NIB HOLDINGS LIMITED
ACN 125 633 856

# 2008 FINANCIAL FORECASTS

24 September 2007

NIB Holdings Limited ABN 51 125 633 856
384 Hunter Street Newcastle NSW 2300

# Contents



## Important information

This 2008 Financial Forecast Booklet is dated 24 September 2007. Neither ASIC nor ASX take any responsibility for the content of this Booklet.

This Booklet is not a "disclosure document" as defined in Chapter 6D of the Corporations Act. This Booklet does not constitute or contain any offer of shares for issue or any invitation to apply for the issue of shares. The information in this Booklet is not financial product advice and does not take into account your investment objectives, financial situation or particular needs.

## Disclaimer

None of NIB, any person named in this Booklet or any other person warrants or guarantees the future performance of NIB, or any return on any investment made pursuant to this Booklet.

This Booklet contains forward looking statements which include the unaudited pro-forma 2008 forecast financial information for the financial year ended 30 June 2008 and other statements that are identified by words such as "may", "could", "believes", "estimates", "expects", "intends", and other similar words that involve risks and uncertainties. These forward looking statements are subject to various risk factors. Some of these risk factors are set out in Section 4. These and other factors could cause actual results to differ materially from those expressed or anticipated in any forward looking statement made by or on behalf of NIB.

NIB has no obligation to update or revise forward looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Booklet, except where required by law.

NIB disclaims all liability, whether in negligence or otherwise, to persons who trade Shares before receiving their holding statement.

## Obtaining a copy of this Booklet

A paper copy of the Booklet is available free of charge to any person in Australia by calling the NIB Information Hotline on 131 NIB (131 642).

## Defined terms and Abbreviations

Certain terms and abbreviations used in this Booklet are defined in Section 5. All financial amounts contained in this Booklet are expressed in Australian dollars unless otherwise stated.

Any discrepancies between totals and sums and components in tables contained in this Booklet are due to rounding.

# 1. INTRODUCTION

## **1.1** Purpose of 2008 Financial Forecast Booklet ("Booklet")

This Booklet has been prepared by NIB in connection with the Listing of NIB Holdings on ASX.

The Booklet sets out financial and risk information relating to NIB and is produced for the purpose of assisting investors and their professional advisers to make an informed assessment of the financial position and performance of NIB.

A summary of information from this Booklet is included in the Sale Facility Booklet and this Booklet will be incorporated by reference into the Listing Prospectus to be lodged by NIB with ASX and ASIC. Copies of this Booklet are available on the NIB website (nib.com.au) or by calling the NIB Information Hotline on 131 NIB (131 642).

## **1.2** Demutualisation

On 19 July 2007, Company Members and Eligible Policyholders of NIB Health approved the Schemes of Arrangement to implement the proposed Demutualisation of NIB Health. The Federal Court of Australia made orders to approve the Schemes of Arrangement on 23 July 2007.

On 31 August 2007, the following steps occurred:

- NIB Health converted from a company limited by guarantee to a company limited by shares;
- NIB Health issued shares to Eligible Policyholders (if an Eligible Policyholder was unverified, or had a residential address outside Australia, shares were issued to the Overseas Policyholders and Unverified Policyholders Trust ("Trust") and held on their behalf); and
- NIB Health issued shares to NIB Holdings.

On the Demutualisation Date (scheduled to occur on 1 October 2007), the NIB Health shares issued to Eligible Policyholders, and the Trust on their behalf, will be cancelled and the same number of Shares will be issued to Eligible Policyholders, and the Trust on their behalf, by NIB Holdings.

## **1.3** Listing

The Listing of NIB Holdings on ASX will comprise the following key steps:

- NIB Holdings Shareholders will be invited to offer their ordinary Shares in NIB Holdings for sale through the Sale Facility;
- NIB Holdings will conduct an Institutional Bookbuild to raise approximately $50 million of new capital (primarily to cover issue costs and fund its initial grant to the NIB Foundation), and to sell to institutions any Shares offered by the Shareholders; and
- NIB Holdings will List and its ordinary Shares will be quoted on ASX.

It is anticipated that the Listing date will be in early November 2007.

# 2. FINANCIAL INFORMATION

## 2.1 INTRODUCTION

This section contains a summary of the historical and forecast financial information for NIB. The financial information in this section should be read in conjunction with Section 3 (Investigating Accountant's Report), Section 4 (Risk factors), other information contained within this Booklet, the Explanatory Statement and the 2007 Annual Report.

## 2.2 HISTORICAL AND FORECAST FINANCIAL INFORMATION

### 2.2.1 Basis of preparation and presentation of historical financial information

The historical financial information comprises:

- the audited historical and pro-forma consolidated income statement of NIB for FY2007 (see Section 2.3);
- the audited historical and pro-forma consolidated balance sheet of NIB as at 30 June 2007 (see Section 2.8); and
- the audited historical and pro-forma consolidated statement of cash flows of NIB for FY2007 (see Section 2.9);

on the assumption that all transactions reflected in Section 2.8 and discussed in Section 2.19 have occurred or will occur as a consequence of the Offer ("Pro-forma Transactions").

The historical financial information has been prepared under the recognition and measurement requirements of Australian equivalents to International Financial Reporting Standards ("AIFRS"), and is presented in an abbreviated form and does not contain all the disclosures and notes applicable to annual reports prepared in accordance with the Corporations Act.

### 2.2.2 Sources of historical financial information

The historical financial information has been extracted from the audited statutory financial statements of NIB Health prepared under AIFRS for the year ended 30 June 2007 ("Audited Financial Information").

In preparing the historical financial information, certain adjustments were made to the Audited Financial Information to eliminate certain non-recurring items ("Pro-forma Adjustments") in order to allow better comparison with the forecast financial information for NIB. These Pro-forma Adjustments are set out in Section 2.19.

The significant accounting policies of NIB are set out in Section 2.13.

### 2.2.3 Basis of preparation and presentation of forecast financial information

The forecast financial information comprises:

- the statutory and pro-forma forecast consolidated income statement of NIB for FY2008; and
- the statutory and pro-forma forecast consolidated statement of cash flows of NIB for FY2008.

The forecast financial information has been prepared by the Directors with due care and attention, on the basis of the Directors' general and specific best estimate assumptions included in Section 2.5.2 and Section 2.5.3. The Directors consider these best estimate assumptions to be reasonable when viewed as a whole.

The Directors' best estimate assumptions are subject to business, economic and competitive uncertainties and contingencies, many of which are beyond the control of NIB and the Directors, and are not reliably predictable. The industry in which NIB operates is subject to many external influences, which can materially impact NIB's financial performance. See Section 4 for a discussion of some of the risk factors which may affect an investment in Shares.

The forecast financial information assumes the implementation of certain future business decisions and strategies, which are subject to change, and assumes the success of those future business decisions and strategies. No assurance can be given that the business decisions and strategies will be effective or that the anticipated benefits from them will be realised in the period for which the forecast financial information has been prepared or otherwise.

Events and circumstances often do not occur as anticipated and therefore actual results are likely to differ from the forecast financial information. These differences may be material. As shown in the sensitivity analysis in Section 2.7, relatively small changes in key variables can have a significant impact on net profit after tax.

Accordingly, none of NIB, the Directors or any other person guarantees or provides any assurance as to the achievement of the forecast financial information. The forecast financial information should not be regarded as a representation or warranty NIB will achieve, or is likely to achieve, any particular results. Actual events and outcomes may differ in quantum and timing from those assumed, with material consequential positive or negative impact of NIB's actual earnings or cash flows.

The forecast financial information has been presented in an abbreviated form insofar as it does not include all the disclosures and notes required by AIFRS applicable to annual reports and notes in accordance with the Corporations Act.

Under AASB 3 *Business Combinations*, when an existing group is acquired by a new shell company, the legal acquirer may not be treated as the acquirer for accounting purposes. In this case, acquisition of the existing Shareholders' shares in NIB Health by NIB Holdings will be treated as a reverse acquisition since the substance of the transactions is that the existing group will be treated as the acquirer of NIB Holdings for accounting purposes and this transaction will not result in the creation of any fair value adjustments or goodwill upon consolidation.

The historical financial information and forecast financial information have been reviewed by PricewaterhouseCoopers Securities Ltd, whose Investigating Accountant's Report is included in Section 3.

# 2. FINANCIAL INFORMATION

## 2.3 HISTORICAL AND FORECAST INCOME STATEMENTS

Set out below is NIB's consolidated historical income statement for FY2007 and forecast for FY2008 on both a statutory and normalised basis. The statutory forecast basis represents the income statement that NIB forecasts to report in its statutory accounts for FY2008.

| | | 2007 | | | 2008 | | |
|---|---|---|---|---|---|---|---|
| | Notes | Audited Historical $'000 | Pro-forma adjustments $'000 | Normalised $'000 | Statutory Forecast $'000 | Pro-forma adjustments $'000 | Normalised $'000 |
| **Premium revenue** | | 665,964 | – | 665,964 | 750,737 | – | 750,737 |
| Claims expense | | (505,315) | – | (505,315) | (558,285) | – | (558,285) |
| HBRTF/RETF Levy | 2.19.1 | (46,939) | (1,202) | (48,141) | (70,926) | – | (70,926) |
| State levies | | (17,599) | – | (17,599) | (19,520) | – | (19,520) |
| Claims handling expenses | | (16,295) | – | (16,295) | (18,529) | – | (18,529) |
| **Net claims incurred** | | (586,148) | (1,202) | (587,350) | (667,260) | – | (667,260) |
| Acquisition costs | | (18,982) | – | (18,982) | (24,735) | – | (24,735) |
| Other underwriting expenses | 2.19.2 | (41,643) | 5,721 | (35,922) | (48,809) | 8,783 | (40,026) |
| **Underwriting expenses** | | (60,625) | 5,721 | (54,904) | (73,544) | 8,783 | (64,761) |
| **Underwriting result** | | 19,191 | 4,519 | 23,710 | 9,933 | 8,783 | 18,716 |
| Investment income | | 32,353 | – | 32,353 | 30,064 | – | 30,064 |
| Other revenue | | 1,263 | – | 1,263 | 1,387 | – | 1,387 |
| Investment expenses | | (1,099) | – | (1,099) | (1,342) | – | (1,342) |
| Other expenses | 2.19.2, 2.19.3, 2.19.4, 2.19.5 | (894) | (2,400) | (3,294) | (399,863) | 396,904 | (2,959) |
| **Profit before income tax** | | 50,814 | 2,119 | 52,933 | (359,821) | 405,687 | 45,866 |
| Income tax expense | 2.16, 2.19.6 | – | (15,699) | (15,699) | (265) | (13,474) | (13,739) |
| **Profit from continuing operations** | | 50,814 | (13,580) | 37,234 | (360,086) | 392,213 | 32,127 |
| **Profit from discontinued operations** | 2.16, 2.19.7 | 1,682 | (1,682) | – | – | – | – |
| **Profit attributable to Shareholders** | | **52,496** | **(15,262)** | **37,234** | **(360,086)** | **392,213** | **32,127** |

The above income statements should be read in conjunction with the accompanying notes.

| | 2007 | 2008 |
|---|---|---|
| **Key Metrics** | Normalised | Normalised |
| Premium revenue growth | 8.8% | 12.7% |
| Claims expense as a % of premium revenue | 75.9% | 74.4% |
| Claims ratio (includes HBRTF/RETF levy and state levies) | 85.7% | 86.4% |
| Gross margin | 14.3% | 13.6% |
| Management expense ratio | 10.7% | 11.1% |
| Net underwriting margin | 3.6% | 2.5% |
| Investment return (p.a.) | 8.7% | 7.0% |

# 2. FINANCIAL INFORMATION

## 2.4 MANAGEMENT DISCUSSION AND ANALYSIS OF PRO-FORMA HISTORICAL INCOME STATEMENT

### 2.4.1 Introduction

NIB generates revenue from the following sources:

- premium revenue;
- investment income; and
- other revenue.

Each of these is discussed in more detail below.

#### *Premium revenue*

Premium revenue comprises premiums from private health insurance contracts held by Policyholders.

Changes in premium revenue are driven by changes in number of Policyholders, contribution rates and product mix.

Private health insurance providers operate in a regulated environment where prices can only be changed once a year.

#### *Investment income*

Investment income comprises net fair value gains or losses on financial assets classified at fair value through profit or loss, fair value adjustments to investment properties and rental revenue from leasing of investment properties.

#### *Other revenue*

Other revenue is comprised of net profit on disposal of property, plant and equipment and intangibles, fair value adjustments to property, revenue from the arrangements in place in respect of the NIB branded dental and eye care centres and sundry income.

#### *Expenses*

Claims expense represents benefits incurred.

Health Benefits Reinsurance Trust Fund ("HBRTF")/Risk Equalisation Trust Fund ("RETF") Levy represents expenses incurred under HBRTF/RETF arrangements which are provided for within the National Health Act/Private Health Insurance Act to support the principle of community rating.

State levies are the state ambulance levy collected by NIB for non-concession card holding NSW and ACT residents who have hospital cover with NIB.

Claims handling expenses include payroll and oncosts, recruitment and training, accommodation/occupancy costs, IT systems, software and hardware costs, transaction fees, postage/stationery costs, settlement costs and storage costs to the extent that they relate to the handling of claims.

Acquisition costs include fees/commissions, advertising, promotion, and administration costs of recording membership details and collection of premiums for new Policyholders.

Other underwriting expenses include all other expenses incurred by the private health insurance business.

Investment expenses represent investment management fees.

Other expenses represent expenses incurred by NIB not related to the private health insurance business.

### 2.4.2 Historical FY2007 compared to FY2006

During the year ended 30 June 2007 premium revenue grew by 8.8% over the prior year. This growth in premium revenue was driven by an 8.8% net growth in Policyholders, combined with a rate increase of 4.65% on average, partially offset by a change in product mix.

The historical gross underwriting margin of 14.4% (normalised FY2007 14.3%, historical FY2006: 18.3%) compares unfavourably with the prior year. In a regulated environment where prices can only be changed once a year, the main reasons behind the higher 2006 margin were an over-estimation of claims inflation in setting the price for that year and the launch of the new NIB loyalty bonus in June 2006.

On 1 April 2007, the Private Health Insurance Act and associated legislation came into force, repealing the National Health Act. One of the changes resulting from the new legislation was the replacement of the previous HBRTF arrangements with the RETF arrangements from 1 April 2007. The HBRTF/RETF levy increased by 9.6% over the prior year largely reflecting the average age of a NIB Policyholder growing at a slower rate than the industry and a potentially healthier risk pool. At 30 June 2007, the average age of a NIB Policyholder was 36.1 years compared with 36.2 at 30 June 2006 (a decrease of 0.1 years), compared with the industry average age of 39.9 at 30 June 2007 versus 39.8 at 30 June 2006 (an increase of 0.1 years).

NIB's consolidated management expense ratio of 11.5% for the year ended 30 June 2007 was up on the prior year (2006: 9.9%). During FY2007, NIB spent an additional $6.4 million on advertising, sponsorship and publicity. The historical FY2007 result included $5.7 million expenditure associated with Demutualisation and Listing, which has been removed when determining the normalised FY2007 results resulting in a normalised FY2007 consolidated management expense ratio of 10.7%.

NIB's investment strategy resulted in a return of 8.7% for FY2007, compared with 6.5% for FY2006, driven by a diversified investment portfolio, which saw an increase in growth assets from 30 June 2006 to 30 June 2007.

Historically, NIB's mutual company structure has meant NIB Health, being a registered not-for-profit private health insurer, was exempt from income tax. Effective from the Demutualisation Date (expected to be 1 October 2007) NIB will become a registered for profit private health insurer and subject to income tax. As a result, the normalised FY2007 income statement includes an estimate of income tax expense assuming NIB Health had been subject to income tax for the full year to allow a meaningful comparison with FY2008 which has assumed a full year of income tax, even though NIB only starts paying income tax from 1 October 2007.

# 2. FINANCIAL INFORMATION

For full details of the historic financial information for FY2007, together with FY2006 comparatives, refer to NIB's 2007 Annual Report which is available at the NIB website (nib.com.au) or by calling the NIB Hotline 131 NIB (131 642).

## 2.5 2008 FORECAST FINANCIAL INFORMATION

### 2.5.1 Directors' best estimate assumptions

The forecast financial information has been prepared on the basis of the Directors' best estimate assumptions, including those set out in Section 2.5.2 and Section 2.5.3, which should be read in conjunction with the sensitivity analysis set out in Section 2.7 and the risk factors set out in Section 4.

The information set out in Section 2.5.2 and Section 2.5.3 is intended to assist potential investors in assessing the reasonableness and likelihood of the forecast financial information being achieved, and is not intended to be a representation that those events that have been assumed will occur.

### 2.5.2 General best estimate assumptions

The material general best estimate assumptions made when preparing the forecast financial information are as follows:

- the operating performance of NIB is influenced by a variety of general economic and business conditions in Australia, including the levels of inflation and interest rates, and government fiscal, monetary, and regulatory policies. The forecast financial information assumes that there will be no material changes in these conditions;
- there is no material adverse change in NIB's competitive operating environment;
- there is continued growth in the Australian private health insurance industry;
- there is no material deterioration in NIB's customer base;
- there are no significant disruptions to the continuity of operations of NIB and there are no other material changes in NIB's business;
- there is no material amendment to any material agreement relating to NIB's business;
- there are no material acquisitions or disposals during the forecast period (year ended 30 June 2008);
- there is no impairment of goodwill;
- there are no material changes to the statutory, legal or regulatory environment, including taxation, which would be detrimental to NIB or its key suppliers in any of the jurisdictions in which they operate;
- there is no material litigation that will arise or be settled to the detriment of NIB;
- there are no contingent liabilities that will arise or be realised to the detriment of NIB;
- there is no loss of key management personnel;
- NIB will maintain the ability to recruit and retain required personnel;
- there are no material beneficial or adverse effects arising from the actions of competitors; and
- there are no material changes in AIFRS, Statements of Accounting Concepts or other mandatory professional reporting requirements, being the Urgent Issues Group Consensus Views and the Corporations Act, which would have a material effect on the forecast financial information.

### 2.5.3 Specific best estimate assumptions

#### *Forecasts for FY2008 – Income Statement*

The following specific best estimate assumptions have been applied in preparing the pro-forma consolidated forecast income statement of NIB for FY2008.

#### *Premium revenue*

Premium revenue has been forecast to increase by 12.7% over normalised FY2007 based on forecast Policyholders by product at forecast contribution rates. An overall increase in net Policyholders of approximately 32,000 has been forecast. Assumed contribution rate increases to be effective from 1 April 2008 are targeted to maintain price competitiveness, cover expected increases in claims costs, not adversely affect NIB's capital adequacy position and to enable funding of future business growth.

#### *Claims expense*

Claims expense has been forecast to increase by 10.5% over normalised FY2007 based on the following assumptions:

- underlying inflation assumptions have been calculated by taking a prospective view of increases in service cost and utilisation, with the total claims inflation expected to be in the order of 5% to 7%;
- increased Policyholders;
- the Policyholders forecast assumes the trend of a shift towards lower-priced products with a greater proportion of ancillary to hospital benefits to continue; and
- NIB loyalty bonus expenditure of approximately $19 million (FY2007: $19 million).

#### *Health Benefits Reinsurance Trust Fund/ Risk Equalisation Trust Fund Levy*

The HBRTF ended on 31 March 2007 and was replaced by the RETF from 1 April 2007. RETF Levy has been forecast to increase by 47.3% over normalised FY2007. This significant increase reflects an expectation that the average age of NIB Policyholders will grow at a slower rate than the average age of the industry, reflecting NIB's current growth strategy targeting the <40 year old segment of the private health insurance market, together with best estimates of the impact of the new RETF arrangements that have been in place since 1 April 2007.

# 2. FINANCIAL INFORMATION

### *State levies*

State levies have been forecast to increase by 10.9% over normalised FY2007. This increase is based upon forecast increase in Policyholders in NSW and ACT with hospital cover combined with a 3% levy rate increase effective from February 2008.

### *Assumptions common to claims handling expenses, acquisition costs and other underwriting expenses*

Salaries and wages have been assumed to increase by 3% for employees covered under NIB's EBA and by an average of 4% for all other employees.

A short term incentive program is in place for all employees. In the FY2008 normalised forecast an amount equal to 5% of base remuneration has been included for all non-executive employees and an amount equal to 30% of total fixed remuneration for all executive employees.

### *Claims handling expenses*

Claims handling expenses have been forecast to increase by 13.7% over normalised FY2007. Increases in claims handling expenses reflect a combination of increases in labour costs, increases in Policyholders, increases in the use of technology and CPI increases, partially offset by efficiency improvements.

Claims handling expenses as a percentage of claims expenses are forecast to remain relatively stable at 3.3% for FY2008 (FY2007 3.2%).

### *Acquisition costs*

Acquisition costs have been forecast to increase by 30.3% over normalised FY2007 mainly reflecting increases in the level of direct advertising and branding required to meet NIB's growth targets and costs associated with acquiring the forecast number of Policyholders.

### *Other underwriting expenses*

Other underwriting expenses have been forecast to increase by 11.4% over normalised FY2007. Other underwriting expenses reflect all other expenses incurred by the private health insurance business.

The forecast increase over FY2008 reflects a combination of labour cost increases, CPI increases, increases in IT and computing costs as NIB increases the use of technology to drive automation, a significant increase in customer retention activities, new expenditure in the area of wellness, including wellness and lifestyle programs and increases in insurance partially offset by efficiency improvements.

### *Investment income and expenses*

Investment income has been forecast to decrease by 7% when compared with normalised FY2007. An annualised return of 7% (down from normalised FY2007 annual return of 8.7%) has been forecast based on a 65%/35% split between defensive and growth assets.

Investment expenses are forecast to increase by 22.1% over normalised FY2007, largely reflecting forecast increases in the size of the investment portfolio. The defensive/growth split of the portfolio has been assumed in FY2008 to remain consistent with the 30 June 2007 position.

### *Other revenue*

FY2008 other revenue is forecast to increase by 9.8% over normalised FY2007, mainly reflecting the arrangement in place with the operators of the NIB branded dental and eye care centres, with an offset included in other expenses due to the arrangement being largely a customer retention initiative.

### *Other expenses*

Other expenses include NIB branded dental and eye centres advertising and branding expenditure forecast in line with NIB's agreements with the operators of these centres to incur expenditure to the level of revenue received as this is viewed as a customer retention activity. Also included is forecast normalised FY2008 NIB Holdings costs, largely reflective of on-going listed public company costs, of $2.4 million.

### *Income tax expense*

Income tax expense has been forecast to decrease by 12.5% largely reflecting the 13.4% decrease in normalised profit before tax from FY2007 to FY2008 at the company income tax rate of 30%.

## 2.6 MANAGEMENT DISCUSSION AND ANALYSIS OF PRO-FORMA FORECAST INCOME STATEMENT

### 2.6.1 Normalised FY2008 compared to normalised FY2007

### *Premium revenue*

Premium revenue is forecast to increase by 12.7% in FY2008 compared to FY2007. This reflects strong Policyholder growth, and contribution rate increases, partially offset by Policyholder growth in lower value products. Contribution rate increases to be effective from 1 April 2008 are targeted to maintain price competitiveness, cover expected increases in claims costs for the 12 months from 1 April 2008, not adversely affect the fund's capital adequacy position and enable funding of future business growth.

### *Investment income*

Whilst NIB's investment portfolio delivered a return of 8.7% for FY2007, the forecast assumption is for an annual return of 7% for FY2008 based on a 65%/35% split between defensive and growth assets respectively. In FY2007 there was a $1.4 million fair value adjustment to investment properties when the Newcastle Private Hospital building transferred from owner-occupied on consolidation with the sale of Newcastle Private Hospital Pty Limited. In FY2008 rental revenue from leasing of investment properties is forecast to by $1.6 million as rental income will be received from Healthscope Limited on the Newcastle Private Hospital building for 12 months as opposed to only one month in FY2007.

### *Other revenue*

Marketing contribution fee revenue has been forecast to increase in FY2008 compared to FY2007, recognising that advertising associated with the NIB branded dental and eye centres is also projected to increase by the same amount.

### *Gross margin*

The FY2008 normalised gross margin of 13.6% compares unfavourably with the normalised FY2007 gross margin of 14.3%. This decrease in gross margin largely reflects the introduction of the NIB loyalty bonus in June 2006 not having been fully priced in as part of the 1 April 2006 and 2007 contribution rate increases, so whilst the cost of the NIB loyalty bonus is forecast for FY2008 to be in line with FY2007 (approximately $19 million), contribution rates will not fully reflect the cost of this until the 1 April 2008 forecast contribution rate increase costs into effect. This was a deliberate decision to reflect in pricing over time in line with NIB's investment in growth.

NIB is working towards a commercial model in which NIB aims to consistently achieve a gross margin of around 15%; with earnings growth a function of increased volume, product value "buy-up" and lower per unit management expenses.

Forecast claims expense growth of 10.5% in FY2008 over normalised FY2007 is driven by a combination of increased membership, cost and utilisation inflation and changes in product mix.

RETF Levy has been forecast in FY2008 based on our current growth strategy. The forecast increase of 47.3% over normalised FY2007 expenditure is largely a reflection of NIB's average age being less than the industry average age (at 30 June 2007, NIB 36.1 years, Industry 39.9 years), with this trend expected to continue due to forecast membership growth largely being in the under 40 segment.

State levies expenditure has been forecast for FY2008 based on FY2007 expenditure adjusted for the forecast increased memberships plus a 3% levy rate increase effective from February 2008.

### Expenses not included in gross margin

The increase in forecast FY2008 management expense ratio from 10.7% normalised FY2007 to 11.1% normalised FY2008 is primarily driven by NIB's increased expenditure on membership growth and customer retention.

Normalised FY2007 and forecast FY2008 underwriting margins reflect business reinvestment with a view to improve and stabilise underwriting performance for FY2009 and beyond.

Other expenses include forecast on-going listed public company costs of $2.4 million.

## 2.7 SENSITIVITY ANALYSIS

The forecast financial information is based on a number of economic and business assumptions about future events, as set out in Sections 2.5.2 and 2.5.3. The forecast financial information is considered to be sensitive to movements in a number of key assumptions, and a summary of the likely effect of movements in certain key assumptions on the key forecast FY2008 financial results is set out below.

Investors should note that the changes in the key assumptions set out below are not meant to be indicative of the full range of variations that may occur. The sensitivity analysis has been provided to assist potential investors in the assessment of the future performance of NIB. It is possible that more than one variable may move concurrently, giving rise to cumulative or offsetting effects, and so care should be taken in interpreting this information. Typically, NIB would respond to any material adverse change in conditions by taking the appropriate mitigating action to minimise, to the extent possible, any adverse effect on net profit after tax. The effect of any such mitigating action has been excluded from the following analysis. Potential investors should consider this analysis in conjunction with the risk factors set out in Section 4.

| Sensitivity on FY2008 forecast profit after tax | A$ million |
|---|---|
| Forecast net Policyholder growth of 9.7% +/- 2% | +0.4/-0.4 |
| Forecast 7% investment return +/-2% | +5.3/-5.2 |
| Forecast cost and utilisation inflation +/- 2% for hospital inflation; +/- 2% for ancillary costs; +/- 2% for calculated deficit inflation (driver of RETF) | -5.2/+5.3 |
| Management expenses (being claims handling expenses, acquisition costs and other underwriting expenses) increased/decreased by +/- 2% | -1.2/+1.2 |

# 2. FINANCIAL INFORMATION

## 2.8 PRO-FORMA BALANCE SHEET

Set out below is NIB's consolidated historical balance sheet for FY2007 on both a statutory and normalised basis.

| | | 2007 | | |
|---|---|---|---|---|
| | Notes | Audited Historical $'000 | Pro-forma adjustments $'000 | Normalised $'000 |
| **Assets** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents | 2.19.2, 2.19.5, 2.19.8 | 17,570 | 3,480 | 21,050 |
| Receivables | | 27,355 | – | 27,355 |
| Financial assets at fair value through profit or loss | | 376,361 | – | 376,361 |
| | | 421,286 | 3,480 | 424,766 |
| Non-current assets classified as held for sale | | 9,889 | – | 9,889 |
| **Total Current assets** | | **431,175** | **3,480** | **434,655** |
| **Non-current assets** | | | | |
| Receivables | | 7,026 | – | 7,026 |
| Investment properties | | 30,000 | – | 30,000 |
| Property, plant and equipment | | 15,904 | – | 15,904 |
| Intangible assets | | 9,943 | – | 9,943 |
| **Total Non-current assets** | | **62,873** | **–** | **62,873** |
| **Total Assets** | | **494,048** | **3,480** | **497,528** |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Payables | | 45,188 | – | 45,188 |
| Borrowings | | 1,431 | – | 1,431 |
| Outstanding claims liability | | 53,955 | – | 53,955 |
| Unearned premium liability | | 51,580 | – | 51,580 |
| Current tax liabilities | | 54 | – | 54 |
| Provision for employee entitlements | | 4,753 | – | 4,753 |
| **Total Current liabilities** | | **156,961** | **–** | **156,961** |
| **Non-current liabilities** | | | | |
| Provision for employee entitlements | | 873 | – | 873 |
| **Total Non-current liabilities** | | **873** | **–** | **873** |
| **Total Liabilities** | | **157,834** | **–** | **157,834** |
| **Net Assets** | | **336,214** | **3,480** | **339,694** |
| **Equity** | | | | |
| Share capital | 2.19.2, 2.19.8 | – | 43,224 | 43,224 |
| Retained profits | 2.19.2, 2.19.4, 2.19.5 | 329,161 | (406,487) | (77,326) |
| Reserves | 2.18, 2.19.4 | 7,053 | 366,743 | 373,796 |
| **Total Equity** | | **336,214** | **3,480** | **339,694** |

The above balance sheets should be read in conjunction with the accompanying notes.

# 2. FINANCIAL INFORMATION

## 2.9 SUMMARY OF PRO-FORMA HISTORICAL AND FORECAST STATEMENT OF CASH FLOWS

Set out below is a summary of NIB's pro-forma consolidated statement of cash flows for FY2007, along with the pro-forma consolidated forecast for FY2008.

| | | 2007 | | | 2008 | | |
|---|---|---|---|---|---|---|---|
| | Notes | Audited Historical $'000 | Pro-forma adjustments $'000 | Normalised $'000 | Statutory Forecast $'000 | Pro-forma adjustments $'000 | Normalised $'000 |
| **Cash flows from operating activities** | | | | | | | |
| Receipts from Policyholders and customers (inclusive of goods and services tax) | 2.19.7 | 719,419 | (47,947) | 671,472 | 748,711 | – | 748,711 |
| Payments to members, suppliers and employees (inclusive of goods and services tax) | 2.19.2, 2.19.3, 2.19.7 | (673,713) | 51,320 | (622,393) | (747,119) | 38,944 | (708,175) |
| | | 45,706 | 3,373 | 49,079 | 1,592 | 38,944 | 40,536 |
| Interest received | 2.19.7 | 22,210 | (16) | 22,194 | 28,339 | – | 28,339 |
| Interest paid | 2.19.7 | (29) | 1 | (28) | – | – | – |
| Income tax paid | 2.19.6 | – | (15,699) | (15,699) | – | (13,739) | (13,739) |
| **Net cash provided by operating activities** | | **67,887** | **(12,341)** | **55,546** | **29,931** | **25,205** | **55,136** |
| **Cash flows from investing activities** | | | | | | | |
| Proceeds from sale of available for sale investment properties | | 479 | – | 479 | – | – | – |
| Proceeds from disposal of other financial assets at fair value through the profit and loss | | 105,716 | – | 105,716 | – | – | – |
| Payments for other financial assets at fair value through the profit and loss | | (164,644) | – | (164,644) | (35,055) | – | (35,055) |
| Payments for property, plant and equipment and intangibles | 2.19.7 | (11,682) | 452 | (11,230) | (40,808) | – | (40,808) |
| Proceeds from sale of property, plant and equipment and intangibles | | 80 | – | 80 | – | – | – |
| Proceeds from sale of subsidiary, net of cash disposed | 2.19.7 | 8,997 | (8,997) | – | 848 | (848) | – |
| Proceeds from sale of Eye Care and Dental businesses | 2.19.7 | 325 | (325) | – | 250 | (250) | – |
| **Net cash (used in) investing activities** | | **(60,729)** | **(8,870)** | **(69,599)** | **(74,765)** | **(1,098)** | **(75,863)** |
| **Cash flows from financing activities** | | | | | | | |
| Proceeds from issues of shares | 2.19.8 | – | – | – | 43,224 | (43,224) | – |
| Proceeds from finance lease | | 177 | – | 177 | 149 | – | 149 |
| **Net cash inflow from financing activities** | | **177** | **–** | **177** | **43,373** | **(43,224)** | **149** |
| **Net increase (decrease) in cash and cash equivalents** | | **7,335** | **(21,211)** | **(13,876)** | **(1,461)** | **(19,117)** | **(20,578)** |
| **Cash and cash equivalents at beginning of the financial year** | | 8,804 | n/a | n/a | 16,139 | n/a | n/a |
| **Cash and cash equivalents at the end of the financial year** | | **16,139** | **n/a** | **n/a** | **14,678** | **n/a** | **n/a** |

The above statements of cash flows should be read in conjunction with the accompanying notes.

# 2. FINANCIAL INFORMATION

## 2.10 MANAGEMENT DISCUSSION AND ANALYSIS OF LIQUIDITY AND CAPITAL RESOURCES

### General

NIB has no net debt and has a bank overdraft of $1.4 million (NIB does not maintain a physical overdraft currently, with the reported overdraft representing unpresented cheques).

NIB operates in a regulated environment with standards for solvency and capital adequacy being legislated under sections 140 and 143 of the Private Health Insurance Act. At 30 June 2007 the audited historical results of NIB Health reflected NIB Health total assets of $508.5 million being 2.07x the solvency requirement. That is, an excess of $262.4 million over the regulatory requirement.

NIB's operating and working capital primarily reflect cash inflows from premium revenue, investment income and other income, and cash outflows for net claims expense, underwriting expenses, investment expenses and other expenses.

Hence working capital and operating cash flows will be influenced primarily by:

- outstanding claims liability;
- RETF levy payable; and
- contributions in advance and arrears.

NIB has sufficient working capital to carry out its stated objectives.

### Seasonality

NIB's business is subject to seasonal fluctuations. Premium revenue fluctuates depending on number of days in the month and is higher from 1 April when the annual contribution rate increase becomes effective. Ancillary claims expense are high in January when benefit limits are reset and are high in December when there is increased usage of loyalty bonuses. Hospital claims expense is lower from December to February due to Christmas and school holiday periods.

### Capital Expenditure

Capital expenditure of $11.2 million in FY2007 comprised $8.2 million for the purchase of land and construction of the new head office premises, $1.7 million on systems infrastructure and $1.3 million on other capital expenditure.

### Capital Management

NIB's capital management strategy plays a central role in managing risk to meet the crucial objective of maintaining an appropriate level of capital. An important influence on NIB's capital levels in the future will be the payment of dividends and any return of capital to Shareholders. NIB's proposed dividend policy is discussed in Section 2.12 below.

As discussed above, NIB currently has capital well in excess of that required by the Private Health Insurance Act and negligible gearing. NIB Health's target level of capital will be set in accordance with NIB Holdings' and NIB Health's capital management plans. For NIB Health, the aim of the plan is to keep a sufficient amount of capital in NIB Health above the regulatory minimum in line with risks faced by the business and the Board's attitude to, and tolerance for, risk.

In the absence of strategic growth initiatives, the Directors intend reviewing NIB's capital position and gearing levels at or around the time of release of NIB's FY2008 financial results, with a view to returning excess capital to Shareholders. The quantum of any capital return will be determined having regard to a number of factors, including the necessary capital required to fund both NIB's organic and inorganic growth opportunities, market conditions and growth plans. The exact timing and quantum of any capital return will be determined following the necessary discussions with, and approvals from, the ATO and PHIAC.

## 2.11 FORECASTS FOR FY2008 – STATEMENT OF CASH FLOWS

The following specific best estimate assumptions have been used in developing the pro-forma consolidated forecast statement of cash flows for FY2008.

### Working capital assumptions

Elements of working capital are assumed to be consistent with existing payment terms with customers and suppliers, adjusted for membership growth and inflation where relevant.

### New capital assumptions

The Institutional Offer will include $50 million of new capital combined with those Shares that existing Shareholders choose to sell through the Sale Facility. The cash proceeds of the Institutional Offer received by NIB ($50 million) will be used to fund the donation to the NIB Foundation ($25 million), to fund NIB Holdings expenses associated with Listing and to provide initial working capital for NIB Holdings.

### Capital Expenditure Assumptions

Capital expenditure for FY2008 is forecast to be $40.8 million, representing the construction and fit out of the new head office ($32.0 million), systems infrastructure ($6.0 million) and other capital expenditure ($2.8 million).

### Tax Paid Assumption

The forecasts assume that NIB will pay tax instalments in FY2008 equal to forecast income tax expense.

## 2.12 DIVIDEND POLICY

The issue of Shares by NIB to Eligible Policyholders has been accounted for in accordance with AASB 2 *Share-based Payment (Standard)* and UIG 8 *Scope of AASB 2 (Interpretation)*, and has created a Share-based payments reserve in NIB Health and a corresponding offsetting debit to retained earnings in NIB Health. As can be seen in the pro-forma balance sheet, this has resulted in a negative retained earnings position offset by a credit to the share based payments reserve and will result in an accounting loss for the FY2008 year. As a result of the

# 2. FINANCIAL INFORMATION

operation of AASB 2 and UIG 8 NIB will not be able to pay a dividend in FY2008 as it will have negative retained earnings and an accounting loss. Importantly, the application of AASB 2 and UIG 8 has no implication for the underlying profitability and outlook for NIB's earnings and will not impact on NIB's ability to undertake alternative capital management initiatives.

Post FY2008, NIB Holdings expects to have accounting profits from which to pay dividends. Importantly, any payment of dividends will need to ensure NIB is in compliance with the solvency and capital adequacy standards as outlined in the Private Health Insurance Act, together with NIB's internal target level of capital. The target surplus will be set in line with NIB's capital management plan; the aim of this plan will be to keep a sufficient amount of capital above the regulatory minimum in line with the risk faced by the business and the Board's attitude to, and tolerance for, risk. The Board aims to provide Shareholders with a steady or rising stream of dividends – in line with the long-term, sustainable earnings of NIB. The Board expect to payout between 40% and 60% of normalised net profit after tax in dividends for the relevant period and that such dividends will be franked to the maximum extent possible. Each of these expectations is subject to market conditions, growth plans, capital levels and requirements and other factors.

## 2.13 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Preparation of financial information

#### *Basis of preparation*

This financial information has been prepared by NIB in connection with the Listing of NIB Holdings on ASX.

This financial information has been prepared in accordance with the requirements of the Corporations Act, and the recognition and measurement requirements of AIFRS, other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group Interpretations.

#### Historical cost convention

This financial information has been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through profit or loss, certain classes of property, plant and equipment and investment properties.

#### Critical accounting estimates

The preparation of financial information in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the pro-forma consolidated financial statements, are disclosed in Section 2.14.

#### Functional and presentation currency

The consolidated financial information is presented in Australian dollars, which is the Group's functional and presentation currency.

#### *Summary of significant accounting policies – Pre-Demutualisation*

The principal accounting policies adopted in the preparation of the financial information are set out below.

### 2.13.1 Principles of consolidation

#### *(i) Subsidiaries*

The financial information for FY2007 incorporates the assets and liabilities of all subsidiaries of NIB Health for the year ended 30 June 2007 and the results of all subsidiaries for the year then ended. The financial information for FY2008 incorporates the assets and liabilities of all subsidiaries of NIB Holdings for the year ended 30 June 2008 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the parent has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether NIB controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to NIB. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by NIB (refer to Section 2.13.8).

Intercompany transactions, balances and unrealised gains on transactions between NIB companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by NIB Holdings.

### 2.13.2 Revenue recognition

Revenues are recognised at the fair value of the consideration received or receivable, net of the amount of goods and services tax ("GST") payable to the taxation authority.

#### *(i) Premium revenue*

Premium revenue comprises premiums from private health insurance contracts held by policyholders.

Premium revenue is recognised in the income statement when it has been earned. Premium revenue is recognised in the income statement from the attachment date over the period of the contract. The attachment date is from when the insurer accepts the risk from the insured under the insurance contract. Revenue is recognised in accordance with the pattern of the incidence of risk expected over the term of the contract.

# 2. NOTES TO THE FINANCIAL INFORMATION

The proportion of the premium received or receivable not earned in the income statement at the reporting date is recognised in the balance sheet as an unearned premium liability.

Premiums on unclosed business are brought to account using estimates based on payment cycles nominated by the Policyholder.

#### *(ii) Investment income*

Net fair value gains or losses on financial assets classified as at fair value through profit or loss are recognised in the income statement in the period.

Rental revenue from leasing of investment properties is recognised in the income statement in the period in which it is receivable, as this represents the pattern of service rendered through the provision of the properties.

#### *(iii) Other revenue*

Revenue from the sale of goods is net of returns, discounts and other allowances, and is recognised when control of the goods passes to the customer.

### 2.13.3 Unexpired risk liability

At each reporting date, the adequacy of the unearned premium liability is assessed by considering current estimates of all expected future cash flows relating to future claims against current private health insurance contracts.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability, less related intangible assets and related deferred acquisition costs, then the unearned premium is deemed to be deficient. The company applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability, refer to Section 2.13.4.

### 2.13.4 Outstanding claims liability

The liability for outstanding claims is measured as the central estimate of the expected future payments against claims incurred but not settled at the reporting date under private insurance contracts issued by the company, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims reported but not yet paid and claims incurred but not yet reported, together with allowances for HBRTF/RETF consequences and claims handling expenses.

A risk margin is applied to the outstanding claims liability to reflect the inherent uncertainty in the central estimate of the outstanding claims liability.

### 2.13.5 Acquisition costs

Acquisition costs incurred in obtaining private health insurance contracts are recognised in the pro-forma consolidated income statement as incurred and are not deferred due to the short-tail nature of private health insurance contracts.

### 2.13.6 Income tax

NIB, being a registered private health insurer, pre-Demutualisation (Demutualisation Date is scheduled to occur on 1 October 2007) is exempt from income tax pursuant to Section 50-30 of the *Income Tax Assessment Act 1997* (Cth) as amended.

In respect of subsidiaries, tax effect accounting procedures are followed whereby the income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

### 2.13.7 Leases

Leases of property, plant and equipment where NIB has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term.

### 2.13.8 Business combinations

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair market value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

# 2. NOTES TO THE FINANCIAL INFORMATION

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of NIB's share of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If the cost of acquisition is less than NIB's share of the fair value of identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is implicit in the transaction.

### 2.13.9 Impairment of assets

The carrying amounts of assets, including goodwill and intangible assets that have an indefinite useful life and are not subject to amortisation, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.13.10 Assets backing private health insurance liabilities

As part of the investment strategy NIB actively manages its investment portfolio to ensure that a portion of its investments mature in accordance with the expected pattern of future cash flows arising from private health insurance liabilities.

With the exception of property, plant and equipment, NIB has determined that all assets are held to back private health insurance liabilities and their accounting treatment is described below.

#### *(i) Financial assets*

Financial assets are designated at fair value through profit or loss. Initial recognition is at cost in the balance sheet and subsequent measurement is at fair value with any resultant fair value gains or losses recognised in the income statement.

Details of fair value for the different types of financial assets and liabilities are listed below:

1. Cash and cash equivalents, and bank overdrafts are carried at face value of the amounts deposited or drawn. The carrying amounts of cash assets and bank overdrafts approximate their fair value. For the purposes of the cash flow statement, cash includes cash on hand, deposits held at call with financial institutions, net of bank overdrafts.
2. Shares, fixed interest securities, options and units in trusts listed on stock exchanges are initially recognised at cost and the subsequent fair value adjustment is taken as the quoted bid price of the instrument at the balance sheet date.

All purchases and sales of financial assets that require delivery of the asset within the timeframe established by regulation or market convention ("regular way" transactions) are recognised at trade date, being the date on which the company commits to buy or sell the asset.

In cases where the point between trade and settlement exceeds this time frame, the transaction is recognised at settlement date. Financial assets are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and NIB has transferred substantially all the risks and rewards of ownership.

#### *(ii) Investment properties*

Certain freehold land and buildings have been classified as investment properties where they are held for the purposes of resale or where they are leased to external parties.

Investment properties are initially recorded at cost. Costs incurred subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to NIB.

Subsequent to initial recognition as assets and once completed, investment properties are revalued to fair value as determined by external independent valuers, on a periodic basis, but at least every three years. Investment properties are maintained at a high standard and, as permitted by accounting standards, the properties are not depreciated.

Changes in fair value are recognised in the income statement as part of investment income.

#### *(iii) Receivables*

Amounts due from Policyholders are initially recognised at fair value, being the amounts due. They are subsequently measured at fair value which is approximated by taking this initially recognised amount and reducing it for impairment as appropriate.

A provision for impairment of receivables is established when there is objective evidence that NIB will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the value of estimated future cash flows. The impairment charge is recognised in the income statement.

# 2. NOTES TO THE FINANCIAL INFORMATION

### 2.13.11 Cash and cash equivalents other than those included in assets backing private health insurance liabilities

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, and bank overdrafts. Bank overdrafts are shown within borrowings on the balance sheet.

### 2.13.12 Receivables other than those included in assets backing private health insurance liabilities

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

Collectibility of trade and other receivables is reviewed on a ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment is established where there is objective evidence that NIB will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the income statement.

### 2.13.13 Inventories

Inventories are valued at the lower of cost and net realisable value. Costs are assigned to inventory on hand based on actual cost.

### 2.13.14 Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

An impairment loss is recognised in the income statement for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets on the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities on the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations, and is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the income statement.

### 2.13.15 Property, plant and equipment

Land and buildings (except for investment properties – refer to Section 2.13.10(ii)) are shown at fair value, based on periodic, but at least every three years, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to NIB and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amounts arising on the revaluation of land and buildings are credited to the other reserves in the Shareholders' equity. To the extent that the increase reverses a decrease previously recognised in the income statement, the increase is first recognised in the income statement. Decreases that reverse previous increases of the same asset are first charged against the revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the income statement.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

- buildings – 25 to 40 years;
- plant and equipment – 3 to 20 years; and
- leasehold improvements – 3 to 5 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Section 2.13.9).

Gains and losses on disposals are determined by comparing proceeds with carrying amount of the asset, and are included in the income statement. When revalued assets are sold, it is NIB's policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

### 2.13.16 Intangible assets

#### *(i) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of NIB's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill

# 2. NOTES TO THE FINANCIAL INFORMATION

on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, and is carried at cost less accumulated impairment losses.

#### *(ii) Software licences*

Software licences have a finite useful life and are carried at cost, less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the licences over their useful lives being two and half years.

### 2.13.17 Payables

These amounts represent liabilities for goods and services provided to NIB prior to the end of the financial year and which are unpaid. These amounts are unsecured and are usually paid with 30 days of recognition.

### 2.13.18 Employee benefits

#### *(i) Wages and salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in other creditors and current provision in respect of employees' services up to the reporting date and measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rate paid or payable.

#### *(ii) Long service leave*

The liability for long service leave is the amount of the future benefit that employees have earned in return for their service in the current and prior periods. The liability is calculated using expected future increases in wage and salary rates and expected settlement dates, and is discounted using the rates attached to Commonwealth Government Bonds at the balance sheet date which have the maturity dates approximating to the terms of NIB's obligations.

#### *(iii) Bonus plans*

A liability for employee benefits in the form of bonus plans is recognised in other creditors when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit, or
- the amounts to be paid are determined before the time of completion of the financial report, or
- past practice gives clear evidence of the amount of the obligation.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

#### *(iv) Retirement benefits*

Directors' retirement benefits are provided for in the financial statements. Non-executive Directors employed before 24 November 2005 are entitled to a lump sum defined benefit based on number of years service, after five years service. Benefits for those Directors that have served for five years are recognised as current provisions, and benefits for those Directors that have not yet served for five years are recognised as non-current provisions. The benefit for each Director is calculated based on the average Director's fee for the last three years multiplied by a factor based on years of service.

#### *(v) Termination benefits*

Liabilities for termination benefits, not in connection with the acquisition of an entity or operation, are recognised when a detailed plan for the terminations has been developed and a valid expectation has been raised with those employees affected that the terminations will be carried out. The liabilities for termination benefits are recognised as current provisions, as liabilities for termination benefits are expected to be settled within 12 months of reporting date.

### 2.13.19 Goods and Services Tax (GST)

Revenues, expenses, assets and liabilities are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense recognised in the income statement.

Receivables and payables are stated inclusive of the amount of GST recoverable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the pro-forma consolidated balance sheet.

Cash flows are presented inclusive of the amount of GST. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

#### *Summary of significant accounting policies – Post Demutualisation*

Following Demutualisation, some of the accounting principles set out above will change and the revisions are set out below.

### 2.13.20 Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each

# 2. NOTES TO THE FINANCIAL INFORMATION

jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### *Tax consolidation legislation*

NIB Holdings and its wholly-owned Australian controlled entities will be implementing the tax consolidation legislation.

The head entity, NIB Holdings, and the controlled entities in the tax consolidated group will account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, NIB Holdings also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in NIB.

### 2.13.21 Share-based payments

The issue of Shares by NIB to Eligible Policyholders has be accounted for in accordance with AASB 2 *Share-based Payment (Standard)* and UIG 8 *Scope of AASB 2 (Interpretation)*, and has created a Share-based payments reserve in NIB Health and a corresponding offsetting debit to retained earnings in NIB Health. As can be seen in the pro-forma balance sheet information, this has resulted in a negative retained earnings position offset by a credit to the Share-based payments reserve and will result in an accounting loss for the FY2008 year.

### 2.13.22 Reverse acquisition accounting policy

Post Demutualisation, the formation of NIB has been accounted for as a business combination. In applying the requirements of AASB 3 *Business Combinations* to the Group:

- NIB Holdings is the legal parent entity of the Group and presents consolidated financial information; and
- NIB Health which is neither the legal parent nor legal acquirer is deemed to be the accounting parent of the Group.

This reflects the requirements of AASB 3 that in situations where a number of existing entities are combined with a new entity, an existing entity shall be deemed to be the acquirer, subject to consideration of factors such as relative values of the entities involved in the transaction. This is commonly referred to as a reverse acquisition.

The financial information incorporates the assets and liabilities of all entities deemed to be acquired by NIB Health, including NIB Holdings and the results of these entities for the period from which those entities are accounted for as being acquired by NIB Health. The assets and liabilities of the entities acquired by NIB Health were recorded at fair value and the assets and liabilities of NIB Health were maintained at their book value. The impact of transactions between NIB entities is eliminated in full.

## 2.14 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

NIB makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key area in which critical estimates are applied are described below.

### The ultimate liability arising from claims made under private heath insurance contracts

Provision is made at the year end for the liability for outstanding claims which is measured as the central estimate of the expected payments against claims incurred but not settled at the reporting date under private health insurance contracts issued by NIB Health. The expected future payments include those in relation to claims reported but not yet paid and claims incurred but not yet reported. This "central estimate" of outstanding claims is an estimate which is intended to contain no intentional over or under estimation. For this reason the inherent uncertainty in the central estimate must also be considered and a risk margin is added. The estimated cost of claims includes allowances for RETF consequences and claims handling expense.

NIB takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

# 2. NOTES TO THE FINANCIAL INFORMATION

In calculating the estimated cost of unpaid claims NIB Health uses estimation techniques based upon statistical analysis of historical experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including changes in the company processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods.

The risk margin has been based on an analysis of the past experience of NIB. This analysis examined the volatility of past payments that has not been explained by the model adopted to determine the central estimate. This past volatility has been assumed to be indicative of the future volatility.

The central estimates are calculated gross of any risk equalisation recoveries. A separate estimate is made of the amounts that will be recoverable from or payable to the RETF based upon the gross provision.

Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in Section 2.15.

## 2.15 ACTUARIAL ASSUMPTIONS AND METHODS

### Actuarial methods

The outstanding claims estimate is derived based on three valuation classes, namely hospital and prostheses services combined, medical services, and ancillary and ambulance services combined.

In calculating the estimated cost of unpaid claims a chain ladder method is used; this assumes that the development pattern of the current claims will be consistent with historical experience.

### Actuarial assumptions

The following assumptions have been made in determining the outstanding claims liability.

| | 2007 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Hospital | Medical | Ancillary | Hospital | Medical | Ancillary |
| Average weighted term to settlement from reporting date (months) | 1.2 | 1.8 | 2.7 | 1.3 | 1.6 | 2.7 |
| Expense rate | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Discount rate | 0% | 0% | 0% | 0% | 0% | 0% |

The risk margin of 7.1% (2007: 5.4%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% (2007: 95%).

### Process used to determine assumptions

A description of the processes used to determine these assumptions is provided below:

#### *(i) Average weighted term to settlement*

The assumption made in the chain ladder method is for cumulative development per service month, calculated separately by valuation class, based on historic settlement patterns. The average weighted term to settlement summarises the speed of development assumed.

#### *(ii) Expense rate*

Claims handling expenses were calculated by reference to past experience of total claims handling costs as a percentage of total past payments.

#### *(iii) Discount rate*

The business written by NIB is short tail in nature. Based on historic experience, approximately 80% of outstanding claims are paid within two months of balance date; for this reason, expected future payments are not discounted.

### Sensitivity analysis insurance contracts

#### *(i)Summary*

NIB conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the performance and equity of NIB. The tables below describe how a change in each assumption will affect the insurance liabilities.

# 2. NOTES TO THE FINANCIAL INFORMATION

| Variable | Impact of movement in variable |
|---|---|
| **Average weighted term to settlement** | A decrease in the average term to settlement would lead to more claims being paid sooner than anticipated. Expected cumulative development patterns are used in determining the outstanding claims liability. An increase or decrease in the average weighted term would have a corresponding increase or decrease on claims expense respectively. |
| **Expense rate** | An estimate for the internal costs of handling claims is included in the outstanding claims liability. An increase or decrease in the expense rate assumption would have a corresponding impact on claims expense. |
| **Discount rate** | The outstanding claims liability is calculated by reference to expected future payments. These payments are not discounted to adjust for the time value of money. An allowance for discounting would decrease the total claims expense. |

### *(ii) Impact of changes in key variables*

| | Normalised Profit | | Normalised Equity |
|---|---|---|---|
| | 2007 $'000 | 2008 $'000 | 2007 $'000 |
| Recognised amounts in the financial statements | 37,234 | 32,127 | 336,214 |

| | | Adjustment to amount recognised | | |
|---|---|---|---|---|
| Variable | Movement in variable | 2007 $'000 | 2008 $'000 | 2007 $'000 |
| Average weighted term to be settled | + 0.1 Month | (3,420) | (3,885) | (3,420) |
| | – 0.1 Month | 3,420 | 3,885 | 342 |
| Expense rate | +1% | (479) | (547) | (479) |
| | –1% | 479 | 547 | 479 |
| Application of a discount rate of | 6.35% | 395 | 452 | 395 |

# 2. NOTES TO THE FINANCIAL INFORMATION

## 2.16 INCOME TAX

| | 2007 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Audited Historical $'000 | Pro-forma adjustments $'000 | Normalised $'000 | Statutory Forecast $'000 | Pro-forma adjustments $'000 | Normalised $'000 |
| **(a) Income tax expense** | | | | | | |
| **Recognised in the income statement** | | | | | | |
| Current tax expense | 54 | 15,645 | 15,699 | 265 | 5,978 | 6,243 |
| Deferred tax expense | – | – | – | – | 7,496 | 7,496 |
| Under (over) provided in prior years | – | – | – | – | – | – |
| | 54 | 15,645 | 15,699 | 265 | 13,474 | 13,739 |
| Income tax expense is attributable to: | | | | | | |
| Profit from continuing operations | – | 15,699 | 15,699 | 265 | 13,474 | 13,739 |
| Profit from discontinuing operations | 54 | (54) | – | – | – | – |
| **Aggregate income tax expense** | **54** | **15,645** | **15,699** | **265** | **13,474** | **13,739** |
| **(b) Numerical reconciliation of income tax expense to prima facie tax payable** | | | | | | |
| Profit from continuing operations before income tax expense | 50,814 | 2,119 | 52,933 | (359,821) | 405,687 | 45,866 |
| Profit from discontinuing operations before income tax expense | 1,736 | (1,736) | – | – | – | – |
| | 52,550 | 383 | 52,933 | (359,821) | 405,687 | 45,866 |
| Tax at the Australian tax rate of 30% (2008: 30%) | 15,764 | 115 | 15,879 | (107,946) | 121,706 | 13,760 |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | | | | | |
| Write back of provision on consolidation | 320 | – | 320 | – | – | – |
| Net exempt income | (15,530) | 15,530 | – | (1,560) | 1,560 | – |
| Share based payments reserve | | – | – | 110,023 | (110,023) | – |
| Demutualisation costs | | – | – | (231) | 231 | – |
| Net income from disposed entity | 116 | – | 116 | – | – | – |
| Non-assessable income | (614) | – | (614) | – | – | – |
| Other non-deductible expenses | 151 | – | 151 | – | – | – |
| Prior year revenue losses not recognised now recouped | (208) | – | (208) | (21) | – | (21) |
| Prior year capital losses not recognised now recouped | (17) | – | (17) | – | – | – |
| Deferred tax asset not recognised | 72 | – | 72 | – | – | – |
| **Income tax expense** | **54** | **15,645** | **15,699** | **265** | **13,474** | **13,739** |

Pre-Demutualisation (pre 1 October 2007) NIB Health was exempt from income tax under the provisions of Section 50-30 of the Income Tax Assessment Act 1997 as amended. From 1 October 2007 NIB Health is subject to income tax at the company income tax rate, currently 30%. Normalised FY2007 and FY2008 reflect income tax for the entire period.

# 2. NOTES TO THE FINANCIAL INFORMATION

## 2.17 CURRENT LIABILITIES – OUTSTANDING CLAIMS LIABILITY

| | 2007 | | |
|---|---|---|---|
| | Audited Historical $'000 | Pro-forma adjustments $'000 | Normalised $'000 |
| **(a) Outstanding claims liability** | | | |
| Outstanding claims – central estimate of the expected future payments for claims incurred | 43,773 | – | 43,773 |
| Risk Margin | 2,221 | – | 2,221 |
| Claims handling costs | 1,313 | – | 1,313 |
| **Gross outstanding claims liability** | 47,307 | – | 47,307 |
| Outstanding claims – expected payment to the HRBTF/RETF in relation to the central estimate | 6,105 | – | 6,105 |
| Risk Margin | 543 | – | 543 |
| **Net outstanding claims liability** | **53,955** | **–** | **53,955** |

**(b) Risk margin**

The risk margin of 5.4% of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95.0%.

The central estimate of outstanding claims (including those that have been reported but not yet settled and which have been incurred but not yet reported) is an estimate which is intended to contain no intentional over or under estimation. For this reason the inherent uncertainty in the central estimate must also be considered.

The risk margin has been based on an analysis of the past experience of NIB Health. This analysis examined the volatility of past payments that has not been explained by the model adopted to determine the central estimate. This past volatility has been assumed to be indicative of the future volatility.

The outstanding claims estimate is derived based on 3 valuation classes, namely Hospital and Prostheses services combined, Medical services, and Ancillary and Ambulance services combined. Diversification benefits within a valuation class are implicitly allowed for through the model adopted. The determination of the risk margin has also implicitly allowed for diversification between valuation classes based on an analysis of past correlations in deviations from the adopted model.

The outstanding claims provision has been estimated using a chain ladder method, based on historical experience and future expectations as to claims. For Hospital, Prostheses and Medical services in particular, an expected claim numbers and average claims size is used instead for the most recent three months. The calculation was determined taking into account one month of actual post balance date claims.

The business written by NIB Health is short tail in nature. Based on historic experience, approximately 80% of outstanding claims are received within two months of balance date, and accordingly only 20% of the outstanding claims provision requires an estimate. For this reason, expected future payments are not discounted. Accordingly, reasonable changes in assumptions would not have a material impact on the outstanding claims balance.

Changes in the gross outstanding claims liabilities can be analysed as follows:

| | 2007 | | |
|---|---|---|---|
| | Audited Historical $'000 | Pro-forma adjustments $'000 | Normalised $'000 |
| Gross outstanding claims at 1 July | 50,805 | – | 50,805 |
| Administration component | (1,416) | – | (1,416) |
| Risk margin | (2,188) | – | (2,188) |
| **Central estimate at 1 July** | **47,201** | **–** | **47,201** |
| Change in claims incurred for the prior year | 1,510 | – | 1,510 |
| Claims paid in respect of the prior year | (48,711) | – | (48,711) |
| Claims incurred during the year (expected) | 501,823 | – | 501,823 |
| Claims paid during the year (expected) | (458,050) | – | (458,050) |
| **Central estimate at 30 June** | **43,773** | **–** | **43,773** |

# 2. NOTES TO THE FINANCIAL INFORMATION

| | 2007 | | |
|---|---|---|---|
| | Audited Historical $'000 | Pro-forma adjustments $'000 | Normalised $'000 |
| Administration component | 1,313 | – | 1,313 |
| Risk margin | 2,029 | – | 2,029 |
| Change in risk margin assumption | 406 | – | 406 |
| **Gross outstanding claims at 30 June** | **47,521** | **–** | **47,521** |

## 2.18 RESERVES

| | | 2007 | | |
|---|---|---|---|---|
| | Notes | Audited Historical $'000 | Pro-forma adjustments $'000 | Normalised $'000 |
| **(a) Reserves comprise:** | | | | |
| Property revaluation | | 7,053 | – | 7,053 |
| Share-based payments | 2.19.4 | – | 366,743 | 366,743 |
| | | **7,053** | **366,743** | **373,796** |
| **(b) Movements in reserves:** | | | | |
| *Property revaluation reserve* | | | | |
| Balance at the beginning of the year | | 6,919 | – | 6,919 |
| Property revaluation | | 134 | – | 134 |
| **Balance at the end of the year** | | **7,053** | **–** | **7,053** |
| *Share-based payments reserve* | | | | |
| Balance at the beginning of the year | | – | – | – |
| Issue of shares | 2.19.4 | – | 366,743 | 366,743 |
| **Balance at the end of the year** | | **–** | **366,743** | **366,743** |

**(c) Nature and purpose of reserves**

*(i) Property revaluation reserve*

The property revaluation reserve is used to record increments and decrements on the revaluation of non-current assets, as described in Section 2.13.15.

*(ii) Share-based payments reserve*

The share-based payments reserve is used to recognise the impact of the issue of shares to NIB Health Policyholders on Demutualisation of NIB Health.

The issue of Shares by NIB to Eligible Policyholders has been accounted for in accordance with AASB 2 *Share-based Payment (Standard)* and UIG 8 *Scope of AASB 2 (Interpretation)*, and has created a Share-based payments reserve in NIB Health and a corresponding offsetting debit to retained earnings in NIB Health. As can be seen in the pro-forma balance sheet, this has resulted in a negative retained earnings position offset by a credit to the share based payments reserve and will result in an accounting loss for the FY2008 year.

## 2.19 PRO-FORMA ADJUSTMENTS

The following adjustments have been made to normalise the historical FY2007 financial information and statutory forecast for FY2008.

### 2.19.1 Transfer to risk equalisation arrangements

The transfer to risk equalisation arrangements as discussed in Section 2.4.2 has increased the HBRTF/RETF Levy in the normalised FY2007 income statement.

# 2. NOTES TO THE FINANCIAL INFORMATION

### 2.19.2 Demutualisation/Listing costs

Demutualisation/Listing costs incurred in 2007 of $5,721,000 are deducted from Other underwriting expenses in the normalised FY2007 income statement. Demutualisation/Listing costs forecast to be incurred by NIB Health in FY2008 of $8,783,000 are deducted from Other underwriting expenses in the FY2008 income statement. Listing costs forecast to be incurred by NIB Holdings in FY2008 of $5,961,000 are deducted from Other expenses in the normalised FY2008 income statement. This comprises total costs of $12,737,000 less amounts allocated against contributed equity of $6,776,000.

Demutualisation/Listing costs forecast to be incurred in 2008 are deducted from Cash and cash equivalents and Retained profits in the normalised FY2007 balance sheet.

Demutualisation/Listing costs incurred in FY2007 have been deducted from Payments to members, suppliers and employees (inclusive of goods and services tax) in the normalised FY2007 cash flow statement. Demutualisation/Listing costs incurred in FY2008 have been deducted from Payments to members, suppliers and employees (inclusive of goods and services tax) in the normalised FY2008 cash flow statement.

### 2.19.3 Ongoing costs of a public company

Other expenses have been increased in the normalised FY2007 income statement by $2,400,000 and have been increased in the FY2008 income statement by $800,000 for the ongoing costs associated with a public ASX listed company.

These expenses have been added to Payments to members, suppliers and employees (inclusive of goods and services tax) in the normalised FY2007 and FY2008 cash flow statement.

### 2.19.4 Issue of shares to Policyholders

The issue of shares in NIB resulted in the creation of an equity reserve. The fair value of Shares granted to Policyholders were recognised through the income statement with a corresponding increase in equity via the share-based payments reserve. The fair value is measured at the grant date. For the purpose of the pro-forma financial information, fair value has been estimated at the mid point of the Indicative Facility Price Range. The fair value may be different, however, this will not affect the net assets position of the entity but rather the allocation between Retained profits and the Share-based payments reserve.

The share-based payment expense of $366,743,000 is removed from Other expenses in the normalised FY2008 income statement.

Retained profits have been decreased in the normalised FY2007 balance sheet with a corresponding increase to the share-based payments reserve.

### 2.19.5 Donation to NIB Foundation

Other expenses were reduced by $25,000,000 in the FY2008 income statement for the donation to the NIB Foundation funded by the additional share issue.

The donation reduced Cash and cash equivalents and Retained profits in the 2007 balance sheet.

The donation has been deducted from Payments to members, suppliers and employees (inclusive of goods and services tax) in the FY2008 cash flow statement.

### 2.19.6 Income tax

The normalised FY2007 and FY2008 income statements are adjusted for the income tax expense attributable to Profit before income tax.

The normalised FY2007 and FY2008 cash flow statements are adjusted for Income tax paid.

### 2.19.7 Discontinued operations (Newcastle Private Hospital and NIB Eye Care and Dental businesses)

The profit from the discontinued operations of Newcastle Private Hospital and NIB Eye Care and Dental businesses have been removed from the FY2007 income statement.

Various items were removed from the FY2007 cash flow statement due to the discontinuing operations of Newcastle Private Hospital and NIB Eye Care and Dental businesses, the key ones being:

- Receipts from Policyholders and customers (inclusive of goods and services tax) $47,947,000;
- Payments to members, suppliers and employees (inclusive of goods and services tax) $47,999,000;
- Payments for property, plant and equipment and intangibles $452,000;
- Proceeds from sale of subsidiary, net of cash disposed $8,997,000; and
- Proceeds from sale of Eye Care and Dental businesses $325,000.

The following items were removed from to the FY2008 cash flow statement due to the discontinuing operations of Newcastle Private Hospital and NIB Eye Care and Dental businesses:

- Proceeds from sale of subsidiary, net of cash disposed $848,000; and
- Proceeds from sale of Eye Care and Dental businesses $250,000.

### 2.19.8 Additional issue of shares

The additional issue of Shares of $50,000,000 have resulted in an increase in cash and cash equivalents and an increase in Share capital in the normalised FY2007 balance sheet. Capital raising costs of $6,776,000 were offset against contributed equity in the normalised FY2007 balance sheet.

Proceeds from issues of Shares offset by capital raising costs have been removed in the normalised FY2008 cash flow statement.

# 3. INVESTIGATING ACCOUNTANT'S REPORT

PRICEWATERHOUSECOOPERS

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The Directors
NIB Holdings Limited
Locked Bag 2010
NEWCASTLE NSW 2300

24 September 2007

Dear Directors

**Investigating Accountant's Report on Historical and Forecast Financial Information**

We have prepared this Report on historical and forecast financial information of NIB Holdings Limited and controlled entities (the Company) for inclusion in a Financial Forecast Booklet (the Booklet) dated on or about 24 September 2007 relating to the Listing of the Company on the ASX.

Expressions defined in the Booklet have the same meaning in this Report.

The nature of this Report is such that it should be given by an entity which holds an Australian Financial Services licence under the Corporations Act 2001. PricewaterhouseCoopers Securities Ltd is wholly owned by PricewaterhouseCoopers and holds the appropriate Australian Financial Services licence.

**Scope**

You have requested PricewaterhouseCoopers Securities Ltd to prepare an Investigating Accountant's Report (the Report) covering the following information:

***Historical financial information***

(a) the historical and normalised income statements of the Company for the year ended 30 June 2007;
(b) the historical and normalised cashflow statements for the year ended 30 June 2007; and
(c) the historical balance sheet as at 30 June 2007 and the pro forma balance sheet as at 30 June 2007, which assumes completion of the contemplated transactions disclosed in Section 2 of the Booklet (the Proforma Transactions), (collectively, the Historical Financial Information).

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***Forecast financial information***

(d) statutory basis and normalised forecast income and cashflow statements of the Company for the year ending 30 June 2008 ( the Forecasts).

This Report has been prepared for inclusion in the Booklet. We disclaim any assumption of responsibility for any reliance on this Report or on the Historical Financial Information or the Forecasts to which it relates for any purposes other than for which it was prepared.

**Scope of review of Historical Financial Information**

The Historical Financial Information set out in Section 2 of the Booklet has been extracted from the audited financial statements of NIB Health Funds Limited, which were audited by PricewaterhouseCoopers that issued an unmodified audit opinion on the financial statements. The Historical Financial Information incorporates such adjustments as the Directors considered necessary to reflect the operations of the Company going forward. The Directors are responsible for the preparation of the Historical Financial Information, including determination of the adjustments.

We have conducted our review of the Historical Financial Information in accordance with Australian Auditing Standard AUS 902 "Review of Financial Reports". We made such inquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances including:

- an analytical review of the audited financial performance of the Company for the relevant historical period
- a review of work papers, accounting records and other documents
- a review of the adjustments made to the historical financial performance
- a review of the assumptions used to compile the pro forma balance sheet
- a comparison of consistency in application of the recognition and measurement principles in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by the Company disclosed in Section 2.13 of the Booklet, and
- enquiry of directors, management and others.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

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# 3. INVESTIGATING ACCOUNTANT'S REPORT

PRICEWATERHOUSECOOPERS

**Review statement on Historical Financial Information**

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that:

- the pro forma balance sheet has not been properly prepared on the basis of the pro forma transactions
- the pro forma transactions do not form a reasonable basis for the pro forma balance sheet
- the Historical Financial Information, as set out in Section 2 of the Booklet does not present fairly:

  (a) the historical and normalised income statements and cashflows of the Company for the year ended 30 June 2007; and

  (b) the historical and pro forma balance sheet of the Company as at 30 June 2007

in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, and accounting policies adopted by the Company disclosed in Section 2.13 of the Booklet.

**Scope of review of Forecast financial information**

The Directors are responsible for the preparation and presentation of the Forecasts, including the best estimate assumptions, which include the pro forma transactions, on which they are based.

Our review of the best estimate assumptions underlying the Forecasts was conducted in accordance with Australian Auditing Standard AUS 902 "Review of Financial Reports". Our procedures consisted primarily of enquiry and comparison and other such analytical review procedures we considered necessary so as to adequately evaluate whether the best estimate assumptions provide a reasonable basis for the Forecasts. These procedures included discussion with the Directors and management of the Company and have been undertaken to form an opinion whether anything has come to our attention which causes us to believe that the best estimate assumptions do not provide a reasonable basis for the preparation of the Forecasts and whether, in all material respects, the Forecasts are properly prepared on the basis of the assumptions and are presented fairly in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies of the Company disclosed in Section 2.13 of the Booklet so as to present a view of the Company which is consistent with our understanding of the Company's past, current and future operations.

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# 3. INVESTIGATING ACCOUNTANT'S REPORT

PRICEWATERHOUSECOOPERS

The Forecasts have been prepared by the Directors to provide investors with a guide to the Company's potential future financial performance based upon the achievement of certain economic, operating, development and trading assumptions about future events and actions that have not yet occurred and may not necessarily occur. There is a considerable degree of subjective judgement involved in the preparation of Forecasts. Actual results may vary materially from the Forecasts and the variation may be materially positive or negative. Accordingly, investors should have regard to the investment risks set out in Section 4 of the Booklet.

Our review of the Forecasts that are based on best estimate assumptions is substantially less in scope than an audit examination conducted in accordance with Australian Auditing and Assurance Standards. A review of this nature provides less assurance than an audit. We have not performed an audit and we do not express an audit opinion on the Forecasts included in the Booklet.

**Review statement on the Forecasts**

Based on our review of the Forecasts, which is not an audit, and based on an investigation of the reasonableness of the best estimate assumptions giving rise to the Forecasts, nothing has come to our attention which causes us to believe that:

(a) the best estimate assumptions set out in Section 2.5 of the Booklet do not provide a reasonable basis for the preparation of the Forecasts, and

(b) the Forecasts are not properly prepared on the basis of the best estimate assumptions and presented fairly in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by the Company disclosed in Section 2.13 of the Booklet

(c) the Forecasts are unreasonable.

The underlying assumptions are subject to significant uncertainties and contingencies often outside the control of the Company. If events do not occur as assumed, actual results and distributions achieved by the Company may vary significantly from the Forecasts. Accordingly, we do not confirm or guarantee the achievement of the Forecasts, as future events, by their very nature, are not capable of independent substantiation.

**Subsequent events**

Apart from the matters dealt with in this Report, and having regard to the scope of our Report, to the best of our knowledge and belief no material transactions or events outside of the ordinary business of the Company have come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

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# 3. INVESTIGATING ACCOUNTANT'S REPORT

PRICEWATERHOUSECOOPERS

**Independence or Disclosure of Interest**

PricewaterhouseCoopers Securities Ltd does not have any interest in the outcome of this issue other than the preparation of this Report and participation in due diligence procedures for which normal professional fees will be received.

Yours faithfully

Wayne Russell
Authorised Representative of
PricewaterhouseCoopers Securities Ltd

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# 4. RISK FACTORS

The business activities of NIB are subject to a number of risks and uncertainties, and there are many factors that may affect the future performance of NIB, including, but not limited to, the following:

## 4.1 Share price fluctuations

There are risks associated with any investment in a company listed on the ASX. The market price of NIB Shares may fluctuate due to various factors, including levels of interest rates, investor sentiment, worldwide or regional economic conditions and other factors which may affect NIB's financial position and earnings.

Shares have been issued to Eligible Policyholders in the Demutualisation. A number of Eligible Policyholders may not be long term holders of Shares. The Sale Facility has been structured so as to allow Eligible Policyholders who wish to sell their Shares to do so in an orderly way. However there remains a risk that following Listing on ASX the market price of Shares may be weak as a result of Shares not being held by long term holders and there being more sellers than buyers of Shares.

## 4.2 Impact of economic conditions on product demand and expenses

NIB's performance is affected by Australian economic conditions such as inflation, interest rates, consumer and business spending and employment rates which are outside NIB's control. NIB cannot predict the impact of future economic conditions on its business and profitability.

A downturn in economic conditions could be expected to reduce the demand for NIB's products as consumers reduce spending on items that might be considered to be non-essential, such as private health insurance.

Further, an increase in inflation or interest rates can be expected to negatively impact on claims expenses experienced by NIB. Historically, NIB and other health funds have only raised premiums once a year, meaning it is possible that premium rate growth may lag claims inflation.

## 4.3 Investment market performance

A substantial proportion of NIB's profits are generated from its investment portfolio. Consequently, investment performance significantly affects NIB's profits and financial position.

It is NIB's current policy that approximately 65% of its investment portfolio is invested in defensive investments including fixed income securities, cash enhanced funds and cash. The remaining 35% of the investment portfolio is invested in equities and property. A proportion of NIB's portfolio is invested overseas, but all currency risks are hedged.

NIB's investment policies may change over time based on the Board's assessment of an appropriate strategy to maximise investment returns. As such, the risk associated with the investment portfolio may change over time. Changes in investment markets, including changes in equity returns, interest rates, other investment returns, and foreign exchange rates will affect the financial performance of NIB.

## 4.4 Competition in the health insurance industry

The industry in which NIB operates is competitive. The actions of competitors could result in a reduction in the rate of growth of NIB, a decline in the number of people insured by NIB and/or declining profit margins. Other factors that may result in increased competition include changes in customers' needs and preferences, and the entry of new participants.

Many of NIB's competitors are currently "not-for-profit" mutuals which may convert to "for-profit" companies like NIB. NIB expects increased competition as other industry participants convert and become for-profit companies. The increasing interest in the private health insurance industry may also mean that enterprises outside the industry might consider entering the industry. All of these factors could raise the prospect of increased competition for NIB.

NIB is also pursuing a business strategy of targeted growth in the under 40 year old segment. Other industry participants might increase their focus on this age segment. Such an increase in focus by other industry participants would result in increased competition for NIB in its target segment.

## 4.5 Pricing risk

Health insurance premiums are required to be approved by the Minister for Health and Ageing. Historically, NIB and other health funds have only raised premiums once a year. There is a risk that NIB's application for a change in its premium rates may be rejected by the Minister. Such a rejection may have a negative impact on NIB's operating and financial performance.

## 4.6 Risk Equalisation trust arrangements

From 1 April 2007 new risk equalisation arrangements apply to the registered health insurance industry in Australia. Under these arrangements all registered health insurers effectively provide reinsurance support so that the industry as a whole shares the hospital costs of high risk groups irrespective of whether those claims are attributable to a policyholder of a particular fund. These risk equalisation arrangements support the policy of community rating to ensure health insurers do not discriminate between people on the basis of their health.

Risk equalisation arrangements (and the previously operative reinsurance arrangements) have historically resulted in NIB making net contributions to the industry because of the younger average age profile of its Policyholders compared to other health insurers.

There is a risk the actual levels of contributions under the risk equalisation arrangements will vary from those forecast

# 4. RISK FACTORS

depending on a combination of the individual fund and total industry actual results.

## 4.7 Changes in government policy or legislation

The business environment in which NIB operates is heavily regulated. The Federal Government provides a number of regulatory incentives to encourage participation by the public in private health insurance including:

- Federal Government Rebate – the Federal Government reduces the cost of private health insurance by providing a rebate on premiums. Depending on the age of the oldest person on the policy, the level of rebate ranges between 30% (64 years or younger), 35% (65 to 69 years) and 40% (70 years or older);
- Lifetime Health Cover – people are encouraged to take out health insurance before they turn 31 years of age. Those people who join after this time must pay a 2% loading on top of their health insurance premium for every year they are aged over 30. Recent legislative changes to the Lifetime Health Cover rules provide that the Lifetime Health Cover loading will cease to apply after 10 years of continuous private health insurance cover; and
- Medicare Levy Surcharge – the surcharge of 1% of taxable income is levied on those high income earners (single and earning more than $50,000 p.a. or a couple or family earning more than $100,000 p.a.) who do not have private health insurance with a low front end deductible or a low excess.

While NIB understands that there is no currently anticipated change in policy by any major political party in Australia, the removal in whole or in part of these incentives or a reduction in their level is likely to result in a loss of membership for NIB and the private health insurance industry generally.

## 4.8 Rapid growth

NIB is pursuing a business strategy of targeted growth in the under 40 year old segment. A major focus of this growth strategy is the expansion of NIB's business in a more meaningful way into geographic markets such as Victoria and Queensland and the targeted acquisition of new customers more generally. Such expansion carries with it risks and there can be no guarantee that it will be possible to successfully maintain the historic growth rates NIB has achieved.

To the extent that growth is sought to be achieved through the acquisition of new customers, the primary means for seeking to achieve that outcome is by mass media advertising. Advertising in this way is expensive and materially affects the cost base of NIB. If that advertising is not successful it will not result in future revenue increases that would justify the expense of the activity.

NIB's future strategy also includes undertaking business acquisitions even though the current FY2008 financial forecast includes no business acquisitions. There is a risk that suitable acquisition opportunities that meet NIB's strategic and financial criteria do not become available.

In addition, growth by acquisition involves additional risk. NIB would face the operational and financial risks that are commonly a feature of growth by acquisition, including the risk that synergy benefits may not arise, that customers, employees or suppliers may be lost as a result of a change of control or that NIB management may be distracted from NIB's other activities. In addition, it can take a substantial period of time to realise the full benefits of an acquisition. NIB may also face financial risk if its gearing increases as a result of making an acquisition.

NIB's strategy includes pursuing product innovation in a way that enhances the customer value proposition and increases its role in the financing of private health care expenditure. This may include offering an expanded product range. Additional risk would exist with differing business models and the potential to enter into relevant strategic alliances.

## 4.9 Compliance with regulation

NIB is subject to a high degree of regulation concerning how private health insurers conduct their health insurance business. Private health insurers must be registered and must comply with a variety of obligations in relation to the conduct of that business including a requirement to have appointed actuaries, compliance with prudential, solvency and capital adequacy standards, exclusion of disqualified persons from management and a number of reporting and notification obligations.

If NIB does not comply with the regulatory requirements that apply to it, it may suffer a penalty, such as a fine or an obligation to pay compensation. In some cases, a regulator may cancel or suspend its authority to conduct business. A significant failure to comply with regulatory requirements may also give rise to adverse comment by the press and other industry commentators, negatively affecting NIB's financial performance.

## 4.10 Estimation of claims provisions

NIB maintains provisions for claims incurred but not settled including claims reported but not yet paid and claims incurred but not yet reported. Although NIB seeks to maintain claims provisions at a level to ensure a relatively high probability of sufficiency, the establishment of appropriate provisions is an inherently uncertain process.

NIB takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

If the claims rate experienced by NIB increases as compared to historical trends, that would negatively impact on provisions made for claims.

# 4. RISK FACTORS

There can be no assurance that ultimate losses will not materially exceed NIB's provisions and will not have a materially adverse effect on NIB's operating results and financial position.

## 4.11 Operational risk

NIB is exposed to a variety of operational and general business risks. Exposure to unexpected financial and non-financial losses arising from the way in which NIB conducts its business operations may have an adverse effect on earnings and assets of NIB as well as its reputation.

## 4.12 Loss of key personnel

NIB's success depends largely on its key personnel, including senior management. The inability to access and retain services of a significant number of such staff could disrupt NIB's business.

## 4.13 Tax Treatment

Federal or state governments may introduce further or increase tax, duties (including stamp duty on insurance policies) or other imposts or introduce amendments to existing tax legislation which may result in an adverse impact on NIB and the health insurance industry.

## 4.14 Technology

The health insurance industry relies increasingly on technology to conduct an efficient and cost effective business. NIB faces the risk, in common with other participants, that further technology changes will be required which could result in an increase in costs.

In addition, information technology systems risks include complete or partial systems failure, lack of systems capacity, inadequacy to meet changing business requirements, inappropriate or unauthorised systems access and unsuccessful systems integrations.

Any major failure or inadequacy in the information technology systems could materially affect NIB's business.

## 4.15 Litigation and legal action

At any time, NIB could be involved in civil proceedings in courts of various jurisdictions. NIB may also be exposed to litigation in the future over claims which may affect its business. Given the scope of NIB's activities and the wide range of parties it deals with, NIB may be exposed to potential litigation from customers, regulators, employees, business associates and companies.

Further, NIB has received a number of complaints from Policyholders as to the Allocation Principles applied in the Demutualisation, although that number is not significant having regard to the total number of Shares on issue. No litigation has resulted from these circumstances but that is a possible outcome.

To the extent that these risks are not covered by NIB's insurance policies, litigation or the costs of responding to these or suggested legal action could have a material adverse impact on NIB's financial position, earnings and share price.

## 4.16 Future Events

It is not possible to predict or identify all future events which may impact adversely on NIB's profitability or financial position.

# 5. GLOSSARY OF TERMS

| Term | Definition |
|---|---|
| **Allocation Principles** | The Share Allocation Rules set out in Schedule 1 to the NIB Health Funds Eligible Policyholders' Scheme in the Explanatory Statement. |
| **ASIC** | Australian Securities & Investments Commission. |
| **ASX** | Australian Securities Exchange. |
| **ATO** | Australian Taxation Office. |
| **Board** | The board of directors from time to time of the following companies in the NIB group:<br>■ NIB Health; and<br>■ NIB Holdings. |
| **Booklet** | 2008 Financial Forecast Booklet (this document). |
| **Company Member** | A company member of NIB Health. |
| **Corporations Act** | The *Corporations Act 2001* (Cth). |
| **Demutualisation/Demutualise** | The process by which NIB will convert from a company limited by guarantee to a company limited by shares and from a not-for-profit to a for-profit company. |
| **Demutualisation Date** | 1 October 2007 or such later date as determined by the Board that is at least 14 days after the Capital Reduction Resolution has been passed. |
| **Directors** | The directors of NIB from time to time. |
| **Eligible Policyholder** | The same meaning given in Section 8 of the Explanatory Statement. |
| **Explanatory Statement** | The Explanatory Statement dated 1 June 2007. |
| **Indicative Facility Price Range** | The Indicative Facility Price Range detailed in the Sale Facility Booklet as \$0.70 to \$0.90. |
| **Institutional Bookbuild** | The process conducted by J.P. Morgan Australia Limited where institutional investors will be invited to submit bids indicating the number of Shares they wish to purchase at a range of prices. |
| **Institutional Offer/Offer** | The offer by which institutions will bid for Shares. |
| **List/Listing** | The process of NIB Holdings being included on the official list of the ASX and having the Shares granted official quotation by the ASX. |
| **Listing Prospectus** | Document incorporating by reference the Explanatory Statement, 2008 Financial Forecast Booklet and the 2007 Annual Report and lodged with ASIC for the purposes of:<br>i) admission of NIB Holdings to the official list of ASX; and<br>ii) to enable on-sale of ordinary shares in NIB Holdings without the need for a disclosure document following the Listing of NIB Holdings. |
| **National Health Act** | The *National Health Act 1953* (Cth). |
| **NIB** | NIB means the NIB group generally comprising:<br>a) currently, NIB Health and all its related bodies corporate (however, where applicable may refer to NIB Holdings); and<br>b) after the Demutualisation Date, NIB Holdings, NIB Health and all of their related bodies corporate. |
| **NIB Foundation** | A trust established to provide a vehicle for charitable, community purposes in support of the health and wellbeing of the Australian community and in particular the Hunter region. |
| **NIB Health** | NIB Health Funds Limited (ACN 000 124 381). |
| **NIB Holdings** | NIB Holdings Limited (ABN 51 125 633 856). |
| **PHIAC** | Private Health Insurance Administration Council. |
| **Policy** | A policy of private health insurance issued by NIB Health. |
| **Policyholder** | A person who is insured under a Policy and is recorded by NIB as the person in whose name the Policy is held. |

# 5. GLOSSARY OF TERMS

| Term | Definition |
|---|---|
| **Private Health Insurance Act** | The *Private Health Insurance Act 2007* (Cth). |
| **Sale Facility** | The facility whereby Shareholders can sell Shares at Listing as set out in the Sale Facility Booklet. |
| **Sale Facility Booklet/Pre-Listing Share Sale Opportunity** | The booklet dated 24 September 2007 sent to Eligible Policyholders providing information to help them decide whether to sell their Shares in the Sale Facility prior to NIB Holdings Listing on ASX or to hold their Shares when NIB Holdings Lists. |
| **Schemes of Arrangement** | Schemes of arrangement between:<br>i) NIB Health and Eligible Policyholders set out in Schedule 1 to the Explanatory Statement; and<br>ii) NIB Health and Company Members set out in Schedule 2 to the Explanatory Statement. |
| **Share(s)** | Fully paid ordinary share(s) in NIB Holdings. |
| **Shareholder** | The legal owner of a Share. |
| **2007 Annual Report** | The annual report of NIB Health for the financial year ending 30 June 2007. |
| **2008 Financial Forecast Booklet** | The financial forecast of NIB for the financial year ending 30 June 2008 and the discussion of risk factors concerning NIB (this document). |

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