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nib holdings limited
ABN 51 125 633 856

Half-year report for the period ended 31 December 2010

This report should be read in conjunction with the annual financial report for the year ended 30 June 2010.

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APPENDIX 4D

nib holdings limited
ABN 51 125 633 856

For the period ended 31 December 2010

Results for announcement to market

	6 months to 31-Dec-10 $'000	6 months to 31-Dec-09 $'000	Movement up / (down) $'000	Movement %
Revenue from ordinary activities	515,377	480,936	34,441	7%
Profit from ordinary activities after tax attributable to members	39,046	43,104	(4,058)	-9%
Net profit attributable to members	39,046	43,104	(4,058)	-9%

Dividends (distributions)	Amount per security	Franking amount per security
Interim dividend	4.0 cents	100%
Record date for determining entitlements to the dividend		11 March 2011
Date the interim dividend is payable		8 April 2011

Brief explanation of figures reported above:

Net profit after tax for the half year to 31 December 2010 calculated on a statutory basis equated to a profit of $39.0 million.

For further information refer to the Directors' Report in the attached Interim Report of nib holdings limited for the period ended 31 December 2010.

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: This information must be identified as "Results for announcement to the market". 2.1 The amount and percentage change up or down from the previous corresponding period of revenue from ordinary activities. 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. 2.3 The amount and percentage change up or down from the previous corresponding period of profit (loss) attributable to members. 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. 2.5 The record date for determining entitlements to the dividends (if any). 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 78.02 (74.91 as at 31 December 2009)	
4. Details of entities over which control has been gained or lost during the period, including the following: 4.1 Name of entity. 4.2 The date of the gain or loss of control. 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.	Not applicable	
5. Details of individual and total dividends or distributions and dividend or distribution payments. The details must include the date on which the dividend or distribution is payable and (if known) the amount per security of foreign sourced dividend or distribution.	Interim Report 31 December 2010: • Notes to the financial statement - Dividends	Note 11
6. Details of any dividend or distribution reinvestment plan in operation and the last date for the receipt of an election notice for the participation in any dividend or distribution reinvestment plan.	No dividend reinvestment plan. Not applicable	
7. Details of associates and joint venture entities including the name of the associate or joint venture entity and details of the reporting entity's percentage holding in each of these entities and - where material to the understanding of the report – aggregate share of profits (losses) of these entities, details of contributions to net profit for each of these entities, and with comparative figures for the previous corresponding reporting period.	Not applicable	
8. For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Accounting Standards).	Not applicable	
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 21 February 2011

nib holdings limited

ABN 51 125 633 856

Interim Report

31 December 2010

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nib holdings limited
Directors' report
31 December 2010

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 2010.

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

Steve Crane was appointed a director on 14 September 2010 and continues in office at the date of this report.

Brian Keane was a director from the beginning of the financial year until his resignation on 26 October 2010.

Review of operations

nib's vision is to be a leading financier of the nation's healthcare spending with a reputation for innovative products, value for money, outstanding customer service, corporate social responsibility and strong shareholder returns.

The consolidated profit of the Group for the half-year, after income tax expense, was $39.0 million (2009: $43.1 million).

The consolidated profit includes strong pre-tax underlying earnings of $40.9 million (net margin 8.3%), constituting an increase of 34.1% on 2009. However as pre-tax investment income has decreased by $15 million the consolidated profit after tax has decreased by $4.1 million as detailed below.

	Half Year		Change	
($m)	31-Dec-10	31-Dec-09	$m	%
Policyholder growth	2.7%	2.4%		
Premium revenue	495.0	446.1	48.9	11.0
Gross margin	83.1 16.8%	71.2 16.0%	11.9	16.7
Management Expense	(42.2) 8.5%	(40.7) 9.1%	(1.5)	3.7
Net margin	40.9 8.3%	30.5 6.8%	10.4	34.1
Net investment return	18.6 4.4%	33.6 7.7%	(15.0)	(44.6)
Other income	1.0	0.6	0.4	66.7
Other expenses	(4.0)	(3.3)	(0.7)	21.2
Profit before tax	56.4	61.5	(5.1)	(8.3)
Tax	(17.4)	(18.4)	1.0	(5.4)
NPAT	39.0	43.1	(4.1)	(9.5)
EPS (cps)	8.0	8.7	(0.7)	(8.0)
ROE[1] (%)	14.8%	18.0%		
Operating cash flow	27.1	20.1	7.0	34.8

[1]Using average shareholders' equity over rolling 12 month period.

On 30 September 2010 nib holdings limited acquired the business and assets of IMAN International Pty Ltd, a specialist provider of health cover for temporary migrant workers in Australia for $23.2 million. Refer to Note 14 Business Combination for details of the transaction.

Capital management

Capital management was a key focus during the half-year, as nib seeks to balance the competing goals of optimising capital and funding potential investments via mergers and acquisitions.

The most significant capital management activity during the period was the cancellation of 27,078,540 shares held in the nib Overseas Policyholders and Unverified Policyholders Trust on 26 November 2010, representing 5.5% of nib's issued share capital. The cancellation was approved by nib shareholders at the Annual General Meeting held on 26 October 2010.

At 31 December 2010 the Group had net assets of $403.4 million (December 2009: $383.3 million) and a return on equity on a rolling 12 months of 14.8%, using average shareholders' equity over rolling 12 month period (2009: 18.0%).

As part of the regular review of capital management, the Board has determined that the internal capital adequacy target be revised from a capital adequacy ratio of 1.4x (or a Capital/Risk Multiple of 2.35x) to a capital adequacy ratio of 1.3x (or a Capital/Risk Multiple of 2.00x).

At 31 December 2010 the Group had surplus capital of $145.4 million above our revised internal benchmark (after allowing for the payment of an interim dividend of 4.0 cents per share, totaling $18.7 million, in April 2011).

In light of the surplus capital position and no clear and present investment opportunities via mergers and acquisitions, the Board has resolved to undertake an equal reduction of capital in accordance with section 256B of the Corporations Act of $75 million (approximately $0.16 per share) subject to obtaining the appropriate tax ruling from the Australian Taxation Office and shareholder approval. The equal reduction of capital is currently expected to occur in June 2011.

Further potential capital management activities may include:

- The Board currently intends to continue to undertake the on-market buyback of up to 10% of its issued shares at the time of the original announcement of the on-market buyback on 29 August 2008, or 51,786,969 shares, in compliance with the applicable laws and the ASX Listing Rules as surplus capital and other capital management initiatives permit. To date, 24,013,485 shares have been bought back since 31 October 2008.
- The potential for a further return of surplus capital in 2012, dependant on other capital management activities in the interim, no merger and acquisition opportunities eventuating or other factors occurring which may require this to be reconsidered.
- The Board may determine to pay future special dividends.

Dividends

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

	Half-Year	
	31 Dec 10	**31 Dec 09**
	$000	**$000**
Ordinary Shares		
Dividends paid during the half year	24,772	21,823

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 $18.7 million (4.0 cents per fully paid share) to be paid on 8 April 2011 out of retained profits at 31 December 2010. The Board's position is that future dividends will reflect a dividend payout ratio of 50% to 60% of earnings, in addition, the Board may also determine to pay future special dividends as part of capital management.

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 5.

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
Director

Harold Bentley
Director

Newcastle, NSW, 18 February, 2011

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Auditor's Independence Declaration

As lead auditor for the review of nib holdings limited for the half year ended 31 December 2010, 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.

John Campion
Partner
PricewaterhouseCoopers

Newcastle
18 February 2011

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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 2010, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the nib holdings 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 2010 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.

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.

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

PRICEWATERHOUSECOOPERS

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

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 2010 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 Group (the consolidated entity) 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 2010 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

John Campion

John Campion
Partner

Newcastle
18 February 2011

Directors' declaration

In the director's opinion:

a) the financial statements and notes set out on pages 9 to 28 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 2010 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 *Director*	*Harold Bentley* *Director*

Newcastle, NSW, 18 February, 2011

nib holdings limited
Consolidated statement of comprehensive income
For the half-year ended 31 December 2010

	Notes	Half-year	
		31 Dec-10 $000	**31 Dec-09 $000**
Premium revenue	4	495,005	446,105
Claims expense		(339,625)	(310,694)
RETF Levy		(60,938)	(53,262)
State levies		(11,368)	(10,915)
Claims handling expenses	5	(7,543)	(6,820)
Net claims incurred		(419,474)	(381,691)
Acquisition costs	5	(15,207)	(13,876)
Other underwriting expenses	5	(19,434)	(20,027)
Underwriting expenses		(34,641)	(33,903)
Underwriting result		40,890	30,511
Investment income	4	19,405	34,216
Other income	4	967	615
Investment expenses	5	(773)	(584)
Other expenses	5	(4,047)	(3,263)
Profit before income tax		56,442	61,495
Income tax expense	6	(17,396)	(18,391)
Profit from continuing operations		39,046	43,104
Other comprehensive income			
Revaluation of land and buildings		83	-
Income tax related to components of other comprehensive income		(25)	-
Other comprehensive income for the year, net of tax		58	-
Total comprehensive income for the half-year attributable to equity holders of nib holdings limited		39,104	43,104
		Cents	**Cents**
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company			
Basic earnings per share		8.0	8.7
Diluted earnings per share		8.0	8.7
Earnings per share for profit attributable to the ordinary equity holders of the company			
Basic earnings per share		8.0	8.7
Diluted earnings per share		8.0	8.7

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

nib holdings limited
Consolidated statement of financial position
As at 31 December 2010

	Notes	31 December 2010 $000	30 June 2010 $000
Assets			
Current assets			
Cash and cash equivalents		171,549	197,415
Receivables	3a	48,634	31,812
Financial assets at fair value through profit or loss		274,141	264,408
		494,324	493,635
Non-current assets classified as held for sale		-	30,000
Total current assets		494,324	523,635
Non-current assets			
Receivables	3a	20,000	250
Available-for-sale financial assets		1,500	1,500
Property, plant and equipment		42,616	41,033
Intangible assets	8	39,223	12,437
Deferred tax assets	7	4,175	9,127
Total non-current assets		107,514	64,347
Total assets		601,838	587,982
Liabilities			
Current liabilities			
Payables		71,131	68,543
Borrowings		2,676	3,593
Outstanding claims liability	9	60,240	62,119
Unearned premium liability		53,724	54,443
Current tax liabilities		7,041	4,325
Provision for employee entitlements		2,714	2,690
Total current liabilities		197,526	195,713
Non-current liabilities			
Provision for employee entitlements		903	868
Total non-current liabilities		903	868
Total liabilities		198,429	196,581
Net assets		403,409	391,401
Equity			
Share capital		41,947	42,437
Retained profits		359,890	347,358
Reserves		1,572	1,606
Total equity		403,409	391,401

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

nib holdings limited
Consolidated statement of changes in equity
For the half-year ended 31 December 2010

	Notes	Contributed Equity $000	Reserves $000	Retained Earnings $000	Total Equity $000
Balance at 1 July 2009		42,528	1,458	317,897	361,883
Profit for the half-year		-	-	43,104	43,104
Transfer to retained earnings on sale of property		-	(377)	377	-
Total comprehensive income for the half-year		-	(377)	43,481	43,104
Transactions with owners in their capacity as owners:					
Share buyback	12	(20)	-	(158)	(178)
Employee performance rights - value of employee services		-	86	-	86
Employee bonus share rights - value of employee services		-	225	-	225
Dividends paid		-	-	(21,823)	(21,823)
		(20)	311	(21,981)	(21,690)
Balance at 31 December 2009		42,508	1,392	339,397	383,297
Balance at 1 July 2010		42,437	1,606	347,358	391,401
Profit for the half-year		-	-	39,046	39,046
Revaluation of property, net of tax		-	58	-	58
Total comprehensive income for the half-year		-	58	39,046	39,104
Transactions with owners in their capacity as owners:					
Share buyback	12	(226)	-	(1,742)	(1,968)
Employee performance rights - value of employee services		-	205	-	205
Share buyback - performance rights and bonus share rights		(561)	-	-	(561)
Employee performance rights - transfer on exercise		229	(229)	-	-
Employee bonus share rights - transfer on exercise		68	(68)	-	-
Dividends paid		-	-	(24,772)	(24,772)
		(490)	(92)	(26,514)	(27,096)
Balance at 31 December 2010		41,947	1,572	359,890	403,409

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

nib holdings limited
Consolidated statement of cash flows
For the half-year ended 31 December 2010

	Notes	Half Year 31 Dec-10 $000	31 Dec-09 $000
Cash flows from operating activities			
Receipts from policyholders and customers (inclusive of goods and services tax)		493,067	443,928
Payments to policyholders, suppliers and employees (inclusive of goods and services tax)		(461,356)	(419,933)
		31,711	23,995
Dividends received		14	11
Interest received		3,429	3,540
Distributions received		1,648	2,472
Interest paid		(1)	-
Income taxes paid		(9,728)	(9,952)
Net cash inflow from operating activities		27,073	20,066
Cash flows from investing activities			
Proceeds from disposal of other financial assets at fair value through the profit and loss		279,593	4
Payments for other financial assets at fair value through the profit and loss		(277,966)	(2,429)
Payments for property, plant and equipment and intangibles		(3,387)	(2,918)
Payments for IMAN business acquisition	14	(23,211)	-
Proceeds from sale of property, plant and equipment and intangibles		-	335
Proceeds from sale of Eye Care and Dental businesses		250	250
Net cash outflow from investing activities		(24,721)	(4,758)
Cash flows from financing activities			
Payments for share buy-back	12	(1,968)	(178)
Payments for employee performance & bonus share rights		(561)	-
Dividends paid to the company's shareholders	11	(24,772)	(21,823)
Proceeds from finance lease		-	82
Net cash outflow from financing activities		(27,301)	(21,919)
Net increase (decrease) in cash and cash equivalents		(24,949)	(6,611)
Cash and cash equivalents at beginning of the half-year		193,822	166,734
Cash and cash equivalents at end of half-year		168,873	160,123
Reconciliation to Consolidated Statement of Financial Position			
Cash and cash equivalents		171,549	161,556
Borrowings		(2,676)	(1,433)
		168,873	160,123

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

1. BASIS OF PREPARATION OF HALF-YEAR REPORT

a) Basis of preparation

This general purpose interim financial report for the half-year reporting period ending 31 December 2010 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 2010 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.

When the presentation or classification of items in the financial report is amended, comparative amounts have been reclassified.

The following comparative information has been reclassified for the 2009 half-year:

- As a result of the reclassification of impairment of property, Claims handling expenses have decreased by $0.145 million and acquisition costs have decreased by $0.153 million with the corresponding increase of $0.298 million in other underwriting expenses. There is no effect on underwriting result.

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. This analysis is supplemented by more granular analysis within classes as appropriate.

In calculating the estimated cost of unpaid claims for the Health Insurance Business (HIB), two methods are used. For service months October 2010 and earlier for hospital and medical, and for all months for general treatment, a chain ladder method is used; this assumes that the development pattern of the current claims will be consistent with historical experience. For hospital and medical, for the service months of November 2010 and December 2010 the paid Bornhuetter-Ferguson method is used, which progressively blends payment experience and prior forecasts of incurred costs.

For Overseas Students cover, the Bornhuetter-Ferguson method is used for all service months using the same developments assumptions as HIB.

A chain ladder method is used for all service months for the Overseas Visitors Cover valuation of the cost of unpaid claims.

2. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

Actuarial assumptions

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

Health Insurance	31/12/2010 Hospital	31/12/2010 Medical	31/12/2010 Ancillary	30/06/2010 Hospital	30/06/2010 Medical	30/06/2010 Ancillary
Assumed proportion paid to date	92.2%	88.6%	96.3%	91.7%	88.1%	95.6%
Expense rate	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk equalisation rate	27.6%	27.6%	0.0%	28.5%	28.5%	0.0%
Risk margin	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

Overseas Students	31/12/2010 Hospital	31/12/2010 Medical	31/12/2010 Ancillary	30/06/2010 Hospital	30/06/2010 Medical	30/06/2010 Ancillary
Assumed proportion paid to date	62.8%	68.0%	2.9%	n/a	n/a	n/a
Expense rate	2.5%	2.5%	2.5%	n/a	n/a	n/a
Discount rate	0.0%	0.0%	0.0%	n/a	n/a	n/a
Risk margin	5.0%	5.0%	5.0%	n/a	n/a	n/a

The risk margin of 5.0% (June 2010: 5.0%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% (June 2010: 95%).

Overseas Visitors	31/12/2010 Hospital	31/12/2010 Medical	31/12/2010 Ancillary	30/06/2010 Hospital	30/06/2010 Medical	30/06/2010 Ancillary
Assumed proportion paid to date	63.1%	61.3%	60.8%	n/a	n/a	n/a
Expense rate	8.0%	8.0%	8.0%	n/a	n/a	n/a
Discount rate	0.0%	0.0%	0.0%	n/a	n/a	n/a
Risk margin	7.5%	7.5%	7.5%	n/a	n/a	n/a

The risk margin of 7.5% of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95%.

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) Bornhuetter-Ferguson Unpaid Factors

Bornhuetter-Ferguson Unpaid Factors were selected based on historical patterns of payment (by development) to ultimate incurred claims. That is, the proportion of ultimate to be paid by development month, is selected based on observations from the historical development. This “unpaid proportion” is then multiplied by a prior forecast of incurred claims for each service month to determine the outstanding claims estimate.

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.

2. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

iv) Discount rate

As claims for health funds are generally settled within one year, no discounting of claims is 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 2010: 95%).

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 in claims expense respectively.
Bornhuetter-Ferguson Unpaid Factors	An increase or decrease in the level of unpaid 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 RETF Levy.
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.

2. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

ii) Impact of key variables

	Profit 31-Dec-10 $000	Equity 31-Dec-10 $000
Recognised amounts in the financial statements	39,046	403,409

Variable	Movement in variable	Adjustments	Adjusted profit	Adjustments	Adjusted equity
Chain Ladder	+0.5%	(3,041)	36,005	(3,041)	400,368
Development Factors	-0.5%	3,041	42,087	3,041	406,450
Bornhuetter-Ferguson	+2.0%	(2,185)	36,861	(2,185)	401,224
Unpaid Factors	-2.0%	2,185	41,231	2,185	405,594
Expense rate	+1.0%	(472)	38,574	(472)	402,937
	-1.0%	472	39,518	472	403,882
Risk equalisation	+2.5%	(927)	38,119	(927)	402,482
allowance	-2.5%	927	39,973	927	404,336
Risk margin	+1.0%	(564)	38,482	(564)	402,846
	-1.0%	564	39,609	564	403,973

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 sovereign risk, operational risk, regulatory and compliance risk. With the exception of credit risk, this interim report does not include detail of the policies in respect of managing the financial risk. Accordingly, this note should be read in conjunction with the annual report for the year ended 30 June 2010.

a) 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. nib only deals with major banks in Australia which are independently rated with a minimum rating of ‘A-1.’ nib receives advice from its asset consultant, MLC Implemented Consulting, who provide a rating of investment managers to nib as 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.

A deferred settlement arrangement is in place for the sale of the Newcastle Private Hospital for $30 million which is payable in 3 instalments on 1 June 2011, 1 June 2012 and 1 June 2013. Current receivables and non-current receivables have increased by $10 million and $20 million respectively since June 2010 as a result of this deferred settlement arrangement. The deferred settlement arrangement is covered by a mortgage over the property. Other deferred settlement credit risks are covered by bank guarantees from the purchaser.

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

a) Credit risk (continued)

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 2010 $'000	June 2010 $'000
Other Receivables		
*Counterparties without external credit rating**		
Group 1	116	-
Group 2	34,741	1,852
Group 3	-	-
Total Other Receivables	34,857	1,852
*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		
A-1	171,549	197,415
	171,549	197,415
Financial assets at fair value through profit or loss		
Interest-bearing securities		
AAA	126,759	113,757
AA	55,963	19,461
A	32,387	21,821
BBB	13,952	11,800
Sub Inv Grade	4,769	16,277
Unclassified	32	-
	233,862	183,116

4. REVENUE AND OTHER INCOME

	Half-Year 31 Dec-10 $000	Half-Year 31 Dec-09 $000
Premium revenue	495,005	446,105
Investment income/(loss)		
Rent received	69	863
Interest	5,754	3,823
Net realised gain/(loss) on financial assets at fair value	4,677	2,997
Net unrealised gain/(loss) on financial assets at fair value through profit or loss	8,891	26,522
Dividends	14	11
	19,405	34,216
Other income		
Sundry income	967	615

5. EXPENSES

Expenses by function

	31 Dec-10 $000	31 Dec-09 $000
Claims handling expenses	7,543	6,820
Investment expenses	773	584
Acquisition costs	15,207	13,876
Other underwriting expenses	19,434	20,027
Other expenses	4,047	3,263
Total expenses (excluding direct claims expenses)	47,004	44,570

Expenses by nature

	31 Dec-10 $000	31 Dec-09 $000
Employee costs	21,297	18,481
Depreciation and amortisation	3,055	2,373
Net loss on disposal of property, plant and equipment and investment properties	216	219
Impairment of property, plant and equipment	-	1,000
Reversal of impairment previously recognised in respect of property, plant and equipment	(2,236)	-
Operating lease rental expenses	1,208	1,355
Marketing expenses	8,819	7,688
Merger and acquisition costs	1,691	-
Share registry expenses - non-recurring	179	719
Share registry expenses - ongoing	677	857
Other	12,098	11,878
Total expenses (excluding direct claims expenses)	47,004	44,570

6. INCOME TAX EXPENSE

	Half Year	
	31 Dec-10	**31 Dec-09**
	$000	**$000**
a) Income tax expense		
Recognised in the income statement		
Current tax expense	12,330	9,888
Deferred tax expense	4,952	8,448
Under provided in prior years	114	55
	17,396	18,391
Income tax expense is attributable to:		
Profit from continuing operations	17,396	18,391
Profit from discontinuing operations	-	-
Aggregate income tax expense	17,396	18,391
Deferred income tax expense included in income tax expense comprises:		
Decrease in deferred tax assets	2,621	8,213
Increase in deferred tax liabilities	2,331	235
	4,952	8,448

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

Profit from continuing operations before income tax expense	56,442	61,495
	56,442	61,495
Tax at the Australian tax rate of 30%	16,933	18,449
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Assessable income	190	6
Other deductible expenses	(210)	(213)
Other non-deductible expenses	369	94
Adjustments for current tax of prior periods	114	55
Income tax expense	17,396	18,391

7. DEFERRED TAX ASSETS

	31 Dec 10 $000	30 June 10 $000
The balance comprises temporary differences attributable to:		
Outstanding claims liability	378	371
Doubtful debts	106	72
Depreciation	1,074	1,120
Asset revaluation	129	825
Employee benefits	1,518	1,337
Provisions	440	582
Share issue expenses	926	1,179
Demutualisation costs	1,810	2,306
Merger and acquisition costs	153	-
Unrealised losses on investments	-	1,363
Total deferred tax assets	6,534	9,155
Set-off of deferred tax liabilities pursuant to set-off provisions	(2,359)	(28)
Net deferred tax assets	4,175	9,127
Deferred tax assets to be recovered within 12 months	3,645	5,671
Deferred tax assets to be recovered after more than 12 months	2,889	3,484
	6,534	9,155

Deferred tax liabilities set-off

	31 Dec 10 $000	30 June 10 $000
The balance comprises temporary differences attributable to:		
Prepayments	33	11
Income receivable	207	17
Customer contracts	815	-
Unrealised gains on investments	1,304	-
Total deferred tax liabilities	2,359	28
Set-off of deferred tax liabilities pursuant to set-off provisions	2,359	28
Net deferred tax liabilities	-	-
Deferred tax liabilities to be settled within 12 months	1,922	28
Deferred tax liabilities to be settled after more than 12 months	437	-
	2,359	28

8. NON-CURRENT ASSETS – INTANGIBLE ASSETS

	Goodwill $000	Software $000	Brands and Trademarks $000	Customer Contracts $000	Total $000
Fair value/Cost					
Balance at 1 July 2009	7,067	17,277	-	-	24,344
Additions	-	3,373	-	-	3,373
Assets classified as held for sale and other disposals	-	(14)	-	-	(14)
Balance at 30 June 2010	7,067	20,636	-	-	27,703
Balance at 1 July 2010	7,067	20,636	-	-	27,703
Acquisition of IMAN	18,372	1,156	4,044	3,104	26,676
Additions	-	1,747	-	-	1,747
Assets classified as held for sale and other disposals	-	(633)	-	-	(633)
Balance at 31 December 2010	25,439	22,906	4,044	3,104	55,493
Amortisation and impairment losses					
Balance at 1 July 2009	-	(13,429)	-	-	(13,429)
Amortisation charge for the year	-	(1,851)	-	-	(1,851)
Assets classified as held for sale and other disposals	-	14	-	-	14
Balance at 30 June 2010	-	(15,266)	-	-	(15,266)
Balance at 1 July 2010	-	(15,266)	-	-	(15,266)
Amortisation charge for the year	-	(1,249)	-	(388)	(1,637)
Assets classified as held for sale and other disposals	-	633	-	-	633
Balance at 31 December 2010	-	(15,882)	-	(388)	(16,270)
Carrying amounts					
At 1 July 2009	**7,067**	**3,848**	**-**	**-**	**10,915**
At 30 June 2010	**7,067**	**5,370**	**-**	**-**	**12,437**
At 1 July 2010	**7,067**	**5,370**	**-**	**-**	**12,437**
At 31 December 2010	**25,439**	**7,024**	**4,044**	**2,716**	**39,223**

9. CURRENT LIABILITIES – OUTSTANDING CLAIMS LIABILITY

a) Outstanding claims liability

	31 Dec 10 $000	30 June 10 $000
Outstanding claims - central estimate of the expected future payments for claims incurred	45,909	47,106
Risk Margin	2,381	2,414
Claims handling costs	1,198	1,178
Gross outstanding claims liability	49,488	50,698
Outstanding claims - expected payment to the RETF* in relation to the central estimate	10,240	10,877
Risk Margin	512	544
Net outstanding claims liability	60,240	62,119

* 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 5.0% for HIB (June 2010: 5.0%) and OSHC, and the risk margin of 7.5% for OVC, of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% (June 2010: 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 allowed for diversification between valuation classes based on an analysis of past correlations in deviations from the adopted model.

The Outstanding Claims provision has been estimated using a chain ladder method, based on historical experience and future expectations as to claims. For Hospital, Prostheses and Medical services in particular, expected claim numbers and average claims size are used instead for the most recent two months. The calculation was determined taking into account one month of actual post balance date claims.

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

9. CURRENT LIABILITIES – OUTSTANDING CLAIMS LIABILITY (CONTINUED)

b) Risk margin (continued)

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

	31 Dec 10 $000	30 June 10 $000
Gross outstanding claims at beginning of period	50,698	47,693
Administration component	(1,178)	(1,323)
Risk margin	(2,414)	(2,272)
Central estimate at beginning of period	47,106	44,098
Change in claims incurred for the prior period	(3,309)	(1,092)
Claims paid in respect of the prior period	(41,585)	(43,013)
Claims incurred during the period (expected)	342,762	636,512
Claims paid during the period	(299,065)	(589,399)
Central estimate at end of period	45,909	47,106
Administration component	1,148	1,413
Change in administration component assumptions	51	(235)
Risk margin	2,355	2,414
Change in risk margin assumption	25	-
Gross outstanding claims at end of period	49,488	50,698

10. CONTINGENT ASSETS AND 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 12 months from 20 August 2010, or if earlier, to the date of sale of the entities should this occur.

nib holdings limited and nib health funds limited have indemnified the trustee under the nib demutualisation overseas policyholders and unverified policyholders trust deed dated 19 July 2007, in respect of all liabilities, costs and expenses incurred in execution of the trust. On 26 November 2010, the company cancelled 27,078,540 shares held by the trust and it is envisaged that the trust will be wound up within 6 months from the date of issuance of this financial report in accordance with the provisions of the trust deed. The trust currently has a surplus of trust funds, which may be distributed to the company on wind up of the trust.

11. DIVIDENDS

a) Ordinary Shares

	Half-Year	
	31 Dec 10	31 Dec 09
	$000	$000
Ordinary Shares		
Dividends paid during the half year	24,772	21,823

b) Dividends not recognised at period end

	Half-Year	
	31 Dec 10	31 Dec 09
	$000	$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 4.0 cents per fully paid ordinary share (2009 - 2.0 cents), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 8 April 2011 out of retained profits at 31 December 2010, but not recognised as a liability at the end of the half-year, is	18,671	9,919

c) Franked dividends

The franked portion of the interim dividend recommended after 31 December 2010 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 2011.

	31 Dec 10	30 June 10
	$000	$000
Franking credits available for subsequent financial years based on a tax rate of 30% (30 June 2010 - 30%)	13,851	11,155

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.

12. EQUITY SECURITIES ISSUED/ (CANCELLED)

	31 Dec 10 Shares	31 Dec 10 $000	31 Dec 09 Shares	31 Dec 09 $000
Buyback of ordinary shares during the half-year				
Transactions six months to December	(1,575,221)	(226)	(186,058)	(20)
Cancellation of ordinary shares during the half-year				
Transactions six months to December	(27,078,540)	-	-	-

During the six months to December 2010, the company cancelled 1,575,221 ordinary shares purchased on-market as part of the group's capital management initiatives announced in the 2008 annual report. These shares were purchased and cancelled during October - December 2010 and were acquired for $1,968,016 at an average price of $1.25 per share. Of the total cost of $1,968,016, $225,632 was deducted from ordinary share equity and the remaining $1,742,384 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.

On 26 November 2010, the company cancelled 27,078,540 shares held in the nib Overseas Policyholders and Unverified Policyholders Trust. The cancellation was approved by nib shareholders at the Annual General Meeting held on 26 October 2010.

13. SEGMENT REPORTING

a) Description of segments

Management has determined the operating segments based on the reports reviewed by the executive management that are used to make strategic decisions.

Executive management considers the business from a product perspective and has identified three reportable segments. Health Insurance consists of nib's core product offering within the Australian private health insurance industry. Health Related consists of two separate segments – overseas students health cover and overseas visitors cover.

nib entered the overseas students health cover market on 4 January 2010 and commenced reporting overseas student health cover as a separate segment for management purposes in July 2010. The Overseas Visitors segment was established following the acquisition of the business and assets of IMAN International Pty Ltd on 30 September 2010.

Although the Overseas Visitors and Overseas Students segments do not meet the quantitative thresholds required by AASB 8, management has concluded that these segments should be reported, as they are closely monitored by executive management as potential growth segments and are expected to contribute to group revenue in the future.

13. SEGMENT REPORTING (CONTINUED)

b) Segment information provided to executive management

The segment information provided to executive management for the reportable segments for the half-year ended 31 December 2010 is as follows:

	Health Insurance	Health Related		
	Core Product	Overseas Students	Overseas Visitors	Total
Half-year 2010	$'000	$'000	$'000	$'000
Revenue from external customers	489,805	52	5,148	495,005
Underwriting Result	40,413	(281)	758	40,890

No comparative information is shown as the Group previously operated predominantly only within the Australian private health insurance industry and did not report segment information to executive management.

Executive management assesses the performance of the operating segments based on net margin. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as integration costs. Furthermore, investment income and expenditure are not allocated to segments as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

A reconciliation of segment underwriting result to operating profit before income tax is provided as follows:

	31 Dec 10 $'000
Segment underwriting result	40,890
Investment income	19,405
Other income	967
Investment expenses	(773)
Other expenses	(4,047)
Profit before income tax from continuing operations	**56,442**

No information regarding segment assets and liabilities is provided to executive management.

14. BUSINESS COMBINATION

On 30 September 2010 nib holdings limited acquired the business and assets of IMAN, a specialist provider of health cover for temporary migrant workers in Australia.

Purchase consideration
Details of the purchase consideration are as follows:

	$'000
Purchase consideration	
Cash	23,211
Total purchase consideration	23,211

The purchase consideration consists of an agreed price of $26.0m for the business and assets, less $2.8m of assumed liabilities.

The fair values of the assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value $'000
Property, plant and equipment	115
Intangible assets - software	1,156
Intangible assets - brand and trademarks	4,044
Intangible assets - customer contracts	3,104
Deferred tax assets	136
Unearned premium liability	(2,332)
Provision for employee entitlements	(453)
Deferred tax liabilities	(931)
Net identifiable assets acquired	4,839
Add: Goodwill	18,372
	23,211

The fair values assigned are currently provisionally determined.

The goodwill is attributable to IMAN's strong position and profitability in the temporary migrant workers health cover market, and synergies expected to arise after the acquisition. None of the goodwill is expected to be deductible for tax purposes.

(i) Acquisition-related costs

Consultancy fees, legal fees and stamp duty of $1,017,870 relating to the acquisition are included in other expenses in profit or loss.

(ii) Revenue and profit contribution

The acquired business contributed revenues of $5,148,248 and net profit of $757,827 to the group for the period 30 September 2010 to 31 December 2010. If the acquisition had occurred on 1 July 2010, consolidated revenue and consolidated profit for the half-year ended 31 December 2010 would have been $520,647,930 and $39,375,455 respectively.

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. SOLVENCY AND CAPITAL ADEQUACY RESERVES

nib health funds limited Solvency Reserve, as per the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is $79.152 million. Total Health Benefits Fund Assets are $446.397 million, representing an excess of $169.048 million over the sum of the Solvency Reserve and total Health Benefits Fund Liabilities ($198.197 million). This equates to a solvency coverage ratio of 1.61x and a solvency/capital risk multiple of 3.14.

nib health funds limited Capital Adequacy Reserve, as per the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is $94.927 million. Total Health Benefits Fund Assets are $446.397 million, representing an excess of $153.273 million over the Capital Adequacy Reserve and total Health Benefits Fund Liabilities ($198.197 million). This equates to a capital adequacy coverage ratio of 1.52x and a capital adequacy/ risk multiple of 2.61.

17. COMPANY DETAILS

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

22 Honeysuckle Drive
NEWCASTLE NSW 2300

The financial report was authorised for issue by the directors on 18 February 2011. The company has the power to amend and reissue the financial report.