nib holdings limited
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nib holdings limited
ABN 51 125 633 856

Half-year report for the period ended 31 December 2011

This report should be read in conjunction with the annual financial report for the year ended 30 June 2011.

CONTENTS

APPENDIX 4D

nib holdings limited
ABN 51 125 633 856

For the period ended 31 December 2011

Results for announcement to market

	6 months to 31-Dec-11 $'000	6 months to 31-Dec-10 $'000	Movement up / (down) $'000	Movement %
Revenue from ordinary activities	568,607	515,377	53,230	10%
Profit from ordinary activities after tax attributable to members	38,310	39,046	(736)	-2%
Net profit attributable to members	38,310	39,046	(736)	-2%

Dividends (distributions)	Amount per security	Franking amount per security
Interim Dividend		
Ordinary Dividend	4.25	100%
Special Dividend	0.00	
Total Interim Dividend	4.25	
Record date for determining entitlements to the dividend		9 March 2012
Date the interim dividend is payable		5 April 2012

Brief explanation of figures reported above:

Net profit after tax for the half year to 31 December 2011 calculated on a statutory basis equated to a profit of $38.3 million.

For further information refer to the Directors' Report in the attached Interim Report of nib holdings limited for the period ended 31 December 2011.

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 62.78 (78.02 as at 31 December 2010)	
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 2011: • Notes to the financial statement - Dividends	 Note 10
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 contain an independent audit report or review that is subject to a modified opinion, emphasis of matter or other matter paragraph, a description of the modified opinion, emphasis of matter or other matter paragraph.	Not applicable	.

M McPherson
Company Secretary
nib holdings limited

Date 20 February 2012

nib holdings limited

Interim Report
31 December 2011

ABN 51 125 633 856

Contents

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 2011.

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:

Steve Crane	Mark Fitzgibbon
Harold Bentley	Annette Carruthers
Philip Gardner	Christine McLoughlin

Keith Lynch was Chairman and a director from the beginning of the financial year until his retirement on 30 September 2011.

Steve Crane was appointed Chairman on 1 October 2011.

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 $38.3 million (2010: $39.0 million). The consolidated profit after tax has decreased by $0.7 million as pre-tax net investment income has decreased by $6.2 million, in line with external market conditions and a reduction in investments as a result of the capital return and special dividend. The consolidated profit includes a strong pre-tax underwriting result of $42.7 million (net margin 7.7%), constituting an increase of 4.5% on 2010, as detailed below.

	Half-year		Change	
($m)	31 Dec 11	31 Dec 10	$m	%
HIB Policyholder growth	2.2%	2.7%		
Premium revenue	554.4	495.0	59.4	12.0
Gross margin	95.3	83.1	12.2	14.7
	17.2%	16.8%		
Management expense	(52.6)	(42.2)	(10.4)	(24.6)
	9.5%	8.5%		
Underwriting result	42.7	40.9	1.8	4.5
	7.7%	8.3%		
Net investment return	12.4	18.6	(6.2)	(33.2)
	2.8%	4.4%		
Other income	1.3	1.0	0.3	39.0
Other expenses	(2.4)	(4.0)	1.6	41.6
Profit before tax	54.2	56.4	(2.2)	(4.0)
Tax	(15.9)	(17.4)	1.5	8.8
NPAT	38.3	39.0	(0.7)	(1.9)
EPS (cps)	8.2	8.0	0.2	2.5
ROE [1] (%)	18.0%	14.8%		
Operating cash flow	34.9	27.1	7.8	28.8

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

Active capital management as discussed below has resulted in improved EPS and ROE.

Capital management

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

The most significant capital management activity during the half year was a capital return to shareholders of $75.0 million on 21 July 2011. The capital return was approved at a General Meeting on 5 July 2011.

At 31 December 2011 the Group had net assets of $331.8 million (December 2010: $403.4 million) and a return on equity of 18.0%, using average shareholders' equity over a rolling 12-month period (2010: 14.8%).

At 31 December 2011 the Group has surplus capital of $57.4 million above our internal benchmark (after allowing for the payment of an interim dividend of 4.25 cents per share, totalling $19.8 million, in April 2012).

Below is a reconciliation of total assets to surplus capital as at 31 December 2011:

		31 Dec 11 $m
Total assets		**549.7**
Less:	Health Fund capital required	(445.9)
	International Workers intangibles	(24.5)
	Other liabilities	(2.1)
	Interim dividend	(19.8)
Surplus capital		**57.4**

The Board currently intends to continue to undertake the on-market buy-back of up to 10% of issued shares at the time of commencement of the on-market buy-back, 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. At 31 December 2011, 24,058,041 shares have been bought back since 31 October 2008.

Dividends

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

	Half year	
	31 Dec 11 $000	31 Dec 10 $000
Final dividend for the year ended 30 June 2011 of 9.0 cents made up of 4.0 cps ordinary dividend and 5.0 cps special dividend (2010: 5.0 cents) per fully paid share paid on 30 September 2011	42,006	24,772

Dividends (continued)

In addition to this dividend, since the end of the half year the directors have recommended the payment of an interim ordinary dividend of $19.8 million (4.25 cents per fully paid share) to be paid on 5 April 2012 out of retained profits at 31 December 2011.

Subject to franking credit availability, the Board's position is that future dividends will reflect a dividend payout ratio of 50% to 60% of earnings with additional capacity to pay special dividends as part of future 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

Steve Crane
Director

Harold Bentley
Director

Newcastle, NSW
17 February 2012

Auditor's Independence Declaration

As lead auditor for the review of nib holdings limited for the half year ended 31 December 2011, 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
17 February 2012

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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 2011 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 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 of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with 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 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of nib holdings limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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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 2011 and of its performance for the half-year ended on that date; and

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

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 2011 included on the nib holding limited web site. The company's directors are responsible for the integrity of the nib holding 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.

PricewaterhouseCoopers

PricewaterhouseCoopers

John Campion

John Campion
Partner

17 February 2012

Directors' Declaration
For the half year ended 31 December 2011
nib holdings limited

In the director's opinion:

a) the financial statements and notes set out on pages 9 to 25 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 2011 and of its performance for the half-year ended on that date; and

b) there are reasonable grounds to believe that nib holdings limited will be able to pay its debts as and when they become due and payable.

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

On behalf of the Board

Steve Crane
Director

Harold Bentley
Director

Newcastle, NSW
17 February 2012

Consolidated Income Statement

For the half year ended 31 December 2011
nib holdings limited

	Notes	Half year 31 Dec 11 $000	Half year 31 Dec 10 $000
Premium revenue	4	**554,378**	**495,005**
Claims expense		(370,702)	(339,625)
RETF levy		(76,637)	(60,938)
State levies		(11,727)	(11,368)
Claims handling expenses	5	(8,550)	(7,543)
Net claims incurred		**(467,616)**	**(419,474)**
Acquisition costs	5	(18,784)	(15,207)
Other underwriting expenses	5	(25,232)	(19,434)
Underwriting expenses		**(44,016)**	**(34,641)**
Underwriting result		**42,746**	**40,890**
Investment income	4	12,885	19,405
Other income	4	1,344	967
Investment expenses	5	(436)	(773)
Other expenses	5	(2,365)	(4,047)
Profit before income tax		**54,174**	**56,442**
Income tax expense	6	(15,864)	(17,396)
Profit for the half-year		**38,310**	**39,046**

	Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company		
Basic earnings per share	8.2	8.0
Diluted earnings per share	8.2	8.0
Earnings per share for profit attributable to the ordinary equity holders of the company		
Basic earnings per share	8.2	8.0
Diluted earnings per share	8.2	8.0

The above Consolidated Income Statement should be read in conjunction with the accompanying notes

Consolidated Statement of Comprehensive Income

For the half year ended 31 December 2011

nib holdings limited

	Half year	
	31 Dec 11	31 Dec 10
	$000	$000
Profit for the half-year	**38,310**	**39,046**
Other comprehensive income		
Revaluation of land and buildings	-	83
Income tax related to components of other comprehensive income	-	(25)
Other comprehensive income for the half-year, net of tax	-	**58**
Total comprehensive income for the half-year attributable to equity holders of nib holdings limited	**38,310**	**39,104**

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes

Consolidated Balance Sheet
As at 31 December 2011
nib holdings limited

	Notes	Half year 31 Dec 11 $000	30 Jun 11 $000
ASSETS			
Current assets			
Cash and cash equivalents		191,908	240,772
Receivables		48,320	49,469
Financial assets at fair value through profit or loss		211,868	239,293
Total current assets		**452,096**	**529,534**
Non-current assets			
Receivables		10,000	20,000
Available-for-sale financial assets		2,206	2,206
Deferred tax assets	7	5,246	6,554
Property, plant and equipment		41,386	41,858
Intangible assets		38,768	39,098
Total non-current assets		**97,606**	**109,716**
Total assets		**549,702**	**639,250**
LIABILITIES			
Current liabilities			
Payables		82,104	77,230
Borrowings		1,779	3,603
Outstanding claims liability	8	62,958	65,883
Unearned premium liability		58,866	65,202
Current tax liabilities		9,294	10,894
Provision for employee entitlements		1,853	3,657
Total current liabilities		**216,854**	**226,469**
Non-current liabilities			
Provision for employee entitlements		1,072	991
Total non-current liabilities		**1,072**	**991**
Total liabilities		**217,926**	**227,460**
Net assets		**331,776**	**411,790**
EQUITY			
Contributed equity	9	33,070	42,193
Retained profits		297,611	367,595
Reserves		1,095	2,002
Total equity		**331,776**	**411,790**

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes

Consolidated Statement of Changes in Equity

For the half year ended 31 December 2011

nib holdings limited

	Notes	Contributed Equity $000	Reserves $000	Retained Profits $000	Total Equity $000
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		(226)	-	(1,742)	(1,968)
Share buyback - performance rights and bonus share rights		-	(561)	-	(561)
Employee performance rights - value of employee services			205	-	205
Dividends paid		-	-	(24,772)	(24,772)
		(226)	**(356)**	**(26,514)**	**(27,096)**
Balance at 31 December 2010		**42,211**	**1,308**	**359,890**	**403,409**
Balance at 1 July 2011		**42,193**	**2,002**	**367,595**	**411,790**
Profit for the half year		-	-	38,310	38,310
Total comprehensive income for the half year		**-**	**-**	**38,310**	**38,310**
Transactions with owners in their capacity as owners:					
Capital return and transaction costs net of tax	9(c)	(9,123)	-	(66,288)	(75,411)
Share buyback - performance rights and bonus share rights		-	(1,069)	-	(1,069)
Employee performance rights - value of employee services		-	162	-	162
Dividends paid		-	-	(42,006)	(42,006)
		(9,123)	**(907)**	**(108,294)**	**(118,324)**
Balance at 31 December 2011		**33,070**	**1,095**	**297,611**	**331,776**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes

Consolidated Statement of Cash Flows
For the half year ended 31 December 2011
nib holdings limited

	Notes	Half year 31 Dec 11 $000	31 Dec 10 $000
Cash flows from operating activities			
Receipts from policyholders and customers (inclusive of goods and services tax)		553,855	493,067
Payments to policyholders, suppliers and employees (inclusive of goods and services tax)		(514,275)	(460,300)
		39,580	**32,767**
Dividends received		16	14
Interest received		7,625	3,429
Distributions received		3,630	1,648
Transactions costs relating to acquisition of business		-	(1,056)
Interest paid		(7)	(1)
Income taxes paid		(15,982)	(9,728)
Net cash inflow (outflow) from operating activities		**34,862**	**27,073**
Cash flows from investing activities			
Proceeds from disposal of other financial assets at fair value through the profit and loss		44,004	279,593
Payments for other financial assets at fair value through the profit and loss		(14,605)	(277,966)
Proceeds from sale of investment properties		10,000	-
Proceeds from sale of property, plant and equipment and intangibles		22	-
Payments for property, plant and equipment and intangibles		(2,913)	(3,387)
Proceeds from sale of Eye Care and Dental businesses		250	250
Payment for acquisition of business		-	(23,211)
Net cash (outflow) inflow from investing activities		**36,758**	**(24,721)**
Cash flows from financing activities			
Payments for share buy-back		-	(1,968)
Payments for capital return		(75,585)	-
Payments for employee performance & bonus share rights		(1,069)	(561)
Dividends paid to the company's shareholders		(42,006)	(24,772)
Net cash inflow (outflow) from financing activities		**(118,660)**	**(27,301)**
Net increase (decrease) in cash and cash equivalents		(47,040)	(24,949)
Cash and cash equivalents at beginning of the half year		237,169	193,822
Cash and cash equivalents at end of the half year		**190,129**	**168,873**
Reconciliation to Consolidated Balance Sheet			
Cash and cash equivalents		191,908	171,549
Borrowings		(1,779)	(2,676)
		190,129	**168,873**

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

1. BASIS OF PREPARATION OF HALF YEAR REPORT

This consolidated interim financial report for the half-year reporting period ending 31 December 2011 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Act 2001.*

This consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 30 June 2011 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.

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

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 General Treatment. 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 2011 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 2011 and December 2011 the Bornhuetter-Ferguson method is used, which progressively blends payment experience and prior forecasts of incurred costs.

For International Students Business (ISB), the Bornhuetter-Ferguson method is used for all service months for hospital and medical, and the chain ladder method for general treatment.

A chain ladder method is used for all service months for the International Workers Business (IWB) valuation of the cost of unpaid claims.

Actuarial assumptions

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

	31 December 2011			30 June 2011		
	Hospital	Medical	Ancillary	Hospital	Medical	Ancillary
Health Insurance	%	%	%	%	%	%
Assumed proportion paid to date	93.0%	89.5%	96.2%	92.1%	88.4%	95.7%
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	34.0%	34.0%	0.0%	29.5%	29.5%	0.0%
Risk margin	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
International Students						
Assumed proportion paid to date	87.6%	75.9%	94.6%	92.1%	88.4%	95.7%
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 margin	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
International Workers						
Assumed proportion paid to date	88.8%	87.6%	84.6%	84.1%	84.7%	81.1%
Expense rate	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%

The risk margin of 5.0% (HIB and ISB) and 7.5% (IWB) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 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) 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 incurred claims 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.

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 2011: 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

i) Impact of key variables

	Profit 31 Dec 2011 $000	Equity 31 Dec 2011 $000
Recognised amounts in the financial statements	**38,310**	**331,776**

Variable	Movement in variable	Adjustments $000	Adjusted amounts $000	Adjustments $000	Adjusted amounts $000
Chain Ladder Development Factors	+0.5%	(3,463)	34,847	(3,463)	328,313
	-0.5%	3,463	41,773	3,463	335,239
Bornhuetter-Ferguson Unpaid Factors	+2.0%	(2,397)	35,913	(2,397)	329,379
	-2.0%	2,397	40,707	2,397	334,173
Expense rate	+1.0%	(488)	37,822	(488)	331,288
	-1.0%	488	38,798	488	332,264
Risk equalisation allowance	+2.5%	(947)	37,363	(947)	330,829
	-2.5%	947	39,257	947	332,723
Risk margin	+1.0%	(599)	37,711	(599)	331,177
	-1.0%	599	38,909	599	332,375

3. SEGMENT REPORTING

a. Description of segments

Management has determined the operating segments based on the reports reviewed by the Managing Director/Chief Executive Officer (MD/CEO) that are used to make strategic decisions.

The MD/CEO 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 – International Students Business and International Workers Business (previously named as Overseas Students Health Cover and Overseas Visitors Health Cover).

nib entered the International Students Business market on 4 January 2010 and commenced reporting International Student Business as a separate segment for management purposes in July 2010. The International Workers segment was established following the acquisition of the business and assets of IMAN International Pty Ltd on 30 September 2010.

Although the International Workers and International Students segments do not meet the quantitative thresholds required by *AASB 8 Operating Segments*, management has concluded that these segments should be reported, as they are closely monitored by the MD/CEO as potential growth segments and are expected to contribute more to group revenue in the future.

b. Segment information provided to executive management

The segment information provided to the MD/CEO for the reportable segments for the half year ended 31 December 2011 is as follows:

	For the half year ending 31 December 2011				For the half year ending 31 December 2010			
	Health Insurance	International Students	International Workers	Total	Health Insurance	International Students	International Workers	Total
	$000	$000	$000	$000	$000	$000	$000	$000
Premium revenue	**540,885**	**1,194**	**12,299**	**554,378**	**489,805**	**52**	**5,148**	**495,005**
Claims expense	(364,591)	(1,056)	(5,055)	(370,702)	(337,013)	(32)	(2,580)	(339,625)
RETF levy	(76,637)	-	-	(76,637)	(60,938)	-	-	(60,938)
State levies	(11,727)	-	-	(11,727)	(11,368)	-	-	(11,368)
Claims handling expenses	(7,754)	(46)	(750)	(8,550)	(7,131)	(60)	(352)	(7,543)
Net claims incurred	**(460,709)**	**(1,102)**	**(5,805)**	**(467,616)**	**(416,450)**	**(92)**	**(2,932)**	**(419,474)**
Acquisition costs	(17,450)	(445)	(889)	(18,784)	(14,865)	(73)	(269)	(15,207)
Other underwriting expenses	(22,882)	(315)	(2,035)	(25,232)	(18,077)	(168)	(1,189)	(19,434)
Underwriting expenses	**(40,332)**	**(760)**	**(2,924)**	**(44,016)**	**(32,942)**	**(241)**	**(1,458)**	**(34,641)**
Underwriting result	**39,844**	**(668)**	**3,570**	**42,746**	**40,413**	**(281)**	**758**	**40,890**

The MD/CEO assesses the performance of the operating segments based on the underwriting result. 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 11	31 Dec 10
	$000	$000
Segment underwriting result	**42,746**	**40,890**
Investment income	12,885	19,405
Other income	1,344	967
Investment expenses	(436)	(773)
Other expenses	(2,365)	(4,047)
Profit before income tax from continuing operations	**54,174**	**56,442**

4. REVENUE AND OTHER INCOME

	Half year	
	31 Dec 11	31 Dec 10
	$000	$000
Premium revenue	**554,378**	**495,005**
Investment income		
Rent received	-	69
Interest	6,828	5,754
Net realised gain/(loss) on financial assets at fair value through profit or loss	4,400	4,677
Net unrealised gain/(loss) on financial assets at fair value through profit or loss	1,641	8,891
Dividends	16	14
	12,885	**19,405**
Other Income		
Sundry income	1,344	967
	1,344	**967**

5. EXPENSES

	Half year	
	31 Dec 11	31 Dec 10
	$000	$000
Expenses by function		
Claims handling expenses	8,550	7,543
Investment expenses	436	773
Acquisition costs	18,784	15,207
Other underw riting expenses	25,232	19,434
Other expenses	2,365	4,047
Total expenses (excluding direct claims expenses)	**55,367**	**47,004**
Expenses by nature		
Employee costs	25,047	21,297
Depreciation and amortisation	3,673	3,055
Net loss on disposal of property, plant and equipment and investment properties	20	216
(Appreciation)/impairment of property, plant and equipment	-	(2,236)
Operating lease rental expenses	1,352	1,208
Marketing expenses	8,866	8,819
Marketing expenses - commissions	4,290	2,200
Merger and acquisition costs	26	1,691
Electronic claims processing fees	1,560	1,483
Consultancy fees	1,235	912
Legal expenses	336	258
Share registry expenses	889	856
Investment expenses	436	773
Other	7,637	6,472
Total expenses (excluding direct claims expenses)	**55,367**	**47,004**

6. INCOME TAX EXPENSE

	Notes	Half year 31 Dec 11 $000	Half year 31 Dec 10 $000
a) Income tax expense			
Recognised in the income statement			
Current tax expense		14,454	12,330
Deferred tax expense		1,482	4,952
Under (over) provided in prior years		(72)	114
		15,864	**17,396**
Income tax expense is attributable to:			
Profit from continuing operations		15,864	17,396
Aggregate income tax expense		**15,864**	**17,396**
Deferred income tax (revenue) expense included in income tax expense comprises:			
Decrease (increase) in deferred tax assets		1,890	2,621
(Decrease) increase in deferred tax liabilities		(408)	2,331
		1,482	**4,952**
b) Numerical reconciliation of income tax expense to prima facie tax payable			
Profit from continuing operations before income tax expense		**54,174**	**56,442**
Tax at the Australian tax rate of 30% (2010: 30%)		16,252	16,933
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
Assessable income		-	190
Other deductible expenses		(359)	(210)
Other non-deductible expenses		48	369
Adjustments for current tax of prior periods		(72)	114
Imputation credits and foreign tax credits		(5)	-
Income tax expense		**15,864**	**17,396**
c) Tax expense relating to items of other comprehensive income			
Gain on revaluation of land and buildings		-	25
		-	**25**
d) Amounts recognised directly to equity			
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:			
Net deferred tax - debited (credited) directly to equity		(174)	-
		(174)	**-**

7. DEFERRED TAX ASSETS

	31 Dec 11 $000	30 Jun 11 $000
The balance comprises temporary differences attributable to:		
Depreciation	450	432
Share issue expenses	253	505
Employee benefits	1,531	1,632
Outstanding claims	389	416
Demutualisation costs	517	1,034
Unrealised losses on investments	1,018	1,526
	4,158	**5,545**
Other		
Doubtful debts	149	72
Asset revaluation	613	613
Provisions	440	881
Merger & acquisition costs	502	467
Sub-total other	**1,704**	**2,033**
Total deferred tax assets	**5,862**	**7,578**
Set-off of deferred tax liabilities pursuant to set-off provisions	(616)	(1,024)
Net deferred tax assets	**5,246**	**6,554**
Deferred tax assets to be recovered within 12 months	2,772	6,498
Deferred tax assets to be recovered after more than 12 months	3,090	1,080
	5,862	**7,578**

Deferred tax liabilities set-off	31 Dec 11 $000	30 Jun 11 $000
The balance comprises temporary differences attributable to:		
Prepayments	45	9
Income receivable	136	435
Customer contracts	435	580
Total deferred tax liabilities	**616**	**1,024**
Deferred tax liabilities to be settled within 12 months	181	1,024
Deferred tax liabilities to be settled after more than 12 months	435	-
	616	**1,024**

8. CURRENT LIABILITIES – OUTSTANDING CLAIMS LIABILITY

a) Outstanding claims liability

	31 Dec 11 $000	30 Jun 11 $000
Outstanding claims - central estimate of the expected future payment for claims incurred	46,429	49,894
Risk Margin	2,419	2,594
Claims handling costs	1,234	1,317
Gross outstanding claims liability	**50,082**	**53,805**
Outstanding claims - expected payment to the *RETF in relation to the central estimate	12,263	11,502
Risk Margin	613	576
Net outstanding claims liability	**62,958**	**65,883**

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

b) Risk margin

The risk margin of 5.0% for HIB and ISB (June 2011: 5.0%), and the risk margin of 7.5% for IWB (June 2011: 7.5%), of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% (June 2011: 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 contains no intentional over or under estimation. For this reason the inherent uncertainty in the central estimate must also be considered.

The risk margins have 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 General Treatment. 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 2011 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 2011 and December 2011 the Bornhuetter-Ferguson method is used, which progressively blends payment experience and prior forecasts of incurred costs.

For ISB, the Bornhuetter-Ferguson method is used for all service months for hospital and medical, and the chain ladder method for general treatment.

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

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. Accordingly, reasonable changes in assumptions would not have a material impact on the outstanding claims balance.

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

	31 Dec 11 $000	30 Jun 11 $000
Gross outstanding claims at beginning of period	53,805	50,698
Administration component	(1,317)	(1,178)
Risk margin	(2,594)	(2,414)
Central estimate at beginning of period	**49,894**	**47,106**
Change in claims incurred for the prior year	(1,531)	(3,259)
Claims paid in respect of the prior year	(46,117)	(43,847)
Claims incurred during the year (expected)	372,319	695,924
Claims paid during the year	(328,136)	(646,030)
Central estimate at end of period	**46,429**	**49,894**
Administration component	1,234	1,317
Risk margin	2,419	2,594
Gross outstanding claims at end of period	**50,082**	**53,805**

9. CONTRIBUTED EQUITY

a) Share Capital

	31 Dec 11 $000	30 Jun 11 $000
Ordinary shares		
Fully paid	**33,070**	**42,193**

b) Movements in share capital

Date	Details	No. of shares	Price $	$000
30 June 2011	Balance	466,733,110		42,193
21 July 2011	Capital return	-	0.16	(75,004)
	Transactions costs arising on capital return	-		(581)
	Deferred tax credit recognised directly to equity	-		174
	Reverse acquisition adjustment for capital return	-		66,288
31 Dec 2011	**Balance**	**466,733,110**		**33,070**

c) Capital return

On 21 July 2011, the company returned $75,004,012 (16.07c per ordinary share) to shareholders. Of the total cost of $75,410,349 (including transaction costs net of tax of $406,337), $9,122,778 was deducted from ordinary share equity and the remaining $66,287,571 was deducted from retained profits representing the portion of shares assumed to be purchased from policyholders under the reverse acquisition requirements of AASB3 *Business Combinations*. The capital return was approved by nib shareholders at a General Meeting held on 5 July 2011.

d) Share buy-back

In the half year ended 31 December 2011 nib purchased 229,975 shares on-market at a cost of $344,844, but these shares were not cancelled until January 2012. nib currently intends to continue to undertake the buy-back in compliance with applicable laws and the ASX Listing Rules.

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. nib holdings limited has given an undertaking to extend financial support to IMAN Australian Health Plans Pty Limited by subordinating repayment of debts owed by the entities to nib holdings 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 19 August 2011, 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. All trust funds were distributed and the trust wound up on 15 June 2011.

nib holdings limited has provided a guarantee and indemnity to the National Australia bank on behalf of IMAN Australian Health Plans Pty Limited in respect of transactional banking services. Liability under the indemnity is limited to $3,028,885.

10. DIVIDENDS

a) Ordinary shares

	Half year	
	31 Dec 11	31 Dec 10
	$000	$000
Final dividend for the year ended 30 June 2011 made up of 4.0 cps ordinary dividend and 5.0 cps special dividend (2010 - 5.0 cents) paid on 30 September 2011		
Fully franked based on tax paid @ 30%	**42,006**	**24,772**

b) Dividends not recognised at the end of half-year

	Half year	
	31 Dec 11	31 Dec 10
	$000	$000
In addition to the above dividends, since the end of the half-year the directors have recommended the payment of an interim ordinary dividend of 4.25 cents per fully paid ordinary share (2010 - 4.0 cents ordinary dividend), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 5 April 2012 out of retained profits at 31 December 2011, but not recognised as a liability at the end of the half-year, is	**19,826**	**18,671**

c) Franked dividends

	31 Dec 11	30 Jun 11
	$000	$000
Franking credits available for subsequent financial years to equity holders of parent entity based on a tax rate of 30%	**14,749**	**18,365**

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.

11. EVENTS OCCURING AFTER THE BALANCE SHEET DATE

The Federal Government's proposal to means test the 30% Private Health Insurance (PHI) Rebate was passed by the House of Representatives on 15 February 2012. These reforms are yet to pass the Senate.

nib does not expect that the reform will significantly impact the results of the Group.

There have not been any other 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.

12. SOLVENCY AND CAPITAL ADEQUACY RESERVES

nib health funds limited Solvency Reserve, as per the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is $88.335 million. Total Health Benefits Fund Assets are $449.510 million, representing an excess of $138.717 million over the sum of the Solvency Reserve and total Health Benefits Fund Liabilities ($222.458 million). This equates to a solvency coverage ratio of 1.45x and a solvency/capital risk multiple of 2.57.

nib health funds limited Capital Adequacy Reserve, as per the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is $105.390 million. Total Health Benefits Fund Assets are $449.510 million, representing an excess of $121.662 million over the Capital Adequacy Reserve and total Health Benefits Fund Liabilities ($222.458 million). This equates to a capital adequacy coverage ratio of 1.37x and a capital adequacy/ risk multiple of 2.15.

13. 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 17 February 2012. The company has the power to amend and reissue the financial report.