

nib holdings limited
ABN 51 125 633 856

Half-year report for the period ended 31 December 2016

This report should be read in conjunction with the annual financial report for the year ended 30 June 2016.

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Appendix 4D

For the half year ended 31 December 2016
nib holdings limited

Results for announcement to the market

	6 months to 31 Dec 16 \$m	6 months to 31 Dec 15 \$m	Movement up / (down) \$m	Movement %
Revenue from ordinary activities	1,009.8	934.4	75.4	8%
Profit from ordinary activities after tax attributable to members	71.8	43.4	28.4	65%
Net profit attributable to members	71.8	43.4	28.4	65%

	6 months to 31 Dec 16 Amount per security (cps)	6 months to 31 Dec 15 Franking amount per security	6 months to 31 Dec 16 Amount per security (cps)	6 months to 31 Dec 15 Franking amount per security
Interim Dividend				
Ordinary Dividend	8.50	100%	5.75	100%
Special Dividend	0.00	100%	0.00	100%
Total Interim Dividend	8.50	100%	5.75	100%
Record date for determining entitlements to the dividend	3 March 2017			
Date the interim dividend is payable	3 April 2017			

Brief explanation of figures reported above:

Net profit after tax attributable to owners of nib holdings limited for the half year to 31 December 2016 calculated on a statutory basis equated to a profit of \$71.8 million.

For further information refer to the Directors' Report in the attached Interim Report of nib holdings limited for the period ended 31 December 2016.

Appendix 4D

For the half year ended 31 December 2016

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 46.08 (33.28 as at 31 Dec 2015)	
<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>	Not applicable	
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.	Interim Report 31 December 2016 • Notes to the financial statement - Dividends	Note 11
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 2016
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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M McPherson
Company Secretary
nib holdings limited

Date 19 February 2017



Interim Report

31 December 2016

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Directors' Report

For the half year ended 31 December 2016

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 2016.

DIRECTORS' REPORT

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

Steve Crane
Mark Fitzgibbon
Lee Ausburn
Harold Bentley
Philip Gardner
Christine McLoughlin
Donal O'Dwyer

Annette Carruthers retired as a Director of the Company on 28 September 2016.

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.

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

REVIEW OF OPERATIONS

(\$m)			Change	
	31 Dec 16	31 Dec 15	\$m	%
Net premium revenue	965.7	902.7	63.0	7.0
Net claims incurred (excluding claims handling expenses)	(759.6)	(739.9)	19.7	2.7
Gross margin	206.1	162.8	43.3	26.6
	21.3%	18.0%		
Management expenses	(109.6)	(98.2)	11.4	11.6
	11.3%	10.9%		
Underwriting result ¹	96.5	64.6	31.9	49.4
	10.0%	7.2%		
Other income	29.3	24.5	4.8	19.6
Other expenses	(30.6)	(22.7)	7.9	34.8
Underlying operating profit ¹	95.2	66.4	28.8	43.4
	9.9%	7.4%		
Amortisation of acquired intangibles	(3.8)	(3.5)	0.3	8.6
One-off transactions and M&A costs	(0.5)	(3.6)	(3.1)	(86.1)
Statutory operating profit	90.9	59.3	31.6	53.3
	9.4%	6.6%		
Finance costs	(2.4)	(2.6)	0.2	7.7
Net investment income	13.8	6.5	7.3	112.3
	2.0%	1.1%		
Profit before tax	102.3	63.2	39.1	61.9
Tax	(31.2)	(20.1)	11.1	55.2
NPAT	71.1	43.1	28.0	65.0
Statutory EPS (cps)	16.4	9.9	6.5	65.7
Underlying EPS (cps)	17.1	11.0	6.1	55.5
ROE (%) ²	31.7	22.9		
Operating cash flow	27.0	18.6	8.4	45.2

1. As per Note 3 Segment Reporting.

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

REVIEW OF OPERATIONS continued

This November marks 10 years since nib demutualised and listed on the ASX. And while we have grown substantially to become a very different and much more diverse organisation over the past decade, our culture and business philosophy is still very much centred on delivering great value service and products to our customers.

Overall it's been a positive start to financial year 2017 reflecting strong momentum across the Group. Group revenue increased to \$995.0 million (up 7.3%) in the six months to 31 December 2016 (1H17), while Underlying Operating Profit (UOP) was \$95.2 million (up 43.4%). Net Profit After Tax (NPAT) was \$71.1 million (up 65.0%) due to our improved underlying operating performance as well as net investment income of \$13.8 million (up 112.3%). Earnings per share (statutory) was an impressive 16.4 cents per share, up from 9.9 cents per share on 1H16.

nib updated its FY17 guidance with UOP result expected to be in the range of \$140 million to \$150 million (statutory operating profit of \$137 million to \$147 million).

The Board has declared a fully franked interim dividend of 8.5 cents per share, an increase of 48% on the interim dividend last year. The interim dividend has an ex-dividend and record date of 2 and 3 March 2017 respectively, and will be paid to shareholders on 3 April 2017.

Australian Residents Health Insurance (arhi)

(\$m)	31 Dec 16	31 Dec 15	Change	
			\$m	%
Policyholder growth ¹	2.1%	1.8%		
Net premium revenue	829.8	781.3	48.5	6.2
Net claims incurred (excluding claims handling expenses)	(686.0)	(663.5)	22.5	3.4
Gross margin	143.8	117.8	26.0	22.1
	17.3%	15.1%		
Management expenses	(71.2)	(66.2)	5.0	7.6
	8.6%	8.5%		
Underwriting result	72.6	51.6	21.0	40.7
	8.7%	6.6%		
Other income	0.4	0.1	0.3	300.0
	0.0%	0.0%		
Underlying operating profit	73.0	51.7	21.3	41.2
	8.8%	6.6%		

Our Group's core earnings driver, arhi continues to deliver strong top line and earnings growth. Premium revenue increased to \$829.8 million up 6.2% with UOP of \$73.0 million (up 41.2%).

Opportunities for customer growth in this competitive market remain challenging. However, our successful multi-channel growth strategy which leverages the strength of the nib brand, as well as retail brokers and distribution relationships with leading brands such as Qantas and Suncorp, has allowed us to continue to deliver above system growth. This has resulted in nib accounting for 50.1% of industry growth for the first six months of the year.

As our financial results show, we continue to benefit from a benign claims environment, with claims expenses (including risk equalisation) up 3.4% on the previous half year. While we believe a lot of this benefit is systemic due to lower hospital and ancillary utilisation across the industry, we are making a considerable effort to manage claims inflation in order to keep health insurance affordable for our customers.

Combined with the Government's announcement last year that it would adjust pricing for prosthetic and medical devices our efforts to manage claims inflation will relieve pressure on future premium increases. Our recently announced average premium increase of 4.48% was nib's lowest in 14 years.

Our shareholders can expect arhi will continue to deliver ongoing top line growth and fairly stable underwriting margins within our target range of 5% to 6%. And while our 1H17 results show a net margin above our target range (1H17 net margin: 8.7%), claims seasonality as well as investment in growth during peak customer acquisition periods over the next six months is expected to deliver a full year result within our target range.

1. Policyholder growth is percentage movement for the 6 month period.

REVIEW OF OPERATIONS continued

International (Inbound) Health Insurance (iihi)

(\$m)	31 Dec 16	31 Dec 15	Change	
			\$m	%
Policyholder growth ¹	14.0%	14.5%		
Net premium revenue	35.9	41.5	(5.6)	(13.5)
Net claims incurred (excluding claims handling expenses)	(12.8)	(27.3)	(14.5)	(53.1)
Gross margin	23.1	14.2	8.9	62.7
	64.3%	34.3%		
Management expenses	(10.1)	(9.0)	1.1	12.2
	28.1%	21.8%		
Underwriting result	13.0	5.2	7.8	150.0
	36.2%	12.5%		
Other income	0.3	0.2	0.1	50.0
	0.8%	0.4%		
Underlying operating profit	13.3	5.4	7.9	146.3
	37.0%	13.0%		

Our iihi business, which includes our international students and international visitors insurance operations, dramatically improved earnings during 1H17 with UOP of \$13.3 million up 146.3%. Premium revenue of \$35.9 million was down 13.5% compared to 1H16 following the deliberate decision to not renew a group international student agreement. Encouragingly, and as we anticipated, we have seen a significant turnaround in claims experience and with that profitability since this agreement ended.

Strong customer growth, particularly within the international students segment, continues to build scale of business which supports its positive ongoing earnings trajectory. Overall we believe Australia remains attractive as a destination for international students and visitors, which will support the ongoing growth and earnings for our iihi business.

nib New Zealand

(\$m)	31 Dec 16	31 Dec 15	Change	
			\$m	%
Policyholder growth ¹	1.0%	25.2%		
Net premium revenue	100.0	79.9	20.1	25.2
Net claims incurred (excluding claims handling expenses and movement in PPB liability)	(64.7)	(56.9)	7.8	13.7
Decrease in premium payback liability	3.9	7.8	(3.9)	(50.0)
Gross margin	39.2	30.8	8.4	27.3
	39.2%	38.6%		
Management expenses	(28.3)	(23.0)	5.3	23.0
	28.3%	28.8%		
Underwriting result	10.9	7.8	3.1	39.7
	10.9%	9.8%		
Other income	-	-	-	NA
Underlying operating profit	10.9	7.8	3.1	39.7
	10.9%	9.8%		

Our New Zealand operations continue to perform in line with expectations with premium revenue² of \$100.0 million (up 25.2%) and UOP² growing to \$10.9 million (up 39.7%) for the half.

Leveraging the capability and skills of our people and systems across the nib Group continues to benefit our New Zealand operations and in turn its business performance and earnings. Prior to our purchase of the business in 2012, the portfolio had experienced negative customer growth for nearly a decade. Since then we've made good progress including successfully launching a direct-to-consumer product range as well as securing two leading Kiwi brands as whitelabel distribution partners. These two channels alone now account for almost 50% of our new customer sales.

The future remains bright for nib New Zealand with continued earnings growth expected due to improved scale, exploring further Group synergies and operational efficiencies as well as ongoing customer growth.

1. Policyholder growth is percentage movement for the 6 month period.

2. 1H17 includes 6 month contribution of OnePath Life NZ medical insurance business, 1H16 was a one month contribution as the was business acquired on 1 December 2015.

REVIEW OF OPERATIONS continued

World Nomads Group

(\$m)	31 Dec 16	5 months	Change	
		31 Dec 15	\$m	%
Other income	27.0	22.0	5.0	22.7
Other expenses	(23.9)	(17.8)	6.1	34.3
Underlying operating profit	3.1	4.2	(1.1)	(26.2)
	11.5%	19.0%		

Our acquisition of specialist travel insurance provider World Nomads Group (WNG) in July 2015 is consistent with our strategy to leverage the skills and capability of the nib Group to diversify our business and grow earnings.

The WNG business is performing soundly under nib ownership with gross written premium of \$62.1 million up 24.8% (1H16¹: \$49.7m), while UOP was \$3.1 million (1H16¹: \$4.2 million).

We believe the market for travel insurance, particularly internationally has strong growth potential, with WNG well placed to capitalise on this opportunity. As we have previously indicated and as can be seen from the 1H17 UOP result, effort to grow and expand the business will continue in the second half of FY17, particularly targeting international markets. This level of investment will impact full year UOP with the view to create future enterprise value.

1.1H16 was a five month result, WNG was acquired on 31 July 2015.

nib Options

(\$m)	31 Dec 16	31 Dec 15	Change	
			\$m	%
Other income	-	-	-	NA
Other expenses	(1.6)	(1.0)	(0.6)	(60.0)
Underlying operating loss	(1.6)	(1.0)	(0.6)	(60.0)

Launched in early 2014, nib Options aims to facilitate customers receiving cosmetic and major dental treatment domestically and overseas. For the six period ending 31 December 2016, nib Options made an underlying operating loss of \$1.6 million reflecting continued investment to grow the business. Our investment thesis is that people will increasingly travel across international borders and we have the capabilities to compete in the market for clients. Customer sales to date have been below expectations with nib to review the ongoing operations of nib Options during calendar year 2017.

CAPITAL MANAGEMENT

At 31 December 2016 the Group had net assets of \$418.2 million (June 2016: \$386.1 million) and a return on equity of 31.7%, using average shareholders' equity and NPAT for the previous 12 months over a rolling 12-month period (December 2015: 22.9%). Further, at 31 December 2016 the Group had available capital of \$31.6 million above our internal benchmark (after allowing for the payment of an interim dividend of 8.5 cents per share, totalling \$37.3 million, in April 2017).

DIVIDENDS

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

	Half year	
	31 Dec 16	31 Dec 15
	\$m	\$m
Final dividend for the year ended 30 June 2016 of 9.0 cents (2015 - 6.0 cents) per fully paid share paid on 7 October 2016	39.5	26.3

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 \$37.3 million (8.5 cents per fully paid ordinary share) to be paid on 3 April 2017 out of retained profits at 31 December 2016.

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.

REVIEW OF OPERATIONS continued

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 6.

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



Harold Bentley
Director

Newcastle, NSW
19 February 2017



Auditor's Independence Declaration

As lead auditor for the review of nib holdings limited for the half-year ended 31 December 2016, 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
19 February 2017

Financial Report

For the half year ended 31 December 2016

nib holdings limited

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Consolidated Income Statement

For the half year ended 31 December 2016

nib holdings limited

	Notes	Half year	
		31 Dec 16	31 Dec 15
		\$m	\$m
Premium revenue	4	966.3	903.4
Outwards reinsurance premium expense	4	(0.6)	(0.7)
Net premium revenue		965.7	902.7
Claims expense		(661.4)	(639.2)
Reinsurance and other recoveries revenue		0.3	0.4
RESA levy		(87.4)	(94.2)
State levies		(15.0)	(14.7)
Decrease in premium payback liability		3.9	7.8
Claims handling expenses	5	(8.2)	(8.3)
Net claims incurred		(767.8)	(748.2)
Acquisition costs	5	(52.6)	(42.7)
Other underwriting expenses	5	(51.2)	(49.0)
Underwriting expenses		(103.8)	(91.7)
Underwriting result		94.1	62.8
Other income	4	29.3	24.5
Other expenses	5	(32.5)	(28.0)
Operating profit		90.9	59.3
Finance costs	5	(2.4)	(2.6)
Investment income	4	14.8	7.3
Investment expenses	5	(1.0)	(0.8)
Profit before income tax		102.3	63.2
Income tax expense		(31.2)	(20.1)
Profit for the half year		71.1	43.1
Profit for the half year is attributable to:			
Owners of nib holdings limited		71.8	43.4
Non-controlling interests		(0.7)	(0.3)
		71.1	43.1
		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company			
Basic earnings per share		16.4	9.9
Diluted earnings per share		16.4	9.9
Earnings per share for profit attributable to the ordinary equity holders of the company			
Basic earnings per share		16.4	9.9
Diluted earnings per share		16.4	9.9

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 2016

nib holdings limited

	Half year	
	31 Dec 16	31 Dec 15
Notes	\$m	\$m
Profit for the half year	71.1	43.1
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	0.5	2.1
Income tax related to these items	(0.1)	(0.4)
Other comprehensive income for the half year, net of tax	0.4	1.7
Total comprehensive income for the half year	71.5	44.8
Total comprehensive income for the half year is attributable to:		
Owners of nib holdings limited	72.2	45.1
Non-controlling interests	(0.7)	(0.3)
	71.5	44.8

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 2016
nib holdings limited

	Notes	31 Dec 16 \$m	30 Jun 16 \$m
ASSETS			
Current assets			
Cash and cash equivalents		71.4	89.4
Receivables		55.0	52.0
Financial assets at fair value through profit or loss	6	586.1	580.7
Deferred acquisition costs	7	39.3	34.1
Assets classified as held for sale		1.9	-
Current tax assets		0.4	-
Total current assets		754.1	756.2
Non-current assets			
Deferred acquisition costs	7	53.1	49.1
Deferred tax assets		1.3	0.8
Property, plant and equipment		12.2	15.5
Intangible assets		215.9	217.4
Total non-current assets		282.5	282.8
Total assets		1,036.6	1,039.0
LIABILITIES			
Current liabilities			
Payables		124.6	141.2
Borrowings	8	1.1	-
Outstanding claims liability	9	104.6	112.2
Unearned premium liability		139.1	151.9
Premium payback liability	10	4.8	10.3
Provision for employee entitlements		3.1	2.9
Current tax liabilities		11.3	15.0
Other liabilities		0.4	0.4
Total current liabilities		389.0	433.9
Non-current liabilities			
Borrowings	8	152.3	151.9
Unearned premium liability		26.7	24.3
Premium payback liability	10	18.8	17.1
Provision for employee entitlements		2.4	2.3
Deferred tax liabilities		23.8	17.8
Other liabilities		5.4	5.6
Total non-current liabilities		229.4	219.0
Total liabilities		618.4	652.9
Net assets		418.2	386.1
EQUITY			
Contributed equity		27.6	26.6
Retained profits		388.5	356.2
Reserves		4.4	4.9
Capital and reserves attributable to owners of nib holdings limited		420.5	387.7
Non-controlling interests		(2.3)	(1.6)
Total equity		418.2	386.1

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 2016

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	\$m	\$m
Balance at 1 July 2015	28.0	307.0	9.8	344.8	(0.6)	344.2
Profit for the year	-	43.4	-	43.4	(0.3)	43.1
Movement in foreign currency translation, net of tax	-	-	1.7	1.7	-	1.7
Total comprehensive income for the half year	-	43.4	1.7	45.1	(0.3)	44.8
Transactions with owners in their capacity as owners:						
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust	(1.4)	-	-	(1.4)	-	(1.4)
Issue of shares held by nib Holdings Ltd Share Ownership Plan Trust to employees	1.4	-	(0.6)	0.8	-	0.8
Employee performance rights - value of employee services	-	-	0.4	0.4	-	0.4
Dividends paid	11	(26.3)	-	(26.3)	-	(26.3)
	-	(26.3)	(0.2)	(26.5)	-	(26.5)
Balance at 31 December 2015	28.0	324.1	11.3	363.4	(0.9)	362.5
Balance at 1 July 2016	26.6	356.2	4.9	387.7	(1.6)	386.1
Profit for the year	-	71.8	-	71.8	(0.7)	71.1
Movement in foreign currency translation, net of tax	-	-	0.4	0.4	-	0.4
Total comprehensive income for the half year	-	71.8	0.4	72.2	(0.7)	71.5
Transactions with owners in their capacity as owners:						
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust	(1.5)	-	-	(1.5)	-	(1.5)
Issue of shares held by nib Holdings Ltd Share Ownership Plan Trust to employees	2.5	-	(1.5)	1.0	-	1.0
Employee performance rights - value of employee services	-	-	0.6	0.6	-	0.6
Dividends paid	11	(39.5)	-	(39.5)	-	(39.5)
	1.0	(39.5)	(0.9)	(39.4)	-	(39.4)
Balance at 31 December 2016	27.6	388.5	4.4	420.5	(2.3)	418.2

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 2016

nib holdings limited

	31 Dec 16	31 Dec 15
	\$m	\$m
Notes		
Cash flows from operating activities		
Receipts from policyholders and customers (inclusive of goods and services tax)	1,000.8	939.8
Payments to policyholders and customers	(784.8)	(767.4)
Payments to suppliers and employees (inclusive of goods and services tax)	(163.4)	(141.5)
	52.6	30.9
Interest received	3.3	3.8
Distributions received	3.5	3.7
Transaction costs relating to acquisition of business combination	-	(2.8)
Interest paid	(2.5)	(2.2)
Income taxes paid	(29.9)	(14.8)
Net cash inflow from operating activities	27.0	18.6
Cash flows from investing activities		
Proceeds from disposal of other financial assets at fair value through profit and loss	115.6	153.2
Payments for other financial assets at fair value through profit and loss	(113.4)	(131.2)
Payments for property, plant and equipment and intangibles	(7.3)	(6.9)
Payment for acquisition of business combination, net of cash acquired	-	(114.5)
Net cash (outflow) from investing activities	(5.1)	(99.4)
Cash flows from financing activities		
Proceeds from borrowings	35.0	85.0
Repayment of borrowings	(35.0)	-
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust	(1.5)	(1.4)
Dividends paid to the company's shareholders	11 (39.5)	(26.3)
Net cash inflow (outflow) from financing activities	(41.0)	57.3
Net (decrease) in cash and cash equivalents	(19.1)	(23.5)
Cash and cash equivalents at beginning of the year	89.4	122.3
Effects of exchange rate changes on cash and cash equivalents	-	-
Cash and cash equivalents at the end of the half year	70.3	98.8
Reconciliation to Consolidated Balance Sheet		
Cash and cash equivalents	71.4	98.9
Borrowings - overdraft	(1.1)	(0.1)
	70.3	98.8

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

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2016

nib holdings limited

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of preparation of half year report

This consolidated interim financial report for the half year reporting period ended 31 December 2016 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 2016 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 2016

nib holdings limited

2. FAIR VALUE MEASUREMENT

a) Fair value hierarchy

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

The following tables present the Group's assets and liabilities measured and recognised at fair value at 31 December 2016 and 30 June 2016.

	Level 1	Level 2	Level 3	Total
	\$m	\$m	\$m	\$m
Group at 31 December 2016				
Assets				
Cash and cash equivalents and deposits at call	71.4	-	-	71.4
Financial assets at fair value through profit or loss				
Equity securities	104.6	-	-	104.6
Interest-bearing securities	389.2	17.2	-	406.4
Short term deposits	75.1	-	-	75.1
Property, plant and equipment				
Land and buildings ¹	-	-	-	-
Total assets	640.3	17.2	-	657.5

1. Land and buildings were transferred to Assets classified as held for sale during the period.

	Level 1	Level 2	Level 3	Total
	\$m	\$m	\$m	\$m
Group at 30 June 2016				
Assets				
Cash and cash equivalents and deposits at call	89.4	-	-	89.4
Financial assets at fair value through profit or loss				
Equity securities	97.8	-	-	97.8
Interest-bearing securities	410.7	12.0	-	422.7
Short term deposits	60.2	-	-	60.2
Property, plant and equipment				
Land and buildings	-	-	1.9	1.9
Total assets	658.1	12.0	1.9	672.0

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

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

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

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

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2016

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.

Freehold land and buildings classified as held for sale during the reporting period were measured using a non-recurring level 3 fair value measurement.

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

i) *Transfers between levels 2 and 3*

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 2016.

ii) *Valuation process*

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

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

c) Fair values of other financial instruments

The Group also had another financial instrument which was not measured at fair value in the balance sheet. This had the following fair value as at 31 December 2016:

	31 Dec 16		30 Jun 16	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$m	\$m	\$m	\$m
Non-current borrowings				
Bank loans	152.3	152.3	151.9	151.9

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 2016

nib holdings limited

3. SEGMENT REPORTING

a) Description of segments

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

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

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

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

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

b) Other segment information

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

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

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2016

nib holdings limited

3. SEGMENT REPORTING continued

c) Segment information provided to Executive management

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

	For the half year ending 31 December 2016							Total \$m
	Australian Residents Health Insurance \$m	International (Inbound) Health Insurance \$m	New Zealand Health Insurance \$m	World Nomads Group \$m	nib Options \$m	Unallocated to segments \$m		
Premium revenue	829.8	36.5	100.0	-	-	-	966.3	
Outwards reinsurance premium expense	-	(0.6)	-	-	-	-	(0.6)	
Net premium revenue	829.8	35.9	100.0	-	-	-	965.7	
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)	
Net claims incurred	(692.7)	(13.3)	(61.8)	-	-	-	(767.8)	
Acquisition costs	(31.6)	(4.0)	(17.0)	-	-	-	(52.6)	
Other underwriting expenses	(32.9)	(5.6)	(10.3)	-	-	-	(48.8)	
Underwriting expenses	(64.5)	(9.6)	(27.3)	-	-	-	(101.4)	
Underwriting result	72.6	13.0	10.9	-	-	-	96.5	
Other income	0.4	0.3	-	27.0	-	1.6	29.3	
Other expenses	-	-	-	(23.9)	(1.6)	(5.1)	(30.6)	
Underlying operating profit / (loss)	73.0	13.3	10.9	3.1	(1.6)	(3.5)	95.2	
Items not included in underlying operating profit								
Amortisation of acquired intangibles	-	(0.4)	(2.0)	(1.4)	-	-	(3.8)	
One-off transactions and M&A costs	-	-	-	(0.2)	-	(0.3)	(0.5)	
Finance costs							(2.4)	
Investment income							14.8	
Investment expenses							(1.0)	
Profit before income tax from continuing operations							102.3	
Inter-segment other income ¹	1.3	-	0.1	-	-	-	1.4	
Total assets	700.8		199.3	108.4	0.8	27.3	1,036.6	
Total liabilities	357.2		62.7	9.9	0.4	188.2	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	
Total	237.1		56.9	-	-	-	294.0	

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 2016

nib holdings limited

3. SEGMENT REPORTING continued

c) Segment information provided to Executive management continued

For the half year ending 31 December 2015

	Australian Residents Health Insurance	International (Inbound) Health Insurance	New Zealand Health Insurance	World Nomads Group 5 months	nib Options	Unallocated to segments	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Premium revenue	781.3	42.2	79.9	-	-	-	903.4
Outwards reinsurance premium expense	-	(0.7)	-	-	-	-	(0.7)
Net premium revenue	781.3	41.5	79.9	-	-	-	902.7
Claims expense	(554.6)	(27.7)	(56.9)	-	-	-	(639.2)
Reinsurance and other recoveries revenue	-	0.4	-	-	-	-	0.4
RESA	(94.2)	-	-	-	-	-	(94.2)
State levies	(14.7)	-	-	-	-	-	(14.7)
Decrease in premium payback liability	-	-	7.8	-	-	-	7.8
Claims handling expenses	(7.3)	(0.5)	(0.5)	-	-	-	(8.3)
Net claims incurred	(670.8)	(27.8)	(49.6)	-	-	-	(748.2)
Acquisition costs	(26.5)	(3.3)	(12.9)	-	-	-	(42.7)
Other underwriting expenses	(32.4)	(5.2)	(9.6)	-	-	-	(47.2)
Underwriting expenses	(58.9)	(8.5)	(22.5)	-	-	-	(89.9)
Underwriting result	51.6	5.2	7.8	-	-	-	64.6
Other income	0.1	0.2	-	22.0	-	2.2	24.5
Other expenses	-	-	-	(17.8)	(1.0)	(3.9)	(22.7)
Underlying operating profit / (loss)	51.7	5.4	7.8	4.2	(1.0)	(1.7)	66.4
Items not included in underlying operating profit							
Amortisation of acquired intangibles	-	(0.4)	(1.4)	(1.7)	-	-	(3.5)
One-off transactions and M&A costs	-	-	-	(0.9)	-	(2.7)	(3.6)
Finance costs							(2.6)
Investment income							7.3
Investment expenses							(0.8)
Profit before income tax from continuing operations							63.2
Inter-segment other income ¹	1.1	-	-	-	-	0.2	1.3
Total assets	611.7		198.8	111.8	0.6	20.0	942.9
Total liabilities	324.1		69.5	8.5	0.2	178.0	580.3
Insurance liabilities							
Outstanding claims liability	87.3		12.3	-	-	-	99.6
Unearned premium liability	128.3		17.5	-	-	-	145.8
Premium payback liability	-		35.0	-	-	-	35.0
Total	215.6		64.8	-	-	-	280.4

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 2016

nib holdings limited

4. REVENUE AND OTHER INCOME

	Half year	
	31 Dec 16	31 Dec 15
	\$m	\$m
Premium revenue	966.3	903.4
Outwards reinsurance premiums	(0.6)	(0.7)
Net premium revenue	965.7	902.7
Other Income		
Travel insurance commission	27.0	22.1
Life and funeral insurance commission and other commissions	1.2	1.1
Agency fee	0.2	0.2
Deferred profit on sale and leaseback of head office building	0.2	-
Rental income	0.1	0.5
Sundry income	0.6	0.6
	29.3	24.5
Investment income		
Interest	3.4	3.6
Net realised gain on financial assets at fair value through profit or loss	7.3	2.4
Net unrealised gain on financial assets at fair value through profit or loss	4.1	1.3
	14.8	7.3

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2016

nib holdings limited

5. EXPENSES

	Half year	
	31 Dec 16	31 Dec 15
Notes	\$m	\$m
Expenses by function		
Claims handling expenses	8.2	8.3
Acquisition costs	52.6	42.7
Other underwriting expenses	51.2	49.0
Other expenses	32.5	28.0
Finance costs	2.4	2.6
Investment expenses	1.0	0.8
Total expenses (excluding direct claims expenses)	147.9	131.4
Expenses by nature		
Amortisation of acquired intangibles	3.8	3.5
Bank charges	2.1	1.9
Communications, postage and telephone expenses	2.7	2.2
Depreciation and amortisation	6.8	5.0
Employee costs	55.3	49.3
Finance costs	2.4	2.6
Information technology expenses	4.3	3.5
Investment expenses	1.0	0.8
Marketing expenses - excluding commissions	18.7	18.3
Marketing expenses - commissions	33.9	24.4
Merger and acquisition costs	0.3	2.7
Operating lease rental expenses	4.1	2.4
Professional fees	5.6	8.6
Other	6.9	6.2
Total expenses (excluding direct claims expenses)	147.9	131.4

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2016

nib holdings limited

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 Dec 16	30 Jun 16
	\$m	\$m
Equity securities	104.6	97.8
Interest-bearing securities	406.4	422.7
Short term deposits	75.1	60.2
	586.1	580.7

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2016

nib holdings limited

7. DEFERRED ACQUISITION COSTS

	31 Dec 16 \$m	30 Jun 16 \$m
Current	39.3	34.1
Non-current	53.1	49.1

Movements in the deferred acquisition costs are as follows:

	31 Dec 16 \$m	30 Jun 16 \$m
Balance at beginning of year	83.2	64.1
Acquisition costs deferred during the year	28.3	47.5
Amortisation expense	(19.3)	(29.3)
Exchange differences	0.2	0.9
	92.4	83.2

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2016

nib holdings limited

8. BORROWINGS

a) Current liabilities

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

b) Secured liabilities

During the half year, nib holdings limited repaid its \$35 million variable rate loan with ANZ and refinanced its existing variable rate loan with NAB from \$50 million to \$85 million with a maturity date of 18 December 2019. The loan is carried at amortised cost and has the same covenants as the NZD \$70 million loan detailed below.

nib nz holdings limited, a wholly owned subsidiary of nib holdings limited, refinanced its existing NZ\$70 million variable rate term loan facility from a maturity date of 18 December 2017 to 18 December 2019.

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

- (i) The Group Gearing Ratio will not be more than 45%
- (ii) The Group Interest Cover Ratio will not be less than 3:1.

As at 31 December 2016 the Group Gearing Ratio was 26.7% and the Group Interest Ratio Cover Ratio was 44:1.

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

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

c) Available debt facility

The available debt facility with ANZ has been terminated following the repayment of the \$35 million variable rate loan detailed above.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2016

nib holdings limited

9. OUTSTANDING CLAIMS LIABILITY

	31 Dec 16	30 Jun 16
	\$m	\$m
Outstanding claims - central estimate of the expected future payment for claims incurred	84.7	90.5
Risk margin	4.6	4.8
Administration component	1.4	1.4
Gross outstanding claims liability	90.7	96.7
Outstanding claims - expected payment to the RESA ¹ in relation to the central estimate	13.4	14.8
Risk Margin	0.5	0.7
Net outstanding claims liability	104.6	112.2

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

Movements in the gross outstanding claims are as follows:

	31 Dec 16	30 Jun 16
	\$m	\$m
Gross outstanding claims at beginning of period	96.7	83.7
Risk margin	(4.8)	(3.9)
Administration component	(1.4)	(1.2)
Central estimate at beginning of period	90.5	78.6
Change in claims incurred for the prior year	(2.6)	0.4
Claims paid in respect of the prior year	(82.3)	(77.9)
Claims incurred during the period (expected)	658.5	1,265.4
Claims paid during the period	(579.5)	(1,178.0)
Acquisition of business	-	1.1
Effect of changes in foreign exchange rates	0.1	0.9
Central estimate at end of period	84.7	90.5
Risk margin	4.6	4.8
Administration component	1.4	1.4
Gross outstanding claims at end of period	90.7	96.7

a) Actuarial methods and critical accounting judgements and estimates

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

In calculating the estimated cost of unpaid claims for Australian Residents Health Insurance and New Zealand Health Insurance, two methods are used. For service months October 2016 and earlier for hospital and medical, and for all months for general treatment, a chain ladder method is used; this assumes that the development pattern of the current claims will be consistent with historical experience. For hospital and medical, for the service months of November 2016 and December 2016 the Bornhuetter-Ferguson method is given some weight, which progressively blends payment experience and prior forecasts of incurred costs.

For International Students Health Insurance and International Workers Health Insurance for service months October 2016 and earlier for hospital and medical and for all months for general treatment, a chain ladder method is used. For hospital and medical, for the service months of November 2016 and December 2016 the paid Bornhuetter-Ferguson method is given some weight.

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

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2016

nib holdings limited

9. OUTSTANDING CLAIMS LIABILITY continued

b) Actuarial assumptions

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

	31 Dec 16			30 Jun 16		
	Hospital	Medical	General	Hospital	Medical	General
	%	%	%	%	%	%
Australian Residents Health Insurance						
Assumed proportion paid to date	92.9%	92.0%	98.0%	92.2%	90.8%	97.7%
Expense rate	1.40%	1.40%	1.40%	1.4%	1.4%	1.4%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	4.0%	4.0%	4.0%	3.9%	3.9%	3.9%
Risk equalisation rate	22.7%	22.7%	0.0%	23.5%	23.5%	0.0%
Risk margin for risk equalisation	4.3%	4.3%	0.0%	4.4%	4.4%	0.0%
International Students Health Insurance						
Assumed proportion paid to date	77.1%	88.6%	100.0%	86.4%	92.1%	99.8%
Expense rate	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	24.8%	24.8%	24.8%	24.8%	24.8%	24.8%
International Workers Health Insurance						
Assumed proportion paid to date	81.5%	80.5%	94.3%	79.1%	83.2%	91.7%
Expense rate	6.0%	6.0%	6.0%	5.0%	5.0%	5.0%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%
	Surgical	Medical		Surgical	Medical	
	%	%		%	%	
NZ Health Insurance						
Assumed proportion paid to date	88.5%	81.5%		87.5%	79.9%	
Expense rate	2.2%	2.2%		2.0%	2.0%	
Discount rate	0.0%	0.0%		0.0%	0.0%	
Risk margin	5.9%	5.9%		5.8%	5.8%	

The risk margin of 4.0% for Australian Residents Health Insurance (June 2016: 3.9%), International Students Health Insurance 24.8% (June 2016: 24.8%), 18.5% for International Workers Health Insurance (June 2016: 18.5%) and New Zealand Health Insurance 5.9% (June 2016: 5.8%) of the underlying liability has been estimated to equate to a probability of adequacy of 95% for the Group. The risk margin within each territory allows for diversification across the entity. The benefit of diversification across the Group is again allocated to the Australian Residents Health Insurance segment.

c) Sensitivity analysis

i) Impact of key variables

Variable	Movement in variable	Adjustments	Profit after tax		Equity
			31 Dec 16	31 Dec 16	
			\$m	\$m	\$m
Recognised amounts in the financial statements attributable to owners of nib holdings limited			71.8		420.5
			Adjusted amounts	Adjusted amounts	Adjusted amounts
			\$m	\$m	\$m
Chain Ladder Development Factors	+0.5%	(9.5)	62.3	(9.5)	411.0
	-0.5%	9.5	81.3	9.5	430.0
Bornhuetter-Ferguson Unpaid Factors	+2.0%	(2.9)	68.9	(2.9)	417.6
	-2.0%	2.9	74.7	2.9	423.4
Expense rate	+1.0%	(0.6)	71.2	(0.6)	419.9
	-1.0%	0.6	72.4	0.6	421.1
Risk equalisation allowance	+2.5%	(1.1)	70.7	(1.1)	419.4
	-2.5%	1.1	72.9	1.1	421.6
Risk margin	+1.0%	(0.7)	71.1	(0.7)	419.8
	-1.0%	0.7	72.5	0.7	421.2

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2016

nib holdings limited

10. PREMIUM PAYBACK LIABILITY

	31 Dec 16	30 Jun 16
	\$m	\$m
Current	4.8	10.3
Non current	18.8	17.1

Movements in the premium payback liability are as follows:

	31 Dec 16	30 Jun 16
	\$m	\$m
Gross premium payback liability at beginning of period	27.4	40.9
Adjustment to ensure reserve exceeds current payout on early lapse	-	(0.6)
Value of payments currently being processed	(1.1)	(1.0)
Risk margin	(0.7)	(1.3)
Central estimate at beginning of period	25.6	38.0
Funding/new accrued	1.4	2.7
Unwind discount rate	0.3	1.0
Interest rate movement impact	(0.8)	2.0
Premium payback payments	(4.7)	(20.8)
Others	0.2	0.6
Effect of changes in foreign exchange rates	0.1	2.1
Central estimate at end of the half year	22.1	25.6
Adjustment to ensure reserve exceeds current payout on early lapse	0.1	-
Value of payments currently being processed	0.8	1.1
Risk margin	0.6	0.7
Total premium payback liability as at 31 December	23.6	27.4

In FY16, 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. The last settlement offers were made in May 2016 for July 2016 policy renewals. The offer expired on 31 August 2016.

a) Actuarial assumptions

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

	31 Dec 16	30 Jun 16
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	2.3% - 2.7%	2.0%
Risk margin	2.6%	2.7%

The risk margin has been estimated to equate to a 95% probability of adequacy (June 2016: 95%).

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2016

nib holdings limited

10. PREMIUM PAYBACK LIABILITY continued

b) Sensitivity analysis

i) Impact of key variables

		Profit after tax		Equity	
		31 Dec 16		31 Dec 16	
		\$m		\$m	
Recognised amounts in the financial statements attributable to owners of nib holdings limited		71.8		420.5	
Variable	Movement in variable	Adjustments	Adjusted amounts	Adjustments	Adjusted amounts
		\$m	\$m	\$m	\$m
Lapse Rate	+1.0%	0.5	72.3	0.5	421.0
	-1.0%	(0.5)	71.3	(0.5)	420.0
Discount Rate	+1.0%	0.7	72.5	0.7	421.2
	-1.0%	(0.8)	71.0	(0.8)	419.7
Risk margin	+1.0%	(0.1)	71.7	(0.1)	420.4
	-1.0%	0.1	71.9	0.1	420.6

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2016

nib holdings limited

11. DIVIDENDS

a) Ordinary shares

	31 Dec 16	31 Dec 15
	\$m	\$m
Final dividend for the year ended 30 June 2016 of 9.0 cents (2015 - 6.0 cents) per fully paid share paid on 7 October 2016		
Fully franked based on tax paid @ 30%	39.5	26.3

b) Dividends not recognised at half year end

	31 Dec 16	31 Dec 15
	\$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 8.5 cents (2015 - 5.75 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 2017 out of retained profits at 31 December 2016, but not recognised as a liability at the end of the half year, is	37.3	25.2

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2016

nib holdings limited

12. 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 four years and continues to target return on equity in the order of 20%. The return on equity as at 31 December 2016 is 31.7% (December 15: 22.9%). 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 2016 the Group had available capital of \$31.6 million above our internal benchmark (after allowing for the payment of a fully franked interim ordinary dividend of 8.5 cents per share, totalling \$37.3 million, in April 2017).

Below is a reconciliation of net assets to available capital as at 31 December 2016 (after allowing for payment of an interim dividend):

	31 Dec 16
	\$m
Net assets	418.2
Less: nib health fund capital required	(258.6)
nib nz capital required	(86.7)
nib nz intangibles	(38.8)
iihi intangibles	(21.5)
nib Options intangibles	(0.2)
Digital Health Ventures intangibles	(0.9)
World Nomads Group intangibles	(93.9)
Borrowings	152.3
Other assets and liabilities	(1.0)
Interim dividend	(37.3)
Available capital (after allowing for payment of interim dividend)	31.6

nib health funds limited

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 14.0% 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 \$48.0m in September 2016 to nib holdings limited.

The surplus assets over benchmark at 31 December 2016 and 30 June 2016 were as follows:

	31 Dec 16	30 Jun 16
	\$m	\$m
Total Assets nib health funds limited (excluding unclosed business contributions - unearned)	678.5	687.5
Capital Adequacy Requirement	421.8	456.6
Surplus Assets for Capital Adequacy	256.7	231.0
Net Assets nib health funds limited	294.3	273.6
Internal capital target	258.6	245.7
Surplus assets over internal capital target	35.7	27.9

Notes to the Consolidated Financial Statements *continued*

For the half year ended 31 December 2016

nib holdings limited

12. CAPITAL MANAGEMENT *continued*

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.

Following a review of nib nz limited's capital levels by the Appointed Actuary, the internal solvency benchmark has been revised to 2.00x MSC (2016: 1.75x MSC plus \$NZ10 million).

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.

The surplus assets over benchmark at 31 December 2016 and 30 June 2016 are as follows:

	31 Dec 16 \$m	30 Jun 16 \$m
Actual Solvency Capital	24.6	19.5
Minimum Solvency Capital	10.4	9.7
Solvency Capital	14.2	9.8
Net assets nib nz limited	90.6	82.4
Capital Adequacy Coverage Ratio	2.37	2.02
Internal benchmark requirement	20.8	26.5
Surplus/(deficit) assets over internal benchmark	3.8	(7.0)

All outstanding discussions with the RBNZ disclosed in the financial statements for the year ended 30 June 2016 have now been resolved. No further adjustments have been made to the Company's solvency returns in the years ended 30 June 2015 or 30 June 2016 as a result.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2016

nib holdings limited

13. BUSINESS COMBINATION

a) Prior year

As disclosed in the annual report for the year ended 30 June 2016, the acquisition of the medical insurance book OnePath Life (NZ) Limited was provisionally determined as the fair values of assets and liabilities may change upon finalisation of the purchase price allocation and alignment with Group accounting policies.

The acquisition has now been finalised and there were no changes from the provisional amounts disclosed in the Annual Report ended 30 June 2016.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2016

nib holdings limited

14. CONTINGENT LIABILITIES

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 refinanced NZD\$70 million term loan facility.

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.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2016

nib holdings limited

15. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Digital Health Ventures Pty Ltd

On 1 February 2017, the Group entered into an agreement with Bupa and HBF to invest in the development of Whitecoat, a health care directory owned by Digital Health Ventures Pty Ltd. As a result, Digital Health Ventures Pty Ltd has been restructured and the Group now has a non controlling interest of 35% in Whitecoat Holdings Pty Ltd. This interest will be reported as an investment in associates.

The accounting for this transaction is currently being completed and will be finalised for the 30 June 2017 Annual Report.

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

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2016

nib holdings limited

16. PARENT ENTITY FINANCIAL INFORMATION

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

	31 Dec 16	30 Jun 16
	\$m	\$m
Balance Sheet		
ASSETS		
Current assets	40.7	34.9
Non-current assets	551.0	551.6
Total assets	591.7	586.5
LIABILITIES		
Current liabilities	12.2	14.0
Non-current liabilities	85.0	85.0
Total liabilities	97.2	99.0
NET ASSETS	494.5	487.5
EQUITY		
Share Capital	297.2	297.2
Share-based payments	(1.6)	(0.7)
Retained Profits	198.9	191.0
Total Equity	494.5	487.5
	31 Dec 16	31 Dec 15
	\$m	\$m
Profit or loss for the half year	47.4	31.1
Total comprehensive income for the half year	47.4	31.1

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2016

nib holdings limited

17. COMPANY DETAILS

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

22 Honeysuckle Drive
NEWCASTLE NSW 2300

The Financial Report was authorised for issue by the Directors on 19 February 2017. The company has the power to amend and reissue the Financial Report.

Directors' Declaration

For the half year ended 31 December 2016

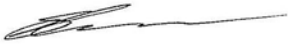
nib holdings limited

In the Directors' opinion:

- a) the financial statements and notes set out on pages 7 to 35 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 2016 and of its performance for the half year ended on that date; and
- b) there are reasonable grounds to believe that nib holdings limited will be able to pay its debts as and when they become due and payable.

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

On behalf of the Board



Steve Crane
Director



Harold Bentley
Director

Newcastle, NSW
19 February 2017



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 2016, 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). 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 2016 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 2016 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
19 February 2017

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