nib holdings limited
Head Office
22 Honeysuckle Drive
Newcastle NSW 2300
abn 51 125 633 856

t 13 14 63
f 02 4925 1999

e nib@nib.com.au
w nib.com.au

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

**Half-year report for the period ended 31 December 2008**

This report should be read in conjunction with the annual financial report for the year ended 30 June 2008.

**CONTENTS**

**APPENDIX 4D**

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

**For the period ended 31 December 2008**

## Results for announcement to market

| | 6 months to 31-Dec-08 $'000 | 6 months to 31-Dec-07 $'000 | Movement up / (down) $'000 | Movement % |
|---|---|---|---|---|
| Revenue from ordinary activities | 397,698 | 384,180 | 13,518 | 4% |
| Profit from ordinary activities after tax attributable to members | 2,075 | (7,628) | 9,703 | 127% |
| Net profit attributable to members | 2,075 | (7,628) | 9,703 | 127% |

| Dividends (distributions) | Amount per security | Franking amount per security |
|---|---|---|
| Interim dividend | 3.0 cents | 100% |
| Record date for determining entitlements to the dividend | | 11 March 2009 |
| Date the interim dividend is payable | | 3 April 2009 |

Brief explanation of figures reported above:

Net profit after tax for the half year to 31 December 2008 calculated on a statutory basis equated to a profit of $2.1 million.

For further information refer to the Directors' Report in the attached Interim Report of nib holdings limited for the period ended 31 December 2008.

| 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 | |
| 2. Key information in relation to the following:<br>This information must be identified as "Results for announcement to the market".<br>2.1 The amount and percentage change up or down from the previous corresponding period of revenue from ordinary activities.<br>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.<br>2.3 The amount and percentage change up or down from the previous corresponding period of profit (loss) attributable to members.<br>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.<br>2.5 The record date for determining entitlements to the dividends (if any).<br>2.6 A brief explanation of any of the figures in 2.1 to 2.4 necessary to enable the figures to be understood. | "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 69.64 (70.89 as at 31 December 2007) | |
| 4. Details of entities over which control has been gained or lost during the period, including the following:<br>4.1 Name of entity.<br>4.2 The date of the gain or loss of control.<br>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. | Interim Report 31 December 2008:<br>• Directors' report<br>• Notes to the financial statement<br>- Business combinations<br>- Discontinued operations | <br><br><br>Note 10<br>Note 18 |
| 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 2008:<br>• Notes to the financial statement<br>- Dividends | <br><br>Note 12 |
| 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 | |
| 9. For all entities, if the accounts are subject to audit dispute or qualification, a description of the dispute or qualification. | Not applicable | . |

**M McPherson**
**Company Secretary**
**nib holdings limited**

**Date 25 February 2009**

**nib holdings limited**

**ABN 51 125 633 856**

**Interim Report**

**31 December 2008**

## Contents

**nib holdings limited**
**Directors' report**

The directors of nib holdings limited present their report on the consolidated entity (referred to hereafter as the Group) consisting of nib holdings limited and the entities it controlled at the end of or during the half-year ended 31 December 2008.

## Directors

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

Keith Lynch
Mark Fitzgibbon
Harold Bentley
Annette Carruthers
Philip Gardner
Brian Keane

Janet Dore was a director from the beginning of the financial year until her resignation on 31 July 2008.

## Overview

In November 2008, nib holdings limited ("nib holdings") had its first anniversary as a listed public company.

The Group has resulted from the demutualisation of nib health funds limited ("nib health"), with nib holdings subsequently listing on ASX. The process of demutualisation and listing is set out in note 16 of the notes to the condensed consolidated financial statements.

The consolidated profit of the Group for the half-year, after income tax expense, was $2.075 million (2007: $7.628 million loss).

The consolidated profit of the Group for the half-year reflected a strong net underwriting profit before tax of $20.792 million (2007: $13.859 million on a normalised basis), reflecting a net underwriting margin of 5.1% (2007: 3.7%).

The benefit of the strong net underwriting performance was eroded during the period by investment losses of $13.589 million (2007: $12.587 million gain).

During the period, as part of the on-market buyback announced on 28 August 2008, nib holdings purchased and subsequently cancelled 18,213,260 shares at a total cost of $14.871 million.

## Review of operations

nib's strategy is to shape the future of private healthcare funding in a way that increases participation, enhances health outcomes and creates enterprise value. nib's core business of the provision of private health insurance has a strategy of growing market share through the provision of innovative, low cost health insurance products. Key business initiatives include:

- Aggressively pursuing growth in national market for private health insurance and in our market share, especially within the under 40 segment and outside of NSW, by utilising nib's strong brand, well designed and competitively priced products, and online presence and capability.
- Focus on retaining customers through great customer service, nib product design and looking to migrate customers through different products as they age or their life circumstances change.
- Pursue enterprise value adding health fund mergers and acquisitions
- Actively pursue product innovation aimed at enhancing customer value proposition and increasing our role in the financing of private health care expenditure.
- Modernise and enhance organisational capability, efficiency and performance.

**Review of operations (continued)**

The half year result of the Group demonstrated strong underwriting performance. The global financial crisis did however negatively impact the investment portfolio results for the half year.

The results reflect the following key performance indicators for the period:

- Normalised net underwriting margin of 5.1% (2007: 3.7%), equating to $20.8 million (2007: $13.9 million) before tax.
- Gross underwriting margin of 15.5% (2007: 13.9%).
- Normalised management expense ratio of 10.4% (2007: 10.2%).
- Investment returns of -3.3% for the period or -6.5% annualised (2007: 2.7% for the period or 5.7% annualised), resulting in losses of $9.5 million (2007: returns of $8.8 million) before tax.

nib's experience and performance during the half-year demonstrates that nib continues to deliver great results from its strategy. Most notable during the period was:

- Strong organic growth, with sales of 24,740 new policies, with 72.1% of these sales new to private health insurance.
- The positive impact of a continued focus on retention of existing customers with a stable annualised lapse rate of 8.1%. This is a good result in light of the changes to the Medicare Levy Surcharge and the volatile economic conditions.
- A result reflective of strategic targets with 78.2% of new sales from the under 40's segment, 38.0% of new sales on line and 43.3% of new sales from outside of NSW.
- Management expenses continued to reflect nib's willingness to invest in growing the business and delivering against our strategy, with a management expense ratio of 10.4%. This includes the impact of non-recurring expenses of $4.0 million or 1.0%.
- A strong capital position with net assets of $358.1 million with a capital adequacy coverage ratio of 1.44x for nib health, well ahead of the Board's target of 1.4x.

The results for the period also emphasise the challenges we face:

- Investment returns of -3.3% for the period (-6.5% annualised) which continued to be impacted by general financial market conditions. Investment returns for the first six weeks of 2009 calendar year were -0.2%.

The table following details major differences between profit components for the half year ended 31 December 2008 compared to the half year ended 31 December 2007 (after removing the impact of one-off demutualisation and listing costs and normalising the result to take into consideration the significant impact of the demutualisation and listing of nib during 2007.) The 2008 statutory result does not include any demutualisation and listing costs or any normalisation adjustments.

**Review of operations (continued)**

| $ million | | | |
|---|---|---|---|
| 2007 statutory profit/(loss) | | | (7.628) |
| | | | |
| Add back: | | | |
| Donation to nib foundation (note 5) | | 25.000 | |
| Other demutualisation and listing expenses (note 5) | | 16.090 | |
| Tax effect of above once only adjustments | | (12.006) | 29.084 |
| 2007 consolidated profit excluding once only demutualisation and listing adjustments | | | 21.456 |
| | | | |
| Adjustments: | | | |
| Ongoing listed public company costs to reflect results as if nib holdings was a publicly listed company for the entire period | | (0.800) | |
| Remove profit from discontinuing operations | | (0.054) | |
| Tax expense to reflect the result as if nib health was subject to income tax for the entire period. nib health only became subject to income tax on conversion to a for profit private health insurer on 1 October 2007 | | (2.854) | (3.708) |
| 2007 normalised consolidated profit | | | 17.748 |
| | | | |
| Variances: | | | |
| Increase in premium revenue | 39.700 | | |
| Increase in claims expense | (27.922) | | |
| Increase in Gross Margin | | 11.778 | |
| Increase in Management Expenses | | (4.845) | |
| Reduction in Investment income net of investment expenses | | (25.801) | |
| Decrease in other revenue | | (0.007) | |
| Increase in other expenses | | (4.393) | |
| Decrease in income tax expense | | 7.595 | (15.673) |
| 2008 statutory profit | | | 2.075 |

Discussion of variances:

- An increase in premium revenue of $39.7 million due to the impact of policyholder growth ($27.3 million) and 2008 premium rate increase ($22.7 million), partially offset by net product mix changes ($10.3 million).
- An increase in claims expense, risk equalisation and state levies of $27.9 million mainly due to policyholder growth of $16.1 million, claims inflation of $20.4 million and an increase in risk equalisation of $6.3 million, partially offset by net product mix changes of $15.1 million.
- An increase in management expenses of $4.8 million mainly due to the following non-recurring expenses associated with the relocation to nib's new head office in December 2008, streamlining of our distribution network and a major reorganisational restructure in September 2008.
    - Disposal of property, plant and equipment at old head office $0.8 million
    - Disposal of surplus retail properties $0.3 million
    - Impairment loss following the revaluation of the new head office building at Honeysuckle $1.7 million,
    - Redundancy costs $1.2 million
- A decrease in investment income net of fees of $25.8 million reflecting a return for the period of -3.3% (2007: 2.7%) and an annualised return of -6.5% (2007: 5.7%). Negative annualised returns were experienced in the following portfolios:

| | **2008** | **2007** |
|---|---|---|
| Australian Equities | -47.7% | 9.7% |
| Overseas Equities | -55.5% | -4.2% |
| Global Listed Infrastructure | -37.8% | -0.3% |
| Overseas Fixed Interest | -10.8% | 12.3% |
| Property Trusts | -29.2% | 10.0% |

### Review of operations (continued)

- An increase in other expenses of $4.4 million mainly due to an increase in share registry costs of $2.4 million which include approximately $1.1 million of non-recurring set up costs as shareholders provided information to allow direct credit dividend payment and continued to verify. The increase in other expenses also includes $1.3 million in due diligence and $1.0 million in defence costs.
- A decrease in income tax expense of $7.6 million due to lower profit before tax.

### Dividends and capital management

Dividends paid to members of nib holdings during the half year were as follows:

| | Half-Year 2008 $000 | 2007 $000 |
|---|---|---|
| **Ordinary Shares** | | |
| Dividends paid on 10 October 2008 | 10,875 | - |

In addition to the above dividend, since the end of the half-year the directors have recommended the payment of an interim ordinary dividend of $14.990 million (3.0 cents per fully paid share) to be paid on 3 April 2009 out of retained profits at 31 December 2008.

On 29 August 2008, as part of its capital management activities, nib holdings announced an on market buyback of up to 10% of issued shares, or 51,786,969 shares. At 31 December 2008 as part of the buyback, nib holdings had purchased and subsequently cancelled 18,213,260 shares at a total cost of $14.871 million. At the date of this report, 24 February 2009, there has been no change in the shares purchased and cancelled. The Board of nib holdings currently intends to continue to undertake the on-market buyback of up to 10% of issued shares in compliance with the applicable laws and the ASX Listing Rules.

During the period further work on capital management resulted in the Board revising nib health funds limited internal benchmark for capital adequacy from 1.5x the minimum capital requirement to 1.4x.

nib health funds limited had a capital adequacy coverage ratio of 1.44x (June 2008: 1.61x), with the fall driven by a strengthening capital position during the year being more than offset by a dividend of $77.045 million from nib health funds limited to nib holdings limited to transfer excess capital above our internal benchmark of 1.4x capital adequacy (revised from 1.5x at June 2008) to nib holdings limited as part of nib's capital management activities.

At 31 December 2008 the Group had excess capital of $119.1 million above our internal benchmark (after allowing for the payment of a dividend of 3.0 cents per share, totaling $15.0 million, in April 2009). The movement in excess capital from 30 June 2008 to December 2008 reflects the combination of actual results for the period ($2.1 million increase), latest forecast impacts ($13.9 million increase), allowance for the interim dividend ($15.0 million decrease), the costs of the on-market buyback ($14.9 million decrease) and the revision to nib health's internal benchmark for capital adequacy ($27.4 million increase).

## Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set on page 6.

## Rounding of amounts

The company is of a kind referred to in ASIC Class Order 98/100, 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 director's report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

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

On behalf of the Board

| | |
|---|---|
| *Keith Lynch* | *Philip Gardner* |
| *Director* | *Director* |

Newcastle, NSW, 24 February 2009

PRICEWATERHOUSECOOPERS

**PricewaterhouseCoopers**
**ABN 52 780 433 757**

PricewaterhouseCoopers Centre
26 Honeysuckle Drive
PO Box 798
NEWCASTLE NSW 2300
DX 77 Newcastle
Australia
Telephone +61 2 4925 1100
Facsimile +61 2 4925 1199

## Auditor's Independence Declaration

As lead auditor for the review of nib holdings limited for the half year ended 31 December 2008, 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.

Wayne Russell
Partner
PricewaterhouseCoopers

Newcastle
24 February 2009

**PricewaterhouseCoopers**
**ABN 52 780 433 757**

PricewaterhouseCoopers Centre
26 Honeysuckle Drive
PO Box 798
NEWCASTLE NSW 2300
DX 77 Newcastle
Australia
Telephone +61 2 4925 1100
Facsimile +61 2 4925 1199

## 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, which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the nib holdings limited Group (the consolidated entity). The consolidated entity comprises both nib holdings limited (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 and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*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 Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim 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 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 2008 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. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. 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.

For further explanation of a review, visit our website http:/www.pwc.com/au/financialstatementaudit.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

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## Independent auditor's review report to the members of nib holdings limited (continued)

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

*Matters relating to the electronic presentation of the reviewed financial report*

This review report relates to the financial report of the Company for the half-year ended 31 December 2008 included on nib holdings limited's web site. The company's directors are responsible for the integrity of the nib holdings limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

*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:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001.*

PricewaterhouseCoopers

PricewaterhouseCoopers

WMRussell

Wayne Russell
Partner

Newcastle
24 February 2009

## Directors' declaration

In the director's opinion:

a) the financial statements and notes set out on pages 10 to 34 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 2008 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

| | |
|---|---|
| *Keith Lynch* | *Philip Gardner* |
| *Director* | *Director* |

Newcastle, NSW, 24 February 2009

**nib holdings limited**
**Condensed consolidated income statement**
**for the half-year ended 31 December 2008**

| | Notes | Half-year 2008 $000 | 2007 $000 |
|---|---|---|---|
| **Premium revenue** | 4 | 410,623 | 370,923 |
| Claims expense | | (295,361) | (274,677) |
| RETF Levy | | (41,146) | (34,818) |
| State levies | | (10,528) | (9,617) |
| Claims handling expenses | 5 | (9,937) | (8,585) |
| **Net claims incurred** | | (356,972) | (327,697) |
| Acquisition costs | 5 | (13,466) | (11,788) |
| Other underwriting expenses - ongoing | 5 | (19,393) | (17,579) |
| Other underwriting expenses - demutualisation and listing expenses | 5 | - | (8,270) |
| **Underwriting expenses** | | (32,859) | (37,637) |
| **Underwriting result** | | 20,792 | 5,589 |
| Investment income/(loss) | 4 | (13,589) | 12,587 |
| Other income | 4 | 664 | 671 |
| Investment expenses | 5 | (316) | (691) |
| Other expenses - ongoing | 5 | (5,681) | (488) |
| Other expenses - donation to nib foundation | 5 | - | (25,000) |
| Other expenses - demutualisation and listing expenses | 5 | - | (7,820) |
| **Profit/(loss) before income tax** | | 1,870 | (15,152) |
| Income tax benefit/(expense) | 6 | 205 | 7,470 |
| **Profit/(loss) from continuing operations** | | 2,075 | (7,682) |
| Profit/(loss) from discontinued operations | 16(b) | - | 54 |
| **Profit/(loss) for the half-year attributable to equity holders of nib holdings limited** | | 2,075 | (7,628) |
| | | **Cents** | **Cents** |
| **Earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the company** | | | |
| Basic earnings per share | | 0.4 | (2.4) |
| Diluted earnings per share | | 0.4 | (2.4) |
| **Earnings per share for profit/(loss) attributable to the ordinary equity holders of the company** | | | |
| Basic earnings per share | | 0.4 | (2.4) |
| Diluted earnings per share | | 0.4 | (2.4) |

The above condensed consolidated income statement should be read in conjunction with the accompanying notes

**nib holdings limited**
**Condensed consolidated balance sheet**
**as at 31 December 2008**

| | Notes | 31 December 2008 $000 | 30 June 2008 $000 |
|---|---|---|---|
| **Assets** | | | |
| *Current assets* | | | |
| Cash and cash equivalents | | 151,360 | 179,185 |
| Receivables | | 34,404 | 33,381 |
| Financial assets at fair value through profit or loss | | 222,114 | 242,824 |
| | | 407,878 | 455,390 |
| Non-current assets classified as held for sale | | 8,554 | 8,554 |
| **Total current assets** | | 416,432 | 463,944 |
| *Non-current assets* | | | |
| Receivables | | 2,765 | 3,097 |
| Available-for-sale financial assets | | 1,588 | 1,588 |
| Investment properties | | 30,000 | 30,000 |
| Property, plant and equipment | | 44,928 | 39,001 |
| Intangible assets | | 10,155 | 9,850 |
| Deferred tax assets | 7 | 22,429 | 18,287 |
| **Total non-current assets** | | 111,865 | 101,823 |
| **Total assets** | | 528,297 | 565,767 |
| **Liabilities** | | | |
| *Current liabilities* | | | |
| Payables | | 47,651 | 55,091 |
| Borrowings | | 3,029 | 2,051 |
| Outstanding claims liability | 8 | 60,229 | 62,343 |
| Unearned premium liability | | 41,751 | 46,989 |
| Current tax liabilities | | 14,302 | 10,366 |
| Provision for employee entitlements | | 2,483 | 3,272 |
| **Total current liabilities** | | 169,445 | 180,112 |
| *Non-current liabilities* | | | |
| Provision for employee entitlements | | 734 | 814 |
| **Total non-current liabilities** | | 734 | 814 |
| **Total liabilities** | | 170,179 | 180,926 |
| **Net assets** | | 358,118 | 384,841 |
| **Equity** | | | |
| Share capital | | 42,869 | 44,574 |
| Retained profits | | 308,798 | 329,565 |
| Reserves | | 6,451 | 10,702 |
| **Total equity** | | 358,118 | 384,841 |

The above condensed consolidated balance sheet should be read in conjunction with the accompanying notes

**nib holdings limited**
**Condensed consolidated statement of changes in equity**
**For the half-year ended 31 December 2008**

| | Notes | Half-year | |
|---|---|---|---|
| | | **2008** **$000** | **2007** **$000** |
| **Total equity at the beginning of the period** | | 384,841 | 336,214 |
| Revaluation of property, net of tax | | (3,159) | 3,526 |
| **Profit/(loss) for the half-year** | | 2,075 | (7,628) |
| **Total recognised income and expense for the half-year attributable to equity holders of nib holdings limited** | | (1,084) | (4,102) |
| Transactions with equity holders in their capacity as equity holders : | | | |
| Contributions of equity, net of transaction costs | | - | 44,548 |
| Share buyback | | (14,871) | - |
| Performance right expense | | 90 | - |
| Bonus share right expense | | 17 | - |
| Equity dividends | | (10,875) | - |
| **Total equity at the end of the period** | | 358,118 | 376,660 |

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes

**nib holdings limited**
**Condensed consolidated cash flow statement**
**For the half-year ended 31 December 2008**

| | Notes | Half-year 2008 $000 | Half-year 2007 $000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from policyholders and customers (inclusive of goods and services tax) | | 415,636 | 374,042 |
| Payments to policyholders, suppliers and employees - ongoing (inclusive of goods and services tax) | | (411,097) | (372,511) |
| Payments to suppliers and employees - demutualisation and listing costs (inclusive of goods and services tax) | | - | (11,951) |
| | | 4,539 | (10,420) |
| Dividends received | | 11 | - |
| Interest received | | 5,765 | 1,124 |
| Distributions received | | 2,605 | 22,092 |
| Interest (paid)/refunded | | 1 | - |
| Net cash inflow (outflow) from operating activities | | 12,921 | 12,796 |
| **Cash flows from investing activities** | | | |
| Proceeds from disposal of other financial assets at fair value through the profit and loss | | 9,716 | 22,251 |
| Payments for other financial assets at fair value through the profit and loss | | (11,903) | (32,359) |
| Payments for property, plant and equipment and intangibles | | (15,346) | (7,910) |
| Proceeds from sale of property, plant and equipment and intangibles | | 1,245 | 164 |
| Proceeds from sale of Eye Care and Dental businesses | 16(d) | 250 | 250 |
| Net cash (outflow) inflow from investing activities | | (16,038) | (17,604) |
| **Cash flows from financing activities** | | | |
| Proceeds from issues of shares and other equity securities | | - | 50,000 |
| Payments for shares bought back | | (14,871) | - |
| Share issue transaction costs | | - | (8,457) |
| Proceeds from finance lease | | 60 | 91 |
| Dividends paid to the company's shareholders | | (10,875) | - |
| Net cash inflow (outflow) from financing activities | | (25,686) | 41,634 |
| **Net increase (decrease) in cash and cash equivalents** | | (28,803) | 36,826 |
| Cash and cash equivalents at beginning of the half-year | | 177,134 | 16,139 |
| **Cash and cash equivalents at end of the half-year** | | 148,331 | 52,965 |

The above condensed consolidated cash flow statement should be read in conjunction with the accompanying notes

## 1. BASIS OF PREPARATION OF HALF-YEAR REPORT

This general purpose financial report for the interim half-year reporting period ending 31 December 2008 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This 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 2008 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 and corresponding interim reporting period.

## 2. ACTUARIAL ASSUMPTIONS AND METHODS

### Actuarial methods

The outstanding claims estimate is derived based on three valuation classes, namely Hospital and Prostheses services combined, Medical services, and Ancillary and Ambulance services combined.

In calculating the estimated cost of unpaid claims, two methods are used. For service months September 2008 and earlier for hospital and medical, and for all months for ancillary, 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, the service months for October 2008 to December 2008 a case estimate method is used based on eligibility checks undertaken.

### Actuarial assumptions

The following assumptions have been made in determining the outstanding claims liability.

| | 31/12/2008 Hospital | 31/12/2008 Medical | 31/12/2008 Ancillary | 30/06/2008 Hospital | 30/06/2008 Medical | 30/06/2008 Ancillary |
|---|---|---|---|---|---|---|
| Assumed proportion paid to date | 90.9% | 88.3% | 95.1% | 89.5% | 87.1% | 95.0% |
| Expense rate | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% |
| Discount rate | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Risk equalisation rate | 29.5% | 29.5% | 0.0% | 22.0% | 22.0% | 0.0% |
| Risk margin | 5.4% | 5.4% | 5.4% | 5.4% | 5.4% | 5.4% |

The risk margin of 5.4% (June 2008: 5.4%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% (June 2008: 95%).

## 2. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

### Process used to determine assumptions

A description of the processes used to determine these assumptions is provided below:

i) Chain Ladder Development Factors

Chain ladder development factors were selected based on observations of historical claim payment experience. Particular attention was given to the development of the most recent 12 months.

ii) Case Estimate Method Assumptions

The slope and intercept of a linear relationship was determined by regressing the number of eligibility checks against claims incurred for the two year period to September 2008.

iii) Expense rate

Claims handling expenses were calculated by reference to past experience of total claims handling costs as a percentage of total past payments.

iv) Discount rate

As claims for health funds are generally settled within in 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.

v) Risk equalisation allowance

In simplified terms, each organisation is required to contribute to the risk equalisation pool or is paid from the pool to equalise their hospital claims exposure to members aged over 55 years of age and in respect of high cost claims. This is the allowance made in respect of the claims incurred but not yet paid.

vi) Risk margin

The risk margin has been based on an analysis of the past experience of the Group. This analysis examined the volatility of past payments that has not been explained by the model adopted to determine the central estimate. This past volatility has been assumed to be indicative of the future volatility and has been set at a level estimated to equate to a probability of adequacy of 95% (June 2008: 95%).

## 2. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

### Sensitivity analysis – insurance contracts

i) Summary

The Group conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the performance and equity of the Group. The tables below describe how a change in each assumption will affect the insurance liabilities.

| Variable | Impact of movement in variable |
|---|---|
| Chain Ladder Development Factors | An increase or decrease in the chain ladder factors would lead to a higher or lower projection of the ultimate liability and a corresponding increase or decrease on claims expense respectively. |
| Case Estimate Method Assumptions | An increase or decrease in the slope of the linear regression would lead to a higher or lower projection of the ultimate liability and a corresponding increase or decrease on claims expense respectively. |
| Expense rate | An estimate for the internal costs of handling claims is included in the outstanding claims liability. An increase or decrease in the expense rate assumption would have a corresponding impact on claims expense. |
| Risk equalisation | An estimate for the risk equalisation cost is included in the outstanding claims liability. An increase or decrease in the risk equalisation allowance would have a corresponding impact on claims expense. |
| Risk margin | An estimate of the amount of uncertainty in the determination of the central estimate. An increase or decrease in the risk margin would have a corresponding impact on claims expense. |

ii) Impact of key variables

| | Profit 31-Dec-08 $000 | Equity 31-Dec-08 $000 |
|---|---|---|
| Recognised amounts in the financial statements | 2,075 | 358,118 |

| Variable | Movement in variable | Adjustments | Adjusted profit | Adjustments | Adjusted equity |
|---|---|---|---|---|---|
| Chain Ladder | +0.1% | (2,265) | (190) | (2,265) | 355,853 |
| Development Factors | -0.1% | 2,452 | 4,527 | 2,452 | 360,570 |
| Case Estimate Method | +0.5% | (661) | 1,414 | (661) | 357,457 |
| - Slope | -0.5% | 661 | 2,736 | 661 | 358,779 |
| Expense rate | +1.0% | (477) | 1,598 | (477) | 357,641 |
| | -1.0% | 477 | 2,552 | 477 | 358,595 |
| Risk equalisation | +2.5% | (942) | 1,133 | (942) | 357,176 |
| allowance | -2.5% | 942 | 3,017 | 942 | 359,060 |
| Risk margin | +1.0% | (571) | 1,504 | (571) | 357,547 |
| | -1.0% | 571 | 2,646 | 571 | 358,689 |

## 3. PRIVATE HEALTH INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES

The financial condition and operation of the Group are affected by a number of key financial risks including insurance risk, interest rate risk, credit risk, market risk, liquidity risk, financial risk and fiscal risk, and non financial risks including operational risk, regulatory and compliance risk. Notes on the Group's policies and procedures in respect of managing the financial risks are set out in this note below.

### a) Objectives in managing risks arising from private health insurance contracts and policies for mitigating those risks

nib's board of directors determines the Group's overall risk appetite and approves the risk management strategies, policies and practices to ensure that risks are identified and managed within the context of this appetite.

The Group's risk management framework manages risks through:

- The establishment of the audit committee and the risk and reputation committee to assist the Board in the execution of its responsibilities:
  - The audit committee's responsibilities include:
    - reviewing the annual reports and other financial information distributed externally;
    - recommending the appointment and remuneration of the external auditor;
    - reviewing the performance and independence of the external auditor;
    - reviewing the Group's systems and procedures for compliance with legal and regulatory requirements other than those monitored by the risk and reputation committee.
  - The risk and reputation committee's responsibilities include:
    - assisting the Board to review the effectiveness of the Group's system of internal control;
    - recommending the appointment and remuneration of the internal auditor;
    - reviewing the performance and independence of the internal auditor;
    - monitoring the risk management system; and
    - reviewing the Group's systems and procedures for compliance with legal and regulatory requirements other than those monitored by the audit committee.

- The Group's internal policies and procedures designed to mitigate such risks:
  - The maintenance and use of management information systems which provide up to date, reliable data on the risks which the business is exposed to at any point in time;
  - Actuarial models, using information from the management information systems, are used to calculate premiums and monitor claims patterns. Past experience and statistical methods are used as part of the process;
  - A rigorous approach to product design to mitigate the risk of the Group being exposed to adverse selection;
  - Maintenance of reserves in excess of solvency and capital adequacy regulatory requirements;
  - An investment strategy which delivers a diversified portfolio with a heavier weighting to defensive assets versus growth assets;
  - Internal audit which provides independent assurance to senior management and directors regarding the adequacy of controls over activities where the risks are perceived to be high;

## 3. PRIVATE HEALTH INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES (CONTINUED)

### a) Objectives in managing risks arising from private health insurance contracts and policies for mitigating those risks (continued)

- Regular risk and compliance reporting; and the application of standards for solvency and capital adequacy legislated under division 140 and 143 of the Private Health Insurance Act 2007 (the Act):
  - o The Solvency and Capital Adequacy Standards are established under the Act, and are an integral component of the prudential reporting and management regime for registered private health insurers.
  - o These standards impose a two tier capital requirement on private health insurers with each tier considering the capital requirements in a different set of circumstances.
  - o The first tier – solvency – is intended to ensure the basic solvency of the fund (that is, in the unlikely event of a wind-up); at any time on a run-off view, the fund’s financial position is such that the insurer will be able to meet, out of the fund’s assets, all liabilities incurred for the purposes of the fund as those liabilities become due.
  - o The second tier – capital adequacy – is intended to secure the financial soundness of the health benefits fund on a going concern basis, in particular its ability to remain solvent for at least the next three years. It is expected that in most circumstances this second tier will provide an additional buffer of capital above the minimum solvency requirement.

### b) Insurance Risk

The provision of private health insurance in Australia is governed by the Act and shaped by a number of regulatory factors.

The first is the principle of community rating. This principle prevents private health insurers from discriminating between people on the basis of their health status, age, race, sex, sexuality, the frequency that a person needs treatment, or claims history.

The second is risk equalisation which supports the principle of community rating. Private health insurance averages out the cost of hospital treatment across the industry. The risk equalisation scheme transfers money from private health insurers with younger healthier members with lower average claims payments (such as nib) to those insurers with an older and less healthy membership and which have higher average claims payments.

Thirdly, the Act limits the types of treatments that private health insurers are able to offer as part of their health insurance business and fourthly, premiums for health insurance can only be changed with the approval of the Minister.

### c) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, financial assets and deposits with banks and financial institutions, as well as credit exposures to policyholders, Medicare Australia (Health Insurance Contribution (HIC) rebate) and entities that have purchased discontinued operations under deferred settlement terms. For banks and financial institutions, only independently rated parties with a minimum rating of ‘A’ are accepted. nib receives advice from its asset consultant, Mercer Investment Consulting, who provide a rating of investment managers to nib as

## 3. PRIVATE HEALTH INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES (CONTINUED)

### c) Credit risk (continued)

part of their advice. Credit risk for premium receivables are minimal due to the diversification of policyholders. The HIC rebate receivable is due from a government organisation under legislation. Credit risk for deferred settlement is minimised, in part, by obtaining bank guarantees from the purchaser.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date is the carrying amount, net of any provisions for impairment loss, as disclosed in the balance sheet and notes to the financial statements. The Group does not have any material credit risk to any single debtor or group of debtors under financial instruments entered into.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

| | December 2008 $'000 | June 2008 $'000 |
|---|---|---|
| **Other Receivables** | | |
| *Counterparties without external credit rating** | | |
| **Group 1** | - | - |
| **Group 2** | 28,278 | 28,944 |
| **Group 3** | - | - |
| **Total Other Receivables** | 28,278 | 28,944 |
| *Group 1 - new debtors (less than 6 months) | | |
| Group 2 - existing debtors (more than 6 months) with no defaults in the past | | |
| Group 3 - existing debtors (more than 6 months) with some defaults in the past. All defaults were fully recovered | | |
| **Cash at Bank and short-term bank deposits** | | |
| AA | 151,360 | 179,185 |
| | 151,360 | 179,185 |
| **Financial assets at fair value through profit or loss** | | |
| Interest-bearing securities | | |
| AAA | 95,048 | 93,239 |
| AA | 32,366 | 30,285 |
| A | 14,100 | 20,336 |
| BBB | 9,295 | (200) |
| BB | - | 3,286 |
| B | - | 1,315 |
| Sub Inv Grade * | 4,974 | - |
| Unclassified | 84 | 2,116 |
| | 155,867 | 150,377 |

* Sub investment grade assets in December 2008 represent underlying assets in the overseas fixed interest portfolio. The grade of these assets has declined due to the global financial crisis. The overseas fixed interest portfolio has not changed from that which was held at 30 June 2008. At 30 June 2008 none of the underlying investments were graded as sub investment grade.

## 3. PRIVATE HEALTH INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES (CONTINUED)

### d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and holds a high percentage of highly liquid investments.

Borrowings in the balance sheet refer to the bank overdraft. The bank overdraft comprises the closing positive balances of the bank account, adjusted for unpresented cheques and outstanding deposits. There are no overdraft facilities.

*Maturities of financial liabilities*

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| 31-Dec-08 | ≤1 month $000 | 1 - 3 months $000 | 3 - 12 months $000 | 1 - 5 years $000 | >5 years $000 | Total Contractual Cashflows $000 | Carrying amount $000 |
|---|---|---|---|---|---|---|---|
| **Financial Liabilities** | | | | | | | |
| Trade Creditors | 3,004 | - | - | - | - | 3,004 | 3,004 |
| Other payables | 20,457 | - | 881 | - | - | 21,338 | 21,338 |
| Borrowings | 3,029 | - | - | - | - | 3,029 | 3,029 |
| | 26,490 | - | 881 | - | - | 27,371 | 27,371 |

| 30-Jun-08 | ≤1 month $000 | 1 - 3 months $000 | 3 - 12 months $000 | 1 - 5 years $000 | >5 years $000 | Total Contractual Cashflows $000 | Carrying amount $000 |
|---|---|---|---|---|---|---|---|
| **Financial Liabilities** | | | | | | | |
| Trade Creditors | 3,585 | - | - | - | - | 3,585 | 3,585 |
| Other payables | 25,303 | 1,696 | - | - | - | 26,999 | 26,999 |
| Borrowings | 2,051 | - | - | - | - | 2,051 | 2,051 |
| | 30,939 | 1,696 | - | - | - | 32,635 | 32,635 |

### e) Market risk

i) Price risk

The Group is exposed to equity securities price risk. This arises from investments held by the Group and classified on the balance sheet as either available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk.

To manage its price risk the Group has adopted an investment strategy which delivers a diversified portfolio with a heavier weighting to defensive assets versus growth assets.

## 3. PRIVATE HEALTH INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES (CONTINUED)

### e) Market risk (continued)

Post-tax profit for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as available-for-sale.

Refer to the table below that summarises the sensitivity of the Group's financial assets and financial liabilities to price risk and interest rate risk.

ii) Fair value interest rate risk

The Group does not have long-term borrowings. The Group's interest rate risks arise from receivables, financial assets at fair value through profit and loss and cash and cash equivalents. Receivables arising from the deferred settlement of discontinued operations sold are subject to 90 day bank bill rates. Lease receivables are subject to a fixed rate specified in the lease contract. All other receivables are non-interest bearing. There is an interest-bearing component of financial assets at fair value through profit and loss. nib receives advice from its asset consultant, Mercer Investment Consulting, who provide a rating of investment managers to nib as part of their advice. The Group has adopted an investment strategy that delivers a diversified portfolio with a heavier weighting to defensive assets versus growth assets. Defensive assets consist of Australian and overseas fixed interest investments and cash and cash equivalents.

*Summarised sensitivity analysis*

The table below summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk and other price risk

*Methods and assumptions used in preparing sensitivity analysis:*

The post-tax effect on profit and equity of movements in both interest rate and price has been calculated using 'reasonably possible' changes in the risk variables, based on recent interest rate and market movements.

*Interest rate and price change assumptions*
An interest rate change of 100 basis points will directly affect interest received on cash and cash equivalents and other receivables and will directly affect the unit price of cash enhanced products as these products are primarily floating rate accounts. An interest rate change of 100 basis points will inversely affect the unit price of fixed interest investments, this change has been calculated by multiplying the average duration of underlying investments in each portfolio by the interest rate change. All other investments are not directly affected by interest rate changes but would be revalued through profit or loss as their unit price changes. The price risk sensitivity analysis is based on reasonably possible changes in market risk unit prices based on recent market price calculations.

## 3. PRIVATE HEALTH INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES (CONTINUED)

### e) Market risk (continued)

| | | Interest Rate Risk | | | | Other Price Risk | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | -100bps | | +100bps | | -10% unit price | | +10% unit price | |
| 31 December 2008 | Carrying amount | Profit | Equity | Profit | Equity | Profit | Equity | Profit | Equity |
| **Financial assets** | | | | | | | | | |
| Cash and cash equivalents | 151,360 | (1,060) | (1,060) | 1,060 | 1,060 | - | - | - | - |
| Other Receivables | 28,306 | (46) | (46) | 46 | 46 | - | - | - | - |
| Financial assets at fair value through profit or loss | 222,114 | 4,440 | 4,440 | (4,440) | (4,440) | (4,637) | (4,637) | 4,637 | 4,637 |
| Unlisted equity securities | 1,588 | - | - | - | - | (50) | (111) | - | 111 |
| Total Increase/(decrease) | | 3,334 | 3,334 | (3,334) | (3,334) | (4,687) | (4,748) | 4,637 | 4,748 |

| | | Interest Rate Risk | | | | Other Price Risk | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | -100bps | | +100bps | | -10% unit price | | +10% unit price | |
| 30 June 2008 | Carrying amount | Profit | Equity | Profit | Equity | Profit | Equity | Profit | Equity |
| **Financial assets** | | | | | | | | | |
| Cash and cash equivalents | 179,185 | (1,254) | (1,254) | 1,254 | 1,254 | - | - | - | - |
| Other Receivables | 28,971 | (48) | (48) | 48 | 48 | - | - | - | - |
| Financial assets at fair value through profit or loss | 242,824 | 4,896 | 4,896 | (4,896) | (4,896) | (6,471) | (6,471) | 6,471 | 6,471 |
| Unlisted equity securities | 1,588 | - | - | - | - | (50) | (111) | - | 111 |
| Total Increase/(decrease) | | 3,594 | 3,594 | (3,594) | (3,594) | (6,521) | (6,582) | 6,471 | 6,582 |

### f) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) 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.

The fair value of financial instruments that are not traded in active markets (for example investments in unlisted subsidiaries) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Estimated discounted cash flows are used to determine fair value for investments in unlisted subsidiaries.

The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values due to their short-term nature.

## 4. REVENUE AND OTHER INCOME

| | Half-Year 2008 $000 | 2007 $000 |
|---|---|---|
| ***Premium revenue*** | 410,623 | 370,923 |
| ***Investment income/(loss)*** | | |
| Rent received | 863 | 931 |
| Interest | 5,830 | 1,555 |
| Net realised gain/(loss) on financial assets at fair value through profit or loss | (6,907) | 22,092 |
| Net unrealised gain/(loss) on financial assets at fair value through profit or loss | (13,386) | (12,281) |
| Dividends | 11 | - |
| Fair value adjustment on non-current assets held for sale | - | 290 |
| | (13,589) | 12,587 |
| ***Other income*** | | |
| Sundry income | 664 | 671 |

## 5. EXPENSES

| | Half-Year 2008 $000 | 2007 $000 |
|---|---|---|
| **Expenses by function** | | |
| Claims handling expenses | 9,937 | 8,585 |
| Investment expenses | 316 | 691 |
| Acquisition costs | 13,466 | 11,788 |
| Underwriting expenses - ongoing | 19,393 | 17,579 |
| Underwriting expenses - demutualisation and listing costs | - | 8,270 |
| Other expenses - ongoing | 5,681 | 488 |
| Other expenses - donation to nib foundation | - | 25,000 |
| Other expenses - demutualisation and listing costs | - | 7,820 |
| **Total expenses (excluding direct claims expenses)** | 48,793 | 80,221 |

## 5. EXPENSES (CONTINUED)

| | Half-Year 2008 $000 | 2007 $000 |
|---|---|---|
| **Expenses by nature** | | |
| Employee costs | 18,790 | 18,253 |
| Depreciation and amortisation | 1,735 | 1,924 |
| Net loss on disposal of property, plant and equipment and investment properties | 1,235 | 22 |
| Impairment of property, plant and equipment | 1,739 | (4) |
| Operating lease rental expenses | 1,285 | 1,198 |
| Donation to nib foundation | - | 25,000 |
| Demutualisation/listing expenses | - | 16,090 |
| Marketing expenses | 8,517 | 8,103 |
| Share registry expenses - non-recurring | 1,102 | - |
| Share registry expenses - ongoing | 1,513 | 174 |
| Due diligence expenses | 1,283 | - |
| Other | 11,594 | 9,461 |
| **Total expenses (excluding direct claims expenses)** | 48,793 | 80,221 |

Demutualisation/listing costs are non-recurring items. A breakdown of these costs by activity is as follows:

| | | |
|---|---|---|
| **Demutualisation/listing expenses** | | |
| Legal fees | - | 1,193 |
| Underwriting and management fees | - | 12,943 |
| Accounting and taxation advice | - | 908 |
| Actuarial advice | - | 20 |
| Retention/ transaction bonuses and restructure costs | - | 7,098 |
| Share registry expenses | - | 643 |
| Other | - | 1,742 |
| Equity raising costs offset against share capital | - | (8,457) |
| | **-** | **16,090** |

Demutualisation/listing costs broken down by function are as follows:

| | | |
|---|---|---|
| **Demutualisation/listing expenses** | | |
| Underwriting expenses | - | 8,270 |
| Other expenses | - | 7,820 |
| | **-** | **16,090** |

## 6. INCOME TAX EXPENSE

| | Half-year 2008 $000 | 2007 $000 |
|---|---|---|
| **a) Income tax expense** | | |
| **Recognised in the income statement** | | |
| Current tax expense/(benefit) | 3,600 | 6,200 |
| Deferred tax expense/(benefit) | (4,142) | (13,670) |
| Under (over) provided in prior years | 337 | (54) |
| | (205) | (7,524) |
| Income tax expense/(benefit) is attributable to: | | |
| Profit/(Loss) from continuing operations | (205) | (7,470) |
| Profit from discontinuing operations | - | (54) |
| Aggregate income tax expense/(benefit) | (205) | (7,524) |

**b) Numerical reconciliation of income tax expense to prima facie tax payable**

| | Half-year 2008 $000 | 2007 $000 |
|---|---|---|
| Profit/(Loss) from continuing operations before income tax expense | 1,870 | (15,152) |
| Profit from discontinuing operations before income tax expense | - | - |
| | 1,870 | (15,152) |
| Tax at the Australian tax rate of 30% (2007: 30%) | 561 | (4,545) |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Write back of provision on consolidation | - | (19) |
| Net exempt income | - | (2,214) |
| Assessable income | 18 | 27 |
| Recognise deferred tax asset on devaluation | (902) | - |
| Other deductible expenses | (219) | (554) |
| Previously unrecognised deferred tax asset recognised | - | (165) |
| Adjustments for current tax of prior periods | 337 | (54) |
| Income tax expense/(benefit) | (205) | (7,524) |

nib health funds limited was exempt from income tax under the provision of section 50-30 of the *Income Tax Assessment Act 1997* as amended for the period to 1 October 2007. Income of the company was liable to taxation from that date forward.

**c) Amounts recognised directly in equity**

| | Half-year 2008 $000 | 2007 $000 |
|---|---|---|
| Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity | | |
| Net deferred tax - debited (credited) directly to equity | - | (2,537) |
| | - | (2,537) |

## 7. DEFERRED TAX ASSETS

| | 31 Dec 08 $000 | 30 June 08 $000 |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| Prepayments | - | 3 |
| Doubtful debts | 8 | 8 |
| Depreciation | 1,555 | 145 |
| Share issue expenses | 1,936 | 2,189 |
| Asset revaluation | 75 | 75 |
| Employee benefits | 802 | 582 |
| Provisions | 40 | 52 |
| Outstanding claims | - | 548 |
| Demutualisation costs | 3,843 | 4,355 |
| Unrealised losses on investments | 14,797 | 10,602 |
| Total deferred tax assets | 23,056 | 18,559 |
| | | |
| Set-off of deferred tax liabilities pursuant to set-off provisions | (627) | (272) |
| Net deferred tax assets | 22,429 | 18,287 |
| | | |
| Deferred tax assets to be recovered within 12 months | 15,853 | 12,015 |
| Deferred tax assets to be recovered after more than 12 months | 7,203 | 6,544 |
| | 23,056 | 18,559 |

**Deferred tax liabilities set-off**

| | 31 Dec 08 $000 | 30 June 08 $000 |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| Prepayments | (18) | - |
| Depreciation | (193) | (64) |
| Capital allowances | (304) | (182) |
| Outstanding claims | (86) | - |
| Available-for-sale financial assets | (26) | (26) |
| **Total deferred tax liabilities** | (627) | (272) |
| | | |
| Set-off of deferred tax liabilities pursuant to set-off provisions | (627) | (272) |
| Net deferred tax liabilities | - | - |
| | | |
| Deferred tax liabilities to be settled within 12 months | (323) | (90) |
| Deferred tax liabilities to be settled after more than 12 months | (304) | (182) |
| | (627) | (272) |

## 8. CURRENT LIABILITIES – OUTSTANDING CLAIMS LIABILITY

### a) Outstanding claims liability

| | 31 Dec 08 $000 | 30 June 08 $000 |
|---|---|---|
| Outstanding claims - central estimate of the expected future payments for claims incurred | 45,236 | 48,999 |
| Risk Margin | 2,516 | 2,725 |
| Claims handling costs | 1,357 | 1,470 |
| **Gross outstanding claims liability** | 49,109 | 53,194 |
| Outstanding claims - expected payment to the RETF* in relation to the central estimate | 10,550 | 8,681 |
| Risk Margin | 570 | 468 |
| **Net outstanding claims liability** | 60,229 | 62,343 |

* Risk Equalisation Trust Fund (RETF) Levy represents expenses incurred under Risk Equalisation Trust Fund arrangements which are provided for within the legislation to support the principle of community rating.

### b) Risk margin

The risk margin of 5.4% (June 2008: 5.4%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% (June 2008: 95%).

The central estimate of outstanding claims (including those that have been reported but not yet settled and which have been incurred but not yet reported) is an estimate which is intended to contain no intentional over or under estimation. For this reason the inherent uncertainty in the central estimate must also be considered.

The risk margin has been based on an analysis of the past experience of the Group. This analysis examined the volatility of past payments that has not been explained by the model adopted to determine the central estimate. This past volatility has been assumed to be indicative of the future volatility.

The outstanding claims estimate is derived based on three valuation classes, namely Hospital and Prostheses services combined, Medical services, and Ancillary and Ambulance services combined. Diversification benefits within a valuation class are implicitly allowed for through the model adopted. The determination of the risk margin has also implicitly allowed for diversification between valuation classes based on an analysis of past correlations in deviations from the adopted model.

## 8. OUTSTANDING CLAIMS LIABILITY (CONTINUED)

### b) Risk margin (continued)

Changes in the gross outstanding claims can be analysed as follows:

| | 31 Dec 08 $000 | 30 June 08 $000 |
|---|---|---|
| Gross outstanding claims at beginning of period | 53,194 | 47,521 |
| Administration component | (1,470) | (1,313) |
| Risk margin | (2,725) | (2,435) |
| Central estimate at beginning of period | 48,999 | 43,773 |
| Change in claims incurred for the prior period | 1,698 | (2,151) |
| Claims paid in respect of the prior period | (48,439) | (41,622) |
| Claims incurred during the period (expected) | 291,889 | 553,072 |
| Claims paid during the period (expected) | (248,911) | (504,073) |
| Central estimate at end of period | 45,236 | 48,999 |
| Administration component | 1,357 | 1,470 |
| Risk margin | 2,516 | 2,725 |
| Gross outstanding claims at end of period | 49,109 | 53,194 |

## 9. RESERVES

| | 31 Dec 08 $000 | 30 June 08 $000 |
|---|---|---|
| **a) Reserves comprise:** | | |
| Property revaluation reserve | 6,222 | 10,579 |
| Available-for-sale investments revaluation reserve | 62 | 62 |
| Share-based payments reserve | 167 | 61 |
| | 6,451 | 10,702 |
| **b) Movements in reserves:** | | |
| **Property revaluation reserve** | | |
| Balance at the beginning of the period | 10,579 | 7,053 |
| Property revaluation | (3,159) | 3,526 |
| Transfer to retained profits on sale of property | (1,198) | - |
| **Balance at the end of the period** | 6,222 | 10,579 |
| **Available-for-sale investments revaluation reserve** | | |
| Balance at the beginning of the period | 62 | - |
| Revaluation - gross | - | 88 |
| Deferred tax (note 7) | - | (26) |
| **Balance at the end of the period** | 62 | 62 |
| **Share-based payments reserve** | | |
| Balance at the beginning of the period | 61 | - |
| Performance right expense | 90 | 51 |
| Bonus share rights expense | 16 | 10 |
| **Balance at the end of the period** | 167 | 61 |

## 10. BUSINESS COMBINATION

On 1 October 2007, nib holdings limited legally acquired nib health funds limited and its subsidiaries. This acquisition has been treated as a reverse acquisition under AASB 3 *Business Combinations* and therefore for the purpose of preparing the nib holdings limited condensed consolidated financial statements, nib health funds limited has been treated as the acquirer and nib holdings limited has been treated as the acquired company.

The fair value of the identifiable assets and liabilities of this acquisition as at the date of acquisition was as follows:

**Consideration**

| | $ |
|---|---|
| **Net assets by major class:** | |
| Other financial assets | 5 |
| Deferred tax assets | 1,800 |
| Payables | (6,000) |
| | (4,195) |

There was no consideration for the acquisition. nib holdings limited became the parent company of the nib group on 1 October 2007 when nib health funds limited cancelled the shares it issued to eligible policyholders. nib holdings limited then issued the same number of shares cancelled to eligible policyholders. There is no goodwill arising from the acquisition.

## 11. CONTINGENT LIABILITIES

nib health funds limited has given an undertaking to extend financial support to nib servicing facilities pty limited and nib health care services pty limited by subordinating repayment of debts owed by the entities to nib health funds limited, in favour of all other creditors. This undertaking has been provided as a result of each of these subsidiaries experiencing deficiencies of capital and reserves, and is intended to enable the entities to continue their operations and fulfil all financial obligations now and in the future. The undertaking is provided for a minimum period of twelve months from 28 August 2008, or if earlier, to the date of sale of the entities should this occur.

## 12. DIVIDENDS

### a) Ordinary Shares

| | Half-Year 2008 $000 | 2007 $000 |
|---|---|---|
| **Ordinary Shares** | | |
| Dividends paid on 10 October 2008 | 10,875 | - |

### b) Dividends not recognised at period end

| | Half-Year 2008 $000 | 2007 $000 |
|---|---|---|
| In addition to the above dividends, since the end of the half-year the directors have recommended the payment of an interim dividend of 3.0 cents per fully paid ordinary share, fully franked based on tax paid at 30% prior to 30 June 2009. The aggregate amount of the proposed dividend expect to be paid on 3 April 2009 out of retained profits at 31 December 2008, but not recognised as a liability at the end of the half-year, is | 14,990 | - |

### c) Franked dividends

The franked portion of the interim dividend recommended after 31 December 2008 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2009.

| | 31 Dec 08 $000 | 30 June 08 $000 |
|---|---|---|
| Franking credits available for subsequent financial years based on a tax rate of 30% (30 June 2008 - 30%) | 10,127 | 10,851 |

The above amounts represent the balance of the franking account as at the end of the period, adjusted for:

a) Franking credits that will arise from the payment of the amount of the provision for income tax
b) Franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and
c) Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

There is currently a debit balance in the franking account on a cash paid tax basis due to the payment of the 2008 final dividend prior to payment of 2008 income tax and 2009 income tax instalments. It is anticipated that there will be a credit balance in the franking account as at 30 June 2009 due to the payment of 2008 income tax and 2009 income tax instalments so no franking account deficit tax will be applied.

## 13. EQUITY SECURITIES ISSUED

| | 2008 Shares | 2007 Shares | 2008 $000 | 2007 $000 |
|---|---|---|---|---|
| **Issues of ordinary shares during the half-year** | | | | |
| Shares issued to policyholders | - | 458,496,160 | - | - |
| Shares issued to institutional investors | - | 58,823,529 | - | 50,000 |
| Shares issued to executives as part of retention bonus | - | 550,000 | - | 468 |
| | - | 517,869,689 | - | 50,468 |

| | 2008 Shares | 2007 Shares | 2008 $ | 2007 $ |
|---|---|---|---|---|
| **Buyback of ordinary shares during the half-year** | | | | |
| Transaction date | | | | |
| October-December 2008 | (18,213,260) | - | (1,704,918) | - |

During October-December 2008 the company purchased and cancelled 18,213,260 ordinary shares on-market as part of the group's capital management initiatives announced in the 2008 annual report. The shares were acquired at an average price of 82 cents per share, with prices ranging from 77 cents to 87 cents. The total cost of buyback was $14,870,692. $1,704,918 was deducted from ordinary share equity and the remaining $13,165,774 was deducted from retained profits representing the portion of shares assumed to be purchased from policyholders under the reverse acquisition requirements of AASB 3 *Business Combinations.*

nib currently intends to continue to undertake the buyback in compliance with applicable laws and the ASX Listing Rules.

## 14. SEGMENT REPORTING

The group operates predominantly in the private health insurance industry and related health care activities in Australia.

## 15. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

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

## 16. DEMUTUALISATION AND LISTING

On 19 July 2007, Company Members and Eligible Policyholders of nib health approved the Schemes of Arrangement to implement the proposed Demutualisation of nib health. The Federal Court of Australia made orders to approve the Schemes of Arrangement on 23 July 2007.

## 16. DEMUTUALISATION AND LISTING (CONTINUED)

On 31 August 2007, the following steps occurred:

- nib health converted from a company limited by guarantee to a company limited by shares;
- nib health issued shares to Eligible Policyholders (if an Eligible Policyholder was unverified or had a residential address outside Australia, shares were issued to the Overseas Policyholders and Unverified Policyholders Trust (“Trust”) and held on their behalf); and
- nib health issued shares to nib holdings.

On 24 September 2007, nib holdings shareholders were invited to offer their ordinary shares in nib holdings for sale through the pre-listing share sale opportunity.

On 1 October 2007 (Demutualisation Date) the nib health shares issued to Eligible Policyholders, and the Trust on their behalf, were cancelled and the same number of shares were issued to Eligible Policyholders, and the Trust on their behalf, by nib holdings.

On 25 - 26 October 2007 nib holdings conducted an institutional bookbuild to raise $50 million in new capital (primarily to cover issue costs and to fund its initial grant to the nib Foundation), and to sell to institutions any shares offered by the shareholders, through the pre-listing share sale opportunity.

Following the bookbuild nib holdings listed on ASX on 5 November 2007.

## 17. SOLVENCY AND CAPITAL ADEQUACY RESERVES

nib health funds limited Solvency Reserve, as per the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is $81.861 million. Total Health Benefits Fund Assets are $393.945 million, representing an excess of $130.800 million over the sum of the Solvency Reserve and total Health Benefits Fund Liabilities ($181.284 million). This equates to a solvency coverage ratio of 1.50x.

nib health funds limited Capital Adequacy Reserve, as per the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is $92.475 million. Total Health Benefits Fund Assets are $393.945 million, representing an excess of $120.186 million over the Capital Adequacy Reserve and total Health Benefits Fund Liabilities ($181.284 million). This equates to a capital adequacy coverage ratio of 1.44x.

## 18. DISCONTINUED OPERATIONS

### (a) Description

nib health care services pty limited formerly operated an Eye Care Centre business and an Eye Safety business. The Eye Care and Eye Safety businesses were sold to Pacific Optical Pty Limited on 30 November 2006. The centres continue to be branded as nib eye care centres. nib health care services pty limited receives a percentage of retail product sales revenue from the eye care centres.

nib health care services also formerly operated Dental Centres in Newcastle and Sydney. From 1 September 2004, the operation of the nib dental care centres was transferred from nib health care services pty limited to Pacific Smiles Group Pty Limited. The Dental business was then sold to Pacific Smiles Group Pty Limited on 30 November 2006. The centres continue to be branded as nib dental centres. nib health care services leases dental and support equipment and premises to Pacific Smiles Group, and receives a percentage of the revenue from diagnostic and preventative services provided to nib policyholders at the dental care centres.

The Eye Care, Eye Safety and Dental businesses disposed of are reported in this financial report as a discontinued operation.

Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

### (b) Financial Performance and cash flow information

| | Half-year | |
|---|---|---|
| | **2008** | **2007** |
| | **$000** | **$000** |
| Revenue | - | - |
| Expenses | - | - |
| Profit/(Loss) before income tax | - | - |
| Income tax expense | - | - |
| Profit/(Loss) after income tax of discontinued operation | - | - |
| Gain on the sale of the operation before income tax | - | - |
| Income tax benefit/(expense) | - | 54 |
| Gain on the sale of the operation after income tax | - | 54 |
| **Profit from discontinued operations** | **-** | **54** |
| Cash flows | | |
| Net cash inflow (outflow) from operating activities | - | - |
| Net cash inflow (outflow) from investing activities | 250 | 250 |
| Net cash inflow (outflow) from financing activities | - | - |
| Net increase (decrease) in cash generated by the operation | **250** | **250** |

## 18. DISCONTINUED OPERATIONS (CONTINUED)

### (c) Carrying amounts of assets and liabilities

The carrying amounts of assets and liabilities as at 30 November 2006:

| | $000 |
|---|---|
| Inventories | 146 |
| Plant and equipment | 180 |
| **Total assets** | 326 |
| Employee benefits | 196 |
| **Total liabilities** | 196 |
| **Net assets** | 130 |

### (d) Details of the sale of the operations

| | $000 |
|---|---|
| Consideration received or receivable: | |
| Cash | 825 |
| Present value of amount due on 30 November 2009 | 250 |
| Present value of amount due on 30 November 2010 | 250 |
| Present value of amount due on 30 November 2011 | 250 |
| Total disposal consideration | 1,575 |
| Carrying amount of net assets sold | (130) |
| Gain on sale before income tax | 1,445 |
| Income tax expense | - |
| Gain on sale after income tax | 1,445 |

## 19. 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 24 February 2009. The company has the power to amend and reissue the financial report.