



# 2013 HALF YEAR RESULTS Investor Presentation

MONDAY 18 FEBRUARY 2013



**nib**

**MARK FITZGIBBON**  
CEO and Managing Director

## GROUP HIGHLIGHTS

|  | 1H13            | 1H12     | %*     |
|--|-----------------|----------|--------|
| Premium revenue <sup>1</sup>                     | <b>\$612.8m</b> | \$554.4m | 10.5   |
| Net underwriting profit                          | <b>\$39.1m</b>  | \$42.7m  | (8.6)  |
| - Australian Resident Health Insurance (arhi)    | <b>\$33.4m</b>  | \$39.8m  | (16.1) |
| - International Workers Health Insurance (iwhi)  | <b>\$3.8m</b>   | \$3.6m   | 5.5    |
| - International Students Health Insurance (ishi) | <b>\$(0.1)m</b> | \$(0.7)m | 89.8   |
| - nib New Zealand (nib nzed)                     | <b>\$2.0m</b>   | -        | na     |
| Net investment income                            | <b>\$18.2m</b>  | \$12.4m  | 46.2   |
| NPAT   | <b>\$36.3m</b>  | \$38.3m  | (5.3)  |
| EPS <sup>2</sup>                                 | <b>8.3 cps</b>  | 8.2 cps  | 0.7    |
| ROE <sup>3</sup>                                 | <b>21.7%</b>    | 18.0%    | 3.7    |
| Interim dividend (ordinary)                      | <b>5.00 cps</b> | 4.25 cps | 17.6   |

\* Change favourable/(unfavourable), 1H13 to 1H12

<sup>1</sup> Net of reinsurance

<sup>2</sup> Result impacted by cancellation of shares in on market share buy back

<sup>3</sup> Using average shareholders' equity over rolling 12 month period

Any discrepancies between totals and sums of components in this publication are due to rounding

# CONSOLIDATED OVERVIEW

## Positives

- **Strong premium growth across business up 10.5% to \$612.8m (up 8.7% excluding nib nzed)**
- **Ongoing alignment of policyholder sales with business strategy**
- **MER down to 9.1% from 9.5%**
- **nib nzed inaugural contribution of \$2.0m (net underwriting profit)**
- **Net investment income up 46.2% to \$18.2m**
- **iwhi net underwriting result up 5.5% to \$3.8m**
- **ishi growth and underwriting improvement**
- **Net Promoter Score\* of 16.8% (1H12: 14.5%)**

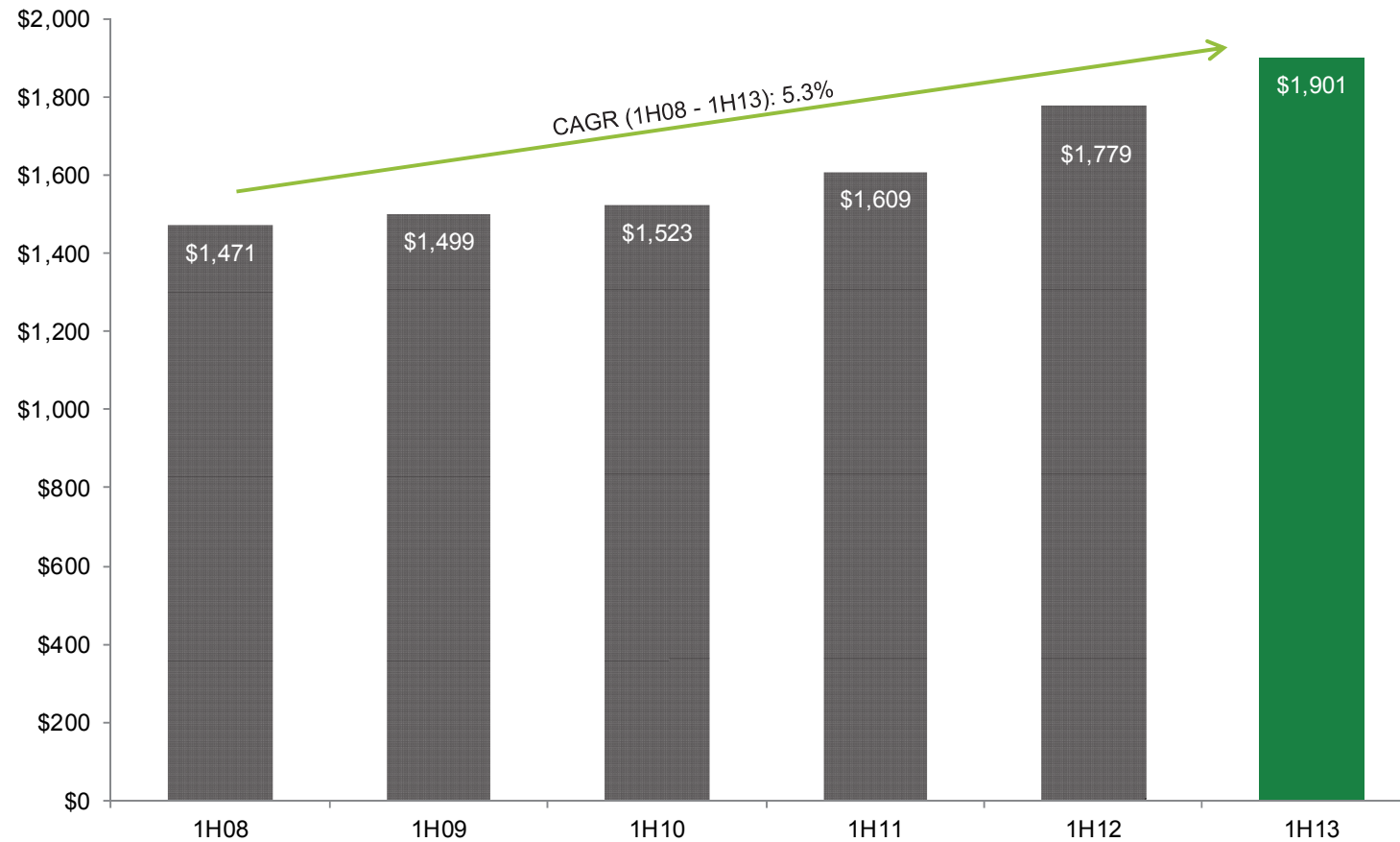
## Not so positive

- **arhi net underwriting result down 16.1% to \$33.4m**
- **Claims experience excluding risk equalisation and nib nzed up 12.0% to \$428.3m**
- **Risk equalisation up 9.5% to \$83.9m**
- **State levies up \$3.5m, includes ambulance levy one-off (\$2.3m)**
- **arhi lapse of 4.7% (1H12: 4.5%)**
- **Increased cost of arhi policyholder acquisition**

\* Net Promoter , Net Promoter Score and NPS are registered trademarks of Bain & Company, Inc., Satmetrix Systems Inc., and Fred Reichheld.

## AVERAGE PREMIUM INCOME\* (API)

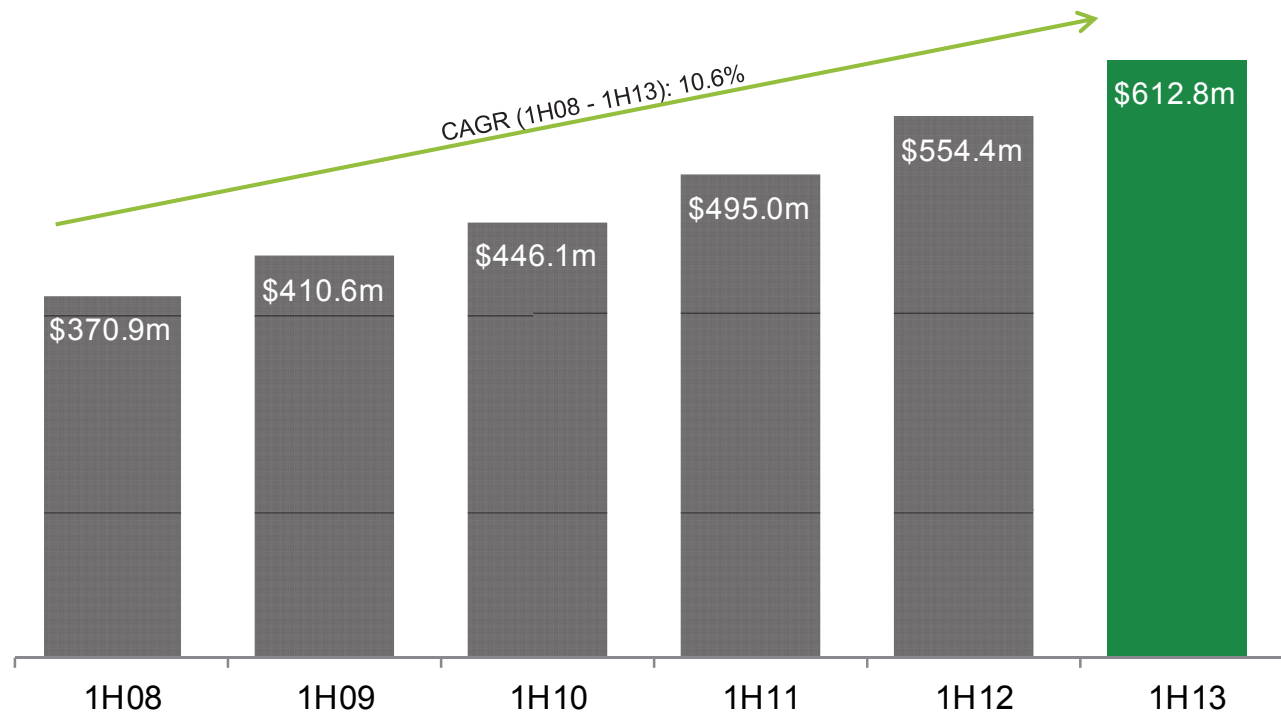
### arhi sales API by 1st half financial year



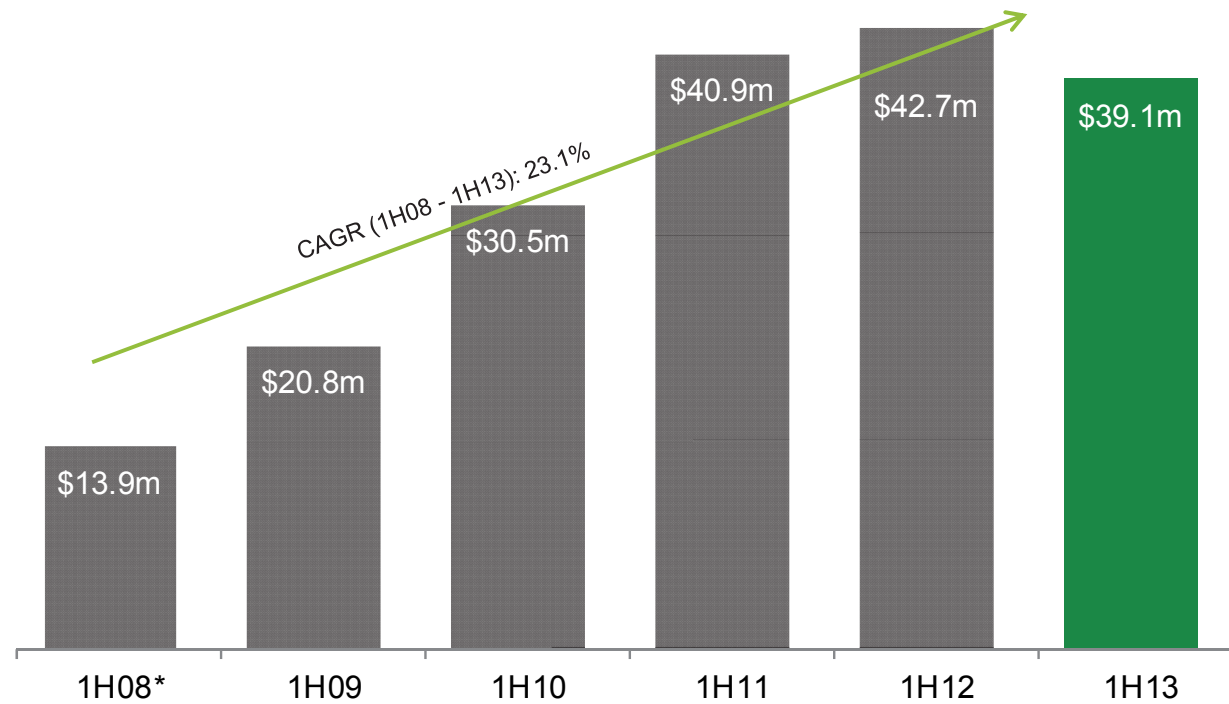
- **CAGR (1H10 – 1H13) of 7.7% highlights recent success**

\* All figures exclude ishi, iwih and nib nzed, unless otherwise stated

## PREMIUM REVENUE GROWTH

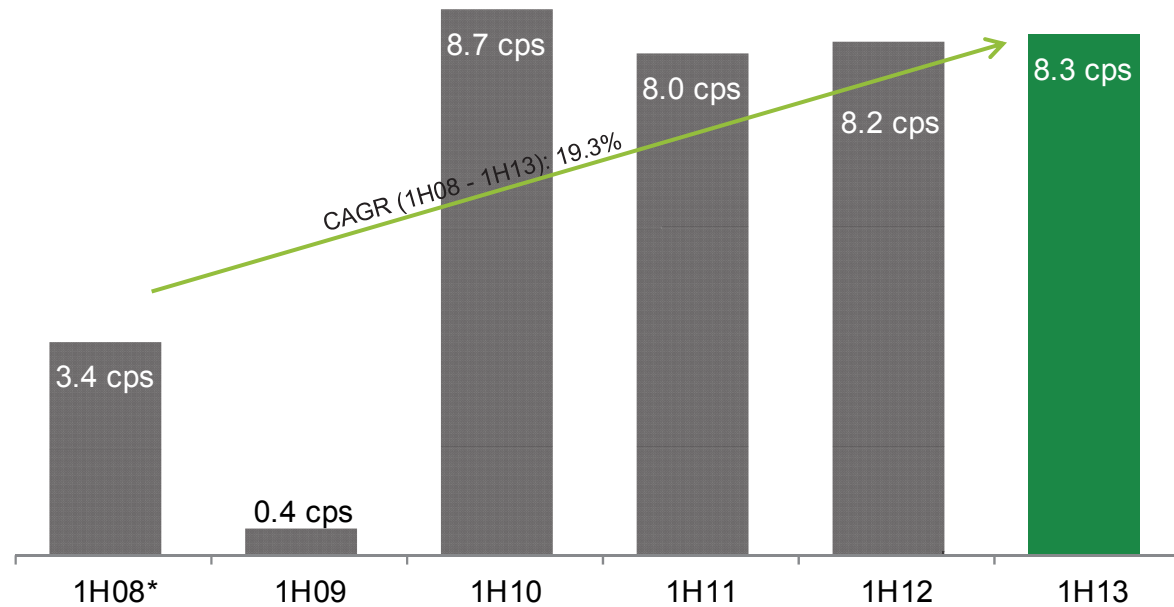


## UNDERLYING EARNINGS GROWTH



\* Result was normalised to remove the impact of costs associated with nib's demutualisation and listing, and "notional" tax

# EARNINGS PER SHARE



\* Result was normalised to remove the impact of costs associated with nib's demutualisation and listing, and "notional" tax.



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

## arhi KEY METRICS

|                                   | 1H13           | 1H12    | %      |
|-----------------------------------|----------------|---------|--------|
| Total policyholders               | <b>462,359</b> | 440,707 | 4.9    |
| - Net policyholder growth (%)     | <b>2.4</b>     | 2.2     | 0.2    |
| Net new policyholders             | <b>10,712</b>  | 9,534   | 12.4   |
| Total sales                       | <b>32,142</b>  | 28,864  | 11.4   |
| - Sales rate (%)                  | <b>7.1</b>     | 6.7     | 0.4    |
| - Sales new to category (%)       | <b>64.1</b>    | 68.3    | (4.2)  |
| - Sales under 40 years of age (%) | <b>71.1</b>    | 74.5    | (3.4)  |
| - Sales over 55 years of age (%)  | <b>9.3</b>     | 6.8     | 2.5    |
| - Sales online (%)                | <b>26.5</b>    | 33.3    | (6.8)  |
| - Sales broker (%)                | <b>28.9</b>    | 18.1    | 10.8   |
| - Sales outside NSW/ACT (%)       | <b>48.6</b>    | 43.8    | 4.8    |
| Total lapses                      | <b>21,430</b>  | 19,330  | (10.9) |
| - Lapse rate (%)                  | <b>4.7</b>     | 4.5     | (0.2)  |

- **1H13 industry growth rate of 1.3% (1H12: 1.5%)**

## arhi KEY METRICS

| (\$m)                                | 1H13    | 1H12    |        | %*     |
|--------------------------------------|---------|---------|--------|--------|
| Premium revenue                      | 586.7   | 540.9   | 45.8   | 8.5    |
| - % of total GWP                     | 95.7%   | 97.6%   | -      | (1.8)  |
| Claims (excluding risk equalisation) | (420.0) | (376.3) | (43.6) | (11.6) |
| Risk equalisation                    | (83.9)  | (76.7)  | (7.2)  | (9.5)  |
| Gross underwriting result            | 82.9    | 87.9    | (5.0)  | (5.7)  |
| - Gross margin (%)                   | 14.1%   | 16.3%   | -      | (2.1)  |
| Management expenses                  | (49.5)  | (48.1)  | (1.4)  | (2.8)  |
| - MER (%)                            | 8.4%    | 8.9%    | -      | 0.5    |
| Net underwriting profit              | 33.4    | 39.8    | (6.4)  | (16.1) |
| - Net margin (%)                     | 5.7%    | 7.4%    | -      | (1.7)  |

\* Change favourable/(unfavourable), 1H13 to 1H12

- **Deterioration of net margin to PCP# due to gross margin deterioration reflects:**
  - **Claims inflation driven by expansion of private hospitals in key markets, increased day hospital utilisation, increases in acuity and high dental claims in December**
  - **One off ambulance levy adjustment of \$2.3m**
  - **Risk equalisation up due to claims inflation of \$3.5m (net of industry and nib) and policyholder growth impact of \$3.9m**
- **Management expenses saw increased marketing expenditure of \$5.4m offset by impact of deferral of acquisition costs of \$4.7m**
- **Continuing to target FY net margin in range of 5.0% - 5.5%**

# PCP - Previous corresponding period

## iwhi KEY METRICS

| (\$m)                        | 1H13   | 1H12   |       | %*     |
|------------------------------|--------|--------|-------|--------|
| Total policyholders          | 16,880 | 14,960 |       | 12.8   |
| Premium revenue <sup>1</sup> | 13.8   | 12.3   | 1.5   | 12.4   |
| - % of total GWP             | 2.3%   | 2.2%   | -     | 0.1    |
| Claims                       | (6.6)  | (5.1)  | (1.5) | (29.6) |
| Gross underwriting result    | 7.3    | 7.2    | 0.0   | 0.5    |
| - Gross margin (%)           | 52.6%  | 58.9%  | -     | (6.3)  |
| Management expenses          | (3.5)  | (3.7)  | 0.2   | 4.4    |
| - MER (%)                    | 25.4%  | 29.9%  | -     | 4.5    |
| Net underwriting profit      | 3.8    | 3.6    | 0.2   | 5.5    |
| - Net margin (%)             | 27.2%  | 29.0%  | -     | (1.8)  |

\* Change favourable/(unfavourable), 1H13 to 1H12

<sup>1</sup> Net of reinsurance

- **Management expenses reflect reduction in employment costs offset by increase in marketing spend**
- **Net margin still viewed as sustainable in 25% – 30% range, industry FY12 net margin was 23.3% with 3 largest private health insurers in iwhi market all above 25%**
- **Third largest private health insurer in iwhi market with 12.6% (up from 9.4% in FY11) of the iwhi market that is covered by private health insurers**

<sup>2</sup> Based on Revenue. Source: Private Health Insurance Administration Council

## ishi KEY METRICS

| (\$'000)                       | 1H13           | 1H12    |       | %*     |
|--------------------------------|----------------|---------|-------|--------|
| Total policyholders            | <b>4,680</b>   | 2,101   |       | 122.8  |
| Premium revenue                | <b>2,146</b>   | 1,194   | 952   | 79.7   |
| - % of total GWP               | <b>0.4%</b>    | 0.2%    | -     | 0.2    |
| Claims                         | <b>(1,788)</b> | (1,056) | (732) | (69.3) |
| Gross underwriting result      | <b>358</b>     | 138     | 220   | 159.1  |
| - Gross margin (%)             | <b>16.7%</b>   | 11.6%   | -     | 5.1    |
| Management expenses            | <b>(426)</b>   | (806)   | 380   | 47.1   |
| - MER (%)                      | <b>19.9%</b>   | 67.5%   | -     | 47.7   |
| Net underwriting profit/(loss) | <b>(68)</b>    | (668)   | 600   | 89.8   |
| - Net margin (%)               | <b>(3.2)</b>   | (55.9)  | -     | 52.8   |

\* Change favourable/(unfavourable), 1H13 to 1H12

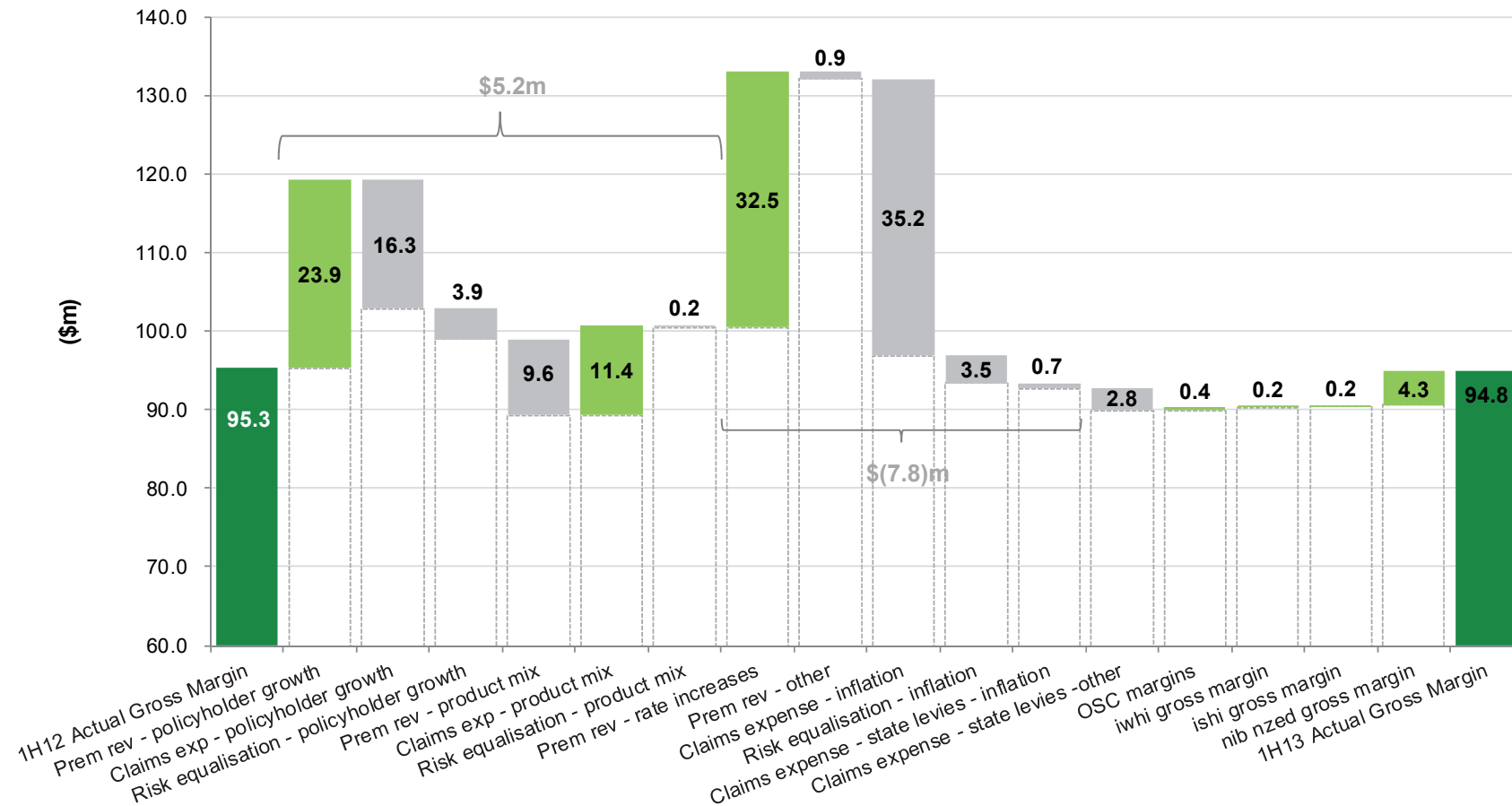
- **Improvement in sales has seen business improve, however remains subscale**

## nib nzed KEY METRICS

| (\$m)                     | 1H13 – 1 month result<br>(acquisition completed in November 2012) |
|---------------------------|---|
| Total policyholders       | 80,367  |
| Premium revenue           | 10.1  |
| - % of total GWP          | 1.6   |
| Claims                    | (5.8)   |
| Gross underwriting result | 4.3   |
| - Gross margin (%)        | 42.5%   |
| Management expenses       | (2.3)   |
| - MER (%)                 | 23.0  |
| Net underwriting profit   | 2.0   |
| - Net margin (%)          | 19.4  |

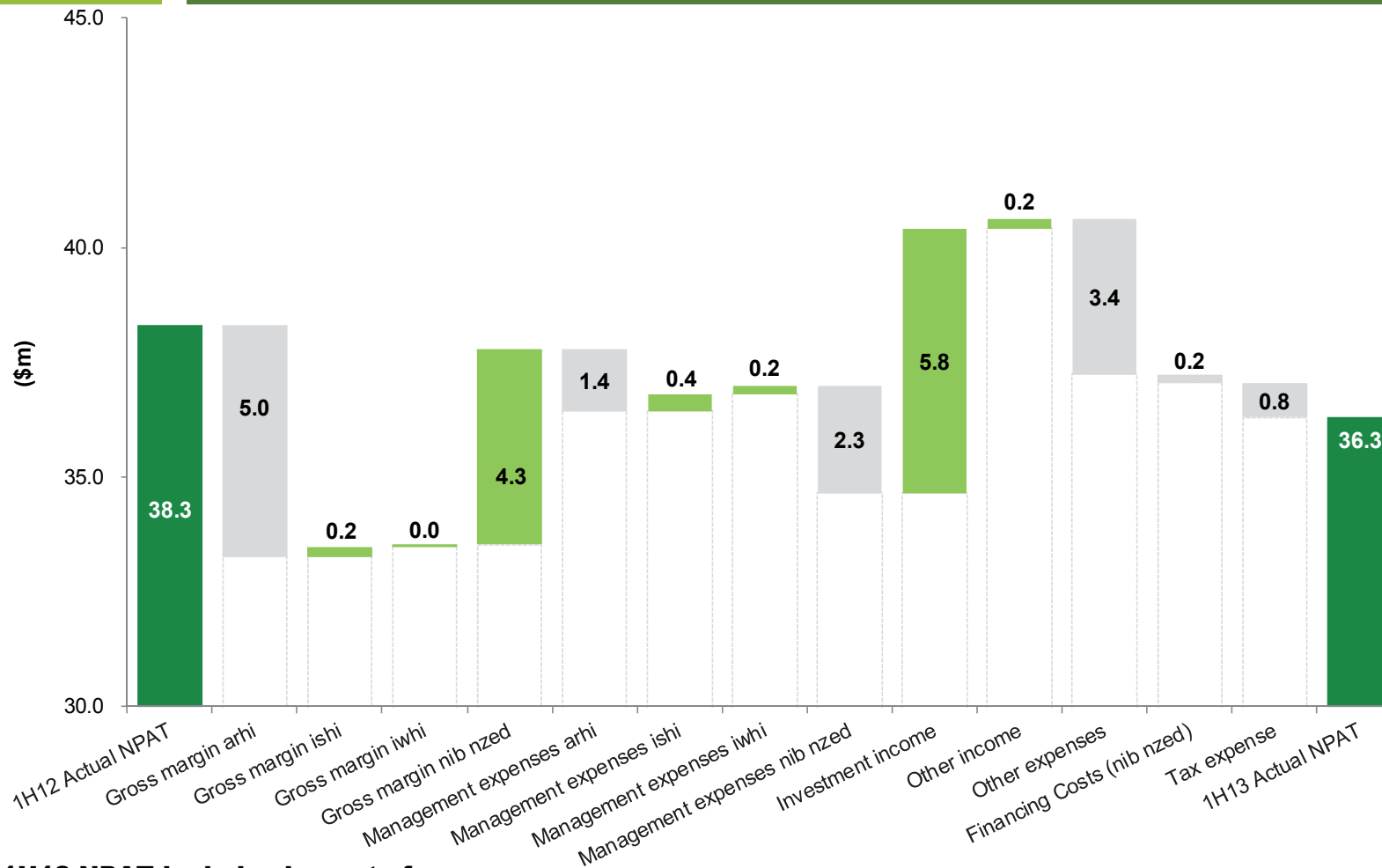
- **Significant monthly seasonality with December a favourable month. At \$2.0 million nib nzed accounted for 5% of 1H13 consolidated underwriting profit**
- **Transition of business going well – see further on (slide 24)**
- **Estimated pro forma 6 months to 31 December 2012 net underwriting profit of \$5.0 million**

# 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. This has been addressed in 2013 rate increase (6.5%), effective 1 April 2013.**
- **State levies – other variance of \$2.8m is \$0.5m underpayment in 1H12 plus the one off \$2.3m back payment**

# NPAT SUMMARY



- **1H13 NPAT includes impact of:**
  - **1 month nib nzed operating result following 30 November 2012 acquisition**
  - **7.6% annualised net investment return on back of growth asset performance**
  - **nib nzed acquisition costs of \$3.3m**



## CASH FLOW

| (\$m)                                    | 1H13  | 1H12    |        | %       |
|--|-------|---------|--------|---------|
| Net cash inflow/(outflow) from operating | 5.0   | 34.9    | (29.8) | (85.6)  |
| Net cash inflow/(outflow) from investing | (8.6) | 38.8    | (47.4) | (122.2) |
| Net cash inflow/(outflow) from financing | 32.6  | (118.7) | 151.3  | 127.5   |

- **Reduction in cash flow from operating activities mainly due to pre-payments of premiums in May/June 2012 associated with income testing of Government Rebate**
- **Reduction in cash flow from investing due to acquisition of nib nzed**
- **Increasing in financing due to proceeds from borrowings for nib nzed acquisition, 1H12 included \$75m capital return (paid to shareholders in July 2011)**

## AVAILABLE CAPITAL POSITION

|   | 1H13<br>(\$m) | 1H12<br>(\$m) |
|---|---------------|---------------|
| <b>Opening available capital position above internal targets</b>      | <b>13.3</b>   | <b>138.0</b>  |
| Investment in Tower Medical New Zealand (nib nzed)                    | (18.7)        | 0.0           |
| Capital Return  | 0.0           | (75.4)        |
| Allowance for ordinary interim dividend                               | (22.0)        | (19.8)        |
| Changes in forecast, liabilities and capital adequacy reserve         | (2.2)         | (23.7)        |
| Profit after tax  | 36.3          | 38.3          |
| <b>Consolidated available capital position above internal targets</b> | <b>6.7</b>    | <b>57.4</b>   |

- **Assumes external debt funding on an ongoing basis**
- **Current gearing of 14.9% (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 or Capital/Risk Multiple of 2.00x**
  - **New Zealand 1.75x Minimum Solvency Capital**

**MARK FITZGIBBON**  
CEO and Managing Director

# OUTLOOK

## Financial

- **Group net underwriting profit for FY13 of \$75m - \$78m including nib nzed**
- **nib nzed net underwriting profit for FY13 of \$5m - \$7m**
- **Group insurance premium revenue for FY13 of \$1.2b - \$1.3b**
- **Investment income in 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**

# OUTLOOK

## Business

- **arhi net organic policyholder growth 4% - 5% for FY13 (consistent with target sustainable growth rate)**
- **New arhi product range (to be launched March 2013) and online capability**
- **Concerted effort to further improve arhi API (Virgin Silver)**
- **Further automation of business processes, quality assurance and possible outsourcing**
- **Bedding down of nib nzed including refining business strategy and execution**
- **Continued investment in iwhi and ishi**
- **Projects underway include ancillary provider seek and comparison site ("Whitecoat"), outbound International Private Medical Insurance (IPMI) and medical tourism/cosmetic treatment**

# OUTLOOK

## Industry

- **PHI system will continue to grow at circa 3% - 3.5% with income testing of government rebate and proposed MYEFO\* proposals (if made law) having only a moderate impact**
- **Industry claims inflation of 5% - 6%**
- **Federal election creates catalyst for positive reform and maybe an expanded role for PHI (albeit slowly)**
- **Premium pricing regime likely to become more influenced by actuarial science**
- **Inevitable privatisation of Medibank Private, but with PHI consolidation slow**
- **Skilled worker and student immigration expected to be strong**
- **Strong competition for sales and marketing spend**

\* MYEFO - Mid Year Economic Fiscal Outlook

## OUTLOOK

### **A bit about nib nzed**

- **Appointment of New Zealand resident Chairman and CEO well advanced**
- **Separation and transition of business going smoothly including employees, key management personnel, IT systems and advisor/group employer relations**
- **Have commenced extensive market research to inform and refine business strategy**
- **Anticipate direct to consumer investment with online/mobile emphasis**
- **Investigation of revenue and cost synergies with other Group segments**
- **Investigating M&A possibilities**

# Q&A



# APPENDIX

## nib POLICYHOLDER & OTHER DATA

| nib   | 1H10    | FY10    | 1H11    | FY11    | 1H12    | FY12    | 1H13           |
|---|---------|---------|---------|---------|---------|---------|----------------|
| Total policyholders                           | 393,524 | 407,007 | 430,582 | 446,504 | 457,768 | 471,455 | <b>564,286</b> |
| - arhi  | 393,524 | 406,929 | 417,776 | 431,173 | 440,707 | 451,647 | <b>462,359</b> |
| - ishi  | -       | 78      | 433     | 1,432   | 2,101   | 3,328   | <b>4,680</b>   |
| - iwhi  | -       | -       | 12,373  | 13,899  | 14,960  | 16,480  | <b>16,880</b>  |
| - nib nzed                                    | -       | -       | -       | -       | -       | -       | <b>80,367</b>  |
| Employees (FTEs)                              | 448     | 470     | 527     | 572     | 576     | 556     | <b>662*</b>    |
| <b>arhi</b>                                   |         |         |         |         |         |         |                |
| Net policyholder growth                       | 2.4%    | 5.9%    | 2.7%    | 6.0%    | 2.2%    | 4.7%    | <b>2.4%</b>    |
| Market share                                  | 7.2%    | 7.3%    | 7.4%    | 7.5%    | 7.6%    | 7.6%    | <b>7.7%</b>    |
| Persons covered                               | 776,626 | 797,144 | 817,583 | 839,282 | 859,331 | 881,922 | <b>904,567</b> |
| Average age of hospital persons covered (yrs) | 36.1    | 36.1    | 36.0    | 35.9    | 35.9    | 36.3    | <b>35.9</b>    |
| Total policyholders "under 40"                | 184,119 | 193,261 | 199,354 | 208,082 | 212,157 | 217,322 | <b>221,420</b> |
| - Growth in "under 40" segment                | 2.8%    | 8.0%    | 3.2%    | 7.7%    | 2.0%    | 4.4%    | <b>1.9%</b>    |
| Total hospital persons "20-39"                | 237,693 | 246,316 | 254,438 | 262,981 | 269,504 | 274,922 | <b>280,106</b> |
| - Growth in hospital persons "20-39"          | 2.8%    | 6.6%    | 3.3%    | 6.8%    | 2.5%    | 4.5%    | <b>1.9%</b>    |
| - Market share                                | 10.1%   | 10.2%   | 10.4%   | 10.6%   | 10.7%   | 10.7%   | <b>10.8%</b>   |
| <b>arhi sales by channel</b>                  |         |         |         |         |         |         |                |
| Call centre                                   | 42.1%   | 42.0%   | 39.4%   | 38.8%   | 34.3%   | 33.4%   | <b>31.8%</b>   |
| Web   | 33.1%   | 33.0%   | 35.5%   | 33.8%   | 33.3%   | 29.3%   | <b>26.5%</b>   |
| Broker  | 6.6%    | 7.6%    | 9.2%    | 10.8%   | 18.1%   | 22.2%   | <b>28.9%</b>   |
| Retail  | 15.0%   | 15.0%   | 14.3%   | 14.6%   | 12.3%   | 13.0%   | <b>10.6%</b>   |
| Corporate                                     | 1.7%    | 0.8%    | 1.5%    | 0.8%    | 1.6%    | 0.9%    | <b>1.6%</b>    |
| Other   | 1.4%    | 1.7%    | 0.2%    | 1.2%    | 0.4%    | 1.2%    | <b>0.6%</b>    |

\* Increase in FTEs includes nib nzed

Source: nib /Private Health Insurance Administration Council

# PHI INDUSTRY POLICYHOLDER DATA

## By half year intervals

|                                       | 1H09       | 1H10       | 1H11       | 1H12       | 1H13              |
|---------------------------------------|------------|------------|------------|------------|-------------------|
| Total policyholders                   | 5,302,576  | 5,455,611  | 5,628,419  | 5,815,019  | <b>6,012,420</b>  |
| - Policyholder growth                 | 1.6%       | 1.2%       | 1.4%       | 1.5%       | <b>1.3%</b>       |
| Persons covered                       | 11,117,461 | 11,404,872 | 11,733,719 | 12,090,453 | <b>12,486,627</b> |
| Average age of hospital persons (yrs) | 39.9       | 40.1       | 40.2       | 40.2       | <b>40.4</b>       |
| Total hospital persons "20-39"        | 2,344,085  | 2,386,989  | 2,445,899  | 2,511,625  | <b>2,588,562</b>  |
| - Growth in hospital persons "20-39"  | 1.5%       | 1.2%       | 1.6%       | 1.4%       | <b>1.0%</b>       |

## By financial year intervals

|                                       | FY08       | FY09       | FY10       | FY11       | FY12       |
|---------------------------------------|------------|------------|------------|------------|------------|
| Total policyholders                   | 5,219,567  | 5,390,739  | 5,549,338  | 5,727,566  | 5,936,660  |
| - Policyholder growth                 | 4.2%       | 3.3%       | 2.9%       | 3.2%       | 3.7%       |
| Persons covered                       | 10,942,616 | 11,257,885 | 11,561,299 | 11,901,915 | 12,321,848 |
| Average age of hospital persons (yrs) | 39.8       | 40.0       | 40.1       | 40.2       | 40.3       |
| Total hospital persons "20-39"        | 2,309,302  | 2,359,022  | 2,407,852  | 2,477,256  | 2,562,382  |
| - Growth in hospital persons "20-39"  | 6.9%       | 2.2%       | 2.1%       | 2.9%       | 3.4%       |

Source: Private Health Insurance Administration Council  
 All figures excludes iwhi, ishi and nib nzed, unless otherwise stated

## FINANCIAL RESULTS (EXCLUDING DAC)

- **Significant growth in broker distribution channels resulted in deferring acquisition costs in 2H12 and as a result increase reported underwriting result**
- **Underlying results split out deferred acquisition costs (DAC)**

| Normalised earnings (\$m)                      | 1H13        | 1H12        | (%)*          |
|--|-------------|-------------|---------------|
| Premium revenue                                | 612.8       | 554.4       | 10.5          |
| Claims expense                                 | (419.4)     | (370.7)     | (13.1)        |
| Risk Equalisation Levy                         | (83.9)      | (76.7)      | (9.3)         |
| State levies                                   | (15.3)      | (11.7)      | (30.1)        |
| Decrease/Increase in premium payback liability | 0.6         | -           | -             |
| Net claims incurred                            | (518.0)     | (459.1)     | (12.8)        |
| <b>Gross underwriting result</b>               | <b>94.8</b> | <b>95.3</b> | <b>(0.5)</b>  |
| Management expenses                            | (60.4)      | (52.6)      | (14.9)        |
| <b>Net underwriting result</b>                 | <b>34.4</b> | <b>42.7</b> | <b>(19.5)</b> |
| Investment income <sup>1</sup>                 | 18.2        | 12.4        | 46.2          |
| Other income                                   | 1.6         | 1.3         | 16.4          |
| Other expenses                                 | (5.9)       | (2.4)       | (151.4)       |
| <b>Underlying profit before tax</b>            | <b>48.2</b> | <b>54.1</b> | <b>(10.8)</b> |
| Tax  | (15.2)      | (15.9)      | 4.1           |
| <b>Underlying profit after tax</b>             | <b>33.0</b> | <b>38.3</b> | <b>(13.8)</b> |
| DAC experience (after tax)                     | 3.3         | -           | -             |
| <b>Profit after tax</b>                        | <b>36.3</b> | <b>38.3</b> | <b>(5.3)</b>  |

| Performance indicators – normalised (%) | 1H13 | 1H12 |
|---|------|------|
| Gross margin                            | 15.5 | 17.2 |
| Management expense ratio                | 9.9  | 9.5  |
| Net margin                              | 5.6  | 7.7  |
| EPS (cps)                               | 8.3  | 8.2  |
| EPS – underlying (cps)                  | 7.5  | 8.2  |
| ROE <sup>(2)</sup>                      | 21.7 | 18.0 |
| ROE – underlying <sup>(2)</sup>         | 18.9 | 18.0 |

\* Change favourable/(unfavourable), 1H13 to 1H12

(1) Net of fees.

(2) Rolling 12 months, using average shareholder equity

# DETAILED INCOME STATEMENT

| (\$m)   | 1H11           | 2H11           | FY11           | 1H12           | 2H12           | FY12           | 1H13           | %*            |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|
| <b>Premium revenue</b>                                  | <b>495.0</b>   | <b>512.8</b>   | <b>1,007.8</b> | <b>554.4</b>   | <b>569.4</b>   | <b>1,123.8</b> | <b>612.8</b>   | <b>10.5</b>   |
| - arhi  | 489.8          | 501.5          | 991.3          | 540.9          | 554.7          | 1,095.6        | 586.7          | 8.5           |
| - ishi  | 0.1            | 0.4            | 0.5            | 1.2            | 1.8            | 3.0            | 2.1            | 79.7          |
| - iwhi  | 5.1            | 10.9           | 16.0           | 12.3           | 12.9           | 25.2           | 13.8           | 12.4          |
| - nib nzed  | -              | -              | -              | -              | -              | -              | 10.1           | -             |
| <b>Claims expense</b>                                   | <b>(339.6)</b> | <b>(353.5)</b> | <b>(693.1)</b> | <b>(370.7)</b> | <b>(394.7)</b> | <b>(765.4)</b> | <b>(419.4)</b> | <b>(13.1)</b> |
| - Hospital benefits paid                                | (234.9)        | (226.7)        | (461.6)        | (253.7)        | (246.1)        | (499.8)        | (282.9)        | (11.5)        |
| - Ancillary benefits paid                               | (104.3)        | (117.9)        | (222.2)        | (114.6)        | (131.9)        | (246.5)        | (126.4)        | (10.3)        |
| - OSC provision movement (arhi)                         | 2.2            | (3.7)          | (1.5)          | 3.8            | (9.5)          | (5.7)          | 4.6            | 22.9          |
| - ishi benefits incurred                                | (0.1)          | (0.1)          | (0.2)          | (1.1)          | (1.8)          | (2.9)          | (1.8)          | (69.3)        |
| - iwhi benefits incurred                                | (2.5)          | (5.1)          | (7.6)          | (5.1)          | (5.5)          | (10.6)         | (6.6)          | (29.6)        |
| - nib nzed benefits incurred                            | -              | -              | -              | -              | -              | -              | (6.4)          | -             |
| <b>Risk equalisation levy</b>                           | <b>(60.9)</b>  | <b>(71.8)</b>  | <b>(132.7)</b> | <b>(76.7)</b>  | <b>(83.3)</b>  | <b>(160.0)</b> | <b>(83.9)</b>  | <b>(9.3)</b>  |
| - OSC risk equalisation margin                          | 0.7            | (1.4)          | (0.7)          | (0.8)          | (2.1)          | (2.9)          | (0.4)          | 48.6          |
| - Gross deficit   | 81.1           | 79.2           | 160.3          | 89.1           | 87.4           | 176.5          | 102.0          | 14.5          |
| - Calculated deficit                                    | (142.7)        | (149.6)        | (292.3)        | (165.0)        | (168.6)        | (333.6)        | (185.5)        | (12.5)        |
| <b>State levies</b>                                     | <b>(11.4)</b>  | <b>(11.5)</b>  | <b>(22.9)</b>  | <b>(11.7)</b>  | <b>(12.1)</b>  | <b>(23.8)</b>  | <b>(15.3)</b>  | <b>(30.1)</b> |
| <b>Decrease/(Increase) in premium payback liability</b> | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>0.6</b>     | <b>-</b>      |
| <b>Net claims incurred</b>                              | <b>(411.9)</b> | <b>(436.8)</b> | <b>(848.7)</b> | <b>(459.1)</b> | <b>(490.1)</b> | <b>(949.2)</b> | <b>(518.0)</b> | <b>(12.8)</b> |
| <b>Gross underwriting result</b>                        | <b>83.1</b>    | <b>76.0</b>    | <b>159.1</b>   | <b>95.3</b>    | <b>79.3</b>    | <b>174.6</b>   | <b>94.8</b>    | <b>(0.5)</b>  |
| - arhi  | 80.5           | 69.9           | 150.4          | 87.9           | 71.8           | 159.9          | 82.9           | (5.7)         |
| - ishi  | 0.0            | 0.3            | 0.3            | 0.1            | (0.0)          | 0.1            | 0.4            | 159.1         |
| - iwhi  | 2.6            | 5.8            | 8.4            | 7.2            | 7.3            | 14.5           | 7.3            | 0.5           |
| - nib nzed  | -              | -              | -              | -              | -              | -              | 4.3            | -             |
| <b>Management expenses</b>                              | <b>(42.2)</b>  | <b>(55.4)</b>  | <b>(97.6)</b>  | <b>(52.6)</b>  | <b>(51.3)</b>  | <b>(103.8)</b> | <b>(55.7)</b>  | <b>(6.0)</b>  |
| - arhi  | (40.1)         | (50.5)         | (90.6)         | (48.1)         | (47.2)         | (95.3)         | (49.5)         | (2.8)         |
| - ishi  | (0.3)          | (1.1)          | (1.4)          | (0.8)          | (0.7)          | (1.5)          | (0.4)          | 47.1          |
| - iwhi  | (1.8)          | (3.8)          | (5.6)          | (3.7)          | (3.4)          | (7.1)          | (3.5)          | 4.4           |
| - nib nzed  | -              | -              | -              | -              | -              | -              | (2.3)          | -             |
| <b>Net underwriting result</b>                          | <b>40.9</b>    | <b>20.6</b>    | <b>61.5</b>    | <b>42.7</b>    | <b>28.0</b>    | <b>70.7</b>    | <b>39.1</b>    | <b>(8.6)</b>  |
| - arhi  | 40.4           | 19.4           | 59.8           | 39.8           | 24.7           | 64.6           | 33.4           | (16.1)        |
| - ishi  | (0.3)          | (0.8)          | (1.1)          | (0.7)          | (0.7)          | (1.4)          | (0.1)          | 89.8          |
| - iwhi  | 0.8            | 2.0            | 2.8            | 3.6            | 4.0            | 7.5            | 3.8            | 5.5           |
| - nib nzed  | -              | -              | -              | -              | -              | -              | 2.0            | -             |

\* Change favourable/(unfavourable), 1H13 to 1H12

## MANAGEMENT EXPENSES

| (\$m)        | Employment  | Marketing (Direct) | Marketing (Commissions) | IT         | Occupancy  | Other      | 1 H13 Total | 1H12 Total  | Change (1H13 – 1H12) | 1H13 MER (%) | 1H12 MER (%) |
|--------------|-------------|--------------------|-------------------------|------------|------------|------------|-------------|-------------|----------------------|--------------|--------------|
| arhi         | 22.6        | 11.2               | 1.8                     | 4.0        | 3.3        | 6.5        | 49.5        | 48.1        | 1.4                  | 8.4          | 8.9          |
| iwhi         | 1.5         | 0.6                | 0.1                     | 0.6        | 0.1        | 0.6        | 3.5         | 3.7         | (0.2)                | 25.4         | 29.9         |
| ishi         | 0.1         | 0.0                | 0.2                     | 0.0        | 0.0        | 0.0        | 0.4         | 0.8         | (0.4)                | 19.9         | 67.5         |
| nib nzed     | 0.6         | 0.1                | 1.3                     | 0.0        | 0.0        | 0.3        | 2.3         | NA          | 2.3                  | 23.0         | -            |
| <b>Total</b> | <b>24.9</b> | <b>11.9</b>        | <b>3.4</b>              | <b>4.7</b> | <b>3.4</b> | <b>7.4</b> | <b>55.7</b> | <b>52.6</b> | <b>3.1</b>           | <b>9.1</b>   | <b>9.5</b>   |

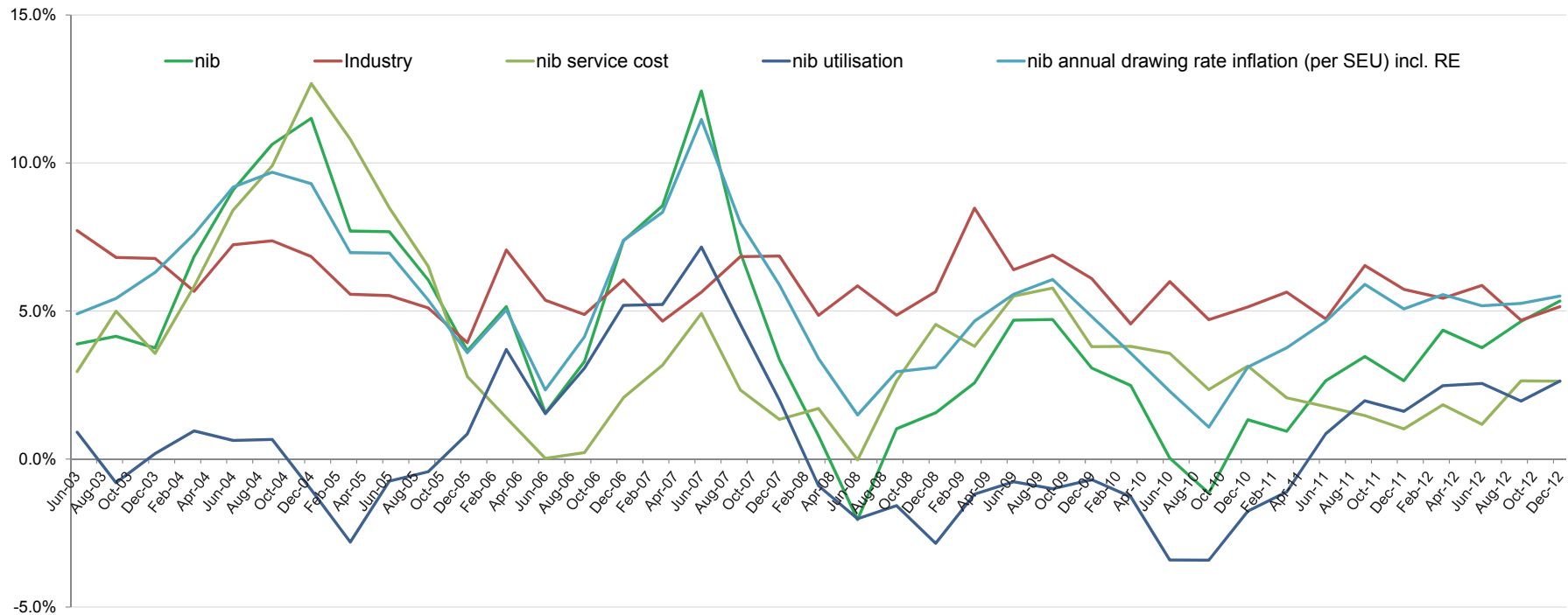
- **arhi management expenses up 2.7% to \$49.5m (1H12: \$48.1m) or up 12.5% if we exclude impact of deferral of marketing commissions, as a result of:**
  - **Marketing (Direct) costs up \$2.9m due to media activity brought forward to December to align to 2nd quarter growth trends**
  - **Marketing (Commissions) down \$2.2m due to the \$4.7m deferral of acquisition costs for broker commissions (broker commissions excluding deferred commissions are up \$2.5m due to both an increase in broker channel sales and a change in timing of sales across the year)**
- **ishi management expenses down \$0.4m due to lower employee costs and broker commissions**

## DETAILED MANAGEMENT EXPENSES

| (\$m)           | Employment | Marketing (Direct) | Marketing Commissions (Paid) | Marketing Commissions (deferred) | IT    | Occupancy | Other | Total Management Expenses | Total MER (%) |
|-----------------|------------|--------------------|------------------------------|----------------------------------|-------|-----------|-------|---------------------------|---------------|
| <b>arhi</b>     |            |                    |                              |                                  |       |           |       |                           |               |
| 1H11            | 19.6       | 8.0                | 2.2                          | -                                | 3.1   | 0.7       | 6.5   | 40.1                      | 8.2           |
| 2H11            | 20.7       | 13.0               | 3.1                          | -                                | 3.4   | 3.1       | 7.1   | 50.4                      | 10.0          |
| FY11            | 40.3       | 21.0               | 5.3                          | -                                | 6.5   | 3.9       | 13.6  | 90.6                      | 9.1           |
| 1H12            | 22.3       | 8.3                | 4.0                          | -                                | 3.8   | 3.1       | 6.6   | 48.1                      | 8.9           |
| 2H12            | 23.1       | 12.1               | 6.6                          | (8.2)                            | 3.7   | 2.7       | 7.2   | 47.2                      | 8.5           |
| FY12            | 45.4       | 20.4               | 10.6                         | (8.2)                            | 7.5   | 5.8       | 13.8  | 95.3                      | 8.7           |
| 1H13            | 22.6       | 11.2               | 6.5                          | (4.7)                            | 4.0   | 3.3       | 6.5   | 49.5                      | 8.4           |
| <b>ishi</b>     |            |                    |                              |                                  |       |           |       |                           |               |
| 1H11            | 0.2        | 0.1                | -                            | -                                | -     | -         | (0.0) | 0.3                       | 578.8         |
| 1H11            | 0.7        | (0.0)              | 0.2                          | -                                | 0.0   | -         | 0.2   | 1.1                       | 275.0         |
| FY11            | 0.9        | 0.1                | 0.2                          | -                                | 0.0   | -         | 0.2   | 1.4                       | 247.4         |
| 1H12            | 0.4        | 0.0                | 0.3                          | -                                | 0.0   | -         | 0.1   | 0.8                       | 67.5          |
| 2H12            | 0.2        | 0.1                | 0.3                          | -                                | (0.0) | -         | 0.1   | 0.7                       | 38.1          |
| FY12            | 0.6        | 0.1                | 0.6                          | -                                | -     | -         | 0.2   | 1.5                       | 49.4          |
| 1H13            | 0.1        | -                  | 0.2                          | -                                | -     | -         | -     | 0.4                       | 19.9          |
| <b>iwhi</b>     |            |                    |                              |                                  |       |           |       |                           |               |
| 1H11            | 1.0        | 0.1                | 0.0                          | -                                | 0.2   | 0.1       | 0.4   | 1.8                       | 35.2          |
| 2H11            | 1.7        | 0.2                | 0.0                          | -                                | 0.5   | 0.1       | 1.3   | 3.9                       | 35.7          |
| FY11            | 2.7        | 0.2                | 0.0                          | -                                | 0.8   | 0.2       | 1.7   | 5.6                       | 35.0          |
| 1H12            | 1.9        | 0.2                | 0.0                          | -                                | 0.6   | 0.1       | 0.9   | 3.7                       | 30.1          |
| 2H12            | 1.5        | 0.3                | 0.1                          | -                                | 0.5   | 0.2       | 0.7   | 3.2                       | 24.8          |
| FY12            | 3.4        | 0.5                | 0.1                          | -                                | 1.1   | 0.3       | 1.6   | 7.1                       | 28.2          |
| 1H13            | 1.5        | 0.6                | 0.1                          | -                                | 0.6   | 0.1       | 0.6   | 3.5                       | 25.4          |
| <b>nib nzed</b> |            |                    |                              |                                  |       |           |       |                           |               |
| 1H13            | 0.6        | 0.1                | 1.3                          | -                                | -     | -         | 0.3   | 2.3                       | 23.0          |

# CLAIMS EXPENSE

## Overall claims inflation (hospital and ancillary)

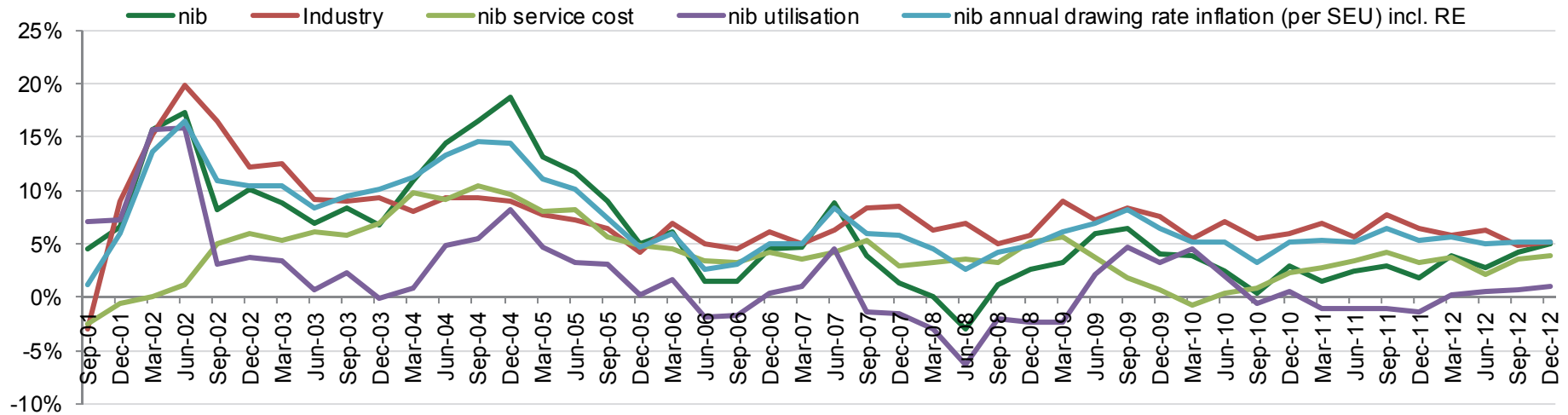


All figures exclude ishi, iwhi and nib nzed, unless otherwise stated

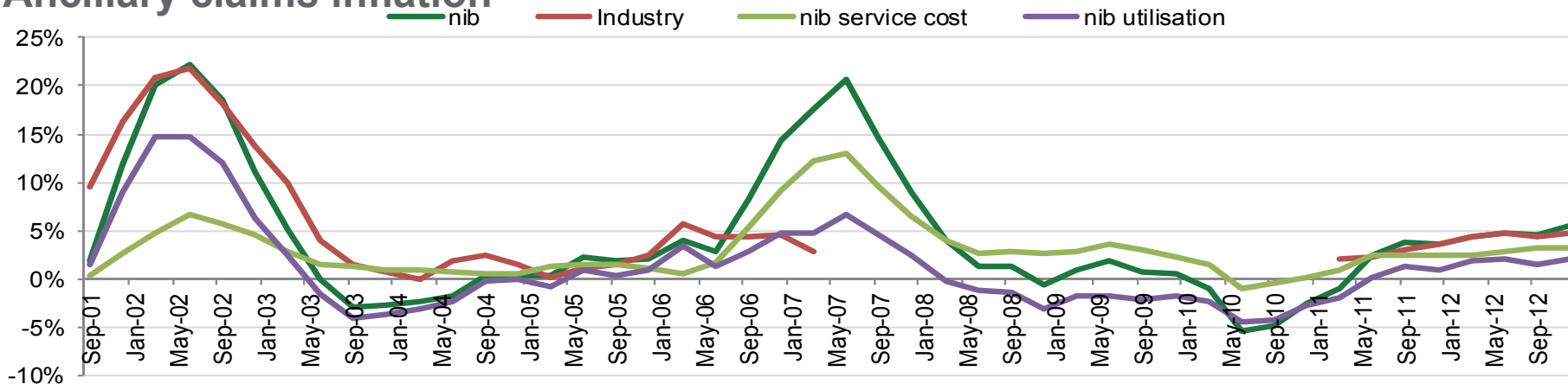


# CLAIMS EXPENSE

## Hospital claims inflation



## Ancillary claims inflation



Note: industry data for Ancillary claims inflation from 1 April 2007- 31 December 2010 is not comparable due to change in the way ancillary products are determined by PHIAC  
 All figures exclude ishi, iwhi and nib nzed, unless otherwise stated

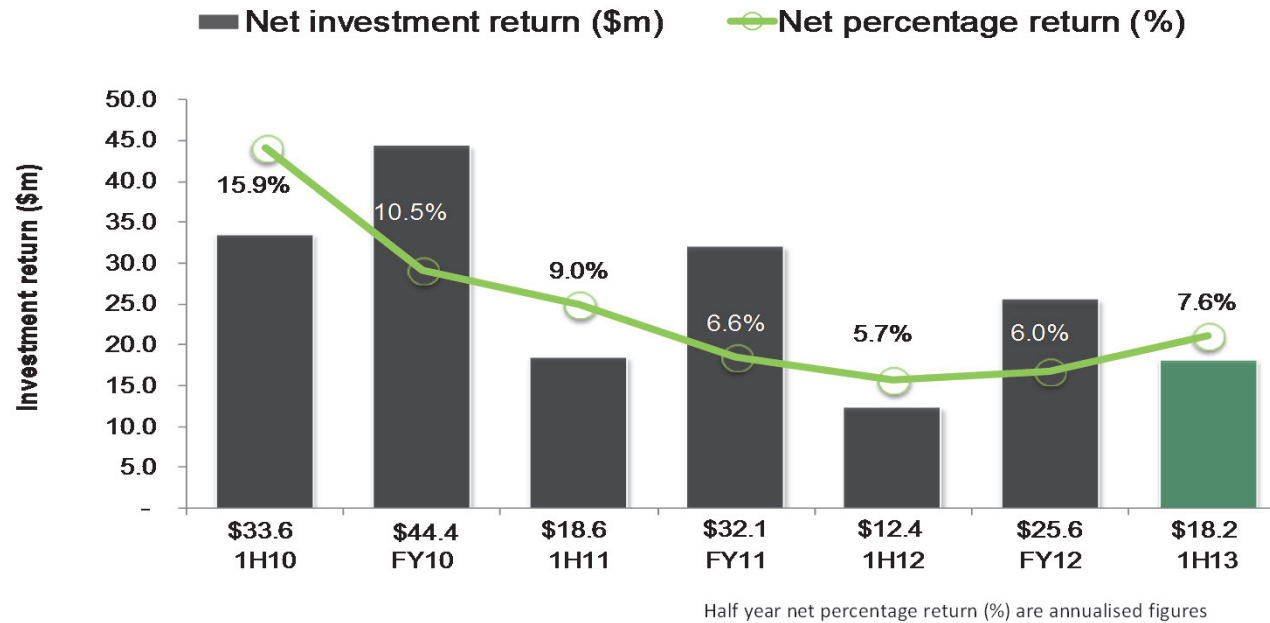


## OTHER INCOME & EXPENSES

| (\$m)                               | 1H13       | 1H12       |            | %*             |
|-------------------------------------|------------|------------|------------|----------------|
| <b>Other income</b>                 |            |            |            |                |
| Life & funeral insurance commission | 0.7        | 0.5        | 0.2        | 40.0           |
| Travel and other commission         | 0.2        | 0.2        | -          | 0.0            |
| Rental income                       | 0.4        | 0.4        | -          | 0.0            |
| Other                               | 0.3        | 0.2        | 0.1        | 50.0           |
| <b>Total other income</b>           | <b>1.6</b> | <b>1.3</b> | <b>0.3</b> | <b>23.1</b>    |
| <b>Other expenses</b>               |            |            |            |                |
| Share registry – ongoing            | 0.7        | 0.6        | 0.1        | (23.1)         |
| Share registry – one off            | 0.4        | 0.3        | 0.1        | (40.9)         |
| M&A - other (nib nzed)              | 3.3        | 0.0        | 3.3        | -              |
| Financing costs                     | 0.2        | 0.0        | (0.2)      | -              |
| Other                               | 1.3        | 1.5        | (0.2)      | 13.5           |
| <b>Total other expenses</b>         | <b>5.9</b> | <b>2.4</b> | <b>3.6</b> | <b>(151.4)</b> |

\* Change favourable/(unfavourable), 1H13 to 1H12

# INVESTMENTS



- **Strong investment return on back of growth asset performance**
- **Consolidated defensive/growth split of 83%/17%, including nib nzed (1H12: 82%/18%)**
- **Actual net return for January 2013 was 0.63%**
- **Total net investment assets at 31/12/12 of \$531.3m (including head office building)**

# INVESTMENTS

|                          | Australian Investment Portfolio          |                               | New Zealand Investment Portfolio        |                               |
|--------------------------|--|-------------------------------|---|-------------------------------|
|                          | Net return (\$m)<br>6 months to 31/12/12 | Allocation (%)<br>at 31/12/12 | Net return (\$m)<br>1 month to 31/12/12 | Allocation (%)<br>at 31/12/12 |
| Cash                     | 4.3                                      | 34                            | 0.2                                     | 49                            |
| All maturity debt        | 0.7                                      | 4                             | -                                       | -                             |
| Short maturity debt      | 5.4                                      | 41                            | -                                       | -                             |
| Fixed interest           | -  | -                             | (0.1)                                   | 48                            |
| Derivatives              | -  | -                             | (0.1)                                   | 3                             |
| Receivable               | 0.2                                      | 2                             | -                                       | -                             |
| <b>Total defensive</b>   | <b>10.7</b>                              | <b>81</b>                     | <b>-</b>                                | <b>100</b>                    |
| Australian shares        | 5.7                                      | 7                             | -                                       | -                             |
| Global shares – hedged   | -  | 0                             | -                                       | -                             |
| Global shares – unhedged | 1.7                                      | 4                             | -                                       | -                             |
| Direct property          | -  | 8                             | -                                       | -                             |
| Property trusts          | 0.0                                      | 0                             | -                                       | -                             |
| Unlisted security        | 0.0                                      | 0                             | -                                       | -                             |
| <b>Total growth</b>      | <b>7.5</b>                               | <b>19</b>                     | <b>-</b>                                | <b>-</b>                      |
| <b>TOTAL</b>             | <b>18.2</b>                              | <b>100</b>                    | <b>0.0</b>                              | <b>100</b>                    |

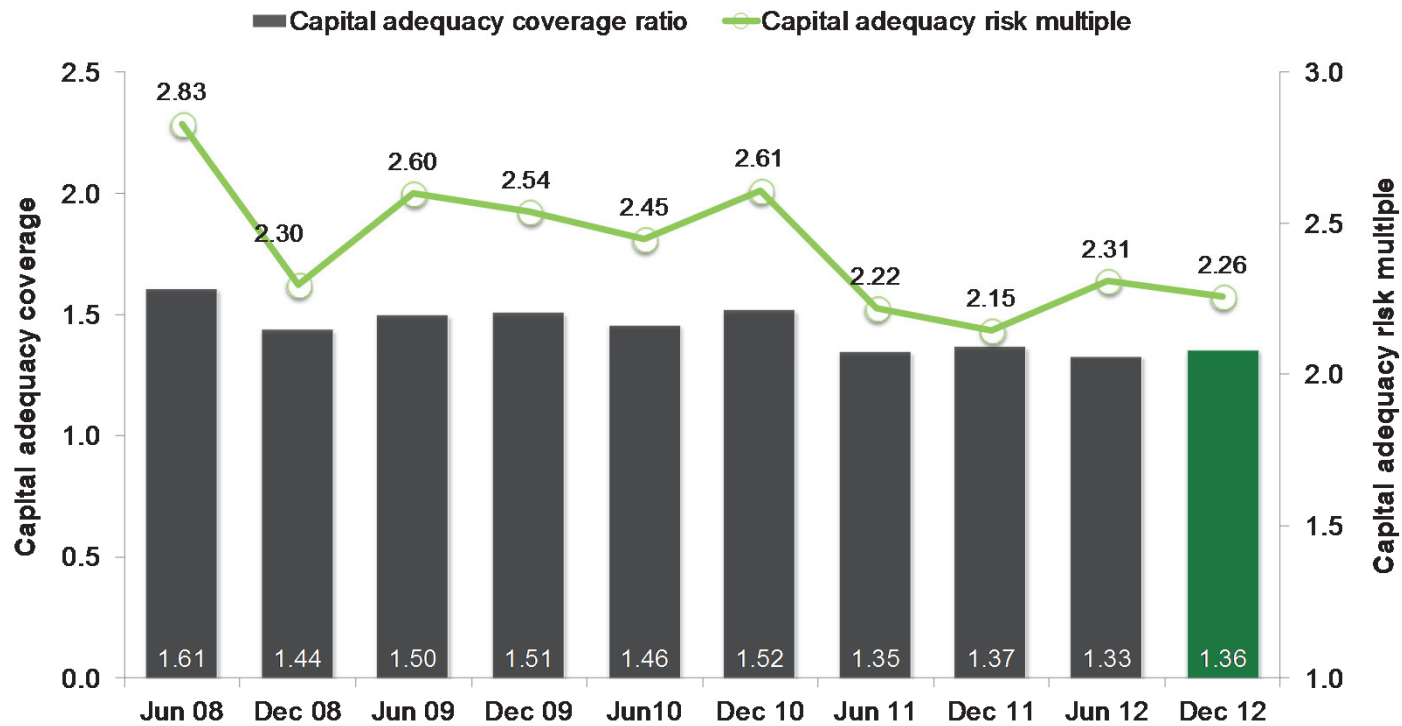
- **All available capital above internal prudential requirements is held in 100% cash**

# BALANCE SHEET

| (\$m)                                      | 30 June 2012 | 31 December 2012 | (\$m)         | (%)*             |
|--|--------------|------------------|---------------|------------------|
| <b>Current assets</b>                      |              |                  |               |                  |
| Cash and cash equivalents                  | 86.7         | 113.4            | 26.7          | 30.8             |
| Financial assets at fair value through P&L | 356.8        | 385.4            | 28.6          | 8.0              |
| Other current assets                       | 72.3         | 61.8             | (10.5)        | (14.5)           |
| <b>Total current assets</b>                | <b>515.8</b> | <b>560.6</b>     | <b>44.8</b>   | <b>8.7</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         | 41.1             | (1.0)         | (2.5)            |
| Intangibles                                | 38.9         | 78.9             | 40.0          | 102.9            |
| Other non-current assets                   | 18.8         | 22.0             | 3.2           | 16.8             |
| <b>Total non-current assets</b>            | <b>102.1</b> | <b>144.8</b>     | <b>42.7</b>   | <b>41.9</b>      |
| <b>Total assets</b>                        | <b>617.8</b> | <b>705.4</b>     | <b>87.5</b>   | <b>14.2</b>      |
| <b>Current liabilities</b>                 |              |                  |               |                  |
| Outstanding claims liability               | 75.0         | 80.3             | (5.3)         | (7.1)            |
| Unearned premium liability                 | 135.9        | 113.8            | 22.0          | 16.2             |
| Premium payback liability                  | 0.0          | 8.9              | 8.9           | -                |
| Other current liabilities                  | 98.3         | 95.7             | 2.5           | 2.5              |
| <b>Total current liabilities</b>           | <b>309.2</b> | <b>298.8</b>     | <b>10.4</b>   | <b>3.4</b>       |
| <b>Non-current liabilities</b>             |              |                  |               |                  |
| <b>Borrowings</b>                          | <b>0.0</b>   | <b>55.2</b>      | <b>(55.2)</b> | <b>-</b>         |
| <b>Premium payback liability</b>           | <b>0.0</b>   | <b>34.3</b>      | <b>(34.3)</b> | <b>-</b>         |
| <b>Other non-current liabilities</b>       | <b>7.1</b>   | <b>1.2</b>       | <b>(5.9)</b>  | <b>82.7</b>      |
| <b>Total non-current liabilities</b>       | <b>7.1</b>   | <b>90.7</b>      | <b>(83.6)</b> | <b>(1,182.0)</b> |
| <b>Total liabilities</b>                   | <b>316.2</b> | <b>389.5</b>     | <b>(73.2)</b> | <b>(23.2)</b>    |
| <b>Net assets</b>                          | <b>301.6</b> | <b>315.9</b>     | <b>14.3</b>   | <b>4.7</b>       |

\* Change favourable/(unfavourable), 1H13 to 1H12

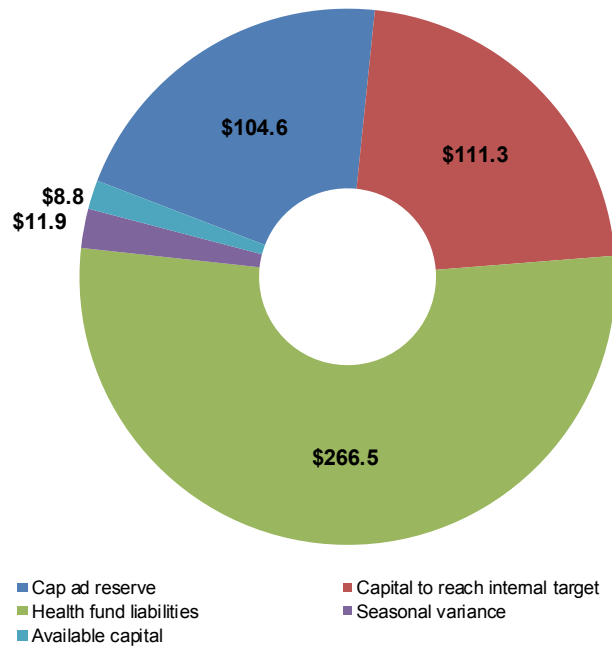
# CAPITAL ADEQUACY



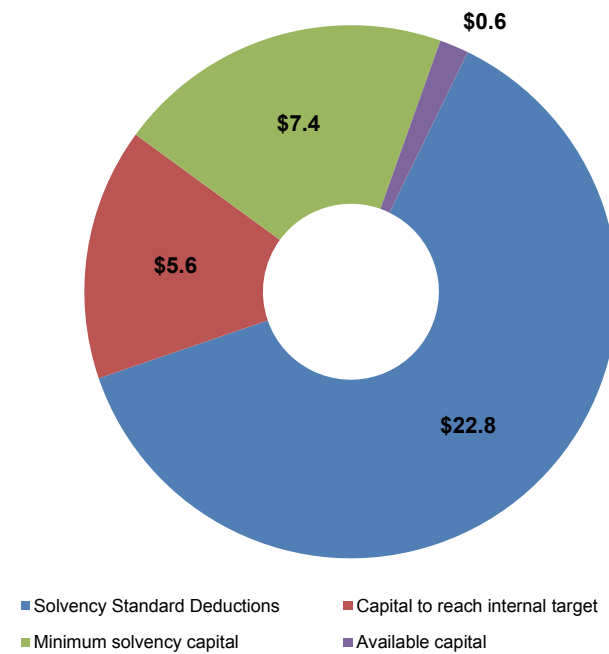
# REGULATORY CAPITAL REQUIREMENTS

- **\$6.7m of available capital across the group above internal targets after allowing for interim dividend and holding company funding requirements**

Australian fund capital allocation  
(at 31 December 2012)



New Zealand fund capital allocation  
(at 31 December 2012)



# DISCLAIMER

The material in this presentation is a summary of the results of nib holdings limited (nib) for the six months ended 31 December 2012 and an update on nib's activities and is current at the date of preparation, 18 February 2013. Further details are provided in the Company's half year accounts and results announcement released on 18 February 2013.

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