



nib holdings limited
Head Office
22 Honeysuckle Drive
Newcastle NSW 2300
abn 51 125 633 856

t 13 14 63
e nib@nib.com.au
w nib.com.au

28 July 2023

Company Announcements Office
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

AASB 17 investor briefing presentation

nib holdings limited (nib) Group reporting will transition to *AASB 17 Insurance Contracts*, the new insurance contracts accounting standard from 1 July 2023. The first reporting period will be 1 July 2023 to 31 December 2023 for the FY24 Interim Report.

Attached is a presentation to be delivered to investors and analysts this morning which includes details of the transition impacts of AASB 17 for nib.

The presentation will be made by Mr Nick Freeman, Group Chief Financial Officer, today Friday, 28 July 2023 at 9.00am (AEST).

No trading update or other indications of the FY23 result will be provided. Please note that FY23 reporting remains under *AASB 1023 General Insurance Contracts* and *AASB 1038 Life Insurance Contracts*.

The investor briefing will be available as a webcast and teleconference. All participants need to register using the links below. Registration is now open. Questions will only be open to analysts and investors who join via the teleconference. The briefing will be recorded and available via the webcast link below after the event.

Register for the webcast:

<https://onlinexperiences.com/Launch/QReq/ShowUUID=39490C01-634B-4875-BA5C-D710932E58D6>

Register for the teleconference:

<https://register.vevent.com/register/BI5c3a5f224c9c4fff997546eb2f60da60>

Roslyn Toms
Company Secretary

For information regarding the investor briefing please contact:

Amber Jackson
Head of Investor Relations

 +61 402 210 817

 a.jackson@nib.com.au

This announcement has been authorised for release by Roslyn Toms, nib Company Secretary.

AASB 17 investor briefing

28 July 2023





nib acknowledges Aboriginal and Torres Strait Islander peoples as the First Australians and pays respect to Elders past and present across all the lands on which we operate.

We acknowledge the rich and meaningful contribution they make to life and culture in Australia, and we aim to be a partner in improving the quality of life and health of Aboriginal and Torres Strait Islander peoples.



Image: nib Innovate Reconciliation Action Plan artwork 'The Beginning' by Michelle Kerrin, descendant of the Arrernte and Luritja clan groups from the Northern Territory, born and raised on the lands of the Larrakia people.

Disclaimer



The purpose of this document is to convey the key impacts of AASB17 on the financial statements of nib holdings limited ("nib") from 1 July 2023 and not to provide a technical accounting briefing. Refer to nib's FY23 Annual Report (to be lodged with to the ASX on 21 August 2023) for technical detail.

Not a recommendation, offer or invitation

This presentation is not a financial product, investment advice or a recommendation, offer or invitation by any person or to any person to sell or purchase securities in nib holdings limited ("nib") in any jurisdiction. This presentation contains general information only and does not take into account the investment objectives, financial situation and particular needs of individual investors. This presentation has been prepared to assist sophisticated investors. Investors should make their own independent assessment of the information in this presentation and obtain their own independent advice from a qualified financial adviser having regard to their objectives, financial situation and needs before taking any action.

Distribution may be restricted

The distribution of this presentation including in jurisdictions outside Australia, may be restricted by law. Any person who receives this presentation must seek advice on and observe any such restrictions. Nothing in this presentation constitutes an offer or invitation to issue or sell, or a recommendation to subscribe for or acquire securities in any jurisdiction where it is unlawful to do so. An investment in nib securities is subject to investment and other known and unknown risks, some of which are beyond the control of nib. nib does not guarantee any particular rate of return or the performance of nib securities. Shareholders should note that past performance of nib, including the historical trading price of nib's shares, cannot be relied upon as an indicator of (and provides no guidance as to) future performance, including the future trading price of nib shares.

No representation or warranty

No representation or warranty, express or implied, is made as to the fairness, accuracy, reliability, completeness or correctness of information contained in this presentation, including the accuracy, likelihood of achievement or reasonableness, fairness, accuracy, reliability, completeness or correctness of any forecasts, prospects, returns or statements in relation to future matters contained in the presentation ("forward-looking statements").

Whilst the forward-looking statements are based on current views, expectations and beliefs as at the date they are expressed, such forward-looking statements are by their nature subject to significant uncertainties and contingencies and are based on a number of estimates and assumptions that are subject to change (and in many cases are outside the control of nib and its Directors), which may cause the actual results or performance of nib to be materially different from any future results or performance, expressed or implied, by such forward-looking statements. Accordingly, there can be no assurance or guarantee that these forward-looking statements will be realised.

In particular, readers are cautioned not to place undue reliance on forward-looking statements, particularly in light of current economic uncertainties, disruption caused by the ongoing impacts of the COVID-19 pandemic in addition to the conflict in Ukraine and geo-political uncertainty. nib is under no obligation to update any of the forward-looking statements contained within this presentation, subject to applicable disclosure requirements.

No advice

This presentation provides information in summary form only and is not intended to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor.

Basis of preparation

The information in this document provides an unaudited overview of historic performance. Any restatement of prior period results to align those results with AASB 17 has not been subject to external review and is subject to change following a review by nib's external auditor. There is inherent uncertainty surrounding the interaction between tax laws and the implementation of AASB 17. The information provided in this presentation may be subject to change as tax laws are legislated and new regulations are issued.

nib has made assumptions in the context of tax law precedents in jurisdictions such as the UK and NZ, as well as the May 2023 Australian Government's Budget announcement. As legislation in Australia has not yet been enacted, final tax positions remain subject to change.

All references to dollars are to Australian Dollars unless otherwise stated.

No liability

To the maximum extent permitted by law, neither nib nor its related corporations, Directors, officers, employees or agents, nor any other person, accepts any liability (direct, indirect or consequential) including, without limitation, any liability arising from fault or negligence, for any loss whatsoever arising from the use of this presentation or its contents or otherwise arising in connection with it (whether foreseeable or not).

This presentation should be read in conjunction with other publicly available material. Further information including historical results and a description of the activities of nib is available on our website: nib.com.au/shareholders.

Key messages

- nib will implement AASB 17, the new insurance contracts accounting standard, from 1 July 2023 for the FY24 Interim and Annual Reports with FY23 comparatives restated.
- There will be no impact to cash flow and no material impact to capital.
- The main impact is the timing for recognition of COVID related adjustments (accruals for price increase deferrals and any DCL).
- DCL: Any residual DCL at 30 June 2023 will shift to equity (balance sheet movement only).
- Price increase deferral accrual: Reported revenue will be \$26.6m lower in FY24 under AASB 17 vs AASB 1023, however this impact is offset by an increase in opening equity.
- No material difference in total cumulative UOP across FY20-FY24 under AASB 1023 and AASB 17. However, there are timing differences for revenue (price increase deferral) and claims expense (DCL) recognition.
- No material UOP/NPAT difference expected from FY25 onwards from applying AASB 17 instead of AASB 1023.
- nib's accounting treatment of deferred acquisition costs will not change.

Summary of accounting impacts of AASB 17



nib will implement AASB 17 from 1 July 2023 for the FY24 Interim and Annual Reports with FY23 comparatives restated.

Price increase deferrals

Under AASB 1023, the full impact of the 2023 price increase deferral (\$35.5m) can be recognised in FY23. This is not allowed under AASB 17 as the impact needs to be recognised over the contract boundary¹ being 1 April 2023 to 31 March 2024. Under AASB 17, a 3-month impact (\$8.9m) will be recognised in FY23 and a 9-month impact (\$26.6m) in FY24. The FY24 impact will be offset by higher opening equity.

Measurement of insurance liability

Australia: Simplified Premium Allocation Approach (PAA).
New Zealand: Simplified PAA for health, life and living benefits².

Treatment of acquisition costs (DAC)

nib will continue to defer recognition of upfront commissions to the balance sheet and amortise over the expected life of the policy.

Deferred claims liability

Not recognised from 1 July 2023 under AASB 17. On transition, any balance will move to equity (1 July 2022 for opening balance sheet³).

Risk adjustment

No material difference expected between "risk adjustment" under AASB 17 and "risk margin" under AASB 1023.

Onerous contracts

No material onerous contracts to be recognised on implementation, facts and circumstances will be reviewed on an ongoing basis.

1. The contract boundary for all Australian Resident Health Insurance members has been defined as the pricing year being 1 April to 31 March. See further detail on slide 8.

2. Treatment for NZ reinsurance is yet to be determined, see further detail on slide 8.

3. To allow for the FY23 comparative income statement to be restated, the opening balance sheet at 1 July 2022 is restated.

Price increase deferral from 1 Apr 23 to 1 Oct 23

Please note: amounts are shown as an increase or (decrease).

Impacts under AASB 1023 (\$m)	FY23			FY24			Total FY23 & FY24	
	P&L	Net assets	Cash flow	P&L	Net assets	Cash flow	P&L	Cash flow
Opening balance for Balance Sheet	n/a	n/a			(24.8)			
Price deferral impact from 1 Apr 23 to 30 Jun 23	(14.8)	(14.8)	(14.8)				(14.8)	(14.8)
3 month accrual at 30 Jun 23 for price deferral to 1 Oct 23	(20.7)	(20.7)					(20.7)	
Impact to BAU revenue from price deferral				(20.7)	(20.7)	(20.7)	(20.7)	(20.7)
Release of price deferral accrual				20.7	20.7		20.7	
Impact on UOP	(35.5)			0.0	0.0		(35.5)	
Tax impact of above	10.7	10.7					10.7	
After tax impact on P&L of price deferral	(24.8)			0.0	0.0		(24.8)	
Closing balance for Balance Sheet		(24.8)			(24.8)			

1. No change to cashflow

2. Same impact on UOP, NPAT across FY23 & FY24 under AASB 1023 and AASB 17

3. Final impact on the balance sheet in FY24 is the same

Impacts under AASB 17 (\$m)	FY23			FY24			Total FY23 & FY24	
	P&L	Net assets	Cash flow	P&L	Net assets	Cash flow	P&L	Cash flow
Opening balance for Balance Sheet	n/a	n/a			(6.2)			
1 Apr 23 to 30 June 23 price deferral, different revenue recognition pattern	(8.9)	(8.9)	(14.8)				(8.9)	(14.8)
1 Jul 23 to 1 Oct 23 price deferral, different revenue recognition pattern				(26.6)	(26.6)	(20.7)	(26.6)	(20.7)
Impact on UOP	(8.9)			(26.6)			(35.5)	
Tax impact of above	2.7	2.7		8.0	8.0		10.7	
After tax impact on P&L of price deferral	(6.2)			(18.6)			(24.8)	
Closing balance for Balance Sheet		(6.2)			(24.8)			

4. Different revenue recognition pattern over 12 months:

3-month impact FY23:
 $35.5 \div 12 \times 3 = 8.9$

9-month impact FY24:
 $35.5 \div 12 \times 9 = 26.6$

Price increase deferral recognition

- nib deferred its 2023 premium price increase for arhi members by six months from 1 April to 1 October 2023. This deferral was one of a range of measures nib provided as part of its COVID-19 support package.
- Under AASB 1023, if a price increase deferral extended over two financial years, the full impact of the reduction in revenue could be recognised at the end of the first financial year.
- Provisions totalling \$20.7m will be recognised for the price increase deferral in unearned premium liability/provisions at 30 June 2023. These provisions will be reversed into equity on 1 July 2023 as they cannot be recognised under AASB 17.
- Under AASB 17, arhi revenue needs to be recognised on a straight-line basis over the contract boundary of 1 April to 31 March, being the date approved price increases come into effect.
- As such, any price increase deferral needs to also be recognised over the life of the 12-month contract boundary. Therefore, \$8.9m will be recognised in FY23 and \$26.6m in FY24.
- The \$26.6m (pre-tax) impact on the P&L in FY24 is non-recurring and the post-tax impact is offset by an increase in opening equity.
- As this occurs due to a change in accounting standard, the opening balance of equity is restated for the net impact, and hence net impact on closing equity in FY24 would be same under both accounting standards.

Measurement of insurance liability

Australia – PAA simplified method

- The insurance contracts for Australian health insurance and nib Travel are eligible for PAA methodology.
- Under the PAA, a contract boundary may not extend beyond 12 months. As a result, the contract boundary for all arhi members has been defined as the pricing year being 1 April to 31 March.

New Zealand – PAA simplified method

- The insurance contracts for NZ health and NZ life and living benefits are eligible for PAA methodology.
- Given the complexity of the life and living benefits business, the treatment of reinsurance arrangements is still being finalised with the intention to apply the simplified PAA method. This is not expected to have a material impact for the nib Group.
- New Zealand has a rolling 12-month contract boundary beginning from the contract start date.

Treatment of acquisition costs

- Under AASB 17 acquisition costs can be expensed upfront where the PAA method is used and the coverage period of each contract is no more than one year.
- Currently nib defers recognition of upfront commissions to the balance sheet and amortises those costs over the expected life of the policy.
- nib will continue to capitalise upfront commissions under AASB 17, recognising an insurance acquisition cash flow asset, and will amortise these assets over the expected life of the policy (5 years for arhi, 18 months for ishi, 15 years for nz health¹).
- Amortising commissions over the life of the policy supports nib's focus on the lifetime value of a policy and nib's use of brokers and whitelabel partnerships.
- There will be no impact to capital by continuing to defer acquisition costs as they are 100% deducted in PCA calculations.

1. Acquisition costs are amortised on a straight-line basis for arhi and ishi and diminishing value basis for nib NZ. nib NZ adjusts for actual cancellations.

Summary of financial impacts – AASB 17

Underlying operating profit

- Price increase deferral: FY24 UOP will be lower under AASB 17 vs AASB 1023 as a result of change in revenue treatment of the price increase deferral. This will be offset by higher opening equity.
- DCL: Any residual DCL at 30 June 2023 will move to equity and not be available to offset UOP impact of any claims catch up (but equity will be higher, providing a capital offset).
- From FY25 no material difference in UOP between AASB 1023 and AASB 17.

Operating cash flow

- No impact.

Equity & capital

- FY24 closing equity position would be the same under AASB 17 and AASB 1023.
- No material change to nib health fund PCA multiple, or nib Group gearing ratio.

Other key metrics

- FY24 arhi net margin impacted by non-recurring price increase deferral restatement (and timing differences in recognition of revenue).
- No ongoing material impact on nib Group ROIC or leverage ratio after non-recurring impact in FY24 noted above.



Questions and answers



Appendix

Restatement of consolidated balance sheet as at 1 July 2022

Consolidated balance sheet (\$m)	Net assets
Net assets / Equity as at 30 June 2022 under AASB 1023	734.3
COVID related adjustments:	
DCL provision	110.2
Difference in price increase deferral timing recognition (1 Apr 22 price deferral to 1 Nov 22) ¹	29.6
Other adjustments	(0.4)
Income tax impact of above	(41.8)
Total adjustments in equity	97.6
Net assets / Equity as at 1 July 2022 under AASB 17	831.9

Note: To allow for the FY23 comparative income statement to be restated, the opening balance sheet at 1 July 2022 is restated.

- Under AASB 17, price increase deferrals need to be recognised on a straight-line basis over the 12-month contract boundary of 1 April to 31 March. Therefore, the value of the seven-month deferral of \$39.4m previously recognised at 30 June 2022 is restated under AASB 17 to \$9.9m which is calculated as \$39.4m / 12-month contract boundary x 3 months recognition at 30 June 2022.

Glossary

AASB 17	AASB 17 Insurance Contracts. First applied for annual reporting periods starting on or after 1 January 2023, therefore it will be adopted by nib from 1 July 2023. Replaces AASB 1023 and AASB 1038.
AASB 1023	AASB 1023 General Insurance Contracts. nib will apply this standard up to 30 June 2023.
AASB 1038	AASB 1038 Life Insurance Contracts. nib will apply this standard up to 30 June 2023.
Acquisition costs	Direct acquisition costs incurred in obtaining health insurance contracts, including broker commissions.
arhi	Australian Residents Health Insurance.
DAC	Deferred acquisition costs. Acquisition costs (as defined above) are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the consolidated income statement in subsequent reporting periods.
DCL	Deferred claims liability.
ishi	International Students Health Insurance.
nib	nib holdings limited.
PAA	Premium allocation approach, as defined in AASB 17 and NZ IFRS 17.
PCA	Premium capital amount, as defined in APRA Prudential Standard HPS110.
Risk adjustment	The compensation required for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts.
Risk margin	Recognised under AASB 1023 up to 30 June 2023. A risk margin is estimated to increase reserves to a level that is expected to provide a probability of sufficiency for the outstanding claims liability for nib health funds limited and nib NZ limited, based on an analysis of past payment experience volatility.
Unearned premium liability	Premiums paid in advance by customers.