

**nib holdings limited**  
**ABN 51 125 633 856**

**Half-year report for the period ended 31 December 2017**

This report should be read in conjunction with the annual financial report for the year ended 30 June 2017.

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## Appendix 4D

For the half year ended 31 December 2017  
nib holdings limited

### Results for announcement to the market

	6 months to 31 Dec 17 \$m	6 months to 31 Dec 16 \$m	Movement up / (down) \$m	Movement %
Revenue from ordinary activities	1,101.5	1,009.8	91.7	9%
Profit from ordinary activities after tax attributable to members	70.9	71.8	(0.9)	-1%
Net profit attributable to members	70.9	71.8	(0.9)	-1%

  

	6 months to 31 Dec 17 Amount per security (cps)	6 months to 31 Dec 16 Franking amount per security	6 months to 31 Dec 16 Amount per security (cps)	6 months to 31 Dec 16 Franking amount per security
Interim Dividend				
Ordinary Dividend	9.00	100%	8.50	100%
Special Dividend	0.00	100%	0.00	100%
Total Interim Dividend	9.00	100%	8.50	100%
Record date for determining entitlements to the dividend	2 March 2018			
Date the interim dividend is payable	3 April 2018			

#### Brief explanation of figures reported above:

Net profit after tax attributable to owners of nib holdings limited for the half year to 31 December 2017 calculated on a statutory basis equated to a profit of \$70.9 million.

For further information refer to the Directors' Report in the attached Interim Report of nib holdings limited for the period ended 31 December 2017.

## Appendix 4D

For the half year ended 31 December 2017

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 50.40 (46.08 as at 31 Dec 2016)	
<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>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>Interim Report 31 December 2017</p> <ul style="list-style-type: none"> <li>• Notes to the financial statement</li> <li>- Business Combination</li> </ul>	Note 19
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>Interim Report 31 December 2017</p> <ul style="list-style-type: none"> <li>• Notes to the financial statement</li> <li>- Dividends</li> </ul>	Note 14
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.	No dividend reinvestment plan. Not applicable	
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.	Not applicable	
8. For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Accounting Standards).	Not applicable	

## Appendix 4D

For the half year ended 31 December 2017  
nib holdings limited

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.	Not applicable	
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**R Toms**  
**Company Secretary**  
**nib holdings limited**

**Date 16 February 2018**



# INTERIM REPORT

31 DECEMBER 2017

nib

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# Directors' Report

For the half year ended 31 December 2017

nib holdings limited

The Directors of nib holdings limited (Company) present their report on the consolidated entity (Group) consisting of nib holdings limited and the entities it controlled at the end of or during the half year ended 31 December 2017.

## 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  
Philip Gardner

Anne Loveridge  
Christine McLoughlin  
Donal O'Dwyer

Harold Bentley retired as a Director on 30 September 2017.

## 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 students and visitors to Australia as well as specialising in the sale and distribution of travel insurance policies globally.

During the half year, the Group acquired Grand United Corporate Health Limited, Australia's only established specialist corporate group private health insurer.

Our vision is to be a leading financier and facilitator of healthcare with a reputation for product innovation, value for money, awesome customer service, being an employer of choice, a good corporate citizen and delivering strong shareholder returns.

Consistent with our mission that we exist to help people access and afford world class health care when and where needed, during 1H18 across our private health insurance businesses we had another busy half year funding about \$0.8 billion in benefits<sup>1</sup>.

We have also improved the diversity of our workplace with female representation of Non-Executive Directors at 50% and Executives at 33%.

We are confident that our key business strategies below will continue to underpin value creation for our shareholders:

- Grow our core Australian Residents Health Insurance (arhi) business at a "sustainable" rate of 4-5% (net policyholder growth) with an emphasis upon segmentation and risk selection.
- Leverage capabilities and assets within the Group to pursue adjacent business opportunities.
- Create competitive advantage across the Group through constant innovation, agility and cultural alignment.

1. Net claims incurred – Health insurance benefits including hospital, risk equalisation, state levies and ancillary benefits. Hospital includes hospital, medical and prostheses.

## REVIEW OF OPERATIONS

(\$m)	31 Dec 17	31 Dec 16	Change	
			\$m	%
Net premium revenue	1,048.4	965.7	82.7	8.6
Net claims incurred (excluding claims handling expenses)	(825.3)	(759.6)	65.7	8.6
Gross margin	223.1	206.1	17.0	8.2
	21.3%	21.3%		
Other underwriting revenue	0.9	0.7	0.2	28.6
Management expenses - marketing	(50.8)	(42.8)	8.0	18.7
	4.8%	4.4%		
Management expenses - other	(78.1)	(66.8)	11.3	16.9
	7.4%	6.9%		
<b>Underwriting result <sup>1</sup></b>	<b>95.1</b>	<b>97.2</b>	<b>(2.1)</b>	<b>(2.2)</b>
	9.1%	10.1%		
Other income	34.1	28.6	5.5	19.2
Other expenses	(32.6)	(30.6)	2.0	6.5
Share of net profit / (loss) of associates and joint ventures	(0.2)	-	(0.2)	NA
<b>Underlying operating profit <sup>1</sup></b>	<b>96.4</b>	<b>95.2</b>	<b>1.2</b>	<b>1.3</b>
	9.2%	9.9%		
Amortisation of acquired intangibles	(3.4)	(3.8)	(0.4)	(10.5)
One-off transactions, merger, acquisition and new business implementation costs	(4.9)	(0.5)	4.4	880.0
<b>Statutory operating profit</b>	<b>88.1</b>	<b>90.9</b>	<b>(2.8)</b>	<b>(3.1)</b>
	8.4%	9.4%		
Finance costs	(2.7)	(2.4)	0.3	12.5
Net investment income	17.1	13.8	3.3	23.9
	2.1%	2.0%		
<b>Profit before tax</b>	<b>102.5</b>	<b>102.3</b>	<b>0.2</b>	<b>0.2</b>
Tax	(31.6)	(31.2)	0.4	1.3
<b>NPAT</b>	<b>70.9</b>	<b>71.1</b>	<b>(0.2)</b>	<b>(0.3)</b>
Statutory EPS (cps)	15.9	16.4	(0.5)	(3.0)
Underlying EPS (cps)	17.2	17.1	0.1	0.6
ROIC (%) <sup>2</sup>	20.5	23.3	(2.8)	(12.0)
Operating cash flow	25.7	27.0	(1.3)	(4.8)

1. As per Note 3 Segment Reporting.

2. Using average shareholders' equity including non-controlling interests and average interest-bearing debt over a rolling 12 month period.

At a Group level our first half fiscal 2018 (1H18) result was a sound operating performance with the business on track to deliver a strong full year result. Overall, net premium revenue was up 8.6% to just over \$1 billion for the six month earnings period while underlying operating profit (UOP) was up 1.3% to \$96.4 million (statutory operating profit was down 3.1% to \$88.1 million).

The first half result also comprises the inaugural inclusion of specialist corporate group private health insurer, Grand United (GU) Health, which we acquired on 31 October 2017 for \$155.5 million. nib funded the transaction through a combination of an institutional placement, a Share Purchase Plan and a new debt facility. GU Health contributed \$3.9 million to the 1H18 arhi and iih UOP.

Our Net Profit After Tax (NPAT) of \$70.9 million was down 0.3% due to one-off costs, which included M&A costs associated with the recent GU Health acquisition. Net investment income rose 23.9% to \$17.1 million, and Underlying EPS was 17.2 up 0.6% (Statutory EPS was 15.9 down 3.0%).

The first half result has allowed nib to declare an interim fully franked dividend of 9.0 cents per share, an increase of 5.9% on the 2017 interim dividend. The interim dividend has an ex-dividend date and record date of 1 and 2 March 2018 respectively, with the interim dividend to be paid to shareholders on 3 April 2018.



REVIEW OF OPERATIONS continued

Australian Residents Health Insurance (arhi)

(\$m)	31 Dec 17 <sup>1</sup>	31 Dec 16	Change	
			\$m	%
Net policyholder growth <sup>2</sup>	6.3%	2.1%		
Net premium revenue	905.2	829.8	75.4	9.1
Net claims incurred (excluding claims handling expenses)	(752.5)	(686.0)	66.5	9.7
Gross margin	152.7	143.8	8.9	6.2
	16.9%	17.3%		
Other underwriting revenue	0.4	0.4	-	0.0
Management expenses - marketing	(32.1)	(24.4)	7.7	31.6
	3.5%	2.9%		
Management expenses - other	(54.5)	(46.8)	7.7	16.5
	6.0%	5.6%		
Underwriting result	66.5	73.0	(6.5)	(8.9)
	7.3%	8.8%		
Share of net profit / (loss) of associates and joint ventures	(0.2)	-	(0.2)	N/A
	(0.0%)	N/A		
Underlying operating profit	66.3	73.0	(6.7)	(9.2)
	7.3%	8.8%		

Our arhi business delivered solid top line growth with premium revenue up 9.1% to \$905.2 million (including the acquisition of GU Health on 31 October 2017 - excluding GU Health revenue was up 6.0%). UOP of \$66.3 million was down on last year's \$73.0 million but is consistent with our FY18 guidance that full year arhi net margins are expected to be within our 5% to 6% target range (FY17: 6.4%). The first half result also includes investment we are making in growth, customer service and retention initiatives.

Largely, the market for customer growth remains tough, with our arhi<sup>3</sup> net growth for the period being 1.1% (1H17: 2.1%). The result was still well ahead of industry at 0.3% with nib accounting for about 36% of total industry growth for the first half of the year. Our track record of above industry growth can be attributed to our multi-channel distribution strategy, product innovation, marketing experimentation and commitment to putting the customer at the heart of everything we do.

We expect soft and competitive market conditions for the remainder of FY18 with full year net policyholder growth expected to be approximately 3%.

Claims growth continues to be relatively moderate, improving arhi's underwriting performance and lowering required premium increases. The recently announced Federal Government Private Health Insurance reform, which will input measures to further reduce prosthesis costs, combined with our own efforts to rein in provider over-servicing and unnecessary charges are having a positive impact on premium affordability. This translated into savings for our customers with our 2018 premium increase of 3.93% our lowest in 15 years.

We remain very committed to addressing claims inflation and premium affordability as well as giving people even more reason to have private health insurance. The digital age is creating opportunities to make health insurance more valuable, easy to understand and accessible for our customers. One example is our recently piloted 'Going to Hospital' portal which helps our frontline answer questions from customers who are being admitted to hospital, such as "Am I covered?", "How much will it cost?" and "Who can I see?". Following the success of the pilot and feedback from customers, this information will soon be available online for customers to utilise directly, along with other medical cost and service data.

Greater transparency and improved information sharing with customers empowers them to make better, more informed decisions about their healthcare, while also delivering on our customer service aspirations. Reflecting these efforts, our arhi Net Promoter Score (NPS), which measures customer support for nib after a recent enquiry, reached 30.9% for the period up from 24.5% for the same period last year.

1. Includes GU Health (arhi customers) with business acquired 31 October 2017.  
 2. Addition of GU Health policyholders contributed to 5.2% growth.  
 3. Excludes GU Health.

**REVIEW OF OPERATIONS continued**

**International & New Business**

**International (Inbound) Health Insurance**

(\$m)	31 Dec 17 <sup>1</sup>	31 Dec 16	Change	
			\$m	%
Net policyholder growth <sup>2</sup>	11.0%	14.0%		
Net premium revenue	45.7	35.9	9.8	27.3
Net claims incurred (excluding claims handling expenses)	(17.5)	(12.8)	4.7	36.7
Gross margin	28.2	23.1	5.1	22.1
	61.7%	64.3%		
Other underwriting revenue	0.5	0.3	0.2	66.7
Management expenses - marketing	(3.2)	(2.6)	0.6	23.1
	7.0%	7.2%		
Management expenses - other	(10.0)	(7.5)	2.5	33.3
	21.9%	20.9%		
Underwriting result	15.5	13.3	2.2	16.5
	33.9%	37.0%		
Underlying operating profit	15.5	13.3	2.2	16.5
	33.9%	37.0%		

Our iihl business, which includes international students and international visitors, has continued to generate good customer and top line growth with premium revenue<sup>3</sup> up 27.3% to \$45.7 million and UOP<sup>1</sup> up 16.5% to \$15.5 million. We now provide health insurance to over 148,000<sup>3</sup> international students and workers while they are in Australia, reflecting the sound investment we have made in marketing and sales distribution.

**New Business**

While growing our Australian inbound students and workers remains a key focus, we're also actively leveraging business assets and capabilities to capture new market opportunities. Our collaboration announced late last year with Chinese pharmaceutical company, Tasly Holdings Group, is progressing well. The proposed joint venture to sell critical illness lump sum insurance to Chinese residents is expected to be in market by the end of this calendar year (proposed insurance brokerage business will not carry underwriting risk).

We will also soon launch nib International Student Services or NISS, a start-up service provider for international students beyond Australia. NISS is a service to assist foreign students organise everything they need to study abroad, such as insurance and other financial services, before they leave home. Currently, there are five million students across the globe studying internationally and it's growing, with this first-mover opportunity representing significant market and earnings potential.

**World Nomads Group**

(\$m)	31 Dec 17	31 Dec 16	\$m	%
Other income	32.5	27.0	5.5	20.4
Other expenses	(27.8)	(23.9)	3.9	16.3
Underlying operating profit	4.7	3.1	1.6	51.6
	14.5%	11.5%		

Our travel insurance business, WNG, performed to expectations in the first half of the year, demonstrating improved Australian domestic travel sales and strong international growth. Policyholder sales for the period were 350,338 (up 15.3%), with Gross Written Premium of \$73.5 million (up 17.5%) and UOP of \$4.7 million (up 51.6%).

Global travel insurance represents a significant addressable market with the WNG brand strategically and operationally well placed to expand into the attractive American, Asian and European markets. As we have flagged previously, capturing those opportunities will require investment to fuel our growth prospects which we expect will soften full year earnings.

1. Includes GU Health (international workers customers) with business acquired 31 October 2017.

2. Addition of GU Health policyholders contributed 5.0% to growth.

3. Includes GU Health.

**REVIEW OF OPERATIONS continued**

**nib New Zealand**

(\$m)	31 Dec 17	31 Dec 16	Change	
			\$m	%
Net policyholder growth	1.2%	1.0%		
Net premium revenue	97.5	100.0	(2.5)	(2.5)
Net claims incurred (excluding claims handling expenses and movement in PPB liability)	(58.0)	(64.7)	(6.7)	(10.4)
Decrease in premium payback liability	2.7	3.9	(1.2)	(30.8)
Gross margin	42.2	39.2	3.0	7.7
	43.3%	39.2%		
Management expenses - marketing	(15.5)	(15.8)	(0.3)	(1.9)
	15.9%	15.8%		
Management expenses - other	(13.6)	(12.5)	1.1	8.8
	13.9%	12.5%		
Underlying operating profit	13.1	10.9	2.2	20.2
	13.4%	10.9%		

Our New Zealand business delivered strong earnings growth with UOP up 20.2% to \$13.1 million for 1H18.

Despite the loss of a corporate group late last financial year, we've made good progress during the period to grow our direct-to-consumer segment with the launch of new products to target millennials, new families and migrant families, including tailored products and bilingual customer services. Our whitelabel channel was also recently expanded to include Stuff (previously Fairfax Media New Zealand) who, along with AA New Zealand, are generating positive new to category sales momentum.

Our First Choice Network (launched September 2017), which reduces customer out-of-pockets for hospital medical treatment, is providing customers with a seamless claims experience. Provider acceptance to the First Choice Network has been positive with 90% participating in the Network. This gives customers an enhanced claiming experience and the ability for nib to better control claims and premium inflation drivers.

Tapping into the capability and skills of our people and systems across the nib Group continues to benefit our New Zealand operations. By applying enterprise learnings and scale, we've seen significant progress to enhance our online and mobile interaction with customers. Today 80% of customers have elected email as their preferred contact method, while 60% of claims are now made electronically and 80% of direct-to-consumer joins are online. Customers like our enhanced service capability with nib New Zealand's NPS currently sitting at 19% up from 6% in 1H17.

**CAPITAL MANAGEMENT**

At 31 December 2017 the Group had net assets of \$538.9 million (June 2017: \$427.6 million) and a return on equity of 26.6%, using average shareholders' equity and NPAT for the previous 12 months over a rolling 12-month period (December 2016: 31.7%). Further, at 31 December 2017 the Group had available capital of \$61.0 million above our internal benchmark (after allowing for the payment of an interim dividend of 9.0 cents per share, totalling \$40.9 million, in April 2018).

During the half year, the Group acquired Grand United Corporate Health Limited for a consideration of \$155.5 million. The transaction was funded by a fully underwritten institutional equity placement of \$60.0 million, a non-underwritten Share Purchase Plan of \$15.0 million and a new debt facility of \$80.5 million.

**DIVIDENDS**

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

	31 Dec 17 \$m	31 Dec 16 \$m
Final dividend for the year ended 30 June 2017 of 10.5 cents (2016 - 9.0 cents) per fully paid share paid on 6 October 2017	46.1	39.5
	<b>46.1</b>	<b>39.5</b>

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 \$40.9 million (9.0 cents per fully paid ordinary share) to be paid on 3 April 2018 out of retained profits at 31 December 2017.

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 7.

**ROUNDING OF AMOUNTS**

The Company is of a kind referred to in Instrument 2016/191, 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 hundred thousand dollars in accordance with that Instrument.

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

On behalf of the Board



Steve Crane  
Director



Anne Loveridge  
Director

Newcastle, NSW  
16 February 2018



## Auditor's Independence Declaration

As lead auditor for the review of nib holdings limited for the half-year ended 31 December 2017, 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'.

Caroline Mara  
Partner  
PricewaterhouseCoopers

Newcastle  
16 February 2018

# Financial Report

For the half year ended 31 December 2017

nib holdings limited

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# Consolidated Income Statement

For the half year ended 31 December 2017

nib holdings limited

	Notes	Half year	
		31 Dec 17 \$m	31 Dec 16 \$m
Premium revenue	4	1,055.2	966.3
Outwards reinsurance premium expense	4	(6.8)	(0.6)
<b>Net premium revenue</b>		<b>1,048.4</b>	<b>965.7</b>
Claims expense		(715.6)	(661.4)
Reinsurance and other recoveries revenue		2.9	0.3
RESA levy		(99.5)	(87.4)
State levies		(15.8)	(15.0)
Decrease / (increase) in premium payback liability		2.7	3.9
Claims handling expenses	5	(8.9)	(8.2)
<b>Net claims incurred</b>		<b>(834.2)</b>	<b>(767.8)</b>
<b>Other underwriting revenue</b>	4	<b>0.9</b>	<b>0.7</b>
Acquisition costs	5	(63.7)	(52.6)
Other underwriting expenses	5	(58.6)	(51.2)
<b>Underwriting expenses</b>		<b>(122.3)</b>	<b>(103.8)</b>
<b>Underwriting result</b>		<b>92.8</b>	<b>94.8</b>
Other income	4	34.1	28.6
Other expenses	5	(38.6)	(32.5)
Share of net profit / (loss) of associates and joint ventures accounted for using the equity method		(0.2)	-
<b>Operating profit</b>		<b>88.1</b>	<b>90.9</b>
Finance costs	5	(2.7)	(2.4)
Investment income	4	18.1	14.8
Investment expenses	5	(1.0)	(1.0)
<b>Profit before income tax</b>		<b>102.5</b>	<b>102.3</b>
Income tax expense	6	(31.6)	(31.2)
<b>Profit for the half year</b>		<b>70.9</b>	<b>71.1</b>
<b>Profit for the half year is attributable to:</b>			
Owners of nib holdings limited		70.9	71.8
Non-controlling interests		-	(0.7)
		<b>70.9</b>	<b>71.1</b>
		Cents	Cents
<b>Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company</b>			
Basic earnings per share	15	15.9	16.4
Diluted earnings per share	15	15.9	16.4
<b>Earnings per share for profit attributable to the ordinary equity holders of the company</b>			
Basic earnings per share	15	15.9	16.4
Diluted earnings per share	15	15.9	16.4

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 2017

nib holdings limited

	Notes	Half year	
		31 Dec 17	31 Dec 16
		\$m	\$m
<b>Profit for the half year</b>		<b>70.9</b>	<b>71.1</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		(3.2)	0.5
Income tax related to these items	6	0.8	(0.1)
<b>Other comprehensive income for the half year, net of tax</b>		<b>(2.4)</b>	<b>0.4</b>
<b>Total comprehensive income for the half year</b>		<b>68.5</b>	<b>71.5</b>
<b>Total comprehensive income for the half year is attributable to:</b>			
Owners of nib holdings limited		68.5	72.2
Non-controlling interests		-	(0.7)
		<b>68.5</b>	<b>71.5</b>

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 2017  
nib holdings limited

	Notes	31 Dec 17 \$m	30 Jun 17 \$m
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		221.9	119.0
Receivables		76.0	53.2
Financial assets at fair value through profit or loss	7	607.9	626.1
Deferred acquisition costs	8	42.3	41.3
Assets classified as held for sale		-	1.9
<b>Total current assets</b>		<b>948.1</b>	<b>841.5</b>
<b>Non-current assets</b>			
Receivables		1.6	1.6
Financial assets at fair value through profit or loss	7	2.8	-
Investments accounted for using the equity method		2.1	2.3
Deferred acquisition costs	8	60.0	60.3
Property, plant and equipment		10.7	11.8
Intangible assets	9	309.7	218.6
<b>Total non-current assets</b>		<b>386.9</b>	<b>294.6</b>
<b>Total assets</b>		<b>1,335.0</b>	<b>1,136.1</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables		159.4	147.9
Borrowings	10	1.6	1.5
Outstanding claims liability	11	149.3	120.2
Unearned premium liability		161.0	174.7
Premium payback liability	12	9.4	9.5
Provision for employee entitlements		3.8	3.8
Current tax liabilities		3.4	18.6
Other liabilities		0.4	0.4
<b>Total current liabilities</b>		<b>488.3</b>	<b>476.6</b>
<b>Non-current liabilities</b>			
Payables		4.4	3.3
Borrowings	10	229.2	151.7
Unearned premium liability		27.9	28.9
Premium payback liability	12	9.9	13.5
Provision for employee entitlements		2.4	2.4
Deferred tax liabilities		29.0	26.9
Other liabilities		5.0	5.2
<b>Total non-current liabilities</b>		<b>307.8</b>	<b>231.9</b>
<b>Total liabilities</b>		<b>796.1</b>	<b>708.5</b>
<b>Net assets</b>		<b>538.9</b>	<b>427.6</b>
<b>EQUITY</b>			
Contributed equity	13	116.1	25.0
Retained profits		424.9	399.0
Reserves		(1.1)	4.6
<b>Capital and reserves attributable to owners of nib holdings limited</b>		<b>539.9</b>	<b>428.6</b>
Non-controlling interests		(1.0)	(1.0)
<b>Total equity</b>		<b>538.9</b>	<b>427.6</b>

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 2017

nib holdings limited

	Attributable to owners of nib holdings limited				Non-controlling interests	Total equity	
	Contributed equity	Retained profits	Reserves	Total			
	Notes	\$m	\$m	\$m			\$m
<b>Balance at 1 July 2016</b>		<b>26.6</b>	<b>356.2</b>	<b>4.9</b>	<b>387.7</b>	<b>(1.6)</b>	<b>386.1</b>
Profit for the half year		-	71.8	-	71.8	(0.7)	71.1
Movement in foreign currency translation, net of tax		-	-	0.4	0.4	-	0.4
<b>Total comprehensive income for the half year</b>		<b>-</b>	<b>71.8</b>	<b>0.4</b>	<b>72.2</b>	<b>(0.7)</b>	<b>71.5</b>
<b>Transactions with owners in their capacity as owners:</b>							
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust	13	(1.5)	-	-	(1.5)	-	(1.5)
Issue of shares held by nib Holdings Ltd Share Ownership Plan Trust to employees	13	2.5	-	(1.5)	1.0	-	1.0
Employee performance rights - value of employee services		-	-	0.6	0.6	-	0.6
Dividends paid	14	-	(39.5)	-	(39.5)	-	(39.5)
		<b>1.0</b>	<b>(39.5)</b>	<b>(0.9)</b>	<b>(39.4)</b>	<b>-</b>	<b>(39.4)</b>
<b>Balance at 31 December 2016</b>		<b>27.6</b>	<b>388.5</b>	<b>4.4</b>	<b>420.5</b>	<b>(2.3)</b>	<b>418.2</b>
<b>Balance at 1 July 2017</b>		<b>25.0</b>	<b>399.0</b>	<b>4.6</b>	<b>428.6</b>	<b>(1.0)</b>	<b>427.6</b>
Profit for the half year		-	70.9	-	70.9	-	70.9
Movement in foreign currency translation, net of tax		-	-	(2.4)	(2.4)	-	(2.4)
Transfer to retained profits on sale of land and buildings, net of tax		-	1.1	(1.1)	-	-	-
<b>Total comprehensive income for the half year</b>		<b>-</b>	<b>72.0</b>	<b>(3.5)</b>	<b>68.5</b>	<b>-</b>	<b>68.5</b>
<b>Transactions with owners in their capacity as owners:</b>							
Contributions of equity net of transaction costs and tax	13	88.0	-	-	88.0	-	88.0
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust	13	(1.1)	-	-	(1.1)	-	(1.1)
Issue of shares held by nib Holdings Ltd Share Ownership Plan Trust to employees	13	4.2	-	(3.0)	1.2	-	1.2
Employee performance rights - value of employee services		-	-	0.8	0.8	-	0.8
Dividends paid	14	-	(46.1)	-	(46.1)	-	(46.1)
		<b>91.1</b>	<b>(46.1)</b>	<b>(2.2)</b>	<b>42.8</b>	<b>-</b>	<b>42.8</b>
<b>Balance at 31 December 2017</b>		<b>116.1</b>	<b>424.9</b>	<b>(1.1)</b>	<b>539.9</b>	<b>(1.0)</b>	<b>538.9</b>

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 2017

nib holdings limited

	Notes	Half year	
		31 Dec 17	31 Dec 16
		\$m	\$m
<b>Cash flows from operating activities</b>			
Receipts from policyholders and customers (inclusive of goods and services tax)		1,070.2	1,000.8
Payments to policyholders and customers		(815.9)	(784.8)
Payments to suppliers and employees (inclusive of goods and services tax)		(191.7)	(163.4)
		<b>62.6</b>	<b>52.6</b>
Interest received		3.6	3.3
Distributions received		3.6	3.5
Transaction costs relating to acquisition of business combination		(3.3)	-
Interest paid		(2.3)	(2.5)
Income taxes paid		(38.5)	(29.9)
<b>Net cash inflow from operating activities</b>		<b>25.7</b>	<b>27.0</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of other financial assets at fair value through profit or loss		171.0	115.6
Payments for other financial assets at fair value through profit or loss		(121.7)	(113.4)
Proceeds from sale of assets classified as held for sale		2.1	-
Payments for property, plant and equipment and intangibles		(9.2)	(7.3)
Payment for acquisition of business combination, net of cash acquired	19	(85.1)	-
<b>Net cash (outflow) from investing activities</b>		<b>(42.9)</b>	<b>(5.1)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	13	89.5	-
Proceeds from borrowings	10	80.5	35.0
Repayment of borrowings	10	-	(35.0)
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust	13	(1.1)	(1.5)
Share issue transaction costs	13	(2.1)	-
Dividends paid to the company's shareholders	14	(46.1)	(39.5)
<b>Net cash inflow / (outflow) from financing activities</b>		<b>120.7</b>	<b>(41.0)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of the year		117.5	89.4
Effects of exchange rate changes on cash and cash equivalents		(0.7)	-
<b>Cash and cash equivalents at the end of the half year</b>		<b>220.3</b>	<b>70.3</b>
<b>Reconciliation to Consolidated Balance Sheet</b>			
Cash and cash equivalents		221.9	71.4
Borrowings - overdraft		(1.6)	(1.1)
		<b>220.3</b>	<b>70.3</b>

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 2017

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 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 the half year report

This consolidated interim financial report for the half year reporting period ended 31 December 2017 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 2017 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 2017

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 below the table.

The following tables present the Group's assets and liabilities measured and recognised at fair value at 31 December 2017 and 30 June 2017:

	Level 1	Level 2	Level 3	Total
	\$m	\$m	\$m	\$m
<b>Group at 31 December 2017</b>				
<b>Assets</b>				
Cash and cash equivalents and deposits at call	221.9	-	-	221.9
Receivables	-	1.6	-	1.6
Financial assets at fair value through profit or loss				
Equity securities	107.0	8.0	-	115.0
Interest-bearing securities	424.1	35.4	-	459.5
Mortgage trusts	-	0.8	-	0.8
Property syndicates and trusts	1.8	3.5	-	5.3
Short term deposits	30.1	-	-	30.1
<b>Total assets</b>	<b>784.9</b>	<b>49.3</b>	<b>-</b>	<b>834.2</b>

	Level 1	Level 2	Level 3	Total
	\$m	\$m	\$m	\$m
<b>Group at 30 June 2017</b>				
<b>Assets</b>				
Cash and cash equivalents and deposits at call	119.0	-	-	119.0
Receivables	-	1.6	-	1.6
Financial assets at fair value through profit or loss				
Equity securities	110.5	-	-	110.5
Interest-bearing securities	444.2	16.3	-	460.5
Short term deposits	55.1	-	-	55.1
<b>Total assets</b>	<b>728.8</b>	<b>17.9</b>	<b>-</b>	<b>746.7</b>

There were no transfers between level 1 and level 2 during the half year.

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.

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.

<b>Level 1</b>	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.
<b>Level 2</b>	The fair value of financial instruments that are not traded in active markets (for example interest bearing securities) is determined using valuation techniques. The Group uses 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.
<b>Level 3</b>	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 2017

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.

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

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<b>i) <i>Transfers between levels 2 and 3</i></b>	There were no transfers between the levels of the fair value hierarchy during the half year. There were also no changes during the half year to any of the valuation techniques applied as of 30 June 2017.
<b>i) <i>Valuation process</i></b>	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.

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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.

### d) Fair values of other financial instruments

The Group has other financial instruments, bank loans, which were not measured at fair value in the balance sheet. The fair values are not materially different to the carrying amounts since the interest payable on these borrowings are close to current market rates.

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 2017

nib holdings limited

## 3. SEGMENT REPORTING

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 Managing Director/Chief Executive Officer (MD/CEO).

The MD/CEO assesses the performance of the operating segments based on underlying operating profit. This measurement basis excludes from the operating segments the effects of non-recurring gain on sale of controlling interest of Whitecoat business and non-recurring expenditure such as extraordinary legal fees, integration costs, merger and acquisition costs, new business implementation costs and amortisation of acquired intangibles.

No information regarding assets, liabilities and income tax is provided for individual Australian Residents 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.

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:**

<b>Australian Residents Health Insurance</b>	nib's core product offering within the Australian private health insurance industry
<b>New Zealand Residents Health Insurance</b>	nib's core product offering within the New Zealand private health insurance industry
<b>International (Inbound) Health Insurance</b>	nib's offering of health insurance products for international students and workers
<b>World Nomads Group</b>	nib's distribution of travel insurance products

In May 2017, the Group commenced winding down the operations of nib Options with business termination costs provided for at 30 June 2017. The results of nib Options are immaterial and now reported in the unallocated to segments column. Underlying operating loss for the six months to December 2017 was \$0.1 million (December 2016: \$1.6 million loss).

# Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2017

nib holdings limited

## 3. SEGMENT REPORTING continued

	For the half year ending 31 December 2017					Total \$m
	Australian Residents Health Insurance \$m	International (Inbound) Health Insurance \$m	New Zealand Health Insurance \$m	World Nomads Group \$m	Unallocated to segments \$m	
Premium revenue	907.4	50.3	97.5	-	-	1,055.2
Outwards reinsurance premium expense	(2.2)	(4.6)	-	-	-	(6.8)
<b>Net premium revenue</b>	<b>905.2</b>	<b>45.7</b>	<b>97.5</b>	-	-	<b>1,048.4</b>
Claims expense	(638.2)	(19.4)	(58.0)	-	-	(715.6)
Reinsurance and other recoveries revenue	1.0	1.9	-	-	-	2.9
RESA	(99.5)	-	-	-	-	(99.5)
State levies	(15.8)	-	-	-	-	(15.8)
Decrease in premium payback liability	-	-	2.7	-	-	2.7
Claims handling expenses	(7.5)	(0.6)	(0.8)	-	-	(8.9)
<b>Net claims incurred</b>	<b>(760.0)</b>	<b>(18.1)</b>	<b>(56.1)</b>	-	-	<b>(834.2)</b>
<b>Other underwriting revenue</b>	<b>0.4</b>	<b>0.5</b>	-	-	-	<b>0.9</b>
Acquisition costs	(41.2)	(5.7)	(16.8)	-	-	(63.7)
Other underwriting expenses	(37.9)	(6.9)	(11.5)	-	-	(56.3)
<b>Underwriting expenses</b>	<b>(79.1)</b>	<b>(12.6)</b>	<b>(28.3)</b>	-	-	<b>(120.0)</b>
<b>Underwriting result</b>	<b>66.5</b>	<b>15.5</b>	<b>13.1</b>	-	-	<b>95.1</b>
Other income	-	-	-	32.5	1.6	34.1
Other expenses	-	-	-	(27.8)	(4.8)	(32.6)
Share of net profit / (loss) of associates and joint ventures accounted for using the equity method	(0.2)	-	-	-	-	(0.2)
<b>Underlying operating profit / (loss)</b>	<b>66.3</b>	<b>15.5</b>	<b>13.1</b>	<b>4.7</b>	<b>(3.2)</b>	<b>96.4</b>
<b>Items not included in underlying operating profit</b>						
Amortisation of acquired intangibles	-	(0.4)	(1.9)	(1.1)	-	(3.4)
One-off transactions, merger, acquisition and new business implementation costs	-	-	-	-	(4.9)	(4.9)
Finance costs	-	-	-	-	(2.7)	(2.7)
Investment income	-	-	-	-	18.1	18.1
Investment expenses	-	-	-	-	(1.0)	(1.0)
<b>Profit before income tax from continuing operations</b>						<b>102.5</b>
Inter-segment other income <sup>1</sup>	4.0	-	0.2	0.1	-	4.3
Total assets	977.6		197.2	117.8	42.4	1,335.0
Total liabilities	466.0		56.1	11.4	262.6	796.1
Insurance liabilities						
Outstanding claims liability	136.7		12.6	-	-	149.3
Unearned premium liability	170.9		18.0	-	-	188.9
Premium payback liability	-		19.3	-	-	19.3
<b>Total</b>	<b>307.6</b>		<b>49.9</b>	-	-	<b>357.5</b>

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



# Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2017

nib holdings limited

## 3. SEGMENT REPORTING continued

	For the half year ending 31 December 2016					Total \$m
	Australian Residents Health Insurance \$m	International (Inbound) Health Insurance \$m	New Zealand Health Insurance \$m	World Nomads Group \$m	Unallocated to segments \$m	
Premium revenue	829.8	36.5	100.0	-	-	966.3
Outwards reinsurance premium expense	-	(0.6)	-	-	-	(0.6)
<b>Net premium revenue</b>	<b>829.8</b>	<b>35.9</b>	<b>100.0</b>	<b>-</b>	<b>-</b>	<b>965.7</b>
Claims expense	(583.6)	(13.1)	(64.7)	-	-	(661.4)
Reinsurance and other recoveries revenue	-	0.3	-	-	-	0.3
RESA	(87.4)	-	-	-	-	(87.4)
State levies	(15.0)	-	-	-	-	(15.0)
Decrease in premium payback liability	-	-	3.9	-	-	3.9
Claims handling expenses	(6.7)	(0.5)	(1.0)	-	-	(8.2)
<b>Net claims incurred</b>	<b>(692.7)</b>	<b>(13.3)</b>	<b>(61.8)</b>	<b>-</b>	<b>-</b>	<b>(767.8)</b>
<b>Other underwriting revenue</b>	<b>0.4</b>	<b>0.3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.7</b>
Acquisition costs	(31.6)	(4.0)	(17.0)	-	-	(52.6)
Other underwriting expenses	(32.9)	(5.6)	(10.3)	-	-	(48.8)
<b>Underwriting expenses</b>	<b>(64.5)</b>	<b>(9.6)</b>	<b>(27.3)</b>	<b>-</b>	<b>-</b>	<b>(101.4)</b>
<b>Underwriting result</b>	<b>73.0</b>	<b>13.3</b>	<b>10.9</b>	<b>-</b>	<b>-</b>	<b>97.2</b>
Other income	-	-	-	27.0	1.6	28.6
Other expenses	-	-	-	(23.9)	(6.7)	(30.6)
Share of net profit / (loss) of associates and joint ventures accounted for using the equity method	-	-	-	-	-	-
<b>Underlying operating profit / (loss)</b>	<b>73.0</b>	<b>13.3</b>	<b>10.9</b>	<b>3.1</b>	<b>(5.1)</b>	<b>95.2</b>
<b>Items not included in underlying operating profit</b>						
Amortisation of acquired intangibles	-	(0.4)	(2.0)	(1.4)	-	(3.8)
One-off transactions, merger, acquisition and new business implementation costs	-	-	-	(0.2)	(0.3)	(0.5)
Finance costs	-	-	-	-	(2.4)	(2.4)
Investment income	-	-	-	-	14.8	14.8
Investment expenses	-	-	-	-	(0.9)	(1.0)
<b>Profit before income tax from continuing operations</b>						<b>102.3</b>
Inter-segment other income <sup>1</sup>	1.3	-	0.1	-	-	1.4
Total assets	700.8		199.3	108.4	28.1	1,036.6
Total liabilities	357.2		62.7	9.9	188.6	618.4
Insurance liabilities						
Outstanding claims liability	89.7		14.9	-	-	104.6
Unearned premium liability	147.4		18.4	-	-	165.8
Premium payback liability	-		23.6	-	-	23.6
<b>Total</b>	<b>237.1</b>		<b>56.9</b>	<b>-</b>	<b>-</b>	<b>294.0</b>

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

# Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2017

nib holdings limited

## 4. REVENUE AND OTHER INCOME

	Half year	
	31 Dec 17	31 Dec 16
	\$m	\$m
Premium revenue	1,055.2	966.3
Outwards reinsurance premiums	(6.8)	(0.6)
<b>Net premium revenue</b>	<b>1,048.4</b>	<b>965.7</b>
Agency fee	0.2	0.2
Sundry income	0.7	0.4
<b>Other underwriting revenue</b>	<b>0.9</b>	<b>0.7</b>
<b>Other income</b>		
Travel insurance commission	32.5	27.0
Life and funeral insurance commission and other commissions	1.1	1.2
Deferred profit on sale and leaseback of head office building	0.3	0.2
Sundry income	0.2	0.2
	<b>34.1</b>	<b>28.6</b>
<b>Investment income</b>		
Interest	3.5	3.4
Net realised gain on financial assets at fair value through profit or loss	4.4	7.3
Net unrealised gain on financial assets at fair value through profit or loss	10.2	4.1
	<b>18.1</b>	<b>14.8</b>

# Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2017

nib holdings limited

## 5. EXPENSES

	Half year	
	31 Dec 17	31 Dec 16
	\$m	\$m
<b>Expenses by function</b>		
Claims handling expenses	8.9	8.2
Acquisition costs	63.7	52.6
Other underwriting expenses	58.6	51.2
Other expenses	38.6	32.5
Finance costs	2.7	2.4
Investment expenses	1.0	1.0
<b>Total expenses (excluding direct claims expenses)</b>	<b>173.5</b>	<b>147.9</b>
<b>Expenses by nature</b>		
Amortisation of acquired intangibles	3.4	3.8
Bank charges	2.2	2.1
Communications, postage and telephone expenses	2.9	2.7
Depreciation and amortisation	8.1	6.8
Employee costs	63.8	55.3
Finance costs	2.7	2.4
Information technology expenses	5.4	4.3
Investment expenses	1.0	1.0
Marketing expenses - excluding commissions	19.7	18.7
Marketing expenses - commissions	41.2	33.9
Merger, acquisition and new business implementation costs	3.7	0.3
Operating lease rental expenses	4.4	4.1
Professional fees	7.3	5.6
Other expenses	7.7	6.9
<b>Total expenses (excluding direct claims expenses)</b>	<b>173.5</b>	<b>147.9</b>

# Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2017

nib holdings limited

## 6. TAXATION

### a) Income tax

Notes	Half year	
	31 Dec 17	31 Dec 16
	\$m	\$m
<b>i) Income tax expense</b>		
<b>Recognised in the income statement</b>		
Current tax expense	23.1	25.6
Deferred tax expense	8.1	5.4
Under (over) provided in prior years	0.2	0.2
Under (over) provided in prior years - research and development tax credit	0.2	-
	<b>31.6</b>	<b>31.2</b>
<b>Income tax expense is attributable to:</b>		
Profit from continuing operations	31.6	31.2
<b>Aggregate income tax expense</b>	<b>31.6</b>	<b>31.2</b>
<b>Deferred income tax expense included in income tax expense comprises:</b>		
Increase in deferred tax assets	7.6	2.6
Increase in deferred tax liabilities	0.5	2.8
	<b>8.1</b>	<b>5.4</b>
<b>ii) Numerical reconciliation of income tax expense to prima facie tax payable</b>		
<b>Profit from continuing operations before income tax expense</b>	<b>102.5</b>	<b>102.3</b>
Tax at the Australian tax rate of 30% (2017: 30%)	30.8	30.7
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Sundry items	0.5	(0.2)
Adjustment for current tax of prior periods	0.2	0.2
Adjustment for current tax of prior periods - research and development tax credit	0.2	-
Unrecognised tax losses and deferred tax assets	0.2	0.6
Differences in foreign tax rates	(0.3)	(0.1)
<b>Income tax expense</b>	<b>31.6</b>	<b>31.2</b>
<b>iii) Tax expense relating to items of other comprehensive income</b>		
Foreign currency translations	(0.8)	0.1
	<b>(0.8)</b>	<b>0.1</b>
<b>iv) Amounts recognised directly to equity</b>		
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:		
Share issue costs	0.6	-
	<b>0.6</b>	<b>-</b>

# Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2017

nib holdings limited

## 6. TAXATION continued

### b) Deferred tax assets

	31 Dec 17	30 Jun 17
	\$m	\$m
<b>The balance comprises temporary differences attributable to:</b>		
Deferred profit on sale and leaseback of head office building	1.6	1.7
Employee benefits	4.2	4.1
Premium payback liabilities	5.0	6.0
Unrealised losses on investments	-	2.8
	<b>10.8</b>	<b>14.6</b>
<b>Other</b>		
Doubtful debts	0.5	0.5
Merger and acquisition costs	0.1	0.2
Outstanding claims	0.3	0.2
Provisions	4.3	3.4
Share issue costs	0.6	-
	<b>5.8</b>	<b>4.3</b>
<b>Total deferred tax assets</b>	<b>16.6</b>	<b>18.9</b>
Set-off of deferred tax liabilities pursuant to set-off provisions	6(c) (16.6)	(18.9)
<b>Net deferred tax assets</b>	<b>-</b>	<b>-</b>

Movements	Deferred profit on sale and leaseback of head office building	Employee benefits	Premium payback liabilities	Unrealised losses on investments	Other	Total
	\$m	\$m	\$m	\$m	\$m	\$m
<b>At 1 July 2016</b>	1.8	4.2	7.2	0.6	4.5	18.3
(Charged)/credited to the income statement	(0.1)	(0.1)	(1.2)	2.2	(0.2)	0.6
<b>At 30 June 2017</b>	<b>1.7</b>	<b>4.1</b>	<b>6.0</b>	<b>2.8</b>	<b>4.3</b>	<b>18.9</b>
<b>At 1 July 2017</b>	1.7	4.1	6.0	2.8	4.3	18.9
(Charged)/credited to the income statement	(0.1)	(0.1)	(0.7)	(2.8)	(3.9)	(7.6)
(Charged)/credited directly to other comprehensive income	-	-	(0.3)	-	0.6	0.3
Acquisition of business	19 -	0.2	-	-	4.8	5.0
<b>At 31 December 2017</b>	<b>1.6</b>	<b>4.2</b>	<b>5.0</b>	<b>-</b>	<b>5.8</b>	<b>16.6</b>

# Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2017

nib holdings limited

## 6. TAXATION continued

### c) Deferred tax liabilities

	31 Dec 17 \$m	30 Jun 17 \$m
<b>The balance comprises temporary differences attributable to:</b>		
Brands and trademarks and customer contracts	14.3	15.4
Deferred acquisition costs	29.5	28.4
Depreciation and amortisation	0.2	0.4
Unrealised foreign exchange gains	0.4	0.9
Unrealised gains on investments	0.6	-
	<b>45.0</b>	<b>45.1</b>
<b>Other</b>		
Asset revaluation	-	0.1
Investment in associates and joint ventures	0.2	0.3
Prepayments	0.1	-
Unearned premium liability	0.3	0.3
	<b>0.6</b>	<b>0.7</b>
<b>Total deferred tax liabilities</b>	<b>45.6</b>	<b>45.8</b>
Set-off of deferred tax liabilities pursuant to set-off provisions	6(b) (16.6)	(18.9)
<b>Net deferred tax liabilities</b>	<b>29.0</b>	<b>26.9</b>

Movements	Brands and trademarks and customer contracts	Deferred acquisition costs	Depreciation and amortisation	Unrealised foreign exchange losses	Unrealised gains on investments	Other	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>At 1 July 2016</b>	15.9	23.7	0.9	1.1	-	0.3	41.9
(Charged)/credited to the income statement	(0.3)	4.7	(0.5)	(0.2)	-	0.4	4.1
(Charged)/credited directly to other comprehensive income	(0.2)	-	-	-	-	-	(0.2)
<b>At 30 June 2017</b>	<b>15.4</b>	<b>28.4</b>	<b>0.4</b>	<b>0.9</b>	<b>-</b>	<b>0.7</b>	<b>45.8</b>
<b>At 1 July 2017</b>	15.4	28.4	0.4	0.9	-	0.7	45.8
(Charged)/credited to the income statement	(0.7)	1.4	(0.3)	-	0.2	(0.1)	0.5
(Charged)/credited directly to other comprehensive income	(0.4)	(0.3)	-	(0.5)	-	-	(1.2)
Acquisition of business	19 -	-	0.1	-	0.4	-	0.5
<b>At 31 December 2017</b>	<b>14.3</b>	<b>29.5</b>	<b>0.2</b>	<b>0.4</b>	<b>0.6</b>	<b>0.6</b>	<b>45.6</b>

# Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2017

nib holdings limited

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 Dec 17	30 Jun 17
	\$m	\$m
<b>Current</b>		
Equity securities	115.0	110.5
Interest-bearing securities	459.5	460.5
Mortgage trusts	0.8	-
Property syndicates and trusts	2.5	-
Short term deposits	30.1	55.1
	<b>607.9</b>	<b>626.1</b>
<b>Non-current</b>		
Property syndicates and trusts	2.8	-
	<b>2.8</b>	<b>-</b>

### Current and non-current split

The redemption terms for investments in certain managed trusts can be varied by their responsible entities in response to market conditions. For those investments which cannot be redeemed in entirety within one year from reporting date, the amounts have been allocated between current and non-current in accordance with the maximum percentage redeemable within one year as per the most recent advice from the manager at the end of the reporting period.

# Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2017

nib holdings limited

## 8. DEFERRED ACQUISITION COSTS

	31 Dec 17 \$m	30 Jun 17 \$m
<b>Current</b>	<b>42.3</b>	<b>41.3</b>
<b>Non-current</b>	<b>60.0</b>	<b>60.3</b>

Movements in the deferred acquisition costs are as follows:

	31 Dec 17 \$m	30 Jun 17 \$m
Balance at beginning of year	101.6	83.2
Acquisition costs deferred during the half year	23.8	60.1
Amortisation expense	(22.2)	(41.7)
Exchange differences	(0.9)	-
	<b>102.3</b>	<b>101.6</b>

Deferred acquisition costs by segment are as follows:

	31 Dec 17 \$m	30 Jun 17 \$m
Australian Residents Health Insurance	76.9	77.3
New Zealand Residents Health Insurance	22.4	21.2
International (Inbound) Health Insurance	3.0	3.1
	<b>102.3</b>	<b>101.6</b>



# Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2017

nib holdings limited

## 9. INTANGIBLE ASSETS

	Goodwill	Software	Brands and Trademarks	Customer Contracts	Total
	\$m	\$m	\$m	\$m	\$m
<b>At 1 July 2016</b>					
Cost	135.2	69.0	28.9	47.2	280.3
Accumulated amortisation and impairment	-	(38.7)	(4.0)	(13.6)	(56.3)
<b>Net book amount</b>	<b>135.2</b>	<b>30.3</b>	<b>24.9</b>	<b>33.6</b>	<b>224.0</b>
<b>Year ended 30 June 2017</b>					
Opening net book amount	135.2	30.3	24.9	33.6	224.0
Additions	-	13.6	-	-	13.6
Disposals	-	(0.9)	-	-	(0.9)
Amortisation charge for the year	-	(12.5)	(0.8)	(4.4)	(17.7)
Exchange differences	(0.2)	(0.1)	-	(0.1)	(0.4)
<b>Closing net book amount</b>	<b>135.0</b>	<b>30.4</b>	<b>24.1</b>	<b>29.1</b>	<b>218.6</b>
<b>At 30 June 2017</b>					
Cost	135.0	77.5	28.9	47.1	288.5
Accumulated amortisation and impairment	-	(47.1)	(4.8)	(18.0)	(69.9)
<b>Net book amount</b>	<b>135.0</b>	<b>30.4</b>	<b>24.1</b>	<b>29.1</b>	<b>218.6</b>
<b>Half year ended 31 December 2017</b>					
Opening net book amount	135.0	30.4	24.1	29.1	218.6
Additions	-	8.4	-	-	8.4
Acquisition of business <sup>1</sup>	19	94.8	1.1	-	95.9
Disposals	-	(0.1)	-	-	(0.1)
Amortisation charge for the half year	-	(7.4)	(0.4)	(1.8)	(9.6)
Exchange differences	(1.8)	(0.4)	-	(1.3)	(3.5)
<b>Closing net book amount</b>	<b>228.0</b>	<b>32.0</b>	<b>23.7</b>	<b>26.0</b>	<b>309.7</b>
<b>At 31 December 2017</b>					
Cost	228.0	84.9	28.8	45.3	387.0
Accumulated amortisation and impairment	-	(52.9)	(5.1)	(19.3)	(77.3)
<b>Net book amount</b>	<b>228.0</b>	<b>32.0</b>	<b>23.7</b>	<b>26.0</b>	<b>309.7</b>

1. Intangible assets acquired from business combination of Grand United Corporate Health are provisionally allocated to goodwill. The allocation will be completed as part of the finalisation of the purchase price allocation. See Note 19 Business Combination.

# Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2017

nib holdings limited

## 10. BORROWINGS

	31 Dec 17	30 Jun 17
	\$m	\$m
<b>Current</b>		
Bank overdraft	1.6	1.5
	<b>1.6</b>	<b>1.5</b>
<b>Non-current</b>		
Bank loans (secured)	229.2	151.7
	<b>229.2</b>	<b>151.7</b>

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

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

	31 Dec 17	30 Jun 17
	\$m	\$m
Balance at beginning of period	151.7	151.9
Proceeds from borrowings	80.5	35.0
Repayment of borrowings	-	(35.0)
Exchange differences	(3.0)	(0.2)
<b>Balance at end of period</b>	<b>229.2</b>	<b>151.7</b>

### a) Secured liabilities

During the half year, nib holdings limited established an AUD \$80.5 million variable rate loan with NAB. The loan relates to the acquisition of Grand United Corporate Health Limited and has a maturity date of 31 October 2020. This is in addition to the existing \$85.0 million variable rate loan with NAB that has a maturity date of 16 December 2019. Both loans are carried at amortised cost.

nib nz holdings limited, a wholly owned subsidiary of nib holdings limited, has a NZD \$70.0 million variable rate term loan facility with a maturity date of 18 December 2019. The bank loan is secured by the shares in nib nz holdings limited and a negative pledge that imposes covenants on the Group.

The above loans have the following covenants that must be met by the Group:

Financial Covenant	Ratio as at 31 December 2017
Group Gearing Ratio will not be more than 45%	29.9%
Group Interest Cover Ratio will not be less than 3:1.	39:1

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 \$70.0 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.

# Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2017

nib holdings limited

## 11. OUTSTANDING CLAIMS LIABILITY

	31 Dec 17	30 Jun 17
	\$m	\$m
Outstanding claims - central estimate of the expected future payment for claims incurred	118.5	96.7
Risk margin	8.9	6.6
Administration component	1.8	1.6
<b>Gross outstanding claims liability</b>	<b>129.2</b>	<b>104.9</b>
Outstanding claims - expected payment to the RESA <sup>1</sup> in relation to the central estimate	18.7	14.3
Risk margin	1.4	1.0
<b>Net outstanding claims liability</b>	<b>149.3</b>	<b>120.2</b>

1. Risk Equalisation Special Account (RESA) Levy represents expenses incurred under Risk Equalisation Trust Fund 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 17	30 Jun 17
	\$m	\$m
Gross outstanding claims at beginning of period	104.9	96.7
Risk margin	(6.6)	(4.8)
Administration component	(1.6)	(1.4)
<b>Central estimate at beginning of period</b>	<b>96.7</b>	<b>90.5</b>
Change in claims incurred for the prior year	(6.8)	(1.7)
Claims paid in respect of the prior year	(85.8)	(86.6)
Claims incurred during the period (expected)	707.4	1,335.1
Claims paid during the period	(602.4)	(1,240.6)
Acquisition of business	19	-
Effect of changes in foreign exchange rates	(0.6)	-
<b>Central estimate at end of period</b>	<b>118.5</b>	<b>96.7</b>
Risk margin	8.9	6.6
Administration component	1.8	1.6
<b>Gross outstanding claims at end of period</b>	<b>129.2</b>	<b>104.9</b>

### a) Actuarial methods and critical accounting judgements and estimates

Provision is made at the period end for the liability for outstanding claims which is measured as the central estimate of the expected payments against claims incurred but not settled at the reporting date under private health insurance contracts issued by the Group. The expected future payments include those in relation to claims reported but not yet paid and claims incurred but not yet reported. This 'central estimate' of outstanding claims is an estimate which is intended to contain no intentional over or under estimation. For this reason the inherent uncertainty in the central estimate must also be considered and a risk margin is added. The estimated cost of claims includes allowances for Risk Equalisation Special Account (RESA) consequences and claims handling expense. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

In calculating the estimated cost of unpaid claims, the Group uses estimation techniques based upon statistical analysis of historical experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including changes in the Group's processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods. The calculation is determined taking into account one month of actual post-balance date claims.

The risk margin is based on an analysis of the past experience of the Group. This analysis examines the volatility of past payments that is not explained by the model adopted to determine the central estimate. This past volatility is assumed to be indicative of the future volatility. The central estimates are calculated gross of any risk equalisation recoveries. A separate estimate and risk margin is made of the amounts that will be recoverable from or payable to the RESA based upon the gross provision.

# Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2017

nib holdings limited

## 11. OUTSTANDING CLAIMS LIABILITY continued

### a) Actuarial methods and critical accounting judgements and estimates continued

The outstanding claims estimate is performed separately by valuation class where valuation classes represent groups of service types observed to experience similar payment patterns.

In calculating the estimated cost of unpaid claims two methods are used. A chain ladder method is used which assumes that the development pattern of the current claims will be consistent with historical experience. For some valuation classes the Bornhuetter-Ferguson method is given some weight for recent service months which progressively blends payment experience and prior forecasts of incurred costs.

As most 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.

### b) Actuarial assumptions

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

	31 Dec 17			30 Jun 17		
	Hospital %	Medical %	General %	Hospital %	Medical %	General %
<b>Australian Residents Health Insurance</b>						
Assumed proportion paid to date	90.3%	91.6%	98.1%	91.9%	91.5%	98.0%
Expense rate	1.3%	1.3%	1.3%	1.4%	1.4%	1.4%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	7.1%	7.1%	7.1%	5.6%	5.6%	5.6%
Risk equalisation rate	20.9%	20.9%	0.0%	20.5%	20.5%	0.0%
Risk margin for risk equalisation	7.6%	7.6%	0.0%	6.6%	6.6%	0.0%
<b>International Students Health Insurance</b>						
Assumed proportion paid to date	69.8%	89.2%	100.0%	74.0%	87.8%	100.0%
Expense rate	3.5%	3.5%	3.5%	2.0%	2.0%	2.0%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	24.9%	24.9%	24.9%	24.8%	24.8%	24.8%
<b>International Workers Health Insurance</b>						
Assumed proportion paid to date	83.1%	80.7%	89.9%	72.3%	79.8%	94.4%
Expense rate	4.3%	4.3%	4.3%	6.0%	6.0%	6.0%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	15.5%	15.5%	15.5%	18.5%	18.5%	18.5%
<b>NZ Health Insurance</b>						
	Surgical %	Medical %		Surgical %	Medical %	
Assumed proportion paid to date	89.3%	83.2%		88.8%	84.2%	
Expense rate	2.0%	2.0%		2.2%	2.2%	
Discount rate	0.0%	0.0%		0.0%	0.0%	
Risk margin	5.9%	5.9%		5.8%	5.8%	

The risk margin of the underlying liability has been estimated to equate to a probability of adequacy of 95% (June 2017: 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 Australian Residents Health Insurance segment.

# Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2017

nib holdings limited

## 11. OUTSTANDING CLAIMS LIABILITY continued

### c) Sensitivity analysis – impact of key variables

			Profit after tax Current \$m		Equity Current \$m
Recognised amounts in the financial statements attributable to owners of nib holdings limited			<b>70.9</b>		<b>539.9</b>
Variable	Movement in variable	Adjustments	Adjusted amounts	Adjustments	Adjusted amounts
			\$m	\$m	\$m
Chain ladder development factors	+0.5%	(10.9)	60.0	(10.9)	529.0
	-0.5%	10.9	81.8	10.9	550.8
Bornhuetter-Ferguson unpaid factors	+2.0%	(3.1)	67.8	(3.1)	536.8
	-2.0%	3.1	74.0	3.1	543.0
Expense rate	+1.0%	(1.0)	69.9	(1.0)	538.9
	-1.0%	1.0	71.9	1.0	540.9
Risk equalisation allowance	+2.5%	(1.6)	69.3	(1.6)	538.3
	-2.5%	1.6	72.5	1.6	541.5
Risk margin	+1.0%	(1.0)	69.9	(1.0)	538.9
	-1.0%	1.0	71.9	1.0	540.9

# Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2017

nib holdings limited

## 12. PREMIUM PAYBACK LIABILITY

	31 Dec 17	30 Jun 17
	\$m	\$m
<b>Current</b>	<b>9.4</b>	<b>9.5</b>
<b>Non current</b>	<b>9.9</b>	<b>13.5</b>

Movements in the premium payback liability are as follows:

	31 Dec 17	30 Jun 17
	\$m	\$m
Gross premium payback liability at beginning of period	23.0	27.4
Adjustment to ensure reserve exceeds current payout on early lapse	(0.1)	-
Value of payments currently being processed	(0.9)	(1.1)
Risk margin	(0.6)	(0.7)
<b>Central estimate at beginning of period</b>	<b>21.4</b>	<b>25.6</b>
Funding/new accrued	1.1	3.0
Unwind discount rate	0.3	0.7
Interest rate movement impact	0.4	(0.7)
Premium payback payments	(4.0)	(6.9)
Others	(0.2)	(0.1)
Effect of changes in foreign exchange rates	(0.9)	(0.2)
<b>Central estimate at end of the half year</b>	<b>18.1</b>	<b>21.4</b>
Adjustment to ensure reserve exceeds current payout on early lapse	-	0.1
Value of payments currently being processed	0.7	0.9
Risk margin	0.5	0.6
<b>Total premium payback liability as at 31 December</b>	<b>19.3</b>	<b>23.0</b>

### Premium payback early settlement offer

At their policy renewal, eligible premium payback customers have been 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 round of settlement offers were made in March 2017 for May 2017 policy renewals. 100% of the available offers have been included in the current portion of the premium payback liability in the Consolidated Balance Sheet. As customers may or may not accept the available premium payback settlement offer and recognising that 100% acceptance is unlikely, it is estimated for policyholders that accept the offer, \$2.2 million of the total premium payback liability could be settled within the next 12 months. This is in addition to \$1.3 million of the premium payback liability that is expected to be settled within the next 12 months in the normal course of business.

#### a) Actuarial assumptions

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

	31 Dec 17	30 Jun 17
Lapse rate until 3 years from premium payback date	2.0% - 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	1.9% - 2.3%	2.0% - 2.7%
Risk margin	2.6%	2.6%

The risk margin has been estimated to equate to a 95% probability of adequacy (June 2017: 95%).

# Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2017

nib holdings limited

## 12. PREMIUM PAYBACK LIABILITY continued

### b) Sensitivity analysis

#### ii) Impact of key variables

			Profit after tax Current \$m		Equity Current \$m
Recognised amounts in the financial statements attributable to owners of nib holdings limited			<b>70.9</b>		<b>539.9</b>
Variable	Movement in variable	Adjustments	Adjusted amounts	Adjustments	Adjusted amounts
		\$m	\$m	\$m	\$m
Lapse rate	+1.0%	0.4	71.3	0.4	540.3
	-1.0%	(0.4)	70.5	(0.4)	539.5
Discount rate	+1.0%	0.6	71.5	0.6	540.5
	-1.0%	(0.7)	70.2	(0.7)	539.2
Risk margin	+1.0%	(0.2)	70.7	(0.2)	539.7
	-1.0%	0.2	71.1	0.2	540.1

# Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2017

nib holdings limited

## 13. CONTRIBUTED EQUITY

### a) Share capital

	31 Dec 17	30 Jun 17
	\$m	\$m
<b>Ordinary shares</b>		
Fully paid	116.1	28.1
<b>Other equity securities</b>		
Treasury shares	(0.0)	(3.1)
<b>Total contributed equity</b>	<b>116.1</b>	<b>25.0</b>

### b) Movements in share capital

Date	Details	No. of shares	Price \$	\$m
1 July 2016	Opening balance	439,004,182		28.1
	<b>30 June 2017 Balance</b>	<b>439,004,182</b>		<b>28.1</b>
1 July 2017	Opening balance	439,004,182	-	28.1
26 Sep 2017	Shares issued - Institutional placement <sup>1</sup>	10,619,470	5.65	60.0
27 Oct 2017	Shares issued - Share purchase plan <sup>1</sup>	5,225,217	5.65	29.5
	Share issue transaction costs	-	-	(2.1)
	Deferred tax component	-	-	0.6
	<b>31 Dec 2017 Balance</b>	<b>454,848,869</b>		<b>116.1</b>

1. The majority of the shares issued during the year were used to fund the acquisition of Grand United Corporate Health Limited. See Note 19 Business Combination.

### c) Treasury shares

Date	Details	No. of shares	\$m
	<b>1 July 2016 Balance</b>	<b>370,396</b>	<b>1.6</b>
	Acquisition of shares by the Trust	787,278	4.0
	Employee share issue - LTIP	(345,771)	(1.5)
	Employee share issue - STI	(223,330)	(1.0)
	<b>1 July 2017 Balance</b>	<b>588,573</b>	<b>3.1</b>
	Acquisition of shares by the Trust	189,287	1.1
	Employee share issue - LTIP	(559,057)	(3.0)
	Employee share issue - STI	(217,678)	(1.2)
	<b>31 Dec 2017 Balance</b>	<b>1,125</b>	<b>0.0</b>



# Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2017

nib holdings limited

## 14. DIVIDENDS

### a) Ordinary shares

	31 Dec 17	31 Dec 16
	\$m	\$m
Final dividend for the year ended 30 June 2017 of 10.5 cents (2016 - 9.0 cents) per fully paid share paid on 6 October 2017		
Fully franked based on tax paid at 30%	46.1	39.5
<b>Total dividends provided for or paid</b>	<b>46.1</b>	<b>39.5</b>

### b) Dividends not recognised at half year end

	31 Dec 17	31 Dec 16
	\$m	\$m
In addition to the above dividends, since the end of the half year the Directors have recommended the payment of an interim dividend of 9.0 cents (2016 - 8.5 cents) per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 3 April 2018 out of retained profits at 31 December 2017, but not recognised as a liability at the end of the half year, is:	40.9	37.3

# Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2017

nib holdings limited

## 15. EARNINGS PER SHARE

		31 Dec 17	31 Dec 16
Profit from continuing operations attributable to the ordinary equity holders of the company used in calculating basic/diluted EPS	\$m	70.9	71.8
Weighted average number of ordinary shares	#m	446.5	439.0
<b>Basic / Diluted EPS</b>	<b>cents</b>	<b>15.9</b>	<b>16.4</b>

# Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2017

nib holdings limited

## 16. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group has a number of levers, including adjusting the amount of dividends paid to shareholders, returning capital to shareholders, issuing new shares, selling assets, raising or reducing debt or buying back shares.

### *nib holdings limited*

The Group, through earnings and capital management, has achieved a return on equity of 20% or greater for the last five years and continues to target return on equity in the order of 20%. The return on equity as at 31 December 2017 is 26.6%. (December 16: 31.7%). 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 2017 the Group had available capital of \$61.0 million above our internal benchmark (after allowing for the payment of a fully franked interim ordinary dividend of 9.0 cents per share, totalling \$40.9 million, in April 2018).

Below is a reconciliation of net assets to available capital as at 31 December 2017 (after allowing for payment of an interim dividend):

	31 Dec 17
	\$m
Net assets	<b>538.9</b>
Less:	
nib health fund capital required	(276.6)
nib nz capital required	(83.6)
Grand United capital required	(47.0)
Proposed joint venture in China capital required	(12.0)
Capital required looking forward 12 months	(0.4)
nib nz intangibles	(35.0)
Grand United intangibles	(94.8)
ihi intangibles	(20.4)
World Nomads Group intangibles	(99.1)
Borrowings	229.2
Other assets and liabilities	2.7
Interim dividend	(40.9)
Available capital (after allowing for payment of interim dividend)	<b>61.0</b>

# Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2017

nib holdings limited

## 16. CAPITAL MANAGEMENT continued

### *nib health funds limited and Grand United Corporate Health Limited*

nib health funds limited and Grand United Corporate Health Limited, controlled entities, are 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*.

<b>To comply with the Solvency Standard, nib health funds limited and Grand United Corporate Health Limited:</b>	(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).

<b>To comply with the Capital Adequacy Standard, nib health funds limited and Grand United Corporate Health Limited:</b>	(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 14.4% 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. nib health funds limited paid dividends of \$41.7 million in September 2017 to nib holdings limited.

The surplus assets over benchmark at 31 December 2017 and 30 June 2017 are as follows:

	31 Dec 17	30 Jun 17
	\$m	\$m
Total assets nib health funds limited (excluding unclosed business contributions - unearned)	745.1	756.3
Capital adequacy requirement	460.8	499.1
Surplus assets for Capital Adequacy	284.3	257.1
Net assets nib health funds limited	315.5	294.7
Internal capital target	276.6	270.4
Surplus assets over internal capital target	38.9	24.3

# Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2017

nib holdings limited

## 16. CAPITAL MANAGEMENT continued

Grand United Corporate Health Limited has a capital management plan which establishes a target for capital held in excess of the regulatory requirement; the aim is to maintain a sufficient buffer in line with the Board's risk appetite and risk tolerances. The internal capital target ensures Grand United maintain the preferred range of capital adequacy ratio (CAR) given certain stressed capital scenarios. The lower end of this CAR range currently approximates to 1.35x the Capital Adequacy Requirement.

Any capital in excess of the benchmark, taking a 18-month forward looking view, will be reduced by way of dividend to nib holdings limited. No dividends were paid from Grand United Corporate Health to nib holdings limited for the half year.

The surplus assets over benchmark at 31 December 2017 are as follows:

	31 Dec 17	30 Jun 17
	\$m	\$m
Total assets Grand United Corporate Health Limited (excluding unclosed business contributions - unearned)	120.0	NA
Capital adequacy requirement	74.2	NA
Surplus assets for Capital Adequacy	45.8	NA
Net assets Grand United Corporate Health Limited	63.9	NA
Internal capital target	47.0	NA
Surplus assets over internal capital target	16.9	NA

### *nib nz limited*

nib nz limited, a controlled entity, is required to comply with *the Solvency Standard for Non-Life Insurance Business (2014)* published by the Reserve Bank of New Zealand (RBNZ). The Solvency Standards determine the Minimum Solvency Capital (MSC) required. A requirement of nib nz limited's insurance licence is that it maintains capital above the MSC.

<b>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:</b>	Maintaining a buffer above the RBNZ Minimum Solvency Requirement (MSR) for nib nz limited (as defined by the IPSA 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.

nib nz limited's internal solvency benchmark is 2.00x MSC. Any capital in excess of the benchmark, taking a 12-month forward looking view, will be reduced by way of dividend to nib nz holdings limited, unless management decide to retain funds for strategic purposes. On 9 February 2018 nib nz limited declared a gross dividend of \$12.0 million to be paid to the company's ultimate parent entity nib holdings limited. The solvency table below excludes the dividend. After the dividend, nib nz maintains surplus assets over internal benchmark of greater than zero.

The surplus assets over benchmark at 31 December 2017 and 30 June 2017 are as follows:

	31 Dec 17	30 Jun 17
	\$m	\$m
Actual Solvency Capital	31.9	24.4
Minimum Solvency Capital	10.0	10.2
Solvency Capital	21.9	14.2
Net assets nib nz limited	95.8	90.1
Capital Adequacy Coverage Ratio	3.21	2.40
Internal benchmark requirement	19.9	20.3
Surplus/(deficit) assets over internal benchmark	12.0	4.1

## 17. CONTINGENT LIABILITIES

On 30 May 2017, the Australian Competition and Consumer Commission (ACCC) instituted proceedings in the Federal Court against nib health funds limited (nib). The ACCC alleges that nib engaged in misleading and deceptive conduct, unconscionable conduct and made false or misleading representations by failing to notify customers in relation to changes made to its Medigap Scheme. nib denies the ACCC's allegations and intends to defend the claims. In the event that the Court finds in favour of the ACCC, nib may have potential liabilities, including pecuniary penalties. The matter was unsuccessfully mediated in October 2017 and is set down for hearing in June 2018. Due to the nature of the matter, the outcome is uncertain.

nib operates in an industry where an increasing number of Australians are facing affordability challenges and are more regularly reviewing their health insurance cover to maximise value from their policy. nib regularly engages with customers and other industry stakeholders to understand potential areas of concern and to implement improvements that enhance the customer experience and improve transparency. Taking into consideration feedback from a range of industry stakeholders, nib has undertaken a comprehensive end-to-end review of our customer communications and the way we advise customers of changes to their nib health cover products. This review has resulted in improvements to nib's practices.

On an ongoing basis there is the possibility that nib may receive complaints related to past practices which could give rise to nib incurring costs. The Directors consider that these costs will not materially impact nib's financial position.

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 given an undertaking to extend financial support to nib options pty limited, Realsurgeons pty limited, Realself pty limited and nib Global Pty Limited by subordinating repayment of debts owed by the entities to nib holdings 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 18 August 2017, or if earlier, to the date of sale of the entities should this occur.

## Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2017

nib holdings limited

### **18. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**

#### **Premium payback early settlement offer**

At their policy renewal, eligible premium payback customers were 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, early settlement offers have been sent in January.

The value of early settlement offers issued in January is \$1.4 million.

There have not been any other 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.

# Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2017

nib holdings limited

## 19. BUSINESS COMBINATION

### a) Summary of acquisition

On 31 October 2017 nib holdings limited acquired 100% of the issued capital of Grand United Corporate Health Limited (GU Health) Australia's only established specialised corporate group private health insurer for a consideration of \$155.5 million. The transaction was funded by a fully underwritten institutional equity placement of \$60.0 million, a non-underwritten Share Purchase Plan of \$15.0 million and a new debt facility of \$80.5 million.

Details of the provisional purchase consideration are as follows:

	\$m
<b>Provisional purchase consideration</b>	
Cash	155.5
<b>Total provisional purchase consideration</b>	<b>155.5</b>

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

	Provisional fair value
	\$m
Cash and cash equivalents	70.4
Receivables	13.7
Prepayments	0.7
Financial assets at fair value through profit or loss	27.7
Property, plant and equipment	0.1
Software	1.1
Deferred tax assets	5.0
Payables	(20.5)
Outstanding claims liability	(15.4)
Unearned premium liability	(20.8)
Deferred tax liabilities	(0.5)
Provision for employee entitlements	(0.8)
<b>Net identifiable assets acquired</b>	<b>60.7</b>
Add: Intangible assets	94.8
<b>Net assets acquired</b>	<b>155.5</b>

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.

There were no acquisitions in the half year ending 31 December 2016.

### i) Acquisition related costs

Total acquisition related costs of \$3.3 million that were not directly attributable to the issue of shares are included in other expenses in profit or loss and in operating cash flows in the statement of cash flows.



# Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2017

nib holdings limited

## 19. BUSINESS COMBINATION continued

### a) Summary of acquisition continued

#### ii) Revenue and profit contribution

The acquired business contributed \$28.4 million to Group revenue and \$3.2 million to net profit for the period 31 October 2017 to 31 December 2017. If the acquisition had occurred on 1 July 2017, consolidated pro-forma revenue and profit for the half year ended 31 December 2017 would have been \$1,139.5 million and \$76.2 million respectively. These amounts have been calculated using the subsidiary's results.

#### iii) Acquired receivables

The fair value of acquired receivables is \$13.7 million and is expected to be fully collectable.

### b) Provisional purchase consideration – cash outflow

	\$m
<b>Outflow of cash to acquire subsidiary, net of cash acquired</b>	
Cash consideration	155.5
Less: Cash balances acquired	(70.4)
Outflow of cash – investing activities	<b>85.1</b>

# Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2017

nib holdings limited

## 20. PARENT ENTITY FINANCIAL INFORMATION

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

	31 Dec 17	30 Jun 17
	\$m	\$m
<b>Balance Sheet</b>		
<b>ASSETS</b>		
Current assets	40.8	50.2
Non-current assets	701.0	548.4
<b>Total assets</b>	<b>741.8</b>	<b>598.6</b>
<b>LIABILITIES</b>		
Current liabilities	4.7	17.1
Non-current liabilities	165.5	85.9
<b>Total liabilities</b>	<b>170.2</b>	<b>103.0</b>
<b>NET ASSETS</b>	<b>571.6</b>	<b>495.6</b>
<b>EQUITY</b>		
Share capital	385.2	297.2
Share-based payments	(3.1)	(0.9)
Retained profits	189.5	199.3
<b>Total Equity</b>	<b>571.6</b>	<b>495.6</b>
	31 Dec 17	31 Dec 16
	\$m	\$m
<b>Profit for the half year</b>	<b>36.3</b>	<b>47.4</b>
<b>Total comprehensive income for the half year</b>	<b>36.3</b>	<b>47.4</b>

# Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2017

nib holdings limited

## **21. 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 16 February 2018. The company has the power to amend and reissue the Financial Report.

## Directors' Declaration

For the half year ended 31 December 2017

nib holdings limited

In the Directors' opinion:

- a) the financial statements and notes set out on pages 8 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 2017 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



Anne Loveridge  
Director

Newcastle, NSW  
16 February 2018



## **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 2017, 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 holdings limited. The consolidated entity comprises 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 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 2017 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:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

*C. Mara*

Caroline Mara  
Partner

Newcastle  
16 February 2018

