



shareholder review 2020

Chairman's report



\$2.5b
Group revenue



\$2.1m
contributed to
community initiatives



14.0cps
full year dividend



19.8cps
statutory EPS

The devastation of COVID-19 made FY20 as extraordinary as any I've ever encountered in my executive and non-executive director corporate career. While secondary to the tragedy of widespread death and suffering, the pandemic has devastated consumer confidence and destroyed or put at risk, so many businesses.

As you would expect, the Board is acutely aware of the challenges COVID-19 presents the nib Group and very focused upon supporting our members, travellers, employees and business sustainability. The commercial challenges are many and include maintaining growth in difficult market conditions, forecasting and managing claims experience in unpredictable circumstances as well as ensuring the nib Group remains well capitalised and ready to meet a range of possible future scenarios.

Despite the disruption of COVID-19, FY20 was another year of good progress in fulfilling our purpose of "Your Better Health".

We funded over 350,000 hospital admissions and almost 3.6 million dental, optical and other ancillary visits. We took a giant stride in our ambitions to make our value proposition for members and travellers as much about healthcare "prevention" as it is "cure" with the creation of Honeysuckle Health. In partnership with global healthcare company Cigna, Honeysuckle Health will deliver data science led insight and guidance for a more personalised approach to disease prevention, management and treatment.

Complementing nib's direct efforts, our nib foundation contributed \$2.1 million towards various initiatives consistent with its charter of supporting the health and wellbeing of the communities we serve. This included \$1 million to help fund programs over the next four years specifically focussed on 'closing the gap' in health outcomes for Aboriginal and Torres Strait Islander peoples. We very much see community health and wellbeing as the centre piece of our sustainability agenda.

Our commercial results for FY20 were somewhat "mixed" with COVID-19 a key factor. Pleasingly, Group revenue grew 3.4% to \$2.5 billion with our flagship Australian Residents Health Insurance (arhi) business increasing policyholders by 1.9% to now cover almost 1.2 million people, in an overall market that grew just 0.4%. Similarly, New Zealand performed well growing its revenue by 11.4% and policyholders 7.4% to cover more than 225,000 people.

Unfortunately, restrictions on foreign entry into Australia severely impacted our international students and workers (iihi) business while the global impacts of COVID-19 caused significant disruption to our nib Travel operations.

We experienced a decline in operating margins compared to the previous financial year across all segments although, other than for travel, they remain solid and generated a return on invested capital of 11.2% for the Group.

Our Managing Director expands upon the FY20 results further on. It is worth me observing here, that while acknowledging macroeconomic stress, the Board has every confidence in the Group strategy, outlook and underlying commercial performance. The reduction in statutory earnings per share (EPS) to 19.8 cents per share (down 40.0%) wasn't welcomed and there are clearly hurdles across the Group, most notably nib Travel which is operating in a very difficult market. Yet FY20 was a year of multiple COVID-19 related distortions and not an accurate reflection of underlying performance of the nib Group.

We especially believe the company has so far navigated the difficulties of COVID-19 well. We've taken a wide range of initiatives to protect and support our members, travellers, employees and general community. I encourage shareholders to read our 2020 Sustainability Report available at nib.com.au/shareholders.

While in no way celebrating the misery of COVID-19, we also see opportunity. The pandemic has clearly heightened throughout

the community the risk of disease and the need for protection. It has accelerated our plans to better predict disease risk amongst our members and prevent or better manage those risks. It is causing us to move even faster with investment in digital health and how we service members and travellers.

We have decided to make a final dividend of 4.0 cents per share, fully franked bringing the full year dividend to 14.0 cents per share, representing 71% of net profit after tax. In making the final distribution we have been cognisant of the need to balance a return to our shareholders with regulatory guidance and maintaining a strong capital position in a COVID-19 context.

As shareholders expect, succession planning and ensuring we have the right skills mix, diversity and experience on our Board and in our senior management ranks remains a priority for the Board. As part of nib's succession planning Non-Executive Director, Christine McLoughlin announced she will retire from the Board in September this year.

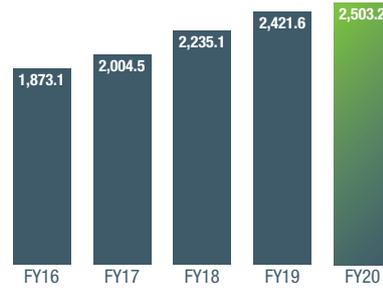
Christine is one of Australia's most respected and astute company Directors, and nib has been fortunate to have her serve on our Board for almost 10 years. She has made a wonderful contribution to nib's growth and success during this time especially as Chair Risk and Reputation Committee. I would like to thank her for her passion, insights and leadership at nib over almost a decade. In parallel, we welcome David Gordon who joined the Board in May 2020.

I would like to thank my Board colleagues for their leadership and contribution during FY20. And of course, I want to thank our Executive management team and all of our people for what the Board believes was exemplary performance in extremely difficult conditions.

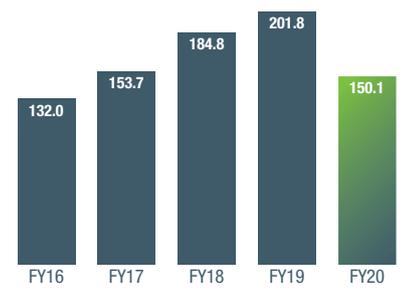
Steve Crane
Chairman

Group performance highlights

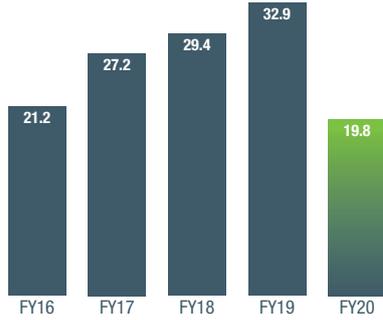
Total underlying revenue \$m



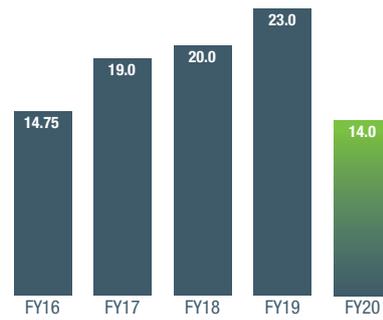
Underlying operating profit \$m



Statutory EPS cps



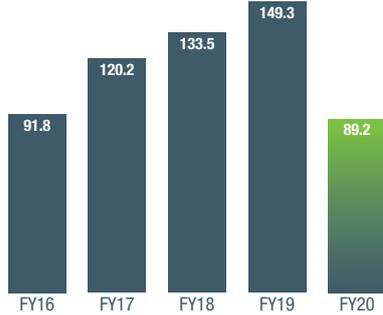
Dividends cps



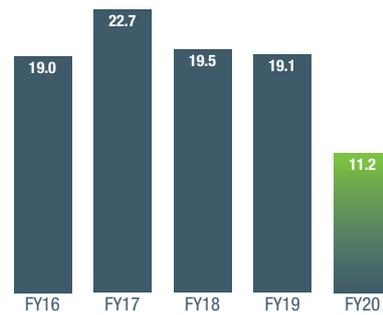
Net investment income \$m



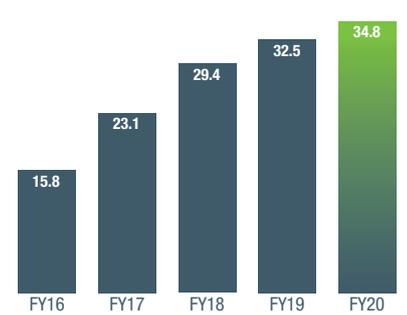
Net profit after tax \$m



Return on investment capital \$m



Group NPS



Supporting our members, employees and the community through COVID-19

Our Members

- 1 April 2020 premium changes postponed until **1 OCTOBER 2020**
- Expanded cover for COVID-19 related treatment and additional Extras psychology benefits at **NO COST**
- 24/7 medical and non-medical assistance hotline
- Latest COVID-19 health related information provided to members and the community on nib's digital channels, including the **CHECK UP**
- A range of financial hardship support and premium relief options

Our Community

- \$1.5 MILLION** donated to community and clinical initiatives in Australia and New Zealand with nib foundation
- 100,000** surgical masks donated to healthcare and allied health workers
- FOOD HAMPERS** and health packs to support international students

Supporting Members and Community

- Free antenatal and early parenting **ONLINE CLASSES**
- ACCESS TO TELEHEALTH CONSULTATIONS** for a range of health services
- \$250 wellness benefit for FRONTLINE HEALTHCARE WORKERS**

Our Employees

- Up to two weeks **SPECIAL PAID LEAVE**
- Ergonomics package to support **WORK FROM HOME**

Managing Director's report

There's not a lot I can add to Steve's account of COVID-19 and its implications across the nib Group in FY20. Suffice to note here, the crisis has required extraordinary agility and adaptation.

Within weeks we had our entire workforce operating remotely, deferred Government approved premium increases and expanded health insurance coverage at no additional cost to members for COVID-19 related treatment. We also made significant investments in community health and wellbeing such as the supply of surgical masks to frontline healthcare workers and a \$500,000 donation to Lifeline (to mention just a few).

So far our total COVID-19 support package is valued at more than \$45 million. And of course, there was no respite from the demands of "business as usual" and us meeting the everyday needs and expectations of our members and travellers.

Our full year underlying operating profit (UOP) of \$150.1 million was on the surface disappointing. Very importantly, it includes a provision for deferred claims of \$98.8 million representing 80% of what we best estimate were COVID-19 related "savings" during the financial year. Without the provision, UOP would have been \$248.9 million which is closer to our cash result for the year (net operating cash inflow was \$211.6 million).

This provisioning is a sensible step as it is certain there will be a "catch up" in treatment deferred during the peak of COVID-19 in FY20. However, only time will tell the accuracy of the provision and at the time of writing, the threat of COVID-19 and its impact on treatment levels has by no means passed.

As Steve mentions, COVID-19 factors have blurred what were otherwise some good results across the Group. Worth highlighting here:

- Group premium revenue grew to \$2.5 billion up 3.4% on FY19. It was just \$901.4 million in FY10.

- arhi premium revenue grew by almost 3% to over \$2.1 billion notwithstanding the six month postponement of the 1 April 2020 premium increase which reduced revenue by approximately \$15 million for FY20. And even after the provisioning for deferred claims, arhi's net profit margin was still a respectable 6.4% consistent with our target.

Importantly, we saw some impressive growth in the final quarter which helped contribute to net growth of 1.9% for the full year – about 41% of total industry growth for FY20.

- iih premium revenue grew to \$123.1 million, an increase of 11.8% on FY19, although UOP of \$22.2 million was down 36.4% it still constituted a strong net profit margin of 17.1%.

The COVID-19 downturn meant this business did not contribute as much as we expected to Group earnings in FY20. Nevertheless, we are very confident our international students and workers businesses will bounce back once the



pandemic is behind us or we've better adapted to live with it. It will remain an important source of business and earnings diversification.

- NZ premium revenue grew 11.4% to \$240.1 million and UOP 18.2% to \$23.4 million with a strong 9.8% net profit margin. We are New Zealand's second largest health insurer and increased consumer awareness of the value of private health insurance experienced due to the pandemic appears to be mirroring the same experience in Australia.

Statutory EPS of 19.8 cps compared unfavorably with 32.9 cps in FY19 due to a combination of lower profit margins and investment income which fell to \$16.6 million versus \$36.1 million in FY19.

It's extremely hard to forecast what improvement we might reasonably expect in FY21 and beyond given the ongoing COVID-19 volatility and on this basis, we continue to suspend earnings guidance.

Nevertheless, we have every confidence in the private health sector and see a future in which nib will play an expanded role in healthcare. The new joint venture we have forged with Cigna, Honeysuckle Health, is a critical piece in this strategy. As Steve mentions, members and travellers can look forward to a future in which we are as much about protecting the health of our members and travellers as we are supporting their treatment. And it's all based upon individual needs informed by artificial intelligence and data science.

Across the Group we have a genuine belief and philosophy that what's good for the communities in which we operate is also good for nib. It explains the efforts and investment we're making around sustainability or as often described ESG (Environmental, Social and Governance). There are five principles underpinning our sustainability efforts, which our set out in our 2020 Sustainability Report. All are important yet as a healthcare business we especially view population health as the greatest opportunity for nib to make a difference. Already in New Zealand we are actively supporting a Māori iwi, Ngāti Whātua Ōrākei with some great results and we're looking to emulate that initiative in other geographies.

My thanks to our Board of Directors, Executive management team and all employees for their efforts and contribution to the nib Group in what have been extraordinary circumstances.

Mark Fitzgibbon
Managing Director



arhi

Our core earnings driver arhi again led the way, accounting for 89.0% of Group UOP. While UOP of \$133.6 million was down 10.6% on FY19, the result includes a \$90.4 million COVID-19 claims provision.

In challenging market conditions arhi grew premium revenue to \$2.1 billion, an increase of 2.9% delivering a 6.4% net profit margin.

Our diversified and multi-channel distribution strategy helped deliver net policyholder growth of 1.9% compared to 0.4% for the industry.



new zealand

nib New Zealand delivered a positive operating performance with the business improving revenue and earnings. UOP increased 18.2% to \$23.4 million, and includes an \$8.4 million COVID-19 deferred claims provision.

Our organic growth strategy continued to yield results with net policyholder growth of 7.4%, with success in growing our corporate group and whitelabel channel, which includes leading brand, the New Zealand Automobile Association.



iihi

Our iihi business produced a sound operating performance despite the headwinds caused by COVID-19 travel restrictions.

iihi's track-record of strong top line growth continued with premium revenue up 11.8% to \$123.1 million. Net policyholder growth was 6.3% despite slowing international arrivals, with 200,000 persons now covered.

UOP of \$22.2 million was down 36.4% reflecting a conscious effort to enhance member value, with the business still delivering a healthy net margin of 17.1% (FY19: 31.1%), in line with expectations.



nib travel

Our travel insurance business, nib Travel, was significantly impacted by COVID-19 with the global and domestic leisure travel one of the hardest hit sectors.

As a result the business made a UOP loss of \$19.7 million for the year.

In response, focus has been reducing operational expenses with heavy emphasis on right sizing cost base and improving operating efficiency in preparation for any return to travel.

nib in the community

A series of unprecedented events faced by Australians and the rest of the world this year, from severe drought and bushfires to the COVID-19 pandemic, has reinforced the importance of supporting the community, in particular, our commitment to improving their health and wellbeing. Learn more in our [2020 Community Report](#).



\$1.5m
committed to COVID-19
community response



COVID-19 We committed \$1.5 million to charitable and clinical initiatives together with nib foundation to support the health and wellbeing of communities throughout Australia and New Zealand during COVID-19. We've partnered with the likes of Lifeline, Hunter Medical Research Institute, Clearhead and NSW Rural Doctors Network.



\$2.1m
funding by
nib foundation



nib foundation Our charitable organisation, nib foundation marked a major milestone reaching over \$21 million in funding distributed since inception. The foundation supports initiatives dedicated to helping people live healthier lives with a focus on prevention, equality and community.



\$99.3k
raised by
employees



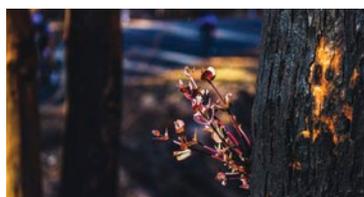
Fundraising We love seeing our employees getting outdoors and keeping healthy, even more so when it's for a good cause. This year, our people ran almost 16,000 kilometres and raised more than \$32,000 for Multiple Sclerosis research during The May 50K, bringing our employee fundraising efforts for the year to around \$72,000.



\$533k
in traveller
donations



The Footprints Network Our travellers helped The Footprints Network reach a record total of \$5 million in micro-donations helping to fund their 200th project since establishment in 2006. Footprints has continued to fund global community development projects, to ensure the sustainability of the communities our travellers love to visit.



Natural disasters Exposure to disaster events, like the recent Australian bushfires and drought, can have

a significant impact on the mental health and wellbeing of communities. As part of our member support packages, we offered impacted families a health insurance premium waiver for up to six months and nib foundation committed \$150,000 in funding to help farmers and families access the support services they need and reconnect with their community.



Prevention partnerships Over 740,000 Australians have been supported to lead healthier

lives thanks to nib foundation's \$1.4 million commitment to health prevention during FY20. Through targeted digital programs, 96% of participants explored ways to reshape their attitudes towards health and lifestyle risk factors, such as poor diet and risky drinking, helping to reduce their risk of chronic disease.

Five-year performance summary

\$m	2020	2019	2018	2017	2016	
Net premium revenue	2,439.6	2,340.8	2,162.6	1,943.1	1,818.7	
Underlying operating profit	150.1	201.8	184.8	153.7	132.0	
Statutory operating profit ¹	118.1	184.6	169.0	150.6	120.8	
Profit before tax	125.0	213.0	192.3	174.4	132.4	
Net profit after tax	89.2	149.3	133.5	120.2	91.8	
Balance sheet						
Total assets	1,682.5	1,554.1	1,447.5	1,136.1	1,045.6	
Equity	606.4	632.2	557.8	427.6	386.1	
Debt	232.9	233.9	230.6	153.2	151.9	
Share performance						
Number of shares on issue	m	456.8	455.6	454.8	439.0	439.0
Earnings per share (statutory)	cps	19.8	32.9	29.4	27.2	21.2
Dividend per share	cps	14.0	23.0	20.0	19.0	14.75
Dividend payout ratio	%	71.0	70.0	68.5	70.0	70.0
Share price at year end	\$	4.61	7.67	5.73	5.75	4.22
Total shareholder return ²	%	(37.7)	38.1	15.2	30.0	44.3
Other financial data						
MD/CEO total actual remuneration ³	\$m	4.4	3.8	3.6	2.6	1.7
Return on invested capital	%	11.2	19.1	19.5	22.7	19.0
Operating cash flow	\$m	211.6	184.5	179.9	171.7	148.4

The above reflects the operations of the Group and should be read in conjunction with the 2020 financial statements, together with the accompanying notes which is available on our shareholder website, [nib.com.au/shareholders](#).

- 1 Statutory operating profit includes \$32.0m in amortisation of acquired intangibles, impairment of intangibles, one-off transactions (integration of acquired business, establishment of business costs as well as extraordinary legal fees), and merger and acquisition costs.
 - 2 Source: Bloomberg. 12 month TSR. Total shareholder return represents the simple return over the holding period due to the change in the share price plus dividends re-invested on the ex-dividend date.
 - 3 Total actual remuneration comprises cash salaries, fees and superannuation as well as STI and LTI paid in the year through cash or shares issued.
- 4 nib holdings limited | shareholder review 2020

2020 Annual General Meeting

The Annual General Meeting (AGM) of nib holdings limited will be held as a virtual meeting on 5 November 2020 at 1.00pm (AEDT).

Full details of the AGM, including the Notice of Meeting and how to participate in the virtual meeting, will be available at [nib.com.au/shareholders](#)

Corporate Governance

nib's Corporate Governance Statement and further information about nib's Governance, including company policies, Board and Committee charters, are available from the Corporate Governance section of the shareholder website [nib.com.au/shareholders](#)

Investor Relations

nib
22 Honeysuckle Drive, Newcastle NSW 2300
Locked Bag 2010, Newcastle NSW 2300
Email – corporate.affairs@nib.com.au
Website – [nib.com.au/shareholders](#)

Share Register

Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street, Sydney NSW 2000
Telephone – 1300 664 316
Email – nibshareregistry@computershare.com.au