nib holdings limited

Interim Report
31 December 2012

ABN 51 125 633 856

CONTENTS **Page**

The Directors of nib holdings limited (Company) present their report on the consolidated entity (hereafter as the Group) consisting of nib holdings limited and the entities it controlled at the end of or during the half year ended 31 December 2012.

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 (chairman)
Mark Fitzgibbon
Harold Bentley
Annette Carruthers
Philip Gardner
Christine McLoughlin

Principal Activities

The principal continuing activities of the Group consisted of operating as an Australian private health insurer under the Private Health Insurance Act 2007.

During the half year, the Group commenced operating as a New Zealand private health insurer following the acquisition of Tower Medical Insurance Limited (TMIL) by nib nzed limited (a wholly owned subsidiary of nib holdings limited) effective 30 November 2012.

Review of operations

	Half year		Change	
($m)	31 Dec 12	31 Dec 11	$m	%
Net premium revenue	612.8	554.4	58.4	10.5
Gross margin [1]	94.8	95.3	(0.5)	(0.5)
	15.5%	17.2%		
Management expense [2]	(55.7)	(52.6)	(3.1)	(5.9)
	9.1%	9.5%		
Underwriting result [3]	39.1	42.7	(3.6)	(8.4)
	6.4%	7.7%		
Net investment return	18.2	12.4	5.8	46.8
	3.7%	2.8%		
Other income	1.5	1.3	0.2	15.4
Other expenses	(5.9)	(2.4)	(3.5)	(145.8)
Profit before tax	52.9	54.2	(1.3)	(2.4)
Tax	(16.6)	(15.9)	(0.7)	(4.4)
NPAT	36.3	38.3	(2.0)	(5.2)
EPS (cps)	8.3	8.2	0.1	1.2
ROE [4] (%)	21.7%	18.0%		
Operating cash flow	5.0	34.9	(29.9)	(85.7)

1. Gross margin is calculated as premium revenue less sum of claims expense. RETF levy and state levies.
2. Management expense is calculated as sum of claims handling, acquisition costs and other underwriting expenses.
3. Underwriting result is calculated as gross margin less management expenses.
4. Using average shareholders' equity over rolling 12 month period

For the six months ended 31 December 2012, the Group reported an increase in premium revenue of almost 11% to $612.8 million, or 8.7% excluding the New Zealand business. Policyholder growth within our Australian Resident Health Insurance (arhi) business continues to be a key driver of this result with policyholder growth up 2.4% for the first half of the year. This is compared to 1.3% for the industry and is in keeping with our sustainable organic growth rate target.

Despite the improved year-on-year premium growth result, nib's first half net underwriting result of $39.1 million was down 8.4% (1H12: $42.7 million), due to higher than forecast claims costs and one off expenses. Our underwriting margins are very sensitive to claims inflation and we experienced some challenges across the Group in the first half of the year. In response we have taken a number of corrective measures including our recently announced arhi premium increase (6.5%, effective 1 April 2013) to arrest any further gross margin deterioration. We also have some key innovative projects coming to fruition during the course of 2013 which we are confident will create enterprise value. Consequently we are forecasting a more stable underwriting experience for the second half of the year.

Review of operations continued

Our International Workers Health Insurance (iwhi) business performed strongly for the first half of the year with premium revenue up 12.4% to $13.8 million. Despite a more competitive sales environment and the gross margin being negatively impacted by high cost claims, iwhi net underwriting profit was up 5.5% to $3.8 million for the first half of the year. We believe iwhi has considerable upside yet with a net margin in the 25% to 30% range still viewed as sustainable.

International Students Health Insurance (ishi) business while still small, looks as though it may have turned a corner. Premium revenue grew 80% to $2.1 million and an underwriting loss of $0.1 million compares favourably with a loss of $0.7 million in first half last year. Despite the business still remaining subscale, policyholder growth for the first half of the year was more than 40%.

Although only a one month result, New Zealand Health Insurance (nib nzed) business made a solid contribution to the first half result, generating premium revenue of $10.1 million and a net underwriting profit of $2.0 million. The separation and transition of the business is going smoothly including employees, key management, IT systems and advisor and group employer relations. The appointment of an nib nzed Chairman and CEO are also well advanced.

For the six months ended 31 December 2012, Group consolidated net profit after tax was $36.3 million, compared to $38.3 million in 1H12. Earnings per share were 8.3 cents (1H12: 8.2 cents), with return on equity up from 18.0% to 21.7%.

Based upon the first half underwriting result and the acquisition of the New Zealand business, we have upgraded our FY13 pre-tax net underwriting profit guidance to $75 million to $78 million (previously $70 million to $75 million). Supporting this guidance range are some key assumptions, including nib nzed making an underwriting profit of $5 million to $7 million and Group premium revenue of between $1.2 billion to $1.3 billion.

Capital management

Capital management was a key focus during the period, as nib seeks to balance the competing goals of optimising capital and retaining funds for funding potential investments via mergers and acquisitions.

The most significant capital management activity during the period was the acquisition of TMIL, funded through a combination of excess capital and borrowings.

At 31 December 2012 the Group had net assets of $315.9 million (December 2011: $331.8 million) and a return on equity of 21.7%, using average shareholders' equity over a rolling 12-month period (December 2011: 18.0%).

Capital management continued

Further, at 31 December 2012 the Group had available capital of $6.7 million above our internal benchmark (after allowing for the payment of an interim dividend of 5.0 cents per share, totalling $22.0 million, in April 2013).

Below is a reconciliation of total assets to available capital as at 31 December 2012:

		31 Dec 12 $m
Total assets		**705.4**
Less:	nib health fund capital required (based on projection over next 12 months)	(490.6)
	TMIL capital required	(105.8)
	TMIL intangibles (provisional refer Note 15)	(39.0)
	International Workers intangibles	(24.5)
	nib nzed capital required	(14.7)
	Other liabilities	(2.1)
	Interim dividend	(22.0)
Available capital		**6.7**

Dividends

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

	Half year 31 Dec 12 $000	 31 Dec 11 $000
Final dividend for the year ended 30 June 2012 of 5.0 cents per fully paid ordinary share, made up of 5.0 cps ordinary dividend (2011: 9.0 cents made up of 4.0 cps ordinary dividend and 5.0 cps special dividend) per fully paid share paid on 5 October 2012	**21,950**	**42,006**

In addition to this dividend, since the end of the half year the Directors have recommended the payment of an interim ordinary dividend of $22.0 million (5.0 cps ordinary dividend) to be paid on 5 April 2013 out of retained profits at 31 December 2012. Subject to franking credit availability, the Board's position is that future 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 4.

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

Harold Bentley
Director

Newcastle, NSW
15 February 2013

Auditor's Independence Declaration

As lead auditor for the review of nib holdings limited for the half year ended 31 December 2012, 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.

John Campion
Partner
PricewaterhouseCoopers

Newcastle
15 February 2013

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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, which comprises the balance sheet as at 31 December 2012, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the nib holdings limited group (the consolidated entity). The consolidated entity comprises both nib holdings limited (the company) and the entities it controlled during that 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 (including the Australian Accounting Interpretations) 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 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 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 2012 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*.

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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 2012 and of its performance for the half-year ended on that date; and

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

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of the company for the half-year ended 31 December 2012 included on the nib holdings limited web site. The company's directors are responsible for the integrity of the nib holdings limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

John Campion

John Campion
Partner

Newcastle
15 February 2013

In the Director's opinion:

a) the financial statements and notes set out on pages 8 to 37 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 2012 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
15 February 2013

CONTENTS **Page**

Consolidated Income Statement

For the half year ended 31 December 2012
nib holdings limited

	Notes	Half year 31 Dec 12 $000	31 Dec 11 $000
Premium revenue	4	613,003	554,378
Outwards reinsurance premium expense	4	(232)	-
Net premium revenue		**612,771**	**554,378**
Claims expense		(419,536)	(370,702)
Reinsurance and other recoveries revenue		137	-
RETF levy		(83,891)	(76,637)
State levies		(15,256)	(11,727)
Decrease / (increase) in premium payback liability		574	-
Claims handling expenses	5	(7,748)	(8,550)
Net claims incurred		**(525,720)**	**(467,616)**
Acquisition costs	5	(22,319)	(18,784)
Other underwriting expenses	5	(25,642)	(25,232)
Underwriting expenses		**(47,961)**	**(44,016)**
Underwriting result		**39,090**	**42,746**
Investment income	4	18,773	12,885
Other income	4	1,564	1,344
Investment expenses	5	(572)	(436)
Other expenses	5	(5,945)	(2,365)
Profit before income tax		**52,910**	**54,174**
Income tax expense	6	(16,616)	(15,864)
Profit for the half year		**36,294**	**38,310**

	Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company		
Basic earnings per share	8.3	8.2
Diluted earnings per share	8.3	8.2
Earnings per share for profit attributable to the ordinary equity holders of the company		
Basic earnings per share	8.3	8.2
Diluted earnings per share	8.3	8.2

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 2012

nib holdings limited

	Notes	Half year 31 Dec 12 $000	31 Dec 11 $000
Profit for the half year		**36,294**	**38,310**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(231)	-
Change in fair value of available for sale financial assets		529	-
Income tax related to components of other comprehensive income		(72)	-
Other comprehensive income for the half year, net of tax		**226**	**-**
Total comprehensive income for the half year attributable to equity holders of nib holdings limited		**36,520**	**38,310**

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

Consolidated Balance Sheet

As at 31 December 2012

nib holdings limited

	Notes	Half year 31 Dec 12 $000	30 Jun 12 $000
ASSETS			
Current assets			
Cash and cash equivalents	7	113,358	86,673
Receivables	8	50,607	70,208
Financial assets at fair value through profit or loss	9	385,408	356,774
Reinsurance and other recoveries receivable		69	-
Deferred acquisition costs		11,171	2,140
Total current assets		**560,613**	**515,795**
Non-current assets			
Receivables	8	-	10,000
Deferred acquisition costs		17,343	6,711
Available-for-sale financial assets		2,735	2,206
Deferred tax assets	10	4,664	2,124
Property, plant and equipment		41,070	42,104
Intangible assets		78,946	38,905
Total non-current assets		**144,758**	**102,050**
Total assets		**705,371**	**617,845**
LIABILITIES			
Current liabilities			
Payables		89,730	86,690
Borrowings	11	77	2,594
Derivative financial instruments		64	-
Outstanding claims liability	12	80,331	74,993
Unearned premium liability		113,840	135,867
Current tax liabilities		3,943	6,884
Provision for employee entitlements		1,922	2,144
Premium payback liability	2(b)	8,863	-
Total current liabilities		**298,770**	**309,172**
Non-current liabilities			
Borrowings	11	55,199	-
Unearned premium liability		-	5,799
Provision for employee entitlements		1,223	1,276
Premium payback liability	2(b)	34,283	-
Total non-current liabilities		**90,705**	**7,075**
Total liabilities		**389,475**	**316,247**
Net assets		**315,896**	**301,598**
EQUITY			
Contributed equity		28,073	27,581
Retained profits		286,298	271,954
Reserves		1,525	2,063
Total equity		**315,896**	**301,598**

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 2012
nib holdings limited

	Notes	Contributed Equity $000	Retained Profits $000	Reserves $000	Total Equity $000
Balance at 1 July 2011		**42,193**	**367,595**	**2,002**	**411,790**
Profit for the year		-	38,310	-	38,310
Total comprehensive income for the half year		-	38,310	-	38,310
Transactions with owners in their capacity as owners:					
Capital return and transaction costs, net of tax		(9,123)	(66,288)	-	(75,411)
Share buyback - performance rights and bonus share rights		-	-	(1,069)	(1,069)
Employee performance rights - value of employee services		-	-	162	162
Dividends paid		-	(42,006)	-	(42,006)
		(9,123)	**(108,294)**	**(907)**	**(118,324)**
Balance at 31 December 2011		**33,070**	**297,611**	**1,095**	**331,776**
Balance at 1 July 2012		**27,581**	**271,954**	**2,063**	**301,598**
Profit for the year		-	36,294	-	36,294
Revaluation of available for sale financial assets, net of tax		-	-	370	370
Movement in foreign currency translation, net of tax		-	-	(144)	(144)
Total comprehensive income for the half year		**-**	**36,294**	**226**	**36,520**
Transactions with owners in their capacity as owners:					
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust		(461)	-	-	(461)
Issue of shares held by nib Holdings Ltd Share Ownership Plan Trust to employees		953	-	(877)	76
Employee performance rights - value of employee services		-	-	113	113
Dividends paid	13	-	(21,950)	-	(21,950)
		492	**(21,950)**	**(764)**	**(22,222)**
Balance at 31 December 2012		**28,073**	**286,298**	**1,525**	**315,896**

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 2012
nib holdings limited

	Notes	Half year 31 Dec 12 $000	31 Dec 11 $000
Cash flows from operating activities			
Receipts from policyholders and customers (inclusive of goods and services tax)		607,439	553,855
Payments to policyholders, suppliers and employees (inclusive of goods and services tax)		(595,859)	(514,275)
		11,580	**39,580**
Dividends received		35	16
Interest received		6,672	7,625
Distributions received		4,245	3,630
Transactions costs relating to acquisition of business	15	(3,300)	-
Interest paid		53	(7)
Income taxes paid		(14,262)	(15,982)
Net cash inflow from operating activities		**5,023**	**34,862**
Cash flows from investing activities			
Proceeds from disposal of other financial assets at fair value through the profit and loss		119,945	124,004
Payments for other financial assets at fair value through the profit and loss		(99,559)	(92,605)
Proceeds from sale of investment properties		10,000	10,000
Proceeds from sale of property, plant and equipment and intangibles		-	22
Payments for property, plant and equipment and intangibles		(3,228)	(2,913)
Proceeds from sale of Eye Care business		-	250
Payment for acquisition of business, net of cash acquired	15	(35,770)	-
Net cash (outflow) inflow from investing activities		**(8,612)**	**38,758**
Cash flows from financing activities			
Proceeds from borrowings		55,017	-
Payments for capital return		-	(75,585)
Payments for employee performance & bonus share rights		-	(1,069)
Payments for shares acquired by the nib Holdings Ltd Share Ownership Plan Trust		(461)	-
Dividends paid to the company's shareholders		(21,950)	(42,006)
Net cash inflow (outflow) from financing activities		**32,606**	**(118,660)**
Net increase (decrease) in cash and cash equivalents		29,017	(45,040)
Cash and cash equivalents at beginning of the year		84,079	157,169
Effect of exchange rate changes		185	-
Cash and cash equivalents at end of the half year		**113,281**	**112,129**
Reconciliation to Consolidated Balance Sheet			
Cash and cash equivalents		113,358	113,908
Borrowings - overdraft		(77)	(1,779)
		113,281	**112,129**

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

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 years 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 ending 31 December 2012 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Act 2001.*

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 2012 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.

b) Outwards reinsurance

Premiums ceded to reinsurers under insurance contracts held by the Group are recognised as an outwards reinsurance expense and are recognised in the income statement from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk ceded.

c) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, incurred but not reported (IBNR), and unexpired risk liabilities are recognised as revenue.

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

d) Foreign currency translation

i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is nib holdings limited's functional and presentation currency.

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

e) Assets backing insurance liabilities

Following the acquisition of Tower Medical Insurance Limited, with the exception of property, plant and equipment, and the investment in unlisted equity securities, the Group has determined that all financial assets of nib health funds limited and Tower Medical Insurance Limited are held to back private health insurance liabilities

f) Derivative financial instruments

Derivatives are initially recognised at fair value, being generally the transaction price on the date a derivative contract is entered into, and are subsequently remeasured to their fair value at the end of each reporting period. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged. Derivatives which are not part of a hedging relationship are valued at fair value through profit or loss, and are included in investment income.

For derivatives traded in an active market, the fair value of derivatives presented as assets is determined by reference to published closing bid price quotations and the fair value of derivatives presented as liabilities is determined by reference to published closing ask price quotations. For derivatives that are not traded or which are traded in a market that is not sufficiently active, fair value is determined using generally accepted valuation techniques.

All derivatives entered into by the Group are classified as held for trading as the Group does not apply hedge accounting.

g) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as non-current liabilities as the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

h) Premium payback liability

For health premium payback business an additional unearned premium liability has been established representing the accrued amount of premium expected to be repaid to certain policyholders of TMIL. This liability is discounted at the risk-free rate and a liability adequacy test has been performed incorporating a risk margin on some components to cover uncertainty in the central estimate.

2. ACTUARIAL ASSUMPTIONS AND METHODS

a) Outstanding claims

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 the Australian Residents Health Insurance (arhi), two methods are used. For service months October 2012 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 2012 and December 2012 the Bornhuetter-Ferguson method is used, which progressively blends payment experience and prior forecasts of incurred costs.

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

In calculating the estimated cost of unpaid claims for the New Zealand Health Insurance Business (nib nzed), two methods are used. For service months October 2012 and earlier, a chain ladder method is used; this assumes that the development pattern of the current claims will be consistent with historical experience. For the service months of November 2012 and December 2012 the Bornhuetter-Ferguson method is used, which progressively blends payment experience and prior forecasts of incurred costs.

Actuarial assumptions

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

	31 December 2012			30 June 2012		
	Hospital	Medical	Ancillary	Hospital	Medical	Ancillary
Australian Residents Health Insurance	%	%	%	%	%	%
Assumed proportion paid to date	92.9%	89.1%	96.5%	91.8%	88.4%	95.8%
Expense rate	2.00%	2.00%	2.00%	2.2%	2.2%	2.2%
Discount rate	0%	0%	0%	0.0%	0.0%	0.0%
Risk equalisation rate	36.2%	36.2%	0.0%	32.6%	32.6%	0.0%
Risk margin	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
International Students Health Insurance						
Assumed proportion paid to date	92.1%	88.2%	97.3%	85.2%	83.6%	95.5%
Expense rate	2.0%	2.0%	2.0%	2.2%	2.2%	2.2%
Discount rate	0%	0%	0%	0.0%	0.0%	0.0%
Risk margin	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
International Workers Health Insurance						
Assumed proportion paid to date	74.2%	85.8%	85.2%	85.8%	86.8%	83.6%
Expense rate	8.00%	8.00%	8.00%	8.0%	8.0%	8.0%
Discount rate	0%	0%	0%	0.0%	0.0%	0.0%
Risk margin	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
	Surgical	Medical		Surgical	Medical	
NZ Health Insurance	%	%		%	%	
Assumed proportion paid to date	89.4%	78.1%		N/A	N/A	
Expense rate	1.6%	1.6%		N/A	N/A	
Discount rate	0.0%	0.0%		N/A	N/A	
Risk margin	13.5%	13.5%		N/A	N/A	

The risk margin of 5.0% for arhi and ishi, 10% for iwhi and 13.5% for nib nzed of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% for each individual segment. This equates to a probability of adequacy for the Group of greater than 95%.

2. ACTUARIAL ASSUMPTIONS AND METHODS continued

a) Outstanding claims continued

Sensitivity analysis – outstanding claims

i) Summary

The Group conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the performance and equity of the Group. The tables below describe how a change in each assumption will affect the insurance liabilities

Variable	Impact of movement in variable
Chain Ladder Development Factors	An increase or decrease in the chain ladder factors would lead to a higher or lower projection of the ultimate liability and a corresponding increase or decrease in claims expense respectively.
Bornhuetter-Ferguson Unpaid Factors	An increase or decrease in the level of unpaid would lead to a higher or lower projection of the ultimate liability and a corresponding increase or decrease on claims expense respectively.
Expense rate	An estimate for the internal costs of handling claims is included in the outstanding claims liability. An increase or decrease in the expense rate assumption would have a corresponding impact on claims expense.
Risk equalisation	An estimate for the risk equalisation cost is included in the outstanding claims liability. An increase or decrease in the risk equalisation allowance would have a corresponding impact on RETF Levy.
Risk margin	An estimate of the amount of uncertainty in the determination of the central estimate. An increase or decrease in the risk margin would have a corresponding impact on claims expense.

ii) Impact of key variables

	Profit 31 Dec 12 $000	Equity 31 Dec 12 $000
Recognised amounts in the financial statements	**36,294**	**315,896**

Variable	Movement in variable	Adjustments	Adjusted amounts	Adjustments	Adjusted amounts
		$000	$000	$000	$000
Chain Ladder Development Factors	+0.5%	(3,853)	32,441	(3,853)	312,043
	-0.5%	3,853	40,147	3,853	319,749
Bornhuetter-Ferguson Unpaid Factors	+2.0%	(2,850)	33,444	(2,850)	313,046
	-2.0%	2,850	39,144	2,850	318,746
Expense rate	+1.0%	(631)	35,663	(631)	315,265
	-1.0%	631	36,925	631	316,527
Risk equalisation allowance	+2.5%	(1,061)	35,233	(1,061)	314,835
	-2.5%	1,061	37,355	1,061	316,957
Risk margin	+1.0%	(760)	35,534	(760)	315,136
	-1.0%	760	37,054	760	316,656

2. ACTUARIAL ASSUMPTIONS AND METHODS continued

b) Premium payback liability

Actuarial methods

A number of Tower Medical Insurance Ltd's health insurance policies have a benefit whereby policyholders receive a proportion of premiums paid less claims received over the life of their policy, "premium payback", if certain conditions are met. This liability represents a long term health insurance contract liability. The liability was determined based on the discounted value of accumulated excess of premiums over claims at an individual policy level, adjusted for GST recoveries and expected future lapses.

Actuarial assumptions

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

Lapse rate until 3 years from premium payback date	2.0% - 10.0%
Lapse rate within 3 years of premium payback date	0.0%
Expense rate	0.0%
Discount rate	2.2%
Risk margin	9.7%

The risk margin has been estimated to equate to a 95% probability of adequacy.

Sensitivity analysis – premium payback liability

Impact of key variables

	Profit 31 Dec 12 $000	Equity 31 Dec 12 $000
Recognised amounts in the financial statements	**36,294**	**315,896**

Variable	Movement in variable	Adjustments	Adjusted amounts	Adjustments	Adjusted amounts
		$000	$000	$000	$000
Lapse Rate	+1.0%	1,226	37,520	1,226	317,122
	-1.0%	(1,062)	35,232	(1,062)	314,834
Discount Rate	+1.0%	2,163	38,457	2,163	318,059
	-1.0%	(1,826)	34,468	(1,826)	314,070
Risk margin	+1.0%	(402)	35,892	(402)	315,494
	-1.0%	402	36,696	402	316,298

3. SEGMENT REPORTING

a) Description of segments

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 four reportable segments. Health Insurance consists of nib's core product offering within the Australian private health insurance industry (arhi). Health Related consists of two separate segments – International Students Health Insurance (ishi) and International Workers Health Insurance (iwhi). On 30 November 2012, nib entered the New Zealand market after acquiring Tower Medical Insurance Limited, New Zealand's second-largest private health insurer.

Although the International Students Health Insurance 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) 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 2012				
	Health Insurance	International Students	International Workers	Health Insurance	Total
	Australia	Australia	Australia	New Zealand	
	$000	$000	$000	$000	$000
Premium revenue	586,724	2,146	14,062	10,071	613,003
Outwards reinsurance premium expense	-	-	(232)	-	(232)
Net premium revenue	**586,724**	**2,146**	**13,830**	**10,071**	**612,771**
Claims expense	(404,694)	(1,788)	(6,687)	(6,367)	(419,536)
Reinsurance and other recoveries revenue	-	-	137	-	137
RETF levy	(83,891)	-	-	-	(83,891)
State levies	(15,256)	-	-	-	(15,256)
Decrease / (increase) in premium payback liability	-	-	-	574	574
Claims handling expenses	(6,998)	(17)	(621)	(112)	(7,748)
Net claims incurred	**(510,839)**	**(1,805)**	**(7,171)**	**(5,905)**	**(525,720)**
Acquisition costs	(19,415)	(298)	(1,161)	(1,445)	(22,319)
Other underwriting expenses	(23,038)	(111)	(1,730)	(763)	(25,642)
Underwriting expenses	**(42,453)**	**(409)**	**(2,891)**	**(2,208)**	**(47,961)**
Underwriting result	**33,432**	**(68)**	**3,768**	**1,958**	**39,090**
Total segment assets		**526,245**		**137,783**	**664,028**
Total segment liabilities		**259,927**		**69,752**	**329,679**
Insurance liabilities					
Outstanding claims liability		71,470		8,861	80,331
Unearned premium liability		101,526		12,314	113,840
Premium payback liability		-		43,146	43,146
Total		**172,996**		**64,321**	**237,317**

3. SEGMENT REPORTING continued

b) Segment information provided to executive management continued

	For the half year ending 31 December 2011				
	Health Insurance Australia	International Students Australia	International Workers Australia	Health Insurance New Zealand	Total
	$000	$000	$000	$000	$000
Premium revenue	540,885	1,194	12,299	-	554,378
Outwards reinsurance premium expense	-	-	-	-	-
Net premium revenue	**540,885**	**1,194**	**12,299**	**-**	**554,378**
Claims expense	(364,591)	(1,056)	(5,055)	-	(370,702)
Reinsurance and other recoveries revenue	-	-	-	-	-
RETF levy	(76,637)	-	-	-	(76,637)
State levies	(11,727)	-	-	-	(11,727)
Decrease / (increase) in premium payback liability	-	-	-	-	-
Claims handling expenses	(7,754)	(46)	(750)	-	(8,550)
Net claims incurred	**(460,709)**	**(1,102)**	**(5,805)**	**-**	**(467,616)**
Acquisition costs	(17,450)	(445)	(889)	-	(18,784)
Other underwriting expenses	(22,882)	(315)	(2,035)	-	(25,232)
Underwriting expenses	**(40,332)**	**(760)**	**(2,924)**	**-**	**(44,016)**
Underwriting result	**39,844**	**(668)**	**3,570**	**-**	**42,746**
Total segment assets		**468,479**		-	**468,479**
Total segment liabilities		**205,602**		-	**205,602**
Insurance liabilities					
Outstanding claims liability		62,958		-	62,958
Unearned premium liability		58,866		-	58,866
Premium payback liability		-		-	-
Total		**121,824**		**-**	**121,824**

3. SEGMENT REPORTING continued

c) Other segment information

The MD/CEO assesses the performance of the operating segments based on net margin. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as integration costs. Furthermore, investment income and expenditure, and other income and expenses including financing costs, are not allocated to segments as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

No information regarding assets and liabilities for individual Australian segments is provided to the MD/CEO

(i) Segment underwriting result

A reconciliation of segment underwriting result to operating profit before income tax is provided as follows:

	31 Dec 2012 $000	31 Dec 2011 $000
Segment underwriting result	39,090	42,746
Investment income	18,773	12,885
Other income	1,564	1,344
Investment expenses	(572)	(436)
Other expenses	(5,945)	(2,365)
Profit before income tax from continuing operations	**52,910**	**54,174**

(ii) Segment assets

Assets backing insurance liabilities have been included in segment assets reported. Assets held in nib holdings limited and nib nzed limited are not allocated to segments.

Reportable segments' assets are reconciled to total assets as follows:

	31 Dec 2012 $000	31 Dec 2011 $000
Segment assets	664,028	468,479
Unallocated assets:		
Cash and cash equivalents	33,566	72,903
Receivables	299	791
Available for sale financial assets	2,735	2,206
Deferred tax assets	4,664	5,246
Plant, property and equipment	79	77
Total assets as per the balance sheet	**705,371**	**549,702**

(iii) Segment liabilities

The Group's borrowings are not considered to be segment liabilities but rather managed by the treasury function.

Reportable segments' liabilities are reconciled to total liabilities as follows:

	31 Dec 2012 $000	31 Dec 2011 $000
Segment liabilities	329,679	205,602
Unallocated liabilities:		
Payables	577	1,251
Borrowings	55,276	1,779
Current tax liabilities	3,943	9,294
Total liabilities as per the balance sheet	**389,475**	**217,926**

4. REVENUE AND OTHER INCOME

	Half year	
	31 Dec 12	31 Dec 11
	$000	$000
Premium revenue	613,003	554,378
Outwards reinsurance premiums	(232)	-
Net premium revenue	**612,771**	**554,378**
Investment income		
Interest	4,750	6,828
Net realised gain on financial assets at fair value through profit or loss	5,819	4,400
Net unrealised gain on financial assets at fair value through profit or loss	8,169	1,641
Dividends	35	16
	18,773	**12,885**
Other Income		
Sundry income	1,564	1,344
	1,564	**1,344**

5. EXPENSES

	Half year	
	31 Dec 12	31 Dec 11
	$000	$000
Expenses by function		
Claims handling expenses	7,748	8,550
Investment expenses	572	436
Acquisition costs	22,319	18,784
Other underw riting expenses	25,642	25,232
Other expenses	5,945	2,365
Total expenses (excluding direct claims expenses)	**62,226**	**55,367**
Expenses by nature		
Employee costs	25,472	25,047
Depreciation and amortisation	3,399	3,673
Financing costs	198	-
Net loss on disposal of property, plant and equipment	3	20
Operating lease rental expenses	1,384	1,352
Marketing expenses	12,045	8,866
Marketing expenses - commissions	3,424	4,290
Merger and acquisition costs	3,300	26
Electronic claims processing fees	1,634	1,560
Consultancy fees	1,336	1,235
Legal expenses	143	336
Share registry expenses	1,146	889
Investment expenses	572	436
Other	8,170	7,637
Total expenses (excluding direct claims expenses)	**62,226**	**55,367**

6. INCOME TAX

	Notes	Half year 31 Dec 12 $000	31 Dec 11 $000
a) Income tax expense			
Recognised in the income statement			
Current tax expense		11,577	14,454
Deferred tax expense		5,039	1,482
Under (over) provided in prior years		-	(72)
		16,616	**15,864**
Income tax expense is attributable to:			
Profit from continuing operations		16,616	15,864
Aggregate income tax expense		**16,616**	**15,864**
Deferred income tax (revenue) expense included in income tax expense comprises:			
Decrease (increase) in deferred tax assets		840	1,890
(Decrease) increase in deferred tax liabilities		4,199	(408)
		5,039	**1,482**
b) Numerical reconciliation of income tax expense to prima facie tax payable			
Profit from continuing operations before income tax expense		**52,910**	**54,174**
Tax at the Australian tax rate of 30% (2011: 30%)		15,873	16,252
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
Differences in tax rates		(33)	-
Other deductible expenses		(265)	(359)
Other non-deductible expenses		1,052	48
Adjustments for current tax of prior periods		-	(72)
Imputation credits and foreign tax credits		(11)	(5)
Income tax expense		**16,616**	**15,864**
c) Tax expense relating to items of other comprehensive income			
Foreign currency translations		(87)	-
Change in value of available for sale financial assets		159	-
		72	**-**
d) Amounts recognised directly to equity			
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:			
Net deferred tax - debited (credited) directly to equity		-	(174)
		-	**(174)**

7. CASH AND CASH EQUIVALENTS

	31 Dec 12 $000	30 Jun 12 $000
Cash at bank and cash on hand	73,976	36,181
Short term deposits and deposits at call	39,382	50,492
	113,358	**86,673**

8. RECEIVABLES

	31 Dec 12 $000	30 Jun 12 $000
Current		
Premium receivable	6,657	4,405
Health Insurance Contribution (HIC) rebate receivable	25,769	47,434
Other receivables	16,301	16,809
Provision for impairment loss	(714)	(366)
Prepayments	2,594	1,926
	50,607	**70,208**
Non-Current		
Other receivables	-	10,000
	-	**10,000**

The Health Insurance Contribution (HIC) rebate abnormally increased last financial year as a result of a high level of prepayments of premium revenue in May and June 2012.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets are designated at fair value through profit or loss and include the following:

	31 Dec 12 $000	30 Jun 12 $000
Equity securities	49,736	50,165
Interest-bearing securities	237,993	206,609
Short term deposits	95,000	100,000
Derivative financial instruments	2,679	-
	385,408	**356,774**

10. DEFERRED TAX ASSETS

	31 Dec 12 $000	30 Jun 12 $000
The balance comprises temporary differences attributable to:		
Depreciation	202	289
Employee benefits	1,752	1,684
Outstanding claims	377	418
Unrealised losses on investments	-	277
Premium payback liabilities	11,729	-
	14,060	**2,668**
Other		
Unrealised foreign exchange losses	77	-
Doubtful debts	205	104
Asset revaluation	81	240
Provisions	494	731
Merger & acquisition costs	287	377
Sub-total other	**1,144**	**1,452**
Total deferred tax assets	**15,204**	**4,120**
Set-off of deferred tax liabilities pursuant to set-off provisions	(10,540)	(1,996)
Net deferred tax assets	**4,664**	**2,124**

Deferred tax liabilities set-off	31 Dec 12 $000	30 Jun 12 $000
The balance comprises temporary differences attributable to:		
Prepayments	72	11
Deferred acquisition costs	7,999	1,435
Income receivable	49	260
Customer contracts	217	290
Unrealised gains on investments	2,203	-
Total deferred tax liabilities	**10,540**	**1,996**

11. BORROWINGS

	31 Dec 12 $000	30 Jun 12 $000
Current		
Bank overdraft	77	2,594
	77	**2,594**
Non-current		
Bank loans (secured)	55,199	-
	55,199	**-**

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

a) Secured liabilities

nib nzed limited, a wholly owned subsidiary of nib holdings limited, has a NZ$70 million variable rate term loan facility in relation to the acquisition of Tower Medical Insurance Limited with maturity and repayment at the end of three years being 30 November 2015.

The bank loan is secured by the shares in nib nzed 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 Net Tangible Assets will not be less than $180,000,000.

As at 31 December the Group Gearing Ratio was 14.9% and the Group Net Tangible Assets were $237.0 million.

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

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

b) Risk exposure

The table below summarises the sensitivity of the Group's profit and equity to interest rate risk on borrowings:

	31 Dec 12					30 Jun 12				
Interest Rate Risk		-100bps		+100bps			-100bps		+100bps	
	Carrying amount $000	Profit $000	Equity $000	Profit $000	Equity $000	Carrying amount $000	Profit $000	Equity $000	Profit $000	Equity $000
Borrowings	55,199	32	32	(32)	(32)	NA	NA	NA	NA	NA
Total Increase / (decrease)		**32**	**32**	**(32)**	**(32)**		NA	NA	NA	NA

12. OUTSTANDING CLAIMS LIABILITY

	31 Dec 12 $000	30 Jun 12 $000
Outstanding claims - central estimate of the expected future payment for claims incurred	59,979	55,780
Risk Margin	3,670	2,941
Claims handling costs	1,318	1,320
Gross outstanding claims liability	**64,967**	**60,041**
Outstanding claims - expected payment to the *RETF in relation to the central estimate	14,632	14,240
Risk Margin	732	712
Net outstanding claims liability	**80,331**	**74,993**

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

Changes in the gross outstanding claims can be analysed as follows:

	31 Dec 12 $000	30 Jun 12 $000
Gross outstanding claims at beginning of period	60,041	53,805
Administration component	(1,320)	(1,317)
Risk margin	(2,941)	(2,594)
Central estimate at beginning of period	**55,780**	**49,894**
Change in claims incurred for the prior year	(2,557)	(666)
Claims paid in respect of the prior year	(49,901)	(49,228)
Claims incurred during the year (expected)	420,992	765,926
Claims paid during the year	(373,496)	(710,146)
Outstanding claims acquired with TMIL	9,126	-
Effect of changes in foreign exchange rates	35	-
Central estimate at end of period	**59,979**	**55,780**
Administration component	1,318	1,320
Risk margin	3,670	2,941
Gross outstanding claims at end of period	**64,967**	**60,041**

13. DIVIDENDS

a) Ordinary shares

	Half year	
	31 Dec 12	31 Dec 11
	$000	$000
Final dividend for the year ended 30 June 2012 5.0 cents per fully paid ordinary share, made up of 5.0 cps ordinary dividend (2011: 9.0 cps, made up of 4.0 cps ordinary dividend and 5.0 cps special dividend) paid on 5 October 2012		
Fully franked based on tax paid @ 30%	**21,950**	**42,006**

b) Dividends not recognised at end of half-year

	Half Year	
	31 Dec 12	31 Dec 11
	$000	$000
In addition to the above dividends, since the end of the half-year the directors have recommended the payment of an ordinary interim dividend of 5.0 cents per fully paid ordinary share (2011: 4.25 cents ordinary dividend), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 5 April 2013 out of retained profits at 31 December 2012, but not recognised as a liability at the end of the half-year, is	**21,950**	**19,826**

14. CONTINGENT LIABILITIES

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

nib holdings limited has provided a guarantee and indemnity to the National Australia bank on behalf of IMAN Australian Health Plans Pty Limited in respect of transactional banking services. Liability under the indemnity is limited to $3,028,885.

nib health funds limited has given an undertaking to extend financial support to nib servicing facilities pty limited and nib health care services pty limited by subordinating repayment of debts owed by the entities to nib health funds limited, in favour of all other creditors. This undertaking has been provided as a result of each of these subsidiaries experiencing deficiencies of capital and reserves, and is intended to enable the entities to continue their operations and fulfil all financial obligations now and in the future. The undertaking is provided for a minimum period of twelve months from 17 August 2012, or if earlier, to the date of sale of the entities should this occur.

nib holdings limited and nib health funds limited have indemnified the trustee under the nib demutualisation overseas policyholders and unverified policyholders trust deed dated 19 July 2007, in respect of all liabilities, costs and expenses incurred in execution of the trust. The trust was wound up and all trust funds were distributed during the 2011 financial year.

15. BUSINESS COMBINATION

On 30 November 2012 nib nzed limited (a wholly owned subsidiary of nib holdings limited, incorporated on 31 October 2012) acquired 100% of the issued share capital of Tower Medical Insurance Limited, New Zealand's second largest private health insurer.

a) Provisional purchase consideration

Details of the provisional purchase consideration are as follows:

	$000
Provisional purchase consideration	
Cash	81,245
Total provisional purchase consideration	**81,245**

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

	Provisional Fair value $000
Cash & cash equivalents	45,475
Receivables	3,903
Deferred acquisiton costs	15,464
Financial assets at fair value through profit and loss: Interest-bearing securities	37,079
Financial assets at fair value through profit and loss: Derivative financial assets	2,556
Deferred tax assets	7,652
Property, plant and equipment	206
Payables	(3,092)
Unearned premium liability	(12,566)
Outstanding claims liability	(10,296)
Premium payback liability	(43,574)
Provision for employee entitlements	(408)
Net identifiable assets acquired	**42,399**
Add: Goodwill	38,846
Net assets acquired	**81,245**

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 adjustment and alignment with Group accounting policies and valuation of identifiable intangible assets.

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

There were no acquisitions in the year ending 30 June 2012.

(i) Acquisition-related costs

Consultancy and legal fees of $3,300,062 relating to the acquisition are included in other expenses in profit or loss and in operating cash flows in the statement of cash flows.

(ii) Revenue and profit contribution

The acquired business contributed to revenues of $10,071,672 and net profit of $1,452,414 to the Group for the period from 30 November 2012 to 31 December 2012.

If the acquisition had occurred on 1 July 2012, consolidated revenue and profit for the half year ended are estimated to have been $661,365,884 and $39,934,168 respectively, based on historical TMIL management accounts.

15. BUSINESS COMBINATION continued

a) Provisional purchase consideration continued

(iii) Acquired receivables

The fair value of acquired receivables is $3,902,645. The gross contractual amount for trade receivables due is $4,076,619, of which $173,974 is expected to be uncollectible.

b) Purchase of consideration - cash outflow

	$000
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	81,245
Less: Cash balances acquired	(45,475)
Outflow of cash – investing activities	**35,770**

16. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There have not been any matters or circumstances that have arisen since the end of the financial year that has 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.

17. SOLVENCY AND CAPITAL ADEQUACY RESERVES

nib health funds limited Solvency Reserve, as per the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is $104.137 million. Total Health Benefits Fund Assets are $503.228 million, representing a surplus of $132.549 million over the sum of the Solvency Reserve and total Health Benefits Fund Liabilities ($266.542 million). This equates to a solvency coverage ratio of 1.36x and a solvency capital risk multiple of 2.27.

nib health funds limited Capital Adequacy Reserve, as per the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is $104.621 million. Total Health Benefits Fund Assets are $503.228 million, representing a surplus of $132.065 million over the Capital Adequacy Reserve and total Health Benefits Fund Liabilities ($266.542 million). This equates to a capital adequacy coverage ratio of 1.36x and a capital adequacy risk multiple of 2.26.

Tower Medical Insurance Limited (TMIL) has capital (net assets) of $36.396 million. After this capital is adjusted for deductions required under the Reserve Bank of New Zealand Solvency standard for non life business TMIL has solvency capital of $13.645 million. This compares to a minimum solvency capital required under the solvency standard of $7.428 million representing a solvency surplus of $6.217 million equating to a solvency ratio of 183.7%.

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 15 February 2013. The company has the power to amend and reissue the financial report.