

15 October 2014

The Manager
Company Announcements
Australia Securities Exchange Limited
Level 4, Bridge Street
SYDNEY NSW 2000

Presentation to Citi Australian Investment Conference – October 2014

Attached presentation delivered by nib at the Citi Australian Investment Conference (15 October 2014).

Yours sincerely



Michelle McPherson
Company Secretary/Chief Financial Officer

CITI AUSTRALIAN INVESTMENT CONFERENCE 2014

OCTOBER 2014

The nib logo, consisting of the lowercase letters 'nib' in white, set against a dark green square background.

OVERVIEW

- Healthcare in Australia (and New Zealand)
- The role and structure of Private Health Insurance (PHI)
- About nib
- Results to date
- Outlook and investment thesis

“Australian and New Zealand healthcare expenditure is growing at a rate well beyond GDP. Private health insurance will play an increasing role in funding this spending and nib’s role will be prominent.”

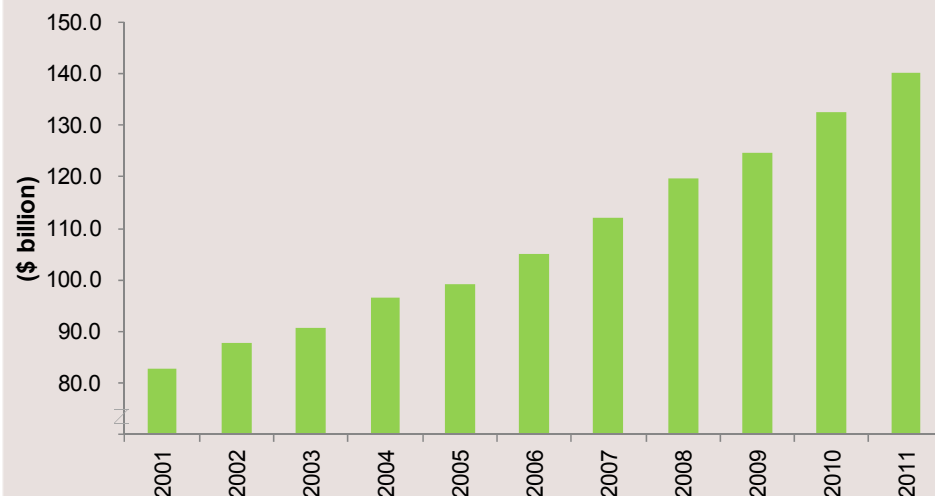
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HEALTHCARE IN AUSTRALIA (AND NEW ZEALAND)

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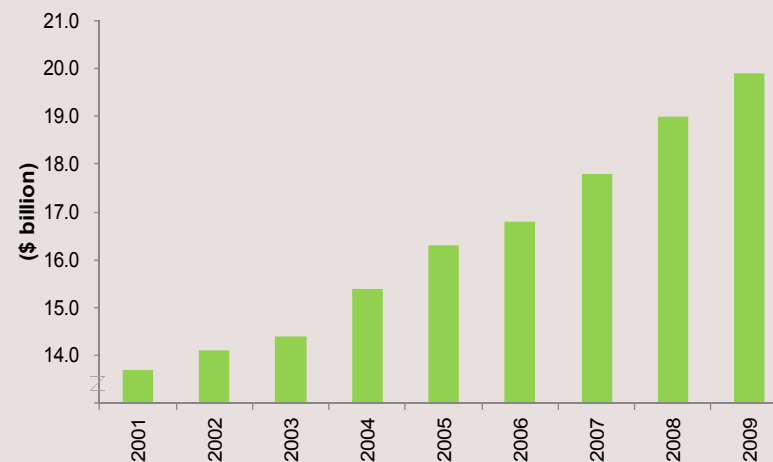
Healthcare spending continues to rise

Australian healthcare spending (\$AUD)



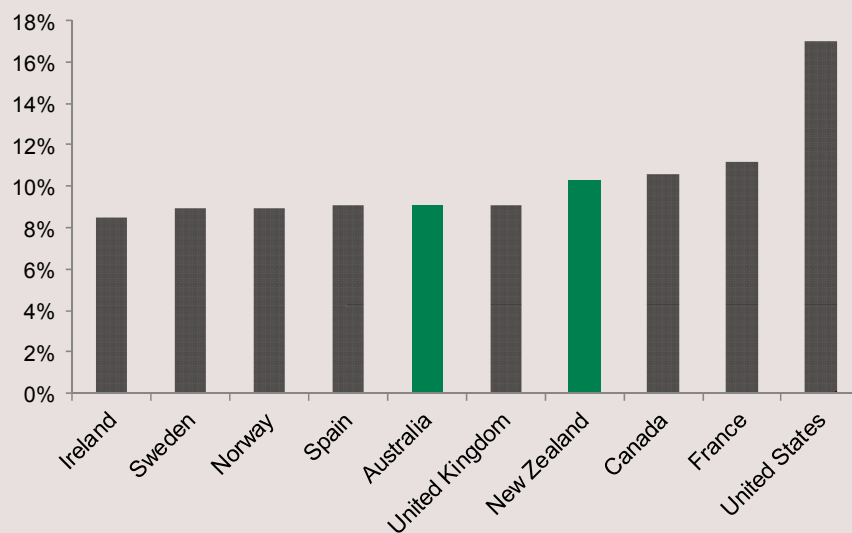
* Source: AIHW 2013. Health expenditure Australia 2011-12.

NZ healthcare spending (\$NZ)



* Source: Ministry of Health – Health Expenditure Trends (2010)

Healthcare spending by OECD countries as % of GDP

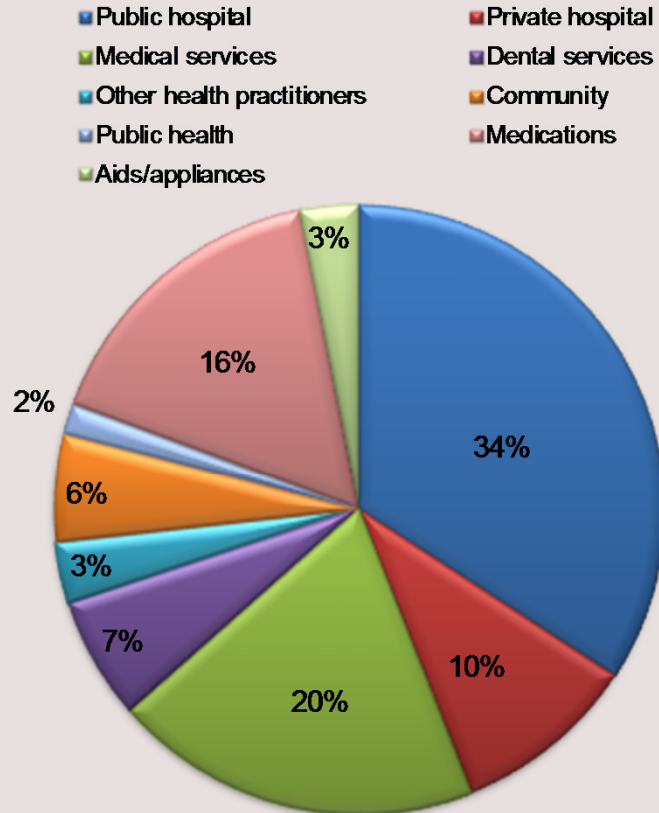


* Source: AIHW 2013. Health expenditure Australia 2011-12.

- Growth in healthcare spending driven by
 - Wealth effect
 - Ageing
 - Rise of chronic disease
 - Cost of new technology
 - Supply induced demand
 - Moral hazard

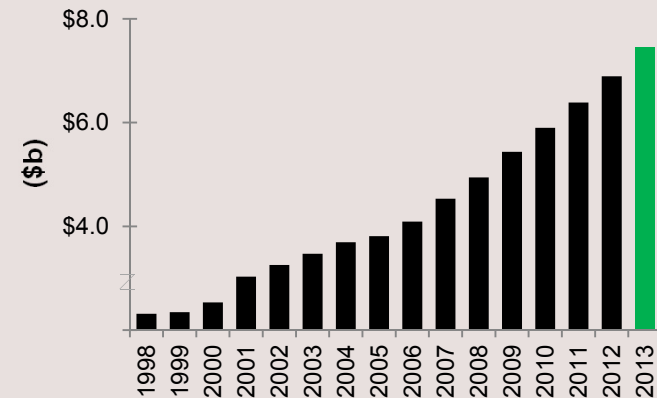
We're spending upon

Australian health care spending



* Source: AIHW 2013. Health expenditure Australia 2011-12.

Private hospital spending is increasing (\$AUD)



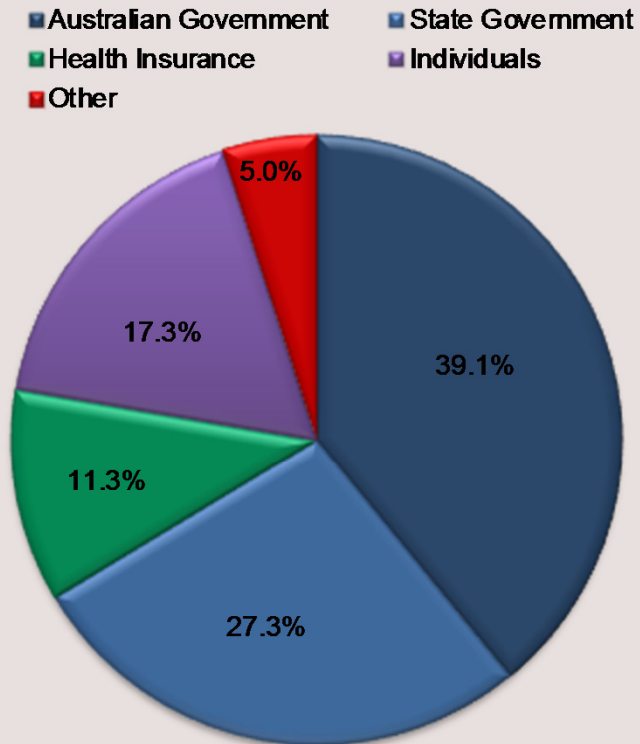
* Source: PHIAC

All private hospital benefits paid by health insurers

- There are approximately 600 private hospitals in Australia (NZ 35)
- In Australia private hospitals account for approximately 60% of all elective surgery (New Zealand approximately 50%)

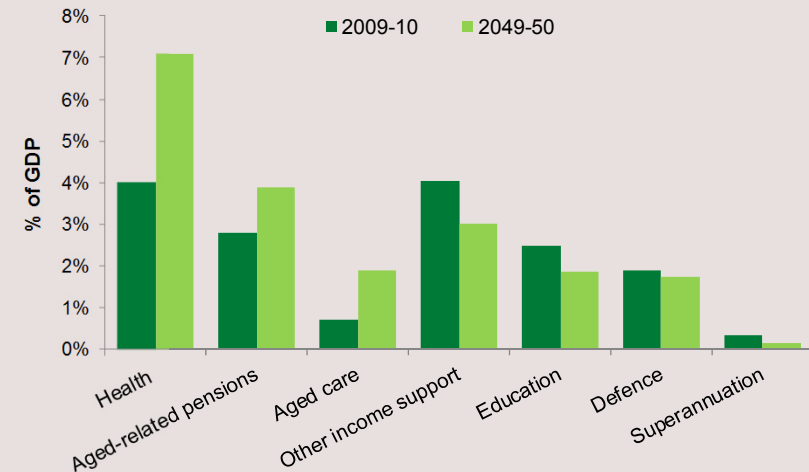
In Australia government still accounts for lion's share of spending... but is it sustainable?

Components of Australian healthcare spending



* Source: AIHW 2013. Health expenditure Australia 2011-12.

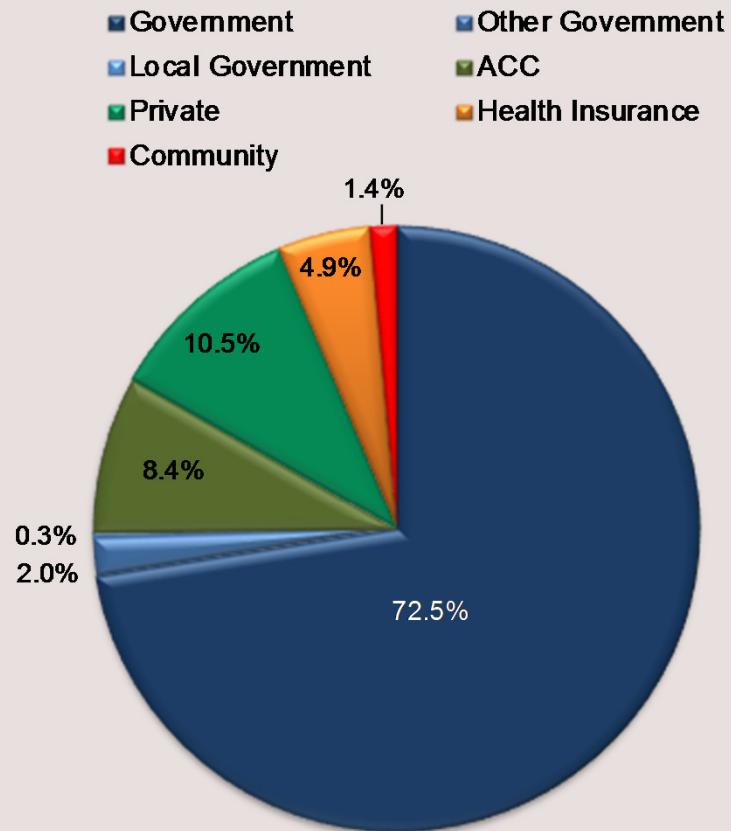
Australian Treasury projections



Graph above relates to Australian Government spending
* Source: The 2010 Intergenerational Report (Treasury)

It is a similar circumstance in New Zealand (NZ)

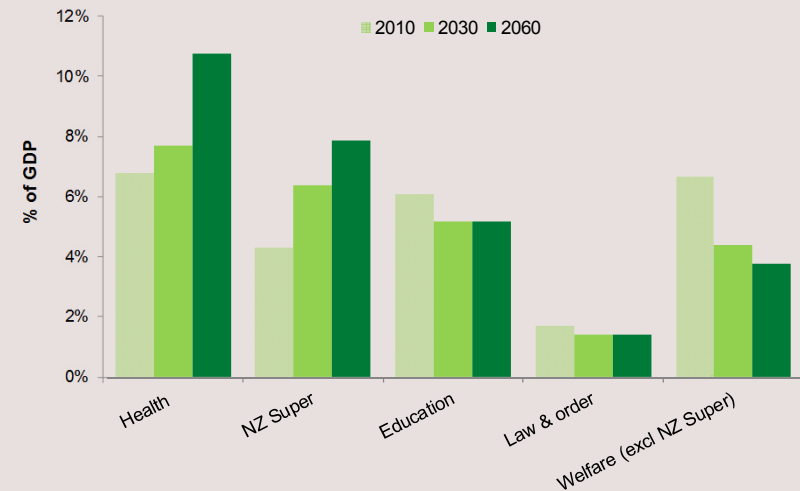
Components of NZ healthcare spending



Government spending = NZ Government direct expenditure through Ministry of Health
Local Government = includes local public health initiatives and services
Other Government = other NZ Government agencies, such as Defence and Research

* Source: Ministry of Health – Health Expenditure Trends (2010)

NZ Treasury projections



Graph above relates to NZ Government spending
* Source: The Treasury – Affording our Future (2013)

THE ROLE AND STRUCTURE OF PRIVATE HEALTH INSURANCE (PHI)

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PHI covers

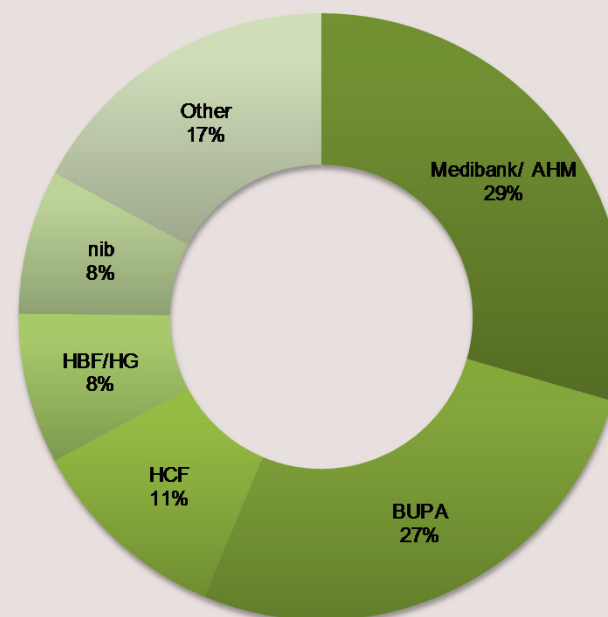
	Australia	New Zealand
<i>Public Hospital (accommodation, theatre, etc), choice of specialist</i>	✓	✓
<i>Private Hospital (accommodation, theatre, etc), choice of specialist</i>	✓	✓
<i>Medical specialist (surgeon, anaesthetist) in hospital</i>	✓	✓
<i>Medical specialist (surgeon, anaesthetist) outside hospital</i>	✗	✓
<i>General Practitioner</i>	?*	✓
<i>Pharmaceuticals</i>	✗	✗
<i>Diagnostics (xray, blood tests)</i>	✗	✓
<i>General Treatment cover (dental, optical, etc)</i>	✓	✓
<i>Ambulance</i>	✓	✓

* National Commission of Audit Report recommends expanding PHI cover into primary care, including GPs

PHI industry structure (Australia)

- At 30 June 2013 there were 34 private health insurers operating in Australia
- Top five PHI players represent 82.3% of the policies nationally
- For profit insurers make up around 70% of the industry
- Direct to Consumer (DTC) accounts for ~85% sales
- Policies are community rated (i.e. not risk rated)

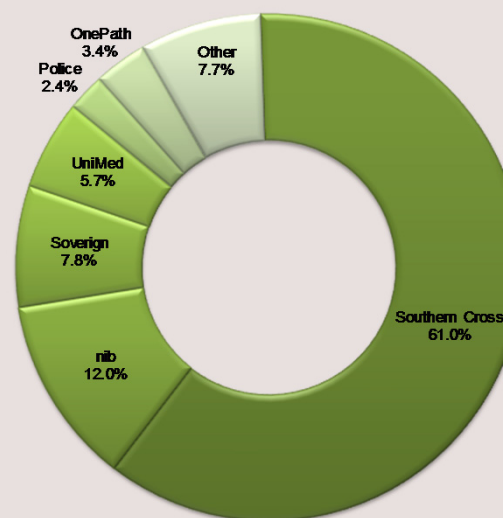
** Source: Private Health Insurance Administration Council – The Operations of Private Health Insurers Annual Report 2012-13*



PHI industry structure (NZ)

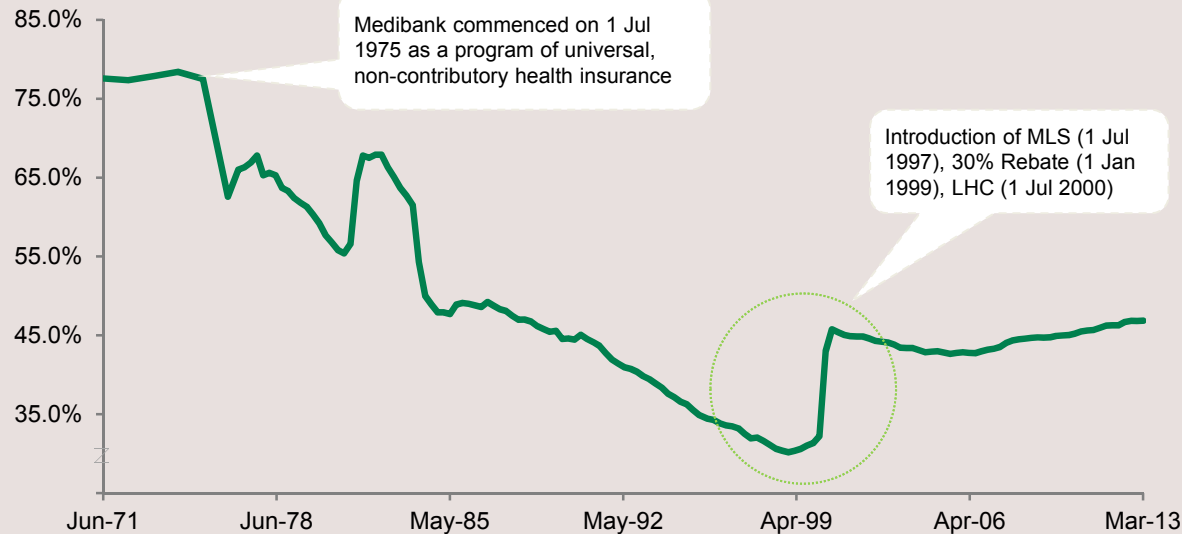
- There are currently 10 registered health funds in NZ
- Top 3 PHI players represent 86.7% of the industry premium revenue
- Majority of health insurance is sold through advisors or employer groups
- Policies are risk rated

** Source Health Funds Association New Zealand (March 2004)*



PHI coverage – percentage of Australian and NZ population with health insurance

Australian PHI coverage (% of population)

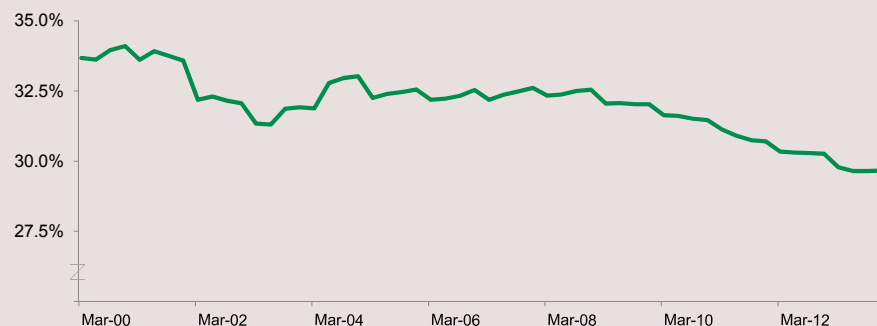


Source: Private Health Insurance Administration Council (PHIAC)

Australian industry growth drivers

- ✓ Increasing wealth and favourable economic circumstances
- ✓ Dissatisfaction with public system and rationing
- ✓ Competition and investment in marketing and growth
- ✓ Government "sticks and "carrots"

NZ PHI coverage (% of population)



Source : Health Funds Association New Zealand (HFANZ)

NZ participation factors

- ✓ Increasing wealth and favourable economic circumstances
- ✓ Vast majority of population is not insured
- ✓ Growing dissatisfaction with public system (elective surgery)
- ✓ Ability to cover full spectrum of health care (unlike Australia) enhances value proposition



PHI in Australia is heavily regulated

Product

- Minimum prescribed benefits
- Community rated

Price

- Government premium increase approval
- Government Rebate
- Lifetime Health Cover (LHC) loading
- Risk Equalisation

Prudential

- Minimum capital requirement

Government surcharges

- Additional tax on people without PHI over certain income levels (Medicare Levy Surcharge, MLS)

NZ regulatory requirements

Product

- Non-Life Insurance license, Qualifying Financial Entity license

Prudential

- Minimum capital requirements



ABOUT nib



About nib

- FY14 Group premium revenue of A\$1.5b, operating profit of \$A72.3m, net profit after tax of \$A69.8m
- More than 780 employees in Australia and New Zealand
- Australia's 4th largest private health insurer, New Zealand's 2nd largest private health insurer (only ASX listed private health insurer)
- Market capitalisation ~A\$1.2b (439m shares on issue, 75% retail: 25% institution)
- Over 1.1 million customers throughout Australia and New Zealand
- PHI markets
 - Australian residents
 - New Zealand residents
 - International workers
 - International students
 - Other markets*
 - Life insurance
 - Travel insurance
 - nib Options - domestic and international cosmetic treatment (launched in March 2014)
- Recent M&A
 - IMAN (provider of health cover to skilled migrant workers) acquired September 2010 for approximately A\$26m
 - TOWER Medical Insurance Limited acquired November 2012 for approximately A\$73m (purchase price was A\$81.3m, which included A\$7.9m in surplus capital, which equates to approximately A\$73m)

* Other markets are not underwriting businesses



nib's business strategy is clear and focussed

1

Grow our Australian residents health insurance business (arhi) organically at circa 10% annual premium growth (4-5% policyholder growth) through building national brand presence and with an emphasis on <40 market (Virgin Green), >55 market (Virgin Silver), other tactical niche opportunities and improved policyholder retention

2

Position and develop our new business in New Zealand as a challenger and grow the market and our market share

3

Grow our inbound international workers and students business and create a “global cover” for insuring outbound long stay Australians and New Zealanders

4

Grow “nib Options” to capture and commercialise burgeoning demand in Australia and Asia for medical travel especially cosmetic surgery

5

Ensure across the nib Group that the design, payment and management of benefits better meets the needs of our policyholders as well as our strategic and commercial objectives

6

Pursue increased customer satisfaction, productivity and efficiency through continual process improvement and ongoing investment in technology

7

Actively develop a high performance organisational culture and the engagement of our people



Australian Residents Health Insurance (arhi)

- Registered Australian private health insurer (established 1952)
- Provider of hospital, medical and ancillary health insurance to more than 950,000 Australians
- Market share of approximately 8%
- FY14 premium revenue of A\$1.3b, operating profit of A\$57.0m (78.9% of Group)
- Primary distribution channels: call centre, internet, retail brokers (aggregators, affiliates), retail centres
- Target market: under 40s and over 55s
- Strategic relationship with United Healthcare providing health insurance to their expat client base

nib New Zealand

- nib acquired TOWER Medical Insurance Limited, New Zealand's second largest health insurer in November 2012 for ~A\$73m
- Transition, integration and re-branding of business completed on time and to plan
- Provides health and medical insurance to ~ 160,000 New Zealanders
- FY14 premium revenue of A\$139.2m, operating profit A\$7.4m (10.2% of Group)
- Launched direct-to-consumer (DTC) product offering in October 2013
- Primary distribution channels: group employer, advisor, call centre, internet
- FY14 operating result includes significant investment in growth



International Workers Health Insurance (iwhi)

- Entered international workers space through acquisition of IMAN (specialist provider of health insurance to skilled migrant workers) in September 2010 for approximately A\$26m
- Provider of health and medical insurance to skilled migrant workers (Visa 400 class - health insurance is a condition of visa)
- FY13 industry GWP of A\$240m (excluding General Insurers), major PHI competitors include Medibank and BUPA
- As at 31 March 2014 approximately 112,000 primary 457 visa holders in Australia
- FY14 premium revenue of A\$28.7m, operating profit A\$9.4m (13.1% of Group), net margin 32.9%
- Primary distribution channels: call centre, internet, brokers, United Healthcare

International Students Health Insurance (ishi)

- Entered ishi market in January 2010
- Provider of health and medical insurance to international students (health insurance is a condition of visa)
- FY13 industry GWP of A\$81m, major competitors include Medibank and BUPA
- As at 31 March 2014, approximately 367,000 student visa holders in Australia
- FY14 premium revenue of A\$9.2m, operating profit A\$1.9m (2.6% of Group)
- Recent success with upstream distribution strategy has resulted in strong policyholder and revenue growth
- Segment now profitable due to focussed business strategy, benefits of scale and product design



nib Options

- Leverages nib's brand reputation and distribution to support and grow the market for cosmetic, dental and surgical treatment both overseas and in Australia
- Initial efforts focus upon cosmetic surgery
- Value proposition centred around trustworthiness, safety and choice
- Overseas option involves bundling of transport, medical, accommodation, after care promise, etc
- Emphasis on clinical governance, quality and "after care promise"
- Earnings made through cost of goods sold plus margin (ie not underwriting)
- FY14 operating expenditure of A\$2.9m to build and launch business in March 2014
- In early stages of development and more concerted marketing effort planned from October 2014
- Not expected to be profitable until FY16

nib Global (IPMI)

- International Private Medical Insurance to be launched in New Zealand in September 2014 with intention to launch in Australia within 18 months
- Pursuing "code sharing" partnership with other international insurers to provide global cover

Other Insurance Lines*

- Utilise brand and policyholder base to sell adjacent insurance products such as travel and life
- FY14 commissions of A\$2.2m
- Adjacent insurance lines earnings will continue to increase with possible additional product lines

* nib does not underwrite other insurance lines, nib receives a commission for referral from underwriter of both life and travel insurance



RESULTS TO DATE

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FY14 results

- Operating profit of A\$72.3m up 4.3% on FY13 with premium revenue up 15.6% to A\$1.5b¹
- Net profit after tax up 3.9% to A\$69.8m (FY13: A\$67.2m)
- FY14 EPS of 15.9c up 3.9% (FY13: 15.3c). Return on equity 20.8% (FY13: 21.6%)
- Group operating profit hampered by weaker arhi performance. While premium revenue was up 10.7%, arhi's operating profit result of A\$57.0 was 3.5% below FY13 with a weak 12.3% gross margin (FY13: 13.2%) and 4.2% net margin (FY13: 5.0%). Corrective measures being taken including 7.99% premium increase and product changes
- All other businesses grew profitability:
 - International Students Health Insurance (ishi) operating profit of A\$1.9m (FY13: A\$(0.1)m)
 - International Workers Health Insurance (iwhi) operating profit of A\$9.4m (FY13: A\$8.4m)
 - nib New Zealand operating profit of A\$7.4m²
 - Other insurance commissions (non-underwritten) of A\$2.2m (FY13: A\$1.9m)
- Operating cash flow of A\$93.7m (average of A\$84.2m p.a. across 4 years since FY11)
- nib New Zealand business transition completed, new management team installed, direct-to-consumer (DTC) channel launched and no material loss of customer base
- New business initiatives included nib Options, "Whitecoat" and partnership with Apia
- Full year fully franked ordinary dividend of 11.0cps (interim: 5.25cps, final: 5.75cps) up 10% (payout ratio 69% of NPAT)
- Special dividend (capital management initiative) of 9.0cps (fully franked) equating to a \$A39.5m release of capital

1 Premium revenue would have been up 10.9% on FY13 to \$1.4b excluding nib New Zealand. Business acquired in November 2012 and FY13 being only a 7 month result, compared to 12 months in FY14

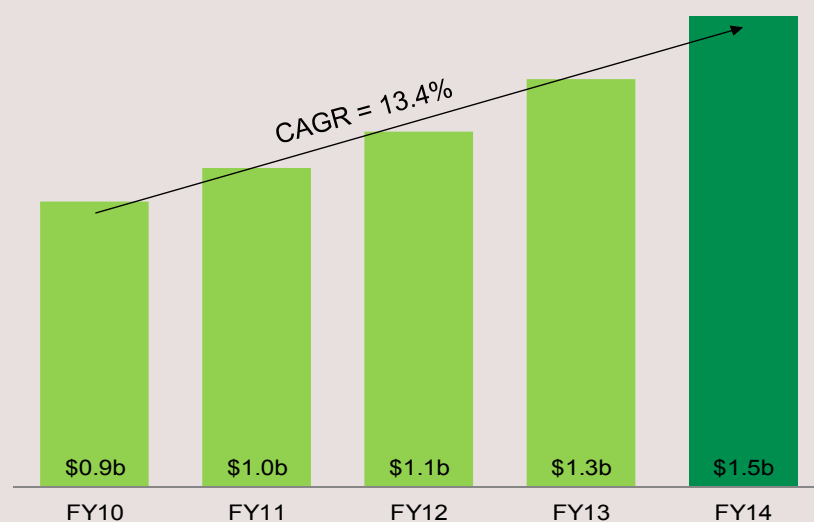
2 FY13 not comparable to FY14 as only a 7 month result with business acquired November 2012

All figures in Australian dollars

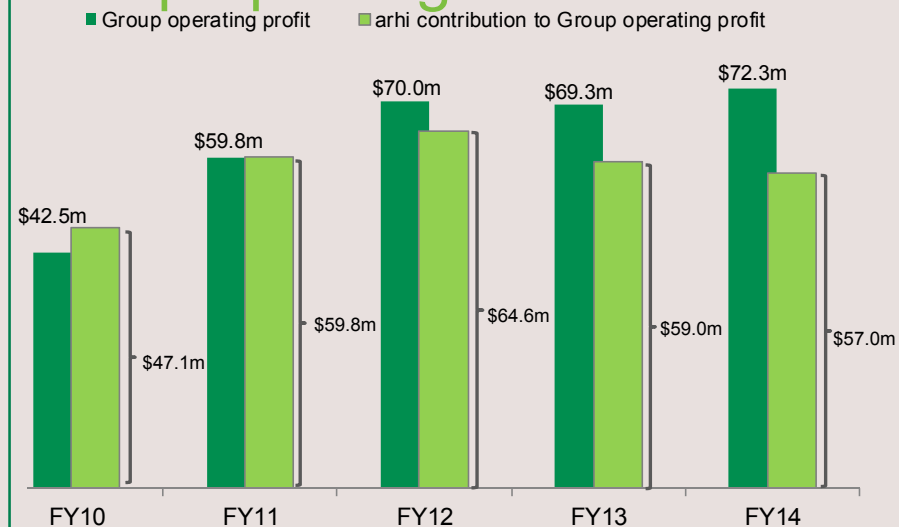
Any discrepancies between totals and sums of components in this publication are due to rounding



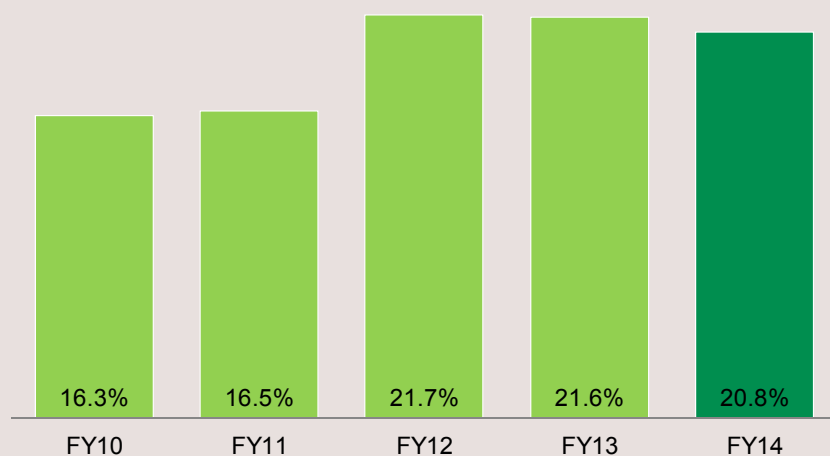
Group premium revenue



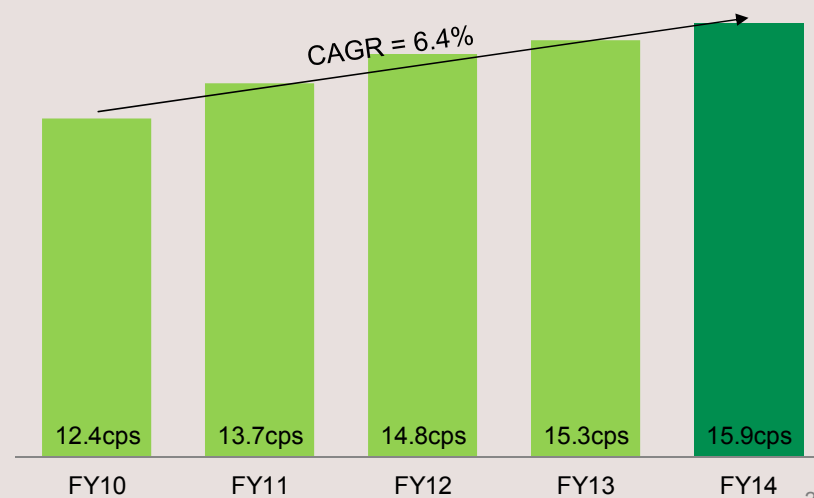
Group Operating Profit



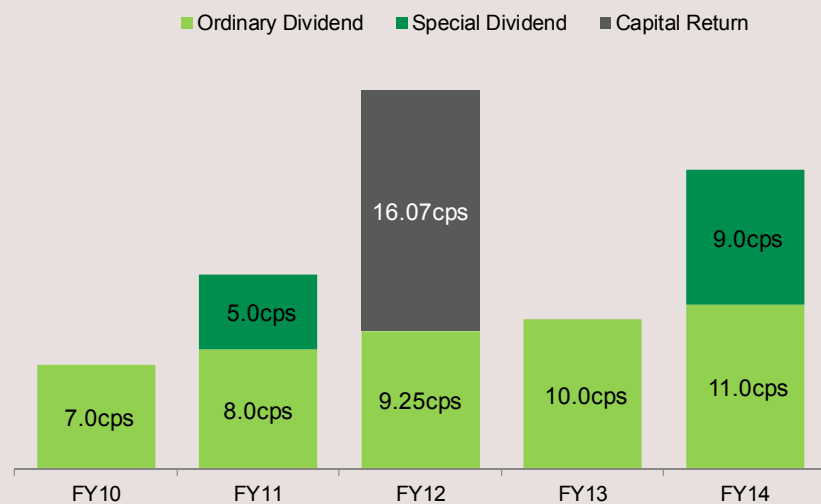
Return on Equity



Earnings Per Share

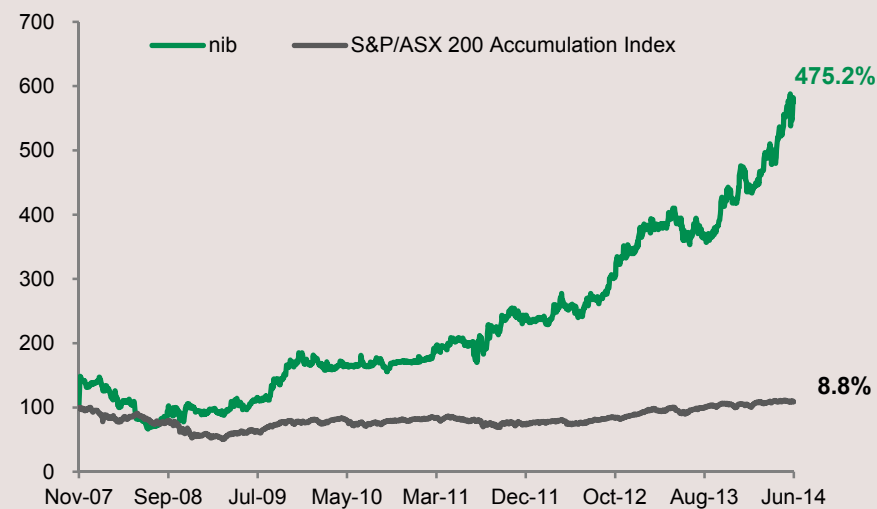


Dividend and Capital Management*



* Other capital management initiatives included an on-market share buyback of 10% of issued capital

Total Shareholder Return*



* TSR rebased to 100 (assumes capital returns and dividends re-invested at the payout date)



FY15 guidance

- FY15 consolidated operating profit in the range of \$75 million to \$82 million
- FY15 investment income forecast to be line with relevant internal benchmarks*

* Internal Investment benchmarks

- Australian Regulatory capital (80/20 defensive/growth) - target for portfolio UBS bank bill index plus 1%
- New Zealand regulatory capital (100% defensive) (1) For core portfolio target is a 6 month bank bill index (2) For premium payback portfolio target is a 3.0 years interest rate swap index
- Surplus capital (100% defensive) - UBS bank bill index



OUTLOOK AND INVESTMENT THESIS

nib

1. Australian healthcare spending per capita has increased 6.7% CAGR past 10 years and expected to continue. Australians currently spend about A\$6,300 per person per annum

2. We expect PHI in Australia will play a necessary expanded role

- PHI coverage will continue to grow at CAGR 3%
- A newly elected conservative Government has signalled allowing PHI to cover primary care and that Medicare may be income tested
- Premium approval process is now less "politicised"
- Government will continue to look to outsourcing public health services and provision
- PHI is playing an increasing role in funding inbound workers and students

FINANCIAL REVIEW

Medibank Private wins Defense Contract

28 June 2012

The government's health fund Medibank Private has won the \$1.3 billion tender process for the Department of Defence health services, which are being outsourced to large national public and private providers.

3. nib is well positioned and has the capability, capacity and leverage to:-

- Grow its Australian PHI businesses above system and increase market share
- Grow market participation in NZ and our market share
- Pursue new adjacent opportunities especially around cross international border healthcare
- Pursue relevant M&A



High quality, independent equity research

Citi	Mark Tomlins (Insurance)
J.P. Morgan	Siddharth Parameswaran (Insurance)
Goldman Sachs	Ian Abbott (Health)
Macquarie Securities	Tim Lawson (Insurance)
Deutsche	Kieren Chidgey (Insurance)
Credit Suisse	Andrew Adams (Insurance)
CBA	Ross Curran (Commonwealth Bank)
Morgan Stanley	Daniel Toohey (Insurance)
Bell Potter	John Hester (Insurance)

APPENDIX

nib

Risk equalisation – how it works

- The current Risk Equalisation Trust Fund (RETF), which has been in place since 1 April 2007, consists of two elements
- Gross deficit (what we ‘get back’ from the pool)
 - Consists of the Age Based Pool (ABP) and the High Cost Claims Pool (HCCP). The ABP makes up around 97% of the RETF
 - The ABP is calculated based on the patients age (for example, we receive 15% of the hospital, medical and/or prostheses claims payments back for a 57 year old)

Customer age (at date of service)	Claims attributed to RETF
< 55	0.0
55 – 59	15.0%
60 – 64	42.5%
64 – 69	60.0%
70 – 74	70.0%
75 – 79	76.0%
80 – 84	78.0%
85 +	82.0%

- Calculated deficit (what we ‘pay into’ the pool)
 - The gross deficit amounts for each fund are aggregated and divided by the total number of hospital SEUs (single equivalent units) in the industry (by state)
 - The “state average deficits” are then multiplied by the number of hospital SEUs in each state for each fund to determine the amount payable to the pool for each fund