



## *Independent auditor's report*

To the members of nib holdings limited

### *Report on the audit of the financial report*

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#### *Our opinion*

In our opinion:

The accompanying financial report of nib holdings limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### ***What we have audited***

The Group financial report comprises:

- the Consolidated Balance Sheet as at 30 June 2020
- the Consolidated Income Statement for the year then ended
- the Consolidated Statement of Comprehensive Income for the year then ended
- the Consolidated Statement of Changes in Equity for the year then ended
- the Consolidated Statement of Cash Flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

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#### *Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### ***Independence***

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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#### *Our audit approach*

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if

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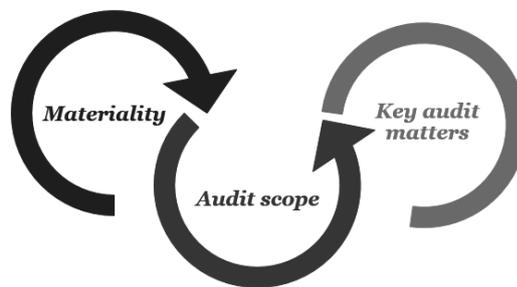
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individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



#### *Materiality*

- For the purpose of our audit we used overall Group materiality of \$6.2 million, which represents approximately 5% of the Group's profit before tax.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.
- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

#### *Audit Scope*

- The nib holdings limited Group provides health and medical insurance to Australian and New Zealand residents, medical insurance to international inbound workers and students, as well as distributing travel insurance products both in Australia and internationally.
- Our audit focused on where the Group made subjective judgements, for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- PwC specialists in taxation and information technology, along with PwC valuations and actuarial experts have assisted during the audit.
- We decided the nature, timing and extent of work that needed to be performed by us and the component auditor operating under our instruction. We then structured our audit approach as follows:
  - We audited the financial information of the Group and focused on entities within the Group that are financially significant to the Group.
  - For the procedures carried out by the component auditor, we decided on the level of involvement required from us to be able to conclude whether sufficient appropriate audit evidence had been obtained. Our involvement included issuing written instructions, holding discussions, review of key workpapers, and review of reporting to us by the component auditor.
  - We performed further audit procedures at a Group level, including over the consolidation of the Group's reporting units and the preparation of the financial report.



### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committee.

Key audit matter	How our audit addressed the key audit matter
<p><i>Estimation of claims liabilities</i> (Refer to note 18) [\$245.9 million]</p> <p><i>a) Outstanding claims liability [\$147.1 million]</i></p> <p>We focused on this balance because of the size of the liability and the complexity and judgements involved in the estimation process.</p> <p>The liability is an estimate of expected payments to customers for incurred but not settled insurance claims. This includes an estimate for known and reported claims as well as incurred but not yet reported claims.</p> <p>Determining a central estimate involves significant judgement and is based on a number of factors including historical claims rates, timeliness of reporting of claims and evidence around any changes in the cost of claims. The Group used July 2020 claims payment data to assist in determining the liability at 30 June 2020.</p> <p>The estimation of outstanding claims relied on the quality of the underlying data. It involved complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts to the estimate.</p>	<p>Our audit procedures over the outstanding claims liability included, amongst others:</p> <ul style="list-style-type: none"> <li>• Evaluating the design effectiveness and implementation of relevant controls over claims payments, including key data reconciliations and the Group's review of the estimates.</li> <li>• We were assisted by PwC actuarial experts to evaluate the Group's actuarial practices and the provisions established. Our audit procedures included, amongst others: <ul style="list-style-type: none"> <li>○ Testing on a sample basis of the claims data underpinning the outstanding claims liability valuation</li> <li>○ Testing the mathematical accuracy of the Group's actuarial model and evaluating whether the Group's actuarial methodologies were consistent with accepted industry practice.</li> <li>○ Assessing the selection of the actuarial method used to measure outstanding claims this year and the justification for changes in methods and assumptions.</li> <li>○ Assessing the appropriateness of key actuarial assumptions. We challenged these assumptions by comparing them with our expectations based on the Group's historical experience, audit of subsequent payment patterns, and our own industry knowledge.</li> <li>○ Assessing the approach to setting the risk margin in accordance with the requirements of Australian Accounting Standards, including an assessment of the reasonableness of the actuarial calculation of the probability of adequacy.</li> <li>○ Reconciling the results of the outstanding claims liability valuation to the financial statements and considering the adequacy of the disclosures in relation to the outstanding claims liability.</li> </ul> </li> </ul>



Key audit matter	How our audit addressed the key audit matter
<p><i>b) Provision for deferred and suspended claims [\$98.8m]</i></p> <p>We focused on this balance because of its size, the unusual circumstances that have given rise to this provision, and the complexity and judgements involved in the estimation process.</p> <p>As described in Note 18, this provision has been recognised to reflect the constructive obligation that the Group has to pay claims after 30 June 2020 that would ordinarily have been paid prior to 30 June 2020 if it were not for the temporary closure of elective surgery and reduced access to ancillary benefits as a result of the COVID-19 pandemic.</p> <p>The estimation of the provision required estimating the savings due to the gross reduction in claims due to temporary closure of elective surgery and reduced access to ancillary benefits, netted by the impact on the risk equalisation adjustment and quantifying the percentage of these savings to be deferred to the next financial year: the deferral is on the basis that this amount is what 2021 financial year claims will be inflated by above normal trends due to COVID-19. The Group used July 2020 claims payment data to assist in determining the provision at 30 June 2020.</p> <p>This is a key audit matter due to the complexities in estimating the proportion of the deferred claims that are expected to be paid post balance date.</p>	<p>Our audit procedures over the provision for deferred and suspended claims included, among others:</p> <ul style="list-style-type: none"> <li>• Evaluating the appropriateness of the Group's accounting policy to recognise deferred claims as a result of the COVID-19 pandemic against applicable Australian Accounting Standard requirements.</li> <li>• Gained an understanding of the impacts of COVID-19 on claims payment patterns</li> <li>• Evaluating the adequacy of the process for determining the provision, including audit over relevant data inputs into the provisioning model and review processes over the model's outputs.</li> <li>• Together with PwC actuarial experts, we: <ul style="list-style-type: none"> <li>○ Considered the appropriateness of the Group's methodologies used to determine claims deferred to future periods including consideration of reasonable alternatives.</li> <li>○ Assessed for reasonableness the key assumptions applied by the Group in determining the impact COVID-19 has had in deferring claims to future periods.</li> </ul> </li> <li>• Assessed the adequacy of disclosure of the provision in the financial report against the requirements of the applicable Australian Accounting Standards.</li> </ul>
<p><i>Impairment testing of goodwill and indefinite lived intangibles</i> <i>(Refer to note 14) [\$244.9 million]</i></p> <p>The Group's goodwill relates to the Australian Residents Health Insurance, International Workers Health Insurance, New Zealand Residents Health Insurance &amp; nib Travel Cash Generating Units (CGUs) (\$226.5m) and indefinite lived intangible assets relating to brands (\$18.4m).</p> <p>Impairment testing of goodwill and indefinite lived intangibles was a key audit matter because of the judgement involved in the determination and application of assumptions and cash flow forecasts within the 'value in use' modelling. The subjectivity of the assessment has heightened in 2020 due to the effects of the COVID-19 pandemic increasing uncertainty in respect of estimating future cash</p>	<p>We performed the following procedures, amongst others:</p> <ul style="list-style-type: none"> <li>• Assessed whether the division of the Group into Cash Generating Units (CGUs) was consistent with our knowledge of the Group's operations and internal Group reporting.</li> <li>• With the assistance of valuation experts, we considered the appropriateness of the value in use calculation methodology and tested the model for mathematical accuracy.</li> <li>• Considered whether the cash flows for the forecast period, the forecast nib Travel expense to income ratio, and the terminal value were reasonable and based on supportable assumptions. We assessed the reasonableness of key assumptions by comparing actual cash flows to previous forecasts, and comparing assumptions underpinning the cash flows to corroborative evidence including industry data.</li> </ul>



Key audit matter	How our audit addressed the key audit matter
<p>flows, particularly in relation to the travel insurance business.</p> <p>The outcome of the nib Travel impairment assessment in particular is sensitive to the values attributed to a number of key assumptions. Note 14 details these key assumptions and the impact they have on this impairment assessment.</p>	<ul style="list-style-type: none"> <li>• Considered the reasonableness of management’s assessment of COVID-19 risks in the cash flow forecasts by reference to publicly available information regarding possible implications of the pandemic on the travel industry.</li> <li>• We tested the reasonableness of the relevant assumptions used in management’s determination of the impairment of the Travel Insurance Direct and SureSave Brands.</li> <li>• With the assistance of PwC valuations experts, we considered whether the discount rates adopted by management, including components calculated by management’s expert, reflected the risks of the CGUs by comparing the discount rate to external market data. We also tested the sensitivity of the impairment assessment to increases in the discount rates.</li> <li>• Considered the reasonableness of the terminal growth rate assumptions by reference to external market data.</li> <li>• Assessed the adequacy of the related disclosures in Note 14 in light of the requirements of Australian Accounting Standards.</li> </ul>

### *Other information*

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the financial report and our auditor’s report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of the directors for the financial report*

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.



In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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*Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [https://www.auasb.gov.au/admin/file/content102/c3/ar1\\_2020.pdf](https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf). This description forms part of our auditor's report.

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*Report on the remuneration report*

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*Our opinion on the remuneration report*

We have audited the remuneration report included in pages 20 to 40 of the directors' report for the year ended 30 June 2020.

In our opinion, the remuneration report of nib holdings limited for the year ended 30 June 2020 complies with section 300A of the *Corporations Act 2001*.

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*Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

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PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'SK Fergusson', written in a cursive style.

SK Fergusson  
Partner

Newcastle  
23 August 2020