



## *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 2021 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 2021
- 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 significant accounting policies and other explanatory information
- 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 & 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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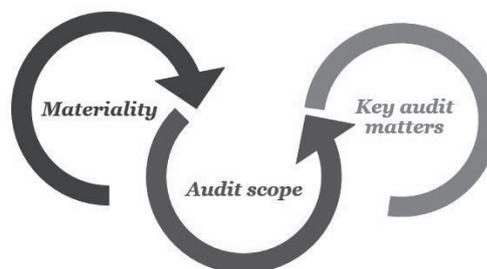
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### *Our audit approach*

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 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 \$11.1 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 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 in relation to inherently uncertain future events.
- PwC specialists in 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 as well as the component auditor operating under our instruction. 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.



### 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 Committee.

Key audit matter	How our audit addressed the key audit matter
<p><b>Estimation of claims liabilities</b> (Refer to note 18) [\$217.1 million]</p> <p>a) Outstanding claims liability [\$183.1 million]</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 statistical analysis 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.</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 estimation of the outstanding claims liability included, amongst others:</p> <ul style="list-style-type: none"> <li>• Developing an understanding of how the Group identified the relevant methods, assumptions and sources of data, and the need for changes in them, that are appropriate for developing the estimates in the context of the Australian Accounting Standards.</li> <li>• Developing an understanding of the relevant control activities associated with developing the estimate.</li> <li>• Evaluating the design effectiveness and implementation of relevant controls over claims payments.</li> <li>• Together with PwC actuarial experts, evaluated the Group's actuarial practices and the estimates established. These procedures included, amongst others: <ul style="list-style-type: none"> <li>○ Assessing the appropriateness of data used to develop the estimates.</li> <li>○ Testing on a sample basis, the accuracy of the claims data used in the outstanding claims liability valuation.</li> <li>○ Assessing the appropriateness of the Group's methods for developing the estimate by reference to the nature of the estimate and the business, industry and environment in which the Group operates.</li> <li>○ Evaluating the appropriateness of the significant assumptions used to develop the estimates. This included assessing the assumptions by comparing them to the Group's historical experience, audit of</li> </ul> </li> </ul>



Key audit matter	How our audit addressed the key audit matter
	<p>subsequent payment patterns, and our own industry knowledge.</p> <ul style="list-style-type: none"> <li>○ Assessing the approach to setting the risk margin, including an assessment of the appropriateness of the actuarial calculation of the probability of adequacy.</li> <li>○ Testing the mathematical accuracy of the Group's actuarial model.</li> <li>○ Reconciling the results of the outstanding claims liability valuation to the financial statements and assessing the reasonableness of the disclosures made in the financial statements, including those related to estimation uncertainty.</li> </ul>
<p><b><i>b) Provision for deferred and suspended claims [\$34.0 million]</i></b></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 2021 that would ordinarily have been paid prior to 30 June 2021 if it were not for the temporary unavailability 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 unavailability of elective surgery and reduced access to ancillary benefits, netted by the impact on the risk equalisation adjustment, less amounts determined to have been caught up during the financial year ended 30 June 2021 and quantifying the percentage of these savings that will be caught up as claims after year end.</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 estimation of the provision for deferred and suspended claims included, amongst 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.</li> <li>● Developing an understanding of the impacts of COVID-19 on claims payment patterns in the previous and current financial years.</li> <li>● Evaluating the adequacy of the process for determining the provision, including audit procedures over relevant data inputs into the provision model and review processes in place over the model's outputs.</li> <li>● Together with PwC actuarial experts, evaluated the estimation process and the estimates established. This included assessing and evaluating the appropriateness of the Group's significant assumptions and methods used for determining claims deferred to future periods including consideration of reasonable alternatives.</li> <li>● Reconciling the provision for deferred and suspended claims to the financial statements and assessing the reasonableness of the disclosures made in the financial statements, including those related to estimation uncertainty.</li> </ul>



<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><b><i>Impairment testing of goodwill and indefinite lived intangibles</i></b> <i>(Refer to note 14) [\$234.9 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) (\$218.7m) and indefinite lived intangible assets relating to brands (\$16.2m).</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 was greater than normal due to the effects of the COVID-19 pandemic increasing uncertainty in respect of estimating future cash flows, particularly in relation to the travel insurance business.</p> <p>The outcome of the nib travel Group CGU impairment assessment is particularly 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>	<p>Our audit procedures over the impairment testing of goodwill and indefinite lived intangibles included, among others:</p> <ul style="list-style-type: none"> <li>● Assessing 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>● Together with PwC valuation experts, evaluated the appropriateness of the value in use calculation methodology. These procedures included, amongst others: <ul style="list-style-type: none"> <li>○ Considering whether the forecast cash flows, including probability weighted cash flows as applicable, were appropriate and based on supportable assumptions. Assessing the appropriateness 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> <li>○ Assessing the appropriateness of the Group's assessment of COVID-19 impacts on the nib Travel CGU cash flow forecasts by reference to publicly available information regarding possible implications of the pandemic on the travel industry.</li> <li>○ Assessing whether the discount rates adopted by the Group, including components calculated using management's expert, reflected the risks of the CGUs by comparing the discount rate to external market data.</li> <li>○ Evaluating the appropriateness of the terminal growth rate assumptions by reference to external market data.</li> <li>○ Assessing the appropriateness of the design and testing the mathematical accuracy of the value in use model.</li> </ul> </li> <li>● Assessing the appropriateness of the disclosures made in note 14, including those related to estimation uncertainty, against the requirements of Australian Accounting Standards.</li> </ul>



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### *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 2021, 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.

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### *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/auditors\\_responsibilities/ar1.pdf](https://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.



## *Report on the remuneration report*

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### *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 21 to 42 of the directors' report for the year ended 30 June 2021.

In our opinion, the remuneration report of nib holdings limited for the year ended 30 June 2021 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.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'SK Fergusson'.

SK Fergusson  
Partner

Newcastle  
20 August 2021