

Start of Transcript

Ed Close: Well, good morning, everyone, and thank you for joining us for nib's FY26 Half Year Results. I'm Ed Close, nib Group CEO and Managing Director, and I'm joined here in Newcastle by our Group Chief Financial Officer, Nick Freeman. We're pleased to deliver a strong set of results today, reflecting disciplined growth in our core markets, improved customer value and significant progress in operational and digital transformation.

Before we begin, I would like to acknowledge the Traditional Custodians of the land we're joining you from today, the Awabakal people, and pay my respects to Elders past and present.

This morning I'll step through our first half performance, the drivers of the result, and the strategic progress across our business. Nick will then take us through the financials before I close with outlook and open up for questions.

Turning to slide 5. Our purpose, your better health and wellbeing, continues to guide how we support customers and healthcare providers. At nib, we remain focused on delivering great value health insurance and support services to our customers, underpinned by high-quality products and improved access and affordability. This ongoing focus continues to translate into sustainable commercial outcomes for our shareholders, while supporting a positive contribution in the communities where we operate.

If we jump across to slide 6 and looking at the first half '26 highlights. This was a strong Group performance in line with expectations with positive contributions across all business segments and reflects the disciplined execution of strategic priorities and a continued focus on delivering great customer outcomes. Pleasingly, Group underlying operating profit of \$129.1 million was up 22%, supported by top-line revenue growth of 7.7%.

In our Australian residents business, we delivered another consistent high-quality result with disciplined policyholder growth and margins maintained in the 6% to 7% target range. Our adjacent businesses delivered their highest first half UOP since FY19, contributing \$30.4 million, up more than \$20 million on the prior corresponding period. International and New Zealand segments achieved particularly strong outcomes.

Our productivity and performance agenda continues to gain traction. Since FY24, we have delivered \$39 million of cumulative productivity benefits across the Group with material reductions in key expense ratios. We've also continued to simplify the portfolio, announcing the sale of the World Nomads international travel insurance business, sharpening our strategic focus on our core health insurance markets, with the review of the remaining Australian and New Zealand travel business ongoing.

If we move across to slide 7, and you can see that our performance is translating across the key group metrics. PHI lives covered rose to 1.95 million, our largest customer base ever, with our value proposition

continuing to resonate on both sides of the Tasman. Customer satisfaction remained resilient, with Group NPS at plus 33. There were some temporary impacts in New Zealand as a result of pricing and product changes, which were largely offset by positive experiences across our other business segments.

A key highlight of the result was the significant improvement in the Group operating expense ratio, which reduced 100 basis points to 16.5%, and it's a result of our direct focus on productivity, automation, and our AI agenda, now delivering scalable results. ROIC increased to 14.7 per cent, reflecting stronger operating performance and disciplined capital deployment. NPAT of \$82.9 million was in line with expectations and does reflect the lower investment income relative to a strong comparative period and the higher one-offs as we previously guided. The Board declared a fully franked interim dividend of \$0.13 per share, consistent with the prior year.

If we jump across to slide 8 and we go a little deeper on the business segments, Australian residents delivered another strong result. Our disciplined focus on policyholder growth across our high-value segments, NPS at plus 35, 89% of interactions now self-serve digitally and the non-marketing expense ratio of 5.8% were all key highlights.

nib continues to support the long-term viability of the private hospital sector, and our hospital payout ratio is now tracking higher than pre-COVID levels and in line with expectations. International's positive contribution continued, where we delivered a strong UOP result, up 23%, with stable gross margins and tightly controlled expenses.

Policyholder growth was particularly driven by PALM participants, our temporary graduate focus and skilled workers. Customer outcomes remain a key strength in this segment, with record NPS of plus 63.

Pleasingly, we retained preferred provider status for PALM and have continued to strengthen those relationships in the seasonal worker community.

Over the ditch in New Zealand, the recovery is progressing at pace. We made a strong return to profitability with UOP of \$3.9 million, up \$14 million, driven by our management action plan and a stabilisation in claims inflation. As we saw last year, repricing does bring short-term pressure on policyholder trends but has been necessary to restore the business to sustainability. Claims inflation is moderating and our focus is now firmly on customer experience and value.

Across the wider non-PHI businesses, health services achieved profitability for the first time in line with our expectations. Our investment in ItsMy Group continues to support more than 10% of all private health insurance industry sales. Thrive delivered UOP growth of 4.8% and returned to positive participant growth in January 2026.

If we have a look at productivity on slide 9, this highlights how our digital and AI transformation is translating directly into improved customer and commercial value. Our productivity gains are now structurally embedded, resulting in the Group operating expense ratio reducing by 100 basis points, and this is underpinned by cumulative productivity savings of \$39 million since FY24.

In Australian residents, 94% of claims are now processed within 24 hours, and 86% are processed unassisted using automation. More than 600 of our operational staff are now using internal AI tools,

supporting over 250,000 interactions since January '25. These at-scale initiatives are enabling further investment in our customer value proposition. Almost 80% of our customers now benefit from no or known gap coverage, and we've expanded no gap dental, optical and our physio networks to more than 2,000 locations. This is saving customers more than \$45 million in out-of-pocket costs.

Importantly, we continue to secure multi-year agreements with hospital providers, with more than 80% of our total benefit outlays now under a partnership model. More than 11,000 customers were enrolled in health management programs in partnership with our business, Honeysuckle Health, and these were delivered through virtual means for 93% of customers. These are now translating to better health outcomes and experiences for our customers. With that, I'll pass to Nick, and we can go through the results in a little more detail.

Nick Freeman: Thanks very much, Ed. If I look at the overall Group financial performance, the highlights of this result were the strong UOP growth at 22% higher than last year, managing the ARHI result into the target range with reported margins at 6.8%, and underlying margins at 6.5%, the rebound of the adjacent businesses, which had their strongest result since pre-COVID, highlighted by the performance of the international business, the recovery in New Zealand and a health services segment generating a profit, and the continued progress on the productivity agenda, with the operating expense ratio reducing by 100 basis points to 16.5 per cent.

As we announced on 19 December, we did take a non-cash impairment in the nib Thrive segment of a little over \$4 million, and non-recurring costs were impacted by a net cash expense before tax of around \$8 million in the first half, relating to historical adjustments to the Australian Government rebate and to the New South Wales hospital insurance levy. Our investment income was down, driven by markets generally, and mainly the reduction in cash rates and also our sustainably biased equities portfolio underperformed given the strong performance of the mining sector over the last six months.

Turning now to Australian residents health insurance. Our core ARHI business continued to deliver in line with expectations with revenue growth of 7% and margins in the target range. The reduction in margin was expected given the elevated margin profile of past periods and growth was a little lower than we'd have wanted given competitive market dynamics. We also did have negative product mix impacts on revenue, however the margin impact relating to that was more limited given the downgrading occurred in the higher-claiming tiers.

Claims inflation was 5.3% or 6.1% including the impact of the New South Wales bed rate and has been offset by pricing and productivity, which we'll come to in the following slides. Productivity was definitely a highlight, with the overall management expense ratio below 10% and our non-marketing expense ratio at 5.8%, which is the lowest since 2017.

Looking and just going a little bit more into pricing margins and inflation, in this slide, we try and unpack inflation a little bit more and our pricing and productivity response. I'll just take you through this. It might take a little while but bear with me. Starting at the bottom left, you can see that we had very high medical inflation driven by investment in customer benefits, mainly expanding our no gap and known gap offerings.

Hospital inflation was also elevated given the New South Wales bed rate impact and our support of the private hospital sector. However, the chart at the top left then pulls apart those impacts as a number of those are unlikely to reoccur. Starting with our claims inflation, excluding the bed rate impact of 5.3%, we'd then expect the impact of investment in no gap and known gap to reduce, given it commenced in October '24.

We would then like to highlight what we've termed risk equalisation volatility. There's been some market commentary around the increase in hospital claims and payments, especially in the December quarter, and we did see this. The growth in the industry gross deficit was over 4% higher in the first half than in the preceding 12 months, and this was especially notable in the December quarter. Given that we basically paid the entire net risk equalisation transfer in the pool, we did see our inflation increase as a result, and one would assume that that benefited other participants.

We're not able to provide an indication as to whether that will reverse, as that depends on the behaviours of the other participants in the pool, but we are just highlighting this impact as unusual. If we adjust for those impacts we come to a base level of inflation of around 4.1% which does include mix and downgrading effects.

Now let's look at our pricing on which the mix impact was negative 1.3% which means that we need around 5.4% pricing to cover inflation. Given that our pricing is 5.79% in the March quarter and 5.47% from April '26, we think our settings are in a reasonable range to continue to manage gross margins within the ranges we're targeting.

Our hospital benefit ratio is now ahead of pre-COVID levels and we're focused on continuing to manage claims inflation with an end-to-end strategy having been developed and one which will be executed across the rest of this calendar year. We remain focused on productivity and delivering enhanced value to our members.

Turning now to margins, as we just highlighted, we think the settings are in the right range for margin stability and there was relatively little impact between our underlying net margin and reported net margin. The margin impact from the chain to the LIC was quite small, highlighting that our provisioning at June '25 has been appropriate.

There has, however, been a reduction in the LIC to faster payment speeds in the first half of '26, which has again been the subject of Markham commentary and may be a factor in the risk equalisation volatility we've highlighted. Overall, our estimate is that the LIC reduced by \$28 million to \$29 million due to this factor, and again the December LIC is so far supporting this conclusion through hindsight analysis.

If we then look at cash claims growth to incurred claims growth, I'll just let you know that that's in the slide on page 32, in which we do provide a breakdown of further incurred claims information. If we adjust this impact for payment speeds and volume impacts, then cash claims and incurred claims growth align, and I'm sure a few of you will want to unpick this a little more in our calls this afternoon and discussions this week. Moving now to the adjacent businesses and given how busy the reporting season is this year, I will not spend too much time on the other businesses other than to note their strong performance with a combined

UOP of \$30.4 million this year versus \$9.9 million in the prior comparable period, and this was the best performance since the first half of '19.

Our international business delivered a strong performance with UOP growth of 23%, the New Zealand turnaround was notable with our recovery plan taking effect in a more stable inflation environment, albeit at elevated levels, and our health services segment delivered a profit as expected. We sold the international perimeter of our travel business and given that most of the net assets are intangibles, there will be a high cash realisation from the sale of around \$20 million.

With that in mind, if we could now jump to slide 21 on capital management. Our ratios continue to strengthen, and the PCA ratio for the health fund was at 1.91 times, which was a similar level to last year and above our target minimum of 1.5 to 1.6. We'll look at capital management initiatives in the second half as the travel strategic review continues and funds are received.

Finally on cash flow, our first half '26 operating cash flow was positive and ahead of the prior comparable period. The normal seasonal trend is continuing, and we'd expect strong cash generation in the second half given pricing and rate protection factors. With that, I'll now hand back to Ed.

Ed Close: Thank you, Nick. I just wanted to pause and spend a short moment on our strategy. It's fair to say it remains clear and focused across our business. Firstly, we aim to grow and strengthen our core PHI businesses in Australia and New Zealand. We'll continue to invest in customer propositions, and we'll continue to focus on delivering our above system, multi-brand, multi-channel growth. Scaling health management and claims optimisation programs are also a priority.

Secondly, we continue to scale our adjacent businesses to deliver value back to private health insurance, including our focus on health services, the ItsMy Group platform and our scale-up efforts in NDIS plan management. Thirdly, we continue to embed productivity, powered by digital and AI. We're simplifying the business model, and we maintain a disciplined capital allocation focus. This strategy is underpinned by our people who continue to deliver exceptional outcomes for customers and is strengthened by our proactive approach to risk management. We're pleased with the ongoing execution and progress on our key priorities, and this is reflected in our first half performance.

If we jump across to slide 25, I also wanted to go a little bit deeper on our investment thesis. Private health insurance is a core pillar of Australia's health care system. It funds around 40% of hospital episodes and the majority of elective surgeries and continues to ease the pressure on the public system. Participation remains stable, and long-term growth of 1.5% to 2% is supported by positive government policy and an ageing population. The industry is capital light, cash generative, and operates with resilient regulatory settings.

Within this environment, nib is differentiated. We continue to deliver above industry policy growth, maintain discipline cost control, and leverage our scaled digital data and AI capability. This is alongside our targeted health services strategy, which strengthen outcomes in our core PHI proposition. These things taken together position nib to deliver sustainable growth and long-term value for customers and shareholders.

Lastly, if we jump across to slide 26, we'll just step through some of the FY26 outlook and guidance. FY26

Group UOP continues to track in line with expectations. We expect FY26 Group UOP to be in the range of \$257 million to \$260 million for the full year. Our disciplined productivity program remains a key focus and will continue to support performance with further reductions in the Group operating expense ratio expected. Across the portfolio in Australian residents, we are targeting above system policyholder growth and a stable full year underlying net margin in the 6% to 7% target range. International is expected to continue its strong contribution to Group UOP and New Zealand is recovering strongly with a clear focus on customer experience and value. Health services profitability is expected to continue for the full year after that important milestone at the half and in travel the strategic review is well progressed.

With that, we'll now open up for questions and we'll pass to the operator.

Operator: Thank you. As a reminder, to ask a question, please press star one one on your telephone keypad and wait for your name to be announced. To withdraw your question, please press star one one again. Please stand by as we compile the Q&A roster. First question is from Julian Braganza from Goldman Sachs. Please go ahead.

Julian Braganza: (Goldman Sachs, Analyst) Good morning, guys. Firstly, I just want to be clear on what's happening with claims inflation just on a like-for-like basis. You're saying underlying base inflation 4.1%, headline 6.1% and I think previously at the full year result you flagged 4.9% including the bed rate impact. There's a few different definitions here, but I just want to be clear what's happening since FY25 to first half '26 and what is the outlook for year for inflation given incremental hospital indexation? I'm just trying to lead into second half '26 and FY27 to align with the rate that you've got. Any colour around that would be great, thanks.

Nick Freeman: I think in FY25, Julian, it'll be the investment in gap and known gap that we didn't pull out. In this case, we're pulling it out because we don't think it will repeat into the future, just to give you a bit more guidance. It also gives you a bit more of an indication about where we're seeing that base inflation and then why we've priced where we have. As to the risks and opportunities into the future, I can turn to Ed, but again, that's something that's in the future and we'll adapt to those as they come up.

Ed Close: Yes. I think just building on that, Julian, when we think about what we're remaining alert to, you referenced indexation, and certainly as part of our expectations and commitments to the hospital sector viability, we've been doing our bit. I think we've talked to some of the key data points around our ongoing support for the hospital sector, and that also correlates to utilisation as well.

Given our strong track record of growth, we are anticipating utilisation to continue, and that's another important element of ensuring that there's adequate volume flowing through the hospital sector. In terms of our actions underway that we can proactively manage that, we referenced that we're embarking on a fairly comprehensive end-to-end review of our hospital contracting and broader benefits management strategy. A couple of things that are interesting that we're working hard on is around average length of stay. That is an opportunity for nib. When we look at benchmarks to peers in the industry, that's something that we are working harder and presents some opportunity moving forward. Equally around the shifting patterns of care, particularly with a focus around short-stay day and community-based care. Again, when we benchmark

ourselves to industry, that is also an opportunity for nib.

Julian Braganza: (Goldman Sachs, Analyst) Okay, got it. Just to be clear, if that 4.1% underlying number continues to track higher with headline indexation, how are you thinking about that product mix impact? Have you factored in any benefits from the downgrading from gold to silver and bronze on the claims side of the equation? I just want to understand how you're thinking about that downgrading, particularly given you'll be putting the rate increase through in the second half. Thanks.

Nick Freeman: Thanks. The 4.1% includes the downgrading that occurred in the period, and so that's why we've deducted the downgrading from the pricing.

Julian Braganza: (Goldman Sachs, Analyst) Sorry, I meant in terms of an offset. If that 4.1%, just in terms of the underlying base inflation, if that continues to track higher, what happens? On the other side of the equation, downgrading, how can that track into second half and into next year? Can that be lower, can the downgrade be lower to offset the inflation piece? That's what I'm trying to understand.

Nick Freeman: It could be lower or higher.

Ed Close: Yes. I think what I would say, Julian, is if you think about some of the pricing decisions that we made in April '25, which were quite strategic in where we applied those, that did correlate with downgrading in what we would describe as lower-value segments and tiers so we'd expect that that is largely washing through as well. In terms of margin impact overall, when you look at downgrading and that claims experience, we've focused on a fairly neutral impact overall.

Julian Braganza: (Goldman Sachs, Analyst) Okay, got it. Just a last question for me on expense ratios, down to 9.9%. Just how much flexibility in terms of what you're doing there, how much scope is there to reduce that further from here? Thanks.

Ed Close: We've touched on our forward-looking expectation that productivity will continue to deliver benefits. We're really pleased with the progress and we've highlighted the step change that is now very much structural. What we do want to remain committed to, and we talked about the investment in customer benefits, but also our investment into our growth and distribution. We remain disciplined around how that productivity will unlock value, but also important to think about, well, where do we redirect some of that value back to customer benefits and also our growth strategy? We're not putting specifics out there at this point, Julian, but we are expecting that there's still some opportunity ahead.

Julian Braganza: (Goldman Sachs, Analyst) Thanks so much for that, guys. Much appreciated.

Operator: Thank you. Next question comes from Siddharth Parameswaran from J.P. Morgan. Please go ahead.

Siddharth Parameswaran: (J.P. Morgan, Analyst) Good morning, gentlemen. Maybe just a question first on the lapse rate that has been rising for a period of time and seems very, very high by industry standards. I was hoping if you could provide more detail behind the comments that you've given us as to what's happening and maybe just some comments on whether you think this is where it will stop or whether it will get worse. Related to that, I know you have some assumptions on amortising your DAC. I just wanted to understand where we are in terms of how close you are to those assumptions.

Ed Close: Morning, Sid. I'll provide a few insights on lapse performance and I'll pass to Nick to put some colour around the DAC.

So, on the lapse drivers, I mean, yes, it is elevated. It is an opportunity for us, absolutely. That higher lapse rate is predominantly driven by a few key factors. Firstly, our high sales mix, generally about a third is attributable to that lapse experience as well, particularly around competitive responses to our strong sales performance. So win-back activity is something that we're watching closely as competitors understandably respond to our high sales and distribution focus. So that is a big driver of what we would call that short-term lapse.

Equally, I touched on the pricing approach that we took over the last 12 months around prioritising those high-value segments and working out where does nib as a business model want to prioritise and that has also been reflected in that lapse impact as we have been quite strategic around product design and pricing optimisation.

Then the other, third, if we think of it in three parts, is absolutely an opportunity for us. So we talked about the government rebate adjustments that we have made and we're in the process of refreshing our go-to-market strategy with a big focus on the nib brand itself and so we remain optimistic about the opportunity to really intervene in that lapse in retention space and we do expect that there should be some moderation moving forward.

Nick Freeman: Yes and in terms of the DAC, we've still got headroom. We amortise over five years and there's still headroom above that in terms of the average life.

Siddharth Parameswaran: (J.P. Morgan, Analyst) Great, thank you. Okay. Just the second question that I had was just around claims inflation in ARHI, just to ask if you had benchmarked where your inflation is coming in versus peers, because it seems – I mean, taking your numbers today, if I was to adjust for the mix effect which seems to be benefiting you, it seems like inflation is extremely high. Headline 6.1%, I understand there's a reinvestment in customer benefits, but the mix effect effectively more than offsets that. So it seems like underlying inflation is well over the 6%. You've got a rate increase, which is 5.4%. I'm just keen to understand exactly, well firstly, will there be anything which will bring that inflation down on perhaps on the hospital side? You touched on a couple of things, but I think the underlying pressures are more the other way, that hospitals are asking for more. So I was just hoping you could help us understand some of these numbers on the inflation side.

Ed Close: Yes, I think I'll talk to some of the experience, Sid. So I can't crystal ball where others have been at around their hospital partnership arrangements, but we've talked consistently now for 18 months or so around the work we've been doing in the hospital sector, so from a contracting timeline and sequencing perspective, we struck several multi-year agreements over the course of the last 18 months and so we're certainly feeling that indexation impact through those numbers and that was expected.

I referenced the 80% of benefits outlay that are now under a partnership agreement. Obviously, indexation plays an important role there, but it also gives us good predictability around what we're expecting moving forward, given 80% of the benefit outlay is under contract.

If I think about some of the other factors that are playing through, we have a high proportion of our customer base in New South Wales and that is certainly seeing higher levels of inflation, again exacerbated by the New South Wales bed rate impact and so our member base proportion is obviously skewed to that state.

The other thing that we've been spending some time on is looking at our customer proportion that sit on gold relative to peers. If you think about, again, our strategy over a long period of time, we have a much lower proportion of our base on gold and so what we're actually seeing is that as the market generally responds to the sustainability or lack thereof, should I say, of the gold proposition, that we've been a little bit out on that timing and lag effect that might be starting to play through around gold.

So they're some of the factors. I mean, you asked about the management response and I've talked about disciplined pricing, I've talked about the productivity approach, giving us optionality around our expenses and we've talked about that end-to-end claims strategy with a big opportunity around shifting patterns of care.

Then I think the last point – and you referenced this – was we have been quite deliberate around our investment in customer benefits. So that medical inflation line that we highlight there is really table stakes for us as we see it as a critically important part of our proposition and we're committed to making sure that investment resonates.

Siddharth Parameswaran: (J.P. Morgan, Analyst) Great.

Nick Freeman: A couple of comments from me, Sid, would be the gold's an important point. We're at about half the industry proportion of gold, given our history and that we targeted a different customer base. So while everyone's been reducing on gold, given what Ed just talked about, the relative reduction for the rest of the industry versus nib is different.

But if I go back to industry and so forth, it's hard for us to comment on any single participant, but I think what we often talk about is, we think that the best guide to where people are seeing industry inflation and where industry inflation is, is what people put in their pricing. So an industry of about 4.5%, a little less, but the majors at more like 5%, with the exception of one, I think gives you an indication about where that is. Now, relatively, if I take 5% for the majors and 1% downgrading, that comes to 4%. We've got ours saying at about 4%. Do you know what I mean? I'm not seeing perhaps as much differences as you're seeing, but happy to talk it through. I think, yes, that slight elevation for the factors that Ed's talked about.

Siddharth Parameswaran: (J.P. Morgan, Analyst) Yes, that's very helpful. Thank you, gentlemen.

Operator: Thank you. Just a moment for our next question, please. Next we have Nigel Pittaway from Citi. Please go ahead.

Nigel Pittaway: (Citi, Analyst) Good morning, guys. I'd just like to ask a first question on ARHI policyholder growth and really what you're trying to tell us there. I think in the one breath you're saying you are focused on high value segments, but then you also said you were quite disappointed with policyholder growth. You've obviously dropped your policyholder growth target for the full year and an increasing share of your policyholder growth is coming at the moment from aggregators, which I understand have been quite

aggressive during the period.

So can you put that all together for us, as to exactly what you're targeting and how we should think about policyholder growth moving forward?

Ed Close: Morning, Nigel. Yes, thanks for the question. So yes, I think we've been quite clear around our expectations moving forward. We're talking to above system and system's tracking at around 2% and so we have to be disciplined. I think we've talked about making quite deliberate choices about where we play and how we execute on that. We've talked to some of the drivers of lapse and I've also then signalled that retention is a big opportunity for us.

So certainly a core part of our distribution and business model is that consistency around above system policyholder growth, so we're certainly not stepping away from that. We do have some quite innovative initiatives that are coming through over the next six to 12 months that gives us confidence. You touched on the aggregator channel which strategically, again, remains important to us and particularly through the partnership with ItsMy Group, but all of our strategic partners in the aggregator sector. So they support our high-value growth strategy.

Yes, we remain alert to some of the factors. I touched on some of the temporary disruption of the government rebate changes and our adjustments to offer and how we flight our go-to-market strategy and that has had some short-term impact, but that will start to unwind over the months ahead.

Nigel Pittaway: (Citi, Analyst) Okay, but you have dropped your policyholder growth target as before to above system, so that gives a modest [tempering]. That's [safe] to say, right?

Ed Close: Couldn't quite get all of that, Nigel, but I think you're referencing back to the step change from 3% to above system.

Nigel Pittaway: (Citi, Analyst) Yes, absolutely.

Ed Close: I hope I've tried to be clear on the factors around why we've stepped away from that in the second half.

Nigel Pittaway: (Citi, Analyst) Yes, okay. All right, I'll move on then. In terms of just the growth then in New Zealand, presumably not all those price rises are fully earned through yet, so the growth rate, obviously you had a pullback in policyholders, but in terms of the earn through, those premium rates increases, there's still more of that to come? Would that be fair?

Nick Freeman: Yes, that's right. On page 17 of the presentation, we can see that the first quarter and the second quarter, the average price rise is going up from 22% to 26%. But we've also got to remember that we've unfortunately had some lapse as a result of the remedial action and there's been some downgrading. So, yes, some will go through, but please let's just – the lapse in the downgrading has been – we've had that impact and we're now really focused on adjusting, I guess, for that impact and having put the business on a more sustainable footing, reverting it back to focusing more on customer service and the growth.

Nigel Pittaway: (Citi, Analyst) Okay and then just wanted to see what's involved a little more in the capital management review. Obviously, before you've indicated that any proceeds you got, there was a fair chance that a reasonable amount of those might be distributed. I mean, can you give us a flavour of what exactly

you're going to be looking at in that capital management review?

Ed Close: So Nigel, certainly that remains front and centre around returning those proceeds to shareholders and we're working through those options at the moment. I think it's also fair to say that we're focused on maximising the return on our existing investments as well and particularly strengthening some of those adjacent businesses. So we'll work through that carefully over the months ahead, but hopefully that's giving you a signal around our intended direction.

Nigel Pittaway: (Citi, Analyst) Great and then maybe just finally, on international, clearly you're back inside what used to be your margin target of 10 to 15 this half, but typically second half has been stronger. So, is it fair to say that overall margin for international is probably a bit better than you used to get when you were targeting 10 to 15? Is that a fair comment?

Ed Close: Yes, I mean, we were really pleased with the way the international business has gone, especially because it's on that lower gross margin of 39%. Really the benefit on that has been in the expense ratios. It's hard to really give that target, given that it has been quite a volatile segment. But we're pleased with where the – or we're happy with the margin where it is. We're pleased with the expense ratio. I hope that gives you an indication, but I'm just hesitant around those historical targets when they've been quite volatile since we gave them.

Nigel Pittaway: (Citi, Analyst) Okay, great. Thank you.

Operator: Thank you. Just a moment for our next question, please. Next, we have Freya Kong from Bank of America. Please go ahead.

Freya Kong: (Bank of America, Analyst) Hi, good morning. Thanks for taking our questions. Can I just ask on the updated strategy in New Zealand, are you going to continue to prioritise profit over growth? Are you going to look more to increase retention and growth now? Also, what kind of margins are you writing new business at relative to your historic 8% to 9% target?

Ed Close: Morning, Freya. Thanks for the question. Yes, it's a balance in New Zealand and so we took some necessary action in that market to ensure that we could get that business back on sustainable footing and where we're really pleased with the direction it's heading. Notwithstanding, we acknowledge the customer impacts were felt and you can see that in the NPS and the lapse rate.

So our priority over the next 12 months is making sure that alongside pricing discipline, how do we really proactively manage that claims inflation trajectory so that, consistent with the Australian approach, we'll be looking to really influence that claims trajectory and working closely with our provider community to do so. We're not guiding to any forward-looking margins in that business at this point. A little bit like the international space, there's still quite a lot of uncertainty there, macroeconomic conditions are improving, but they also remain somewhat suppressed to where they have been historically. You did reference our historical margin point, but it is still too early for us to really put that on a forward-looking basis.

So we're pleased with the steps that have been taken to date. You talked about balancing on customer and growth and that is also a big focus for us. We're seeing competitor dynamics really stabilise as well and so I would say that the playing field is certainly more even now.

We're quite buoyed by some of the growth initiatives that we are now turning our attention to, including the revised launch of our life insurance offering over there as a bundled play with health, really strengthening our relationships with the financial advisor community, which is an important distribution channel for us in New Zealand. Then we'll selectively pursue some of those other adjacencies, including international visitors in New Zealand and also the corporate sector.

So there's opportunity there and there's certainly headroom for growth. We're about 15% of the overall residence market in New Zealand. So again, consistent with Australia, we see lots of opportunity for growth moving forward.

Freya Kong: (Bank of America, Analyst) Okay, thanks. What's the underlying yield that you're getting right now on the defensive portfolio? Were there any negative mark-to-market impacts in the half?

Nick Freeman: That'll be included on the last page of the appendices.

Freya Kong: (Bank of America, Analyst) I don't think you split up underlying yield there though. Correct me if I'm wrong.

Nick Freeman: Okay, maybe this afternoon you could take me through underlying yield.

Freya Kong: (Bank of America, Analyst) Okay, great. Then just a final clarification, the Group yield target for the full year, what would that be excluding travel, because that's a discontinued operation now?

Nick Freeman: Again, we've guided to what we've guided to and I guess we'll keep it where we are in that regard.

Freya Kong: (Bank of America, Analyst) Okay, all right, fine. Thank you.

Operator: Thank you. Just a moment for our next question. Next, we have Andrew Buncombe from Macquarie. Please go ahead.

Andrew Buncombe: (Macquarie, Analyst) Hi guys, congratulations on the result. Just two from me, please. How should we think about the product mix impact in the residence business in second half '26? Was there anything unusual in the first half that we need to adjust for? Thanks.

Nick Freeman: No, I don't think there's anything too unusual. I think that potentially our relative pricing last year versus the industry and then, because our relative pricing this year versus the industry is smaller, maybe that might provide some modest benefit.

Andrew Buncombe: (Macquarie, Analyst) Great. Then a couple of questions on travel, please. Would you consider [holding] the Australian and New Zealand travel business if you can't get appropriate compensation? Then also potential stranded costs from travel, if you can just talk to that as well, please? Thanks.

Ed Close: Morning, Andrew. Thanks for the question. So look, that review in the Australian-New Zealand perimeter is ongoing, as we've flagged. I think all options certainly remain possible.

If you think about the strategic logic of distributing travel under an nib-branded arrangement to our Australian and New Zealand domestic policyholders, there's clearly a tighter alignment than the different brands in those global segments through World Nomads. So if you think about proximity and relatedness to the core, then clearly that is stronger. But all options, of course, are on the table and there's certainly plenty

of interest that continues to work through.

As it relates then to stranded costs, we're confident that they'll be largely immaterial and that they would be certainly a priority focus for us in the event that the Australian perimeter did exit the portfolio.

Andrew Buncombe: (Macquarie, Analyst) That's it for me, thank you.

Operator: Thank you. Next we have Kieren Chidgey from UBS. Please go ahead.

Kieren Chidgey: (UBS, Analyst) Morning, Ed and Nick. I just wanted to go back to ARHI claims inflation.

The 6.1% underlying claims inflation number you're talking to, can you give a broad breakdown in terms of what you saw on hospital relative to ancillary? Also interested, within hospital, on the composition between indexation and utilisation.

Nick Freeman: So the hospital versus ancillary is at the bottom left on that page 13, so 3.6% ancillary, 6.2% hospital, 13.5% medical is where the 6.1%. In terms of some of the drivers, I think we have commented that we are seeing some relatively high utilisation. Again, that will be a focus of the end-to-end management strategy around how we manage that with our hospital partners.

Kieren Chidgey: (UBS, Analyst) Okay, but the year-on-year change, Nick, it'd just be useful to get some colour between the higher inflation, is that predominantly all coming from that utilisation bucket? I mean, you did talk to hospital indexation being up as well.

Nick Freeman: I mean I guess the biggest reasons on the 6.1% is, firstly, the NSW bed rate and secondly, the investment in customer benefits, then we've got that risk equalisation piece. But in terms of breaking down between your price and utilisation, it's something we can think about in the future.

Kieren Chidgey: (UBS, Analyst) In your outlook on risk, you're flagging a fairly stable margin outlook into second half. What are you assuming from a risk equalisation basis as we move into second half?

Nick Freeman: We are assuming that we don't see a second quarter like we saw in the December quarter, so we are assuming that we don't see that again, but we're not necessarily assuming that it reverses.

Kieren Chidgey: (UBS, Analyst) Okay. Just a second question on Thrive, just looking in the stat accounts, there's a suggestion there that there's indicators of possible impairment for Thrive, even though you haven't taken one this period, but I do note the revenue growth assumptions of almost half on the go forward in that CGU impairment testing. Can you just talk to, I guess, what you're seeing in that business and how you're thinking about the growth outlook from here?

Ed Close: Yes, morning, Kieran. So with NDIS and Thrive, it's certainly been a soft growth performance over the past 12 months and really this is driven by a couple of factors. There was some internal challenges that we've been quite transparent about dating back about 15 months ago or so now when we integrated several of those businesses onto one operating system in one brand. That did have quite a significant temporary impact on our service levels and broader participant experience. That has largely unwound. Over the top of that, as you're aware, there's been some regulatory changes that the NDIS scheme is working through and certainly Thrive has been within that and plan management has also been within that as well. So on that forward-looking basis, those revenue projections that you're referring to, we are anticipating modest growth there.

We talked about January being more favourable and back in positive territory, but we are cautious about some of those shifting market conditions, so hence the revised revenue assumptions.

Kieren Chidgey: (UBS, Analyst) All right. Thank you.

Operator: Thank you. Just a moment for our next question, please. Next we have Andrei Stadnik from Morgan Stanley. Please go ahead.

Andrei Stadnik: (Morgan Stanley, Analyst) Good morning. I do have yet another question around claims inflation, apologies about that. But I just wanted to ask in terms of the cash paid claims, it looked like the cash paid claims run at about 6.5% growth a year ago and two years ago, but in this half they stepped up to almost 8%. How should we think about that? Is that just the speed up in the claims process, or anything else moving there?

Nick Freeman: Yes, happy to go through that. Again, on page 32, I'd actually say that it was even a little bit higher than that 8%, but then when we back out the increase in processing speeds and then also adjust for the average volume growth, we do come back to very close to that 6.1% incurred that we've reported. So comfortable that cash and incurred are aligning. Then from that 6.1%, we've then provided that waterfall down to the 4.1% against which we're pricing on.

Andrei Stadnik: (Morgan Stanley, Analyst) Thank you. That slide 13, we're talking about 4.1% underlying base inflation.

Nick Freeman: Yes.

Andrei Stadnik: (Morgan Stanley, Analyst) Has that been adjusted for the \$31 million [LSC] release? Because that's worth, I think, roughly about 2.5%.

Nick Freeman: No, that \$31 million release is \$2 million to \$3 million of actual release, of hindsight release, which is that 20 basis points in the underlying margin waterfall. Then the other \$28 million to \$29 million is the payment speed processing, so that's why that's reduced.

Andrei Stadnik: (Morgan Stanley, Analyst) Thank you, that's all.

Nick Freeman: So of that, there's only \$2 million to \$3 million or 20 basis points that's actually affected margin.

Andrei Stadnik: (Morgan Stanley, Analyst) Thanks so much, that makes sense. Thank you.

Operator: Thank you. Next question comes from Vanessa Thomson from Jefferies. Please go ahead.

Vanessa Thomson: (Jefferies, Analyst) Good morning. Thank you for taking my questions. I just wanted to circle back firstly on the nib Thrive. You mentioned that things have turned more positively in January of this year. Is that around participant numbers? I can see it slid backward a little and wondered or is it around margin? Thank you.

Ed Close: Morning, Vanessa. Yes, so we talked about January from a positive growth perspective and you'll see the overall period-on-period reduction and I've highlighted some of the drivers of that. So January, we've certainly seen a positive step up on volume growth and participants.

The scheme is still growing and we show you some of the overall scheme growth numbers at the back of the pack. The plan management penetration or contribution within the scheme is also increasing. So from a

thematics perspective around overall numbers and also the uptake of plan management, those settings are still favourable and January, we started to see some positive volume growth coming through.

What we have been really focused on, you can see that in the numbers, is making sure our participant experience and our operating efficiency is improving. We're pleased with the work that's happened around our cost base. We've now got all of those businesses integrated. We have a dual brand strategy primarily through both Thrive and Instacare that complement each other in key markets.

All of those settings are now more stable. I talked about some further regulatory pieces that we need to continue to navigate, and we're alert to those, but outside of that, we're feeling confident about where things are heading.

Vanessa Thomson: (Jefferies, Analyst) Thank you. Then, sorry, the move to navigator, which I think is, I know there's very little information, but it's a couple of years away now, are you positive on the margin consequence of that change? I understand that's a more time-consuming role than plan management. Thank you.

Ed Close: Your reference to the lack of information, Vanessa, it is still quite ambiguous, we must say, around what the navigator model could look like, will look like and at what time that would take effect, so that is really difficult for us to estimate and make assumptions around what that could be.

We do have high confidence that the plan management sector has a really important role to play within the scheme ongoing, so that intermediary layer, whether it's in its current shape within plan management or a revised shape, certainly the role of connecting participants with the broader NDIS community is a critical one that intermediaries play.

Alongside that, there's an important role for the intermediary layer and plan managers to play around scheme sustainability. We've talked about how we leverage payment integrity and our compliance frameworks and some of our digitisation from our health insurance business across in plan management. We're keen to work alongside several stakeholders, including the government, around making sure that we're eliminating fraud, waste and abuse from the NDIS sector more broadly. So, those settings are attractive for a player like us.

Vanessa Thomson: (Jefferies, Analyst) Okay, thank you. Then, my second question was on hospital contracting. I can see you've renewed your St Vincent's contract. It has dynamic indexation in Year 3. I understand you've done that with others. I just wondered whether you have any contracts that have reached that dynamic indexation phase and how, when you're in that phase, you incentivise the hospital. Thank you.

Ed Close: Thanks, Vanessa. Some of those multi-year agreements are moving towards those dynamic indexation models. We're comfortable with the driving factors around where indexation is landing, and we've certainly looked to accommodate that around our forward-looking pricing.

Talked about predictability of having 80% of our total outlays under a partnership model. That's important, because it gives us that confidence around where we need to price to make sure that those things are aligned.

I won't go into all the nuts and bolts around the component parts of those partnership agreements. I did reference length of stay and a shift to day settings and short stay as priority opportunities for nib. We do lag the industry in some of those key metrics, and we touched on that broader benefits management strategy that we've embarked on, and our provider partners have an important role to play there as well.

Vanessa Thomson: (Jefferies, Analyst) Thank you.

Operator: Thank you. We have a follow-up question from Siddharth Parameswaran from J. P. Morgan. Please go ahead.

Siddharth Parameswaran: (J.P. Morgan, Analyst) Sorry, gentlemen. Just a very quick one. Just wanted to check on the seasonality that you're expecting first half, second half. I think you made a comment previously about the workdays effect and being very strong in New Zealand in particular and reasonably important for Australia as well. I was just keen to get your perspective on that. I didn't see any specific comments around that.

Nick Freeman: Expecting some positive benefit from that, more in New Zealand than in Australia, but some positive from that in terms of margins.

Siddharth Parameswaran: (J.P. Morgan, Analyst) Meaningful? Does some mean - I think you called out quite strongly the last [unclear].

Nick Freeman: It's the puts and takes, Sid, which is one of the reasons why we've provided the guidance that we have. I know that everyone wants to get as much accuracy in their models, as we do, but again, there's always puts and takes on these things.

Siddharth Parameswaran: (J.P. Morgan, Analyst) Yes. Okay, great. Thank you.

Ed Close: We step through the workdays at the back of the pack, slide 31, if you wanted to see the half on half.

Siddharth Parameswaran: (J.P. Morgan, Analyst) Yes. Thank you.

Operator: Thank you. I see no further questions at this time. I will now pass back to Ed for closing remarks.

Ed Close: Thanks, everybody, for joining us. Really appreciate the conversation this morning, and we look forward to catching up soon. We'll wrap it up there. Thank you.

End of Transcript