nib holdings

# ASX Announcement

**Date** **25 February 2009**

**Subject** **nib announces 2009 half year results**

**Highlights**

- **Strong underwriting result**
  - **Net underwriting profit up 50.0% to $20.8 million (1H08: $13.9* million)**
  - **Net underwriting margin of 5.1% (1H08: 3.7%*)**
- **Net policyholder growth of 9,741 (2.7%) vs industry growth of 1.6%**
- **Premium revenue up 10.7% to $410.6 million (1H08: $370.9 million)**
- **Loss on consolidated investment portfolio of (6.5)% or $(13.6) million**
- **Net consolidated profit after tax of $2.1 million (1H08: $17.7 million*)**
- **Interim dividend of 3.0 cps fully franked**

nib holdings limited (nib) today announced a net underwriting profit of $20.8 million for the six months to 31 December 2008, an increase of 50.0% from the prior corresponding period. The net underwriting margin was 5.1%, up from 3.7%*.

The strong underwriting result was due to continued policyholder growth of 2.7% for the six month period or 9,741 net new policies. nib continued to grow policyholders faster than the overall industry, reflecting its strong product portfolio and marketing effort.

Overall, nib reported a net profit after tax of $2.1 million for the period. As with other insurers, investment markets continue to negatively impact earnings, resulting in an investment portfolio loss of $(13.6) million or (6.5)% for the six months to 31 December 2008. Abnormal expenses associated with the company's listing, M&A activity and the writing down of real estate values also affected the consolidated result.

nib declared an interim dividend of 3.0 cents per share, fully franked. The extent of the dividend can be regarded as a capital management initiative.

nib's Managing Director, Mr Mark Fitzgibbon, said the result highlights the ongoing success of nib's organic growth strategy and drive to achieve its target net underwriting margin.

"Our organic growth strategy has continued to generate strong policyholder growth well above industry levels as well as increased premium revenue. For the six months to 31 December 2008 premium revenue was 10.7% higher than the corresponding period last year, with better than expected margins," Mr Fitzgibbon said.

"The changes to the Medicare Levy Surcharge and deteriorating economic conditions are clearly creating strong headwind, but our growth rate compares very favourably with the industry average of 1.6% for the first half, with nib accounting for 11.7% of total industry growth.

"Importantly, in our target 20-39 years of age demographic we added 6,909[(2)] new customers, accounting for 19.9% of total national industry growth in this segment. As a result we now provide health cover to almost 750,000 Australians.

"A net underwriting margin of 5.1% was also a very pleasing result compared to 3.7%* for the same period last year, and is above our target of 5%. Tight cost management has enabled us to maintain our aggressive marketing spend without putting undue pressure on our management expense ratio of 10.4%, compared to 10.2% for the same period last year.

[(2)] *Customers with hospital cover*
** 1H08 result was normalised to remove the impact of costs associated with nib's demutualisation and listing, and "notional" tax*



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"Unfortunately our strong underwriting result was savaged by investment losses. However, these remain largely unrealised and fundamentally the underlying business is performing extremely well in difficult conditions. We expect investments will continue to be a drag on earnings until the broader investment market turns the corner. In the meantime surplus cash generated is being invested in defensive positions," Mr Fitzgibbon added.

With regards to future industry consolidation, nib added that by pursuing demutualisation and listing on ASX in 2007 it allowed the company to be better placed to participate in any industry restructuring.

**Capital management & dividend**

nib's capital position continues to remain strong, with an ungeared balance sheet and $119.1million in excess capital as at 31 December 2008, after allowing for the 2009 interim dividend. The level of excess capital reflects a number of factors including the update by the Board of nib's capital management plan during the period, resulting in a revision to the group's internal target from 1.5x to 1.4x the minimum capital adequacy requirement, reflecting more rigorous capital management.

As of 31 December 2008 approximately 18.2 million shares have been purchased and subsequently cancelled through the share buy-back, or 35% of the maximum allowed for under the buy-back. nib intends to continue to undertake the buy-back in compliance with applicable laws and the ASX Listing Rules.

The Board declared a 2009 interim dividend of 3.0cps, fully franked, totalling $15.0 million, reflecting capital management initiatives and revised dividend policy.

In reviewing the dividend policy, the Board has also decided to no longer apply a standard dividend payout ratio with fully franked dividends seen as an efficient way to return surplus capital to shareholders. After allowing for strategic needs, capital expenditure and working capital requirements, the Board will consider dividends subject to current year earnings, retained earnings and available franking credits. Franking credits are the current limiting factor given nib has only been subject to income tax from 1 October 2007.

**Innovation & product changes**

nib will be replacing its customer Loyalty Bonus program with higher annual limits for Extras services on selected products from 1 June 2009.

"The replacement of the Loyalty Bonus with higher limits provides a more equitable and competitive product offering to current and new nib customers, with about 70% of our customers receiving annual limits of greater value than their annual Loyalty Bonus entitlement," Mr Fitzgibbon said.

Customers will have until 31 May 2009 to utilise their Loyalty Bonus for Extras services, provided they have reached the annual benefit limit for that service. Loyalty Bonus will not be claimable for services performed after 31 May 2009 when the higher annual limits will commence.

Following a successful electronic direct mail pilot with TOWER, nib will also be rolling out its *Value Life Insurance* product through the organisation's major sales channels including web, Call Centre and Retail Centres.

nib will also soon announce a new distribution arrangement with a national financial services company.

**Outlook**

nib remains confident that the underlying performance of the organisation will continue to be strong, as will the basic fundamentals that support private health insurance.

“The Federal Government will continue to remain supportive of the industry through the 30% Rebate, Lifetime Health Cover and Medicare Levy Surcharge,” Mr Fitzgibbon said.

“More than ever we need a strong private health sector with the escalating pressures and stress we see in the public system.

“With Government taxes already paying for about 70 cents for every $1 spent on health care in Australia, it’s simply not a policy choice for Governments to do anything but encourage people to take increased responsibility for their health care and focus upon those in genuine need.

Mr Fitzgibbon added that despite the strong underwriting result, a deterioration and prolonged economic downturn would exert additional pressure on sales and lapse.

“While we expect full year growth will be weaker than the first half as MLS and macro-economic factors bite, we maintain our net policyholder growth target for the financial year of 4%. However, we’re not immune from the same constraints being encountered by other businesses against the backdrop of the global financial crisis.

“Our net underwriting margin forecast of around 4% is less than the half year result, but equally reflects concerns about the economy and what we think will be a one-off impact due the removal of Loyalty Bonus and replacement with higher annual limits. Nonetheless, our half year result underscores that our target net underwriting margin of 5% is achievable.”

nib’s 2009 pricing submission is currently with the Federal Minister for Health and Ageing for approval. The 2009 price change, subject to the Minister’s approval, will be effective 1 April 2009.

**FOR FURTHER INFORMATION:**

**MEDIA AND INVESTOR RELATIONS**
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## Financial performance – normalised results

| Normalised earnings ($m) | 1H09 | 1H08 | Change |
|---|---|---|---|
| Premium revenue | 410.6 | 370.9 | 10.7% |
| Claims expense | (295.4) | (274.7) | (7.5)% |
| HBRTF/RETF Levy | (41.1) | (34.8) | (18.1)% |
| State levies | (10.5) | (9.6) | (9.4)% |
| Net claims incurred | (347.0) | (319.1) | (8.7)% |
| **Gross underwriting result** | **63.6** | **51.8** | **22.8%** |
| Management expenses | (42.8) | (37.9) | (12.9)% |
| **Net underwriting result** | **20.8** | **13.9** | **50.0%** |
| Investment income[1] | (13.9) | 11.9 | (216.8)% |
| Other | (5.0) | (0.7) | (614.3)% |
| **Profit before tax** | **1.9** | **25.1** | **(92.4)%** |
| Tax | 0.2 | (7.4) | (97.3)% |
| **Net profit after tax** | **2.1** | **17.7** | **(88.1)%** |
| **Performance indicators** | | | |
| Gross margin | 15.5% | 13.9% | 10.7% |
| Management expense ratio | 10.4% | 10.2% | 2% |
| **Net margin** | 5.1% | 3.7% | 37.8% |
| Investment return | (6.5)% | 5.7% | (214)% |
| EPS (cps) | 0.4 | 3.4 | (88.2)% |
| ROE [2] | 2.9% | 9.1% | (68.1)% |

- One-off costs for the 1H09 period have not been normalised – management expenses ($4.0m) other expenses ($4.4m)
- The 1H08 result was normalised to remove the impact of costs associated with nib's demutualisation and listing, and "notional" tax

[1] Net of fees
[2] Rolling 12 months, using average shareholders equity over rolling 12 month period



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**Data sheet**

| | FY03 / at 30 Jun 03 | FY04 / at 30 Jun 04 | FY05 / at 30 Jun 05 | FY06 / at 30 Jun 06 | 1H07 / at 31 Dec06 | FY07 / at 30 Jun 07 | 1H08 / at 31 Dec07 | FY08 / at 30 Jun 08 | 1H09 / at 31 Dec08 |
|---|---|---|---|---|---|---|---|---|---|
| **nib** | | | | | | | | | |
| Total policyholders | 255,812 | 279,272 | 290,940 | 302,299 | 312,315 | 328,784 | 350,248 | 365,389 | 375,130 |
| *- Policyholder growth* | *9.2%* | *9.2%* | *4.2%* | *3.9%* | *3.3%* | *8.8%* | *6.5%* | *11.1%* | 2.7% |
| *- Market share* | *5.5%* | *6.0%* | *6.2%* | *6.3%* | *6.4%* | *6.6%* | *6.9%* | *7.0%* | 7.1% |
| Persons covered | 552,380 | 600,154 | 622,298 | 640,178 | 656,867 | 681,013 | 716,656 | 732,930 | 748,673 |
| Avg age of hospital persons covered (yrs) | 35.0 | 35.6 | 35.8 | 36.2 | 36.1 | 36.1 | 36.0 | 36.0 | 36.0 |
| Total policyholders “under 40” | 105,393 | 112,651 | 117,206 | 122,494 | 128,741 | 140,085 | 155,014 | 166,892 | 173,014 |
| *- Growth in “under 40” segment* | *13.0%* | *6.9%* | *4.0%* | *4.5%* | *5.1%* | *14.4%* | *10.7%* | *19.0%* | 3.7% |
| Total hospital persons “20-39” | 146,592 | 156,891 | 162,009 | 167,372 | 175,762 | 188,155 | 207,703 | 218,445 | 225,354 |
| *- Growth in hospital persons “20-39”* | *10.9%* | *7.0%* | *3.3%* | *3.3%* | *5.0%* | *12.4%* | *10.4%* | *16.0%* | 3.2% |
| *- Market share* | *7.3%* | *7.9%* | *8.1%* | *8.2%* | *8.3%* | *8.7%* | *9.2%* | *10.0%* | 9.6% |
| Retail Centres (across Australia) | 41 | 37 | 37 | 34 | 32 | 32 | 30 | 25 | 21 |
| Hospital benefits paid | $118.7m | $235.5m | $282.7m | $295.2m | $170.7m | $336.7m | $176.9m | $357.7m | $201.0m |
| Ancillary benefits paid | $103.0m | $113.8m | $124.6m | $133.2m | $82.3m | $169.9m | $90.8m | $187.2m | $95.8m |
| Outstanding claims provision movement | $(1.5)m | $3.5m | $(0.8)m | $12.7m | $(3.3)m | $(1.3)m | $6.9m | $8.2m | $(2.0)m |
| Employees (FTEs) | 470 | 443 | 472 | 481 | 483 | 506 | 484 | 478 | 422 |

Source: nib / PHIAC data



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