

# 2018 full year results investor presentation

20 August 2018

The material in this presentation is a summary of the results of nib holdings limited (nib) for the twelve months ended 30 June 2018 and an update on nib's activities and is current at the date of preparation, 20 August 2018. Further details are provided in nib's full year accounts and results announcement released on 20 August 2018.

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The financial information disclosed has been prepared on a statutory basis, which is consistent with the financial information provided in nib's Listing Prospectus. Due care and consideration should be undertaken when considering and analysing nib's financial performance. All references to dollars are to Australian Dollars unless otherwise stated.

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This presentation should be read in conjunction with other publicly available material. Further information including historical results and a description of the activities of nib is available on our website: [www.nib.com.au/shareholders](http://www.nib.com.au/shareholders).

Group, arhi and iih figures are inclusive of GU Health unless otherwise stated. GU Health business acquired on 31 October 2017.

As referenced in this presentation, if there is a change percentage increase or (decrease) between FY17 and FY18 the change shown is the difference between those two percentages.

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

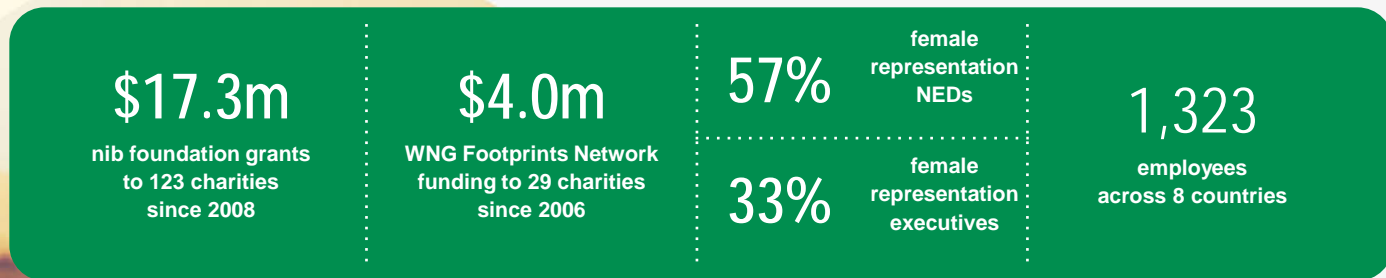
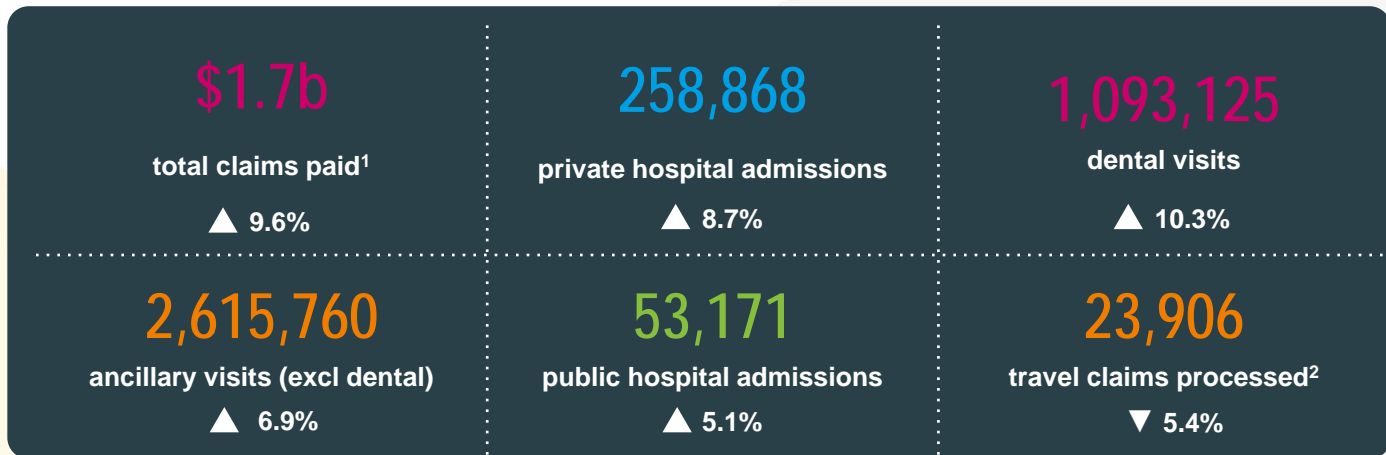
All figures quoted are in Australian dollars unless otherwise stated.

# mark fitzgibbon

chief executive officer & managing director



# our purpose



Note: Claims figures above, excluding travel claims processed, are for underwriting segments only and exclude travel insurance claims.  
1. Net claims incurred - Health insurance benefits including hospital, risk equalisation, state levies and ancillary benefits. Hospital includes hospital, medical and prostheses. Excludes WNG.  
2. WNG is domestically a managing general agent which performs all the functions of an insurer other than carrying the underwriting risk. WNG claims are managed by Cerberus and underwritten by certain underwriters at Lloyd's.

Group underlying revenue

**\$2,235.1m**

▲ 11.5%

UOP

**\$184.8m**

▲ 20.2%

Statutory operating profit<sup>1</sup> \$169.0m (▲ 12.2%)

net investment income

**\$29.6m**

▲ 3.5%

NPAT

**\$133.5m**

▲ 11.1%

statutory EPS<sup>1</sup>

**29.4cps**

▲ 8.0%

Underlying EPS 31.9cps (▲ 14.8%)

adjacent businesses  
contribution  
to Group UOP

**29.3%**

▼ 110bps

arhi net promoter score<sup>2</sup>

**28.7%**

▲ 550bps

full year dividend

**20.0cps**

▲ 5.3%

1. nib's statutory operating profit includes \$15.8m in amortisation of acquired intangibles, one-off transactions (integration of acquired business, establishment costs as well as extraordinary legal fees), and merger and acquisition costs.

2. Excludes GU Health.





# Michelle McPherson

chief financial officer & deputy ceo



# group revenue & underlying operating profit (uop)

**Strong operating performance boosted by top line and earnings growth**

## Group underlying revenue<sup>1</sup>

**\$2,235.1m**

▲ 11.5%

arhi

**\$1,872.8m**

▲ 12.1%

iihi

**\$94.7m**

▲ 25.9%

nz<sup>2</sup>

**\$198.1m**

▼ 0.6%

WNG

**\$66.1m**

▲ 14.8%

## Group UOP<sup>3</sup>

**\$184.8m**

▲ 20.2%

arhi

**\$130.7m**

▲ 22.1%

iihi

**\$29.6m**

▲ 16.5%

nz<sup>2</sup>

**\$23.4m**

▼ 0.4%

WNG

**\$8.1m**

▲ 8.0%

1. Included in Group Revenue is other revenue not allocated to segments of \$3.4m which includes complementary insurance and sundry income.

2. NZ result negatively impacted by NZD/AUD exchange rates. On a NZD basis premium revenue grew by 1.9% and UOP by 3.8%.

3. Included in Group UOP is Other UOP of (\$7.0)m representing income from complementary insurance businesses, offset by expenditure related to complementary insurance, corporate costs & other expenditure.

# australian residents health insurance (arhi)

Financial performance (\$m)	FY18	FY17	Change
Premium revenue	1,871.2	1,669.0	12.1%
Claims expense <sup>1</sup>	(1,544.5)	(1,401.2)	10.2%
Other underwriting revenue	1.6	0.6	166.7%
Management expenses	(197.1)	(161.1)	22.3%
UOP <sup>2</sup>	130.7	107.0	22.1%

Key metrics (%)	FY18	FY17	Change
Net promoter score <sup>3</sup>	28.7	23.2	550bps
Net policyholder growth <sup>4</sup>	3.0	3.8	(80)bps
Lapse <sup>3</sup>	12.9	13.5	(60)bps
Gross margin	17.5 <sup>5</sup>	16.0	150bps
Management expense ratio	10.5	9.7	80bps
Marketing MER	4.3	3.5	80bps
Other MER	6.3	6.1	20bps
Net margin	6.9	6.4	50bps

## Double digit earnings growth with UOP up more than 22%

- Premium revenue up 12.1% due to policyholder growth, 2017 premium adjustments and GU Health acquisition (excluding GU Health, premium revenue ▲5.6%).
- arhi<sup>3</sup> accounted for more than 45%<sup>6</sup> of total industry policyholder growth (industry net growth of 0.5%).
- Benign claims environment has continued in 2H18 and main driver of FY UOP growth with claims ▲4.0% excluding GU Health (▲10.2% including GU Health).
- Management expenses including marketing reflect investment in growth.
- Member satisfaction continues to drive NPS improvement.

1. Includes risk equalisation and state levies

2. UOP includes share of net profit / (loss) of associates and joint ventures accounted for using the equity method

3. Excludes GU Health

4. Excludes GU Health, addition of GU Health policyholders contributed a further 5.2% of net policyholder growth resulting in arhi total net policyholder growth of 8.2% for FY18

5. FY18 gross margin result (excluding GU Health) included \$7.4m in overestimation of OSC at 30 June 2017, on adjustment gross margin for FY18 was 17.1% (17.5% reported)

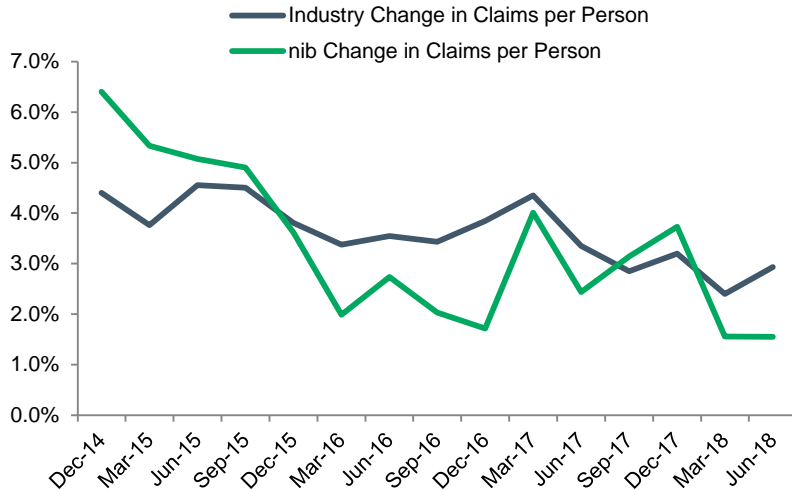
6. Source: APRA



# claims inflation (arhi)

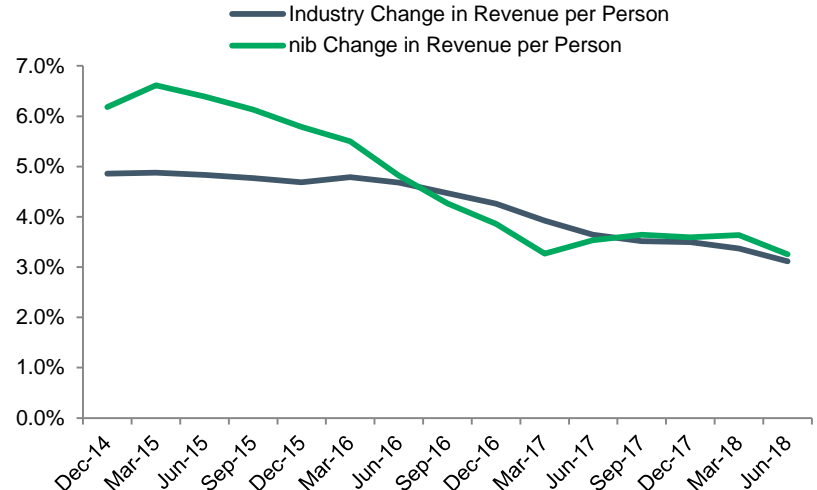
## Change in claims per person (%) nib<sup>1</sup> vs industry - 12 months rolling

We are experiencing lower levels of claim inflation



## Change in revenue per person (%) nib<sup>1</sup> vs industry - 12 months rolling

But revenue growth is also being impacted by lower premium increases and downgrading of cover



## Positive result with business integration and transition on-track

- Contributed \$11.0m to Group UOP across eight months of ownership<sup>1</sup>.
- Added approximately 34,000 policies.
- Group synergies being realised in particular shared corporate services, provider contracting and claims management.
- Key talent retained.
- Relocation of Melbourne and Sydney GU Health employees to nib Group premises in Sydney and Melbourne in early September on track and aligns with end of transition arrangements.



# international (inbound) health insurance (iihi)

Financial performance (\$m)	FY18	FY17	Change
Premium revenue	93.3	74.8	24.7%
Claims expense	(36.6)	(28.0)	30.7%
Other underwriting revenue	1.4	0.4	250.0%
Management expenses	(28.5)	(21.8)	30.7%
UOP	29.6	25.4	16.5%

Key metrics (%)	FY18	FY17	Change
iwhi net promoter score <sup>1</sup>	42.7	23.8	1890bps
ishi net promoter score	30.5	16.7	1380bps
Net policyholder growth <sup>2</sup>	18.8	28.5	(970)bps
Gross margin	60.8	62.6	(180)bps
Management expense ratio	30.5	29.1	140bps
Marketing MER	7.8	8.1	(30)bps
Other MER	22.7	21.0	170bps
Net margin	31.7	34.0	(230)bps

## Impressive top line performance drives UOP growth

- Surpassed more than 160,000 international students and workers (persons covered).
- Claims (▲ 30.7%) and management expenses (▲ 30.7%) a function of growth as business continues to build scale.
- Net margin (▼ 230bps) reflecting price competition and integration of GU Health.
- Recently opened sales office in Shanghai and near term plans in Delhi to support leading sources of international visitors.
- niss platform ready to make sales in FY19.

1. Excludes GU Health

2. Excludes GU Health, addition of GU Health policyholders contributed a further 4.1% of net policyholder growth resulting in iihi total net policyholder growth of 22.9% for FY18

Financial performance (\$m)	FY18	FY17	Change
Premium revenue (NZD)	214.9	210.9	1.9%
UOP (NZD)	27.4	26.4	3.8%
Premium revenue (AUD)	198.1	199.3	(0.6)%
Claims (medical & PPB <sup>1</sup> )	(117.2)	(120.9)	(3.1)%
Management expenses	(61.5)	(59.2)	3.9%
UOP	23.4	23.5	(0.4)%
Key metrics (%)	FY18	FY17	Change
Net promoter score	21.1	12.2	890bps
Net policyholder growth	2.8	(5.2)	800bps
Gross margin	42.9 <sup>2</sup>	41.5	140bps
Management expense ratio	31.1	29.7	140bps
Marketing MER	16.4	16.5	(10)bps
Other MER	14.7	13.2	150bps
Net margin	11.8	11.8	-

## Solid result with earnings stable

- In NZD premium revenue ▲ 1.9% with loss of corporate group in 2H17 offset by policyholder growth in other channels and premium adjustments.
- Efforts to grow market showing traction with DTC and whitelabel portfolio now accounting for almost 20% of inforce policies (~45% FY18 sales).
- Exclusive population health management initiative with Auckland iwi, Ngāti Whātua Ōrākei.
- Gross margin improvement reflects continued favourable claims experience, including FY17 outstanding claims provision release.
- Other MER (▲ 150bps) reflects investment in technology and capability building with new initiatives including First Choice Network and Whitecoat NZ.
- Focus on enhancing member experience saw jump in NPS to 21.1%.

Financial performance (\$m)	FY18	FY17	Change
Gross written premium <sup>1</sup>	142.0	131.8	7.7%
Operating income	66.1	57.6	14.8%
Acquisition costs	(25.1)	(22.4)	12.1%
Operating expenses	(32.9)	(27.7)	18.8%
UOP	8.1	7.5	8.0%

Key metrics	FY18	FY17	Change
Sales NPS (%)	62.6	60.3	230bps
Sales (#)	689,529	642,471	7.3%
Domestic	370,077	368,166	0.5%
International	319,452	274,305	16.5%

1. WNG is a distributor of travel insurance and earns a commission for policies sold, however GWP is shown as it is a key performance metric of the business, noting GWP excludes other sources of income such as Emergency Travel Assistance and Managing General Agent fees.

## Local sales and ‘going global’ strategy showing progress with UOP ▲ 8.0%

- Strong increase in operating income driven by international policy sales (▲ 16.5%), notably growth in the USA, our largest international market.
- Mature domestic market remains highly competitive with acquisition of QBE Travel consolidating market position.
- Operating expenses reflect investment in expansion strategy and includes building European operations base (Cork, Ireland).
- WNG’s customer first culture continues under nib ownership, with NPS of 62.6%.

# acquisition of QBE Travel insurance



- Acquisition of QBE Travel, Australia's 4<sup>th</sup> largest travel insurance distributor announced on 3 August 2018 for total consideration of up to \$25m<sup>1</sup>.
- The acquisition includes the distribution and claims capability of QBE Travel, but excludes capital supporting the business and the QBE brand.
- Transaction to be funded through existing available capital. Given the size of the transaction it is immaterial to earnings per share<sup>2</sup>.
- QBE Travel has an extensive distribution network including partnerships with well-known Australian brands, as well as an extensive national network of more than 2,000 travel insurance agents.
- On completion, WNG annual domestic GWP has the potential to increase by up to 40% to further grow adjacent business earnings and will consolidate the business' domestic market position.

1. Final total consideration is dependent on the level of business generated.

2. Excludes one-off transaction and integration costs (expected to be ~\$11m in FY19) and amortisation of related identifiable intangibles (forecast to be up to ~\$2m annualised).



# investments, gearing, cash flow & capital

	FY18	FY17	Change
Net investment income (\$m)	29.6	28.6	3.5%
Net investment return (%)	3.5	4.1	(60)bps
Funds invested (\$m)	892.1	714.5	24.9%
Debt (\$m)	230.6	153.2	50.5%
Finance costs (\$m)	(6.3)	(4.8)	31.3%
Interest cover ratio	31:1	38:1	
Gearing ratio (%)	29.2	26.3	290bps
Effective tax rate (%)	30.6	31.1	(50)bps
Dividend payout ratio (%)	68.5	70.0	(150)bps
Net cash flow from operating activities	179.9	171.7	4.8%
Available capital above internal targets <sup>1</sup> (\$m)	25.5	19.7	29.4%

1. Allowing for payment of final dividend but does not include impact of dividend reinvestment plan.

## Capital metrics solid


- Funds invested include addition of GU Health portfolio.
- Increase in debt, finance costs and gearing due to GU Health acquisition (additional \$80.5m debt facility).
- Continued strong operating cash flow. Lower cash distribution from investments (FY17 unusually high cash distribution) and higher income taxes paid slowed growth rate relative to previous years. 5 year operating cash flow CAGR of 17.7% which compares to 5 year UOP CAGR of 24.4%
- \$25.5m available capital makes allowance for investment in China JV (\$11m) and recently announced acquisition of QBE Travel (up to \$36m including one off transaction and integration costs forecast to be up to \$11m).
- Current internal capital targets and capital levels fully meet APRA and RBNZ expectations.

**APRA has noted that a review of the Australian PHI capital standards is likely to commence later this calendar year and we anticipate any revised standards would be in place from FY21 at the earliest. nib has a range of capital management levers to manage a transition in the event that APRA increases capital requirements (eg based on LAGIC).**

- A more defensive investment asset allocation would result in a lower Prescribed Capital Amount (PCA).
- nib and GU Health fund merger estimated to result in a lower PCA than the sum of the two individual fund PCAs.
- The short-tail nature of health insurance as well as the risk equalisation framework expected to lead to a lower total capital/PCA multiple relative to life and general insurers
- Current activities that will grow Tier 1 - CET1 capital:
  - Dividend Reinvestment Plan (DRP) – in place from FY18 final dividend
  - Earnings retention occurring under current targets (ie 60 - 70 % dividend payout ratio)
- We are confident in nib's ability meet Tier 2 capital requirements through the conversion of part of existing senior debt to subordinated debt. Plan to do this during CY19.
- Capital raising if required but not preferred to meet PCA and noting APRA outlook remains unclear

# dividend reinvestment plan (drp)

**Provides shareholders a convenient way to increase shareholding as well as provide nib a flexible capital accumulation lever**

- 
- A photograph of a man in a grey t-shirt smiling and helping a young child in a white t-shirt and patterned pants ride a pink bicycle. The man is leaning over the child, holding the handlebars. The background is a bright, outdoor setting with green grass and foliage.
- The DRP will be available for the FY18 final dividend to be paid on 5 October 2018.
  - Shares allocated under the DRP for the FY18 final dividend will be issued as new shares to participants.
  - Shares acquired under the DRP will be free of brokerage fees and other transaction costs.
  - More information including the DRP rules is available at [nib.com.au/shareholders](http://nib.com.au/shareholders).
  - DRP offer information being dispatched to eligible shareholders from 20 August 2018.



business strategy,  
key issues,  
outlook &  
guidance



## Personalised healthcare

Better “personalise” our relationship with members and customers and the products and services we connect them with through technology and data science. As such, become a trusted “health partner” as a means of enhancing the value proposition, differentiating nib in the market, improving individual and population health as well as better influencing costs and affordability.



## Grow the core (arhi)

Strive for above “system” organic arhi growth with measured brand and acquisition investment, risk selection, product choice, channel diversification and “personalising” the value proposition. Consider and pursue M&A as opportunities present.



## Economies of scope

Leverage existing Group assets and capabilities to pursue adjacent business opportunities for the purposes of both growing enterprise value and diversifying risk. Amplify investment in growing international workers and students, New Zealand and travel insurance businesses and deliver identified new prospects.



## Racing the Red Queen (RRQ)

Create competitive advantage across the Group through constant innovation, our RRQ principles of “natural selection”, having world class talent and prudent risk management.



## Affordability and sustainability

Improve the affordability of financial protection through improved operating efficiency, disciplined benefits management and helping members and customers better manage their health and healthcare decisions. Ensure governance and operations across the Group are sensitive and responsive to our broader social, economic and the environmental responsibilities.

# key issues

- PHI participation and affordability
- Claims inflation
- Capital standards
- Government policy (and possible 2% premium cap)
- Technology and data science
- Industry consolidation (domestic and global)
- Sustainability and social licence (ESG)

## NIB waives premiums for drought relief

NIB will waive health insurance premiums for members who have been impacted by the drought, the company will announce on Friday.

Members who are receiving the federal government's Farm Household Allowance and who live in a drought-declared area will be eligible to have the cost of their health insurance premiums waived for six months.

Members who have had to cancel or downgrade their private health insurance since June 1 this year due to the financial impact of the drought will also be eligible.

NIB managing director Mark Fitzgibbon said it was "vitally important" for farmers to maintain health cover

during testing times.

"It means eligible farmers who are NIB members will effectively get free health insurance for them and their families for six months," Mr Fitzgibbon said.

"Hopefully, this will help see them through until things improve and also that there is some trickle-down effect for their local communities."

"Our support also reflects our recognition that the sustainability of our business and that of any other, relies upon having sustainable communities."

The assistance will be available from September 1 to December 31.

NIB said it will contact eligible members directly to advise them of the assistance

and how to apply.

Members can also contact NIB by phone, in person or online at [nib.com.au/droughtrelief](http://nib.com.au/droughtrelief) or by email to discuss their options.

The government recently announced changes to the Farm Household Allowance, which will give eligible farmers two lump sum payments, worth \$12,000 for couples and \$7200 for single farming households, on September 1 and March 1.

This will be on top of the \$18,000 in annual assistance already available. Many say this is not enough.

## nib offers free health insurance

HEALTH insurer nib is offering eligible customers receiving the Farm Household Allowance free health insurance for six months.

Queensland and NSW farmers have been struggling through one of the worst droughts since records began in 1900, and numerous Australian businesses have begun to offer them some financial assistance.

nib chief executive Mark Fitzgibbon said it was important for farmers to maintain their health cover in these testing times.

"Hopefully, this will help see them through until things improve and also that there is some trickle-down effect for their local communities," Mr Fitzgibbon said.

"Our support also reflects our recognition that the sustainability of our business, and that of any other, relies upon having sustainable communities."

The package will be available from September 1 to December 31 this year.

Members who have had to downgrade or cancel their private health insurance since June 1 due to the drought will also be eligible for some



- Business establishment continues within budget (will be capitalised circa \$12m to fund five year plan).
- Appointment of JV CEO in July 2018.
- Positive and ongoing engagement with regulator through the licensing process.
- Building a strong relationship with Tasly.
- Objective remains selling (but not underwriting) health insurance (critical illness) to Chinese nationals.





Australian (arhi) and NZ markets remain difficult with modest growth due to macroeconomic factors including affordability and negligible growth in discretionary spending.



Pursuing arhi net policyholder growth of 3%-4%, FY19 net margin expected at top end of 5%-6% range.



Federal Opposition's premium cap proposal (2% for 2 years) would put additional pressure on arhi net margins from FY21. Initiatives already underway to maintain profitability within target range under such a scenario.



Thematics and growth prospects for international students, workers and travel insurance businesses look positive.



Tasly JV progressing well and expect to start selling health insurance (critical illness) in China in the second half of FY19 (subject to regulatory approval).



nib has appetite for industry rationalisation within all markets, including arhi.



Capital management remains a high priority (mooted changes by APRA to prudential capital standards), with nib confident of navigating any changes.



(\$m)	FY19
<b>Statutory operating profit</b>	<b>~159</b>
<b>One-off transactions and M&amp;A costs</b>	<b>~11</b>
<b>Amortisation of acquired intangibles</b>	<b>9.5</b>
GU Health	2.7
IMAN	0.8
nib Travel Group (WNG/QBE)	2.7
NZ	3.3
<b>Underlying operating profit</b>	<b>~180</b>

- FY19 UOP forecast to be at least \$180m (statutory operating profit of at least \$159m).
- FY19 investment returns in line with internal benchmarks.
- Ordinary dividend payout ratio 60 – 70% of full year NPAT.

# questions & answers



# appendix

# policyholder & other data

<b>nib Group health insurance</b>	<b>FY18</b>	<b>FY17</b>
Total persons covered	1,526,736	1,391,509
Total policyholders	842,676	767,672
- Australian residents health insurance	594,762	549,602
- International (inbound) health insurance	145,218	118,149
- nib New Zealand	102,696	99,921
<b>arhi<sup>1</sup></b>		
Net policyholder growth	3.0%	3.8%
Market share <sup>2</sup>	8.5%	8.3%
Persons covered	1,083,354	1,059,120
Average age of hospital persons covered (yrs)	40.3	39.6
<b>arhi<sup>1</sup> sales by channel</b>		
Direct to consumer	42.6%	45.0%
Broker	31.2%	33.4%
Partners	26.2%	21.6%

1. arhi and ihi FY18 figures are exclusive of GU Health with business acquired 31 October 2017.

2. Source: APRA.



# detailed income statement (underlying underwriting result)

(\$m)	FY18	FY17	Change
<b>Net premium revenue</b>	<b>2,162.6</b>	<b>1,943.1</b>	<b>11.3%</b>
- arhi	1,871.2	1,669.0	12.1%
- iihi	93.3	74.8	24.7%
- nz	198.1	199.3	(0.6)%
<b>Net claims expense</b>	<b>(1,459.6)</b>	<b>(1,343.8)</b>	<b>8.6%</b>
- Hospital claims paid (arhi)	(933.1)	(842.3)	10.8%
- Ancillary claims paid (arhi)	(359.2)	(345.1)	4.1%
- OSC provision movement (arhi)	(13.5)	(7.5)	80.1%
- arhi claims incurred	(1,305.8)	(1,194.9)	9.3%
- iihi claims incurred	(36.6)	(28.0)	30.7%
- nz claims incurred	(117.2)	(120.9)	(3.1)%
<b>Risk equalisation levy</b>	<b>(206.4)</b>	<b>(176.3)</b>	<b>17.1%</b>
- OSC risk equalisation margin	0.0	0.1	(79.0)%
- Gross deficit	417.2	362.1	15.2%
- Calculated deficit	(623.6)	(538.5)	15.8%
<b>State levies</b>	<b>(32.3)</b>	<b>(30.0)</b>	<b>7.7%</b>
<b>Decrease / (Increase) in premium payback liability</b>	<b>4.0</b>	<b>4.3</b>	<b>(7.0)%</b>
<b>Net claims incurred (excluding claims handling)</b>	<b>(1,694.3)</b>	<b>(1,545.8)</b>	<b>9.6%</b>
<b>Gross underwriting result</b>	<b>468.3</b>	<b>397.3</b>	<b>17.9%</b>
- arhi	326.7	267.8	22.0%
- iihi	56.7	46.8	21.2%
- nz	84.9	82.7	2.7%
<b>Other underwriting revenue</b>	<b>3.0</b>	<b>1.0</b>	<b>200.0%</b>
- arhi	1.6	0.6	166.7%
- iihi	1.4	0.4	250.0%
<b>Underwriting expenses (including claims handling)</b>	<b>(287.1)</b>	<b>(242.1)</b>	<b>18.6%</b>
- arhi	(197.1)	(161.1)	22.3%
- iihi	(28.5)	(21.8)	30.7%
- nz	(61.5)	(59.2)	3.9%
<b>Underlying underwriting result<sup>2</sup></b>	<b>184.2</b>	<b>156.2</b>	<b>17.9%</b>
- arhi	131.2	107.3	22.3%
- iihi	29.6	25.4	16.5%
- nz	23.4	23.5	(0.4)%

(\$m)	FY18	FY17	Change
<b>Underlying Operating Profit</b>	<b>184.8</b>	<b>153.7</b>	<b>20.2%</b>
Amortisation of acquired intangibles	(8.4)	(7.6)	10.5%
arhi	(1.2)	-	NA
iihi	(1.4)	(0.8)	75.0%
nz	(3.6)	(4.0)	(10.0)%
nib Travel Group (WNG)	(2.2)	(2.8)	(21.4)%
One-off transactions and M&A costs	(7.4)	4.5	(264.4)%
One-off transactions	(3.2)	5.2	(161.5)%
M&A costs	(4.2)	(0.7)	500.0%
<b>Statutory operating profit</b>	<b>169.0</b>	<b>150.6</b>	<b>12.2%</b>
Finance costs	(6.3)	(4.8)	31.3%
Net investment income	29.6	28.6	3.5%
<b>Profit before tax</b>	<b>192.3</b>	<b>174.4</b>	<b>10.3%</b>
Tax	(58.8)	(54.2)	8.5%
<b>Net profit after tax</b>	<b>133.5</b>	<b>120.2</b>	<b>11.1%</b>

- Acquisition of GU Health during 1H18 drove increase in M&A costs.
- Increase in one-off costs includes China JV, GU Health integration costs and legal fees.
- FY17 one-off transactions include profit from completion of restructure of Whitecoat during period.

# management expenses (underwriting businesses)

(\$m)	Marketing	Marketing Indirect (Commissions Paid)	Marketing Indirect (Commissions deferred)	Marketing Indirect (Commissions amortised)	Other Management Expenses	Total Underwriting Expenses	MER Underlying Expenses	Amortisation of Acquired Intangibles	Total Management Expenses	MER
<b>Australian Residents Health Insurance</b>										
FY17	29.5	41.4	(37.3)	24.9	102.6	161.1	9.7%	-	161.1	9.7%
FY18	31.8	54.4	(34.8)	28.5	117.2	197.1	10.5%	1.2	198.3	10.6%
<b>International (Inbound) Health Insurance</b>										
FY17	1.7	4.9	(4.2)	3.6	15.8	21.8	29.1%	0.8	22.6	30.2%
FY18	1.4	6.6	(5.1)	4.3	21.3	28.5	30.5%	1.4	29.9	32.0%
<b>New Zealand</b>										
FY17	7.8	30.4	(18.6)	13.2	26.4	59.2	29.7%	4.0	63.2	31.7%
FY18	6.9	28.3	(17.2)	14.3	29.2	61.5	31.1%	3.6	65.1	32.9%

# premium payback (ppb)

Movement in central estimate of PPB liability (\$m)	FY18	FY17
Opening balance – central estimate	21.4	25.6
Funding – new premium less medical claims (discounted)	2.6	2.9
Payouts (normal)	(3.9)	(4.9)
Payouts (early settlement)	(3.3)	(2.0)
Interest rate movements impact	0.4	(0.7)
Unwind discount rate	0.5	0.7
Effect of changes in foreign exchange rates	(0.8)	(0.3)
Closing balance – central estimate	17.0	21.4

- The PPB liability is matched with investments of approximately the same duration.
- Latest campaign (early settlement offer) to move customers from nib PPB to nib non-PPB products completed in early FY19. Uptake exceeded expectations with the vast majority of customers continuing with an nib policy after settlement.

nib New Zealand UOP split between PPB & non PPB (\$m)	FY18			FY17		
	Non PPB	FY18 PPB	Total	Non PPB	FY17 PPB	Total
Premium revenue	190.2	7.9	198.1	190.1	9.2	199.3
Claims (medical)	(108.2)	(1.9)	(110.1)	(111.4)	(2.6)	(114.0)
Premium payback liability settlement	-	(7.1)	(7.1)	-	(6.9)	(6.9)
Decrease/(Increase) in premium payback liability	-	4.0	4.0	-	4.3	4.3
<b>Gross underwriting result</b>	<b>82.0</b>	<b>2.9</b>	<b>84.9</b>	<b>78.7</b>	<b>4.0</b>	<b>82.7</b>
Management expenses	-	-	(61.5)	-	-	(59.2)
<b>UOP</b>	<b>-</b>	<b>-</b>	<b>23.4</b>	<b>-</b>	<b>-</b>	<b>23.5</b>

# other income & expenses (excluding segments)

<b>Other income</b>	<b>FY18</b>	<b>FY17</b>	<b>Change</b>
Complementary insurance	2.6	2.5	4.0%
Sundry income	0.8	0.2 <sup>1</sup>	300.0%
Digital Health Ventures income	-	0.1	NA
<b>Total other income</b>	<b>3.4</b>	<b>2.8</b>	<b>21.4%</b>
<b>Other expenses</b>			
Complementary insurance expenditure	(1.2)	(0.6)	100.0%
Share registry costs	(2.4)	(2.1)	12.5%
Corporate costs	(5.4)	(3.8)	41.5%
Digital Health Ventures expenditure	-	(2.2)	NA
niss expenditure	(1.2)	-	NA
Other	(0.3)	(3.8)	(92.1)%
<b>Total other expenses</b>	<b>(10.4)</b>	<b>(12.5)</b>	<b>(16.8)%</b>

- nib Options business commenced winding down in May 2017 with business terminations costs provided for in FY17.
- Digital Health Ventures income and expenditure ceased on completion of restructure of Whitecoat on 1 February 2017.

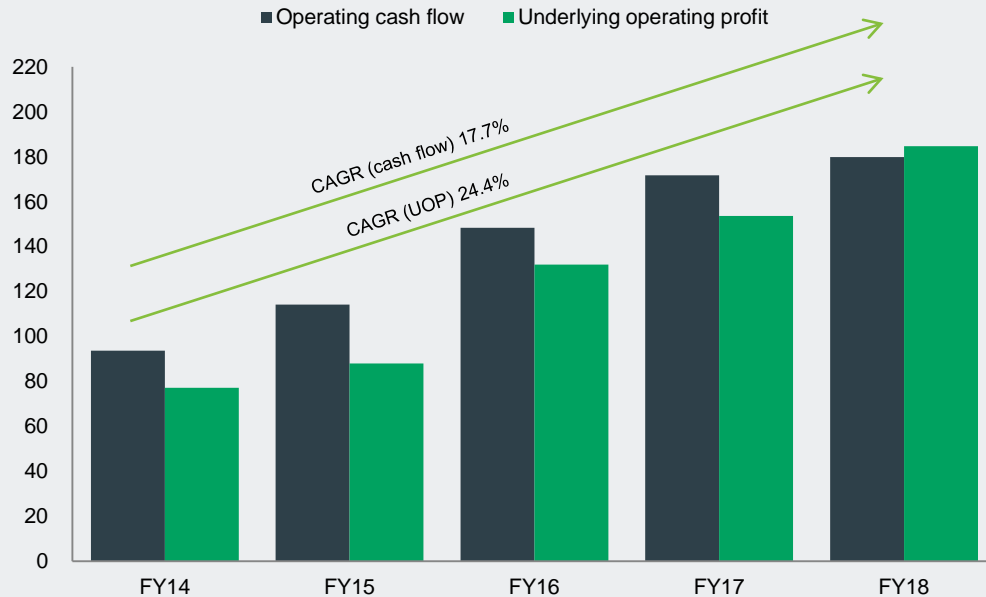
# investment asset allocation

	Consolidated		Australian Investment Portfolio (excluding GU)		GU Investment Portfolio		New Zealand Investment Portfolio	
	Balance at 30/06/2018 (\$m)	Allocation at 30/06/2018 %	Net investment income 12 months to 30/06/2018 (\$m)	Allocation at 30/06/2018 %	Net investment income 12 months to 30/06/2018 (\$m)	Allocation at 30/06/2018 %	Net investment income 12 months to 30/06/2018 (\$m)	Allocation at 30/06/2018 %
Cash <sup>1</sup>	252.4	28.3	1.7	22.3	1.0	76.5	0.2	12.1
Fixed interest	499.3	56.0	9.2	59.1	0.2	11.1	3.0	87.9
<b>Total defensive</b>	<b>751.7</b>	<b>84.3</b>	<b>10.9</b>	<b>81.5</b>	<b>1.2</b>	<b>87.6</b>	<b>3.3</b>	<b>100.0</b>
Australian shares	44.1	4.9	5.4	6.1	0.3	2.5	-	-
Global shares - hedged	14.2	1.6	1.1	1.9	-	1.0	-	-
Global shares - unhedged	42.1	4.7	4.9	5.7	0.2	2.6	-	-
Global property	23.1	2.6	1.5	3.4	-	-	-	-
Absolute return	1.1	0.1	-	-	0.2	5.3	-	-
Property trusts	15.8	1.8	0.1	1.4	0.6	0.9	-	-
<b>Total growth</b>	<b>140.4</b>	<b>15.7</b>	<b>12.9</b>	<b>18.5</b>	<b>1.3</b>	<b>12.4</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>892.1</b>	<b>100.0</b>	<b>23.8</b>	<b>100.0</b>	<b>2.5</b>	<b>100.0</b>	<b>3.3</b>	<b>100.0</b>

1. Excludes operating cash of \$34.9m, noting total cash is split between cash and cash equivalents of \$252.4m and short term deposits of \$95.1m included in Financial Assets at Fair Value Through Profit or Loss.



# operating cash flow



	FY18	FY17	Change
<b>Cash flows from operating activities</b>			
Receipts from policyholders and customers (inclusive of GST)	2,316.4	2,063.1	12.3%
Payments to policyholders and customers	(1,677.1)	(1,558.6)	7.0%
Receipts from outwards reinsurance contracts	8.3	0.6	1283.3%
Payments for outwards reinsurance contracts	(23.3)	(1.3)	1692.3%
Payments to suppliers and employees (inclusive of GST)	(390.5)	(312.0)	25.2%
	<b>233.8</b>	<b>191.8</b>	<b>21.9%</b>
Interest received	7.5	7.1	5.6%
Distributions received	15.7	24.7	(36.4)%
Transaction costs relating to acquisition of business combination	(3.3)	(0.1)	3200.0%
Interest paid	(6.3)	(4.7)	34.0%
Income taxes paid	(67.5)	(47.1)	43.3%
<b>Net cash inflow from operating activities</b>	<b>179.9</b>	<b>171.7</b>	<b>4.8%</b>

## nib has a number of subsidiaries that are each subject to regulatory minimum capital requirements imposed by the prudential regulator (APRA in Australia) and (RBNZ in New Zealand)

Current levels of capital are consistent with the expectations of the regulators based on the current prudential standards and a target above the regulatory minimum is in order to achieve a defined risk appetite as follows:

### **nib health funds limited capital risk appetite:**

Continue to meet regulatory capital requirements over a two year period following:

- a 1 in 50 underwriting loss event, and
- a 1 in 150 investment return occurrence, and
- a write-off of half the deferred acquisition cost and other intangible assets

### **nib health funds limited target capital:**

14.4% of next 12 months premium revenue

### **Grand United Corporate Health Limited capital risk appetite:**

Less than 5% probability of breaching the regulatory capital requirement over an 18-month period after allowing for the beneficial effects of assumed management actions.

### **Grand United Corporate Health Limited target capital:**

1.35 – 1.55x Capital Adequacy Requirement

### **nib nz limited capital risk appetite:**

Less than a 1% chance of falling below 125% of the RBNZ minimum solvency requirement over a two year period.

Maintain a financial strength rating sufficient to remain viable in the intermediated health insurance market, and which is at least at a level comparable with competitors.

**nib nz limited target capital:** 2x RBNZ Minimum Solvency Capital

TERM	DEFINITION
1H	Six months ended/ending 31 December of the relevant financial year
2H	Six months ended/ending 30 June of the relevant financial year
APRA	Australian Prudential Regulation Authority
arhi	Australian residents health insurance, inclusive of GU Health unless otherwise stated
AUD	Australian dollar
bps	Basis points (1.0% = 100 bps)
cps	Cents per share
DRP	Dividend reinvestment plan
DTC	Direct to consumer
EPS	Earnings per share
FY	Financial year ended/ending 30 June
Group	nib holdings Group
GWP	Gross written premium
iihi	International inbound health insurance (ishi & iwhi combined), inclusive of GU Health unless otherwise stated
ishi	International students health insurance
iwhi	International workers health insurance
JV	Joint venture
LAGIC	Life and General Insurance Capital Standards introduced by APRA
Lapse	APRA lapse divided by the average of opening and closing policyholder counts
MER	Management expense ratio
Net claims expense	Claims expense net of reinsurance
Net margin	Gross underwriting result less management expenses as percentage of net premium revenue
Net policyholder growth	Total policies as at the end of the reporting period less total policies as at 30 June of the prior financial year

TERM	DEFINITION
Net premium revenue	Premium revenue net of reinsurance
nib	nib holdings limited
niss	nib international students services
NPAT	Net profit after tax
NPS	Net promoter score (% Promoters less % Detractors)
NZD	New Zealand dollar
OSC	Outstanding claims liability
Other underwriting revenue	Revenue from underwriting activities net of premium revenue
PHI	Private health insurance
PPB	Premium payback liability relates to previously offered products, where customers are entitled to receive a refund (or partial refund) of premiums paid less any claims made, once the policy has been in force for a specified period. It is determined based on the discounted value of accumulated excess of premiums over claims at an individual policy level
Sales NPS	A measure of the likelihood of a new customer to recommend the brand immediately following a sales interaction
Underlying underwriting result	Gross margin less management expenses plus revenue from reinsurance contracts
UOP	Underlying operating profit - comprised of underwriting result, other income and expenses including non-underwriting businesses. It excludes amortisation of acquired intangibles, one-off transactions (integration of acquired business, establishment of business costs as well as extraordinary legal fees), merger and acquisition costs, finance costs, net investment income and income tax
WNG	World Nomads Group