

nib holdings limited
ABN 51 125 633 856

Half-year report for the period ended 31 December 2015

This report should be read in conjunction with the annual financial report for the year ended 30 June 2015.

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Appendix 4D

For the half year ended 31 December 2015

nib holdings limited

Results for announcement to the market

	6 months to 31 Dec 15 \$'000	6 months to 31 Dec 14 \$'000	Movement up / (down) \$'000	Movement %
Revenue from ordinary activities	934,375	825,794	108,581	13%
Profit from ordinary activities after tax attributable to members	43,409	41,362	2,047	5%
Net profit attributable to members	43,409	41,362	2,047	5%

	6 months to 31 Dec 15 Amount per security (cps)	6 months to 31 Dec 14 Franking amount per security	6 months to 31 Dec 14 Amount per security (cps)	6 months to 31 Dec 14 Franking amount per security
Interim Dividend				
Ordinary Dividend	5.75	100%	5.50	100%
Special Dividend	0.00	100%	0.00	100%
Total Interim Dividend	5.75	100%	5.50	100%
Record date for determining entitlements to the dividend	4 March 2016			
Date the interim dividend is payable	1 April 2016			

Brief explanation of figures reported above:

Net profit after tax attributable to owners of nib holdings limited for the half year to 31 December 2015 calculated on a statutory basis equated to a profit of \$43.409 million.

For further information refer to the Directors' Report in the attached Interim Report of nib holdings limited for the period ended 31 December 2015.

Appendix 4D

For the half year ended 31 December 2015

nib holdings limited

Appendix 4D disclosure requirements	nib group Appendix 4D	Note Number
1. Details of the reporting period and the previous corresponding period	All financial data headings	
<p>2. Key information in relation to the following:</p> <p>This information must be identified as "Results for announcement to the market".</p> <p>2.1 The amount and percentage change up or down from the previous corresponding period of revenue from ordinary activities.</p> <p>2.2 The amount and percentage change up or down from the previous corresponding period of profit (loss) from ordinary activities after tax attributable to members.</p> <p>2.3 The amount and percentage change up or down from the previous corresponding period of profit (loss) attributable to members.</p> <p>2.4 The amount per security and franked amount per security of final and interim dividends or a statement that it is not proposed to pay dividends.</p> <p>2.5 The record date for determining entitlements to the dividends (if any).</p> <p>2.6 A brief explanation of any of the figures in 2.1 to 2.4 necessary to enable the figures to be understood.</p>	"Results for announcement to the market" page 1 Appendix 4D	
3. Net tangible assets per security with the comparative figure for the previous corresponding period.	Net tangible asset backing per ordinary security (cents per share) is 33.28 (54.20 as at 31 Dec 2014)	
<p>4. Details of entities over which control has been gained or lost during the period, including the following:</p> <p>4.1 Name of entity.</p>	<p>World Nomads Group Pty Limited</p> <p>WNG Services Pty Limited</p> <p>World Experiences Assist Pty Limited</p> <p>Suresave Pty Limited</p> <p>Sure-Save.net Pty Ltd</p> <p>SureSave Net Limited</p> <p>Travel Insurance Direct Holdings Pty Limited</p> <p>Travel Insurance Direct Pty Limited</p> <p>Travel Insurance Direct (New Zealand) Pty Limited</p> <p>Cheap Travel Insurance Pty Limited</p> <p>Holiday Travel Insurance Pty Limited</p> <p>SureCan Technology Pty Ltd</p> <p>The World Nomads Group Holdings Pty Ltd</p> <p>World Nomads Pty Ltd</p> <p>World Nomads Inc</p> <p>World Nomads Limited</p> <p>World Nomads (Canada) Ltd</p> <p>WorldNomads.com Pty Ltd</p> <p>Cerberus Special Risks Pty Limited</p> <p>Get Insurance Group Pty Limited</p> <p>World Experiences International Holdings Pty Ltd</p> <p>World Experiences Seguros De Viagem Brasil LTDA</p> <p>Travellr Pty Limited</p> <p>Travel Insurance Compared Pty Limited</p> <p>TravelClear Pty Limited</p>	Note 14

Appendix 4D

For the half year ended 31 December 2015

nib holdings limited

<p>4.2 The date of the gain or loss of control.</p> <p>4.3 Where material to the understanding of the report – the contribution of such entities to the reporting entity's profit from ordinary activities during the period and the profit or loss of such entities during the whole of the previous corresponding reporting period.</p>	<p>Travellers Assistance Group Pty Limited Hello Travel Insurance Pty Limited World Experiences Pty Limited World Experiences Group Pty Limited World Experiences Travel Pty Limited</p> <p>Control gained 31 July 2015</p> <p>n/a</p>	
<p>5. Details of individual and total dividends or distributions and dividend or distribution payments. The details must include the date on which the dividend or distribution is payable and (if known) the amount per security of foreign sourced dividend or distribution.</p>	<p>Interim Report 31 December 2015:</p> <ul style="list-style-type: none"> Notes to the financial statement - Dividends 	<p>Note 12</p>
<p>6. Details of any dividend or distribution reinvestment plan in operation and the last date for the receipt of an election notice for the participation in any dividend or distribution reinvestment plan.</p>	<p>No dividend reinvestment plan. Not applicable</p>	
<p>7. Details of associates and joint venture entities including the name of the associate or joint venture entity and details of the reporting entity's percentage holding in each of these entities and - where material to the understanding of the report – aggregate share of profits (losses) of these entities, details of contributions to net profit for each of these entities, and with comparative figures for the previous corresponding reporting period.</p>	<p>Not applicable</p>	
<p>8. For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Accounting Standards).</p>	<p>Not applicable</p>	
<p>9. For all entities, if the accounts contain an independent audit report or review that is subject to a modified opinion, emphasis of matter or other matter paragraph, a description of the modified opinion, emphasis of matter or other matter paragraph.</p>	<p>Not applicable</p>	

M McPherson
Company Secretary
nib holdings limited

Date 19 February 2016



nib

INTERIM REPORT

31 DECEMBER 2015

IT'S GOOD TO BE
HUMAN

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Directors' Report

For the half year ended 31 December 2015

nib holdings limited

The Directors of nib holdings limited (the Company) present their report on the consolidated entity (hereafter the Group) consisting of nib holdings limited and the entities it controlled at the end of, or during, the half year ended 31 December 2015 (1H16).

DIRECTORS

The following persons were Directors of nib holdings limited during the whole of the half year and up to the date of this report:

Steve Crane
Mark Fitzgibbon
Lee Ausburn
Harold Bentley
Annette Carruthers
Philip Gardner
Christine McLoughlin

PRINCIPAL ACTIVITIES

The principal continuing activities of the Group consisted of operating as a private health insurer for Australian residents, New Zealand residents and international visitors and students to Australia. Overall the Group insures over 1.3 million lives.

Our vision is to be a leading financier and facilitator of healthcare consumption with a reputation for innovative products, value for money, outstanding customer service, being a good corporate citizen and strong shareholder returns.

During the year the Group acquired World Nomads Group (WNG), the third-largest distributor of travel insurance in Australia. WNG specialises in the marketing, sale and distribution of travel insurance policies globally.

Additionally, nib nz limited (a 100% owned subsidiary) acquired the medical insurance business OnePath Life (NZ) Limited (OnePath). OnePath was New Zealand's fifth-largest health insurer with approximately 19,000 policies covering 43,000 insured persons.

REVIEW OF OPERATIONS

(\$m)	Half year		Change	
	31 Dec 15	31 Dec 14	\$m	%
Net premium revenue	902.7	802.3	100.4	12.5
Net claims incurred (excluding claims handling expenses)	(739.9)	(670.1)	69.8	10.4
Gross margin	162.8	132.2	30.6	23.1
	18.0%	16.5%		
Management expenses	(98.1)	(84.5)	13.6	16.0
	10.9%	10.5%		
Underwriting result	64.7	47.7	17.0	35.7
	7.2%	5.9%		
Other income ¹	24.5	2.0	22.5	1,105.1
Other expenses ¹	(22.7)	(4.3)	18.4	434.6
Underlying operating profit	66.4	45.4	21.0	46.1
	7.4%	5.7%		
Amortisation of acquired intangibles	(3.5)	(2.0)	1.5	78.8
One-off transactions and M&A costs	(3.6)	(1.4)	2.2	152.4
Statutory operating profit	59.3	42.1	17.2	41.0
	6.6%	5.2%		
Finance costs	(2.6)	(1.7)	(0.9)	(55.5)
Net investment income	6.5	20.0	(13.5)	(67.5)
	1.1%	3.7%		
Profit before tax	63.2	60.4	2.8	4.7
Tax	(20.2)	(19.3)	0.9	5.1
NPAT	43.1	41.1	2.0	4.7
EPS (cps)	9.9	9.4	0.5	5.3
ROE (%) ²	22.9%	21.4%		
Operating cash flow	18.6	16.6	2.0	11.8

¹Increase in other income and expenses for six months to 31 December 2015 due to contribution from acquisition of World Nomads Group in July 2015

² Using average shareholders' equity and NPAT attributable to the owners of nib holdings limited for the previous 12 months over a 12 month rolling period.

REVIEW OF OPERATIONS continued

Performance for 1H16 was pleasing and has us on track to deliver a strong full year result. A combination of Group revenue growth of 15.2% and margin accretion saw underlying operating profit grow by \$21.0 million (46.1%) to \$66.4 million.

Most of the underlying operating profit improvement was driven by our Australian Residents Health Insurance (arhi) business which continues to grow well ahead of system. Nevertheless, all business segments performed in line or better than expected in terms of growth and earnings. The favourable conditions caused us to update full year FY16 guidance at our Annual General Meeting in November, with underlying operating profit forecast to be in the range of \$102 million to \$114 million (statutory operating profit of \$90 million to \$100 million).

Our first half FY16 result also comprises the first-time inclusion of travel insurance provider World Nomads Group Pty Ltd (WNG), which we acquired on 31 July 2015. The contribution from WNG explains the movement in other income and expenses from the same period last year.

Net Profit After Tax (NPAT) increased 4.7% to \$43.1 million for the period. Our investment income of \$6.5 million was lower than the \$20.0 million for same period last year due to a combination of overall equity market volatility, a one off 1HFY15 gain from sale in Pacific Smiles Group and lower funds invested (as a result of part funding of M&A). Otherwise, our consolidated investment portfolio (82%/18%, Defensive/Growth) performed in line with market benchmarks.

Overall the result has allowed nib to declare an interim fully franked dividend of 5.75 cents per share, which is 0.25 cents higher than first half last year. The interim dividend has an ex-dividend date and record date of 2 and 4 March 2016 respectively, with the interim dividend to be paid 1 April 2016.

Australian Residents Health Insurance

(\$m)	31 Dec 15	31 Dec 14	Change	
			\$m	%
Policyholder growth	1.8%	0.9%		
Net premium revenue	781.3	706.9	74.4	10.5
Net claims incurred (excluding claims handling expenses)	(663.5)	(612.5)	51.0	8.3
Gross margin	117.8	94.4	23.4	24.8
	15.1%	13.4%		
Management expenses	(66.2)	(57.0)	9.2	16.1
	8.5%	8.1%		
Underwriting result	51.6	37.4	14.2	38.1
	6.6%	5.3%		
Other income	0.1	0.2	(0.1)	(63.4)
	0.0%	0.0%		
Underlying operating profit	51.7	37.6	14.1	37.6
	6.6%	5.3%		

Strong sales and an improved underwriting performance lifted arhi's underlying operating profit considerably for 1H16 up 37.6% to \$51.7 million. Net policyholder growth for the period was 1.8%¹. Although we continue to generate policyholder growth superior to our overall market share, lapse continues to be a headwind.

For the period our management expenses increased by 16.1% to \$66.2 million and our management expense ratio by 0.4% to 8.5%. Most of this increase can be explained by the increased investment being made in organic growth and business improvement.

Behind the arhi result was an improved gross underwriting performance for 1H16 with our gross margin moving to 15.1% compared to 13.4% in the corresponding period. This is mainly attributable to us better combatting adverse selection, a favourable shift in product mix, lower claims utilisation at an industry level and an annual premium increase. On the latter, our policy is to price premiums in order to cover claims inflation and achieve our target full year net underwriting margin of 5.0% to 5.5%.

In November nib announced a partnership with Qantas to launch one of the most innovative partnerships ever offered in the Australian private health insurance market. Through a product range called Qantas Assure, the program will reward people with Qantas Points for being active and utilising wearable technology. Qantas Assure products are expected to come to market in 2H16.

¹ At the time of finalising nib's Interim Report APRA had not published the comparable industry statistic.

REVIEW OF OPERATIONS continued

International (inbound) Health Insurance

(\$m)	31 Dec 15	31 Dec 14	Change	
			\$m	%
Policyholder growth	14.5%	22.3%		
Net premium revenue	41.5	22.5	19.0	84.7
Net claims incurred (excluding claims handling expenses)	(27.4)	(8.8)	18.6	212.7
Gross margin	14.1	13.7	0.4	3.1
	34.1%	61.0%		
Management expenses	(8.9)	(6.1)	2.8	46.2
	21.5%	27.2%		
Underwriting result	5.2	7.6	(2.4)	(31.6)
	12.5%	33.8%		
Other income	0.2	0.2	0.0	0.0
	0.4%	0.8%		
Underlying operating profit	5.4	7.8	(2.4)	(30.9)
	13.0%	34.6%		

Our International (Inbound) Health Insurance business continues to experience powerful policyholder growth. Net policyholder growth for 1H16 was 14.5%. nib now provides health insurance to almost 100,000 international students and workers in Australia.

Despite some softening in the international workers market, particularly the 457 visa class, our upstream distribution strategy of leveraging educational agents and customers direct continues to be a key to our progress.

Premium revenue for the period was up 84.7% to \$41.5 million but underlying operating profit was down sharply to \$5.4 million. The deterioration is explained by difficulties we encountered with the Saudi students contract within our students business. This contract is being terminated and we expect the profitability of our International (Inbound) Health Insurance business to rebound in FY17.

nib New Zealand

(\$m)	31 Dec 15	31 Dec 14	Change	
			\$m	%
Policyholder growth	25.2%	3.3%		
Net premium revenue	79.9	72.9	7.0	9.6
Net claims incurred (excluding claims handling expenses and movement in PPB liability)	(56.9)	(48.3)	8.6	17.8
Decrease/(increase) in premium payback liability	7.8	(0.6)	8.4	1,460.4
Gross margin	30.8	24.1	6.7	28.0
	38.6%	33.0%		
Management expenses	(23.0)	(21.4)	1.6	7.3
	28.8%	29.4%		
Underwriting result	7.8	2.7	5.1	194.7
	9.8%	3.6%		
Other income	0.0	0.0	0.0	NA
	0.0%	0.0%		
Underlying operating profit	7.8	2.7	5.1	194.7
	9.8%	3.6%		

Our New Zealand business almost tripled underlying operating profit to \$7.8 million through a combination of policyholder growth, lower than expected claims inflation, and a settlement campaign on our PPB product range¹. The acquisition of the OnePath Life (NZ) Limited (OnePath) medical insurance book also made a contribution (one month).

Net policy holder growth for the period was 21,136 or 25.2%, however this was greatly aided by our acquisition of OnePath². Our Direct-to-Consumer (DTC) channel, which we launched in late 2013, continues to drive good growth and accounted for approximately 50% of our sales for the first half of the year (excluding OnePath). During the period we announced a white label distribution agreement with leading New Zealand retail brand, The Warehouse Group (TWG). Under the distribution agreement TWG will sell nib health and travel insurance under the Warehouse Money brand.

¹PPB (Premium Payback) relates to previously offered products, whereby customers are entitled to receive a refund (or partial refund) of premiums paid less any claims made, once the policy has been in force for a selected period. nib recently undertook a settlement campaign to payout customers on this product, this has resulted in a reduction in the liability recognised for these products.

² Excluding policyholders from acquisition of OnePath, net policyholder growth for 1H16 was 2.4% or 2,305 policies.

REVIEW OF OPERATIONS continued

Our New Zealand operations also took significant steps during the period to re-enter the group health insurance market. Coupled with an employee wellness program (called MyHealth HQ), we expect the tailored product range will be well received by the group employee segment which accounts for about half of the New Zealand health insurance market.

In October 2015, nib announced the acquisition of the medical insurance policyholder book of New Zealand life insurer OnePath Life (NZ) Limited for approximately \$22.5 million (acquisition completed 1 December 2015). OnePath, New Zealand's fifth-largest health insurer, was a fully owned subsidiary of ANZ Bank New Zealand Limited (ANZ New Zealand). The business had approximately 19,000 policies covering 43,000 insured lives. As a result of the purchase, nib New Zealand now provides health insurance to over 200,000 New Zealanders, covering more than 15.0% of the insured population. At the time of the acquisition nib and ANZ New Zealand also announced the establishment of a distribution agreement, under which nib will distribute its health insurance products through ANZ's network of wealth specialists for five years.

The acquisition of OnePath is consistent with our strategy to grow the New Zealand private health insurance market and its overall share. Importantly, the acquisition provides our business with additional scale and scope to further grow and leverage our existing New Zealand operations.

World Nomads Group

(\$m)	31 Dec 15	31 Dec 14	Change	
			\$m	%
Other income	22.0	-	22.0	NA
Other expenses	(17.8)	-	17.8	NA
Underlying operating profit	4.2	-	4.2	NA
	19.0%	NA		

On 31 July 2015, nib completed the acquisition of WNG, Australia's third-largest travel insurance provider, for total consideration of \$92 million. The contribution from WNG explains the significant increase in other income and expenses for the period.

The transition and integration of WNG has gone smoothly and most identified key management personal retained. The business performed in line with expectations for the period and is on track to achieve a full year underlying operating profit result of at least \$10 million, which is in line with FY16 guidance.

While the domestic travel insurance market has slowed, WNG performed well with 66% of total gross written premium for the period from Australia and New Zealand sales. International markets, particularly North America, have performed strongly. nib's ownership of WNG has given the company the capital and scale it requires to fully exploit growth opportunities especially in foreign markets.

nib Options

(\$m)	31 Dec 15	31 Dec 14	Change	
			\$m	%
Other income	0.0	(0.1)	0.1	128.2
Other expenses	(1.0)	(1.7)	0.7	40.6
Underlying operating loss	(1.0)	(1.8)	0.8	46.8

Launched by us in early 2014, nib Options remains a start-up business with strategy and effort still largely focused upon getting systems and processes right. During the period we set up operations within Thailand and now have a team in place which better calibrates with the needs of the business. The 1H16 result and previous losses reflect this investment.

Our investment thesis is that people will increasingly travel across international borders and that nib has capabilities that lend themselves to competing in the market for clients. While our value proposition is concentrated upon cosmetic surgery and major dental treatment, we see an eventual opportunity in the broader market for medical treatment.

REVIEW OF OPERATIONS continued

CAPITAL MANAGEMENT

At 31 December 2015 the Group had net assets of \$362.5 million (June 2015: \$344.3 million) and a return on equity of 22.9%, using average shareholders' equity and NPAT for the previous 12 months over a rolling 12-month period (December 2014: 21.4%). Further, at 31 December 2015 the Group had available capital of \$4.0 million above our internal benchmark (after allowing for the payment of an interim dividend of 5.75 cents per share, totalling \$25.2 million, in April 2016).

During the year, nib holdings limited established a \$50 million variable rate loan facility NAB and drew down \$35 million of the existing \$50 million loan facility with ANZ. Both loans relate to the acquisition of World Nomads Group with maturity and repayment being 18 December 2017.

DIVIDENDS

Dividends paid to shareholders during the half year were as follows:

	Half year	
	31 Dec 15 \$ 000	31 Dec 14 \$ 000
Final dividend for the year ended 30 June 2015 of 6.0 cents per fully paid ordinary share, made up of 6.0 cps ordinary dividend (2014 - 14.75 cents per fully paid ordinary share, made up of 5.75 cps ordinary dividend and 9.0 cps special dividend) paid on 9 October 2015	26,339	64,748

In addition to these dividends, since the end of the half year the Directors have recommended the payment of a fully franked interim dividend of \$25.2 million (5.75 cents per fully paid share ordinary dividend) to be paid on 1 April 2016 out of retained profits at 31 December 2015.

Subject to franking credit availability, the Board's position is that future ordinary dividends will reflect a dividend payout ratio of 60% to 70% of earnings with additional capacity to pay special dividends as part of future capital management.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 8.

ROUNDING OF AMOUNTS

The company is of a kind referred to in ASIC Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and Financial Report. Amounts in the Directors' Report and Financial Report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

This report is made in accordance with a resolution of the Directors.

On behalf of the Board



Steve Crane
 Director
 Newcastle, NSW
 19 February 2016



Harold Bentley
 Director



Auditor's Independence Declaration

As lead auditor for the review of nib holdings limited for the half-year ended 31 December 2015, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of nib holdings limited and the entities it controlled during the period.

A handwritten signature in black ink that reads 'C. Mara' with a stylized flourish at the end.

Caroline Mara
Partner
PricewaterhouseCoopers

Newcastle
19 February 2016

Financial Report

For the half year ended 31 December 2015

nib holdings limited

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Consolidated Income Statement

For the half year ended 31 December 2015

nib holdings limited

	Notes	Half year	
		31 Dec 15	31 Dec 14
		\$000	\$000
Premium revenue	4	903,360	803,017
Outwards reinsurance premium expense	4	(704)	(711)
Net premium revenue		902,656	802,306
Claims expense		(639,151)	(560,975)
Reinsurance and other recoveries revenue		360	334
RESA levy ¹		(94,131)	(94,717)
State levies		(14,724)	(14,158)
Decrease / (increase) in premium payback liability		7,795	(573)
Claims handling expenses	5	(8,316)	(8,064)
Net claims incurred		(748,167)	(678,153)
Acquisition costs	5	(42,750)	(38,006)
Other underwriting expenses	5	(48,898)	(40,427)
Underwriting expenses		(91,648)	(78,433)
Underwriting result		62,841	45,720
Other income	4	24,452	2,701
Other expenses	5	(27,967)	(6,350)
Operating profit		59,326	42,071
Finance costs	5	(2,598)	(1,671)
Investment income	4	7,267	20,787
Investment expenses	5	(761)	(788)
Profit before income tax		63,234	60,399
Income tax expense	6	(20,156)	(19,272)
Profit for the half year		43,078	41,127
Profit for the half year is attributable to:			
Owners of nib holdings limited		43,409	41,362
Non-controlling interests		(331)	(235)
		43,078	41,127
1. RESA (Risk Equalisation Special Account) levy formerly RETF (Risk Equalisation Trust Fund) levy.			
		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company			
Basic earnings per share		9.9	9.4
Diluted earnings per share		9.9	9.4
Earnings per share for profit attributable to the ordinary equity holders of the company			
Basic earnings per share		9.9	9.4
Diluted earnings per share		9.9	9.4

The above Consolidated Income Statement should be read in conjunction with the accompanying notes

Consolidated Statement of Comprehensive Income

For the half year ended 31 December 2015

nib holdings limited

	Notes	Half year	
		31 Dec 15	31 Dec 14
		\$000	\$000
Profit for the half year		43,078	41,127
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		2,094	891
Reversal on disposal of available for sale financial assets		-	(2,012)
Income tax related to these items	6	(375)	520
Other comprehensive income for the half year, net of tax		1,719	(601)
Total comprehensive income for the half year		44,797	40,526
Total comprehensive income for the half year is attributable to:			
Owners of nib holdings limited		45,128	40,761
Non-controlling interests		(331)	(235)
		44,797	40,526

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes

Consolidated Balance Sheet

For the half year ended 31 December 2015
nib holdings limited

	Notes	31 Dec 15 \$ 000	30 Jun 15 \$ 000
ASSETS			
Current assets			
Cash and cash equivalents		98,932	123,655
Receivables		58,782	45,130
Financial assets at fair value through profit or loss	7	438,464	457,155
Reinsurance and other recoveries receivable		112	-
Deferred acquisition costs		26,362	22,059
Assets classified as held for sale		38,867	38,726
Current tax assets		1,236	-
Total current assets		662,755	686,725
Non-current assets			
Deferred acquisition costs		47,838	42,069
Deferred tax assets	6(b)	340	3,677
Property, plant and equipment		15,505	14,458
Intangible assets	8	216,417	90,179
Total non-current assets		280,100	150,383
Total assets		942,855	837,108
LIABILITIES			
Current liabilities			
Payables		117,532	124,902
Reinsurance and other recoveries payable		-	9
Borrowings	9	88	1,390
Outstanding claims liability	10	99,594	97,147
Unearned premium liability		126,240	126,922
Premium payback liability	11	12,940	10,459
Provision for employee entitlements		3,005	3,056
Current tax liabilities		3,267	2,607
Total current liabilities		362,666	366,492
Non-current liabilities			
Borrowings	9	150,645	62,501
Unearned premium liability		19,522	16,306
Premium payback liability	11	22,023	30,429
Provision for employee entitlements		2,067	1,268
Deferred tax liabilities	6(c)	23,415	15,849
Total non-current liabilities		217,672	126,353
Total liabilities		580,338	492,845
Net assets		362,517	344,263
EQUITY			
Contributed equity		28,045	28,001
Retained profits		324,108	307,038
Reserves		11,286	9,815
Capital and reserves attributable to owners of nib holdings limited		363,439	344,854
Non-controlling interests		(922)	(591)
Total equity		362,517	344,263

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes

Consolidated Statement of Changes in Equity

For the half year ended 31 December 2015

nib holdings limited

	Attributable to owners of nib holdings limited					Non-controlling interests	Total Equity
	Contributed Equity	Retained Profits	Reserves	Total			
	Notes	\$000	\$000	\$000	\$000		
Balance at 1 July 2014		27,189	320,132	9,101	356,422	(54)	356,368
Profit for the half year		-	41,362	-	41,362	(235)	41,127
Revaluation of available for sale financial assets, net of tax		-	-	(1,408)	(1,408)	-	(1,408)
Movement in foreign currency translation, net of tax		-	-	807	807	-	807
Total comprehensive income for the half year		-	41,362	(601)	40,761	(235)	40,526
Transactions with owners in their capacity as owners:							
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust		(137)	-	-	(137)	-	(137)
Issue of shares held by nib Holdings Ltd Share Ownership Plan Trust to employees		949	-	(745)	204	-	204
Employee performance rights - value of employee services		-	-	133	133	-	133
Dividends paid	12	-	(64,748)	-	(64,748)	-	(64,748)
		812	(64,748)	(612)	(64,548)	-	(64,548)
Balance at 31 December 2014		28,001	296,746	7,888	332,635	(289)	332,346
Balance at 1 July 2015		28,001	307,038	9,815	344,854	(591)	344,263
Profit for the half year		-	43,409	-	43,409	(331)	43,078
Movement in foreign currency translation, net of tax		-	-	1,719	1,719	-	1,719
Total comprehensive income for the half year		-	43,409	1,719	45,128	(331)	44,797
Transactions with owners in their capacity as owners:							
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust		(1,382)	-	-	(1,382)	-	(1,382)
Issue of shares held by nib Holdings Ltd Share Ownership Plan Trust to employees		1,426	-	(631)	795	-	795
Employee performance rights - value of employee services		-	-	383	383	-	383
Dividends paid	12	-	(26,339)	-	(26,339)	-	(26,339)
		44	(26,339)	(248)	(26,543)	-	(26,543)
Balance at 31 December 2015		28,045	324,108	11,286	363,439	(922)	362,517

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes

Consolidated Statement of Cash Flows

For the half year ended 31 December 2015

nib holdings limited

	Notes	Half year	
		31 Dec 15	31 Dec 14
		\$000	\$000
Cash flows from operating activities			
Receipts from policyholders and customers (inclusive of goods and services tax)		939,775	818,916
Payments to policyholders and customers		(767,362)	(679,012)
Payments to suppliers and employees (inclusive of goods and services tax)		(141,541)	(111,995)
		30,872	27,909
Dividends received		-	217
Interest received		3,791	4,830
Distributions received		3,748	1,643
Transaction costs relating to acquisition of business combination		(2,748)	-
Interest paid		(2,240)	(1,643)
Income taxes paid		(14,838)	(16,334)
Net cash inflow from operating activities		18,585	16,622
Cash flows from investing activities			
Proceeds from disposal of other financial assets at fair value through profit and loss		153,311	98,664
Payments for other financial assets at fair value through profit and loss		(131,249)	(116,064)
Proceeds from sale of available-for-sale financial assets		-	6,882
Proceeds from sale of property, plant and equipment and intangibles		3	17
Payments for property, plant and equipment and intangibles		(6,908)	(6,664)
Payment for acquisition of business combination, net of cash acquired	15	(114,506)	-
Net cash (outflow) inflow from investing activities		(99,349)	(17,165)
Cash flows from financing activities			
Proceeds from borrowings		85,000	-
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust		(1,382)	(137)
Dividends paid to the company's shareholders	12	(26,339)	(64,748)
Net cash inflow (outflow) from financing activities		57,279	(64,885)
Net (decrease) increase in cash and cash equivalents			
		(23,485)	(65,428)
Cash and cash equivalents at beginning of the year		122,265	146,954
Effects of exchange rate changes on cash and cash equivalents		64	316
Cash and cash equivalents at the end of the year		98,844	81,842
Reconciliation to Consolidated Balance Sheet			
Cash and cash equivalents		98,932	83,254
Borrowings - overdraft		(88)	(1,412)
		98,844	81,842

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes

Notes to the Consolidated Financial Statements

For the half year ended 31 December 2015

nib holdings limited

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of nib holdings limited and its subsidiaries.

a) Basis of preparation of half year report

This consolidated interim financial report for the half year reporting period ended 31 December 2015 has been prepared in accordance with *AASB 134 Interim Financial Reporting* and the *Corporations Act 2001*. nib holdings limited is a for-profit entity for the purpose of preparing the financial statements.

This consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 30 June 2015 and any public announcements made by nib holdings limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year. Additional accounting policies are shown for new transactions that have occurred since the previous financial year.

When the presentation or classification of items in the financial report is amended, comparative amounts have been reclassified.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

2. FAIR VALUE MEASUREMENT

a) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

The following table presents the Group's assets and liabilities measured and recognised at fair value at 31 December 2015 and 30 June 2015.

	Level 1	Level 2	Level 3	Total
	\$ 000	\$ 000	\$ 000	\$ 000
Group at 31 December 2015				
Assets				
Cash and cash equivalents and deposits at call	98,932	-	-	98,932
Financial assets at fair value through profit or loss				
Equity securities	61,331	-	-	61,331
Interest-bearing securities	304,857	42,088	-	346,945
Short term deposits	30,188	-	-	30,188
Property, plant and equipment				
Land & buildings	-	-	1,803	1,803
Total assets	495,308	42,088	1,803	539,199

	Level 1	Level 2	Level 3	Total
	\$ 000	\$ 000	\$ 000	\$ 000
Group at 30 June 2015				
Assets				
Cash and cash equivalents and deposits at call	123,655	-	-	123,655
Financial assets at fair value through profit or loss				
Equity securities	60,600	531	-	61,131
Interest-bearing securities	310,948	49,888	-	360,836
Short term deposits	35,188	-	-	35,188
Property, plant and equipment				
Land and buildings	-	-	1,815	1,815
Total assets	530,391	50,419	1,815	582,625

There were no transfers between level 1 and level 2 during the half year ended 31 December 2015.

The Group's policy is to recognise transfers into and transfers out of the fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets (such as financial assets at fair value through profit and loss) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in active markets is determined using valuation techniques. The Group use a variety of methods and makes assumptions that are based on market conditions existing at each balance date. These instruments are included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

2. FAIR VALUE MEASUREMENT continued

b) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

All of the resulting fair value estimates for financial instruments are included in level 2.

The Group obtains independent valuations for its freehold land and buildings at least every three years.

At the end of each reporting period, the Directors update their assessment of the fair value of each property, taking into account the most recent independent valuations. Freehold land and buildings were independently valued by a member of the Australian Property Institute as at 30 June 2013. As at 31 December 2015 a Directors' valuation has been performed for all properties.

All resulting fair value estimates for properties are included at level 3.

c) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 instruments for the half year ended 31 December 2015:

	Land & Buildings	Total
	\$000	\$000
Closing balance 30 June 2015	1,815	1,815
Depreciation	(12)	(12)
Closing balance 31 December 2015	1,803	1,803

i) Transfers between levels 2 and 3

There were no transfers between the levels of the fair value hierarchy during the year. There were also no changes during the half year to any of the valuation techniques applied as of 30 June 2015.

ii) Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements:

Description	Fair value at 31 December 2015	Unobservable inputs *	Range of inputs (probability -	Relationship of unobservable inputs to fair value
Land & buildings	1,803	Capitalisation rate	6.75% - 8.75% (7.75%)	The higher the capitalisation rate, the lower the fair value.
		Market rent per square metre	\$500 - \$610 (\$556)	If market rent per square metre was 10% higher or lower, the fair value would increase/decrease by \$200,000.

iii) Valuation process

The Group engages external, independent and qualified valuers to determine the fair value of the Group's land and buildings at least every three years. As at 31 December 2015, a Directors' valuation has been performed for the land and buildings.

The finance department of the Group includes a team that performs the valuations of non-property assets required for financial reporting purposes, including level 3 fair values. This team reports directly to the Chief Financial Officer (CFO) and the Audit Committee (AC). Discussions of valuation processes and results are held between the CFO, AC and the valuation team at least once every six months, in line with the Group's half-yearly reporting dates.

Changes in level 2 and 3 fair values are analysed at each reporting date during the half-yearly valuation discussion between the CFO, AC and the valuation team. As part of this discussion the team presents a report that explains the reason for the fair value movements.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

2. FAIR VALUE MEASUREMENT continued

d) Fair values of other financial instruments

The Group also had another financial instrument which was not measured at fair value in the balance sheet. This had the following fair value as at 31 December 2015 and 30 June 2015:

	31 Dec 15		30 Jun 15	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current borrowings	\$000	\$000	\$000	\$000
Bank loans	150,645	150,660	62,501	62,524

The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values due to their short-term nature.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

3. SEGMENT REPORTING

a) Description of segments

Operating segments are reported in a manner consistent with the internal reporting provided to Executive management. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer/Managing Director.

Management has determined the operating segments based on the reports reviewed by the MD/CEO that are used to make strategic decisions.

The MD/CEO considers the business from both a geographic and product perspective and has identified five reportable segments:

- Australian Residents Health Insurance – nib's core product offering within the Australian private health insurance industry
- New Zealand Residents Health Insurance – nib's core product offering within the New Zealand private health insurance industry
- International (Inbound) Health Insurance – nib's offering of health insurance products for international students and workers
- nib Options – this part of the business facilitates access to cosmetic and dental treatment both overseas and here in Australia
- World Nomads Group – nib's distribution of travel insurance products

While the MD/CEO receives separate reports for both international students and international workers, these have been aggregated into one operating segment as they are both for overseas visitors and have similar product design, processing and distribution methods. Further, both are regulated as Health Related Business under the Private Health Insurance (Health Benefits Fund Policy) Rules 2015. In the prior half year financial statements the aggregation criteria was not applied, the comparative numbers have been amended to reflect the aggregation.

Although the nib Options segment does not meet the quantitative thresholds required by AASB 8, management has concluded that the segment should be reported, as it is closely monitored by the MD/CEO as a potential growth segment and is expected to contribute to Group revenue in the future.

b) Other segment information

The MD/CEO assesses the performance of the operating segments based on underlying operating profit. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as integration costs, merger and acquisition costs, and amortisation of acquired intangibles.

No information regarding assets, liabilities and income tax is provided for individual Australian Health Insurance and International (Inbound) Health Insurance segments to the MD/CEO. Furthermore, investment income and expenditure for Australia is not allocated to individual Australian segments as this type of activity is driven by the central treasury function, which manages the cash position of the Australian companies.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

3. SEGMENT REPORTING continued

c) Segment information provided to Executive management

The segment information provided to the MD/CEO for the reportable segments is as follows:

	For the half year ending 31 December 2015						
	Australian Residents Health Insurance \$000	International (Inbound) Health Insurance \$000	New Zealand Health Insurance \$000	World Nomads Group \$000	nib Options \$000	Unallocated to segments \$000	Total \$000
Premium revenue	781,263	42,200	79,897	-	-	-	903,360
Outwards reinsurance premium expense	-	(702)	(2)	-	-	-	(704)
Net premium revenue	781,263	41,498	79,895	-	-	-	902,656
Claims expense	(554,568)	(27,721)	(56,862)	-	-	-	(639,151)
Reinsurance and other recoveries revenue	-	360	-	-	-	-	360
RESA ¹	(94,131)	-	-	-	-	-	(94,131)
State levies	(14,724)	-	-	-	-	-	(14,724)
(Increase) / Decrease in premium payback liability	-	-	7,795	-	-	-	7,795
Claims handling expenses	(7,286)	(460)	(570)	-	-	-	(8,316)
Net claims incurred	(670,709)	(27,821)	(49,637)	-	-	-	(748,167)
Acquisition costs	(26,529)	(3,312)	(12,909)	-	-	-	(42,750)
Other underwriting expenses	(32,346)	(5,170)	(9,518)	-	-	-	(47,034)
Underwriting expenses	(58,875)	(8,482)	(22,427)	-	-	-	(89,784)
Underwriting result	51,679	5,195	7,831	-	-	-	64,705
Other income	63	183	-	22,045	19	2,142	24,452
Other expenses	-	-	-	(17,854)	(978)	(3,914)	(22,746)
Underlying operating profit / (loss)	51,742	5,378	7,831	4,191	(959)	(1,772)	66,411
Items not included in underlying operating profit							
Amortisation of acquired intangibles	-	(435)	(1,429)	(1,629)	-	-	(3,493)
One-off transactions and M&A costs	-	-	-	(861)	-	(2,731)	(3,592)
Finance costs	-	-	-	-	-	-	(2,598)
Investment income	-	-	-	-	-	-	7,267
Investment expenses	-	-	-	-	-	-	(761)
Profit before income tax from continuing operations							63,234
Inter-segment other income ²	1,121	-	-	-	-	230	1,351
Total assets	611,712		198,752	111,795	562	20,034	942,855
Total liabilities	324,107		69,550	8,547	160	177,974	580,338
Insurance liabilities							
Outstanding claims liability	87,333		12,261				99,594
Unearned premium liability	128,300		17,462				145,762
Premium payback liability	-		34,963				34,963
Total	215,633		64,686				280,319

1. RESA (Risk Equalisation Special Account) levy formerly RETF (Risk Equalisation Trust Fund) levy.

2. Inter-segment other income is eliminated on consolidation and not included in underlying segment operating profit.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

3. SEGMENT REPORTING continued

c) Segment information provided to Executive management continued

For the half year ending 31 December 2014

	Australian Residents Health Insurance \$000	International (Inbound) Health Insurance \$000	New Zealand Health Insurance \$000	World Nomads Group \$000	nib Options \$000	Unallocated to segments \$000	Total \$000
Premium revenue	706,923	23,173	72,921	-	-	-	803,017
Outwards reinsurance premium expense	-	(711)	-	-	-	-	(711)
Net premium revenue	706,923	22,462	72,921	-	-	-	802,306
Claims expense	(503,633)	(9,085)	(48,257)	-	-	-	(560,975)
Reinsurance and other recoveries revenue	-	334	-	-	-	-	334
RESA ¹	(94,717)	-	-	-	-	-	(94,717)
State levies	(14,158)	-	-	-	-	-	(14,158)
(Increase) / Decrease in premium payback liability	-	-	(573)	-	-	-	(573)
Claims handling expenses	(7,197)	(255)	(612)	-	-	-	(8,064)
Net claims incurred	(619,705)	(9,006)	(49,442)	-	-	-	(678,153)
Acquisition costs	(22,774)	(2,366)	(12,866)	-	-	-	(38,006)
Other underwriting expenses	(27,023)	(3,494)	(7,956)	-	-	-	(38,473)
Underwriting expenses	(49,797)	(5,860)	(20,822)	-	-	-	(76,479)
Underwriting result	37,421	7,596	2,657	-	-	-	47,674
Other income	172	184	-	-	(78)	1,751	2,029
Other expenses	-	-	-	-	(1,724)	(2,531)	(4,255)
Underlying operating profit / (loss)	37,593	7,780	2,657	-	(1,802)	(780)	45,448
Items not included in underlying operating profit							
Amortisation of acquired intangibles	-	(60)	(1,894)	-	-	-	(1,954)
One-off transactions and M&A costs	-	-	-	-	(751)	(672)	(1,423)
Finance costs							(1,671)
Investment income							20,787
Investment expenses							(788)
Profit before income tax from continuing operations							60,399
Inter-segment other income ²	1,317	-	32	-	-	-	1,349
Total assets	531,379		170,780	-	539	59,411	762,109
Total liabilities	275,904		73,345	-	574	79,940	429,763
Insurance liabilities							
Outstanding claims liability	77,183		9,881				87,064
Unearned premium liability	98,056		15,307				113,363
Premium payback liability	-		42,498				42,498
Total	175,239		67,686				242,925

1. RESA (Risk Equalisation Special Account) levy formerly RETF (Risk Equalisation Trust Fund) levy.

2. Inter-segment other income is eliminated on consolidation and not included in underlying segment operating profit.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

4. REVENUE AND OTHER INCOME

	Half year	
	31 Dec 15	31 Dec 14
	\$ 000	\$ 000
Premium revenue	903,360	803,017
Outwards reinsurance premiums	(704)	(711)
Net premium revenue	902,656	802,306
Other Income		
Travel insurance and other commission	22,114	189
Life and funeral insurance commission	1,139	990
Agency fee	144	156
Rental income	493	475
Fair value adjustment to contingent consideration	-	672
Subscription income / (refund)	-	(105)
Sundry income	562	324
	24,452	2,701
Investment income		
Interest	3,638	4,933
Net gain on sale of available for sale financial assets ¹	-	5,382
Net realised gain on financial assets at fair value through profit or loss	2,361	5,297
Net unrealised gain/(loss) on financial assets at fair value through profit or loss	1,268	4,958
Dividends	-	217
	7,267	20,787

¹ On 21 November 2014 nib sold the 5,294,118 shares held in Pacific Smiles Group (PSG) as part of PSG's IPO process.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

5. EXPENSES

	Half year	
	31 Dec 15	31 Dec 14
Notes	\$000	\$000
Expenses by function		
Claims handling expenses	8,316	8,064
Acquisition costs	42,750	38,006
Other underwriting expenses	48,898	40,427
Other expenses	27,967	6,350
Finance costs	2,598	1,671
Investment expenses	761	788
Total expenses (excluding direct claims expenses)	131,290	95,306
Expenses by nature		
Employee costs	49,315	37,876
Marketing expenses - excluding commissions	18,288	15,842
Marketing expenses - commissions	24,418	14,071
Amortisation of acquired intangibles	3,493	1,954
Bank charges	1,905	963
Consultancy fees	6,120	1,491
Depreciation and amortisation	4,963	4,432
Electronic claims processing fees	1,713	1,643
Finance costs	2,598	1,671
Impairment of goodwill	-	1,423
Insurance	821	577
Investment expenses	761	788
Legal expenses	532	334
Merger and acquisition costs	2,731	672
Net (gain) / loss on disposal of property, plant and equipment	(2)	(1)
Operating lease rental expenses	2,441	1,758
Postages	997	1,094
Share registry expenses	597	749
Software maintenance	3,097	2,809
Telephones	721	622
Other	5,781	4,538
Total expenses (excluding direct claims expenses)	131,290	95,306

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

6. INCOME TAX

a) Income tax

	Notes	Half year	
		31 Dec 15	31 Dec 14
		\$000	\$000
i) Income tax expense			
Recognised in the income statement			
Current tax expense		14,029	15,540
Deferred tax expense		6,077	4,058
Under (over) provided in prior years		286	-
Under (over) provided in prior years - research and development tax credit		(236)	(326)
		20,156	19,272
Income tax expense is attributable to:			
Profit from continuing operations		20,156	19,272
Aggregate income tax expense		20,156	19,272
Deferred income tax expense included in income tax expense comprises:			
Decrease in deferred tax assets		2,346	1,010
Increase in deferred tax liabilities		3,731	3,048
		6,077	4,058
ii) Numerical reconciliation of income tax expense to prima facie tax payable			
Profit from continuing operations before income tax expense		63,234	60,399
Tax at the Australian tax rate of 30% (2014: 30%)		18,970	18,120
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
Goodwill impairment		-	427
Fair value adjustment to contingent consideration		-	(202)
Share-based payments		(83)	(189)
Entertainment		63	20
Merger and acquisition costs		857	-
Sundry items		(2)	1
Imputation credits and foreign tax credits		-	(65)
Adjustment for current tax of prior periods		286	-
Adjustment for current tax of prior periods - research and development tax credit		(236)	(326)
Unrecognised tax losses and deferred tax assets		367	1,510
Differences in foreign tax rates		(66)	(24)
Income tax expense		20,156	19,272
iii) Tax expense relating to items of other comprehensive income			
Foreign currency translations		375	84
Change in value of available for sale financial assets		-	(604)
		375	(520)
iv) Tax losses			
Unused tax losses for which no deferred tax asset has been recognised		7,483	4,699
Potential tax benefit @ 30%		2,245	1,410

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

6. INCOME TAX continued

b) Deferred tax assets

	31 Dec 15	30 Jun 15
	\$ 000	\$ 000
The balance comprises temporary differences attributable to:		
Employee benefits	3,234	2,568
Outstanding claims	23	-
Premium payback liabilities	9,372	11,051
	12,629	13,619
<i>Other</i>		
Doubtful debts	225	247
Provisions	1,887	1,186
Merger and acquisition costs	234	438
Tax losses	436	194
Sub-total other	2,782	2,065
Total deferred tax assets	15,411	15,684
Set-off of deferred tax liabilities pursuant to set-off provisions	6(c) (15,071)	(12,007)
Net deferred tax assets	340	3,677

Movements	Employee benefits \$ 000	Outstanding claims \$ 000	Premium payback liabilities \$ 000	Other \$ 000	Total \$ 000
At 1 July 2014	2,377	64	10,995	2,179	15,615
(Charged)/credited to the income statement	212	(64)	533	(108)	573
(Charged)/credited directly to equity	(21)	-	(477)	(6)	(504)
At 30 June 2015	2,568	-	11,051	2,065	15,684
At 1 July 2015	2,568	-	11,051	2,065	15,684
(Charged)/credited to the income statement	(707)	23	(2,183)	521	(2,346)
(Charged)/credited directly to equity	17	-	504	5	526
Acquisition of businesses	1,356	-	-	191	1,547
At 31 December 2015	3,234	23	9,372	2,782	15,411

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

6. INCOME TAX continued

c) Deferred tax liabilities

	31 Dec 15	30 Jun 15
	\$ 000	\$ 000
The balance comprises temporary differences attributable to:		
Depreciation and amortisation	654	413
Deferred acquisition costs	21,585	17,866
Brands and trademarks and customer contracts	10,217	4,653
Outstanding claims	-	61
Unrealised gains on investments	2,228	1,474
	34,684	24,467
<i>Other</i>		
Asset revaluation	2,611	2,611
Borrowing costs	4	6
Income receivables	4	4
Prepayments	72	27
Unrealised foreign exchange gains	898	559
Unearned premium liability	213	182
Sub-total other	3,802	3,389
Total deferred tax liabilities	38,486	27,856
Set-off of deferred tax liabilities pursuant to set-off provisions	6(b)	(12,007)
Net deferred tax liabilities	23,415	15,849

Movements	Depreciation and amortisation \$ 000	Deferred acquisition costs \$ 000	Brands and trademarks and customer contracts \$ 000	Outstanding claims \$ 000	Unrealised gains on investments \$ 000	Other \$ 000	Total \$ 000
At 1 July 2014	137	11,382	5,848	-	1,828	2,379	21,574
(Charged)/credited to the income statement	288	6,596	(994)	61	(354)	187	5,784
(Charged)/credited directly to equity	(12)	(112)	(201)	-	-	823	498
At 30 June 2015	413	17,866	4,653	61	1,474	3,389	27,856
At 1 July 2015	413	17,866	4,653	61	1,474	3,389	27,856
(Charged)/credited to the income statement	222	3,540	(789)	(61)	754	65	3,731
(Charged)/credited directly to equity	20	179	362	-	-	340	901
Acquisition of businesses	(1)	-	5,991	-	-	8	5,998
At 31 December 2015	654	21,585	10,217	-	2,228	3,802	38,486

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 Dec 15	30 Jun 15
	\$ 000	\$ 000
Equity securities	61,331	61,131
Interest-bearing securities	346,945	360,836
Short term deposits	30,188	35,188
	438,464	457,155

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

8. INTANGIBLE ASSETS

	Goodwill	Software	Brands and Trademarks	Customer Contracts	Total
	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
At 1 July 2014					
Cost	56,626	43,338	6,832	24,667	131,463
Accumulated amortisation and impairment	-	(27,810)	(2,208)	(6,267)	(36,285)
Net book amount	56,626	15,528	4,624	18,400	95,178
Year ended 30 June 2015					
Opening net book amount	56,626	15,528	4,624	18,400	95,178
Additions	-	7,175	-	-	7,175
Amortisation charge for the year	-	(5,680)	(701)	(2,278)	(8,659)
Impairment charge ¹	(1,423)	-	-	-	(1,423)
Exchange differences	(1,206)	(224)	(14)	(648)	(2,092)
Closing net book amount	53,997	16,799	3,909	15,474	90,179
At 30 June 2015					
Cost	55,420	50,201	6,720	23,793	136,134
Accumulated amortisation and impairment	(1,423)	(33,402)	(2,811)	(8,319)	(45,955)
Net book amount	53,997	16,799	3,909	15,474	90,179
Half year ended 31 December 2015					
Opening net book amount	53,997	16,799	3,909	15,474	90,179
Additions	-	5,064	12	-	5,076
Acquisition of business	15	72,123	9,488	21,153	124,572
Amortisation charge for the year	-	(4,170)	(418)	(2,051)	(6,639)
Exchange differences	1,739	256	-	1,234	3,229
Closing net book amount	127,859	27,437	25,311	35,810	216,417
At 31 December 2015					
Cost	129,282	61,347	28,832	46,480	265,941
Accumulated amortisation and impairment	(1,423)	(33,910)	(3,521)	(10,670)	(49,524)
Net book amount	127,859	27,437	25,311	35,810	216,417

1. The carrying amount of the nib Options segment goodwill has been reduced to nil through recognition of an impairment loss against goodwill. This loss has been disclosed as a separate line item in profit or loss.

Notes to the Consolidated Financial Statements *continued*

For the half year ended 31 December 2015

nib holdings limited

8. INTANGIBLE ASSETS *continued*

a) Recognition and measurement

i) Software

Costs incurred in developing products or systems and costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software. Costs capitalised include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis over periods generally ranging from two and a half years to five years.

ii) Brands and trademarks

Brands and trademarks acquired as a part of a business combination are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. The useful lives of acquired brands and trademarks are as follows:

- IMAN Australian Health Plans Pty Ltd - five years
- nib nz limited (formerly Tower Medical Insurance Limited) - two years
- World Nomads Group – indefinite

iii) Customer Contracts

Customer contracts acquired as part of a business combination are recognised separately from goodwill. The customer contracts are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of projected cash flows of the contracts over their estimated useful lives, which are as follows:

- IMAN Australian Health Plans Pty Ltd – four years
- nib nz limited (formerly Tower Medical Insurance Limited) – 10 years
- World Nomads Group – three years
- OnePath Life (NZ) Limited – 15 years

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

9. BORROWINGS

	31 Dec 15	30 Jun 15
	\$ 000	\$ 000
Current		
Bank overdraft	88	1,390
	88	1,390
Non-current		
Bank loans (secured)	150,645	62,501
	150,645	62,501

The bank overdraft comprises the closing positive balance of the bank account, adjusted for un-presented cheques and outstanding deposits.

Movements in the bank loans (secured) are as follows:

	31 Dec 15	30 Jun 15
	\$ 000	\$ 000
Balance at beginning of period	62,501	65,081
Proceeds from borrowings	85,000	-
Borrowing expenses	(18)	-
Amortisation of borrowing expenses	26	59
Exchange differences	3,136	(2,639)
Balance at end of period	150,645	62,501

a) Secured liabilities

During the year, nib holdings limited established a \$50 million variable rate loan facility NAB and drew down \$35 million of the existing \$50 million loan facility with ANZ. Both loans relate to the acquisition of World Nomads Group with maturity and repayment being 18 December 2017. The covenants on these loan facilities are the same as the existing covenants on the NZD\$70 million loan detailed below.

Both facilities are variable rate Australian denominated loans which are carried at amortised cost and therefore do not have any impact on the Group's exposure to foreign exchange and interest rate risk.

nib nz holdings limited, a wholly owned subsidiary of nib holdings limited, has a NZD\$70 million variable rate term loan facility in relation to the acquisition of nib nz limited with maturity and repayment at the end of three years being 18 December 2017.

The bank loan is secured by the shares in nib nz holdings limited and a negative pledge that imposes the following covenants on the Group. The negative pledge states that the Group will ensure that the following financial ratios are met:

- (i) The Group Gearing Ratio will not be more than 35%
- (ii) The Group Interest Cover Ratio will be not less than 5:1.

As at 31 December 2015 the Group Gearing Ratio was 29.3% (June 15: 15.6%) and the Group Interest Cover Ratio was 26:1 (June 2015: 35:1)

nib holdings limited has provided a guarantee and indemnity to the ANZ Bank New Zealand on behalf of nib nz holdings limited in respect of the NZD\$70 million term loan facility.

nib holdings limited has subordinated any amounts owing to it from nib nz holdings limited and nib nz limited in favour of all other creditors of these companies.

b) Available debt facility

nib holdings limited has a AUD\$50 million variable rate loan facility with ANZ of which AUD\$35 million was drawn down on 17 August 2015 with \$15 million remaining in the facility as at 31 December 2015.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

10. OUTSTANDING CLAIMS LIABILITY

	31 Dec 15	30 Jun 15
	\$ 000	\$ 000
Outstanding claims - central estimate of the expected future payment for claims incurred	78,375	78,565
Risk margin	4,061	3,872
Administration component	1,208	1,214
Gross outstanding claims liability	83,644	83,651
Outstanding claims - expected payment to the RESA* in relation to the central estimate	15,307	12,940
Risk Margin	643	556
Net outstanding claims liability	99,594	97,147

* Risk Equalisation Special Account (RESA) Levy (formerly Risk Equalisation Trust Fund) represents expenses incurred under Risk Equalisation Special Account arrangements which are provided for within the legislation to support the principle of community rating

Movements in the gross outstanding claims are as follows:

	31 Dec 15	30 Jun 15
	\$ 000	\$ 000
Gross outstanding claims at beginning of period	83,651	79,319
Risk margin	(3,872)	(3,408)
Administration component	(1,214)	(1,375)
Central estimate at beginning of period	78,565	74,536
Change in claims incurred for the prior year	(1,316)	(5,559)
Claims paid in respect of the prior year	(74,204)	(68,496)
Claims incurred during the period (expected)	627,907	1,146,524
Claims paid during the period	(554,435)	(1,068,031)
Acquisition of business	1,342	-
Effect of changes in foreign exchange rates	516	(409)
Central estimate at end of period	78,375	78,565
Risk margin	4,061	3,872
Administration component	1,208	1,214
Gross outstanding claims at end of period	83,644	83,651

a) Actuarial methods

The outstanding claims estimate for Australian segments is derived based on three valuation classes, namely hospital and prostheses services combined, medical services, and general treatment. For the New Zealand segment the outstanding claims estimate is derived based on two valuation classes, surgical and medical. This analysis is supplemented by more granular analysis within classes as appropriate.

In calculating the estimated cost of unpaid claims for Australian Residents Health Insurance and New Zealand Health Insurance, two methods are used. For service months October 2015 and earlier for hospital and medical, and for all months for general treatment, a chain ladder method is used; this assumes that the development pattern of the current claims will be consistent with historical experience. For hospital and medical, for the service months of November 2015 and December 2015 the Bornhuetter-Ferguson method is used, which progressively blends payment experience and prior forecasts of incurred costs.

For International Workers Health Insurance and International Students Health Insurance a chain ladder method is used for all service months for the valuation of the cost of unpaid claims.

As claims for health funds are generally settled within one year, no discounting of claims is usually applied as the difference between the undiscounted value of claims payments and the present value of claims payments is not likely to be material. Accordingly, reasonable changes in assumptions would not have a material impact on the outstanding claims balance.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

10. OUTSTANDING CLAIMS LIABILITY continued

b) Actuarial assumptions

The following assumptions have been made in determining the outstanding claims liability for claims incurred 12 months to the following financial years:

	31 Dec 15			30 Jun 15		
	Hospital %	Medical %	Ancillary %	Hospital %	Medical %	Ancillary %
Australian Residents Health Insurance						
Assumed proportion paid to date	92.6%	91.5%	97.3%	92.6%	90.8%	97.2%
Expense rate	1.40%	1.40%	1.40%	1.4%	1.4%	1.4%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	3.2%	3.2%	3.2%	2.9%	2.9%	2.9%
Risk equalisation rate	28.5%	28.5%	0.0%	24.1%	24.1%	0.0%
Risk margin for risk equalisation	4.2%	4.2%	0.0%	4.3%	4.3%	0.0%
International Students Health Insurance						
Assumed proportion paid to date	78.7%	88.0%	97.4%	69.1%	75.8%	96.0%
Expense rate	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	19.2%	19.2%	19.2%	19.7%	19.7%	19.7%
International Workers Health Insurance						
Assumed proportion paid to date	84.9%	85.4%	91.7%	80.2%	80.8%	89.0%
Expense rate	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	22.7%	22.7%	22.7%	23.4%	23.4%	23.4%
NZ Health Insurance						
	Surgical %	Medical %		Surgical %	Medical %	
Assumed proportion paid to date	89.7%	79.0%		89.3%	79.7%	
Expense rate	1.8%	1.8%		1.8%	1.8%	
Discount rate	0.0%	0.0%		0.0%	0.0%	
Risk margin	7.0%	7.0%		8.4%	8.4%	

The risk margin of 3.2% for Australian Residents Health Insurance (June 2015: 2.9%), International Students Health Insurance 19.2% (June 2015: 19.7%), 22.7% for International Workers Health Insurance (June 2015: 23.4%) and New Zealand Health Insurance 7.0% (June 2015: 8.4%) of the underlying liability has been estimated to equate to a probability of adequacy of 95% for the Group. The risk margin within each territory allows for diversification across the entity. The benefit of diversification across the Group is again allocated to the arhi segment.

c) Sensitivity analysis

iv) Impact of key variables

Variable	Movement in variable	Adjustments \$000	Profit after tax 31 Dec 15 \$000		Equity 31 Dec 15 \$000
			Adjusted amounts \$000	Adjustments \$000	Adjusted amounts \$000
Recognised amounts in the financial statements			43,409		363,439
Chain Ladder Development Factors	+0.5%	(5,380)	38,029	(5,380)	358,059
	-0.5%	5,380	48,789	5,380	368,819
Bornhuetter-Ferguson Unpaid Factors	+2.0%	(3,905)	39,504	(3,905)	359,534
	-2.0%	3,905	47,314	3,905	367,344
Expense rate	+1.0%	(825)	42,584	(825)	362,614
	-1.0%	825	44,234	825	364,264
Risk equalisation allowance	+2.5%	(1,399)	42,010	(1,399)	362,040
	-2.5%	1,399	44,808	1,399	364,838
Risk margin	+1.0%	(949)	42,460	(949)	362,490
	-1.0%	949	44,358	949	364,388

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

11. PREMIUM PAYBACK LIABILITY

	31 Dec 15	30 Jun 15
	\$ 000	\$ 000
Current		
Premium payback liability	12,940	10,459
	12,940	10,459
Non current		
Premium payback liability	22,023	30,429
	22,023	30,429

Premium payback early settlement offer

At their policy renewal, eligible premium payback customers are being offered a graduated early settlement based on the date they would become eligible for the full premium payback benefit, contingent on their claims history.

Customers receive the settlement offer around two months before their policy renewal. The first settlement offers were made in mid-June 2015 for August 2015 policy renewals. Settlement offers have been sent in January 2016 to eligible customers with renewal dates in March 2016.

As the premium payback settlement offer is expected to continue over the next six months, and recognising that 100% acceptance is unlikely, it's estimated for policyholders that accept the offer, \$7.3 million of total premium payback liability could be settled within the next six months. This is in addition to \$3.2 million premium payback liability that is expected to be settled in the normal course of business.

Movements in the premium payback liability are as follows:

	31 Dec 15	30 Jun 15
	\$ 000	\$ 000
Gross premium payback liability at beginning of period	40,888	40,750
Adjustment to ensure reserve exceeds current payout on early lapse	(565)	(1,733)
Value of payments currently being processed	(1,000)	(1,033)
Risk margin	(1,351)	(1,156)
Central estimate at beginning of period	37,972	36,828
Funding/new accrued	1,625	6,581
Unw ind discount rate	608	1,624
Interest rate movement impact	482	1,953
Premium payback payments	(10,193)	(8,222)
Others	67	811
Effect of changes in foreign exchange rates	1,691	(1,603)
Central estimate at end of year/period	32,252	37,972
Adjustment to ensure reserve exceeds current payout on early lapse	363	565
Value of payments currently being processed	1,337	1,000
Risk margin	1,011	1,351
Gross outstanding claims at end of period	34,963	40,888

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

11. PREMIUM PAYBACK LIABILITY continued

a) Actuarial methods

A risk margin at 95% probability of sufficiency was estimated by assuming there are no future lapses. Most of the premium payback reserve is held in respect of a group of customers where the historical lapse rate is already very low.

The following assumptions have been made in determining the premium payback liability:

	31 Dec 15	30 Jun 15
Lapse rate until 3 years from premium payback date	0.0% - 10.0%	2.0% - 10.0%
Lapse rate within 3 years of premium payback date	0.0% - 1.0%	0.0% - 1.0%
Expense rate	0.0%	0.0%
Discount rate for succeeding and following year	2.7% - 3.0%	2.8% - 3.1%
Risk margin	4.2%	3.1%

The risk margin has been estimated to equate to a 95% probability of adequacy (June 2015: 95%).

b) Sensitivity analysis

i) Impact of key variables

Variable	Movement in variable	Profit after tax		Equity	
		31 Dec 15		31 Dec 15	
		\$ 000		\$ 000	
Recognised amounts in the financial statements		43,409		363,439	
		Adjustments	Adjusted amounts	Adjustments	Adjusted amounts
		\$ 000	\$ 000	\$ 000	\$ 000
Lapse Rate	+1.0%	1,007	44,416	1,007	364,446
	-1.0%	(939)	42,470	(939)	362,500
Discount Rate	+1.0%	1,449	44,858	1,449	364,888
	-1.0%	(1,563)	41,846	(1,563)	361,876
Risk margin	+1.0%	(334)	43,075	(334)	363,105
	-1.0%	334	43,743	334	363,773

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

12. DIVIDENDS

a) Ordinary shares

	Half year	
	31 Dec 15	31 Dec 14
	\$ 000	\$ 000
Final dividend for the year ended 30 June 2015 of 6.0 cents per fully paid ordinary share, made up of 6.0 cps ordinary dividend (2014 - 14.75 cents per fully paid ordinary share, made up of 5.75 cps ordinary dividend and 9.0 cps special dividend) paid on 9 October 2015		
Fully franked based on tax paid @ 30%	26,339	64,748

b) Dividends not recognised at half year

	Half year	
	31 Dec 15	31 Dec 14
	\$ 000	\$ 000
In addition to the above dividends, since the end of the half year the Directors have recommended the payment of a interim dividend of 5.75 cents per fully paid ordinary share, made up of 5.75 cps ordinary dividend (2014 - 5.5 cents per fully paid ordinary share, made up of 5.5 cps ordinary dividend), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 1 April 2016 out of retained profits at 31 December 2015, but not recognised as a liability at the end of the half year, is	25,243	24,145

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

13. CAPITAL MANAGEMENT

nib holdings limited

The Group through earnings and capital management have achieved a return on equity of 20% or greater for the last three years and continues to target return on equity in the order of 20%. The return on equity as at 31 December 2015 is 22.9%. (June 2015: 23.1%). While improvement to return on equity can be made through increased profitability, it is also important that capital be managed appropriately, therefore, if funds are not required for strategic reasons the Group will consider a range of capital management initiatives.

At 31 December 2015 the Group had available capital of \$4.0 million above our internal benchmark (after allowing for the payment of a fully franked interim dividend of 5.75 cents per share, made up of 5.75 cps ordinary dividend, totalling \$25.2 million, in April 2016).

Below is a reconciliation of total assets to available capital as at 31 December 2015:

	Dec 15 \$ m
Net assets	362.5
Less: nib health fund capital required	(238.6)
nib nz capital required	(86.5)
Capital required looking forward 12 months	(1.9)
nib nz intangibles	(39.6)
International Workers intangibles	(22.7)
RealSurgeons intangibles	(0.2)
Digital Health Ventures intangibles	(0.7)
World Nomads Group intangibles	(95.3)
Borrowings	150.6
Other assets and liabilities	1.6
Interim dividend	(25.2)
Available capital (after allowing for payment of interim dividend)	4.0

nib health funds limited

nib health funds limited, a controlled entity, is required to comply with the Solvency and Capital Adequacy Standards under Schedule 2 and 3 of the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, the Rules are made for the purposes of Part 4-4 of the *Private Health Insurance Act 2007*.

To comply with the new Solvency Standard, nib health funds limited:

- (i) must ensure that, at all times, the value of cash must be equal to or greater than a specified cash management amount, plus any solvency supervisory adjustment (Section 4.2 of the Solvency Standard),
- (ii) must have, and comply with, a board endorsed, liquidity management plan designed to ensure compliance with the solvency requirements described above, and set minimum liquidity requirements and management action triggers (Section 4.3 of the Solvency Standard).

To comply with the Capital Adequacy Standard, nib health funds limited:

- (i) must ensure that at all times the value of its assets is not less than the amounts calculated under Section 4.2 (a) and (b) of the Capital Adequacy Standard (Capital Adequacy Requirement),
- (ii) must have, and comply with, a written, board endorsed capital management policy

nib health funds limited has a capital management plan which establishes a target for capital held in excess of the regulatory requirement; the aim is to keep a sufficient buffer in line with the Board's attitude to and tolerance for risk. The internal capital target ensures nib has a minimum level of capital given certain stressed capital scenarios. This currently approximates to 13.8% of total projected premiums for the next 12 months.

Any capital in excess of the benchmark, taking a 12-month forward looking view, will be reduced by way of dividend to nib holdings limited.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

13. CAPITAL MANAGEMENT continued

The surplus assets over benchmark at 31 December 2015 and 30 June 2015 were as follows:

	31 Dec 15	30 Jun 15
	\$ 000	\$ 000
Total Assets nib health funds limited (excluding unclosed business contributions - unearned)	587,803	586,971
Capital Adequacy Requirement	377,253	389,187
Surplus Assets for Capital Adequacy	210,550	197,784
Net Assets nib health funds limited	243,507	231,162
Internal capital target	238,591	226,105
Surplus assets over internal capital target	4,916	5,057

nib nz limited

nib nz limited, a controlled entity, is required to comply with the Solvency Standards for Non-Life insurance Business published by the Reserve Bank of New Zealand (RBNZ). The Solvency Standards determine the Minimum Solvency Capital required. A requirement of nib nz limited's insurance licence is that it maintains capital above the Minimum Solvency Capital.

The overriding objective underpinning nib nz limited's capital management approach is to operate with a level of capital judged to be commercially prudent and within the bounds of the Board's risk appetite which achieves a balance between:

- maintaining a buffer above the RBNZ Minimum Solvency Requirement (MSR) for nib nz limited (as defined by the IPISA Solvency Standard for Non-life Insurance Business);
- maintaining a level of capital that ensures an appropriate financial strength rating; and
- avoiding holding an excessive level of capital, which would otherwise act to reduce returns on capital for the Group.

The benchmark capital adequacy coverage ratio is 1.75x plus \$NZ10 million (June 15: 1.75x plus \$NZ10 million)

The surplus assets over benchmark at 31 December 2015 and 30 June 2015 are as follows:

	31 Dec 15	30 Jun 15
	\$ 000	\$ 000
Actual Solvency Capital	34,122	32,758
Minimum Solvency Capital	9,720	8,284
Solvency Capital	24,402	24,474
Capital Adequacy Coverage Ratio	3.51	3.95
Internal benchmark	1.75 + \$NZ10m	1.75 + \$NZ10m
Internal benchmark requirement	26,391	23,429
Surplus assets over internal benchmark	7,731	9,329

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

14. CONTROLLED ENTITIES

a) Subsidiaries and trusts

The consolidated financial statements incorporate the assets, liabilities and results of the following controlled entities.

	Place of Incorporation	Beneficial ownership by	
		Consolidated entity	
		31 Dec 15	30 Jun 15
		%	%
nib holdings limited	Australia		
nib health funds limited	Australia	100	100
nib servicing facilities pty limited	Australia	100	100
nib health care services pty limited	Australia	100	100
The Heights Private Hospital Pty Limited	Australia	100	100
IMAN Australian Health Plans Pty Limited	Australia	100	100
nib nz holdings limited	New Zealand	100	100
nib nz limited	New Zealand	100	100
nib Options pty limited	Australia	92.5	92.5
RealSurgeons pty limited	Australia	92.5	92.5
RealSelf pty limited	Australia	92.5	92.5
Digital Health Ventures Pty Ltd	Australia	50	50
World Nomads Group Pty Limited	Australia	100	N/A
WNG Services Pty Limited	Australia	100	N/A
World Experiences Assist Pty Limited	Australia	100	N/A
Suresave Pty Limited	Australia	100	N/A
Sure-Save.net Pty Ltd	Australia	100	N/A
SureSave Net Limited	New Zealand	100	N/A
Travel Insurance Direct Holdings Pty Limited	Australia	100	N/A
Travel Insurance Direct Pty Limited	Australia	100	N/A
Travel Insurance Direct (New Zealand) Pty Limited	New Zealand	100	N/A
Cheap Travel Insurance Pty Limited	Australia	100	N/A
Holiday Travel Insurance Pty Limited	Australia	100	N/A
SureCan Technology Pty Ltd	Australia	100	N/A
The World Nomads Group Holdings Pty Ltd	Australia	100	N/A
World Nomads Pty Ltd	Australia	100	N/A
World Nomads Inc	United States of America	100	N/A
World Nomads Limited	United Kingdom	100	N/A
World Nomads (Canada) Ltd	Canada	100	N/A
WorldNomads.com Pty Ltd	Australia	100	N/A
Cerberus Special Risks Pty Limited	Australia	100	N/A
Get Insurance Group Pty Limited	Australia	100	N/A
World Experiences International Holdings Pty Ltd	Australia	100	N/A
World Experiences Seguros De Viagem Brasil LTDA	Brazil	100	N/A
Travellr Pty Limited	Australia	100	N/A
Travel Insurance Compared Pty Limited	Australia	100	N/A
TravelClear Pty Limited	Australia	100	N/A
Travellers Assistance Group Pty Limited	Australia	100	N/A
Hello Travel Insurance Pty Limited	Australia	100	N/A
World Experiences Pty Limited	Australia	100	N/A
World Experiences Group Pty Limited	Australia	100	N/A
World Experiences Travel Pty Limited	Australia	100	N/A

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

14. CONTROLLED ENTITIES continued

nib holdings limited also controls the following trusts:

- nib Holdings Ltd Share Ownership Plan Trust
- nib salary sacrifice plan and matching plan trust
- nib Salary Sacrifice (NZ) and Matching Plan (NZ) Trust
- nib holdings – nib nz Employee Share Purchase Scheme Trust

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

15. BUSINESS COMBINATION

a) Acquisition of World Nomads Group

i) Summary of acquisition

On 31 July 2015 nib holdings limited acquired 100% of the issued capital of World Nomads Group Pty Limited and its subsidiaries (WNG). WNG is the third-largest distributor of travel insurance in Australia, and specialises in the marketing, sale and distribution of travel insurance policies globally.

Details of the provisional purchase consideration are as follows:

	\$ 000
Provisional purchase consideration	
Cash	106,923
Total provisional purchase consideration	106,923

The provisional fair values of the assets and liabilities recognised as a result of the acquisition are as follows:

	Provisional Fair value \$ 000
Cash and cash equivalents	14,926
Receivables	4,378
Prepayments	344
Property, plant and equipment	1,001
Software	9,488
Brand names	21,808
Customer contracts	3,452
Deferred tax assets	1,547
Payables	(8,140)
Current tax liabilities	(265)
Deferred tax liabilities	(1,042)
Provision for employee entitlements	(1,786)
Net identifiable assets acquired	45,711
Add: Goodwill	61,212
Net assets acquired	106,923

The fair values assigned are currently provisionally determined due to the short period between acquisition and interim reporting date. The fair value of assets and liabilities acquired may change upon finalisation of the purchase price allocation and alignment with Group accounting policies.

The goodwill is attributable to the future profitability of the acquired business. None of the goodwill is deductible for tax purposes.

a) Acquisition related costs

Total acquisition related costs are \$3,188,225, of which \$2,603,090 has been incurred in the current period and are included in other expenses in profit or loss and in operating cash flows in the statement of cash flows.

b) Revenue and profit contribution

The acquired business contributed \$22,044,749 to Group income and \$794,077 to net profit for the period 1 August 2015 to 31 December 2015.

c) Acquired receivables

The fair value of acquired receivables is \$4,378,029 and is expected to be fully collectable.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

15. BUSINESS COMBINATION continued

i) Summary of acquisition continued

d) Contingent assets and liabilities

Prior to acquisition, WNG had identified a potential miscalculation of stamp duty that may have resulted in an underpayment of the duty they remitted to the relevant State Revenues on behalf of their underwriting partners. Although WNG believe responsibility for stamp duty lies with their underwriting partners, WNG may have an exposure for the potential miscalculation of stamp duty. The extent of this exposure, if any is unknown. WNG has notified its Professional Indemnity insurer.

A condition as part of the acquisition is that \$3 million is held in escrow to cover the nib holdings group from any potential loss.

e) Off balance sheet arrangements

In addition to cash acquired, WNG operates bank accounts held in their name on behalf of their underwriters in accordance with contractual terms governing the arrangements. These accounts are not considered part of the cash and cash equivalents of WNG as they do not have the control over the cash. At 31 December 2015 this amounted to \$13,783,844.

ii) Provisional purchase consideration – cash outflow

	\$ 000
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	106,923
Less: Cash balances acquired	(14,926)
Outflow of cash – investing activities	91,997

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

15. BUSINESS COMBINATION continued

b) Acquisition of medical insurance book of OnePath Life (NZ) Limited

i) Summary of acquisition

On 1 December 2015, nib nz limited (a 100% owned subsidiary) acquired the medical insurance book of OnePath Life (NZ) Limited (OnePath), for \$22.5 million. The acquisition will provide the Group with a solid platform for growing the New Zealand private health insurance market and its overall market share. Approximately 19,000 policies covering 43,000 insured persons were acquired.

Details of the provisional purchase consideration are as follows:

	\$ 000
Provisional purchase consideration	
Cash	22,509
Total provisional purchase consideration	22,509

The provisional fair values of the assets and liabilities recognised as a result of the acquisition are as follows:

	Provisional Fair value \$ 000
Receivable from OnePath Life (NZ) Limited	2,182
Customer contracts	17,701
Deferred tax liabilities	(4,956)
Outstanding claims liability	(1,147)
Unearned premium liability	(2,182)
Net identifiable assets acquired	11,598
Add: Goodwill	10,911
Net assets acquired	22,509

The fair values assigned are currently provisionally determined due to the short period between acquisition and interim reporting date. The fair value of assets and liabilities acquired may change upon finalisation of the purchase price allocation and alignment with Group accounting policies.

The goodwill is attributable to the future profitability of the acquired business. None of the goodwill is deductible for tax purposes.

a) Acquisition related costs

Total acquisition related costs are \$962,458 of which \$144,978 has been incurred in the current period and are included in other expenses in profit or loss and in operating cash flows in the statement of cash flows.

b) Revenue and profit contribution

The acquired business contributed \$2,345,909 to Group revenues and \$466,840 to net profit for the period 1 December 2015 to 31 December 2015.

ii) Provisional purchase consideration – cash outflow

	\$ 000
Outflow of cash to acquire business, net of cash acquired	
Cash consideration	22,509
Less: Cash balances acquired	-
Outflow of cash – investing activities	22,509

There were no business acquisitions in the year ending 30 June 2015.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

16. EVENTS OCCURRING AFTER BALANCE SHEET DATE

Premium payback early settlement offer

At their policy renewal, eligible premium payback customers are being offered a graduated early settlement based on the date they would become eligible for the full premium payback benefit, contingent on their claims history.

For eligible premium payback customers with renewal dates in March 2016, early settlement offers have been sent in January 2016.

The value of the early settlement offers issued in January 2016 is \$2.6 million.

Sale of head office building

In May 2015, the Directors of the Group decided to sell and leaseback the freehold land and buildings at 22 Honeysuckle Drive. A contract has been entered into to sell the property for \$46.6 million with an expected settlement date of 29 February 2016.

There have not been any other matters or circumstances that have arisen since the end of the half year that have significantly affected, or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

17. PARENT ENTITY FINANCIAL INFORMATION

The individual financial statements for the parent entity show the following aggregate amounts:

	31 Dec 15	30 Jun 15
	\$ 000	\$ 000
Balance Sheet		
ASSETS		
Current assets	19,118	53,947
Non-current assets	560,139	434,958
Total assets	579,257	488,905
LIABILITIES		
Current liabilities	3,275	2,459
Non-current liabilities	84,985	-
Total liabilities	88,260	2,459
NET ASSETS	490,997	486,446
EQUITY		
Share Capital	297,178	297,178
Share-based payments	(1,239)	(991)
Retained Profits	195,058	190,259
Total Equity	490,997	486,446
	31 Dec 15	31 Dec 14
	\$ 000	\$ 000
Profit or loss for the half year	31,139	22,008
Total comprehensive income for the half year	31,139	22,008

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2015

nib holdings limited

18. COMPANY DETAILS

nib holdings limited is a company limited by shares, incorporated and domiciled in Australia. The registered office of the company is:

22 Honeysuckle Drive
NEWCASTLE NSW 2300

The Financial Report was authorised for issue by the Directors on 19 February 2016. The company has the power to amend and reissue the Financial Report.

Directors' Declaration

For the half year ended 31 December 2015
nib holdings limited

In the Directors' opinion:

- a) the financial statements and notes set out on pages 9 to 45 are in accordance with the *Corporations Act 2001*, including:
- i. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - ii. giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half year ended on that date; and
- b) there are reasonable grounds to believe that nib holdings limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

On behalf of the Board



Steve Crane
Director



Harold Bentley
Director

Newcastle, NSW
19 February 2016



Independent auditor's review report to the members of nib holdings limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of nib holdings limited (the company), which comprises the consolidated balance sheet as at 31 December 2015, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for nib group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of nib holdings limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of nib holdings limited is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date;

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- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

C. Mara

Caroline Mara
Partner

Newcastle
19 February 2016

