

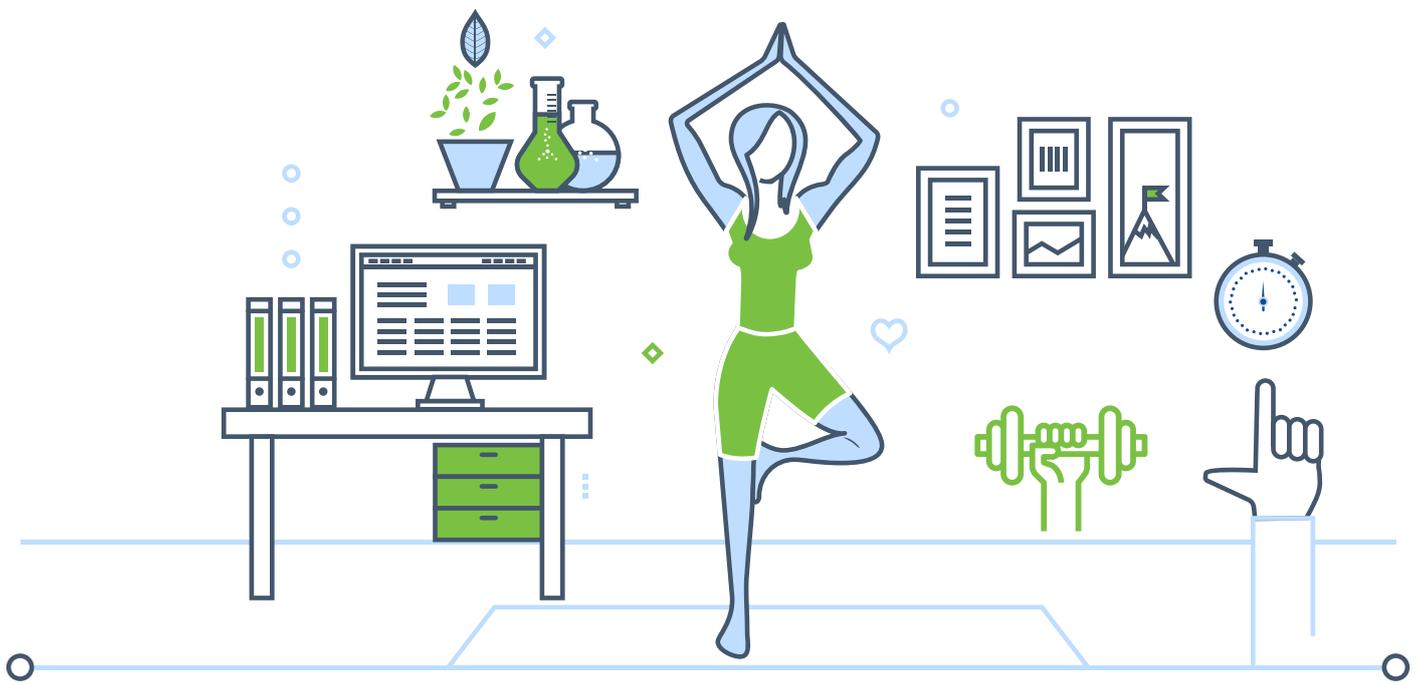


# tax transparency report

2019



**nib has a mission and vision of people enjoying better health. Through our success, we aspire to more prosperous and sustainable communities, not only the creation of enterprise value.**



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# message from the chief financial officer

**I am pleased to present nib's Tax Transparency Report for the financial year ended 30 June 2019. The report has been prepared in accordance with the Australian Voluntary Tax Transparency Code and aims to provide greater clarity in relation to nib's tax profile, tax contributions and our approach to tax governance.**

This year, we have increased our disclosures to include more information in relation to our international operations and the contributions we make in the countries in which we operate. This reflects our growing international presence.

nib has provided health insurance to Australians for more than 65 years and our strategy to grow this core business underpins our continued success today. However, through acquisitions and continued organic growth, we have also become a provider of health insurance in New Zealand and travel insurance across the world.

In the year to 30 June 2019, 9.2% of our revenue and other income was derived outside Australia. We paid total taxes of \$67.4m globally and collected and remitted an additional \$68.0m of taxes.

nib has a robust tax governance framework and a first principle of this is that we comply with applicable taxation laws in the countries in which we operate. We ensure that we pay our fair share of tax in each jurisdiction.

We have a low risk tolerance in relation to all tax matters. Integrity, respect, honesty and transparency are important in all our dealings with tax authorities to enable us to carry out our business activities with certainty and confidence. We comply with the OECD's country-by-country reporting measures which provides both the Australian Taxation Office and international tax authorities with information regarding how we conduct our business and how nib's international-related parties transact with each other.

Our purpose is "your better health". We are a trusted partner in helping our members and travellers make more informed healthcare decisions, transact with healthcare systems and generally live healthier lives. Health and travel insurance, albeit vitally important, are just a component in our value proposition of financial protection, connectivity and empowerment.

Through our success, we aspire to more prosperous and sustainable communities, not only the creation of enterprise value. We believe that the financial contribution we make to communities in paying claims and dividends, providing employment, buying products and services and paying taxes is aligned to our purpose.

We are supportive of transparency in the public reporting of tax information and welcome the opportunity to disclose the following information.

## **Michelle McPherson**

Deputy Chief Executive Officer and Chief Financial Officer



**nib has a robust tax governance framework and a first principle of this is that we comply with applicable taxation laws in the countries in which we operate.**



# about nib

**nib is a trusted international health partner, empowering our members to make better decisions and improve health outcomes through greater accessibility to affordable health services and information.**

We provide health and medical insurance to almost 1.6 million<sup>1</sup> Australian and New Zealand residents. We also provide health insurance to almost 190,000<sup>1</sup> international students and workers in Australia.

In addition, we are Australia's third largest travel insurer and global distributor of travel insurance through our business nib Travel, providing financial protection and assurance to travellers wherever they are in the world.

Established in 1952, nib is one of the publicly-listed private health insurers on the Australian Securities Exchange (ASX).

## nib operates the following business divisions:



### Australian residents health insurance (arhi)

Our arhi business provides private health insurance to Australian residents.

Products are sold directly to consumers; or through our network of strategic partners, retail brokers, corporate brokers and direct corporate sales. This is our core business division.

nib is committed to helping its members achieve our primary purpose, which is their better health.



### nib New Zealand (nib NZ)

nib's second largest market is New Zealand, where approximately one quarter of residents have private health insurance.

Our nib NZ business was the first health insurer to launch a direct to consumer offering in New Zealand. We also provide health insurance in this market through advisers, white label partnerships and corporate sales.

nib NZ also provides health insurance to international students and inbound and outbound travellers in New Zealand through a strategic partnership.



### International inbound health insurance (iihi)

Our iihi division provides health insurance to both international students and international workers in Australia.

Policies are sold either directly to policyholders online, or through our network of education and immigration agents, educational institutions and corporate and other relationships.



### nib Travel

nib Travel is a global distributor of travel insurance. This business is headquartered in Australia and the majority of the distribution revenue is recognised in Australia.

Our Brazilian and Irish entities also act as distributors in the geographical markets in which they operate.

Through the acquisition of QBE's travel insurance business in the year to 30 June 2019 we have expanded our reach, in particular in relation to distribution arrangements.

nib Travel provides numerous travel insurance products through various brands.

1. Persons covered.

# nib's global economic contributions

**Through acquisitions and organic growth, nib has grown from an Australian health insurance provider to a diverse international business.**

During the year ended 30 June 2019, nib generated \$2,461.2m in revenue and other income. While we continue to grow our overseas presence, our core arhi business remains the most significant in terms of revenue.

In the year to 30 June 2019, nib earned profit before tax of \$213.0m, paid \$67.4m of taxes globally, and collected and remitted \$68.0m of indirect taxes.

We paid \$95.5m of dividends to our shareholders and \$133.0m in wages and benefits to our 1,488 employees globally.

\$1.8b was paid in benefits to our health insurance members in Australia and New Zealand. In our arhi business alone we helped fund almost 300,000 hospital admissions (including almost 50,000 in public hospitals) and 3.8 million ancillary and dental visits.

During the year, we created new jobs in Australia, New Zealand, Ireland and the Philippines through the expansion of our operations.

Revenue by country



■ Australia 90.8%     ■ New Zealand 8.9%  
■ Brazil 0.1%     ■ Ireland 0.2%



# Our tax governance approach

**nib has a strong commitment to complying with its taxation obligations in Australia and in the overseas countries in which it operates. We recognise that tax governance and tax risk management play a key role in good management and corporate governance.**

We have a robust tax governance policy and framework and update our processes to align with the Australian Taxation Office (ATO)'s Tax Risk Management and Governance Review Guide. We also regularly report our taxation affairs in relation to both our Australian and international operations to the nib Audit Committee and Board.

nib adopts a low appetite for tax compliance risk and for operational risk on tax matters. There is no tolerance for breaches that place our good standing with tax authorities in the countries in which we operate at risk. We engage with tax authorities in a professional, cooperative and transparent manner. In the most recent ATO review, the ATO obtained assurance on the tax performance of nib.

**Our core principles for tax governance and risk management are:**



## Compliance

Efficient, accurate and timely compliance with all relevant taxation legislation and obligations.

Evidence of strong compliance procedures where support of all material positions taken in tax returns exist in terms of documentation and legal interpretation.

All related party transactions are undertaken in accordance with arm's length principles.



## Relationships

Fostering professional, cooperative and transparent relationships with key stakeholders such as the tax authorities.



## Risk management

Tax risks are thoroughly assessed for any new initiatives and significant transactions and events. The risk assessment is factored into the decision making process to ensure compliance with nib's low tolerance for tax risk.



## Governance

The nib Board has ultimate responsibility for corporate governance and is therefore responsible for ensuring we have an effective and appropriate tax risk management framework in place.

The nib Audit Committee has oversight of tax risk, and the Chief Financial Officer is responsible for monitoring and ensuring the effectiveness of the tax governance framework.



## Transparency

nib publishes this annual Tax Transparency Report to explain our tax profile and payments.

# Summary of nib's international related party dealings

While nib's core operations are located in Australia and New Zealand, our growing international presence means that we have operations in 10 countries. We endeavour to utilise our people's skills and internal resources skills to maximise our efficiencies, enabling nib's shareholder value and economic contributions to be optimised.



The provision of management, strategic and shared back office services between Australia and New Zealand is a key component of our international-related party dealings. nib Australia also provides funding to its New Zealand subsidiary for working capital and other cash requirements.

nib's arhi and international inbound health insurance business divisions are also supported by our teams in the Philippines, providing call centre management services, as well as China, providing business representation services.

Our nib Travel business division is a truly global business and its international network of entities transact with each other in accordance with the functions performed. Headquartered in Australia, services such as claims processing and business representation services in relation to particular markets are provided by its overseas related entities. In turn, marketing and management services are provided from Australia to these entities where required. nib Australia also provides funding to its Brazilian and Irish subsidiaries for the purposes of working capital and other cash requirements.

In line with our tax governance framework, nib has a robust transfer pricing policy and transfer pricing controls in place. Our approach to pricing, documentation and reporting complies with the OECD transfer pricing guidelines. The 'arm's length principle' is applied to all transactions between related parties. We place a high emphasis on ensuring that our transfer pricing procedures and documentation are continually updated and that any new international related party dealings are identified and priced proactively. This ensures that profits are allocated correctly between countries, which in turn means that the appropriate amount of tax is reported and paid across the countries in which we operate.



# Overview of activities

## Australia



nib is headquartered in Australia and listed on the Australian Securities Exchange.

nib was established in Newcastle in 1952. Today, the core arhi and iihi business divisions continue to be predominantly managed from our Newcastle office.

nib also has offices in Sydney and Melbourne, as well as a network of retail centres across New South Wales, Queensland and Victoria. Our Sydney office primarily supports our nib Travel business division, as well as supporting additional corporate functions of the nib Group.

nib holdings limited and its wholly-owned Australian subsidiaries are members of an Australian income tax consolidated group and subject to tax as a single taxpayer for income tax purposes. Our Cayman Islands captive insurance entity has been registered as an Australian resident for income tax purposes in accordance

with the ATO's views contained in TR 2018/5 *Income tax: central management and control test of residency* and is also a member of the Australian income tax consolidated group. Revenues from our arhi, iihi and nib Travel<sup>1</sup> business divisions are reported for tax purposes in Australia, in accordance with where these operations are based. Relevant transfer pricing and income from other sources are also reported in Australia where appropriate.

### Dividends

nib holdings limited, as the parent entity of the nib Group, receives dividends from its subsidiary entities. Dividends received from wholly owned international subsidiaries are not subject to further taxation in Australia. These dividends have not been included in the amounts above.

## New Zealand



nib's New Zealand operations are based in Auckland.

The core product for nib New Zealand is private health insurance supplied to New Zealand residents. We also provide health insurance to international students and inbound and outbound travellers in New Zealand through a strategic partnership.

Our core product is sold through a number of distribution channels, including direct to consumer (ie, web sales); through advisers, white-label partnerships and corporate sales.

nib NZ supports nib Australia's operations through the provision of shared back office services, as well as management services from time to time.

Revenues from nib New Zealand's activities are reported for income tax purposes in New Zealand, as well as transfer pricing income where appropriate.

1. Excluding revenues recognised in Brazil and Ireland

# Overview of activities

## Ireland



### nib Travel's Irish operations are based in Cork.

The establishment of operations in Ireland during the year to 30 June 2019 arose as part of nib Travel's ambition to increase its capacity to operate in international markets. Prior to this, nib Travel acted only as an online distributor of travel insurance in geographical markets beyond Australia and New Zealand.

By establishing our own Irish Managing General Agent (MGA), we can now expand our participation in the value chain in relation to the European Union (EU) market, beyond being a mere distributor. This is achieved through greater control over product design and pricing, as well as the delivery of service functions to customers. Policy administration and claims management services in relation to these policies are performed from this office. Our Irish operations are led by an experienced Irish insurance professional (the General Manager).

The Ireland location was chosen given its common language with the rest of the nib Group, ease of doing business and regulatory access into European markets. The United Kingdom was also considered as the base for our new European operations, however this presented an increased risk due to 'post Brexit' uncertainty with EU passporting and regulatory access.

nib Ireland also performs policy administration and claims management services in relation to nib Travel's "rest of world" (RoW) policies. These policies are distributed by nib Travel in Australia, via the group's captive insurance company which is a regulated Cayman Islands entity and an Australian corporate tax resident.

Revenues from our Irish entities' operations are reported for corporate tax purposes in Ireland.

## Brazil



### nib Travel's Brazilian operations are based in Sao Paulo.

nib Brazil is a distributor of travel insurance for the South American market. Products are sold directly to consumers via online sales.

Revenues from our Brazilian operations are reported for corporate tax purposes in Brazil.

# Overview of activities

## Rest of the world



### Canada

nib Travel's Canadian entity provides licencing capability for the business to operate as required in the Canadian market. It does not employ any staff and does not perform any other services on behalf of the Group.



### Cayman Islands

As part of nib Travel's strategic ambition to expand its capacity to operate in international markets, a captive insurance entity was established and began operations in the year to 30 June 2019. The captive entity directly underwrites travel insurance activity in "rest of world" (RoW) markets<sup>1</sup>, with all claims risk fully re-insured to a selected capital partner. The establishment of this entity also allows nib Travel to have greater involvement in the supporting activities related to the distribution of travel insurance to these markets.

The Cayman Islands was identified as an established environment for captives wishing to write third party risk with access to all professional services firms, advisors and capital providers. Currently over 1,000 captives operate in the jurisdiction.

nib Travel's captive insurance entity is managed by an experienced captive management company. The entity is a member of nib's Australian income tax consolidated group and all amounts in relation to this entity are included in the Australia figures mentioned above.



### China

nib's international students health insurance business (part of iih) is supported by business representation services provided by the Group's Chinese entity. nib also has a non-controlling interest in two additional Chinese entities as part of its investment in the joint venture with Tasly. All revenues in relation to those entities are reported for tax purposes in China.



### Philippines

nib Travel's Philippines branch performs management services in relation to arhi's outsourced contact centre function.



### Thailand

nib is in the process of closing its two Thai entities. These entities previously provided management services in relation to the Group's nib Options business, which has now been closed.



### United Kingdom

nib Travel's United Kingdom operations are based in London. The United Kingdom office provides business representation services to nib Travel in Ireland.



### United States

nib Travel's United States operations are based in Berkeley, California. The United States office provides business representation and management services to nib Travel in Australia. Furthermore, the Head of Americas role, which is based in the US office, has oversight of the Group's Brazilian operations.

1. Excludes Australia, New Zealand, North America, South America and the European Union

# Our global tax profile

## Calculation of tax expense

The Global Effective Tax Rate represents the tax expense calculated in accordance with Australian Accounting Standards, and is included in nib's Annual Report. This is calculated by dividing income tax expense by profit before tax. It reflects the amount of tax that is expected to be paid on the year's activities.

nib Group	2019 A\$m
Profit before income tax expense	213.0
Income tax expense	(63.7)
Net profit for period	149.3
Global effective tax rate	29.9%

## Reconciliation of accounting profit to tax expense

The effective tax rate differs from the statutory Australian tax rate of 30% due to differences explained in the table below.

nib Group	2019 A\$m
<b>Profit from continuing operations before income tax expense</b>	<b>213.0</b>
Tax at the Australian tax rate of 30%	63.9
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:	
Sundry items	1.0
Net assessable trust distributions	0.3
Imputation credits and foreign tax credits	(1.1)
Adjustment for current tax of prior periods	(0.4)
Adjustment for current tax of prior periods - research and development tax credit	(0.1)
Differences in foreign tax rates	0.1
<b>Income tax expense</b>	<b>63.7</b>

## Calculation of effective cash tax rate

The effective cash tax rate represents the tax rate based on total income tax paid to tax authorities during the year. This will always differ from the effective tax rate for the period calculated for accounting purposes. This is due to a variety of factors. For example, cash tax paid in the year may relate to the prior year's profit and may also exclude the final instalment due for the current financial year. There are also differences in accounting and tax depreciation rates that impact the timing of tax payments, and other tax and accounting timing differences.

	2019 A\$m
Profit before income tax expense	213.0
Income taxes paid	(60.0)
Global cash tax rate	28.2%

# Our global tax profile

## Reconciliation of tax expense to income tax payable in respect of current year profits

nib Group	2019 A\$m
Tax expense on profit before tax	63.7
Total net deferred tax movements affecting tax payable	(0.7)
Amounts charged to other comprehensive income	(0.9)
Adjustment for current tax of prior periods	0.5
Less foreign tax paid offsets	(0.2)
Less Australian imputation credits	(0.9)
<b>Income tax payable in respect of current year profits</b>	<b>61.5</b>

## Taxes paid

Country of operation	Corporate income tax paid A\$m	Employee taxes paid A\$m	Stamp duty paid A\$m	Other A\$m	Total A\$m
Australia	54.8	6.9	0.1	–	61.8
New Zealand	4.8	0.2	–	0.1	5.1
Ireland	–	–	–	0.1	0.1
Brazil	0.4	–	–	–	0.4
Rest of the world	–	–	–	–	–
<b>Total</b>	<b>60.0</b>	<b>7.1</b>	<b>0.1</b>	<b>0.2</b>	<b>67.4</b>

## Other taxes collected and remitted

Country of operation	GST/VAT collected A\$m	GST/SVAT paid but reclaimed A\$m	Employee taxes remitted A\$m	Stamp duty remitted A\$m	Other A\$m	Total A\$m
Australia	13.4	(23.2)	29.0	35.1	2.4	56.7
New Zealand	32.3	(26.0)	3.6	–	0.3	10.2
Ireland	–	–	0.7	–	–	0.7
Brazil	–	–	–	–	–	–
Rest of the world	–	–	0.4	–	–	0.4
<b>Total</b>	<b>45.7</b>	<b>(49.2)</b>	<b>33.7</b>	<b>35.1</b>	<b>2.7</b>	<b>68.0</b>

# Our global tax profile

## Australian tax reconciliation

Values are in AUD per nib's 2019 Australian consolidated Group draft tax return. These details are provided to assist an understanding of the tax values published by the ATO in its Report of Entity Tax Information.

nib Australia	2019 A\$m
External revenue and other income	2,236.4
Other related party income	20.8
Related party investment income	1.3
Related party dividend income	12.2
<b>Gross income including related party dividend income</b>	<b>2,270.7</b>
Profit before tax	211.2
less tax exempt foreign related party dividend income	(12.2)
Australian profit before tax (excluding dividends)	199.0
add/(less) permanent non-taxable differences	1.2
add/(less) temporary tax timing differences	(7.1)
<b>Taxable income</b>	<b>193.1</b>
<b>Australian Tax Payable is calculated as:</b>	
Taxable income	193.1
Gross tax payable @ 30%	57.9
less foreign tax paid offsets	(0.2)
less Australian imputation credits	(0.9)
<b>Australian tax payable</b>	<b>56.8</b>
<b>Calculation of the Australian income tax expense:</b>	
Profit before tax	211.2
less tax exempt foreign related party dividend income	(12.2)
Australian profit before tax (excluding dividends)	199.0
<b>Australian income tax expense on current year income @ 30%</b>	<b>59.7</b>

# Our global tax profile

## Australian effective tax rate

nib Australia	2019 AU\$m
Total profit before tax - including tax exempt dividends from foreign subsidiaries of \$12.2m	28.3%
Taxable Australian profit - excluding tax exempt dividends from foreign subsidiaries of \$12.2m	30.9%

Effective tax rate equals income tax expense as a percentage of the stated profit values.

## Australian tax contribution summary

The table below provides an overview of all the other Australian Federal and State taxes paid and collected by nib in the 2019 income year. This table only includes taxes paid to Australian Federal and State authorities. It does not include taxes paid or collected by nib in foreign jurisdictions. In 2019, nib paid \$0.2m in withholding taxes to overseas governments. In accordance with the Australian tax law, this withholding tax is available for offset against the Australian income tax liability.

nib Australia	2019 AU\$m
Corporate income tax	54.6
Fringe benefits tax	0.4
Payroll tax	6.5
State stamp duties	0.1
<b>Total Australian taxes paid</b>	<b>61.6</b>
GST collected and remitted	13.4
GST paid and reclaimed	(23.2)
PAYG – employee withholding tax	29.0
State stamp duties	35.1
Other withholding	2.4
<b>Total other Australian taxes collected and remitted</b>	<b>56.7</b>

# Basis of report preparation

The purpose of this report is to provide an overview of the tax and economic contributions made by nib and provide further information in relation to nib's tax risk and governance profile. The Australian component of the report has been prepared in accordance with the Voluntary Tax Transparency Code.

**Currency:** All amounts contained within this report have been disclosed in Australian dollars. Amounts in relation to our overseas entities have been translated from their local currencies into Australian dollars using the average exchange rate for the year.

**External revenue and other income:** This represents revenues received from third parties and excludes international related party amounts.

**Income tax paid:** Income tax paid comprises cash payments made during the year to 30 June 2019, net of refunds received. It includes both amounts paid to tax authorities as well as withholding taxes paid to foreign governments.

**Number of Employees:** This includes full time and part time employees.

**Profit disclosed on a country level basis:** this represents local statutory profit before tax, excluding dividends received from international related parties.

