 months) in respect of New Zealand acquisition
- Steady dividend growth and strong return on equity

## Group income statement

	FY13	FY12	%*
Group premium revenue <sup>1</sup>	\$1,290.4m	\$1,123.8m	14.8
Claims expense <sup>1</sup>	\$(896.7)m	\$(765.4)m	(17.1)
Risk equalisation	\$(167.4)m	\$(160.0)m	(4.7)
State levies	\$(28.8)m	\$(23.8)m	(20.9)
Premium payback liability movement	\$3.3m	-	na
Gross profit	\$200.8m	\$174.6m	15.0
- <i>Gross profit margin</i>	15.6%	15.5%	0.1
Acquisition costs	\$(52.2)m	\$(36.1)m	(44.8)
Claims handling and other underwriting expenses	\$(74.8)m	\$(67.8)m	(10.3)
Net underwriting profit	\$73.8m	\$70.7m	4.3
- <i>Group underwriting margin</i>	5.7%	6.3%	(0.6)
Other income	\$3.1m	\$3.6m	(12.9)
Other expenses	\$(7.6)m	\$(4.3)m	(78.3)
Operating profit	\$69.3m	\$70.0m	(1.1)
Finance costs	\$(1.4)m	-	na
Net investment income	\$28.8m	\$25.6m	12.5
Profit before income tax	\$96.7m	\$95.7m	1.0
Income tax expense	\$(29.5)m	\$(28.0)m	(5.3)
- <i>Effective tax rate</i>	30.5%	29.3%	(1.2)
NPAT	\$67.2m	\$67.6m	(0.7)
EPS	15.3cps	14.8cps	3.4

\* Change favourable/(unfavourable), FY13 to FY12, where results are a percentage change shown is difference between two results

<sup>1</sup> Net of reinsurance

## arhi key metrics

	FY13	FY12	%*
Total policyholders	<b>472,264</b>	<b>451,647</b>	4.6
- Net policyholder growth (%)	4.6%	4.7%	(0.1)
Net new policyholders	<b>20,617</b>	<b>20,474</b>	0.7
Total sales	<b>66,379</b>	<b>62,047</b>	7.0
- Sales rate (%)	14.7%	14.4%	0.3
- Sales new to category (%)	58.2%	61.9%	(3.7)
- Sales under 40 years of age (%)	67.1%	73.6%	(6.5)
- Sales over 55 years of age (%)	11.8%	7.4%	4.4
- Sales online (%)	23.4%	29.3%	(5.9)
- Sales broker (%)	31.8%	22.2%	9.6
- Sales outside NSW/ACT (%)	51.2%	45.0%	6.2
Total lapses	<b>45,762</b>	<b>41,573</b>	(10.1)
- Lapse rate (%)	10.1%	9.6%	(0.5)

\* Change favourable/(unfavourable), FY13 to FY12, where results are a percentage change shown is difference between two results

- arhi policyholder growth of 4.6% (FY12: 4.7%) vs industry growth of 3.1% (FY12: 3.7%)
- Challenging macro environment continues to impact lapse rate, which remains an area of focus and investment



## arhi key metrics

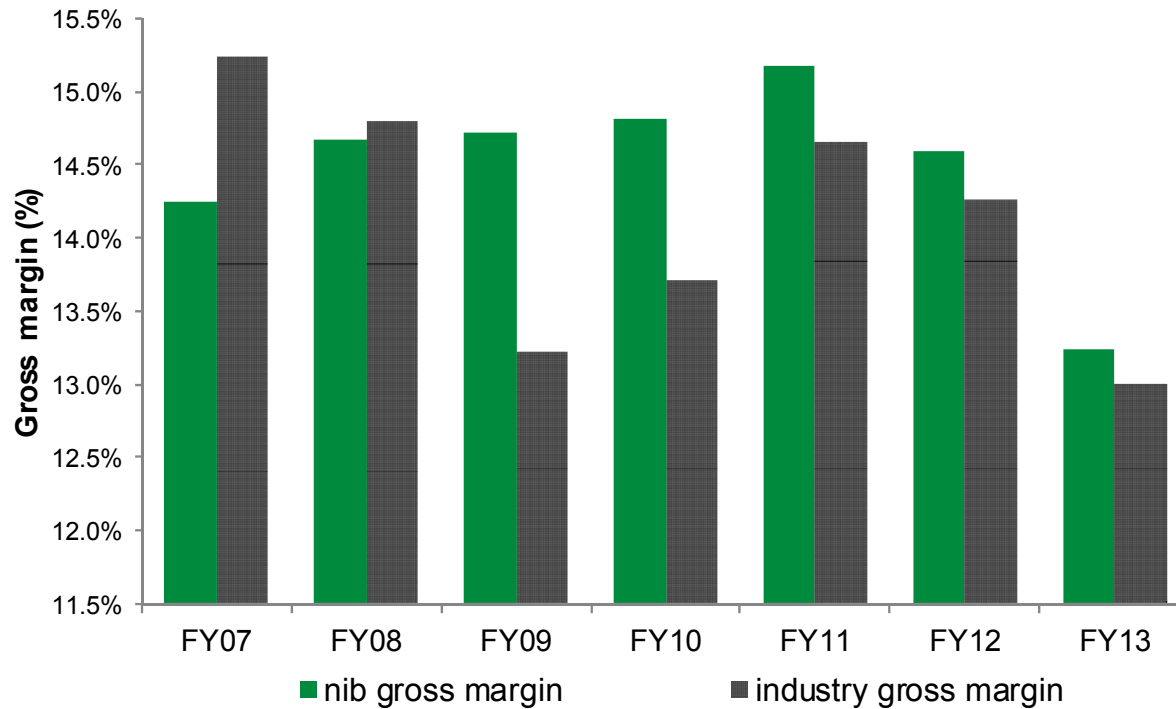
(\$m)	FY13	FY12	%*
Premium revenue	<b>1,187.2</b>	<b>1,095.6</b>	8.4
- % of total Group	<b>92.0%</b>	<b>97.5%</b>	(5.5)
Claims (excluding risk equalisation)	<b>(862.6)</b>	<b>(775.7)</b>	(11.2)
Risk equalisation	<b>(167.4)</b>	<b>(160.0)</b>	(4.7)
Gross underwriting profit	<b>157.2</b>	<b>159.9</b>	(1.7)
- Gross margin (%)	<b>13.2%</b>	<b>14.6%</b>	(1.4)
Management expenses	<b>(98.2)</b>	<b>(95.3)</b>	(3.1)
- MER (%)	<b>8.3%</b>	<b>8.7%</b>	0.4
Net underwriting profit	<b>59.0</b>	<b>64.6</b>	(8.6)
- Net margin (%)	<b>5.0%</b>	<b>5.9%</b>	(0.9)
- % of Group	<b>80.0%</b>	<b>91.4%</b>	(11.4)

\* Change favourable/(unfavourable), FY13 to FY12, where results are a percentage change shown is difference between two results

- Premium revenue up 8.4% driven by policyholder growth and premium increases
- Deterioration of gross margin due to:
  - 2012 premium increase of 5.5% insufficient to cover claims inflation during FY13. 2013 premium increase of 6.5% moved to correct for this but rate of claims inflation driven by increased utilisation remains a concern
  - Claims inflation driven by expansion of private hospitals in key markets, increased day hospital utilisation, increases in acuity and high ancillary claims (particularly dental)
  - FY13 claims includes one-off ambulance levy adjustment of \$(2.3)m
- Number of initiatives underway focussing on managing claims inflation
- Net underwriting margin of 5.0% still within target range of 5%- 5.5%

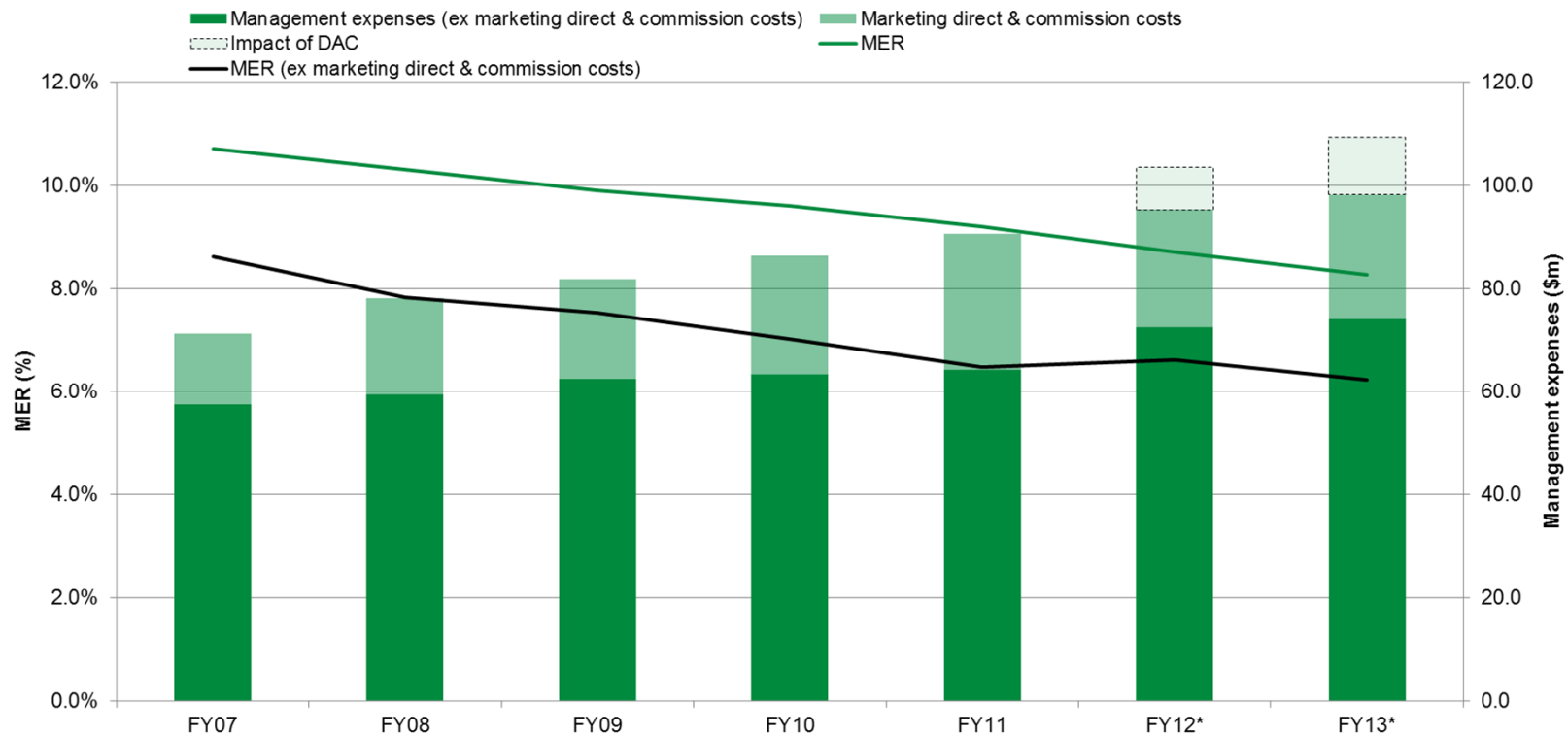
## arhi gross margin

- Gross margin challenges for nib and industry driven by claims inflation



Source: Private Health Insurance Administration Council and nib

# arhi management expenses



\* Significant growth in broker distribution channels resulted in deferring commission costs in FY12 and FY13

- Continued focus on efficiencies and operating expense, with management expenses of \$98.2m equating to a MER of 8.3%, lowest since listing
- Since listing we have continued to deliver improvements to MER through operational efficiencies, allowing increasing investment in organic growth
- FY13 arhi management expenses up 3.1% to \$98.2m (FY12: \$95.3m), as a result of:
  - 2.2% increase in management expenses excluding marketing (direct and commission costs)
  - 5.8% increase in marketing expenses (direct and commission costs)

## iwhi key metrics

(\$m)	FY13	FY12	%*
Total policyholders	18,071	16,480	9.7
Premium revenue <sup>1</sup>	27.6	25.2	9.9
- % of total Group	2.2%	2.2%	0.0
Claims <sup>1</sup>	(11.8)	(10.6)	(11.0)
Gross underwriting result	15.9	14.5	9.0
- Gross margin (%)	57.4%	57.5%	(0.1)
Management expenses	(7.4)	(7.1)	(5.0)
- MER (%)	26.9%	28.2%	1.3
Net underwriting profit	8.4	7.5	12.8
- Net margin (%)	30.5%	29.8%	0.7
- % of Group	11.4%	10.6%	0.8

\* Change favourable/(unfavourable), FY13 to FY12, where results are a percentage change shown is difference between two results

<sup>1</sup> Net of reinsurance

- Management expenses include \$0.5m associated with amortisation of acquired intangibles
- Contributed 11.4% of group net underwriting profit
- Profit margin remains attractive

## ishi key metrics

(\$m)	FY13	FY12	%*
Total policyholders	<b>9,115</b>	<b>3,328</b>	173.9
Premium revenue	<b>4.4</b>	<b>3.0</b>	45.7
- % of total Group	<b>0.3%</b>	<b>0.3%</b>	0.0
Claims	<b>(3.4)</b>	<b>(2.9)</b>	(18.0)
Gross underwriting result	<b>1.0</b>	<b>0.1</b>	641.8
- Gross margin (%)	<b>22.7%</b>	<b>4.5%</b>	18.2
Management expenses	<b>(1.1)</b>	<b>(1.5)</b>	27.8
- MER (%)	<b>24.5%</b>	<b>49.4%</b>	24.9
Net underwriting profit/(loss)	<b>(0.1)</b>	<b>(1.4)</b>	94.2
- Net margin (%)	<b>(1.8)%</b>	<b>(44.9)%</b>	43.1
- % of Group	<b>(0.1)%</b>	<b>(1.9)%</b>	1.8

\* Change favourable/(unfavourable), FY13 to FY12, where results are a percentage change shown is difference between two results

- Recently passed 10,000 international student policyholders, approaching a viable scale for the business
- Success with upstream distribution strategy
- New pricing and product design strategy has improved claims experience
- International student fundamentals strong with market expected to grow

## nib New Zealand key metrics

(\$m)*	FY13 – 7 month result (acquisition completed in November 2012)
Total policyholders	<b>79,209</b>
Premium revenue	<b>71.1</b>
- % of total Group	<b>5.5%</b>
Claims	<b>(47.7)</b>
Decrease in premium payback liability	<b>3.3</b>
Gross underwriting result	<b>26.7</b>
- Gross margin (%)	<b>37.5%</b>
Management expenses	<b>(20.3)</b>
- MER (%)	<b>28.5%</b>
Net underwriting profit	<b>6.4</b>
- Net margin (%)	<b>9.0%</b>
- % of Group	<b>8.7%</b>

\* Figures are Australian dollars

- Policyholder loss during the period of 2.6% (2,072 policies) emphasises importance of planned investment in brand and marketing during FY14
- Management expenses include marketing direct and commission costs and reflect current distribution arrangement being 76% intermediaries, 24% direct
- Management expenses also include \$1.9m associated with amortisation of acquired intangibles
- Contributed \$6.4m (or 8.7%) to group underwriting profit
- Net underwriting profit for nib New Zealand would have been \$9.4m (net margin of 7.8%) if the business had been owned for the full 12 months

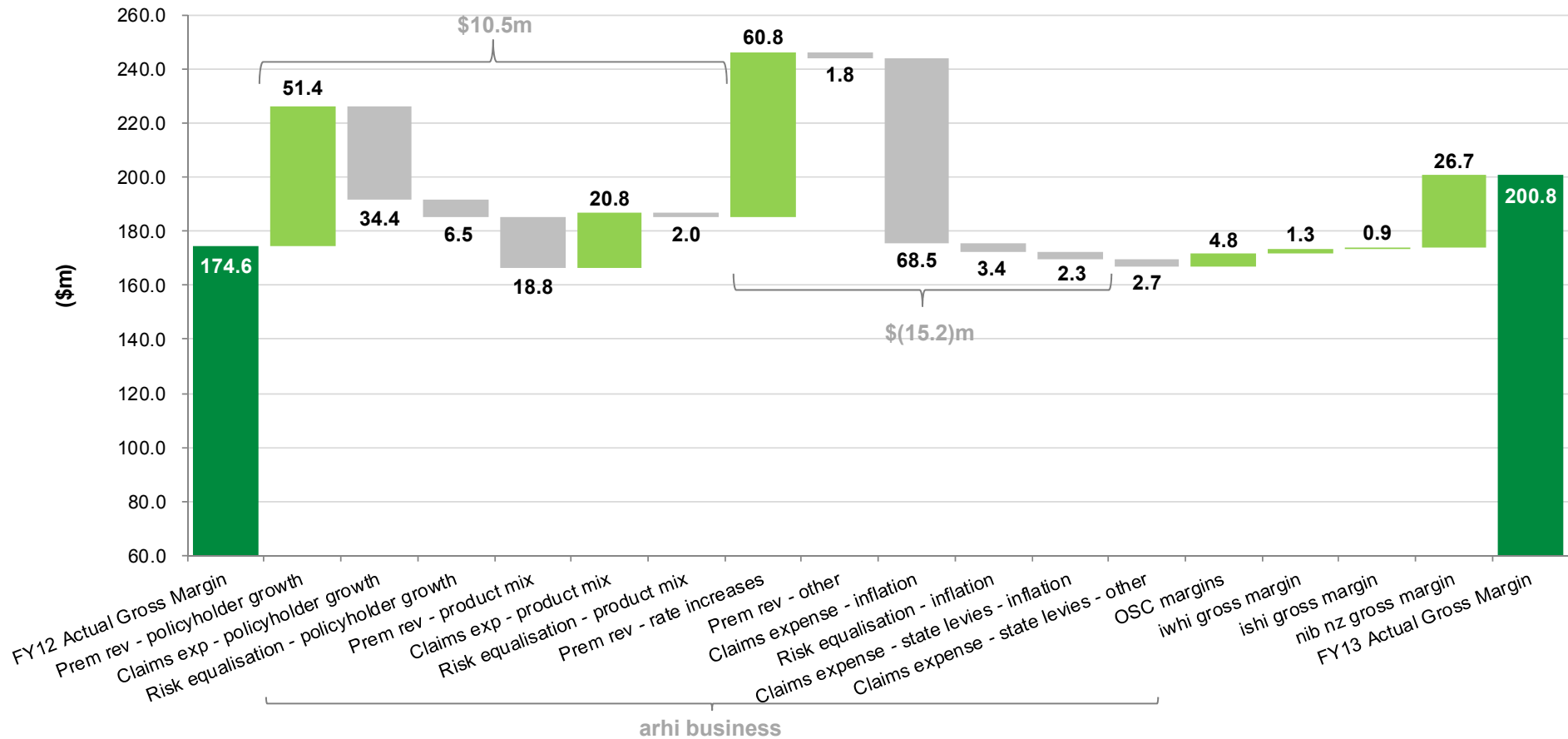
## nib New Zealand highlights

- Full RBNZ licensing and QFE status achieved meaning all regulatory requirements are no longer transitional
- EPS accretive year one (excluding amortisation of acquired intangibles)
- New Board and Management team in place
- Separation and transition of business, including IT going smoothly and to budget
- nib brand and direct to consumer product expected to be launched 1H14 with significant start-up investment planned which will impact the FY14 result
- NRL and Super Rugby player, Benji Marshall recruited as nib New Zealand brand ambassador



*nib has appointed Benji Marshall as its brand ambassador for New Zealand*

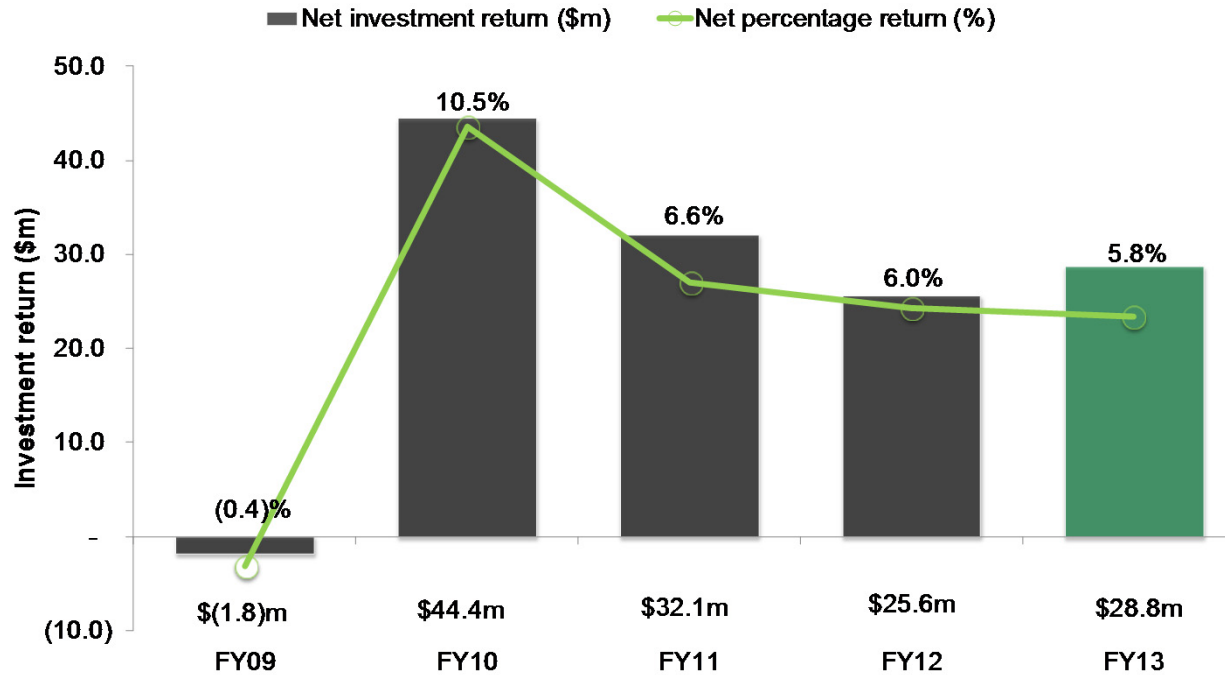
# Gross profit drivers



- arhi claims and risk equalisation expenses not fully covered by rate increases due to lower than preferred 2012 rate increase (5.5%) and higher than expected claims inflation. Premium increase of 6.5% (effective 1 April 2013) moved to correct for this but rate of claims inflation driven by increased utilisation remains a concern

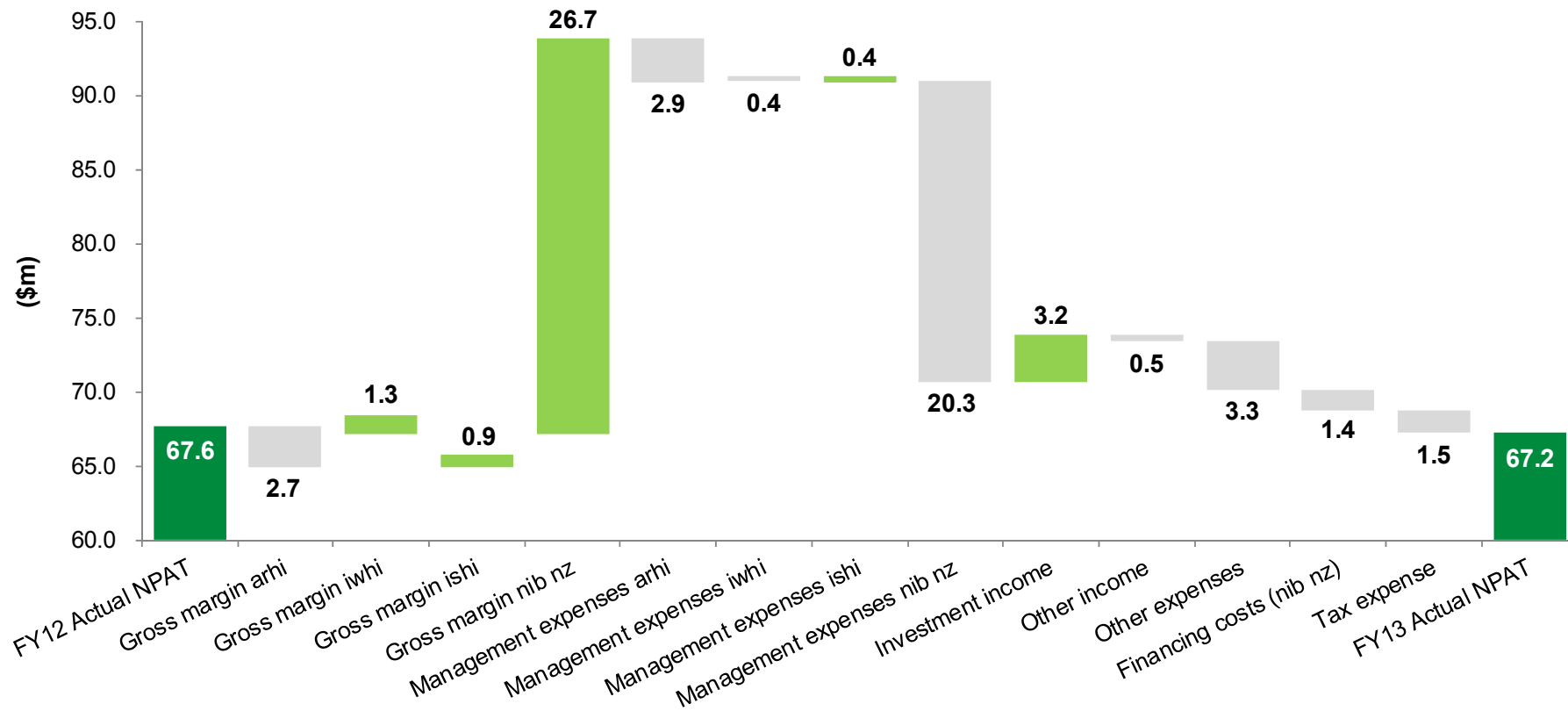


# Investments



- Good investment return on back of growth asset performance
- Consolidated defensive/growth split of 85%/15%, including nib New Zealand (FY12: 82%/18%)
- Total net investment assets at 30/6/13 of \$529.6m (including head office building of \$36.4m)

## NPAT summary



- nib New Zealand included for the first time (acquisition completed November 2012), with amounts shown being a 7 month result
- NPAT impacted by pre-tax costs associated with the TOWER Medical Insurance acquisition, including \$3.4m of acquisition costs (one-off cost) and \$1.4m of finance costs (7 months) associated with debt facility

## Cash flow

(\$m)	FY13	FY12	%
Net cash inflow/(outflow) from operating	20.0	134.6	(85.1)
Net cash inflow/(outflow) from investing	24.0	(28.6)	183.9
Net cash inflow/(outflow) from financing	10.5	(179.1)	105.9

- Reduction in cash flow from operating activities mainly due to pre-payments of premiums in May/June 2012 associated with income testing of the Australian Government Rebate
- Cash flow from financing increased to \$10.5m, reflecting less capital management initiatives and proceeds from borrowings associated with TOWER Medical Insurance acquisition (November 2012)

## Available capital position

	FY13 (\$m)	FY12 (\$m)
<b>Opening available capital position above internal targets</b>	<b>13.3</b>	<b>138.0</b>
On-market share buy back	-	(41.0)
Capital Return	-	(75.4)
Investment in TOWER Medical New Zealand (nib New Zealand)	(19.7)	-
Interim dividend paid	(22.0)	(18.9)
Allowance for final dividend	(22.0)	(22.0)
Changes in forecast, liabilities and capital adequacy reserve	(2.0)	(35.0)
Profit after tax	67.2	67.6
<b>Consolidated available capital position above internal targets</b>	<b>14.8</b>	<b>13.3</b>

- Current gearing of 16.1% (debt to debt plus equity), well below internal capital target of not more than 30% with a tendency to a lower 20% level
- Internal targets
  - Australia – 1.30x Capital adequacy coverage ratio or Capital adequacy/risk multiple of 2.00 (as at 30/6/13: capital adequacy coverage ratio of 1.32x, Capital adequacy/risk multiple of 2.04)
  - New Zealand 1.75x Minimum solvency capital (as at 30/6/13: Minimum solvency capital of 2.21x)
- Changes in FY13 forecast, liabilities and capital adequacy result impacted by reduction in unearned premium liability associated with significant May/June 2012 prepayment of premiums

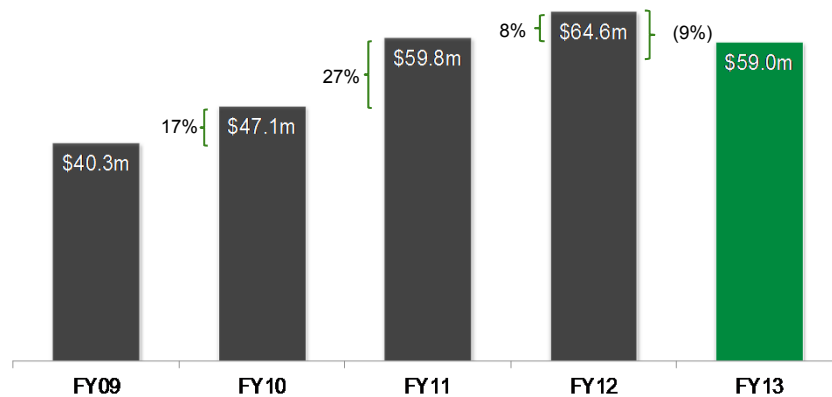
**MARK FITZGIBBON**  
CEO and Managing Director

**KEY TAKE OUTS & OUTLOOK**

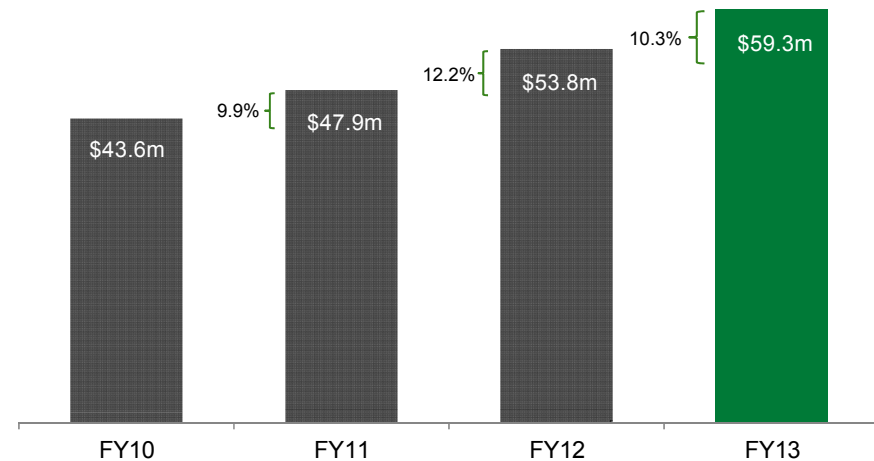
## It's getting tougher within our arhi business

- After 5 years of very strong policyholder growth we are as predicted facing margin pressure and weaker earnings within our arhi business, driven by:
  - Increasing hospital and healthcare utilisation
  - Public hospital costs (up 10.3% in FY13)
  - Ongoing risk equalisation inflation
  - Growth in ancillary claims, in particular dental utilisation (up 12.7% in FY13)
  - Increasing cost of acquisition and lapse
  - Legislative changes especially Australian Government Rebate
  - Unsatisfactory price increase (1 April 2012)

arhi net underwriting profit

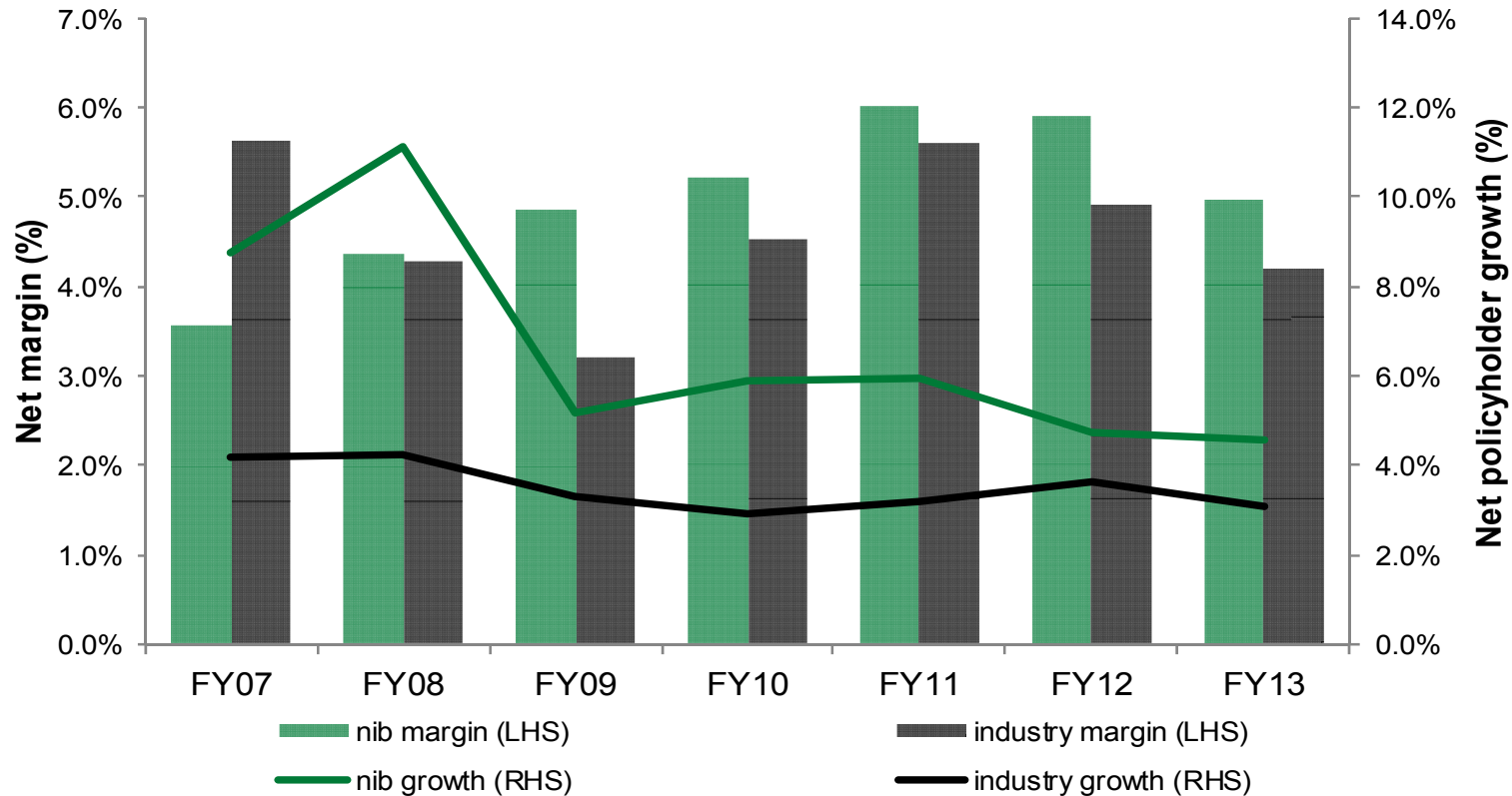


arhi increase in public hospital claims paid (year-on-year)



## But we're not alone, growth continues and earnings remain attractive

- We expect to be able to continue to grow arhi policyholder growth above system and earnings by keeping net underwriting margins in the range 5% - 5.5%

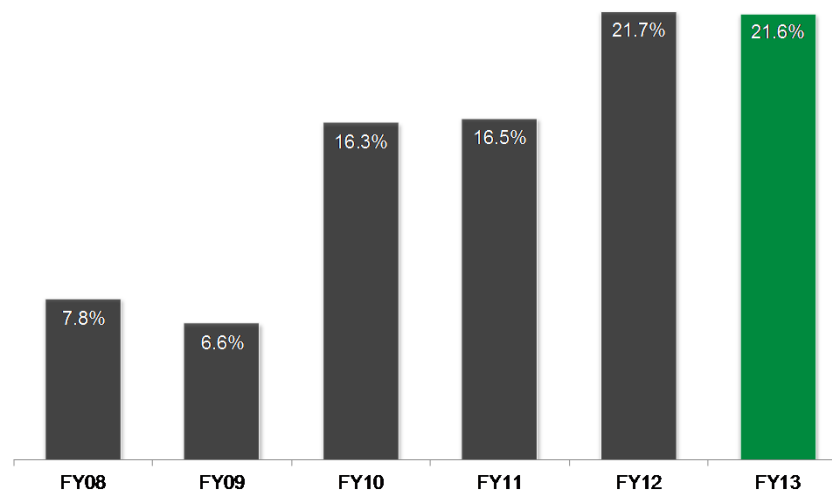


Source: Private Health Insurance Administration Council and nib

## We are as determined as ever to grow enterprise value

- We aim to further grow Group earnings through newer business ventures such as iwhi, ishi and nib New Zealand with additional plans to launch businesses in medical travel (nib options) and international private medical insurance (IPMI) during the course of FY14
- We will continue to explore other related new business opportunities
- We have significantly boosted our overall executive strength to maximise our prospects. New executives for growing international business and better managing claims inflation have been appointed
- Our central commercial aim is to keep ROE 20%+ assuming an earnings retention ratio of 30% - 40% (dividend payout ratio of 60% - 70% of earnings)

### ROE over past 4 years has been very strong





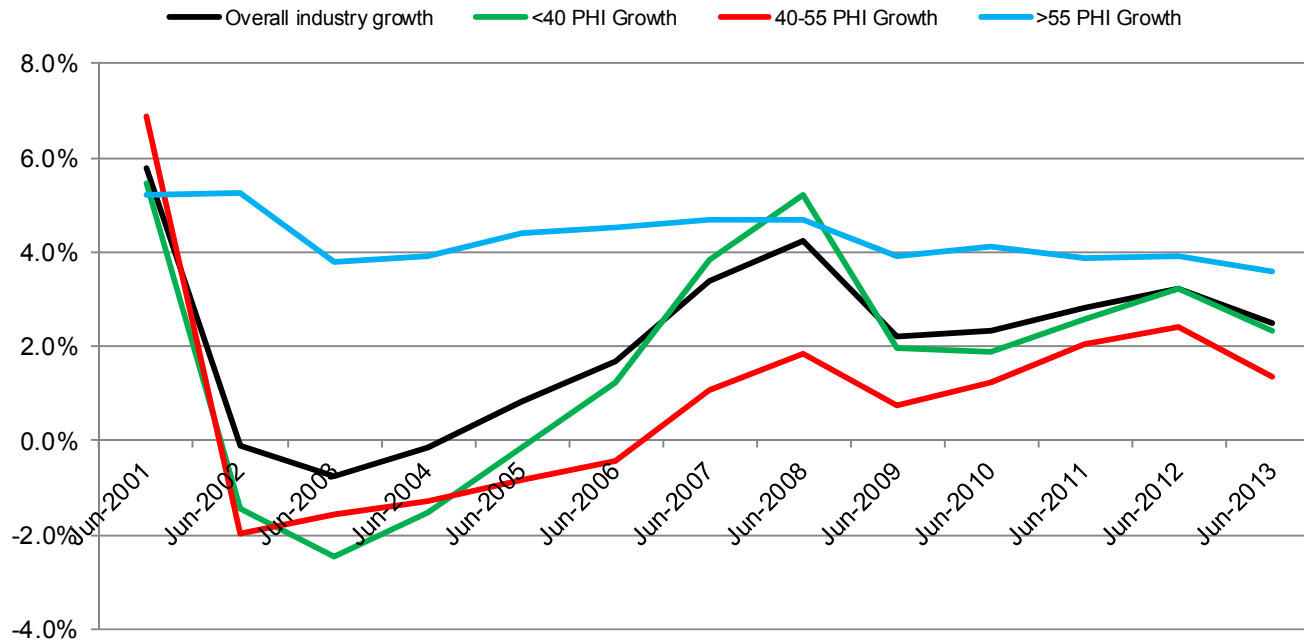
## arhi underlying industry fundamentals

- Real healthcare spending will continue to increase circa 5%-6% well ahead of GDP with Government funding strained
- PHI participation will continue to increase circa 3% notwithstanding the impact of policy changes especially the Australian Government Rebate (income testing, LHC loading, real value capping) – *see next slide*
- Government cost shifting to the private sector likely to continue as Government seeks to wind back consumer subsidisation and given the stress on public system. This should ultimately be of advantage to the industry as it simply makes PHI more relevant and significant in the funding of Australia's healthcare spending
- Possible change of Federal Government could produce a range of reforms favourable to the private health care system and system participants. Also could lead to early privatisation of Medibank Private

# arhi underlying industry fundamentals

- Favourable economic conditions (especially low interest rates), ongoing Government policy sticks/carrots, population growth and the dire state of public hospital systems will continue to produce increased PHI participation

Private health insurance growth by age



Age category	Under 40s	40-55	Over 55s	Total
<b>PHI participation* (June 2013)</b>	<b>5,222,549</b>	<b>2,430,362</b>	<b>3,197,316</b>	<b>10,850,227</b>

\* Hospital persons covered

Source: Private Health Insurance Administration Council and nib

## Summary and FY14 guidance

- arhi business expected to grow at a rate similar to FY13, notwithstanding detrimental changes to the Australian Government Rebate and obvious signs of increased customer churn
- Claims inflation easily remains the biggest challenge for nib and the private health insurance industry generally and emphasises why we have appointed a new executive with responsibility for claims and provider relations
- Increased effort and focus on newer businesses, such as iwhi, ishi, nib New Zealand and other insurance lines such as life and travel
- Additional ventures planned for 2014 associated with medical travel and “global” medical insurance (IPMI). Investment will impact FY14 profit
- Significant marketing investment in nib New Zealand during FY14 designed to stimulate market and unlock latent demand. Investment will impact FY14 profit
- FY14 consolidated operating profit in the range of \$73m to \$80m (includes forecast of \$3.1m in amortisation of acquired intangibles)
- FY14 investment income forecast to be line with relevant internal benchmarks:
  - Australian Regulatory capital (80/20 defensive/growth) - target for portfolio UBS bank bill index plus 1%
  - New Zealand regulatory capital (100% defensive):
    - For core portfolio target is a 6 month bank bill index
    - For premium payback portfolio target is a 5.4 years interest rate swap index
  - Surplus capital (100% defensive) - UBS bank bill index

Q&A

# APPENDIX

## nib policyholder & other data

nib	FY09	FY10	FY11	FY12	FY13
Total policyholders	384,288	407,007	446,504	471,455	578,659
- arhi	384,288	406,929	431,173	451,647	472,264
- iwhi	-	-	13,899	16,480	18,071
- ishi	-	78	1,432	3,328	9,115
- nib New Zealand	-	-	-	-	79,209
nib New Zealand (Persons covered)	-	-	-	-	163,148
Employees (FTEs)	458	470	572	556	692*
<b>arhi</b>					
Net policyholder growth	5.2%	5.9%	6.0%	4.7%	4.6%
Market share	7.1%	7.3%	7.5%	7.6%	7.7%
Persons covered	761,753	797,144	839,282	881,922	927,043
Average age of hospital persons covered (yrs)	36.1	36.1	35.9	35.8	35.9
Total policyholders "under 40"	179,019	193,261	208,082	217,322	222,746
- Growth in "under 40" segment	7.2%	8.0%	7.7%	4.4%	2.5%
Total hospital persons "20-39"	231,136	246,316	262,981	274,922	280,194
- Growth in hospital persons "20-39"	5.8%	6.6%	6.8%	4.5%	1.9%
- Market share	9.8%	10.2%	10.6%	10.7%	10.7%
<b>arhi sales by channel</b>					
Call centre	43.8%	42.1%	38.9%	33.4%	29.4%
Web	35.8%	33.1%	33.8%	29.3%	23.4%
Broker	2.0%	7.7%	10.9%	22.2%	31.8%
Retail	15.1%	15.0%	14.7%	13.1%	10.7%
Corporate	3.1%	1.2%	1.3%	1.4%	1.8%
Other	0.2%	0.9%	0.4%	0.5%	2.8%

\* Increase in FTEs includes nib New Zealand consisting of 124 FTEs  
Source: nib /Private Health Insurance Administration Council

## PHI industry policyholder data

	FY09	FY10	FY11	FY12	FY13
Total policyholders	5,390,739	5,549,338	5,727,566	5,936,660	6,118,351
- Policyholder growth	3.3%	2.9%	3.2%	3.7%	3.1%
Persons covered	11,257,885	11,561,299	11,901,915	12,321,848	12,680,337
Average age of hospital persons (yrs)	40.0	40.1	40.2	40.3	40.4
Total hospital persons "20-39"	2,359,022	2,407,852	2,477,256	2,562,382	2,627,727
- Growth in hospital persons "20-39"	2.2%	2.1%	2.9%	3.4%	2.5%

Source: Private Health Insurance Administration Council  
 All figures excludes iwahi, ishi and nib New Zealand, unless otherwise stated

## Detailed income statement

(\$m)	FY09	FY10	FY11	FY12	FY13	%*
<b>Premium revenue</b>	<b>829.5</b>	<b>901.4</b>	<b>1,007.8</b>	<b>1,123.8</b>	<b>1,290.4</b>	<b>14.8</b>
- arhi	829.5	901.4	991.3	1,095.6	1,187.2	8.4
- iwhi <sup>3</sup>	-	-	16.0 <sup>1</sup>	25.2	27.6	9.9
- ishi	-	-	0.5	3.0	4.4	45.7
- nib New Zealand	-	-	-	-	71.1 <sup>2</sup>	-
<b>Claims expense</b>	<b>(599.9)</b>	<b>(636.0)</b>	<b>(693.1)</b>	<b>(765.4)</b>	<b>(896.7)</b>	<b>(17.1)</b>
- Hospital benefits paid	(400.4)	(428.5)	(461.6)	(499.8)	(561.2)	(12.3)
- Ancillary benefits paid	(204.9)	(204.3)	(222.2)	(246.5)	(274.5)	(11.4)
- OSC provision movement (arhi)	5.4	(3.2)	(1.5)	(5.7)	2.0	135.6
- iwhi benefits incurred <sup>3</sup>	-	-	(7.6) <sup>1</sup>	(10.6)	(11.8)	(11.0)
- ishi benefits incurred	-	-	(0.2)	(2.9)	(3.4)	(18.0)
- nib New Zealand benefits incurred	-	-	-	-	(47.7) <sup>2</sup>	-
<b>Risk equalisation levy</b>	<b>(86.4)</b>	<b>(109.9)</b>	<b>(132.7)</b>	<b>(160.0)</b>	<b>(167.4)</b>	<b>(4.7)</b>
- OSC risk equalisation margin	0.6	(2.9)	(0.7)	(2.9)	1.6	155.1
- Gross deficit	137.1	147.9	160.3	176.5	202.6	14.8
- Calculated deficit	(224.1)	(254.9)	(292.3)	(333.6)	(371.6)	(11.4)
<b>State levies</b>	<b>(21.2)</b>	<b>(22.0)</b>	<b>(22.9)</b>	<b>(23.8)</b>	<b>(28.8)</b>	<b>(20.9)</b>
<b>Decrease/(Increase) in premium payback liability</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3.3<sup>2</sup></b>	<b>-</b>
<b>Net claims incurred</b>	<b>(707.5)</b>	<b>(767.9)</b>	<b>(848.7)</b>	<b>(949.2)</b>	<b>(1,089.6)</b>	<b>(14.8)</b>
<b>Gross underwriting result</b>	<b>122.0</b>	<b>133.5</b>	<b>159.1</b>	<b>174.6</b>	<b>200.8</b>	<b>15.0</b>
- arhi	122.0	133.5	150.4	159.9	157.2	(1.7)
- iwhi	-	-	8.4 <sup>1</sup>	14.5	15.9	9.0
- ishi	-	-	0.3	0.1	1.0	641.8
- nib New Zealand	-	-	-	-	26.7 <sup>2</sup>	-
<b>Management expenses</b>	<b>(81.8)</b>	<b>(86.4)</b>	<b>(97.6)</b>	<b>(103.8)</b>	<b>(127.0)</b>	<b>(22.3)</b>
- arhi	(81.8)	(86.4)	(90.6)	(95.3)	(98.2)	(3.1)
- iwhi	-	-	(5.6) <sup>1</sup>	(7.1)	(7.4)	(5.0)
- ishi	-	-	(1.4)	(1.5)	(1.1)	27.8
- nib New Zealand	-	-	-	-	(20.3) <sup>2</sup>	-
<b>Net underwriting profit</b>	<b>40.2</b>	<b>47.1</b>	<b>61.5</b>	<b>70.7</b>	<b>73.8</b>	<b>4.3</b>
- arhi	40.2	47.1	59.8	64.6	59.0	(8.6)
- iwhi	-	-	2.8 <sup>1</sup>	7.5	8.4	12.8
- ishi	-	-	(1.1)	(1.4)	(0.1)	94.2
- nib New Zealand	-	-	-	-	6.4 <sup>2</sup>	-

\* Change favourable/(unfavourable), FY13 to FY12

<sup>3</sup> Net of reinsurance

<sup>1</sup> FY11 iwhi was a 9 month result with IMAN business acquired October 2010

<sup>2</sup> FY13 nib New Zealand was a 7 month result with TOWER Medical Insurance acquired November 2012



## Detailed management expenses

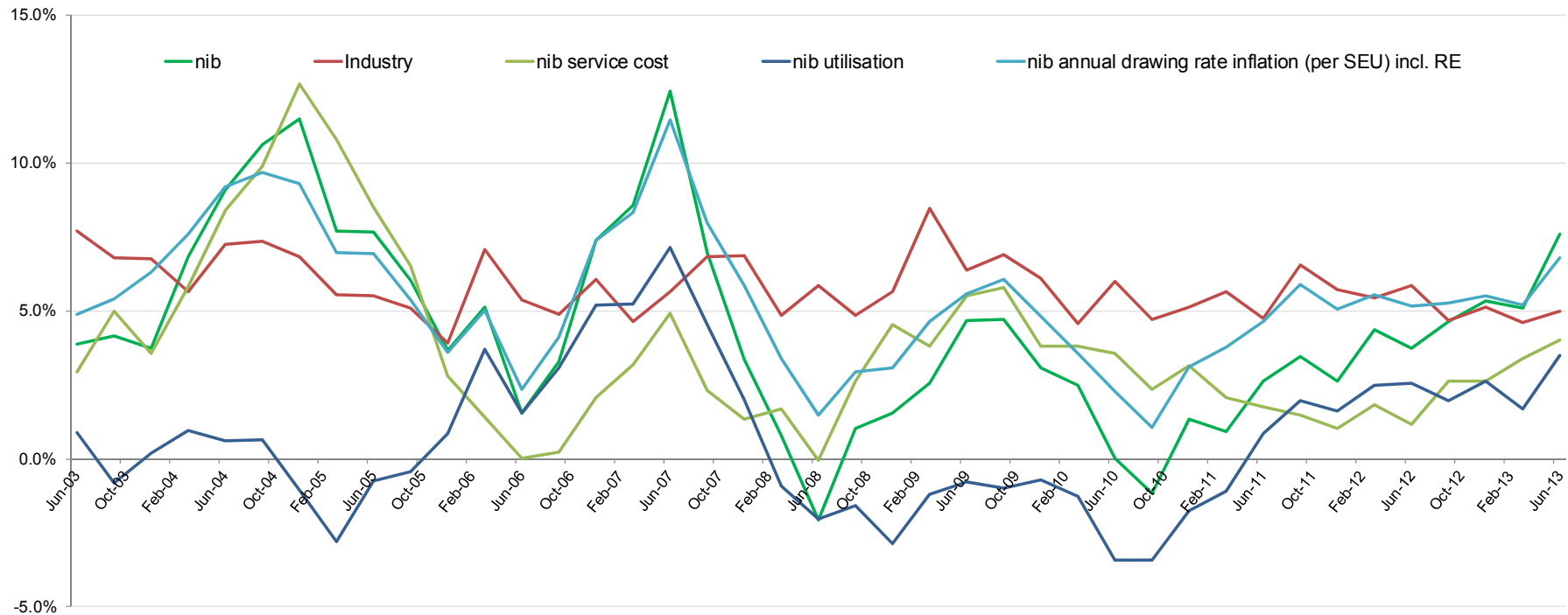
(\$m)	Employment	Marketing (Direct)	Marketing Commissions (Paid)	Marketing Commissions (deferred)	IT	Occupancy	Other	Total Management Expenses	Total MER (%)
<b>arhi</b>									
FY09	35.7	17.2	2.1	-	5.7	8.7	12.4	81.8	9.9
FY10	37.0	19.4	3.7	-	6.2	7.7	12.4	86.4	9.6
FY11	40.3	21.0	5.3	-	6.5	3.9	13.6	90.6	9.2
FY12	45.4	20.4	10.6	(8.2)	7.5	5.8	13.8	95.3	8.7
<b>FY13</b>	<b>46.3</b>	<b>20.0</b>	<b>15.1</b>	<b>(11.0)</b>	<b>8.6</b>	<b>6.4</b>	<b>12.8</b>	<b>98.2</b>	<b>8.3</b>
<b>iwhi</b>									
FY11 <sup>1</sup>	2.7	0.2	0.0	-	0.8	0.2	1.7	5.6	35.0
FY12	3.4	0.5	0.1	-	1.1	0.3	1.6	7.0	24.6
<b>FY13</b>	<b>3.2</b>	<b>1.6</b>	<b>0.1</b>	<b>-</b>	<b>1.2</b>	<b>0.2</b>	<b>1.1</b>	<b>7.4</b>	<b>26.9</b>
<b>ishi</b>									
FY11	0.9	0.1	0.2	-	0.0	0.0	0.2	1.4	247.4
FY12	0.6	0.1	0.6	-	-	-	0.2	1.5	50.8
<b>FY13</b>	<b>0.3</b>	<b>0.1</b>	<b>0.7</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.1</b>	<b>1.1</b>	<b>24.5</b>
<b>nib New Zealand</b>									
<b>FY13<sup>2</sup></b>	<b>5.0</b>	<b>0.5</b>	<b>9.5</b>	<b>(0.5)</b>	<b>0.5</b>	<b>0.3</b>	<b>5.1</b>	<b>20.3</b>	<b>28.5</b>

<sup>1</sup>FY11 iwhi was a 9 month result with IMAN business acquired October 2010

<sup>2</sup>FY13 nib New Zealand result was a 7 month result with TOWER Medical Insurance acquired November 2012

# arhi claims

## Overall claims inflation (hospital and ancillary)

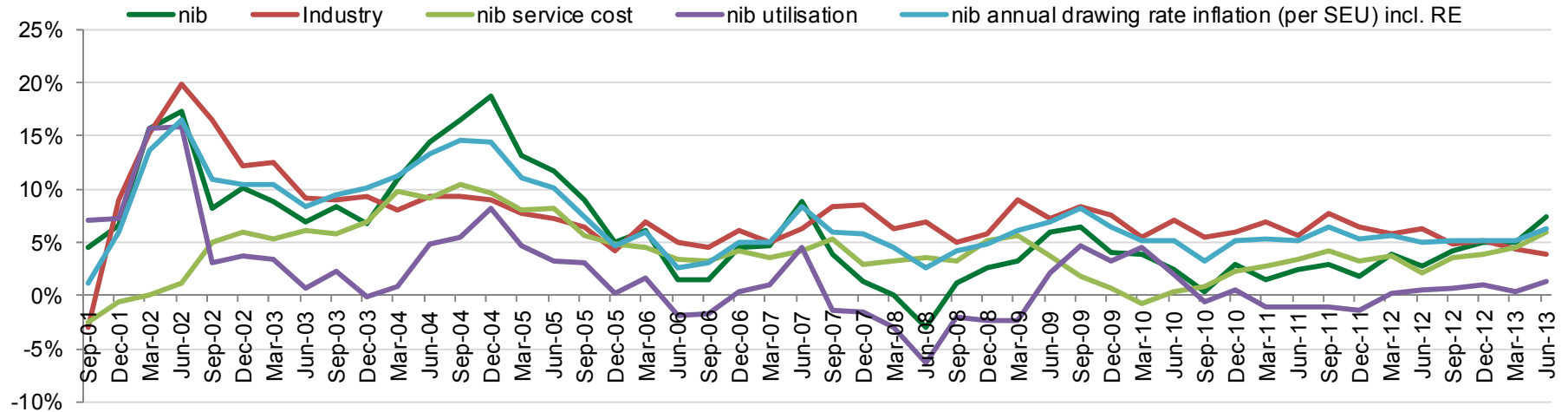


Source: Private Health Insurance Administration Council and nib

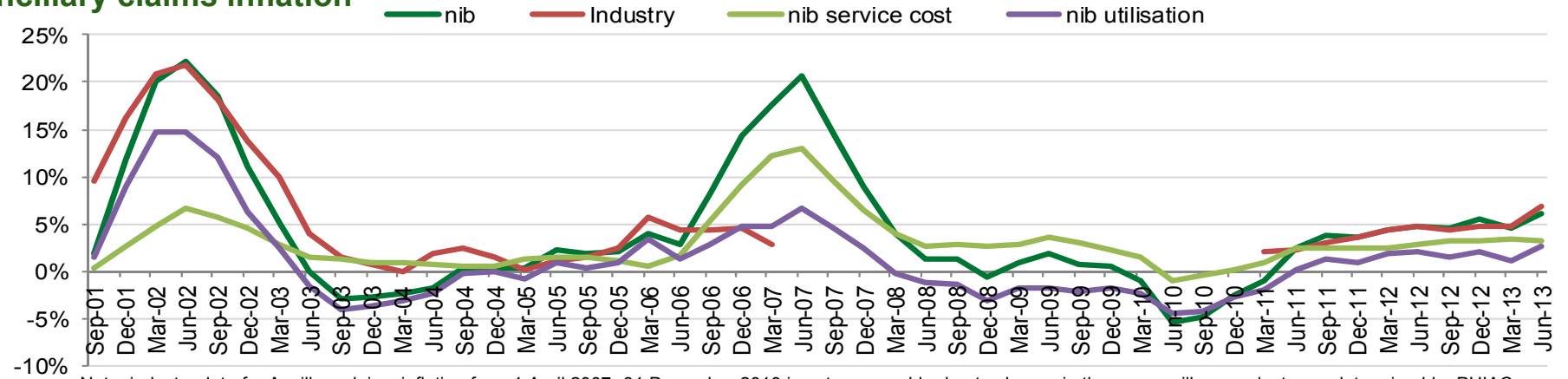
All figures exclude ishi, iwhi and nib New Zealand, unless otherwise stated

# arhi claims

## Hospital claims inflation



## Ancillary claims inflation



Source: Private Health Insurance Administration Council and nib  
 All figures exclude ishi, iwhi and nib New Zealand, unless otherwise stated

## Other income & expenses

(\$m)	FY13	FY12	%*
<b>Other income</b>			
Life & funeral insurance commission	1.5	1.1	40.3
Travel and other commission	0.4	0.4	(16.8)
Rental income	0.8	0.8	1.0
Other	0.4	1.3	(64.8)
<b>Total other income</b>	<b>3.1</b>	<b>3.6</b>	<b>(12.9)</b>
<b>Other expenses</b>			
Share registry	1.7	1.7	1.5
M&A (including nib New Zealand)	3.6	0.0	-
Other	2.4	2.5	6.8
<b>Total other expenses</b>	<b>7.6</b>	<b>4.3</b>	<b>(78.3)</b>

\* Change favourable/(unfavourable), FY13 to FY12

## Investments

	Consolidated	Australian Investment Portfolio		New Zealand Investment Portfolio	
	Balance (\$m) at 30/6/13	Net return (\$m) 12 months to 30/6/13	Allocation (%) at 30/6/13	Net return (\$m) 7 months to 30/6/13	Allocation (%) at 30/6/13
Cash	178.4	7.8	36.1	0.6	22.1
All maturity debt	14.9	0.7	3.4	-	-
Short maturity debt	177.7	6.9	40.4	-	-
Fixed interest	70.3	-	-	(0.1)	77.9
Receivable	10.0	0.3	2.3	-	-
<b>Total defensive</b>	<b>451.3</b>	<b>15.7</b>	<b>82.2</b>	<b>0.5</b>	<b>100.0</b>
Australian shares	16.3	7.8	3.7	-	-
Global shares – hedged	7.3	(0.5)	1.7	-	-
Global shares – unhedged	14.9	5.1	3.4	-	-
Direct property	36.4	-	8.3	-	-
Property trusts	0.7	0.1	0.2	-	-
Unlisted security	2.7	0.1	0.6	-	-
<b>Total growth</b>	<b>78.3</b>	<b>12.6</b>	<b>17.8</b>	<b>-</b>	<b>-</b>
<b>TOTAL</b>	<b>529.6</b>	<b>28.3</b>	<b>100.0</b>	<b>0.5</b>	<b>100.0</b>

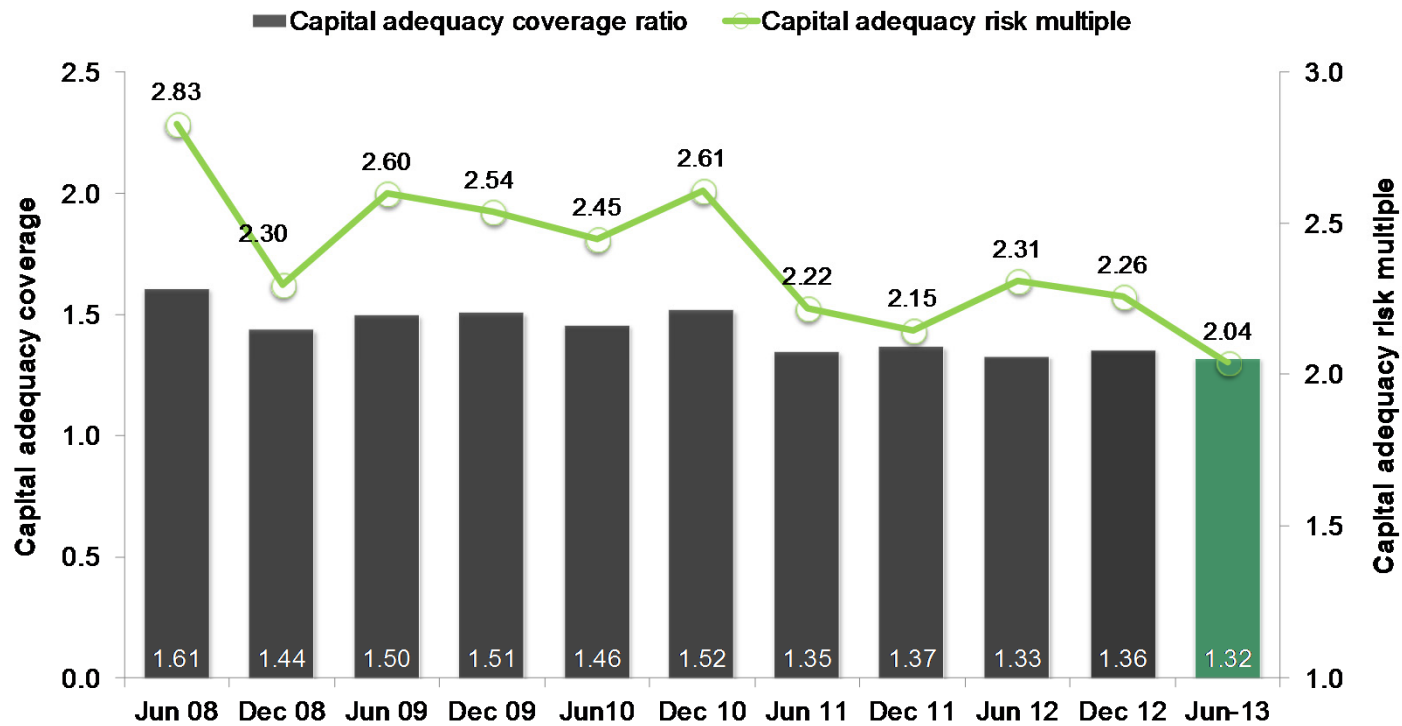
- **All available capital above internal prudential requirements is held in 100% cash**

## Balance sheet

(\$m)	30 June 2012	30 June 2013	(\$m)	(%)*
<b>Current assets</b>				
Cash and cash equivalents	86.7	143.1	56.4	65.1
Financial assets at fair value through P&L	356.8	351.8	(5.0)	(1.4)
Other current assets	72.3	65.5	(6.8)	(9.4)
<b>Total current assets</b>	<b>515.8</b>	<b>560.4</b>	<b>44.6</b>	<b>8.6</b>
<b>Non-current assets</b>				
Available-for-sale financial assets	2.2	2.7	0.5	24.0
Property, plant and equipment	42.1	41.7	(0.4)	(0.9)
Intangibles	38.9	91.3	52.4	134.6
Other non-current assets	18.8	18.0	(0.9)	(4.6)
<b>Total non-current assets</b>	<b>102.1</b>	<b>153.7</b>	<b>51.7</b>	<b>50.6</b>
<b>Total assets</b>	<b>617.8</b>	<b>714.1</b>	<b>96.3</b>	<b>15.6</b>
<b>Current liabilities</b>				
Outstanding claims liability	75.0	81.4	(6.4)	(8.6)
Unearned premium liability	135.9	90.1	45.8	33.7
Premium payback liability	-	8.3	(8.3)	-
Other current liabilities	98.3	110.0	(11.7)	(11.9)
<b>Total current liabilities</b>	<b>309.2</b>	<b>289.8</b>	<b>19.4</b>	<b>6.3</b>
<b>Non-current liabilities</b>				
<b>Borrowings</b>	-	59.1	59.1	-
<b>Premium payback liability</b>	-	31.9	31.9	-
<b>Other non-current liabilities</b>	7.1	7.1	(0.0)	0.3
<b>Total non-current liabilities</b>	<b>7.1</b>	<b>98.1</b>	<b>(91.1)</b>	<b>(1287.0)</b>
<b>Total liabilities</b>	<b>316.2</b>	<b>387.9</b>	<b>(71.7)</b>	<b>(22.7)</b>
<b>Net assets</b>	<b>301.6</b>	<b>326.2</b>	<b>24.6</b>	<b>8.1</b>

\* Change favourable/(unfavourable), 30/6/13 to 30/6/12

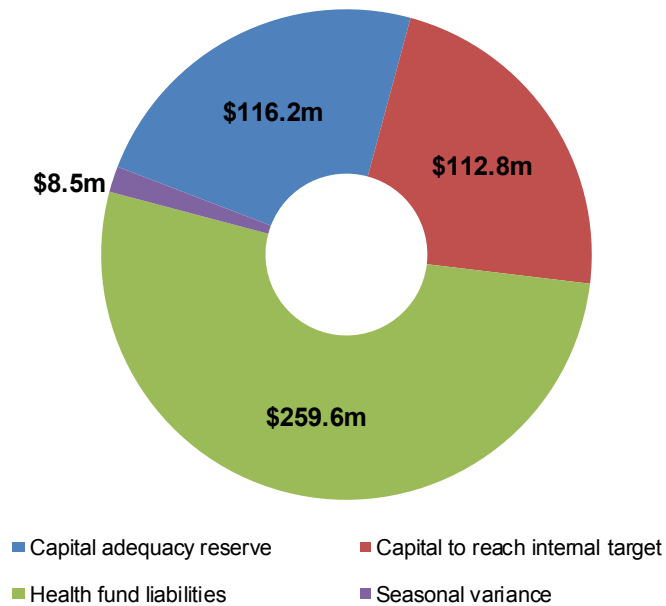
# Capital adequacy



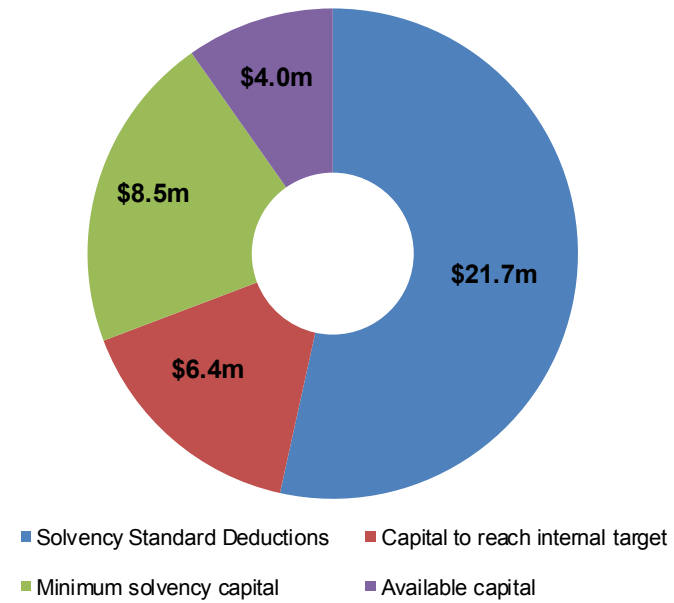
# Regulatory capital requirements

- **\$14.8m of available capital across the Group above internal targets after allowing for interim dividend and holding company funding requirements**

Australian fund capital allocation  
(at 30 June 2013)



New Zealand fund capital allocation  
(at 30 June 2013)





# Disclaimer

The material in this presentation is a summary of the results of nib holdings limited (nib) for the 12 months ended 30 June 2013 and an update on nib's activities and is current at the date of preparation, 26 August 2013. Further details are provided in nib's full year accounts and results announcement released on 26 August 2013.

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