



PROPOSAL TO DEMUTUALISE

EXPLANATORY STATEMENT

11 JUNE 2007

NIB HEALTH FUNDS LIMITED
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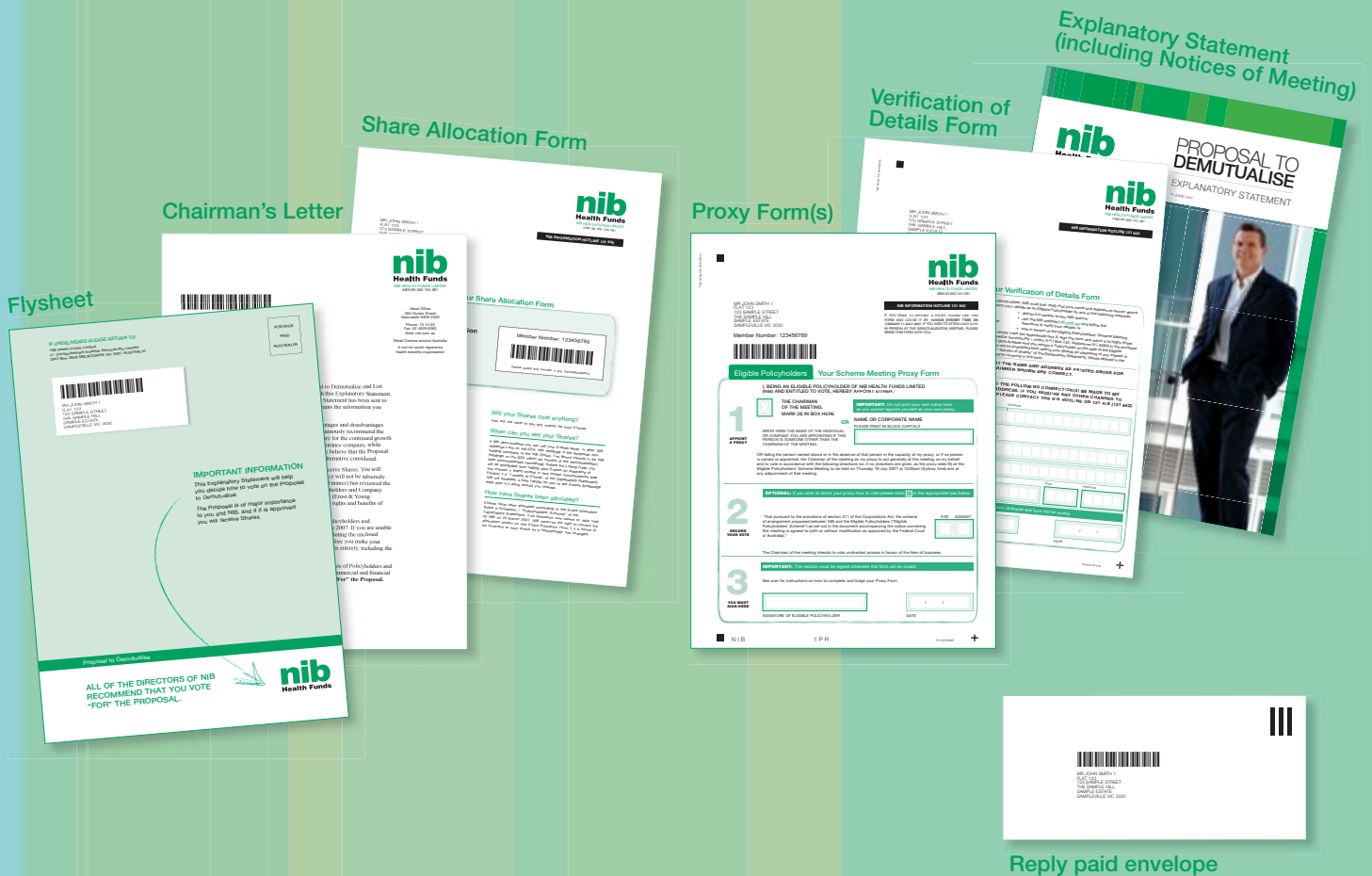
CONTENTS

1	Reasons why the Board is recommending the Proposal	8
2	The Proposal in detail	14
3	Industry overview	21
4	NIB overview	23
5	Financial information	28
6	Experts' reports	51
7	Additional information	95
8	Glossary of terms	104
9	Notices of Meeting	110
	Schedule 1 – Eligible Policyholders' Scheme	114
	Schedule 2 – Company Members' Scheme	125

PROPOSAL TO DEMUTUALISE

EXPLANATORY STATEMENT

The Proposal to Demutualise and the Notices of Meeting What you have received in this pack



Reply paid envelope

THIS EXPLANATORY STATEMENT WILL HELP YOU DECIDE HOW TO VOTE ON THE PROPOSAL TO DEMUTUALISE.

The Proposal is of major importance to you and NIB, and if it is approved, you will receive Shares.

WHAT YOU SHOULD DO

- 1** Read the Explanatory Statement (including Notices of Meeting) carefully.
- 2** If you are unable to attend the meetings, please complete the Proxy Form(s) and return by 10:00am on 17 July 2007 in the enclosed reply paid envelope or vote online at nib.com.au.
- 3** Complete the Verification of Details Form and return in the enclosed reply paid envelope or drop it into an NIB retail centre.
- 4** If you are able to attend the meetings, please exercise your right to vote at the meetings to be held on 19 July 2007.

**ALL OF THE DIRECTORS OF NIB
RECOMMEND THAT YOU VOTE
“FOR” THE PROPOSAL.**

WHAT IS THE PURPOSE OF THIS EXPLANATORY STATEMENT?

The purpose of this Explanatory Statement is to help you understand the Proposal to Demutualise and assist you in deciding whether to vote “For” or “Against” the Proposal.

You are encouraged to read this entire document carefully. Your vote is very important. You will be helping to shape the future of NIB.

What will you receive if the Proposal is approved?

Eligible Policyholders will receive Shares in NIB Holdings if the Proposal is approved.

Shareholders will be given an opportunity to sell their Shares (should they wish) prior to the ASX Listing through a Sale Facility without incurring brokerage.

Who can vote?

All Eligible Policyholders are entitled to vote (in person or by proxy) on the Eligible Policyholders’ Scheme Resolution (except those Eligible Policyholders who are under 18 years of age as at 19 July 2007). Persons who become Policyholders after the 20 March 2007 cut-off date will not be entitled to vote. The legal position surrounding your voting entitlement is uncertain. See Section 2.1. You have the right to approach the Court on the issue.

All Company Members are entitled to vote (in person or by proxy) on the Company Members’ Resolutions. All 50 Company Members are entitled to vote.

Your vote

Each Eligible Policyholder will have one vote on the Eligible Policyholders’ Scheme Resolution.

Should you vote?

The Board encourages you to vote. The Proposal is important to all Policyholders and Company Members as it will shape NIB’s future.

The Board has examined the advantages and disadvantages of, and the alternatives to, the Proposal to Demutualise.

The Board unanimously recommends that Eligible Policyholders and Company Members vote “For” each of the resolutions required to implement the Proposal.

When and where will the Demutualisation Meetings be held?

The Demutualisation Meetings will be held at the Newcastle Entertainment Centre, Broadmeadow, Australia, on Thursday 19 July 2007 commencing at 10:00am (Sydney time).

There are three meetings to be held on that day and they will be held consecutively.

Results of the vote

It is expected that the results of the vote on each resolution will be available at or very soon after each meeting has concluded. In addition, the results will be published in a major Australian newspaper.

What you need to do

- ✓ Keep your Policy current.
- ✓ Check that you have received everything.
In addition to this Explanatory Statement, you should have received:
 - the Chairman’s Letter;
 - your Verification of Details Form;
 - your Share Allocation Form;
 - your Proxy Form(s) to lodge if you cannot or choose not to attend the Demutualisation Meetings in person; and
 - a reply paid envelope for returning the Proxy Form(s) and Verification of Details Form.
- ✓ Read this Explanatory Statement carefully, including the Notices of Meeting. The Notices of Meeting are contained in this Explanatory Statement and are set out in Section 9.
- ✓ Check the number of Shares you have been allocated on your Share Allocation Form.
- ✓ Decide whether to vote “For” or “Against” the Proposal.
- ✓ Vote.
 - If you are unable to attend the Demutualisation Meetings, complete the enclosed Proxy Form(s)

and return them in the reply paid envelope so they are received no later than:

- in the case of the Eligible Policyholders’ Scheme Meeting Proxy Form, 10:00am (Sydney time) on 17 July 2007; and
- in the case of the Company Members’ Scheme Meeting Proxy Form and General Meeting Proxy Form, 11:30am (Sydney time) on 17 July 2007.
- You may also fax the Proxy Form(s) to 1300 761 986. Policyholders have one Proxy Form to complete. Company Members have three Proxy Forms to complete. Alternatively, you may vote online by visiting the NIB website (nib.com.au) and clicking on the Demutualisation link.
- If you intend to vote in person by attending the Demutualisation Meetings on 19 July 2007, bring your Share Allocation Form, Proxy Form(s) and NIB membership card to assist in registration.
- ✓ Verify your details.

In order to receive your Shares, you must verify your details. You may verify your details by any of the following methods:

- voting in person at the Demutualisation Meetings;
- completing and returning the Verification of Details Form in the reply paid envelope or by delivering it in person to any NIB retail centre (details of retail centre locations are available at the NIB website (nib.com.au));
- calling the NIB Information Hotline on 131 NIB (131 642) and verifying your details with the operator; or
- visiting the NIB website (nib.com.au) and following the directions to verify your details.

SUMMARY OF THE PROPOSAL

The Board has unanimously recommended the Proposal as being in the best interests of both Policyholders and Company Members.

What is demutualisation?

Demutualisation is a term used to describe the process by which a mutual company like NIB becomes a company owned by shareholders. Many mutual companies have successfully demutualised including IOOF Ltd and NRMA Insurance Ltd.

Overview of the Proposal to Demutualise

The Proposal involves a change to NIB's corporate and company membership structure. If the Proposal is approved, NIB will change its structure from being a mutual company limited by guarantee (which has no share capital), to a company limited by shares.

In essence, the Proposal will involve:

- ✓ Eligible Policyholders and Company Members (in their capacity as Eligible Policyholders) receiving Shares;
- ✓ the cancelling of Company Members' existing rights and obligations as Company Members; and
- ✓ NIB Holdings acquiring 100% of NIB.

If approved, the Proposal will result in Eligible Policyholders becoming Shareholders in NIB Holdings. Following Demutualisation, the Board intends to List NIB Holdings on the ASX within six months (circumstances permitting).

How will the Proposal be approved?

The following key approvals are required for the Proposal to be approved:

- ✓ Eligible Policyholders' approval of the Eligible Policyholders' Scheme Resolution;
- ✓ Company Members' approval of the Company Members' Scheme Resolution;
- ✓ Company Members' approval of the Company Members' General Meeting Resolutions;
- ✓ ASIC review and approval of this Explanatory Statement;
- ✓ Court approval of the Demutualisation Schemes; and
- ✓ Approval from the industry regulator, PHIAAC.

How will the Proposal be implemented?

If approved, the Proposal will be implemented through a series of steps. The central step is the implementation of the Demutualisation Schemes.

The Proposal requires approval by various stakeholders including Eligible Policyholders and Company Members. Approvals of each of the key steps are interconditional so that if one approval is not obtained, none of the steps will occur and Eligible Policyholders will not receive Shares.

Advantages and disadvantages of the Proposal

The Board has unanimously recommended the Proposal as being in the best interests of both Policyholders and Company Members. The following is a brief summary of what the Board considers the key advantages and disadvantages of the Proposal and the intended Listing. You should review the detailed description of the advantages and disadvantages as set out in Sections 1.4 and 1.5.

Advantages

- ✓ Eligible Policyholders can share in the value that is currently locked within NIB through the receipt of Shares
- ✓ Demutualisation and the intended Listing should enhance NIB's strategic and capital flexibility and improve the prospects of NIB participating in mergers, takeovers and other corporate transactions, which may deliver significant benefits to Policyholders, Shareholders and NIB
- ✓ More value will be delivered to Eligible Policyholders under the Proposal and NIB will be in a stronger capital position than under any of the alternatives considered, including returning NIB's surplus capital in the form of reduced premiums and/or increased benefits.

Disadvantages

- ✓ NIB will no longer be an income tax exempt entity
- ✓ There are costs associated with the Proposal and becoming a listed public company
- ✓ Shareholders may have competing interests with those of Policyholders, particularly if the number of Shareholders who are not Policyholders increases over time.

The Board believes that the advantages of the Proposal and intended Listing significantly outweigh any disadvantages. Refer to Section 1 for more detail.

Will the Proposal affect your Policy and benefits?

Your rights and benefits under your Policy will not be adversely affected by this Proposal.

The Shares received by Eligible Policyholders will be in addition to their existing rights and benefits as Policyholders.

Any Policies you hold will continue to be protected by regulatory safeguards, including under the Private Health Insurance Act. These safeguards are overseen by the Department of Health and Ageing and PHIAC. Importantly, any change in NIB's premium rates requires the approval of the Minister of Health and Ageing.

The Board believes that the Proposal will not have an adverse effect on NIB health insurance premiums. The actuarial practices which are employed in relation to Policy pricing will not change as a result of the Proposal. Furthermore, NIB will continue to face strong competition from its competitors and any continued rise in premiums beyond industry norms would not be commercially sustainable or desirable from the perspective of Policyholders or Shareholders.

The Appointed Actuary and the Independent Financial Expert have both reviewed the Proposal and concluded that it does not adversely affect the rights and benefits of Policyholders. The Consulting Actuary has also reviewed the Proposal and concluded that it does not have an adverse effect on the reasonable benefit expectations of Policyholders.

SUMMARY OF THE PROPOSAL CONT.

Has the Proposal been independently reviewed?

The Proposal has been developed by NIB in consultation with a range of external experts. The reports of the Investigating Accountant, the Appointed Actuary and the Consulting Actuary are presented in Sections 5 and 6.

In addition, the Proposal has been subject to review by the Independent Financial Expert. The Independent Financial Expert's Report is also presented in Section 6 and concludes that the Proposal is in the best interests of Policyholders and Company Members as a whole.

What does it mean to receive Shares?

If the Proposal is approved and you are issued with Shares as an Eligible Policyholder, you will become a Shareholder in NIB Holdings. As set out in Section 2, it is anticipated that NIB Holdings will be Listed on the ASX and the Shares will be traded on that market.

Should NIB Holdings List as intended, the Board plans to establish a Sale Facility that will allow Shareholders to dispose of their Shares prior to Listing without incurring brokerage. Further information regarding the Sale Facility (including the price you will receive if you choose to participate) will be released closer to Listing.

Following Listing, if you have chosen to continue to hold your Shares, you will be eligible to receive any dividends paid or other distributions made by NIB Holdings in respect of the Shares. Alternatively, you may choose to sell some or all of your Shares on the ASX at the prevailing market price.

Prior to Listing, you will not be able to sell or otherwise deal with your Shares except in limited circumstances. Refer to Section 2.1 under the sub-heading "What happens if Listing does not occur?" for more information. Further, it is not anticipated that any dividends or other distributions will be paid by NIB Holdings prior to Listing.

Will you have to pay money to receive Shares?

Eligible Policyholders will not have to pay any money to receive Shares allocated to them in accordance with the Share Allocation Rules.

Employees and Company Members will be offered a Priority Allocation to purchase Shares prior to Listing.

How many Shares will Eligible Policyholders receive?

If the Proposal is approved and you are an Eligible Policyholder, the number of Shares you will be allocated is displayed on your Share Allocation Form. NIB reserves the right to correct the allocation of Shares shown on your Share Allocation Form if it is found to be incorrect.

The basis for determining the Share Allocation for Eligible Policyholders is outlined in Section 2. That allocation is based on the type of Policy held on 20 March 2007. If you wish to have the number of Shares you receive reviewed, please refer to clause 9 of the Eligible Policyholders' Scheme (refer to Schedule 1 of this Explanatory Statement).

If you have any questions about the number of Shares allocated to you, please check the Share Allocation Rules in the Eligible Policyholders' Scheme (refer to Schedule 1 of this Explanatory Statement) and then call the NIB Information Hotline on 131 NIB (131 642) if you have any further questions.

Share value

The Proposal will provide Eligible Policyholders with Shares.

The value of the Shares will reflect:

- ✓ the value of the NIB Group in its entirety including NIB's capital, anticipated future profits and goodwill. Goodwill includes NIB's brand, customer loyalty, distribution network and Employees; and
- ✓ any premium or discount which the share market may place on the value of the Shares following Listing.

Prior to Listing, it will be very difficult to place a value on the Shares as there will be no market for them. On Listing, a value will be placed on the Shares by the market through trading on the ASX.

Listing on the ASX

If the Proposal is approved, the Board intends to apply for Listing and quotation of the Shares on the ASX within six months of the Demutualisation Meetings (circumstances permitting).

It is important that you understand that although it is the Board's current intention to List on the ASX, there is no guarantee that Listing will occur.

Further information concerning the consequences if NIB Holdings does not List is set out in Section 2.1 under the sub-heading "What happens if Listing does not occur?"

What if you do not want to hold Shares?

Should NIB Holdings List as intended, the Board plans to establish a Sale Facility that will allow Shareholders to dispose of their Shares prior to Listing without incurring brokerage. Further information regarding the Sale Facility (including the price you will receive if you choose to participate) will be released closer to Listing.

Alternatively, you may choose to sell some or all of your Shares on the ASX at the prevailing market price following Listing.

Who are Eligible Policyholders?

You are an Eligible Policyholder and therefore eligible to receive Shares if you are a person who:

- ✓ was a Policyholder on 20 March 2007 (the day prior to the announcement of the Proposal) and you remain a Policyholder on the date of the Eligible Policyholders' Scheme Meeting; or
- ✓ becomes a Policyholder in respect of an existing Policy, in substitution for the previous Policyholder, between 20 March 2007 and the date of the Eligible Policyholders' Scheme Meeting, and:
 - the previous Policyholder was a Policyholder on 20 March 2007; and
 - the new Policyholder remains a Policyholder on the date of the Eligible Policyholders' Scheme Meeting.

Who are Company Members?

Company Members are members of NIB. The current Constitution of NIB provides that there can only be between 35 and 50 Company Members. As at the date of this Explanatory Statement, there were 50 Company Members.

Company Membership Rights include the right to receive notices of meetings and corporate governance materials and reports such as the Annual Report, and to vote at meetings of Company Members. Company Membership is not transferable and Company Members do not have any interest or property rights in the assets or profits of NIB.

Establishment of the NIB Foundation

If the Proposal is implemented and the intended Listing occurs, a new charitable foundation to be known as the NIB Foundation will be established. Funds from the NIB Foundation will be used to offer support to the health and wellbeing of the Australian community and in particular the Hunter region.

If the Proposal is not approved, the Board will not establish the NIB Foundation due to the funding mechanism, being the issue of new Shares as part of the Listing process, not being available.

Further details regarding the NIB Foundation are set out in Section 7.6.

PHIAC approval

The Private Health Insurance Act commenced on 1 April 2007. Under the Act, NIB is required to seek PHIAC approval to convert to being registered as a for-profit insurer. PHIAC approval is a condition to the implementation of the Proposal.

1 REASONS WHY THE BOARD IS RECOMMENDING THE PROPOSAL

1.1 NIB's history and strategic objectives

NIB is a not-for-profit organisation that was incorporated in 1953. The health fund started operations at BHP's Newcastle steelworks as Newcastle Industrial Benefits Hospital Fund and is now Australia's sixth largest private health insurance provider, providing private health insurance cover to approximately 670,000 people. NIB is currently a mutual company with no share capital or shareholders.

Historically, a mutual company structure has been employed by those in pursuit of a common objective. A mutual company is generally owned by its members and provides services to its members. The objective of NIB's founders was to provide employees of BHP's Newcastle steelworks and their families with security in times of illness and injury. Since it was established, NIB has evolved to provide services to a far broader customer base. NIB has expanded its platform to become a market-leading private health insurance provider and now focuses on a broader set of objectives, primarily the best-practice provision of private health insurance throughout Australia.

NIB's vision is to have a more significant market share, particularly in the under 40 segment of the private health insurance market in Australia. In financial year 2006, 34.5% of the industry growth in hospital cover was comprised of those aged 20 to 39 and there remain about four million Australians in the same age group without cover. Attracting younger policyholders enables NIB to maintain price competitiveness and offer products which provide value for money.

Following an extensive examination of a number of options, initiated almost two years ago, the Board has determined that the Demutualisation and Listing are the most appropriate strategy to support NIB's ongoing sustainability and future growth. In reviewing alternative strategies for NIB's future, the Board's principal focus was to maximise value for Eligible Policyholders, whilst ensuring protection of Policyholder interests.

The Board is convinced that the Proposal will deliver value to Eligible Policyholders (including Company Members). In addition, the Board aspires to NIB becoming a truly national business and brand that offers even better, more innovative products and services to its Policyholders and believes that the Proposal will provide the strategic flexibility required to achieve these goals.

1.2 Directors' recommendation to vote "For" the Proposal

Following detailed examination of the advantages and disadvantages of the Proposal, as well as the alternatives, the Board unanimously agrees that:

- ✓ NIB should Demutualise;
- ✓ the Proposal:
 - is in the best interests of Policyholders and Company Members as a whole;
 - protects the interests of Policyholders;
 - unlocks value greater than the alternatives considered, including returning surplus capital through reduced premiums and/or increased benefits;
 - provides NIB with the most appropriate structure to sustain and grow its business in the coming years; and
 - results in an equitable distribution of financial benefits.

The Board unanimously recommends that Eligible Policyholders and Company Members vote "For" each of the resolutions required to implement the Proposal.

1.3 Reasons why NIB should change from its current mutual structure

In formulating the decision to recommend the Proposal to Policyholders and Company Members, the Board focused on four key issues:

- ✓ structural changes in the private health insurance industry;
- ✓ desire to maximise value for Eligible Policyholders (including Company Members);
- ✓ NIB's business strategy and the potential need for additional capital; and
- ✓ optimisation of NIB's corporate structure.

A review of the advantages and disadvantages of the Proposal as well as the Board's key focus areas is outlined below.

Structural changes in the private health insurance industry

The Australian private health insurance industry is rapidly evolving. Despite the relatively high level of regulation, the environment in which NIB operates is particularly challenging and dynamic.

In recent years, a number of trends have emerged which have shaped the industry's current position and outlook:

- ✓ the cost of health care has risen significantly due to increased demand and advances in technology and treatment, leading to a large increase in benefit payments;
- ✓ the level of regulation has remained high, with health funds facing ongoing pricing restrictions; and
- ✓ the number of people with private health cover has increased as a result of the introduction of Lifetime Health Cover and the Federal Government Rebate.

The increasing costs of health insurance as well as limitations on pricing flexibility have increased the need for NIB to improve the efficiency of its corporate and capital structure.

Further, the need for NIB to enhance its strategic and capital flexibility is being driven by:

- ✓ anticipated health insurance industry consolidation;
- ✓ convergence in product offerings as financial services companies attempt to leverage their distribution networks; and
- ✓ the desire to optimise its corporate structure.

Desire to maximise value for Eligible Policyholders (including Company Members)

In reviewing options for NIB's future, the Board's principal focus has been on delivering Eligible Policyholders (including Company Members) the most value. Under the existing structure, NIB can only distribute value to Policyholders through reduced premiums and/or increased benefits. However, the value that can be distributed in this way is limited due to the need to retain capital for regulatory purposes. In contrast, the Demutualisation and Listing should provide the opportunity to deliver additional value as Shares will reflect the total underlying value of NIB, not just NIB's surplus capital.

NIB's business strategy and the potential need for additional capital

NIB's fundamental business strategy is to grow the business. Growth is good for NIB and Policyholders in so far as it improves NIB's risk profile, spreads fixed business costs over more Policies and brings together additional resources to invest in new and improved services.

In order to grow, NIB is investing heavily in brand building and marketing, especially in Sydney, Melbourne and Brisbane. NIB would also consider acquisitions to support growth. NIB views the youth market as having particular potential. NIB's strength lies in its brand, competitive pricing, product innovation and service.

Whilst NIB may not require additional capital to achieve its organic growth targets, the Demutualisation and intended Listing will provide NIB with access to capital markets that may facilitate further growth through mergers or acquisitions.

Optimisation of NIB's corporate structure

Given the structural changes facing the health insurance industry and the strategy NIB has developed in response to these developments, the Board believes that the existing corporate structure of NIB is no longer optimal for the following reasons:

- ✓ NIB does not have the ability to raise capital by accessing equity markets, limiting its ability to purchase other businesses and take part in industry rationalisation;

- ✓ the lack of share capital and the inability to return surplus earnings are constraints on efficient use of capital; and
- ✓ there is no scope to better align Employee interests with NIB's through Share participation.

The Board is convinced that the Demutualisation and intended Listing will assist in resolving these limitations and takes comfort from the success of precedent demutualisations.

Why Demutualise now?

The Board believes that NIB should not delay in responding to the structural changes facing the Australian private health insurance industry.

The additional flexibility that NIB will achieve through the Demutualisation and intended Listing should allow NIB to adapt to change. The Board has also carefully considered the manner in which Eligible Policyholders should benefit from NIB's growing capital base. The Board believes that Demutualisation and Listing are the most appropriate method to unlock the value of NIB for Eligible Policyholders (including Company Members), given the build up in reserves and the expectation that this will continue in the future.

If the Proposal is implemented, it will establish the platform for NIB's continued growth and success in an increasingly competitive environment.

1.4 Advantages of the Proposal

The Board believes that, if approved, the Demutualisation and intended Listing should deliver the following advantages:

Unlock the value of NIB for Eligible Policyholders (including Company Members)

If the Proposal is implemented, Eligible Policyholders can share in the value that is currently trapped within NIB through any dividends, distributions and the sale of their Shares. Subject to Listing, the Shares will have a market value reflecting NIB's underlying value including its capital, anticipated future profits and goodwill and any premium or discount which the share market may place on the value of NIB's operations.

The Board is satisfied that the Share Allocation Rules, which were based on a recommendation by the Consulting Actuary and supported by the Independent Financial Expert, provide an equitable basis for allocating the value of NIB among Eligible Policyholders (including Company Members).

The Share Allocation Rules are set out in the Eligible Policyholders' Scheme in Schedule 1 of this Explanatory Statement.

Increase strategic and capital flexibility

If the Proposal is implemented and the intended Listing occurs, NIB Holdings will have the ability to access equity markets

REASONS WHY THE BOARD IS RECOMMENDING THE PROPOSAL CONT.

as well as an increase in its access to debt markets, thereby providing NIB Holdings with greater flexibility to respond quickly and effectively to value-enhancing corporate activity. This includes mergers, takeovers and other corporate transactions.

The Board believes this increased flexibility will improve NIB's competitive position in any consolidation of the Australian private health insurance industry.

In addition, access to capital and the new corporate structure will allow NIB to more efficiently investigate business opportunities outside of private health insurance.

Delivers more value than alternatives and protects capital strength

The Board believes that the Demutualisation and intended Listing deliver more value than the alternative strategies considered. The Shares will reflect the total underlying value of NIB. Alternative strategies such as the return of surplus capital through lower premiums and/or increased benefits will result in less value released to Eligible Policyholders and favour future Policyholders rather than those who have contributed to NIB's current value.

The Board considers that it would be inequitable to effectively reward future Policyholders with lower premiums and/or increased benefits using the retained earnings built up by existing Policyholders.

Separation of Shareholder and Policyholder rights

Under the Proposal, Eligible Policyholders' interests as Shareholders of NIB Holdings will be separated from their contractual interests as Policyholders. The Board believes this is very important as NIB is currently investing significantly in its brand and expanding its business. If the Proposal is implemented and NIB Holdings Lists, Eligible Policyholders will have the option to continue as Shareholders and potentially benefit through any dividends and capital growth, or simply remain Policyholders by selling Shares for cash.

Optimisation of corporate structure

The establishment of NIB Holdings will enable NIB to more efficiently and effectively manage its regulatory capital, whilst pursuing its growth objectives. In particular, to the extent that NIB may establish new subsidiaries to offer non-health insurance products, the new company structure should enable these to operate in accordance with the regulation applicable to the type of products offered and therefore not impact on the capital base of NIB.

Board and management accountability

Although NIB's management team and Board have a strong track record of financial performance and market share growth, the Demutualisation and intended Listing will provide Shareholders with a direct financial interest in NIB Holdings' performance, creating additional discipline and accountability.

Further, if Listing occurs, NIB's management team and Board will face increased market scrutiny in the form of research analysts and potential investors who do not currently scrutinise NIB's performance.

Establishment of the NIB Foundation

If the Listing occurs, the NIB Group will establish the NIB Foundation, a not-for-profit charitable foundation to support the health and wellbeing of the Australian community and in particular the Hunter region. If the Listing occurs, the NIB Group will donate \$25 million to the NIB Foundation which will be funded by the issue of new Shares and will therefore not impact NIB's capital adequacy or solvency position.

Further detail on the NIB Foundation is presented in Section 7.6.

Alignment of Employee incentives

If the Proposal is implemented, an Employee share plan or an Employee option plan may be established. Providing Employees with a direct ownership interest will enable NIB to better attract, retain and incentivise its Employees.

1.5 Disadvantages of the Proposal and Board response

The Board believes the potential disadvantages of the Proposal are as set out below. In each case, the Board has commented on its view on the potential disadvantage.

NIB will no longer be income tax exempt

Disadvantage: converting to for-profit status will result in NIB losing its status as an income tax exempt entity. This may lead to a reduction in the rate at which reserves accumulate.

Board response: while it is true that NIB would no longer be an income tax exempt entity, the additional capital that NIB will have access to following Demutualisation may fund growth and earnings beyond that which it may otherwise have been able to achieve, thereby offsetting the impact of tax. Furthermore, tax leakage will be limited at the individual Shareholder level as a result of NIB Holdings' expected ability to pay a level of franked dividends.

There are costs associated with being a listed public company

Disadvantage: Listing and maintaining a share register will involve unavoidable expense.

Board response: while there is a cost associated with Listing and maintaining a share register, the Board believes that the value being released to Eligible Policyholders (including Company Members) through the Proposal will outweigh the costs associated with the Demutualisation process and any costs associated with being a listed company.

Shareholders may have competing interests with those of Policyholders

Disadvantage: in the future, Shareholders may have competing interests with those of Policyholders, particularly as the number of Shareholders who are not Policyholders may increase over time.

Board response: the Board is aware of the potential for competing interests between Shareholders and Policyholders. However, the Board believes that your interest as a Policyholder will be protected in several ways. With respect to the security of Policyholder benefits, NIB currently holds and expects to continue to hold capital over and above that required by the Private Health Insurance Act. Your Policy or Policies will continue to be protected by regulatory safeguards, including the requirements of the Private Health Insurance Act. In addition, both the Appointed Actuary and the Consulting Actuary have reviewed the Proposal and concluded that your Policy benefits will remain adequately secure.

The Board believes that the Proposal will not have an adverse effect on health insurance premiums. This issue is addressed directly in Section 1.6.

In addition, the long-term interests of Shareholders ultimately depend upon NIB satisfying the needs and expectations of Policyholders.

Potential taxation and social security implications

Disadvantage: if you become a Shareholder, you will be entitled to any dividends paid or distributions made by NIB Holdings. In addition, if you decide to dispose of your Shares, you may realise a capital gain. This may cause you to pay more tax because you will have greater income. The Proposal may also cause your entitlement to pensions or other social security benefits (or those of your dependants) to be diminished because you have greater assessable income or assets.

Board response: while some Eligible Policyholders may have to pay additional tax on income arising under the Proposal, the Board believes that the benefits to Eligible Policyholders from the receipt of Shares will outweigh any possible tax implications that may arise. The Board also recognises that Eligible Policyholders who receive a social security entitlement may be affected. The Board recommends that Eligible Policyholders carefully review the Proposal's potential impact on their personal circumstances against the potential benefits they may receive under the Proposal.

Further detail on the potential social security implications of the Proposal is provided in Section 2.3 under the sub-heading "What is the social security impact on Eligible Policyholders?"

1.6 Other considerations for Policyholders and Company Members

Impact of the Proposal on NIB health insurance premiums

Consideration: some Policyholders and Company Members may be concerned that the Proposal may have an adverse effect on NIB health insurance premiums.

Board response: the Board believes that the Proposal will not have an adverse effect on NIB health insurance premiums. The actuarial practices which are employed in relation to pricing are not being changed under the Proposal. Further, NIB will continue to face strong competition from peers and any continued rise in premiums on comparable products beyond that of its peers would neither be commercially sustainable nor desirable from the point of view of Policyholders or Shareholders. Finally, any change in NIB's premium rates requires the approval of the Minister of Health and Ageing.

The Appointed Actuary and the Consulting Actuary have both reviewed the Proposal and support the Board's view that the Proposal will not adversely affect premium rates.

Uncertainty of Listing and the value of Shares

Consideration: although the Board intends to List within six months of the date of the Demutualisation Meetings, it cannot guarantee when or if Listing will occur.

Further, the value of Shares cannot be predicted with certainty and will not be known until Listing, as the value will be determined by the market. However, in determining the market value of Shares, investors are likely to consider the value of NIB's capital, anticipated future profits and goodwill.

Board response: if the Proposal is implemented, the Board intends to List within six months of the Demutualisation Meetings. The Board will use its reasonable endeavours to ensure a Listing as soon as is practicable following the implementation of the Proposal and, based on current circumstances, believes that a Listing within the proposed timeframe is likely.

Share Allocation Rules

Consideration: some Policyholders and Company Members may consider the Share Allocation Rules not fair and reasonable.

Board response: the Board believes that the Share Allocation Rules provide a fair, reasonable and equitable basis for allocating Shares. The Share Allocation Rules recognise that the majority of NIB's reserves have been contributed by Eligible Policyholders and the Board believes they are entitled to receive Shares. The Share Allocation Rules have been based on a recommendation by the Consulting Actuary and are supported by the Independent Financial Expert who

REASONS WHY THE BOARD IS RECOMMENDING THE PROPOSAL CONT.

has concluded that the Share Allocation Rules provide an equitable basis for allocating the value of NIB.

Increased exposure to an unsolicited takeover

Consideration: under NIB's existing corporate structure, it would be difficult for an individual or company to acquire control of NIB without the support of the Board and a majority of the Company Members. If the Proposal is implemented, NIB would be more exposed to the possibility of an unsolicited takeover as it would become a company limited by shares. The potential for an unsolicited takeover would increase if and when Listing occurs.

Board response: the Board has carefully considered the issue of control of NIB following Demutualisation and intended Listing.

If the Proposal is implemented, NIB Holdings' exposure to takeover will be greater. However, no takeover of NIB Holdings will be able to succeed without the broad support of Shareholders.

You may believe there is no need for NIB to change its corporate structure

Consideration: some Policyholders and Company Members may consider that NIB has performed well as a mutual and that there is no reason to change its corporate structure.

Board response: in recent years, NIB has performed well, continued to expand its presence, and broadened its product offering. However, the Board believes that the continued structural change in the private health insurance industry (including the potential privatisation and listing of Medibank Private and the potential demutualisation and listing of other health funds) means that NIB must position itself for continued sustainability and growth. NIB's corporate and capital structure must allow it to be responsive to growth opportunities.

In addition, the current mutual structure does not allow Eligible Policyholders to share in NIB's value through holding Shares.

Diminished influence of existing Company Members

Consideration: under the Proposal, Company Members will have their existing membership rights in NIB cancelled. On both an individual and collective basis, the ability of the existing Company Members to appoint directors or change the constitution will be diminished.

Board response: in agreeing to have their existing membership rights cancelled, Company Members will receive Shares by virtue of also being Eligible Policyholders. The rights of Shareholders are in addition to their contractual rights as Policyholders and include several rights that Company Members do not have including the right to receive dividends, the right to assets in the event of winding up and the right to transfer ownership.

1.7 Alternatives considered by the Board

Before recommending the Proposal to Eligible Policyholders and Company Members, the Board completed an extensive review of alternatives to the Proposal over almost two years. A review of these alternatives is outlined below. The Board believes that none of these alternatives (or combinations of alternatives) provides a better outcome for Eligible Policyholders and Company Members as a whole.

No change

NIB could continue to operate as a mutual company. However, the Board believes that remaining a mutual company would not be in the best interests of Policyholders and Company Members because:

- ✓ NIB cannot pay dividends or distribute capital to Eligible Policyholders;
- ✓ the mutual company structure limits NIB's ability to respond rapidly and effectively to industry developments and to raise capital; and
- ✓ the mutual company structure limits NIB's ability to manage capital efficiently.

Return NIB's surplus capital to Policyholders through lower premiums and/or increased benefits

The Board considered the option of returning NIB's current surplus capital to its Policyholders over a number of years via lower premiums and/or increased benefits. Under this alternative:

- ✓ a significant amount of operational and regulatory risk would potentially result as NIB would erode its capital base and have limited access to additional capital (should it be required) as it would remain a mutual company;
- ✓ the value released to Policyholders would be less because of NIB's need to preserve capital for regulatory purposes; and
- ✓ any distributions would be spread over a number of years and would be reduced as a result of being shared with new Policyholders.

In addition, the Board believes the value of Shares will reflect the total underlying value of NIB, not just its surplus capital.

Sale of NIB

In the Board's opinion, there is no clear and present opportunity to sell NIB which would create benefits for Eligible Policyholders in excess of those likely to be created under the Proposal to Demutualise.

1.8 Consequences of the Proposal not being approved

If the Proposal is not approved:

- ✓ Eligible Policyholders will not receive any Shares;
- ✓ NIB will remain a mutual not-for-profit health insurance company;
- ✓ no Priority Allocation of Shares will be made to Employees or Company Members;
- ✓ none of the steps set out in Section 2.1 will occur;
- ✓ NIB Holdings will not apply for Listing;
- ✓ NIB will have incurred costs;
- ✓ the Board will not establish the NIB Foundation due to the funding mechanism, being the issue of new Shares as part of the Listing process, not being available; and
- ✓ the Board may need to consider developing another proposal, which will involve additional cost.

2 THE PROPOSAL IN DETAIL

2.1 Overview of the Proposal

What are the existing rights of Policyholders and Company Members?

Policyholders

Policyholders have contractual rights to benefits that they are entitled to in accordance with the terms of their Policy. Depending on the type of Policy that is held, Policyholders can be covered for ambulance costs, reimbursement towards costs of services not covered by Medicare including dental, optical, physiotherapy and natural therapies, and some or all of the cost of going to hospital for certain procedures.

Details of your responsibilities as a Policyholder and what you are covered for under your Policy are available by visiting the members' area of the NIB website (nib.com.au).

Company Members

Broadly speaking, the 50 Company Members have the following rights:

- ✓ contractual rights through their Policies, as the current Constitution of NIB provides that a Company Member must also be a Policyholder; and
- ✓ Company Membership Rights, which are founded in the Constitution of NIB and also protected and regulated by relevant legislation (including the Corporations Act). Company Membership Rights primarily include the right to attend NIB's general meetings and the right to speak, vote and appoint a proxy to vote at these meetings. Each Company Member has one vote at these meetings. Company Members can exercise this right collectively to appoint Directors and amend the Constitution of NIB. On a winding up of NIB, Company Members also have the right to nominate a successor institution to NIB with similar not-for-profit objectives to those of NIB to receive its remaining assets.

Importantly, Company Membership Rights are not transferable and Company Members do not share in the profits or assets of NIB.

Required approvals

Policyholders and Company Members will be asked to vote on the following resolutions in order for the Proposal to be implemented:

- ✓ Eligible Policyholders' Scheme Meeting – Eligible Policyholders to approve the Eligible Policyholders' Scheme (this requires approval by at least 75% of the Eligible Policyholders present and voting in person or by proxy), each Eligible Policyholder having one vote with a value of \$1.00. This value does not reflect the value of any Shares you will receive if the Proposal is successful;
- ✓ Company Members' Scheme Meeting – Company Members to approve the Company Members' Scheme

(this requires approval by the majority in number of the Company Members present and voting in person or by proxy);

- ✓ Company Members' General Meeting – Company Members to approve:
 - the conversion of NIB from a company limited by guarantee to a company limited by shares in accordance with Part 2B.7 of the Corporations Act (this requires approval by at least 75% in number of the Company Members present and voting in person or by proxy); and
 - the replacement of the current Constitution of NIB in accordance with section 136 of the Corporations Act (this requires approval by at least 75% in number of the Company Members present and voting in person or by proxy).

All of these approvals are interconditional so that if one approval is not obtained, the Proposal will not be implemented and Eligible Policyholders will not receive Shares.

For the purposes of the Eligible Policyholders' Scheme Meeting, Eligible Policyholders are considered to be creditors or contingent creditors of NIB on the basis Eligible Policyholders may have accrued entitlements for health benefit payments and would have the right to make claims against NIB if a valid claim under their Policy was not paid.

At the Eligible Policyholders' Scheme Meeting, voting is calculated based on 75% of the total amount of the debts and claims of the Eligible Policyholders as creditors or contingent creditors of NIB. The value of those debts and claims for each Eligible Policyholder are extremely uncertain.

In view of that extreme uncertainty, and in the interests of simplicity, it is proposed that each Eligible Policyholder will be treated as having one vote with a value of \$1.00 at the Eligible Policyholders' Scheme Meeting. This value does not reflect the value of any Shares you will receive if the Proposal is successful. Detailed records will be kept of the voting at the Eligible Policyholders' Scheme Meeting. If any Eligible Policyholder disagrees with this method of determining the value of the debts and claims of Eligible Policyholders, they will be free to approach the Court at the time of the final court approval to make submissions on this issue to the Court.

The date of the Court hearing for the final Court approval will be advertised in a major Australian newspaper prior to the hearing. A Court order under subsections 411(1) and 411(1A) of the Corporations Act is not an endorsement of, or any other expression of opinion on, the Demutualisation Schemes.

NIB has also sought a Class Ruling from the ATO in respect of the taxation treatment for Eligible Policyholders and a Private Ruling in respect of the taxation treatment for NIB itself. It is expected that these rulings will be received prior to the Demutualisation Meetings.

Implementation steps

If all approvals are obtained, the Proposal will be effected through the following:

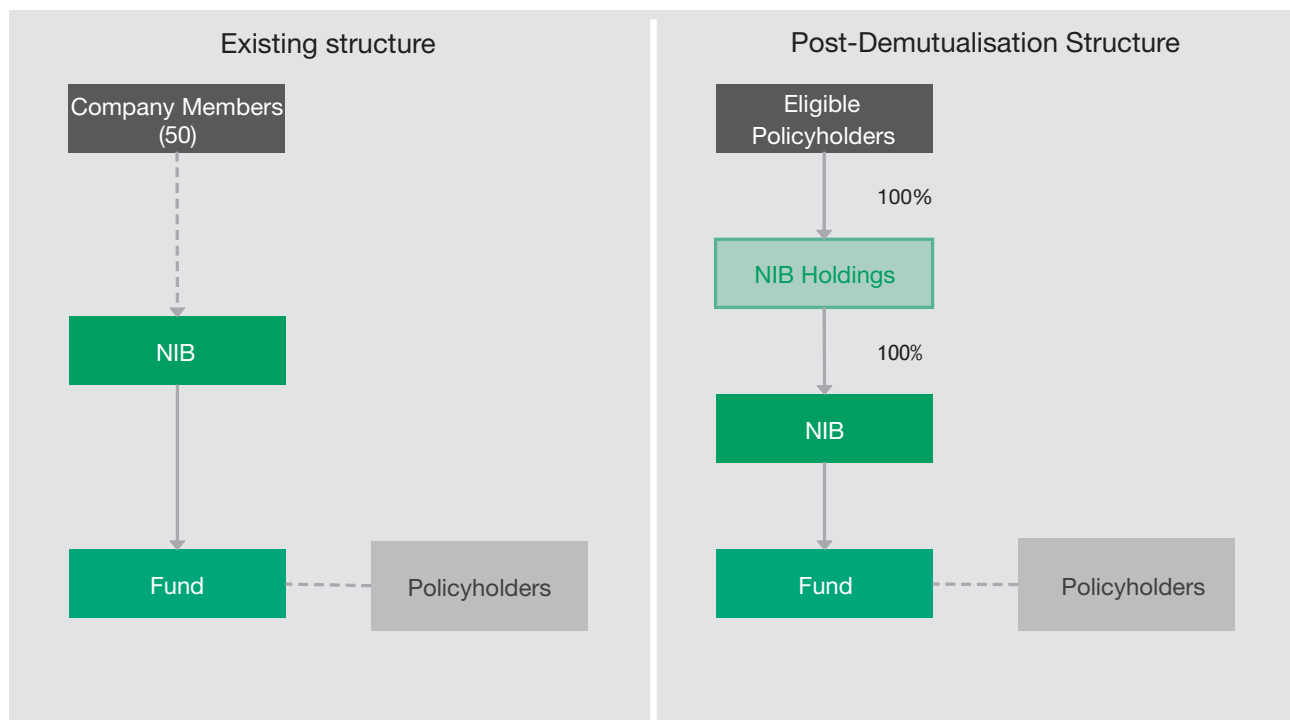
1. NIB converts from a company limited by guarantee to a company limited by Shares and NIB issues Shares to Eligible Policyholders;
2. NIB issues Shares to NIB Holdings;
3. NIB cancels the Shares it has issued to the Eligible Policyholders (the Shares NIB has issued to NIB Holdings are not cancelled) and NIB Holdings becomes the parent company of NIB; and
4. NIB Holdings issues the same number of Shares as cancelled in step 3 to Eligible Policyholders.

Steps 1 and 2 are intended to occur on the same day. Steps 3 and 4 are intended to occur on the same day, but on a subsequent day to steps 1 and 2.

Following these steps, NIB Holdings will be the holding company of NIB.

Exhibit 2.1

NIB pre and post-Demutualisation



THE PROPOSAL IN DETAIL CONT.

Timing

If approved, it is expected that the Proposal will be implemented on or around 1 October 2007. Listing is expected to occur after that.

What does Listing on the ASX involve?

Listing on the ASX involves the issue of a disclosure document and application to the ASX for Listing and quotation of the Shares.

The Board intends to List within six months of the Demutualisation Meetings (circumstances permitting). The process of Listing will be likely to require NIB to prepare a prospectus and comply with various other regulatory preconditions to Listing. The Board will also have regard to market conditions in making a final decision as to the timing of Listing. It is for these reasons that the Board has provided a six month estimate of the likely timing of Listing.

The Board intends to establish a Sale Facility for Shareholders on Listing, allowing Shareholders (should they wish) to sell their Shares and receive cash if they do not wish to continue as a Shareholder following Listing. No brokerage will be payable under the Sale Facility. Further information regarding the Sale Facility (including the price you will receive if you choose to participate) will be released closer to Listing.

Employees and Company Members will have the opportunity to purchase Shares through a Priority Allocation prior to Listing.

What happens if Listing does not occur?

If NIB Holdings does not List within the timeframe contemplated, the Board would continue to explore ways for the Listing to occur. If there is a continued inability for NIB Holdings to List on the ASX, the Board will look for other ways of providing liquidity. The terms of the Shares provide that the Shares are not transferable prior to Listing except in certain limited circumstances and subject to the Board not deciding that it releases all Shares from the transfer restrictions.

If the Board was to permit transfer of the Shares without Listing, certain legal impediments may exist under the Corporations Act for subsequent transfers. The Board does not currently consider this to be a likely outcome of the Demutualisation process. However, if those circumstances were to arise, the Board would provide further guidance on these restrictions to the Eligible Policyholders at that time.

2.2 Effect of the Proposal on Policyholders, Company Members and other stakeholders

How will Policyholders be affected?

If you are a Policyholder and the Proposal is implemented, your rights and benefits under your Policy will not be adversely affected.

In addition, if you are a person who:

- ✓ was a Policyholder on 20 March 2007 (the day prior to the announcement of the Proposal) and you remain a Policyholder on the date of the Eligible Policyholders' Scheme Meeting; or
- ✓ becomes a Policyholder in respect of an existing Policy, in substitution for the previous Policyholder, between 20 March 2007 and the date of the Eligible Policyholders' Scheme Meeting; and
 - the previous Policyholder was a Policyholder on 20 March 2007, and
 - the new Policyholder remains a Policyholder on the date of the Eligible Policyholders' Scheme Meeting,

you will be eligible to receive Shares. You will receive these Shares in addition to the rights you have as a Policyholder. If you became a Policyholder after 20 March 2007, you will not receive Shares.

Will your Policy change?

The Board is satisfied that the benefits provided to you under your Policy will remain adequately secure. All Policyholders will retain any Policies they hold. The contractual rights of Policyholders will not be altered because the Proposal is implemented.

Under the Proposal, there will be no reduction in NIB's capital base, ensuring that NIB will retain capital in excess of the capital adequacy requirement set by PHIAC.

If the Proposal is implemented, your Policy will continue to be subject to the Australian health insurance regulatory safeguards which exist under the Private Health Insurance Act. These safeguards are designed to protect the financial strength of health funds and are regulated by the Department of Health and Ageing and PHIAC.

The Appointed Actuary, the Consulting Actuary and the Independent Financial Expert have reviewed the Proposal. They have all concluded (within the scope of their reviews) that the Proposal maintains adequate security for Policyholders.

How will Company Members be impacted?

If you are a Company Member and the Proposal is implemented, you will retain your Policy and your rights and benefits under your Policy will be unaffected. If you are an Eligible Policyholder, you will receive Shares. You will cease to be a Company Member and your Company Membership Rights will be cancelled.

No additional allocation of Shares will be made to Company Members beyond their participation as Eligible Policyholders. NIB believes that there would have been issues under the Private Health Insurance Act if it had sought to do so.

Company Members will have the opportunity to purchase additional Shares prior to Listing through a Priority Allocation.

If the unlikely event that NIB does not List, you may be unable to realise or have difficulty realising value for your Shares. If this were to occur, NIB would present a proposal to Shareholders in response to the circumstances that exist at that time.

How will Employees, Directors and other officers be affected?

The Proposal will generally not adversely affect the position, tenure or entitlements of Employees. Any changes to organisational arrangements or resourcing will be driven only by the need to align skills and resources with the business strategy.

Employees, Directors and other officers who are Eligible Policyholders will only receive Shares in their capacity as Eligible Policyholders in accordance with the Share Allocation Rules and will not receive any additional allocation of Shares due to their position as Employees, Directors or other officers. However, NIB Employees will have the opportunity to purchase Shares prior to Listing through a Priority Allocation.

The Board may ask Shareholders to consider an Employee share plan or an Employee option plan at a later date.

Further details in relation to the intention of Directors concerning the business and Employees is set out in Section 7.13.

What is the impact on Policyholders who are not eligible to receive Shares?

NIB has Policyholders who became Policyholders after 20 March 2007 (the day prior to announcement of the Proposal) and will therefore not be entitled to Shares. Persons who became Policyholders after the 20 March 2007 cut-off date will not have a vote on the Proposal. As outlined above, the Policies held by all Policyholders will not change as a result of the implementation of the Proposal.

2.3 What you should know about Shares

Who will receive Shares?

If the Proposal is implemented and you are an Eligible Policyholder, you will be entitled to receive Shares.

Approximately 460 million Shares will be issued to or on behalf of Eligible Policyholders.

The Board anticipates that most Eligible Policyholders will receive a direct allocation of Shares. However, if you:

- ✓ do not verify your details as a Policyholder; or
- ✓ inform us that your address is outside Australia,

then your Shares will be issued to the Trustee of the NIB Unverified and Overseas Policyholders Trust to be held on your behalf. For methods by which you can verify your details as a

Policyholder, refer to the section below entitled “What steps do Eligible Policyholders need to take in order to receive Shares?”

Unverified Eligible Policyholders will be able to claim their Shares, or the net cash proceeds where the Shares have been sold by the Trustee, at any time before the third anniversary of the Demutualisation Date. For further information regarding the trust arrangements, refer to Section 7.5.

For regulatory purposes it may be necessary that Shares allocated to Eligible Policyholders with a Family Policy are registered jointly in the name of additional adult insured persons covered by that Policy instead of just to the Eligible Policyholder. NIB does not currently believe this will be required. If it was required further information would be provided.

How many Shares will Eligible Policyholders receive?

The number of Shares which Eligible Policyholders will be entitled to receive, should the Proposal be implemented, will be determined under the Share Allocation Rules (set out in the Eligible Policyholders’ Scheme). Eligible Policyholders will approve the Share Allocation Rules, at the Eligible Policyholders’ Scheme Meeting, as part of the Proposal.

Eligible Policyholders can find out the number of Shares to which they are entitled by referring to their Share Allocation Form. NIB reserves the right to correct the allocation of Shares shown on the Share Allocation Form if it is found to be incorrect at any time before the Demutualisation Date.

If you wish to have the number of Shares you receive reviewed, please refer to clause 9 of the Eligible Policyholders’ Scheme (refer to Schedule 1 of this Explanatory Statement).

The Share Allocation Rules are supported by the recommendation of the Consulting Actuary. The Board believes that the Share Allocation Rules provide an equitable basis for allocating Shares to Eligible Policyholders. The Independent Financial Expert agrees with this conclusion.

Shares will be allocated to all Eligible Policyholders based on the type of Policy held as at 20 March 2007. The key elements of the Share Allocation Rules are as follows:

- ✓ Eligible Policyholders with an Ambulance Only Policy at 20 March 2007 will be allocated 10 Shares for each year that they have been a Policyholder subject to a minimum allocation of 100 Shares and a maximum allocation of 300 Shares;
- ✓ Eligible Policyholders with a Single Policy at 20 March 2007 will be allocated 100 Shares for each year that they have been a Policyholder subject to a minimum allocation of 300 Shares and a maximum allocation of 3,000 Shares;
- ✓ Eligible Policyholders with a Family Policy on 20 March 2007 will be allocated 200 Shares for each year they have been a Policyholder subject to a minimum allocation of

THE PROPOSAL IN DETAIL CONT.

600 Shares and a maximum allocation of 6,000 Shares;
and

- ✓ Company Members will receive Shares only in their capacity as Eligible Policyholders, in accordance with the Share Allocation Rules.

As outlined above, the allocation is based on the type of Policy held on 20 March 2007. If you change your Policy type after 20 March 2007 that will have no effect on your allocation. If you changed your Policy type prior to 20 March 2007, the previous Policy that you held will have no impact on your allocation.

Ex-IOOF Members

If you are an Ex-IOOF Member, for the purposes of the Proposal, the date that you joined NIB will be deemed to be the IOOF Transfer Date.

You are urged to read the Share Allocation Rules for yourself. If you have any questions after reading the Share Allocation Rules, please call the NIB Information Hotline on 131 NIB (131 642).

The Consulting Actuary has provided the following examples of how the Share Allocation Rules will operate in relation to Eligible Policyholders:

Example 1 – Ambulance Only Policy

Oliver is the Policyholder of an Ambulance Only Policy on 20 March 2007. Oliver has been a Policyholder for five years. Oliver's allocation based on the time he has been a Policyholder is 50 Shares (5 years x 10 Shares/year). As this is less than the minimum, Oliver is allocated 100 Shares, which is the minimum allocation for an Ambulance Only Policy.

Example 2 – Ambulance Only Policy

Andrew is the Policyholder of an Ambulance Only Policy on 20 March 2007. Andrew has been a Policyholder for 12 years. Andrew's allocation based on the time he has been a Policyholder is 120 Shares (12 years x 10 Shares/year).

Example 3 – Single Policy

Mark has a Single Policy on 20 March 2007 and hence is the Policyholder. He has been a Policyholder for eight years. Mark's allocation based on the time he has been a Policyholder is 800 Shares (8 years x 100 Shares/year).

Example 4 – Family Policy

Michelle is the Policyholder of a Family Policy on 20 March 2007. Michelle has been a Policyholder for 32 years. Michelle's allocation, based on the time she has been a Policyholder is 6,400 (32 years x 200 Shares/year). However, this exceeds the maximum allocation, so Michelle is allocated 6,000 Shares, which is the maximum for a Family Policy.

Example 5 – Family Policy and a Company Member

David is the Policyholder of a Family Policy on 20 March 2007. David has been a Policyholder for 20 years. David has also been a Company Member for 10 years. David's allocation based on the time he has been a Policyholder is 4,000 Shares (20 years x 200 Shares/year). David receives no additional allocation based on Company Membership. David's total allocation is 4,000 Shares.

Example 6 – Dependant

Tim is a dependant on David's Policy. He is not a Policyholder on 20 March 2007; hence, he does not receive any allocation. The allocation in respect of this Policy will be made in respect of the Eligible Policyholder.

Example 7 – Spouse

Jayne is a spouse covered under a Policy where her husband is the Policyholder on 20 March 2007. She does not receive an allocation. However as the Policyholder on the Policy, her husband will be entitled to receive Shares.

Example 8 – Substituted Policy

Melissa became the Policyholder of a Family Policy in substitution for her husband, Greg, on 30 March 2007, following his death. Greg had previously been the Policyholder of the Family Policy for six years. Melissa's allocation based on the time she and Greg have been Policyholders is 1,200 Shares (6 x 200 Shares/year).

When will the Shares be issued?

Shares will be issued on the Demutualisation Date if the Proposal is approved.

Will Eligible Policyholders have to pay money for Shares?

Eligible Policyholders will not have to pay any money for Shares.

What steps do Eligible Policyholders need to take in order to receive Shares?

If you are an Eligible Policyholder and if the Proposal is implemented, you must verify your details as a Policyholder if you are to receive Shares.

You may verify your details as a Policyholder by any of the following methods:

- ✓ completing and returning the Verification of Details Form in the reply paid envelope or by delivering it in person to any NIB retail centre;
- ✓ calling the NIB Information Hotline on 131 NIB (131 642) and verifying your details with the operator;
- ✓ visiting the NIB website (nib.com.au) and following the directions to verify your details; or
- ✓ voting in person at the Demutualisation Meetings.

Verifying your details as a Policyholder will not constitute a vote “For” or “Against” the Proposal.

However, if you:

- ✓ do not verify your details as a Policyholder; or
- ✓ inform us that your address is outside Australia,

then your Shares will be issued to the Trustee of the NIB Unverified and Overseas Policyholders Trust. If you do not complete the verification process within three years you will lose those Shares. See Section 7.5.

What will Shares be worth?

If the Proposal is implemented, Eligible Policyholders will receive Shares.

Prior to Listing, it will be very difficult to place a value on the Shares as there will be no market for Shares.

The value of the Shares will reflect:

- ✓ the value of the NIB Group in its entirety including capital, anticipated future profits and goodwill. Goodwill includes NIB’s brand, customer loyalty, distribution network and Employees; and
- ✓ any premium or discount which the share market may place on the value of the NIB Group’s business.

It is important to remember that the shares of a publicly listed company are influenced by a range of factors including, but not limited to, the NIB Group’s financial performance, market perception of the NIB Group business and brand, Australian investor confidence and broader economic conditions, and expectations of the NIB Group’s future earnings.

Can you or anyone else sell Shares?

To protect the value of the Shares, there will only be very limited circumstances in which Shares can be transferred before the Listing Date (refer to Section 7.4). NIB’s objective is to prevent Eligible Policyholders from inadvertently selling their Shares in an uninformed market for less than they are worth. This restriction is consistent with the approach taken in several other Australian demutualisations.

If you receive Shares, you should be cautious about responding to any unsolicited offers for your Shares. If you receive any unsolicited offer, and you have any questions, you should call the NIB Information Hotline on 131 NIB (131 642) or contact your financial advisor or stockbroker.

The Board may, if Listing does not proceed within the foreseeable future, exercise its discretion to remove the restrictions on transfer of Shares.

Should NIB Holdings List as intended, the Board plans to establish a Sale Facility that will allow Shareholders (should they wish) to dispose of their Shares prior to Listing without incurring brokerage. NIB Holdings will notify Shareholders of details of any Sale Facility at the appropriate time.

Will you receive dividend payments?

If the Proposal is implemented, the Board expects that NIB Holdings will pay dividends as part of a broader capital management program. While there can be no guarantee that NIB Holdings will pay regular dividends, it is the Board’s intention that dividends will be paid twice per year. Refer to Section 6.4 for an explanation of the potential tax consequences of receiving franked dividends. The Board does not intend to pay any dividend prior to Listing.

NIB Group’s dividend policy proposes payment of any dividends from surplus assets that are in excess of a target multiple of the regulatory capital adequacy reserve. This target surplus is set in accordance with NIB Group’s capital management plan. The aim of this plan is to keep a sufficient amount of capital above regulatory minimum in line with the risks faced by the business and the Board’s attitude to and tolerance for risk.

What are the taxation impacts on Eligible Policyholders?

The receipt of dividends and potential capital gains if you decide to sell your Shares will provide you with additional income. Like most income, this will be taxable. It is recommended that you seek independent advice from a taxation professional in relation to your specific circumstances and the taxation implications of owning Shares. However, you may find it useful to read the following general advice provided by PricewaterhouseCoopers in relation to the tax consequences of the Proposal to Australian resident Shareholders. An application for a Class Ruling has been made to the ATO to confirm the tax treatment of the Proposal for Eligible Policyholders.

General taxation advice for owning Shares

Receipt of Shares

No income tax will be immediately payable by Eligible Policyholders as a consequence of receiving Shares. No income tax will be payable by Company Members as no consideration will be received for any identifiable rights which may be cancelled by the Proposal. No payment was made by Company Members to acquire these rights, so no capital loss will arise when they are cancelled.

Taxation of dividends

When you receive a dividend from NIB Holdings, your assessable income for Australian tax purposes will include the cash amount of the dividend increased by franking credits attached to the dividend. You are entitled to claim an offset against your income tax liability equal to any franking credits attached to the dividend. A refund of excess franking credits is generally available where the franking credits exceed your income tax liability.

THE PROPOSAL IN DETAIL CONT.

Disposal of Shares

If you dispose of Shares, any net capital gains calculated under Australian CGT rules will be included in your calculation of assessable income. A capital gain or loss is broadly calculated as the difference between the proceeds received for the disposal of shares and the amount paid to acquire shares. As no amount was paid by Eligible Policyholders to acquire the Shares issued under the Proposal, the entire amount received on sale of the Shares, less any incidental costs of sale, will be your capital gain. Where the Shares have been held for 12 months or more the net capital gain may be reduced by a CGT discount, which is currently 50% for individuals.

What is the social security impact on Eligible Policyholders?

If the Proposal is implemented, Eligible Policyholders will receive Shares. If you are an Eligible Policyholder and you currently receive social security or veterans' entitlements from Centrelink or the Department of Veterans' Affairs, you should consider whether these entitlements will be reduced or lost if you receive Shares.

Receiving Shares may not affect your social security or veterans' entitlements materially, depending on the value of Shares you are allocated and the level of your other income and assets. Also, some pensions and allowances are not means tested. However, the Board recommends that you carefully consider your own personal circumstances.

Both Centrelink and the Department of Veterans' Affairs are aware of the Proposal to Demutualise. You can find out more about whether or not any Centrelink entitlements you receive might be affected by contacting Centrelink on either 13 23 00 (for Retirement entitlements) or 13 27 17 (for Disability, Sickness and Carer entitlements). If you receive any other type of Centrelink entitlements, please refer to your local White Pages for the appropriate contact number.

If you receive a veterans' entitlement, you can contact the Department of Veterans' Affairs on 133 254. Please remember that if the Proposal is implemented and you receive Shares, you will be obligated to notify either Centrelink or the Department of Veterans' Affairs of any Shares you receive.

Centrelink and the Department of Veterans' Affairs have both advised that any Shares you receive will not be assessed under the respective income or assets tests until NIB Holdings Lists on the ASX. The Board intends to List within six months of the Demutualisation Meetings, circumstances permitting.

From the Listing Date onwards, any Shares you receive will be treated in the same way as other listed shares under the income and assets tests:

- ✓ under the assets test, the Shares will be considered as assets (generally assessed at market value and reviewed every six months); and

- ✓ under the income test, the Shares will be included with other financial investments, and will be 'deemed' to earn income based on current deeming rates and their market value, regardless of any actual income (e.g. dividends) you might receive from NIB Holdings.

If you are entitled to receive an overseas Government pension or allowance, the Board recommends that you contact the relevant overseas body to determine the impact of receiving Shares.

3 INDUSTRY OVERVIEW

3.1 The private health insurance industry today

In Australia, health services are funded by the Australian Government's Medicare system, by State and Territory governments and privately through the purchase of private health insurance.

Medicare allows patients to be treated for no charge in a public hospital by a doctor appointed by the hospital. As a private patient in a hospital, Medicare covers 75% of the MBS fee for the medical costs. In the out of hospital setting, Medicare reimburses at least 85% of the MBS fee for the treatment.

Private health insurance covers some or all of the costs of being a private patient in a public or private hospital. In addition, private health insurance covers a range of costs that Medicare does not cover.

The private health insurance industry in Australia is highly fragmented, with 37 registered health funds currently operating. The size range of private health insurers is significant with the industry dominated by the six largest private health insurers, which hold a combined market share of approximately 76% of the industry. Of the remaining 31 insurers, 25 have less than 1% market share (less than 8% market share when combined).

The introduction of the Federal Government Rebate and Lifetime Health Cover initiatives in 1999 and 2000 respectively saw the number of people with hospital insurance grow dramatically to its current level of approximately 44% of the total population.

During 2004, Australians spent over \$87 billion on health care through public and private systems. A report released by the Australian Government during 2006 concluded that spending in this area will double over the next 40 years.

3.2 Regulatory environment

Private Health Insurance Act

On 1 April 2007, the Private Health Insurance Act and associated legislation came into force, repealing the *National Health Act 1953* (Cth). The Act:

- ✓ provides incentives to encourage people to have private health insurance (the Federal Government Rebate, Lifetime Health Cover loading);
- ✓ sets out rules governing private health insurance products – private health insurers are to make private health insurance available to people in a non-discriminatory way, to offer products that comply with the Act and to meet certain other obligations imposed by the Act in relation to those products; and

- ✓ contains requirements about how private health insurers are to conduct their insurance business – private health insurers are to be registered and certain obligations in relation to the conduct of that business are imposed upon private health insurers including their requirement to have appointed actuaries, continued compliance with prudential, solvency and capital adequacy standards, exclusion of disqualified persons from management and certain reporting and notification obligations.

The Act also enables the Minister for Health and Ageing and PHIAC to make private health insurance Rules. At the time of the commencement of the Act, a number of Rules were established. Both the Act and these Rules provide for matters relating to:

- ✓ the Federal Government Rebate;
- ✓ administrative matters relating to Lifetime Health Cover;
- ✓ the range of requirements that health insurance products must comply with including that the products be community rated and be made available in a way that does not discriminate between people, the provision of information relating to the products and a maximum amount of 12% that a product can be discounted by;
- ✓ matters which PHIAC is required to take into account when considering applications from organisations to become private health insurers;
- ✓ the external management of funds;
- ✓ the continuation of the office of the Private Health Insurance Ombudsman and the continuation of PHIAC; and
- ✓ the collection of levies.

Regulatory requirements for solvency and capital adequacy

The standards for solvency and capital adequacy for private health insurers are legislated under divisions 140 and 143 of the Private Health Insurance Act. Capital is defined in the Act as "the assets of the fund less the reported liabilities of the fund". As discussed in the Appointed Actuary's Report in Section 6.2, these standards impose a two-tier capital requirement on private health insurers:

- ✓ the first tier is intended to ensure the basic solvency of the health benefits fund; and
- ✓ the second tier is intended to secure the financial soundness of the health benefits fund on a going concern basis. It is expected that in most circumstances this second tier will provide an additional buffer of capital above the minimum solvency requirement.

INDUSTRY OVERVIEW CONT.

Sections 140-15 and 143-15 of the Act require all private health insurers (including NIB) to be in compliance with the requirements of the standards.

Currently, NIB has capital well in excess of that required by the Act, and its own capital management targets.

Key regulatory issues

There are four key regulatory issues which shape the industry:

- ✓ community rating – this principle prevents private health insurers from discriminating between people on the basis of their health status, age, race, sex, sexuality, the frequency that a person needs treatment, or claims history;
- ✓ risk equalisation – to support the principle of community rating, the private health insurance scheme, unlike general and life insurance reinsurance schemes, averages out the cost of hospital treatment across the industry. The scheme transfers money from private health insurers with younger healthier members with lower average claims payments (such as NIB) to those insurers with an older and less healthy membership and which have higher average claims payments. For the year ended 30 June 2006 NIB contributed \$42.8 million to the pool;
- ✓ limits on what can be covered – the legislation limits the types of treatments that private health insurers are able to offer as part of their health insurance business; and
- ✓ approvals for premium increases – premiums for health insurance can only be changed with the approval of the Minister for Health and Ageing.

Regulatory initiatives to encourage private health insurance coverage

The Australian Government has put in place a number of initiatives to encourage members of the Australian public to take out private health insurance and to reduce the impact on Australia's public health system:

- ✓ 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 will have to 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;
- ✓ Federal Government Rebate – the 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); 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.

During the past year, the Australian Government announced industry changes that offer private health insurers the ability to widen their scope to include cover for areas 'beyond the hospital gate'. These areas have been traditionally only covered by Medicare.

4 NIB OVERVIEW

4.1 NIB's history

NIB was incorporated in 1953 by workers at Newcastle's BHP Steelworks and was known as Newcastle Industrial Benefits Hospital Fund.

NIB operated exclusively in Newcastle until 1975 when it amalgamated with the South Coast Medical Fund, increasing membership by 10,000 in the Illawarra region.

The expansion beyond its traditional boundary continued in 1982 when NIB opened its first retail centre in Sydney. In 1993, NIB ventured into the interstate market for the first time, opening retail centres in QLD, VIC and the ACT. This resulted in an increase in membership to more than 160,000.

The Australian Government's introduction of Lifetime Health Cover in 2000 saw NIB, like many other health funds, benefit from an influx of people taking up health cover for the first time. The health fund's membership surpassed 200,000 during this period.

NIB acquired IOOF Health Services Ltd in 2003.

4.2 NIB today

NIB remains headquartered in Newcastle and has approximately 320,000 Policyholders across Australia, providing cover to approximately 670,000 Australians. NIB is the sixth largest fund in Australia by persons covered.

Since 2002, NIB has increased its membership by 36%.

Today, NIB offers a range of health insurance products. Depending on the type of product Policy held, Policyholders are entitled to be covered for ambulance costs, reimbursement towards costs of services not covered by Medicare including dental, optical, physiotherapy and natural therapies, and some or all of the costs of going to hospital for certain procedures.

In 2006, NIB launched a new range of products designed to maintain NIB's strategic position as a provider of value for money health insurance and enhance its position as an insurer that provides private health insurance that is simple to understand, easy to claim on and meets the needs of consumers.

At the same time, NIB established a new loyalty program (NIB Loyalty Bonus) which replaced the existing NIB Health Rewards program. The NIB Loyalty Bonus rewards members for their length of membership with NIB.

NIB has a number of distribution channels; NIB's primary distribution channels are its call centre, website and the 32 retail centres located across the NSW, the ACT, QLD, VIC and SA.

4.3 NIB's business strategy

NIB's strategy is centred on growing market share through the provision of innovative, low cost health insurance products to the under 40 segment. Key NIB business initiatives include:

- ✓ aggressively pursuing growth in both the under 40 segment and outside of NSW, by utilising NIB's strong brand and well designed and competitively priced products;
- ✓ retaining existing members through improved customer service and the NIB Loyalty Bonus and migrating Policyholders through different products as they age or their life circumstances change; and
- ✓ merging with and/or acquiring health funds to enable rapid growth, lower unit costs and provide a larger national platform.

NIB's strategy has evolved over recent years reflecting:

- ✓ the refocusing of NIB's activities on health insurance and the exit from its provider business (being the sale of NIB's Dental and Eye Centres in 2006 and the sale of the Newcastle Private Hospital operations in May 2007);
- ✓ the changing nature of products and services demanded by customers;
- ✓ the increasing cost of health care; and
- ✓ the opportunity to tap into the uninsured market in Australia.

The Demutualisation and Listing is intended to allow NIB to more effectively pursue its strategy through a corporate structure, which allows NIB to more efficiently offer non-health insurance products, provides access to equity markets and greater access to debt markets and provides a first mover advantage which may assist in NIB acquiring or merging with other health insurance providers.

4.4 NIB's capital management strategy

NIB's capital management strategy plays a central role in managing risk to meet the crucial objective of providing an appropriate level of capital to protect Policyholders' and other relevant stakeholders' interests. NIB recognises that there are several factors involved in determining the appropriate level of capital and has a target level of capital well above the regulatory minimum requirement.

Capital finances business plans, including growth and capital expenditure, and also provides support against adverse outcomes from insurance, other activities and investment performance.

NIB OVERVIEW CONT.

The framework for capital management considers two main aspects:

- ✓ the amount of available capital resource – fundamentally concerned with balance sheet management, or NIB's long-term target capital mix in terms of equity, hybrid equity and debt capital. This includes establishing appropriate balance sheet criteria in terms of Shareholder objectives (eg. dividend objectives and overall return criteria) and cost of capital considerations (availability, rating and appetite for risk); and
- ✓ the amount of capital required to meet the current and ongoing needs of the business. This includes the capital expenditure needs, as well as the levels of overall capital needed to accommodate any given risk tolerance.

An important influence on NIB's capital levels will be the payment of any dividends. Post-Listing, NIB Holdings aims to pay dividends to its Shareholders. Dividends may only be paid out of profits. 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.

Currently, NIB has capital well in excess of that required by the Act, and its own capital management targets. However, as part of a prudent capital management plan, NIB's dividend policy will prevent it from paying dividends if to do so would result in NIB's target level of capital not being met. This target surplus will be set in accordance with NIB's capital management plan; the aim of this plan will be to keep a sufficient amount of capital above regulatory minimum in line with the risks faced by the business and the Board's attitude to and tolerance for risk.

As discussed in the Appointed Actuary's Report in Section 6.2, following Demutualisation, NIB's capital adequacy position is not expected to deteriorate. NIB expects that capital adequacy will continue to be maintained at a strong level, albeit at a lower level than it is currently, in order to support the proposed distribution of surplus in the form of dividends. Any dividend payment will also need to be approved by the Board.

The Private Health Insurance Act and its associated Rules will serve to protect or restrict a transfer of assets from the health insurance fund to NIB Holdings (e.g. for a dividend payment) if it would be inconsistent with the solvency standard or the capital adequacy standard. The Act also requires NIB to seek the advice of the Appointed Actuary on certain matters that relate to benefits provided under a product, premiums charged under a product and the financial condition of the insurer.

It should also be noted that as a Shareholder-owned company, NIB Holdings will have a greater ability to raise additional capital if needed to provide further security (although any company is not guaranteed of being able to raise capital in all circumstances).

4.5 Key business risks facing NIB

NIB's performance may be affected by a number of different risk factors including:

- ✓ economic factors – the operating and financial performance of NIB is affected by a number of general economic factors which are outside NIB's control, such as inflation, interest rates, share market valuations, consumer and business spending and employment rates. Adverse movements in these economic factors may adversely affect the operating and financial performance of NIB;
- ✓ regulatory factors – the environment in which NIB operates is highly regulated. The Australian Government provides a number of regulatory incentives (the Federal Government Rebate, Lifetime Health Cover and the Medicare Levy Surcharge) to encourage participation by the public in private health insurance. These are outlined in more detail in Section 3.2. Whilst there is no anticipated change in policy, 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 entire private health insurance industry;
- ✓ rapid growth – as discussed elsewhere in this Explanatory Statement, NIB is pursuing a business strategy of aggressive, targeted growth in the under 40 segment. A major focus of this growth strategy is the expansion of NIB's business in a more meaningful way into other geographic markets such as VIC and QLD and the targeted acquisition of new customers. Such rapid 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 or enter into new geographic markets in a meaningful way;
- ✓ pricing risk – health insurance premiums are required to be approved by the Australian Government. As a result, there is a risk that NIB's application for a change in its premium rates may be rejected by the Australian Government. Such a rejection may have an impact on NIB's operating and financial performance; and
- ✓ increased competition – the industry in which NIB operates is competitive. The actions of current or new 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.

4.6 Details of Directors and senior management

The details of current Directors and senior management of NIB are set out below.

Exhibit 4.1

NIB Board	
Director	Qualifications
<p>Keith Lynch BSc (Tech) (UNSW), MAICD Chairman, Independent Non-Executive Director</p>	<p>Currently Chairman of Kip McGrath Education Centres Limited. Previously held senior executive positions with Hunter-based engineering firms. Formerly a director of Newcastle Grammar School and CW Pope & Associates Pty Limited.</p> <p>Mr Lynch's NIB responsibilities are as Chairman of NIB Health Services Limited, The Heights Private Hospital Pty Limited, NIB Servicing Facilities Pty Limited, the Corporate Governance Committee and a member of the Remuneration Committee.</p> <p>A Director since 1982 – appointed Chairman 28 November 2001. Mr Lynch is also a director of NIB Holdings.</p>
<p>David Brewer BSc, FAICD Independent Non-Executive Director</p>	<p>A Consultant. Formerly Chief Operating Officer Central Mines, Rio Tinto Coal Australia, General Manager of Port Waratah Coal Services and General Manager of New Zealand Aluminium Smelters Limited. Formerly a director of TUNRA, the University of Newcastle, the Royal Newcastle Aero Club and a member of the Salvation Army Advisory Board.</p> <p>Mr Brewer's NIB responsibilities are as a director of NIB Health Services Limited and The Heights Private Hospital Pty Limited, a member of the Finance and Investment Committee, a member of the Remuneration Committee and Membership Committee.</p> <p>A Director since 2003.</p>
<p>Grahame Cannon FAICD, JP Independent Non-Executive Director</p>	<p>A former state manager, NSW/ACT Health Insurance Commission. Previous directorships include Australian Administrative Staff College Limited and Psychiatric Rehabilitation Association of NSW.</p> <p>Mr Cannon's NIB responsibilities are as a director of NIB Health Services Limited and The Heights Private Hospital Pty Limited, and a member of the Audit and Compliance Committee and Finance and Investment Committee.</p> <p>A Director since 1998.</p>
<p>Dr Annette Carruthers MBBS (Hons), FRACGP, FAICD Independent Non-Executive Director</p>	<p>Currently a general practitioner and a director of the National Heart Foundation of Australia (NSW Division). Dr Carruthers is also a Clinical Director at Hunter Urban Division of General Practice. Formerly a director of Hunter Area Health Service and Hunter Urban Division of General Practice.</p> <p>Dr Carruthers' NIB responsibilities are as a director of NIB Health Services Limited, NIB Health Care Services Limited and The Heights Private Hospital Pty Limited, a member of the Audit and Compliance Committee and Chair of the Remuneration Committee.</p> <p>A Director since 2003.</p>

NIB OVERVIEW CONT.

Director	Qualifications
<p>Janet Dore</p> <p>BAppSc (Planning), MBA, FAICD, FAIM, FAPI, FIMM</p> <p>Independent Non-Executive Director</p>	<p>Currently General Manager of Newcastle City Council and a former Chief Executive Officer City of Ballarat. Currently a director of Newcastle Airport Limited, Newcastle Alliance, Hunter Councils Inc, Hunter Integrated Resources and Life Activities Incorporated. Ms Dore is also a member of the NSW Heritage Council and the Premier's Advisory Council on Women.</p> <p>Formerly a director of Hunter Economic Development Corporation, Hunter Regional Tourism Organisation and the Sustainability Advisory Council (Planning NSW), Newcastle and Hunter Events Corporation and a member of the Newcastle Graduate School of Business Advisory Board. Ms Dore sat on the Metropolitan Strategy Reference Panel and NSW Greenhouse Advisory Panel from 2004 to 2006.</p> <p>Ms Dore's NIB responsibilities are as Chair of NIB Health Care Services Pty Limited, a director of NIB Health Services Limited and The Heights Private Hospital Pty Limited, Chair of the Audit and Compliance Committee and a member of the Corporate Governance committee.</p> <p>A Director since 2002.</p>
<p>Philip Gardner</p> <p>BComm, CPA, CCM, FAICD, JP</p> <p>Independent Non-Executive Director</p>	<p>Currently Chief Executive Officer of the West's Hospitality Group, a director of Newcastle Airport Limited, Treasurer of Western Suburbs Rugby League Football Club, and a member of the Gaming Advisory Committee for Clubs NSW. Mr Gardner was appointed by the State Government to the Club Industry Working Group and is an adjunct lecturer in the Department of Commerce and Law at University of Newcastle. Formerly Chair of the Hunter Regional Tourism Organisation, the Hunter Area Health Service, the Hunter Medical Research Foundation and the Club Gaming Council of Australia.</p> <p>Mr Gardner's NIB responsibilities are as a member of the Audit and Compliance Committee and Membership Committee.</p> <p>A Director since 2005. Mr Gardner is also a director of NIB Holdings.</p>
<p>Michael Slater</p> <p>BComm, MBA, FCPA, FCIS, FTIA, FAICD, FAIM, FCIM</p> <p>Independent Non-Executive Director</p>	<p>Currently Deputy Chair of the Newcastle Permanent Building Society, a director of Dennis Veitch and Associates Pty Limited, Corporate Internet Business Information Systems Pty Limited, Hunter Westpac Rescue Helicopter Service and the University of Newcastle Foundation Board. Previously held executive positions with Shortland Electricity, Orion Energy, Energy Australia, Singleton Council and previously served as a director on both the Hunter Economic Development Corporation and the Hunter Regional Development Organisation.</p> <p>Mr Slater's NIB responsibilities are as a director of NIB Health Services Limited and The Heights Private Hospital Pty Limited, Chair of the Finance and Investment Committee and member of the Corporate Governance Committee.</p> <p>A Director since 2001.</p>

Exhibit 4.2

NIB senior management

Senior manager	Qualifications
<p>Mark Fitzgibbon MBA, MA, ALCA, FAICD Chief Executive Officer</p>	<p>Mark Fitzgibbon joined NIB in October 2002 as CEO. He was previously CEO of both the national and NSW peak industry bodies for licensed clubs. Before that, he held several CEO positions in local government, including General Manager of Bankstown Council between 1995 and 1999. Mark is also Deputy Chairman of the Tow Truck Authority NSW, a director of The Newcastle Knights, Australian Health Insurance Association Limited, Australian Health Services Alliance Limited, Hunter Academy of Sport, NIB Health Care Services Limited, NIB Servicing Facilities and 063 465 949 Pty Limited. Mr Fitzgibbon is also a director of NIB Holdings.</p>
<p>David Lethbridge LLB (Otago, NZ), MAICD Executive Manager – Strategy and Governance</p>	<p>David Lethbridge joined NIB in March 2002 as Company Secretary. He was previously Board Secretary/Senior Legal Advisor, the New Zealand Apple and Pear Marketing Board and Legal Advisor, New Zealand Dairy Board.</p> <p>David is Company Secretary for all companies in the NIB Group and a director of NIB Servicing Facilities Pty Limited.</p>
<p>Michelle McPherson BBus, CA, AAICD Chief Financial Officer</p>	<p>Michelle McPherson commenced with NIB in March 2003 as CFO. She was previously at Caltex Australia for 10 years in a range of financial positions. Prior to Caltex Australia, Michelle spent eight years in chartered accounting.</p>
<p>Jayne Drinkwater BEc, MBA (with Merit), GAICD Chief Marketing Officer</p>	<p>Jayne Drinkwater has been with NIB since February 2003 firstly in the role of Chief Operating Officer and more recently as Chief Marketing Officer.</p> <p>Jayne has worked for organisations such as Westpac, Commonwealth Bank, the ASX and Citibank.</p>
<p>Diane Lally Grad Dip Bus, BBus, Cert IV Assessment and Workplace Training, CAHRI, MAITD, MAPT Human Resources Director</p>	<p>Diane Lally joined NIB in February 2003 as Human Resources Director.</p> <p>Diane has worked for many organisations including Capcoal, BOC Gases, Ernst & Young, York International and finally the Heath Lambert Group before joining NIB.</p>
<p>Dr Ian Boyd BMed, FRACGP, GAICD Medical Director</p>	<p>Ian Boyd joined the NIB executive team in February 2005 as medical director. Ian was in full time general practice from 1992 and has practised in a part time capacity since 2005.</p>
<p>Peter Small BComm – (Economics/ Econometrics) Chief Operating Officer</p>	<p>Peter Small has been with NIB since February 2004 and joined the NIB executive team in July 2006 as Chief Operating Officer.</p> <p>Peter joined NIB from the financial services industry and has worked with organisations such as ANZ, Advance and St George banks, NatWest and ANZ Funds Management, principally in strategic planning and operations management.</p>

5 FINANCIAL INFORMATION

5.1 Management discussion and analysis

The financial information in this Section 5 has been prepared in respect of the NIB Group to provide Policyholders and Company Members with an understanding of the financial impact of the Proposal on the NIB Group.

In its current form, the NIB Group prepares annual financial reports, with the most recent being for the year ended 30 June 2006. This report is available at the NIB website (nib.com.au).

Given the timing of the Proposal, the Board has determined that more current financial information (including Demutualisation Adjustments) should be provided. This financial information, presented in Section 5.2, is as follows:

- ✓ pro-forma consolidated income statement for the eight months ended 28 February 2007;
- ✓ pro-forma consolidated balance sheet as at 28 February 2007;
- ✓ pro-forma consolidated cash flow statement for the eight months ended 28 February 2007; and
- ✓ notes to the pro-forma financial statements, including basis of preparation and other relevant notes.

The Investigating Accountant has reviewed the financial information contained in Section 5.2. The Investigating Accountant's Report appears in Section 5.3.

The financial information included in Section 5.2 is presented in an abbreviated form and does not contain all the disclosures in an annual report prepared in accordance with the Corporations Act.

Performance review of the NIB Group under the existing structure for the eight months ended 28 February 2007

The data used to support the commentary in this section of the Explanatory Statement is based on unaudited management information and provides an overview of the performance for the eight months to 28 February 2007 before making Demutualisation Adjustments for the Demutualisation.

Performance highlights

Policyholders: NIB continues to be one of the fastest growing health funds in Australia. For the eight months to 28 February 2007, the number of Policyholders grew by 5.0%. As at 28 February 2007, NIB had 317,287 Policyholders and provided health cover to 665,058 people across Australia. However, NIB's market share remained approximately 6.4%.

Management expense ratio: the management expense ratio of 10.3% has increased above the result of 9.2% for the year ended 30 June 2006, largely due to an increased investment in organic growth and \$1.2 million of costs incurred to 28 February 2007 on the Proposal (shown as a Demutualisation Adjustment in the pro-forma consolidated financial information).

Investment income: NIB's investment strategy resulted in an annualised return of 9.8% (6.5% for the eight months).

Claims inflation: paid claims per person for the eight months to 28 February 2007 increased 15.6% compared to the prior corresponding period. This reflects hospital inflation of 12.0% and ancillary inflation of 25.0%. Ancillary costs have increased primarily as a result of the introduction of the NIB Loyalty Bonus program on 6 June 2006.

Net assets: the 15.2% increase in NIB's net assets (\$283.6 million at 30 June 2006) to \$326.8 million as at 28 February 2007 can be largely attributed to the consolidated profit result.

Solvency ratio: NIB's solvency ratio of 2.21 is well above the regulatory requirement.

Demutualisation Adjustments

Demutualisation Adjustments have been made in the pro-forma consolidated financial statements in order to more appropriately reflect the underlying financial position and ongoing operations of the NIB Group as if the Proposal had been implemented at 28 February 2007. As a consequence of the income statement needing to appropriately reflect the ongoing operations, and the balance sheet needing to appropriately reflect the underlying financial position, not all demutualisation adjustments that have an income statement impact are reflected in both the income statement and the balance sheet. Accordingly, the income statement does not include the impact of once only demutualisation adjustments e.g. the expense that results from the creation of the share-based payments reserve and the reversal of the demutualisation costs incurred to 28 February 2007 (see note 8(a)), whereas, the retained profits/(losses) on the balance sheet does reflect the impact of these once only demutualisation adjustments. These adjustments are reflected in the balance sheet to appropriately reflect the underlying financial position.

With reference to the once only demutualisation adjustments not included in the income statement, it is relevant to note that these adjustments, if they result in the anticipated accounting entries, are expected to occur in the financial year ended 30 June 2008, and will prevent NIB, and as a consequence NIB Holdings, from paying dividends in the 2008 financial year. The only distributions that could be made in the 2008 financial year would be by way of a return of capital.

In determining the Demutualisation Adjustments, it has been assumed that the Proposal is approved and that Listing occurs within the timeframe proposed by the Board.

The Demutualisation Adjustments discussed below are grouped into the following categories, with some items being able to be quantified and reflected in the pro-forma consolidated financial statements, and others being discussed by way of narrative only:

- ✓ change in corporate structure;
- ✓ non-recurring items in pro-forma results before Demutualisation Adjustments; and
- ✓ likely developments.

Note 8 of the pro-forma consolidated financial information in Section 5.2 provides a brief description of each of the quantified Demutualisation Adjustments.

Change in corporate structure

Section 2 provides details of the Proposal and advises that if all approvals are obtained, the Proposal will be effected through the following:

1. NIB converts from a company limited by guarantee to a company limited by Shares and NIB issues Shares to Eligible Policyholders;
2. NIB issues Shares to NIB Holdings;
3. NIB cancels the Shares it has issued to the Eligible Policyholders (the Shares NIB has issued to NIB Holdings are not cancelled) and NIB Holdings becomes the parent company of NIB; and
4. NIB Holdings issues the same number of Shares as cancelled in Step 3 to Eligible Policyholders.

Step 1 – Issue of shares in NIB: the issue of Shares by NIB to Policyholders has been accounted for in accordance with AASB2 – Share-based Payment (Standard) and UIG 8 – Scope of AASB2 (Interpretation).

The issue of Shares is accounted for by recognising an expense in the income statement along with a corresponding share-based payments reserve in the equity section of the balance sheet. In the pro-forma financial information, we have not included the expense in the income statement as it does not appropriately reflect the ongoing operations of the NIB Group, it is however, reflected in the retained profits/(losses) in the balance sheet. The expense and reserve will be recognised at the fair value of the shares issued. The fair value will be measured at the Demutualisation Date and as set out in Section 2.3, under the heading “What will Shares be worth?”, prior to Listing, it will be very difficult to place a value on the shares as there will be no market for the Shares. Given that the fair value is not currently known, for the purpose of the pro-forma financial information, fair value has been taken as the estimated pro-forma net assets at the date of demutualisation (see Note 8(h) of the pro-forma financial information). Alternatively, on one view, the issue of Shares may result in share capital.

Whilst the creation of a share-based payments reserve would not change the net equity position of NIB, it will result in the recognition of a significant expense in the year in which the Shares are issued (expected to be the year ending 30 June 2008). As can be seen in the pro-forma financial information, this has the potential to result in a negative retained earnings position. Importantly, such a negative retained earnings position will not compromise the ability of NIB to distribute

pre-Demutualisation capital to NIB Holdings by way of a return of capital at some point in the future should it be considered appropriate under NIB’s capital management plan.

Step 2 – NIB issues Shares to NIB Holdings: As set out in Schedule 2 – Company Members’ Scheme, NIB Holdings will subscribe for and NIB Health Funds will issue five NIB Health Funds Shares for \$5.00. As a consequence the initial NIB Holdings balance sheet will be as follows:

NIB Holdings Balance Sheet

As at 28 February 2007

	\$
Non-current assets	
Other financial assets	5
Net assets	5
Equity	
Contributed equity	5
Total Equity	5

Step 3 – NIB cancels the Shares it has issued to Eligible Policyholders: As set out in Schedule 2 – Company Members’ Scheme, the Capital Reduction Resolutions will take effect and NIB will procure that NIB Holdings issues the same number of Shares to each Eligible Policyholder as the number of NIB Shares of the Eligible Policyholder cancelled pursuant to the Capital Reduction Resolutions. This step does not give rise to any accounting entries in NIB, however this does result in the accounting entries in NIB Holdings set out in Step 4 below.

Step 4 – NIB Holdings issues the same number of Shares as cancelled in Step 3 to Eligible Policyholders: Upon cancellation by NIB of the Shares it has issued to Eligible Policyholders, NIB Holdings becomes the legal parent company of NIB. The single entity balance sheet of NIB Holdings will reflect the investment in NIB at fair value and will present as follows:

NIB Holdings Balance Sheet

As at 28 February 2007

	\$'000
Non-current assets	
Other financial assets	322,409
Net assets	322,409
Equity	
Contributed equity	322,409
Total Equity	322,409

As discussed in Step 1, given that the fair value is not currently known, for the purpose of the pro-forma financial information, fair value has been taken as the estimated

FINANCIAL INFORMATION CONT.

pro-forma net assets at the date of demutualisation (see Note 8(h) of the pro-forma financial information).

Post demutualisation, the consolidated financial information will be prepared applying the requirements of AASB 3 “Business Combinations” to the Group. This recognises:

1. NIB Holdings Limited is the legal parent entity of the Group and presents consolidated financial information; and
2. NIB Health Funds Limited 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 fair values of the entities involved in the transaction. This is commonly referred to as a reverse acquisition (see Summary of significant accounting policies – demutualisation adjustments Note 1 (w)).

The primary impacts of reverse acquisition accounting on the pro-forma consolidated financial statements are the assets and liabilities of the NIB Group (excluding NIB Holdings) are recognised and measured at their carrying amounts. The retained earnings and equity balances recognised are the equity balances of NIB Health Fund immediately before the business combination.

As discussed in Step 1, NIB pre-Demutualisation capital will only be able to be distributed to NIB Holdings by way of a return of capital. In NIB Holdings, this return of capital will be treated as a reduction in the value of NIB Holdings’ investment in NIB. By way of example, if NIB returned \$20 million of pre-Demutualisation capital to NIB Holdings in cash, the single entity balance sheet of NIB Holdings shown in Step 4 above would change to the following:

NIB Holdings Balance Sheet

As at 28 February 2007

	Note	\$'000
Current assets		
Cash and cash equivalents		20,000
Total current assets		20,000
Non-current assets		
Other financial assets		302,409
Total non-current assets		302,409
Net assets		322,409
Equity		
Contributed equity		322,409
Total Equity		322,409

Accordingly, this could only be passed on to the shareholders of NIB Holdings by way of a return of capital.

As detailed in Section 4.4, NIB’s dividend policy proposes payment of any dividends from surplus assets that are in excess of a target multiple of the regulatory capital adequacy reserve. It is anticipated that after consideration of the ongoing operating expenses and other relevant items, NIB Holdings’ dividend policy will result in part of its surplus being distributed by way of dividends.

The ability of NIB Holdings to pay dividends in any given year may be adversely impacted by the need for NIB Holdings to test the investment in NIB for impairment annually (or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable). An impairment loss is recognised if an asset’s carrying amount exceeds its recoverable amount. In the event that NIB Holdings needed to recognise an impairment loss in the same financial year as it received a dividend from NIB, the impairment loss would potentially reduce or even remove the ability of NIB Holdings to pay a dividend in respect of that year.

Future payment of dividends: discussion on the capital management plan and expected dividend policy is set out in Section 4.4. No Demutualisation Adjustments have been included to reflect the expected future payment of dividends.

In order for NIB Holdings to pay dividends it will need to receive dividends from NIB Health. If current year profits are not available for NIB Health to pay dividends it may need to return capital from the Share Based Payments Reserve. NIB believes payments of this nature would be available to NIB Holdings by complying with the reduction of capital provisions of the Corporations Act. A return of capital would not require the approval of NIB Holdings Shareholders.

Future payment of income tax: a Demutualisation Adjustment has been included to reflect the future payment of income tax. Section 6.4 provides a detailed explanation of the corporate taxation consequences of the Proposal (see Notes 4 and 8(d) of the pro-forma financial information).

Demutualisation costs: a Demutualisation Adjustment has been included to reflect the income statement and balance sheet impact of Demutualisation costs. Total estimated Demutualisation costs (assuming the Proposal is approved) are estimated to be \$5.2 million (\$5.7 million if the Proposal is not approved) (see Note 8(a) of the pro-forma financial information).

Listing costs: it is not possible at this time to reasonably estimate the total one off costs of Listing due to some of the advisors’ fees being determined by reference to the value NIB Holdings at Listing.

Non-recurring items in pro-forma results before Demutualisation Adjustments

As discussed in Section 4.3, NIB has reviewed its role in provider businesses and, over the last two years, entered into relevant arrangements to divest its provider businesses. As a consequence, Demutualisation Adjustments have been included in respect of the following:

Disposal of Newcastle Private Hospital Pty Ltd: as set out in Note 5 to the pro-forma financial information, Newcastle Private Hospital Pty Ltd is in the process of being disposed of to Healthscope Limited, with completion occurring on 31 May 2007. As a consequence, Demutualisation Adjustments (refer Note 8(e)) have been included to remove the loss for the eight months to 28 February 2007 from the income statement and to reflect the post-completion position in the balance sheet.

Disposal of Dental and Eye Care business: as set out in Note 8(b) to the pro-forma financial information, Demutualisation Adjustments have been included to remove the trading results of the dental and eye care operations and the \$1.25 million gain on disposal recognised in the income statement during the period. The \$1.25 million gain on disposal is payable in five annual installments, with the first installment due in December 2007.

Likely developments

Development of new head office: NIB is in the process of developing a new purpose built head office in Newcastle. In September 2006, NIB entered into a sale contract for the purchase of land and a development agreement for the design and construction of a new head office building at 231 Honeysuckle Drive, Newcastle.

The total approved budget for the project is \$42.3 million. Relocation to the new head office is currently scheduled for August 2008.

FINANCIAL INFORMATION CONT.

5.2 Financial information

PRO-FORMA CONSOLIDATED INCOME STATEMENT – FOR THE EIGHT MONTH PERIOD ENDED 28 FEBRUARY 2007

	Notes	NIB and controlled entities pre-Demutualisation \$'000	Demutualisation Adjustments \$'000	NIB Holdings and controlled entities post-Demutualisation \$'000
Premium revenue		435,272	–	435,272
Member benefits		(331,583)	–	(331,583)
Health Benefit Reinsurance Trust Fund Levy		(27,782)	–	(27,782)
State levies		(11,567)	–	(11,567)
Claims handling expenses		(10,775)	–	(10,775)
Net claims incurred		(381,707)	–	(381,707)
Acquisition costs		(9,959)	–	(9,959)
Other underwriting expenses	8(a)	(23,868)	1,234	(22,634)
Underwriting expenses		(33,827)	1,234	(32,593)
Underwriting result		19,738	1,234	20,972
Investment income		22,726	–	22,726
Other revenue	8(b)	4,644	(3,738)	906
Investment expenses		(698)	–	(698)
Other expenses	[8(b)] [8(c)]	(3,229)	[2,544] [(3,600)]	(4,285)
Profit before income tax		43,181	(3,560)	39,621
Income tax	4, 8(d)	–	(11,886)	(11,886)
Profit from continuing operations		43,181	(15,446)	27,735
Loss from discontinued operations	8(e)	(221)	221	–
Profit attributable to members		42,960	(15,225)	27,735

Refer to Note 8 for explanation of each quantified Demutualisation Adjustment.

The pro-forma financial information shows a pre-Demutualisation result which reflects NIB and its controlled entities, Demutualisation adjustments and a post-Demutualisation result which reflects NIB Holdings and its controlled entities.

The notes on pages 35 to 47 form part of the pro-forma consolidated financial information (prepared for the purposes of the Proposal, and included in the Explanatory Statement).

PRO-FORMA CONSOLIDATED BALANCE SHEET – AS AT 28 FEBRUARY 2007

	Notes	NIB and controlled entities pre-Demutualisation \$'000	Demutualisation Adjustments \$'000	NIB Holdings and controlled entities post-Demutualisation \$'000
Assets				
Current assets				
Cash and cash equivalents	8(a)	19,573	(3,916)	15,657
Receivables	8(e)	25,261	7,675	32,936
Financial assets at fair value through profit or loss	8(f)	350,704	(4,676)	346,028
		395,538	(917)	394,621
Non-current assets classified as held for sale	8(g)	465	8,650	9,115
Assets of disposal group classified as held for sale	8(e)	22,002	(22,002)	–
Total Current assets		418,005	(14,269)	403,736
Non-current assets				
Receivables	8(e)	1,236	6,632	7,868
Investment properties		1,335	–	1,335
Property, plant and equipment	[8(g) 8(f)]	46,266	[(8,650) 4,676]	42,292
Intangible assets		9,969	–	9,969
Total Non-current assets		58,806	2,658	61,464
Total Assets		476,811	(11,611)	465,200
Liabilities				
Current liabilities				
Payables		41,487	–	41,487
Borrowings		1,726	–	1,726
Outstanding claims liability	6	55,030	–	55,030
Unearned premium liability		39,195	–	39,195
Provision for employee entitlements		4,609	–	4,609
		142,047	–	142,047
Liabilities directly associated with assets of disposal group classified as held for sale	8(e)	7,268	(7,268)	–
Total Current liabilities		149,315	(7,268)	142,047
Non-Current liabilities				
Provision for employee entitlements		744	–	744
Total Non-current liabilities		744	–	744
Total Liabilities		150,059	(7,268)	142,791
Net Assets		326,752	(4,343)	322,409
Equity				
Retained profits/(losses)	[8(h) 8(a) 8(e)]	319,626	[(322,409) (3,916) (427)]	(7,126)
Reserves	7, 8(h)	7,126	322,409	329,535
Total Equity		326,752	(4,343)	322,409

Refer to Note 8 for explanation of each quantified Demutualisation Adjustment.

The pro-forma financial information shows a pre-Demutualisation result which reflects NIB and its controlled entities, Demutualisation adjustments and a post-Demutualisation result which reflects NIB Holdings and its controlled entities.

The notes on pages 35 to 47 form part of the pro-forma consolidated financial information (prepared for the purposes of the Proposal, and included in the Explanatory Statement).

FINANCIAL INFORMATION CONT.

PRO-FORMA CONSOLIDATED CASHFLOW STATEMENT – FOR THE EIGHT MONTH PERIOD ENDED 28 FEBRUARY 2007

	Notes	NIB and controlled entities pre-Demutualisation \$'000	Demutualisation Adjustments \$'000	NIB Holdings and controlled entities post-Demutualisation \$'000
Cash flows from operating activities				
Receipts from policyholders and customers (inclusive of goods and services tax)	[8(e) 8(b)]	460,005	[(28,153) (2,488)]	429,364
Payments to members, suppliers and employees (inclusive of goods and services tax)	[8(a) 8(b) 8(c) 8(e)]	(429,255)	[1,234 2,544 (3,600) 27,495]	(401,582)
		30,750	(2,968)	27,782
Interest received	8(e)	12,131	(11)	12,120
Income tax paid	8(d)	–	(11,886)	(11,886)
Net cash provided by operating activities		42,881	(14,865)	28,016
Cash flows from investing activities				
Net movement in investment securities		(31,302)	–	(31,302)
Payments for property, plant and equipment and intangibles	8(e)	(3,567)	629	(2,938)
Proceeds from sale of property, plant and equipment and intangibles		420	–	420
Proceeds from sale of business		1,588	–	1,588
Net cash (used in) investing activities		(32,861)	629	(32,232)
Cash flows from financing activities				
Proceeds from finance lease		(883)	–	(883)
Net cash inflow from financing activities		(883)	–	(883)
Net increase (decrease) in cash and cash equivalents		9,137	(14,236)	(5,099)

Refer to Note 8 for explanation of each quantified Demutualisation Adjustment.

The pro-forma financial information shows a pre-Demutualisation result which reflects NIB and its controlled entities, Demutualisation adjustments and a post-Demutualisation result which reflects NIB Holdings and its controlled entities.

The notes on pages 35 to 47 form part of the pro-forma consolidated financial information (prepared for the purposes of the Proposal, and included in the Explanatory Statement).

Notes to the pro-forma consolidated financial information for the eight month period ended 28 February 2007

1. Preparation of financial information

Basis of preparation

This pro-forma consolidated financial information has been prepared in respect of the consolidated entity (referred to hereafter as the Group) to provide Policyholders with an understanding of the financial impact of the Proposal on the Group.

This pro-forma consolidated financial information has been prepared in accordance with the requirements of the Corporations Act, and the recognition and measurement requirements of applicable Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group Interpretations.

Compliance with International Financial Reporting Standards (IFRSs)

Australian Accounting Standards include AIFRSs. Compliance with AIFRSs ensures that the pro-forma consolidated financial statements and notes of Group comply with IFRSs.

Historical cost convention

These pro-forma consolidated financial statements have 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 property.

Critical accounting estimates

The preparation of pro-forma consolidated financial statements in conformity with AIFRSs 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 Note 2.

Presentation currency

The pro-forma consolidated financial report is presented in the Australian currency.

Summary of significant accounting policies: pre-Demutualisation

The principal accounting policies adopted in the preparation of the pro-forma consolidated financial report are set out below.

(a) Principles of consolidation

(i) Subsidiaries

The pro-forma consolidated financial statements incorporate the assets and liabilities of all subsidiaries of NIB ("company" or "parent entity") as at 28 February 2007 and the results of all subsidiaries for the period then ended. NIB and its subsidiaries together are referred to in this financial report as the Group.

Subsidiaries are all those entities over which the Group 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 the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to Note 1(h)).

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between the consideration paid and the relevant share acquired of the carrying value of identifiable net assets of the subsidiary.

Intercompany transactions, balances and unrealised gains on transactions between Group 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 the Group.

Minority interests in the results and equity of subsidiaries are shown separately in the pro-forma consolidated income statement and balance sheet respectively.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of voting rights. Investments in associates are accounted for in the pro-forma consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

FINANCIAL INFORMATION CONT.

The Group's share of its associates' post-acquisition profits or losses is recognised in the pro-forma consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates reduce the carrying amount of the investment in the pro-forma consolidated financial statements.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Revenue recognition

Revenues are recognised at the fair value of the consideration to be received, 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 pro-forma consolidated income statement when it has been earned. Premium revenue is recognised in the pro-forma consolidated income statement from the attachment date over the period of the contract. The attachment date is the date 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.

The proportion of the premium received or receivable not earned in the pro-forma consolidated income statement at the reporting date is recognised in the pro-forma consolidated 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) 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.

Rental revenue from leasing of investment properties is recognised in the pro-forma consolidated income statement

in the period in which it is receivable, as this represents the pattern of service rendered through the provision of the properties.

(c) 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 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 Note 1(d).

(d) 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 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 Health Benefit Reinsurance Trust Fund 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.

(e) 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 nature of private health insurance contracts.

(f) Income tax

The company, being a registered not-for-profit health benefits organisation, 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.

(g) Leases

Leases of property, plant and equipment where the Group 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 pro-forma consolidated 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 are 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 pro-forma consolidated income statement on a straight-line basis over the period of the lease.

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

(h) 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, equity instruments 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.

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 the Group's share of the identifiable net assets of the subsidiary acquired is

recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of identifiable net assets of the subsidiary acquired, the difference is recognised directly in the pro-forma consolidated 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.

(i) 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.

(j) Assets backing private health insurance liabilities

As part of its investment strategy the Group actively manages its investment portfolio to ensure that 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, the Group 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:

FINANCIAL INFORMATION CONT.

- ✓ 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; and
- ✓ 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 timeframe, 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 the Group 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 the Group.

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 pro-forma consolidated 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 to 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 the company 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 pro-forma consolidated income statement.

(k) Cash and cash equivalents other than those included in assets backing private health insurance liabilities

For pro-forma consolidated 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 pro-forma consolidated balance sheet.

(l) Receivables other than those included in assets backing private health insurance liabilities

Trade and other receivables are stated at their cost less impairment losses.

Collectibility of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment is established when there is objective evidence that the Group 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 pro-forma consolidated income statement.

(m) Inventories

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

(n) 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 pro-forma consolidated 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 pro-forma consolidated balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities on the pro-forma consolidated 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 pro-forma consolidated income statement.

(o) Property, plant and equipment

Land and buildings (except for investment properties – refer to Note 1(j)(iii)) 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 the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the pro-forma consolidated 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 equity. To the extent that the increase reverses a decrease previously recognised in the pro-forma consolidated income statement, the increase is first recognised in the pro-forma consolidated 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 pro-forma consolidated 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
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 Note 1(i)).

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

(p) Intangible assets

(i) Goodwill

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

Bed licences are carried at cost, less accumulated impairment losses. Licences do not have a finite life and as such, have not been amortised. The carrying amount of bed licences is tested annually for impairment and is carried at cost less accumulated impairment losses.

(iii) 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 a half years.

(q) Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the period and which are unpaid. These amounts are unsecured and are usually paid within 30 days of recognition.

FINANCIAL INFORMATION CONT.

(r) 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 the Group's obligations.

(iii) Profit sharing and bonus plans

A liability for employee benefits in the form of profit sharing and 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; or
- ✓ liabilities for profit sharing and 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) 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.

(v) Employee benefit on-costs

Employee on-costs, including payroll tax, are recognised and included in payables and employee costs when the employee benefits to which they relate are recognised.

(s) 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 pro-forma consolidated 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.

(t) Rounding of amounts

Amounts in the pro-forma consolidated financial report have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Summary of significant accounting policies – Demutualisation Adjustments

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

(u) 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 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 the Group.

(v) Share-based payments

Share-based payments have been recognised and measured in accordance with AASB 2 share-based payments.

Alternatively, the amount may be share capital, on one view, but that alternative treatment would have no impact on the overall total equity position.

(w) Reverse acquisition accounting policy

Post demutualisation, the formation of the NIB Group 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 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 fair values of the entities involved in the transaction. This is commonly referred to as a reverse acquisition.

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

2. Critical accounting judgements and estimates

The company 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.

It has been determined that no critical accounting judgements have been made in the period.

The ultimate liability arising from claims made under insurance contracts

Provision is made at the period 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 insurance contracts issued by the company. 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 Health Benefits Reinsurance Trust Fund (HBRTF)/Risk Equalisation Trust Fund (RETF) consequences and claims handling expense.

The HBRTF which was in place until 31 March 2007 and was replaced under the Private Health Insurance Act on 1 April 2007 with the RETF, exist to support the underlying principle of community rating within the Australian private health insurance industry. The core principle of community rating is that persons should not be discriminated against in obtaining or retaining health insurance for hospital coverage. Under community rating some funds may have a membership profile compromised of older or more chronically ill persons than other funds but they cannot charge higher premiums for them than lower-risk persons. Reinsurance/risk equalisation shares some of the risk of these high claiming persons with other

FINANCIAL INFORMATION CONT.

funds. NIB's younger age profile relative to other funds in the Australian Private Health Insurance industry results in NIB being one of the largest contributors to the HBRTF/RETF.

The company 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.

In calculating the estimated cost of unpaid claims, the company uses estimation techniques based upon statistical analyses 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 the company.

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

Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in Note 3.

3. 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, three methods are used. The method used is that which is considered to provide the best estimate based on an analysis of historical experience.

Actuarial assumptions

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

	2007 Hospital	2007 Medical	2007 Ancillary
Average weighted term to settlement from reporting date (months)	1.3	1.6	2.5
Expense rate	3.00%	3.00%	3.00%
Discount rate	0%	0%	0%

The risk margin of 8.9% of the underlying liability has been estimated to equate to a probability of adequacy of approximately 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 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 the company 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

The company conducts sensitivity analyses 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 the company. The tables below describe how a change in each assumption will affect the insurance liabilities.

Impact	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 will decrease the total claims expense.

(ii) Impact of changes in key variables

		Profit consolidated \$'000	Equity consolidated \$'000
Recognised amounts in the financial statements		42,960	326,752
	Variable	Movement in Variable \$'000	Adjusted amounts \$'000
Average weighted term to be settled	+ 0.1 Month	39,722	323,514
	- 0.1 Month	46,198	329,990
Expense rate	+1%	42,490	326,282
	-1%	43,430	327,222
Application of a discount rate of	6.24%	43,324	327,116

FINANCIAL INFORMATION CONT.

4. Income tax

	NIB and controlled entities pre- Demutualisation \$'000	Demutualisation Adjustments \$'000	NIB Holdings and controlled entities post-Demutualisation \$'000
(a) Income tax expense			
Recognised in the income statement			
Current tax expense	–	11,886	11,886
Deferred tax expense	–	–	–
	–	11,886	11,886
(b) Numerical reconciliation of income tax expense to prima facie tax payable			
Profit from continuing operations before income tax expense	43,181	(3,560)	39,621
Profit from discontinuing operations before income tax expense	(221)	221	–
	42,960	(3,339)	39,621
Tax at the Australian tax rate of 30% (2006: 30%)	12,888	(1,002)	11,886
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
Write back of provision on consolidation	299	–	299
Net exempt income	(13,090)	13,090	–
Special building write-off	–	–	–
Non-assessable income	–	–	–
Other non-deductible expenses	343	–	343
Movements in deferred tax balances not brought to account	(440)	(202)	(642)
Income tax expense	–	11,886	11,886

NIB is currently exempt from income tax under the provisions of section 50-30 of the *Income Tax Assessment Act 1997* (Cth) as amended. The above note will reflect the prima facie tax calculation if NIB were to be demutualised.

5. Discontinued operations

(a) Description

On 28 April 2006, NIB and its subsidiaries, NIB Servicing Facilities Limited and Newcastle Private Hospital Pty Ltd, following decisions taken by the boards of the companies, resolved to enter into the following agreements with Healthscope Limited:

- (1) Share Sale Agreement – whereby all the shares held by NIB and NIB Servicing Facilities Pty Limited in Newcastle Private Hospital Pty Ltd are sold to Healthscope Limited, and in regard to this:
 - (i) NIB subscribed for 29,000,000 shares of \$1.00 each in Newcastle Private Hospital Pty Ltd on 27 April 2006 in satisfaction of the advances made to Newcastle Private Hospital Pty Ltd by the ultimate parent entity, NIB in current and prior years;
 - (ii) the Share Sale Agreement is subject to certain conditions precedent which were satisfied on 31 May 2007; and
 - (iii) subject to the completion of the Share Sale Agreement, NIB will lease the land and buildings that house the operations of Newcastle Private Hospital to Healthscope Limited for a term of up to 13 years. Healthscope has within that lease an option to acquire the land and buildings, which is able to be exercised within the initial three years of the lease.

(2) Management Agreement (Note: terms used in this Section have the same meaning as defined in the Management Agreement) – whereby Healthscope Limited manages the operations of Newcastle Private Hospital for Newcastle Private Hospital Pty Ltd and NIB, and in regard to this:

- (i) the term of the Management Agreement commenced 1 May 2006 and continues until the earlier of the completion of the Share Sale Agreement or three months after its termination; and
- (ii) Healthscope Limited as Manager is to receive the following payments:
 - (a) all Manager's costs and expenses incurred in providing the Services and managing the Operations;
 - (b) a fixed proportion of the Manager's Overhead;
 - (c) a further proportion of the Manager's Overheads up to a maximum amount subject to a defined financial savings target being achieved; and
 - (d) a Management Fee up to a maximum amount subject to a defined financial target being achieved.

(b) Details of the sale of the operations

Once the conditions precedent to the Share Sale Agreement have been met, consideration (both principal and interest) of \$17.5 million is payable in annual instalments over a three year period.

(c) Commitments and contingent liabilities

The terms of the Newcastle Private Hospital Operations Management Agreement give rise to commitments for payments to the Manager as set out in (2)(ii) (a) and (b) above.

The terms of the Newcastle Private Hospital Operations Management Agreement give rise to contingent liabilities for payments to the Manager as set out in (2)(ii) (c) and (d) above.

6. Current liabilities – outstanding claims liability

(a) Outstanding claims liability

	NIB and controlled entities pre- Demutualisation \$'000	Demutualisation Adjustments \$'000	NIB Holdings and controlled entities post-Demutualisation \$'000
Outstanding claims – central estimate of the expected future payments for claims incurred	43,191	–	43,191
Risk Margin	3,959	–	3,959
Claims handling costs	1,296	–	1,296
Gross outstanding claims liability	48,446	–	48,446
Outstanding claims – expected payment to the HBRTF/RETF in relation to the central estimate	6,046	–	6,046
Risk Margin	538	–	538
Net outstanding claims liability	55,030	–	55,030

Refer to Note 8 for explanation of each quantified Demutualisation Adjustments.

(b) Risk margin

The risk margin of 8.9% of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95%.

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 the company. 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 three valuation classes, namely Hospital and Prostheses services combined, Medical services, and Ancillary and Ambulance services combined. Diversification benefits within a valuation

FINANCIAL INFORMATION CONT.

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 modified chain ladder method, based on historical experience and future expectations as to claims. For Hospital and Prostheses services in particular, expected claim numbers and average claims size are used for the most recent three months.

The business written by the company 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:

	NIB and controlled entities pre-Demutualisation \$'000	Demutualisation Adjustments \$'000	NIB Holdings and controlled entities post-Demutualisation \$'000
Gross outstanding claims at 1 July 2006	50,804	–	50,804
Administration component	(1,416)	–	(1,416)
Risk margin	(2,188)	–	(2,188)
Central estimate at 1 July 2006	47,200	–	47,200
Change in claims incurred for the prior year	1,523	–	1,523
Claims paid in respect of the prior year	(47,884)	–	(47,884)
Claims incurred during the year (expected)	326,328	–	326,328
Claims paid during the year (expected)	(283,976)	–	(283,976)
Central estimate at 28 February 2007	43,191	–	43,191
Administration component	1,296	–	1,296
Risk margin	2,002	–	2,002
Change in risk margin assumption	1,957	–	1,957
Gross outstanding claims at 28 February 2007	48,446	–	48,446

7. Reserves

	NIB and controlled entities pre-Demutualisation \$'000	Demutualisation Adjustments \$'000	NIB Holdings and controlled entities post-Demutualisation \$'000
Property, plant and equipment revaluation reserve	7,126	–	7,126
Share-based payments reserve	–	322,409	322,409
	7,126	322,409	329,535

Refer to Note 8 for explanation of each quantified Demutualisation Adjustments.

(a) Nature and purpose of reserves

(i) Property, plant and equipment revaluation reserve

The property, plant and equipment revaluation reserve is used to record increments and decrements on the revaluation of non-current assets, as described in Note 1(o).

(ii) Share-based payments reserve

The share-based payments reserve is used to recognise the Demutualisation and the resultant issue of Shares to Policyholders.

8. Demutualisation Adjustments

The following adjustments have been made to reflect the effect Demutualisation would have on the pro-forma consolidated financial information.

(a) Demutualisation costs

Demutualisation costs of \$1,233,815 incurred to 28 February 2007 are deducted from other underwriting expenses in the income statement.

Demutualisation costs of \$3,916,185 expected to be incurred subsequent to 28 February 2007 are deducted from cash and cash equivalents and retained profits in the balance sheet.

Demutualisation costs of \$1,233,815 incurred to 28 February 2007 have been deducted from payments to members, suppliers and employees (inclusive of goods and services tax) in the cash flow statement.

(b) Health care services operations

Gain on disposal and revenue of \$3,738,000 and expenses of \$2,544,000 relating to the Dental and Eye Care business that was divested in November 2006 have been removed from the income statement.

Expenses of \$2,544,000 have been deducted from payments to members, suppliers and employees (inclusive of goods and services tax) in the cash flow statement. Revenue received of \$2,488,000 has been deducted from receipts from policyholders and customers (inclusive of goods and services tax) in the cash flow statement.

(c) Ongoing costs of a public company

Other expenses of \$3,600,000 have been increased in the income statement for the ongoing costs associated with a public company.

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

(d) Income tax

The income statement is adjusted for the income tax expense attributable to profit before income tax.

The cash flow statement is adjusted for income tax paid.

(e) Discontinued operations (Newcastle Private Hospital)

The loss from the discontinued operation of Newcastle Private Hospital has been removed from the income statement.

The assets and liabilities of Newcastle Private Hospital have been removed and adjusted against retained profits in the balance sheet.

The deferred principle consideration for the sale of Newcastle Private Hospital has been recognised in current and

non-current receivables and adjusted against retained profits in the balance sheet.

The following items were removed from to the cash flow statement due to the discontinuing operations of Newcastle Private Hospital:

- ✓ receipts from Policyholders and customers (inclusive of goods and services tax) \$28,153,000;
- ✓ payments to members, suppliers and employees (inclusive of goods and services tax) \$27,495,000;
- ✓ interest received \$11,000; and
- ✓ payments for property, plant and equipment and intangibles \$629,000.

(f) New head office costs subsequent to 28 February 2007

Property, plant and equipment has been increased by \$4,676,000 and investments have been used to fund the acquisition subsequent to 28 February 2007 in the balance sheet.

(g) Sale of Hunter Street property

The amount of \$8,650,000 has been reclassified from property, plant and equipment to non-current assets classified as held for sale in the balance sheet due to the planned sale of the Hunter Street property.

(h) Issue of Shares

The issue of Shares in NIB results in the creation of a reserve. The fair value of Shares granted to Policyholders was recognised through the income statement with a corresponding increase in equity via the share-based payments reserve. In the pro-forma financial information, we have not included the expense in the income statement as it does not appropriately reflect the ongoing operations of the NIB Group, it is however, reflected in the retained profits/(losses) in the balance sheet. It is relevant to note that the anticipated accounting entries, which are expected to occur in the financial year ended 30 June 2008 will prevent NIB, and as a consequence NIB Holdings, from paying dividends in the 2008 financial year. The only distributions that could be made in the 2008 financial year would be by way of a return of capital. The fair value is measured at the grant date. For the purpose of the pro-forma financial information, fair value has been taken as the estimated pro-forma net assets at the Demutualisation Date. The fair value may be different, however, this will not affect the net assets position of the entity rather the allocation between retained profits and the Share-based payments reserve. Alternatively, the amount may be share capital, on one view, but that alternative treatment would have no impact on the overall total equity position. The ability of NIB to make distributions, and the associated taxation consequences, will not vary regardless of the final determined treatment.

FINANCIAL INFORMATION CONT.

5.3 Investigating Accountant's Report



The Board of Directors
NIB Health Funds Limited
Locked Bag 2010
NEWCASTLE NSW 2300

31 May 2007

Dear Directors

Investigating Accountant's Report on Historical and Proforma Financial Information

We have prepared this report on historical and proforma financial information of the NIB Group for inclusion in this Explanatory Statement relating to the proposed Demutualisation by way of a scheme of arrangement.

Expressions defined in the Explanatory Statement 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 Securities Licence under the Corporations Act 2001 (Cwlth). PricewaterhouseCoopers Securities Ltd is wholly owned by PricewaterhouseCoopers and holds the appropriate Australian Financial Services Licence.

Background

Scope

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

- (a) the historical financial performance and cash flows of the NIB Group for the 8 month period ended 28 February 2007 ("pre Demutualisation") and the proforma financial performance and cash flows of the NIB Group for the same period ("post Demutualisation"), which reflects the impact of Demutualisation and other adjustments to reflect the business of the NIB Group going forward ("Demutualisation Adjustments"), and
- (b) the historic Balance Sheet as at 28 February 2007 ("pre Demutualisation") and the proforma Balance Sheet position as at 28 February 2007 which reflect the impact of Demutualisation ("post Demutualisation").

This Report has been prepared for inclusion in the Explanatory Statement. We disclaim any assumption of responsibility for any reliance on this Report or on the historical financial Information to which it relates for any purposes other than that for which it was prepared.

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NIB Health Funds Limited
31 May 2007

Scope of review of historical financial information

The historical financial information set out in Section 5.2 of the Explanatory Statement has been extracted from the financial statements of the NIB Group, and incorporates such Demutualisation Adjustments as the Directors considered necessary to reflect the operations and financial position of the NIB Group post demutualisation. The Directors are responsible for the preparation of the historical financial information, including determination of the Demutualisation 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 financial performance of the NIB Group for the relevant historical period
- a review of work papers, accounting records and other documents
- a review of the assumptions used to determine the Demutualisation Adjustments
- a comparison of consistency in application of the recognition and measurement principals in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by the NIB Group disclosed in Section 5.2 of the Explanatory Statement, 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.

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 proforma financial information has not been properly prepared on the basis of the Demutualisation Adjustments
- the Demutualisation Adjustments do not form a reasonable basis for the proforma financial information
- the historical financial information, as set out in Section 5.2 of the Explanatory Statement does not present fairly:
 - (a) the historical and proforma financial performance and cash flows of the NIB Group for the period ended 28 February 2007; and
 - (b) the historical and proforma Balance Sheets of the NIB Group as at 28 February 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 NIB Group disclosed in Section 5.2 of the Explanatory Statement.

FINANCIAL INFORMATION CONT.



NIB Health Funds Limited
31 May 2007

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 NIB Group 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.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Wayne Russell'.

Wayne Russell
Authorised Representative of
PricewaterhouseCoopers Securities Ltd

A handwritten signature in black ink, appearing to read 'Bob Prosser'.

Bob Prosser
Authorised Representative of
PricewaterhouseCoopers Securities Ltd

6 EXPERTS' REPORTS

6.1 Independent Financial Expert's Report



NIB HEALTH FUNDS LIMITED

**FINANCIAL SERVICES GUIDE AND
INDEPENDENT EXPERT'S REPORT**

31 May 2007

EXPERTS' REPORTS CONT.



BDO Kendalls

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FINANCIAL SERVICES GUIDE

Dated 31 May 2007

BDO Corporate Finance Pty Ltd ABN 91 003 946 030 ("BDO Corporate Finance" or "we" or "us" or "ours" as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

1 FINANCIAL SERVICES GUIDE

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide ("FSG"). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees. This

FSG includes information about:

- Who we are and how we can be contacted;
- The services we are authorised to provide under our Australian Financial Services Licence, Licence No: 244345
- Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- Any relevant associations or relationships we have; and
- Our complaints handling procedures and how you may access them.

2 FINANCIAL SERVICES WE ARE LICENSED TO PROVIDE

We hold an Australian Financial Services Licence which authorises us to provide general financial product advice to retail and wholesale clients in the following classes of financial products:

- Derivatives limited to old law securities options contracts and warrants;
- Debentures, stocks or bonds issued or proposed to be issued by a government;
- Interests in managed investment schemes excluding investor directed portfolio services;
- Securities; and
- Superannuation

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

3 GENERAL FINANCIAL PRODUCT ADVICE

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

4 FEES, COMMISSIONS AND OTHER BENEFITS THAT WE MAY RECEIVE

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees will be agreed on an hourly basis or as a fixed amount depending on the terms of the agreement.

Except for the fees referred to above, neither BDO Corporate Finance, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of a report.

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7 ASSOCIATIONS AND RELATIONSHIPS

From time to time BDO Corporate Finance or BDO and/or BDO related entities may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

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8.1 INTERNAL COMPLAINTS RESOLUTION PROCESS

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to The Complaints Officer, BDO Corporate Finance, GPO Box 2551, Sydney NSW 2001.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.

8.2 REFERRAL TO EXTERNAL DISPUTE RESOLUTION SCHEME

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Industry Complaints Service Limited ("FICS"). FICS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

BDO Corporate Finance is a member of the FICS Complaints Handling Tribunal No. F3819.

Further details about FICS are available at the FICS website www.fics.asn.au or by contacting them directly via the details set out below.

Financial Industry Complaints Service Limited

PO Box 579
Collins Street West
MELBOURNE VIC 8007

Toll free: 1300 780 808
Facsimile: (03) 9621 2291

9 CONTACT DETAILS

You may contact us using the details set out at the top of our letterhead of this FSG.

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NIB HEALTH FUNDS LIMITED

Table of Contents

1	INTRODUCTION	1
2	SUMMARY AND OPINION	1
3	SUMMARY OF THE PROPOSAL	3
4	BASIS OF ASSESSMENT	5
5	INDUSTRY OVERVIEW	7
6	OVERVIEW OF NIB	12
7	OPINION AS TO WHETHER THE PROPOSAL IS IN POLICYHOLDERS' AND COMPANY MEMBERS' BEST INTERESTS AS A WHOLE	16
8	OPINION ON WHETHER THE PROPOSAL PROVIDES AN EQUITABLE BASIS FOR ALLOCATING SHARES TO ELIGIBLE POLICYHOLDERS	21
9	SOURCES OF INFORMATION	23
10	INDEPENDENCE	24
11	QUALIFICATIONS	24
12	DISCLAIMERS AND CONSENTS	24
13	INDEMNITY	25

EXPERTS' REPORTS CONT.



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31 May 2007

The Directors
NIB Health Funds Limited
Locked Bag 2010
NEWCASTLE NSW 2300

Dear Sirs

INDEPENDENT EXPERT'S REPORT – NIB HEALTH FUNDS LIMITED

1 INTRODUCTION

BDO Corporate Finance has been engaged by NIB to prepare an Independent Expert's Report ("**Report**") to express an opinion as to:

- whether the Proposal to Demutualise is in the best interests of Policyholders and Company Members as a whole; and
- whether the Proposal provides an equitable basis for allocating Shares to Eligible Policyholders.

Our analysis and assessment of whether the Proposal is in Policyholders and Company Members' best interests and whether it provides an equitable basis for allocating Shares to Eligible Policyholders has been undertaken having regard to Policyholders and Company Members as a whole, as required by the Corporations Act. We have not considered the effect on individual members.

The expressions defined in the Glossary of the Explanatory Statement have the same meaning in this Report.

2 SUMMARY AND OPINION

As set out in our basis of evaluation in Section 4.3, our opinion has been arrived at after consideration of all circumstances relevant to the Proposal. The relevant factors in this assessment are set out below.

2.1 Opinion on whether Demutualisation is in Policyholders' and Company Members' Best Interests as a whole

In assessing whether the Proposal is in the best interests of Policyholders and Company Members as a whole, we have considered:

- The key advantages and disadvantages of the Proposal to Policyholders and Company Members (Section 2.1.1); and
- The various alternatives to Demutualisation including alternative forms of distributing value to Policyholders and Company Members (Section 7.3).

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2.1.1 Advantages and Disadvantages

In Section 7.1 and 7.2 of this Report, we have considered the main advantages and disadvantages to Policyholders and Company Members of accepting the Proposal. These are summarised below.

Section	Advantages and Disadvantages	
	Advantages	Section Disadvantages
7.1.1	Demutualisation allows Policyholders and Company Members to realise their share of the value currently "locked up" within NIB through dividends, distributions and the sale of their Shares in NIB Holdings.	7.2.1 Policyholders and Company Members will relinquish their existing membership rights in NIB.
7.1.2	Demutualisation will potentially enhance NIB's ability to raise additional capital, together with capital management flexibility, which would leave NIB in a stronger capital position and provides further security of Policyholders' benefits.	7.2.2 NIB will no longer be an income tax exempt entity.
7.1.4	The Proposal is unlikely to have an adverse impact on the reasonable benefit expectations of the Policyholders under the Policies issued by NIB.	7.2.3 The receipt of any dividends or any disposal of Shares at a profit may result in potential adverse tax and social security consequences for Policyholders and Company Members on Demutualisation.
7.1.5	Policyholders' benefits should remain adequately secured after Demutualisation.	7.2.4 Premium rates might be affected after Demutualisation.
7.1.6	Demutualisation provides the opportunity to list NIB Holdings on the ASX or any other stock exchange which would further enhance the ability to raise additional capital and may result in a potential increase in liquidity.	7.2.5 A potential Listing would impose additional administrative and compliance costs on NIB Holdings. If Listing does not occur, Shareholders may be unable to realise, or have difficulty realising, value for their Shares. Further, future capital raisings may have a dilutive impact on shareholdings and earnings.

2.1.2 Conclusion

In our opinion, based on the above factors and other issues addressed in this Report, on balance, we consider that the Proposal is in the best interests of Policyholders and Company Members as a whole.

2.2 Opinion on whether the Proposal provides an equitable basis for allocating Shares to Eligible Policyholders

In order to assess whether the Proposal provides an equitable basis for allocating Shares to Eligible Policyholders and Company Members (in their capacity as Eligible Policyholders) we have assessed whether the proposed Share Allocation Rules to be used to allocate Shares on Demutualisation to Eligible Policyholders are reasonable.

The principles of the proposed basis of allocating Shares to Eligible Policyholders are summarised below and discussed in more detail in Section 8 of this Report.

2.2.1 Share Allocation Rules

Shares will be allocated to all Policyholders who are eligible to receive Shares (Section 8.2). The key elements of the proposed Share Allocation Rules are as follows:

- Eligible Policyholders with an Ambulance Only Policy will be allocated 10 Shares per Year of Membership subject to a minimum allocation of 100 shares and a maximum allocation of 300 Shares;
- Eligible Policyholders with Single Policies will be allocated 100 Shares per Year of Membership subject to a minimum allocation of 300 Shares and a maximum allocation of 3,000 Shares;

EXPERTS' REPORTS CONT.



- Eligible Policyholders with Family Policies will be allocated 200 Shares per Year of Membership subject to a minimum allocation of 600 Shares and a maximum allocation of 6,000 Shares; and
- Company Members will receive Shares only in their capacity as Eligible Policyholders in accordance with the Share Allocation Rules.

The proposed Share Allocation Rules have been recommended by the Board based on the advice of the Consulting Actuary. This approach is generally consistent with other previous Australian demutualisations. The Consulting Actuary considers this approach reasonable.

2.2.2 Conclusion

We conclude that the distribution of Shares to be issued to Eligible Policyholders on Demutualisation seems to provide a superior value to Policyholders and Company Members compared to the alternatives.

In our opinion, based on the above factors we consider that the basis of share allocation is reasonable and accordingly believe that the Proposal provides an equitable basis for allocating Shares to Eligible Policyholders.

3 SUMMARY OF THE PROPOSAL

3.1 Overview of the Proposal to Demutualise

The Proposal will involve a change in structure from that of a mutual company limited by guarantee to a company limited by shares as follows:

- Eligible Policyholders and Company Members (in their capacity as Eligible Policyholders) receiving Shares;
- Cancellation of Company Members' existing rights and obligations as Company Members (Section 3.3);
- NIB Holdings acquiring 100% of NIB, and
- Eligible Policyholders becoming Shareholders of NIB Holdings.

Following Demutualisation, the Board intends to list NIB Holdings on the ASX within six months. The Board intends to establish a Sale Facility for Shareholders on Listing, allowing Shareholders (should they wish) to sell their Shares and receive cash.

If the Proposal is implemented, a new charitable Foundation will be formed to benefit the community from a donation of \$25 million at Listing. The donation will be funded from a new share issue and will not impact the capital position of NIB.

There is however no guarantee that the Listing will occur.

3.2 Implementation Process

The Proposal is intended to be achieved through:

- two schemes of arrangement (i.e. the Company Members' Scheme and the Policyholders' Scheme);
- the Company Members' Resolutions and the subscription for shares in NIB by NIB Holdings, and
- the issue of Shares by NIB Holdings to Eligible Policyholders and the Trustee of the Unconfirmed and Overseas Policyholders Trust.



The following approvals are required for the Proposal to be implemented:

- Eligible Policyholders’ approval of the Policyholders Scheme Resolution;
- Company Members’ approval of the Company Members’ Scheme Resolution;
- Company Members’ approval of the Company Members’ General Resolutions;
- ASIC review and approval of the Explanatory Statement;
- Court approval of the Schemes of Arrangement; and
- PHIAC approval.

If all approvals are obtained, the Proposal will be effected through the following steps:

- NIB converts from a company limited by guarantee (which has no share capital) to a company limited by Shares and NIB issues Shares to Eligible Policyholders;
- NIB issues Shares to NIB Holdings;
- NIB cancels the Shares it has issued to the Eligible Policyholders (the Shares NIB has issued to NIB Holdings are not cancelled) and NIB Holdings becomes the parent company of NIB; and
- NIB Holdings issues the same number of Shares to Eligible Policyholders.

3.3 Existing Rights of Policyholders and Company Members

Parties	Existing Rights
Policyholders	<ul style="list-style-type: none"> • Contractual rights to benefits as entitled to in accordance with the terms of their NIB health insurance Policy; • Depending on the type of product held, entitlement to be covered for ambulance costs, reimbursement towards costs of service not covered by Medicare including dental, optical, physiotherapy and natural therapies and some or all of the cost of going to hospital for certain procedures; • Rights are those of contingent creditors; • Right to apply to be a Company Member; • No voting rights and no rights to the assets or value of the business (even in the event of a wind up).
Company Members	<p>The 50 Company Members have the following rights:</p> <ul style="list-style-type: none"> • Contractual rights through their NIB Policies, as the current Constitution of NIB provides that a Company Member must also be a Policyholder; • Company Membership Rights primarily include the right to attend NIB’s general meetings, including the right to speak, vote and appoint a proxy to vote. Each Company Member has one vote at these meetings. Company Members can exercise this right collectively to appoint Directors and amend the Constitution; • Company Membership Rights are not transferable; and • They do not have any interest or property rights in the assets or profits of NIB (even in the event of a wind up).

EXPERTS' REPORTS CONT.



3.4 Reasons for Pursuing Demutualisation

The Board recommended the Proposal to Policyholders and Company Members after considering:

- Structural changes in the health care industry with regards to level of regulation and pricing inflexibilities in the light of increasing health care costs;
- NIB's business strategy in response to recent industry developments by investing in its brand and product development focussing on attracting the uninsured and by potentially investing in acquisitions;
- The existing corporate structure is no longer optimal as it restricts NIB's ability to raise capital in traditional markets like the equity markets, and
- The objective to maximise value for Policyholders (including Company Members). Under the existing mutual structure NIB can only distribute value to Policyholders through reduced premiums and/or increased benefits, which is also limited due to the need to retain capital for regulatory purposes.

4 BASIS OF ASSESSMENT

4.1 Corporations Act 2001

NIB proposes to demutualise by undertaking a Demutualisation Scheme of Arrangement pursuant to Section 411 of the Corporations Act consisting of:

- Policyholders' Scheme between NIB and the Eligible Policyholders; and
- Company Members' Scheme between NIB and Company Members.

Section 411(3)(b) of the Corporations Act requires that NIB prepare

a "draft Explanatory Statement" which, amongst other things, sets out "such information as is prescribed and any other information that is material to the making of a decision by a creditor or member of the body whether or not to agree to the proposed compromise or arrangement, being information that is within the knowledge of the directors of the body and has not previously been disclosed to the creditors or members of the body."

4.2 Private Health Insurance Act

The Private Health Insurance Act was recently amended to require the approval of the PHIAC for a change from not for profit status of a health fund. This change from not for profit status is a key component of a demutualisation (Section 5.3.2).

In accordance with Section 126.42 of the Private Health Insurance Act 2007 the Council must approve the demutualisation "if the Council is satisfied that the conversion scheme would not result in financial benefits from the scheme being distributed inequitably between such policyholders and insured persons".



4.3 Adopted Basis of Evaluation

4.3.1 Best Interests

ASIC Policy Statement 75 "Independent Expert Reports to Shareholders" indicates the principles and matters which ASIC expects a person preparing an expert report under Section 411(13) of the Corporations Act to consider in assessing whether the Scheme of Arrangement is "in the best interests of the members as a whole".

As there is no legal definition of the phrase "in the best interests", in our opinion, the most appropriate method to evaluate whether the Proposal is in the best interests of Policyholders and Company Members as a whole is to assess:

- whether the likely advantages of the Proposal to NIB and its Policyholders and Company Members outweigh the likely disadvantages;
- whether the Proposal is the most advantageous alternative available to NIB and its Policyholders and Company Members; and
- generally whether Policyholders and Company Members as a whole will be better off if the Proposal proceeds than if it does not.

Specifically in undertaking this assessment we have considered:

- the financial position of Policyholders and Company Members pre and post Demutualisation;
- whether the Demutualisation process provides advantages to NIB and its Policyholders and Company Members compared to the alternatives, including remaining as a mutual;
- whether the Proposal delivers more benefits to Policyholders and Company Members compared to any of the potential alternatives; and
- whether Policyholders' benefits and expectations are not adversely impacted and their security is not compromised.

Our analysis and assessment of whether the Proposal is in Policyholders' and Company Members' best interests as a whole has been undertaken having regard to Policyholders and Company Members, as required by the Corporations Act. We have not considered the effect on individual members.

4.3.2 Basis of Share Allocation

In our opinion, the basis of allocation will be reasonable and will not result in an inequitable distribution of financial benefits between Eligible Policyholders and insured persons if:

- generally there is no discrimination in the allocation of Shares to Eligible Policyholders as a whole;
- the process used in arriving at the allocation basis is appropriate;
- the allocation basis, where possible, is objective rather than subjective;
- the allocation basis can be implemented practically;
- whether the basis of allocating shares provides a reasonable basis for allocating the value of NIB to Eligible Policyholders;
- the allocation basis reflects where identifiable, the relative financial contribution members have made to NIB's accumulated funds; and

EXPERTS' REPORTS CONT.



- the process is consistent with precedents in other Australian and overseas demutualisations.

In forming our opinion, BDO Corporate Finance has reviewed the reports of NIB's Appointed Actuary and NIB's Consulting Actuary in relation to the Proposal. We have considered the underlying analysis undertaken in these reports and evaluated the reasonableness of their arguments and conclusions in forming our opinion.

4.4 Use Of Experts

Within this Report, BDO Corporate Finance has used and relied upon information, comments and conclusions included in the following reports:

- Report prepared by NIB's Appointed Actuary, Mark Bishop; and
- Report prepared by the Consulting Actuary, Ernst & Young ABC Pty Limited.

The experts are suitably qualified and we believe that their analysis and conclusions stated in their report are reliable and appropriate for the purpose of our Report.

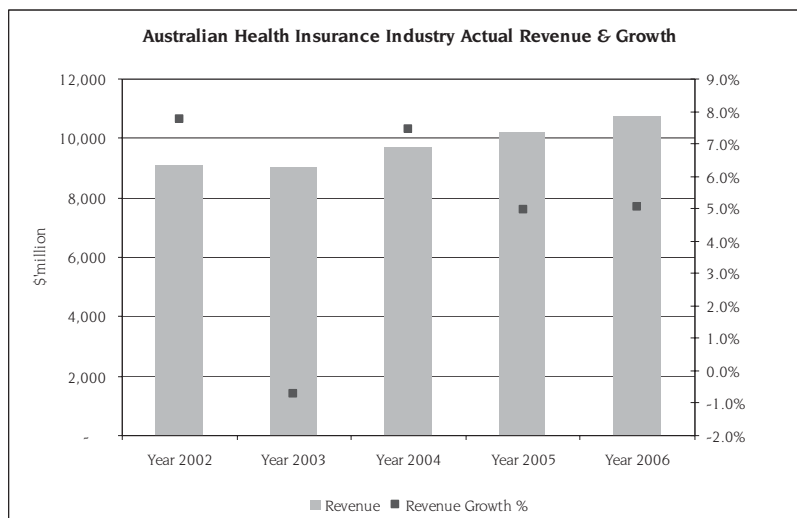
5 INDUSTRY OVERVIEW

NIB operates within the health insurance industry. The players in this Industry are mainly engaged in providing insurance cover for hospitals, medical, dental, pharmaceutical and funeral expenses or costs.

5.1 Historical Performance

Private health insurance in Australia is a dynamic industry. The environment in which the 37 registered health funds operate continues to change in line with developments in medical technology, the needs and expectations of members and the wider community, and the policies of government and industry regulators.

The Industry generated revenue of approximately \$10.7 billion in 2006. The following diagram shows the historical Industry revenue since 2002.



Source: IBISWorld Health Insurance in Australia – 14 March 2007

The Industry's main source of revenue is from the contribution premiums paid by insured parties. Other sources of revenues are primarily from investment incomes and fees charged.

Health insurance coverage declined marginally in 2003 which contributed to the industry revenue decline of 0.5%. By the end of 2004, the global economy had been recovering for more than a year and consumer spending increased significantly due to additional benefits payments and tax cuts. Conditions in the financial markets also improved significantly in 2004. All these factors contributed to the increase of 7.4% in industry revenue. Since then, the economy has remained stable and industry revenue has increased by an average of 5% per annum.

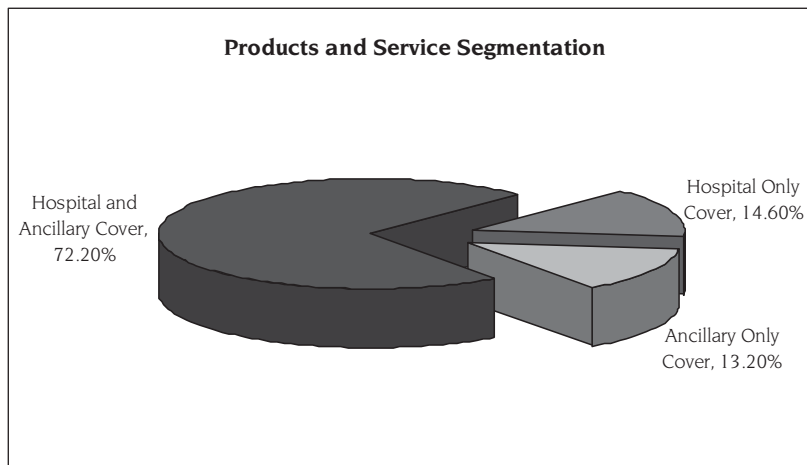
In 2006, the PHIAC indicated that the Industry had improved its financial position with the largest profit contribution coming from investment income.

During 2006 Australians spent more than \$60 billion on healthcare through public and private systems. A report released by the Federal Government during 2006 concluded that spending in this area will continue to rise – in fact double – over the next 40 years.

This reality is placing continued pressure on the government to increase spending on health and has been the catalyst for proposed legislative changes affecting the health care industry.

5.2 Product Segmentation

The following table is based on total persons covered under the different policies as registered with the PHIAC for the year ended June 2006.



Source: IBISWorld Health Insurance in Australia – 14 March 2007

5.3 Regulatory Environment

5.3.1 Regulatory Requirements for Solvency and Capital Adequacy

The standards for solvency and capital adequacy for private health insurers are legislated under Divisions 140 and 143 of the Private Health Insurance Act. These standards impose a two-tier capital requirement on private health insurers:

- The first tier is intended to ensure the basic solvency of the health benefits fund; and
- The second tier is intended to secure the financial soundness of the health benefits fund on a going concern basis. It is expected that in most circumstances this second tier will provide an additional buffer of capital above the minimum solvency requirement.

Sections 140-15 and 143-15 of the Private Health Insurance Act oblige every private health insurer (including NIB) to be in compliance with the requirements of the standards.

EXPERTS' REPORTS CONT.



5.3.2 Private Health Insurance Act

On 1 April 2007 the Private Health Insurance Act and associated legislation came into force. The Private Health Insurance Act:

- provides incentives to encourage people to have private health insurance (Section 5.3.3);
- sets out rules governing private health insurance products; and
- contains requirements about how health insurers are to conduct their insurance business.

The Private Health Insurance Act also enables the Minister for Health and Ageing to make private health insurance rules, which are discussed in the Explanatory Statement.

5.3.3 Regulatory Initiatives to Encourage Private Health Insurance Coverage

The Government has put in place a number of initiatives to incentivise members of the Australian public to take out private health insurance to reduce the impact on Australia's public health system:

- Lifetime Health Cover (LHC) - people are encouraged to take out health insurance before they turn 31 years of age. People who join after this time will have to pay a 2% loading on top of their health insurance premium for every year they are aged over 30.
- Federal Government Rebate - the 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) and 40% (70 years or older).
- Medicare Levy Surcharge – the surcharge of 1% of taxable income is levied on those high income earners (single and earning more than \$50,000 pa or a couple or family earning more than \$100,000 pa) who do not have private health insurance with a low front end deductible or excess.

5.4 Demand Determinant

The demand for health insurance products is determined by the following major factors.

5.4.1 Medicare Coverage

Medicare is a program administered by the Health Insurance Commission to provide universal health cover. The less Medicare covers, the more demand for private health insurance.

5.4.2 Regulations and Initiatives

As discussed in Section 5.3.3, the Government has been promoting the private health cover to take the pressure off the public health system. The introduction of the 30% rebate in 1999, followed by the LHC scheme, led to a surge in the number of people seeking private health cover.

During the past year the Federal Government announced industry changes that offer private health insurers the ability to widen their scope to include cover for areas 'beyond the hospital gate', which have been traditionally covered by Medicare.

5.4.3 Cost of Private Health Insurance

The relative cost of private health insurance to the cost of services insured is a major determinant.

5.4.4 Taxation Incentives

People with private health insurance can reduce the after tax cost of insurance, therefore it increases demand.

5.4.5 Other

Other factors can be the age distribution and level of disposable income. Older people demand more private insurance and people likely to purchase more insurance with higher income.

5.5 Industry Conditions

5.5.1 Barriers of Entry

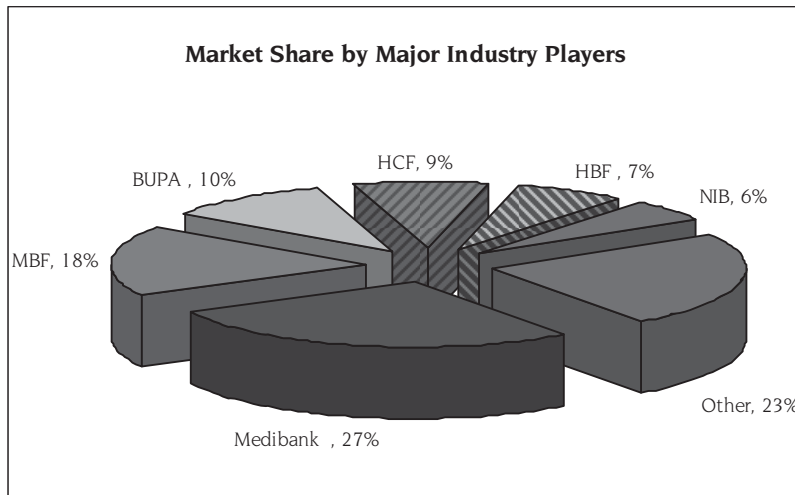
The industry is difficult to enter given it is highly regulated by the Government. There is minimum capital reserve required and the cost of setting up a selling network is very high. The established players dominate the majority market share in the industry.

5.5.2 Life Cycle

The industry is at mature stage and until recently was considered to be in a decline stage. The revived growth was due to the introduction of a number of Government initiatives (Section 5.3.3). Industry gross product grew faster than the general economy in the five years to 2007. However, this growth largely reflects the sizable decrease in industry profits in the year following the introduction of LHC, which ensued as the surge in people seeking health cover in 2001 had completed their one year claim waiting period.

5.6 Major Competition

The competition is very steady, given that a small number of players dominate the majority of the market. The diagram below shows major players' market share based on total revenue for the year ended 30 June 2006.



Source: IBISWorld Health Insurance in Australia – 14 March 2007 and NIB Management.

5.6.1 Medibank Private Limited ("Medibank")

Medibank, the largest private health insurer in Australia, provides a range of private health insurance services, including hospital insurance for private patients, ancillary insurance, ambulance insurance and private health insurance to overseas students and visitors to Australia.

In September 2006, the Government has announced its intention to privatise Medibank via a share market float in 2008, subject to the new elected Government's decision.

EXPERTS' REPORTS CONT.



5.6.2 Medical Benefits Fund of Australia ("MBF")

MBF primarily provides reimbursement of hospital, dental and paramedical services and health maintenance services and the provision of insurance services.

5.6.3 BUPA Australia Health Pty Ltd ("BUPA")

BUPA is the Australian subsidiary of the British United Provident Association, a leading independent UK health care organisation with more than 6 million members in 190 countries.

5.6.4 HBF Health Funds Inc ("HBF")

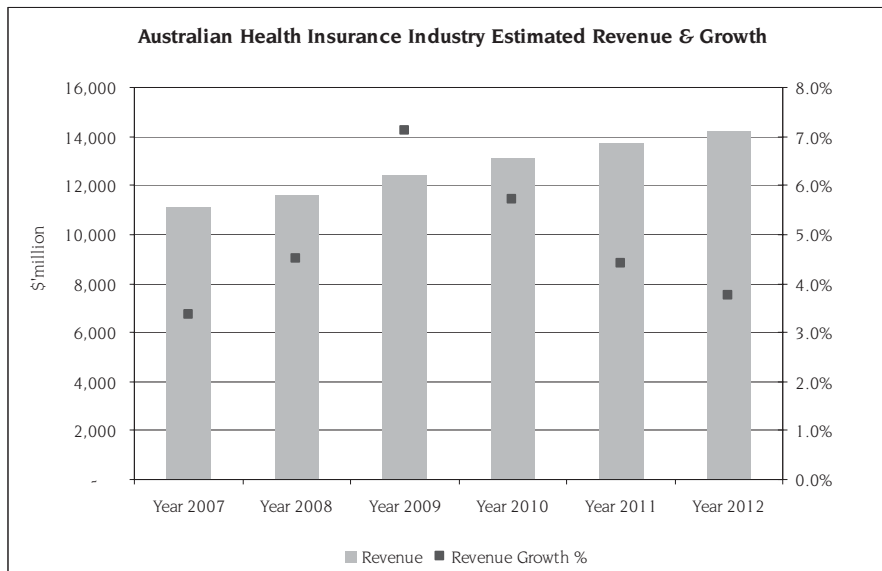
HBF, an origin of the Perth Metropolitan Hospitals Benefit Fund, has an estimated 70% market share in its geographical location in Western Australia.

5.6.5 Hospitals Contribution Fund of Australia ("HCF")

It is a not-for-profit health benefits fund formed in 1932 operating throughout NSW and ACT. It provides a full range of health benefits, ancillary health and related services and accident and life insurance.

5.7 Industry Outlook

The estimated growth in revenue for the Industry is shown in the graph below.



Source: IBISWorld Health Insurance in Australia – 14 March 2007

Note: The surge in 2001 was led by the effect of LHC and 30% rebate program introduced by the Government.

The industry is estimated to grow at an average rate of 5.1% per annum from 2007 to 2012. The growth is expected to be contributed by premium growth and growth in coverage.



The number of persons covered is expected to grow at the same rate as population growth (i.e. 1.1% per annum). As a result, health insurance coverage is expected to stabilise at around 43% of the total Australian population from 2007 to 2010. However, there is pressure for benefit payments to increase as the range and cost of health services increases, partly due to new technologies. The ageing of the population will also place more pressure on benefit payments. All these factors are expected to put pressure on the Industry profitability in the future.

According to IBIS, there are currently minor incentives for health funds to meet cost-cutting targets due to their organisational structures. Of the 37 health funds in Australia, only 4 are "for-profit" funds. While the mutual structure is likely to result in fewer disputes over claims, there are no shareholders paying for higher returns, which leave health funds with lower pressure to cut costs. The lack of profit focus among most of these funds leaves them in a position as cash-flow managers, where success is measured in market share.

Health insurance funds will continue to seek to keep down costs by negotiating agreements with hospitals and doctors, and by restraining growth in management expenses. There will be pressure for rationalisation in the industry, with some funds seeking opportunities to accrue economies of scale, while other funds seek to reduce the risks associated with smaller funds.

6 OVERVIEW OF NIB

6.1 Background

NIB was founded in 1952 as a not-for-profit organisation by workers at Newcastle's BHP Steelworks and was known as Newcastle Industrial Benefits Hospital Fund.

NIB operated exclusively in Newcastle until 1975 when it amalgamated with the South Coast Medical Fund, increasing membership by 10,000 in the Illawarra region.

NIB opened its first retail centre in Sydney in 1982. In 1993 the fund ventured into the interstate market, opening retail centres in Queensland, Victoria and the ACT. This resulted in an increase in membership to more than 160,000.

NIB acquired IOOF Health Services Ltd in 2003.

NIB is currently Australia's 6th largest health insurance provider. It has around 320,000 members across Australia and provides health insurance cover to approximately 670,000 Australians. NIB is currently a mutual company with no share capital or shareholders.

6.2 Products and Services

6.2.1 Health Benefits Fund

The core NIB business is to provide private health insurance products through its member care centres, retail branches and its websites. It offers more than 25 health benefit products with its launch of a new product portfolio in the 2006 financial year. The new product portfolio includes: Basic Saver, Basic Plus, Family Plus, Mid Plus and Top Cover. The main revenue is derived from contributions of insurance purchasers and the main costs are benefits paid out to claimants as well as operational costs.

NIB has a business strategy built around growth through market segmentation, focusing on the under 40 segment of the private health insurance market in Australia. In financial year 2006, 34.5% of the industry growth was comprised of those aged 20 to 39 and there remain about 4 million Australians in the same age group without cover.

According to Management, NIB will continue to consider exploring business opportunities complementary to its existing health insurance business.

EXPERTS' REPORTS CONT.



6.2.2 Private Hospital

NIB opened a new building for the Newcastle Private Hospital in April 2004, which is now the largest regional private hospital in NSW. The hospital currently has 162 bed facilities and had 38 beds prior to 2004.

On 28 April 2006, NIB agreed to sell its shareholding in Newcastle Private Hospital to ASX listed Healthscope Ltd subject to certain conditions which are expected to be satisfied by 31 May 2007. In the interim, Healthscope Ltd is operating Newcastle Private Hospital under a management agreement.

Upon completion of the share sale, Healthscope Ltd will enter into a 13 year lease with NIB for Newcastle Private Hospital's land and buildings owned by NIB.

6.3 Membership

A summary of NIB's historical number of contributing members is as follows:

As At	30 June 2005	30 June 2006	28 Feb 2007
Number of Policyholders	290,940	302,299	317,287

Source: NIB Annual Reports 2005 and 2006 and financial results for the period to 28 February 2007 included in the February 2007 NIB Board Papers.

6.4 Controlled Entities

As at the date of this Report, NIB Health Funds Limited is the ultimate parent entity holding for the following entities:

Controlled Entities	% of Holding
NIB Health Care Services Pty Ltd	100%
Newcastle Private Hospital Pty Ltd (formerly NIB Private Hospital Pty Ltd) ¹	100%
NIB Servicing Facilities Pty Ltd ²	100%
NIB Eye Safety Pty Ltd ²	100%
NIB Health Services Ltd (formerly IOOF Health Services Ltd)	100%
The Heights Private Hospital Pty Ltd	100%
The NIB Private Hospital Trust	100%
Newcastle Private Hospital Trust	100%
Newcastle Private Imaging Services Pty Limited ³	50%
Newcastle Private Imaging Service Trust	25%

Source: NIB Management

Notes:

- 1 A share sale agreement was entered into on 28 April 2006, subject to certain conditions met (Section 6.2.2).
- 2 These entities did not trade during the financial year 2006.
- 3 These entities have no carrying amounts greater than \$500.

6.5 Significant Developments

Since 30 June 2006 NIB has entered into a sale contract for the purchase of land and a development agreement for the design and construction of a new head office building in Newcastle.

NIB has recently sold the eye care and eye safety businesses which were operated by the subsidiary company NIB Health Care Services Pty Limited.



6.6 Historical Income Statements

Income Statements for NIB	Audited Year Ended 30-Jun-05 \$000	Audited Year Ended 30-Jun-06 \$000	Reviewed 8-Months Ended 28-Feb-07 \$000
Premium Revenue	530,709	611,869	435,272
Member benefits	(406,525)	(441,196)	(331,583)
Health Benefit Reinsurance Trust Fund Levy	(37,243)	(42,830)	(27,782)
State Levies	(15,266)	(16,095)	(11,567)
Claims handling expenses	(13,620)	(15,944)	(10,775)
Net claims incurred	(472,654)	(516,065)	(381,707)
Acquisition costs	(8,850)	(11,343)	(9,959)
Other underwriting expenses	(33,815)	(33,104)	(23,868)
Underwriting Expenses	(42,665)	(44,447)	(33,827)
Underwriting Result	15,390	51,357	19,738
Investment Income	17,418	18,616	22,726
Other revenue	8,174	5,856	4,644
Investment expenses	(422)	(675)	(698)
Other expenses	(13,763)	(5,232)	(3,229)
Profit before Income Tax	26,797	69,922	43,181
Income tax	-	-	-
Profit from Continuing Operations	26,797	69,922	43,181
Loss from discontinued operations	(2,193)	(6,004)	(221)
Profit Attributable to Members	24,604	63,918	42,960

Source: NIB Annual Report 2006 and reviewed pro-forma consolidated financial information for the 8 months ended 28 February 2007 (as included in the Proposal and Explanatory Statement).

EXPERTS' REPORTS CONT.



6.7 Historical Balance Sheets

Consolidated Balance Sheet for NIB	As at 30-Jun-05 \$000	As at 30-Jun-06 \$000	As at 28-Feb-07 \$000
Assets			
Current Assets			
Cash and cash equivalents	10,436	11,368	19,573
Receivables	33,651	24,231	25,261
Financial assets at fair value through profit or loss	221,734	308,995	350,704
Non-current assets classified as held for sale	686	-	465
Assets of disposal group classified as held for sale	-	20,956	22,002
Total Current Assets	266,507	365,550	418,005
Non Current Assets			
Receivables	530	353	1,236
Investment properties	3,285	1,800	1,335
Property, plant and equipment	61,331	46,228	46,266
Intangible assets	8,891	10,215	9,969
Total Non-current Assets	74,037	58,596	58,806
Total Assets	340,544	424,146	476,811
Liabilities			
Current Liabilities			
Payables	27,041	26,722	41,487
Borrowings	2,677	2,989	1,726
Outstanding claims liability	42,427	55,331	55,030
Unearned premium liability	41,544	44,502	39,195
Provision for employee entitlements	6,279	4,694	4,609
Liabilities directly associated with assets of a disposal group classified as held for sale	-	5,588	7,268
Total Current Liabilities	119,968	139,826	149,315
Non-Current Liabilities			
Provisions for employee entitlements	910	736	744
Total Non-Current Liabilities	910	736	744
Total Liabilities	120,878	140,562	150,059
Net Assets	219,666	283,584	326,752
Equity			
Retained profits	212,747	276,665	319,626
Reserves	6,919	6,919	7,126
Total Equity	219,666	283,584	326,752

Source: NIB Annual Report 2006 and reviewed pro-forma consolidated financial information for the 8 months ended 28 February 2007 (as included in the Proposal and Explanatory Statement).



7 **OPINION AS TO WHETHER THE PROPOSAL IS IN POLICYHOLDERS' AND COMPANY MEMBERS' BEST INTERESTS AS A WHOLE**

In assessing whether the Proposal is in the best interests of Policyholders and Company Members as a whole, we have considered:

- the key advantages and disadvantages to Policyholders and Company Members of the Proposal; and
- the various alternatives to demutualisation including alternate forms of distributing value to Policyholders and Company Members.

We set out our analysis of these factors below.

7.1 **Advantages of the Proposal**

7.1.1 **Provision of Access to NIB's Value**

Under the current mutual structure, Policyholders and Company Members only receive benefits from holding a policy on which surpluses can either be distributed via increased benefits or reduced premiums and charges.

Neither Policyholders nor Company Members have any rights to the assets or value of NIB's business, even in the event of a wind up in which case the accumulated net assets of NIB must be transferred to another fund. Therefore, in respect of NIB's accumulated net assets, membership of NIB under the current structure provides limited economic value to individual members.

If implemented, the Proposal will

- allow Eligible Policyholders and Company Members to realise their share of the value currently "locked up" within NIB through dividends and distributions;
- allocate value to existing Eligible Policyholders and Company Members who have assisted in creating NIB's value rather than rewarding future policyholders who may not have contributed to NIB's value through reduced premiums;
- subject to Listing (refer Section 7.1.6), result in Shares having a market value which reflects NIB's underlying value including its capital, anticipated future profits and goodwill and any premium or discount which the share market may place on the value of NIB Holdings' operations; and
- subject to Listing, entitle Eligible Policyholders and Company Members to eventually be able to trade their Shares in NIB Holdings and potentially participate in dividends paid in the future from profits generated by NIB Holdings.

If the Proposal is approved, existing Policyholders and Company Members will effectively gain a direct economic interest in the accumulated assets of NIB to the extent that it is reflected in the value of Shares in NIB Holdings. This is considered an advantage to Policyholders and Company Members.

7.1.2 **Access to New Capital**

The conversion of NIB from a mutual organisation to a company owned by shareholders will allow NIB Holdings access to additional capital through debt and equity markets.

The retention and accretion of reserves is the main avenue available to mutuals to build capital. Mutuals generally have limited access to other sources of capital, which often restricts their potential to expand (including mergers and acquisition activities), diversify or to compete more effectively with public listed companies.

EXPERTS' REPORTS CONT.



Demutualisation will allow NIB to pursue its current business strategy and simultaneously enable Policyholders and Company Members to access the value of NIB without reducing NIB's financial strength as the capital can be retained within the organisation rather than being distributed as reduced premiums or increased benefits.

7.1.3 Potential Delivery of Superior Value than Alternatives

Under the existing mutual structure, NIB can only distribute value (i.e. surplus capital) to Policyholders and Company Members through reduced premiums and/or increased benefits, and the value that can be distributed in this way is limited due to the need to retain capital for regulatory purposes.

Demutualisation might provide the opportunity to deliver additional value as Shares in NIB Holdings will reflect the total underlying value of NIB and not only NIB's surplus capital.

7.1.4 No likely adverse impact on the reasonable Benefit Expectations of Policyholders after Demutualisation

Policyholders may be concerned about changes to their current benefits as a result of the Demutualisation.

We however note that, should NIB's decide to reduce the benefits after Demutualisation, this could impact the competitiveness of NIB and risk placing it at a commercial disadvantage in an already competitive health insurance market.

The Private Health Insurance Act requires all affected Policyholders to be informed of any detrimental changes to the level of benefits. Further, the Private Health Insurance Act requires NIB to seek the advice of the Appointed Actuary on certain matters that relate to benefits provided and premiums charged under a product.

The Appointed Actuary stated that "Demutualisation does not bring about circumstances that would adversely affect the Policyholders' rights and benefits under their Policy".

The Consulting Actuary stated that "the Proposal will not have an adverse impact on the reasonable benefit expectations of the Policyholders under the Policies issued by NIB."

Therefore we believe that it is unlikely that the Proposal will have an adverse impact on the reasonable benefit expectations of the Policyholders under their Policies.

7.1.5 Security of Policyholders' Interest after Demutualisation

As discussed in Section 5.3, private health insurers are subject to regulatory capital requirements in order to provide security for insured persons under a range of possible future scenarios.

At present, NIB's assets exceed its regulatory capital requirements and its CACR is comparatively above the average ratio across the largest funds in the industry.

According to the Board, the proposed dividend payment policy will ensure that a target multiple of the regulatory capital adequacy reserve (the more stringent of the prudential capital requirements) will be maintained, in line with NIB's broader capital management program.

The Private Health Insurance Act will serve to protect or restrict a transfer of assets from NIB to NIB Holdings after Demutualisation if it would be inconsistent with the solvency standard or the capital adequacy standard. Further, the Private Health Insurance Act requires NIB to seek the advice of the Appointed Actuary on certain matters that relate to the financial condition of the insurer.

We also note that subject to Listing NIB Holdings may have a greater ability to raise additional capital if needed to provide further security (Section 7.1.6).

The Appointed Actuary stated that "appropriate safeguards for the security of Policyholders' rights and benefits will continue to be provided after Demutualisation".



The Consulting Actuary stated that "Policy benefits should remain adequately secured if the Proposal is approved".

We therefore believe that Policy benefits should remain adequately secured after Demutualisation.

7.1.6 Advantages in relation to NIB's Proposed Listing

As discussed in Section 3.1, the Board intends to list NIB Holdings on the ASX within six months of Demutualisation.

Subject to Listing, the Proposal will

- enhance NIB Holdings' ability to raise additional capital;
- allow Shareholders (should they wish) to sell their Shares and receive cash on Listing under a Sale Facility under which no brokerage fee will be payable (Section 3.1);
- result in Shares having a market value which reflects NIB's underlying value including its capital, anticipated future profits and goodwill and any premium or discount which the share market may place on the value of NIB Holdings' operations; and
- entitle Eligible Policyholders to eventually be able to trade their shares in NIB Holdings and potentially participate in dividends paid in the future from profits generated by NIB Holdings.

7.2 Disadvantages of the Proposal

7.2.1 Relinquishing Membership' Rights

Under the Proposal, Policyholders will only relinquish their right of becoming a Company Member (Section 3.3).

Company Members will relinquish their existing company membership rights in NIB such as:

- their right to attend NIB's general meetings, including the right to speak, vote and appoint a proxy to vote; and
- their right to collectively appoint Directors and amend NIB's Constitution.

7.2.2 NIB will lose its Income Tax Exempt Status

NIB will lose its income tax exempt status upon conversion to 'for-profit' tax status. This will potentially result in a reduction of the rate at which reserves are accumulated.

Currently, Policyholders do not receive any financial return from NIB such as receipt of dividends, nor are they able to extract the current value of reserves under the mutual structure.

Although the loss of tax exempt status could potentially result in a reduction in the rate at which reserves are accumulated we note that currently Policyholders do not have access to these reserves. As a result the alteration of tax status from "exempt" to "for profit" does not represent a significant disadvantage as the demutualisation process will give Policyholders the ability to access the value of these reserves.

7.2.3 Potential Taxation and Social Security Implications

Going forward Eligible Policyholders will own Shares in NIB Holdings. Any future sale of these Shares will give rise to CGT implications that will need to be determined at the time of sale.

EXPERTS' REPORTS CONT.



Shareholders will include in their assessable income the 'grossed-up' amount of dividends they receive. An imputation credit will also be received for any tax already paid by NIB and passed onto Shareholders as through franked dividends.

Prior to Demutualisation neither NIB, the Policyholders or the Company Members would have paid tax on any profits derived. Despite being unable to distribute these profits, any profits derived were still held and applied for the benefit of Policyholders and Company Members.

The Proposal may cause Shareholders' entitlement to pensions or other social security benefits (or those of their dependents) to be diminished because they have greater assessable income or assets.

As the eligibility for some social security payments such as some government pensions is dependant on an assets test, the receipt of Shares in NIB may impact on the satisfaction of this test.

7.2.4 Future Premium Rates might be effected

After Demutualisation, the premium rates may change as a result of the change to company status:

- Tax will become payable; and
- Dividends are likely to be paid to shareholders, subject to capital requirements.

We note that any proposed future changes to premium rates have to be approved by the Minister for Health and Ageing. Applications are closely reviewed by PHIAC and the Department for Health and Ageing.

We note that the Consulting Actuary stated that "future premium rates are unlikely to be affected in any significant way by the Proposal because of competitive pressures and continued regulatory oversight".

7.2.5 Disadvantages in relation to NIB's Potential Listing

Should NIB list on the ASX, potential disadvantages are as follows:

- Listing may impose listing costs as well as additional administrative and compliance costs on NIB Holdings which would otherwise not be incurred by NIB if the Proposal is not implemented.
- Future capital raisings may result in a dilution to existing Shareholders.
- There is potential for conflict between the objectives of Shareholders (maximisation of profit) and Policyholders (maximisation of policy bonuses or interest and/or keeping management fees low), particularly in the case of Listing when the number of Shareholders who are not Policyholders would increase over time.

7.2.6 Disadvantages if Listing does not occur

We note that there is no guarantee of when NIB Holdings will list on the ASX and how much NIB Holdings Shares will be worth. If Listing does not occur, Shareholders may be unable to realise, or have difficulty realising, value for their Shares.

7.3 Alternatives to the Proposal

As at 28 February 2007 NIB had net assets of approximately \$327 million. Under the current mutual structure, there is no mechanism through which Policyholders and Company Members can receive the amount of these accumulated funds (Section 7.1.1).

The key issue addressed by the Board considering the alternatives available to NIB, was to identify the best method of distributing the full value of NIB's accumulated funds to Policyholders and Company Members.



Other than the Proposal to Demutualise recommended by the Board, the alternative methods of distributing the value of NIB to Policyholders and Company Members considered by the Board included:

- Continue to operate as a mutual company (status quo);
- Return NIB's surplus capital to Policyholders through lower premiums and/or increased benefits; or
- Sale of NIB.

From the perspective of the Board, none of the alternatives listed above (or a combination of alternatives) provides a better outcome for Policyholders and Company Members as a whole for the reasons below.

7.3.1 Status Quo

Remaining a mutual company would not allow NIB to apply for Listing and pay dividends or distribute capital to Eligible Policyholders and Company Members. It would further limit NIB's ability to respond quickly and effectively to industry developments and to offer additional financial products in a capital efficient manner.

We note that NIB has already incurred substantial costs in relation to the implementation process of the Demutualisation. Should the Board need to consider developing another proposal, NIB may incur substantial additional costs.

7.3.2 Return NIB's Surplus Capital to Policyholders

In addition to the impacts of remaining a mutual company as discussed in Section 7.3.1 distributions would be allocated over a number of years and could potentially be reduced as a result of being shared with new policyholders.

This alternative may result in a reduction of NIB's capital base as NIB would remain a mutual company and therefore would have limited access to additional capital.

7.3.3 Sale of NIB

In the Board's opinion, there is no clear and present opportunity to sell NIB which would create benefits for Eligible Policyholders in excess of the Demutualisation and Listing.

In relation to the alternatives considered above, we note that the various courses of action undertaken by other mutuals include:

- demutualisation (e.g. AMP Ltd, NRMA Ltd, State West Credit Society Ltd, IOOF Ltd, Colonial Mutual Life Assurance Society Ltd); and
- merger with another mutual fund (e.g. State West Credit Society Ltd with Home Building Society Limited, StateGuard Friendly Society with Lifeplan Australia Friendly Society).

Accordingly, whilst the alternatives considered by the Board may not necessarily be exhaustive, they appear to have considered the precedents as well as several other conceivable alternatives. We are not aware of any other precedents that have not been considered by the Board.

In our view, the Board has given due consideration to the various alternatives potentially available.

7.4 Conclusion

In forming our opinion as to whether the Proposal is in the best interests of Policyholders and Company Members as a whole, we have considered that:

- the financial position of Policyholders and Company Members as a whole is enhanced through the issue of Shares in NIB Holdings;

EXPERTS' REPORTS CONT.



- the Demutualisation process provides advantages to NIB and its Policyholders and Company Members in comparison to the alternatives, including remaining a mutual;
- the benefits to Policyholders and Company Members of approving the Proposal outweighs the disadvantages;
- the Proposal provides superior value and flexibility to Policyholders and Company Members compared to the alternatives available to NIB; and
- Policyholders' benefits and reasonable benefit expectations are unlikely to be adversely impacted and the security of Policies is unlikely to be compromised.

Accordingly, we conclude that the Proposal of NIB is in the best interests of Policyholders and Company Members as a whole.

8 OPINION ON WHETHER THE PROPOSAL PROVIDES AN EQUITABLE BASIS FOR ALLOCATING SHARES TO ELIGIBLE POLICYHOLDERS

In considering whether the Proposal provides an equitable basis for allocating Shares to Eligible Policyholders, BDO Corporate Finance has reviewed the Share Allocation Rules recommended by the Board based on advice of the Consulting Actuary.

8.1 Proposed Share Allocation Rules

Based on the Consulting Actuary's recommendations, the key elements of the proposed Share Allocation Rules are as summarised in Section 2.2.1.

8.2 Impact of the Proposal on Policyholders

The following Policyholders will be eligible to receive Shares in NIB Holdings:

- Policyholders who were Policyholders on 20 March 2007 (the day prior to the announcement of the Proposal) and who remain Policyholders on the date of the Demutualisation Meetings; or
- Policyholders who become Policyholder in respect of an existing Policy, in substitution for the previous Policyholder, between 20 March 2007 and the date of Demutualisation Meetings; and
 - the previous Policyholder was a Policyholder as at 20 March 2007; and
 - the new Policyholder remains a Policyholder as at the date of the Demutualisation Meetings.

Eligible Policyholders will receive these Shares in addition to the rights as Policyholders.

Policyholders' right to apply to be a Company Member will be given up on Demutualisation.

8.3 Impact of the Proposal on Company Members

By virtue of also being an Eligible Policyholder, the 50 Company Members will receive Shares in NIB Holdings in accordance with the Share Allocation Rules, however, they will cease to be a Company Member of NIB and their Company Membership Rights (Section 3.3) will be cancelled.

Company Members will have the opportunity to purchase Shares prior to Listing through a Priority Allocation.

The Board have chosen not to make any additional allocation of Shares to Company Members.



8.4 Consulting Actuary's Recommendation on Allocation Basis

According to the Consulting Actuary, the following main membership factors should be considered and incorporated into the allocation basis adopted.

Allocation Factors	Consulting Actuary's Recommendation
Membership of NIB	<ul style="list-style-type: none"> • Allocation of Shares to Policyholders with double benefits being given to Policyholders representing Family Policies. • Adoption of this approach as this is a relatively simple method that explicitly allows for the differences between family and single policies. • Company Members who are also Policyholders to participate in the allocation as a Policyholder only.
Type, Size and Number of Policies / Policy Value	<ul style="list-style-type: none"> • No differentiating by different product (except for Ambulance Only products) or minor differences in benefits such as excess levels, as the nature of health products has changed over time and benefits do not significantly influence the contribution to the value of NIB. • A smaller allocation to be made to Ambulance Only Policyholders because of the significant difference in rates and size of ambulance benefits to hospital or ancillary benefits. • All Policyholders and Company Members to be treated as if they have one product. • Policyholders holding multiple policies to be treated as having one Policy based on the product that provides the greatest allocation to the Policyholder. • Determination of the type of policy as at 20 March 2007.
Length of Membership	<ul style="list-style-type: none"> • Shares to be allocated in proportion to length of membership subject to <ul style="list-style-type: none"> • a minimum shareholding to avoid negligible allocations; and • a maximum that recognises that verification of historical membership records is difficult beyond 30 years. • Years of membership to be rounded to the next higher year, where a year of membership is calculated as the length of time from first joining NIB to the cut-off date of 20 March 2007 less any days that the Policy has been suspended.
Minimum Allocation	<ul style="list-style-type: none"> • Recommended to ensure that Policyholders receive a tangible benefit. As discussed in Section 3.1, NIB intends to establish a Sale Facility for Shareholders on Listing allowing Shareholders to sell their Shares and receive cash. • The proposed minimum effectively results in all Policyholders who joined in the last 3 years will receive the same amount, with those paying Single Premiums receiving 300 Shares and those on Family Premiums 600 Shares. • Ambulance Only Policyholders to receive 100 Shares. • The redemption of Shares for cash could have tax or social security implications. These have been considered in Section 7.2.3.
Maximum Allocation	<p>Recommendation of a maximum of 30 years membership for the following reasons:</p> <ul style="list-style-type: none"> • to provide a sensible limit in the context of the available membership data; • to prevent a relatively small number of Policyholders receiving benefits that are significantly in excess of the average benefits received by the remaining members; and • to avoid unduly large allocation of Share to a few members.

EXPERTS' REPORTS CONT.



8.5 Conclusion on whether the Proposal provides an equitable basis for allocating Shares to Eligible Policyholders

In forming our opinion as to whether the proposed Share Allocation Rules provide an equitable basis for allocating Shares to Eligible Policyholders, we have reviewed the analysis and arguments in the report of the Appointed Actuary and the Consulting Actuary and consider primarily that:

- the process used by the Consulting Actuary to determine the allocation proportion as well as the minimum and maximum allocation of Shares appears appropriate and appears to use objective measures where possible. We note that all potential methods of allocation involve a certain degree of subjectivity and are subject to varying levels of contention. We further note that the proposed minimum allocation of 100 Shares to Ambulance Only Policyholders relates to a practical minimum value to the Policyholder rather than an equitable allocation of value and therefore does not appear inappropriate.
- the Consulting Actuary's reliance upon a combination of the allocation factors, size of policy and length of membership appears appropriate to reasonably achieve equity;
- the allocation method selected by the Board based on the advice of the Consulting Actuary appears capable of being implemented practically;
- We note that because of the lack of membership rights (with the exception of Company membership rights such as the right to vote on resolutions at NIB's general meetings) compared to other organisations there are no clear bases on which to judge equity of the share allocation. Given that Company Members' right to vote does not give them the ability to extract additional value from NIB, we consider it equitable not to allocate additional Shares to Company Members.
- there are no other alternative value allocation approaches than the options considered by the Board (i.e. the option of returning NIB's current surplus capital to Policyholders and Company Members over a number of years via lower premiums and/or increased benefits – refer Section 7.2.3). The Appointed Actuary supports the Consulting Actuary's conclusion on alternative value allocation approaches and adds that "lowering premiums and increasing benefits have the potential for adverse selection and thus a reduction of profitability in the future – creating a need to subsequently raise premiums in response to the deteriorating position."; and
- the process is consistent with precedents in other Australian and overseas demutualisations.

Based on the above factors, in our opinion the proposed Share Allocation Rules provide an equitable basis for allocating Shares to Eligible Policyholders and is considered reasonable, since:

- there does not appear to be any discrimination in the allocation of Shares to Eligible Policyholders; and
- the distribution of Shares to be issued to Eligible Policyholders on Demutualisation seems to provide a superior value and more flexibility to Policyholders and Company Members compared to the alternatives.

9 SOURCES OF INFORMATION

- Explanatory Statement dated on or around 31 May 2007;
- Annual Reports for NIB for the years ended 30 June 2004 to 2006;
- Reviewed Pro-forma Consolidated Financial Information for NIB for the 8 months ended 28 February 2007 (for inclusion in the Explanatory Statement);
- Management Accounts for NIB for the 8 months ended 28 February 2007;
- Appointed Actuary Report including document on "Supporting Arguments" for the Appointed Actuary Report dated on or around 31 May 2007;
- Consulting Actuary Report dated on or around 31 May 2007;



- Investigating Accountant's Report prepared by PricewaterhouseCoopers Securities Ltd dated on or around 31 May 2007;
- Tax Advice prepared by PricewaterhouseCoopers Securities Ltd dated on or around 31 May 2007;
- NIB Strategic Plan for 2007 – 2009 dated 5 May 2007;
- NIB Financial Condition Report as at 30 June 2006;
- NIB Board Papers including Board Minutes for the years ended 30 June 2005 and 2006 and for the 9 months to 31 March 2007;
- NIB Product Profitability Report for the period 1 March 2006 to 28 February 2007;
- NIB Product Brochure dated 1 April 2007;
- Private Health Insurance Act 2007 and Corporations Act 2001;
- Bloomberg;
- Discussions with the Management of NIB; and
- Publicly available information.

10 INDEPENDENCE

BDO Corporate Finance is entitled to receive a fee of approximately \$75,000 (excluding GST and reimbursement of out of pocket expenses). Except for this fee, BDO Corporate Finance Pty Limited has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this Report.

Prior to accepting this engagement BDO Corporate Finance considered its independence with respect to NIB and any of their respective associates with reference to the ASIC Practice Note 42 entitled "Independence of Expert's Reports". In BDO Corporate Finance' opinion it is independent of NIB and their respective associates.

BDO Corporate Finance and BDO do not have at the date of the Report, and have not had within the previous two years, any shareholding in NIB or other relationship with NIB or any of their respective associates.

A draft of this Report was provided to NIB and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this Report as a result of this review.

11 QUALIFICATIONS

BDO Corporate Finance is wholly owned by BDO, a member of BDO International, which has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO Corporate Finance holds an Australian Financial Services Licence issued by the Australian Securities and Investment Commission for giving expert reports pursuant to the Listing rules of the ASX and the Corporations Law.

The persons specifically involved in preparing and reviewing this Report were Sebastian Stevens and Judith Ryan of BDO Corporate Finance. They have significant experience in the preparation of independent expert reports, valuations and merger and acquisition advisory within Australia.

12 DISCLAIMERS AND CONSENTS

This Report has been prepared at the request of NIB for inclusion in the Explanatory Statement, which will be sent to all Policyholders and Company Members. NIB engaged BDO Corporate Finance to prepare an independent expert's report to consider the Proposal.

EXPERTS' REPORTS CONT.



BDO Corporate Finance has prepared this Report solely for the benefit of Policyholders and Company Members in evaluating the Proposal as at the date of this Report. This Report is not provided for any other reason whatsoever and may not be relied upon by any person other than the Policyholders and Company Members, or for any other purpose other than stated in the Sections above.

Neither the whole or any part of this Report or its attachments or any reference thereto may be included in or attached to any document, other than the Explanatory Statement to be sent to Policyholders and Company Members, without the prior written consent of BDO Corporate Finance as to the form and context in which it appears.

BDO Corporate Finance hereby consents to this Report accompanying the above Explanatory Statement and being referred to and quoted in the Explanatory Statement in each case in the form and context as it appears. Apart from such use, neither the whole nor any part of this Report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Corporate Finance.

BDO Corporate Finance takes no responsibility for the contents of the Explanatory Statement other than this Report.

BDO Corporate Finance has not conducted anything in the nature of an audit of NIB. However, we have no reason to believe that any of the information or explanations so supplied is false or that material information has been withheld.

With respect to taxation implications it is recommended that individual Policyholders and Company Members obtain their own taxation advice, in respect of the Proposal, tailored to their own particular circumstances. Furthermore, the advice provided in this Report does not constitute legal or taxation advice to Policyholders and Company Members or any other party.

The taxation implications addressed are based on the Income Tax Assessment Act 1997 (Cth) (as amended), the Income Tax Assessment Act 1936 (Cth) (as amended), and the established interpretations of those Acts at the date of this Report.

The statements and opinions included in this Report are given in good faith and in the belief that they are not false, misleading or incomplete.

13 INDEMNITY

BDO Corporate Finance and its directors, authorised representatives, employees and associates have been indemnified by NIB in respect of any claim arising from BDO Corporate Finance's reliance on information provided by NIB, including the non provision of material information, in relation to the preparation of this Report.

Yours faithfully

BDO KENDALLS CORPORATE FINANCE (NSW) PTY LIMITED

Sebastian Stevens
Director

Judith Ryan
Director

6.2 Appointed Actuary's Report

Board of Directors
NIB Health Funds Limited
384 Hunter Street
Newcastle NSW 2300

Dear Directors

Introduction

The Proposal results in Company Members cancelling their existing rights as Company Members and Eligible Policyholders agreeing to receive Shares.

The purpose of this note is to review the Proposal to Demutualise and assess whether, in my opinion:

- there is an impact on the rights and benefits of Policyholders;
- Policy benefits will remain adequately secure;
- future premium rates are likely to be affected by the Proposal; and
- alternative allocation approaches are appropriate.

Qualifications, experience and position

I am a Fellow of the Institute of Actuaries of Australia. My working career of 22 years includes 17 years in various actuarial and management roles in the life insurance industry and 4 years in an actuarial role in private health insurance. The latter includes being the Appointed Actuary of NIB since the inception of the role in the private health insurance industry in the 2004 financial year.

Terms of engagement

I have been requested by the Board as their Appointed Actuary to prepare an opinion on certain matters regarding the Proposal.

Disclosure of interest

I have been a Policyholder of NIB since 1990. As such, my family is eligible for an allocation of 3,600 shares in accordance with the Share Allocation Rules.

Summary of the Proposal to Demutualise and Share Allocation Rules

Details of the Proposal are presented in Section 2 of the Explanatory Statement along with the Share Allocation Rules.

Definitions

Expressions defined in the Explanatory Statement have the same meaning in this report.

Impact of the Proposal on the interests of Policyholders

Rights and benefits of Policyholders after Demutualisation

The Board stated that an advantage of the Proposal for Eligible Policyholders is "Your rights and benefits under your Policy will not be adversely affected". I support this assertion in that the consequence of Demutualisation does not bring about circumstances that would have such an effect.

EXPERTS' REPORTS CONT.

Security of Policyholders' benefits after Demutualisation

The level of reserve required to provide security for Policyholders' benefits under every possible future eventuality cannot be measured with precision. However, security is provided by the *Private Health Insurance Act 2007* (Cth) (Divisions 140 and 143) which specifies a two tier capital requirement for the health benefits fund of an insurer, with each tier considering the capital requirements in a different set of circumstances, which, in brief, are:

- the first tier – solvency – is intended to ensure the basic solvency of the fund (that is, in the unlikely event of a wind-up); at any time on a run-off view, the fund's financial position is such that the insurer will be able to meet, out of the fund's assets, all liabilities incurred for the purposes of the fund as those liabilities become due; and
- the second tier – capital adequacy - is intended to secure the financial soundness of the health benefits fund on a going concern basis, in particular its ability to remain solvent for at least the next three years. It is expected that in most circumstances this second tier will provide an additional buffer of capital above the minimum solvency requirement.

PHIAC monitors these measures for each insurer on a quarterly basis.

At present, NIB's assets healthily exceed its capital adequacy requirement. The capital adequacy coverage ratio (being the ratio of assets to capital adequacy requirement) is above the average ratio across the largest funds in the industry. Following Demutualisation, NIB's capital adequacy position is not expected to deteriorate. In time, NIB expects that capital adequacy will continue to be maintained at a strong level, albeit at a lower level than is current in order to support the proposed distribution of surplus in the form of dividends. Any dividend payment will also need to be approved by the Board.

The *Private Health Insurance Act 2007* (Cth) and its associated Rules will serve to protect or restrict a transfer of assets from the health insurance fund to NIB Holdings (for example, for a dividend payment) if it would be inconsistent with the solvency standard or the capital adequacy standard. This Act also requires NIB to seek the advice of the Appointed Actuary on certain matters that relate to benefits provided under a product, premiums charged under a product and the financial condition of the insurer.

It should also be noted that as a Shareholder-owned company, NIB Holdings will have a greater ability to raise additional capital if needed to provide further security (though it should be noted that any company would not be guaranteed of being able to raise capital in all circumstances).

Thus, I consider that appropriate safeguards for the security of Policyholders' benefits will continue to be provided after Demutualisation.

Future premium rates

It may be the case that some Policyholders are concerned about the potential impact of the Proposal on their NIB health insurance premiums.

Actuarial management practices relating to pricing are not being changed by the Proposal; the same technical pricing and subsequent commercial considerations will continue to apply. Technical pricing considerations are for target underwriting profit (being based on benefit costs driven by provider charges and Policyholder utilisation, as well as the costs involved in managing the business) and target capital position; these provide a benchmark against which commercial imperatives will be assessed. Commercial considerations include current product/price positioning against competitors in target markets, judgements about possible competitor behaviour with regard to price changes and benefits offered, and consideration of issues of political climate and sovereign risk. These are to the exclusion of any changes in external factors that would require a response through pricing. The Board will then confirm management's proposal for premium increases, ahead of the proposed changes being submitted to the Department of Health and Ageing to gain Ministerial approval. Applications are closely scrutinised by PHIAC and the Department of Health and Ageing to ensure each is justifiable.

It is not desirable for NIB to continually raise premiums beyond the point of competitive sustainability, either for Policyholders or future Shareholders. In fact, the strategy proposed by NIB leads to factors that will enhance NIB's ability to moderate premium increases.

Allocation of Shares to Eligible Policyholders and alternatives

Share Allocation Rules

The Board has decided to recommend the Share Allocation Rules to Policyholders for approval, based on the advice of NIB's Consulting Actuary. I consider it to be outside my scope to give an opinion on the Share Allocation Rules. Certainly though, an advantage is that allocation by Shares doesn't require the value of NIB to be precisely ascertained and allocated in advance.

Alternative value allocation approaches – lower premiums and/or increased benefits

The NIB Board considered the option of returning NIB's current surplus capital to Policyholders over a number of years via lower premiums and/or increased benefits. Section 1.7 of the Explanatory Statement explained the implications and the Board's rationale for not pursuing this option. I support this conclusion, and add that lowering premiums has the potential for adverse selection and thus a reduction of profitability in the future - creating a need to subsequently raise premiums in response to the deteriorating position. Increasing benefits without increasing the premium charged also gives rise to the potential for adverse selection.

Alternative value allocation approaches – no change

NIB continuing as a mutual was an alternative considered by the Board to be not in the best interests of Policyholders and Company Members because of the difficulty in releasing surplus capital and then regaining it if needed again in the future. The same dilemma applies when considering lowering premiums and/or increasing benefits.

Conclusions

In my opinion, under the Proposal, the rights and benefits of Policyholders will not be adversely affected and there will be adequate security for Policyholders' benefits. Nor will there be pressure to raise premiums in response to the Proposal.

Yours sincerely



Mark Bishop BSc MMgnt FIAA
Appointed Actuary, NIB Health Funds Limited
Fellow of the Institute of Actuaries of Australia

31 May 2007

EXPERTS' REPORTS CONT.

6.3 Consulting Actuary's Report



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Consulting Actuary's Report and Financial Services Guide Part 1 – Consulting Actuary's Report

31 May 2007

The Board of Directors
NIB Health Funds Limited
Level 6, 384 Hunter Street
NEWCASTLE NSW 2300

Dear Directors,

Consulting Actuary's Report

1. Introduction

NIB Health Funds Limited (NIB) is considering demutualisation. As part of this process, NIB has engaged Ernst & Young ABC Pty Limited (“Ernst & Young ABC”), a firm of consulting actuaries, to prepare a Consulting Actuary's Report (“the Report”) in relation to the proposed restructure for inclusion in the Explanatory Statement.

We have also provide the Board of NIB with a report entitled “NIB Health Funds Limited Share Allocation Methodology” dated 10 May 2007, which is summarised in Section 4.

2. Scope

Ernst & Young ABC has been engaged to recommend a Share Allocation method and provide a report in respect of three areas in respect of the proposed Demutualisation of NIB:

- 1) Whether the Policy benefits would remain adequately secure should the Proposal proceed;
- 2) Whether future premium rates are likely to be affected by the Proposal; and
- 3) Whether the Proposal, if approved and implemented, will have an adverse impact on the reasonable benefit expectations of the Policyholders under the Policies issued by NIB.

3. Data

To assist in our assessment of the key areas described above, we have relied on the data provided to us. For comments on the data, please refer to Section 6 of this report, Reliances and Limitations.

Key data sources include:

- The Appointed Actuary's Report in the Explanatory Statement and the Supporting Document dated 8 May 2007
- The Explanatory Statement
- The Financial Condition Report for NIB as at 30 June 2006

4. Share Allocation Basis

The Share Allocation basis as determined by the Board is set out in the Share Allocation Rules in the Policyholders' Scheme in the Explanatory Statement. We worked with NIB in determining the recommended Share Allocation basis. In selecting the proposed basis there were a number of factors which were considered including:

- a) What rights are being forfeited in the transaction?
- b) Who should be eligible for shares?
- c) What contribution has been made to NIB over time?
- d) Is the allocation method easy to understand and calculate?
- e) Is the basis equitable?

Rights of Members

Voting Rights

In demutualisations the main driver for participation is generally the voting rights of members which are forfeited, usually in exchange for shares or a cash equivalent.

NIB has Company Members, those entitled to vote at fund meetings, and Insured Persons, the persons covered by various health insurance products who have no voting rights. Should the Proposal be implemented the voting rights of Company Members will be transferred to Shareholders.

Position on Wind-up

In the event of a wind up, the residual assets of NIB must be transferred to another fund (i.e. no Company Members or Insured Persons have any rights to the assets or value of the business). As such, any allocation of shares to the Company Members or Insured Persons through a demutualisation would not be expected and hence is in the nature of a windfall gain. In this aspect NIB and other health funds share the same characteristics as most friendly societies where the right for members to participate in a demutualisation despite having no rights on wind up is well established.

EXPERTS' REPORTS CONT.



3

Eligibility

In the demutualisations of friendly societies and life offices people who have policies with the organisation generally are voting members and hence have a clear right to participate. Health funds however tend to be organised differently where there are a small number of voting members, often appointed by the board rather than elected. Policyholders, and Insured Persons, usually do not have any voting or other rights, however, by any comparison to other mutuals they are in equity entitled to participate and should do so unless there is a legal impediment.

Any demutualisation is subject to a vote of members and, for NIB, the votes ultimately reside with the Company Members and Policyholders who are also entitled to vote on any demutualisation as contingent creditors. Hence we consider that both Company Members and Eligible Policyholders should be eligible for shares. The Board has determined that, having regard to regulatory requirements, Company Members who are all Policyholders will participate in the allocation only as Eligible Policyholders.

Contribution to Surplus

An allocation of value can be considered a recognition of the contribution to value or surplus of a policyholder or group of policyholders. In many life company demutualisations, the historical contribution to surplus has been a consideration in the allocation basis.

Private health insurance in Australia is community rated, which essentially means that the same premium is charged to policyholders on the same product regardless of their health status or risk profile. This system inevitably leads to a range of cross-subsidies between policyholders over time and therefore the contribution to surplus is not considered an appropriate criterion for many health funds considering demutualisation.

The contribution to surplus of the various products is further complicated as expenses are not typically allocated across products, but reported in aggregate. Hence, the contribution to surplus from any given product cannot be readily determined, let alone allocated to policyholder level.

Overall, this element is very complex and highly subjective and consequently we consider it should not be a significant factor in the allocation process.

Ease of Understanding and Calculation

The proposed Share Allocation method should be easily understood and simple to apply. It must also rely on data which is readily available and be transparent to Policyholders.

The basis should be easy to calculate and replicate.

Equity

Equity and fairness is a major point when considering the allocation of Shares. Because of the lack of Policyholder rights and entitlements compared to other organisations there are no clear bases on which to judge equity. We consider that equity is reasonably achieved by having regard to the size of the Policy and the length of time of holding a Policy as a recognition of loyalty to and support of the fund.

Multiple Policies / Policy Value

The nature of health products has changed over time and it is not practical to differentiate between these products or minor differences in benefits such as excess levels as, within the context of community rating, they do not significantly influence the contribution to the value of the Fund.

We consider it is reasonable to allocate shares based on significant factors being whether a Policyholder has an ambulance only or a hospital or ancillary benefit, as the level of contribution is markedly different. We also consider that the “scale” of the Policy is an important factor, and hence recommend that those contributing at the single rate (for policies other than ambulance only) receive an allocation equal to half that of those paying at other rates, in line with the premium rate differential.

Duration of Policy

As mentioned we consider the duration of a Policy represents loyalty to and support of the fund and is a fair basis of allocation especially considering other demutualisations where this is a major factor. We therefore consider that Shares should be allocated in proportion to length of holding a Policy subject to a minimum Shareholding to avoid negligible allocations and a maximum that recognises that verification of historical Policyholder records is difficult beyond 30 years.

Applying a maximum of 30 years also stops a few Policyholders receiving an unduly large allocation relative to the average Shareholding.

Appropriateness of the Share Allocation Basis

While there is a wide range of possible allocation bases we believe that the basis chosen represents an appropriate methodology for Share Allocation, given due consideration of each of the above factors.

5. Other Findings

Item 1: Whether the Policy benefits would remain adequately secure should the Proposal proceed

Private Health Insurers are subject to regulatory capital requirements in excess of their policy liabilities which are designed to provide security for Insured Persons under a range of foreseeable adverse scenarios. As at 31 December 2006, NIB had assets significantly in excess of these regulatory capital requirements.

Should the Proposal to Demutualise be approved, NIB have stated on page 19 of the Explanatory Statement (in the section entitled “Will you receive dividend payments?”) that the proposed dividend payment policy will ensure that a target multiple of the regulatory Capital Adequacy Reserve (the more stringent of the prudential capital requirements) will be maintained, in line with NIB’s broader capital management program.

Whilst the payment of dividends, subject to maintaining adequate capital in the future, may reduce the overall capital protection available to Insured Persons from current levels, it will not necessarily disadvantage them relative to the persons insured by the other leading industry funds and relative to a reasonable capital level for an ongoing fund.

EXPERTS' REPORTS CONT.



5

It should also be noted, that should the Proposal not proceed, the capital position of the fund could be eroded because of other strategies, such as aggressive growth programs or significant adverse experience with no access to additional capital.

As indicated in the Appointed Actuary's Report, Demutualisation will also provide NIB with the possibility of raising additional capital should this be required.

We therefore consider that Policy benefits should remain adequately secured if the Proposal is approved.

Item 2: Whether future premium rates are likely to be affected by the Proposal

Premium rates for NIB are set having regard to pricing principles to achieve a target underwriting profit in the context of commercial considerations. We note that:

- The pricing principles are not changed by the Proposal. These principles include allowance for benefit costs, Policyholder utilisation of services, management expenses and capital costs. Whilst the effective cost of capital may change somewhat post Demutualisation, to assist in the servicing of shareholder returns, the other factors considered below are likely to moderate this impact.
- Health insurance is a competitive industry where it is simple to change providers because of the legislative requirement of full portability between funds and premium rates must be set having regard to the fund's competitive position and the response of customers and competitors to price changes.
- All changes in premium rates are subject to regulatory review and must be approved by the Minister.
- The proposal to become a for profit fund owned by a listed entity will provide increased business opportunities and increased public scrutiny and accountability. This is often perceived to lead to increases in efficiency and competitiveness which could offset any impact of paying tax on profits of the fund. In the current environment, BUPA Australia Limited is an example of a large "for-profit" entity which is operating in a profitable manner in the Australian Private Health Insurance industry.
- Changing to a "for-profit" status will mean that NIB becomes subject to taxation on profits which may be earned, as well as requiring NIB to fund shareholder dividends. This will impact the profits available to fund future operations, however as noted above, there are likely to be a number of other factors that will ensure that the premium rate increases pursued by NIB will remain competitive.

We consider that competitive pressures and continued regulatory overview of premium rates mean that whilst there will be some additional costs which NIB is likely to incur, there will also be an imperative for improvements in a range of controllable areas. We believe that these elements together mean there is unlikely to be any significant adverse impact on the future premiums as a result of the Proposal.

Item 3: Whether the Proposal, if approved and implemented, will have an adverse impact on the reasonable benefit expectations of the policyholders under the Policies issued by NIB

The Directors have stated on page 5 of the Explanatory Statement that for Policyholders "Your rights and benefits under your Policy will not be adversely affected by this Proposal".

NIB will continue to operate in the competitive health insurance market and benefit changes which are specified by the rules of the fund will continue to be subject to the current requirements of notification of adverse changes to all policyholders. To reduce benefits unnecessarily without an offsetting factor such as a reduction in premium rates would impact the competitiveness of the fund and be contrary to the Growth strategy of the fund and risk placing it at a commercial disadvantage.

The impact of product portability will also limit the likelihood that NIB will behave in a manner that adversely affects the reasonable benefit expectations of Policyholders.

We therefore consider that the Proposal will not have an adverse impact on the reasonable benefit expectations of the policyholders under the Policies issued by NIB.

6. Reliances and Limitations

Our review was limited in scope as discussed in Section 2.

Our advice is general in nature and does not take into account the specific circumstances of individual Policyholders and members. Policyholders and Members should seek appropriate independent professional advice that considers the implications of their own specific circumstances. Ernst & Young and Ernst & Young ABC disclaim all responsibility and liability to any other party (including, without limitation, to each member) for any loss or liability that the other party may suffer or incur (including, without limitation, any direct or indirect or consequential costs, loss or damage or loss of profits) arising from or relating to or in any way connected with the contents of our advice or the provision of our advice to the other party or the reliance on our advice by the other party.

The statements and opinions given in this report are given in good faith and the belief that such statements and opinions are not false or misleading. In performing our procedures in line with the scope of our work we relied on the accuracy and completeness of all information. In general, reliance was placed on but not limited to the information provided. We have used the information without independent verification. However, it was reviewed where possible for reasonableness and consistency. This review process included comparative analysis with data available from a range of sources.

7. Disclosures

The remuneration of Ernst & Young ABC is on the basis of normal professional fees and does not depend on the outcome of the Proposal.

Our Financial Services Guide is attached to this Report. Our Report provides general advice as it does not consider the individual needs of investors.

Yours sincerely



David Goodsall, FIAA
Director and Representative

**THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE
INDEPENDENT ACTUARY'S REPORT**

PART 2 – FINANCIAL SERVICES GUIDE

Issue date: 15 November 2006 (version 2)

1. Ernst & Young ABC Pty Limited

Ernst & Young ABC Pty Limited (“Ernst & Young ABC” or “we,” or “us” or “our”) has been engaged to provide general financial product advice in the form of an Independent Actuary’s Report (“Report”) in connection with a financial product of another person. The Report is set out in Part 1.

2. Financial Services Guide

This Financial Services Guide (“FSG”) provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, foreign exchange, and government debentures, stocks and bonds; and
- arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Ernst & Young ABC is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits referred to above, neither Ernst & Young ABC, nor any of its directors, employees or associated entities receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young ABC and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young ABC is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the Compliance Manager and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Industry Complaints Service or the Insurance Brokers Disputes Limited for general insurance product advice.

<p>Contacting Ernst & Young ABC</p> <p>Compliance Manager Ernst & Young 680 George Street Sydney NSW 2000</p> <p>Telephone: (02) 9248 5555</p>	<p>Contacting the Independent Dispute Resolution Schemes:</p> <p>Financial Industry Complaints Service Limited PO Box 579 – Collins Street West Melbourne VIC 8007 Telephone: 1800 335 405</p> <p>Insurance Brokers Disputes Limited Level 10 99 William Street Melbourne VIC 3000 Telephone 1800 064 169</p>
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This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572

EXPERTS' REPORTS CONT.

6.4 Taxation advice



The Board of Directors
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31 May 2007

Dear Directors

Demutualisation of NIB Health Funds Limited

You have requested our advice in relation to the Australian income taxation consequences for NIB Health Funds Limited, Company Members and Eligible Policyholders in respect of the proposed Demutualisation of NIB Health Funds Ltd. This advice is prepared for NIB Health Funds Ltd for inclusion in the Explanatory Statement regarding the Proposal to Demutualise.

The following comments are intended to be of a general nature only and are applicable to NIB Health Funds Ltd, and Company Member or Eligible Policyholder individuals who are Australian residents for tax purposes. Non-resident Company Members or Eligible Policyholders should seek their own taxation advice.

It should be noted that Australia continues with major taxation reform. There is considerable uncertainty as to the breadth and ultimate impact of this reform which unfortunately means there is a degree of uncertainty applying to this advice. We have considered the legislation passed to date and considered the possible impact of the other reforms announced but not legislated. However, it is possible that further legislation may impact our advice.

Given the general nature of this advice, it is important that Company Members and Eligible Policyholders seek their own, independent taxation advice, specific to their own circumstances, when considering the consequences of the proposed Demutualisation.

1 Background

It is proposed that NIB Health Funds Ltd change its structure from a company limited by guarantee to a company limited by shares. In broad terms, the company will Demutualise and through a series of steps, will interpose a new holding company, NIB Holdings Ltd, which shall be wholly owned by existing Eligible Policyholders.

Within six months from the Demutualisation Scheme Meetings (being the day on which the resolution to proceed with the Demutualisation is passed by Company Members and Eligible Policyholders), it is proposed that NIB Holdings Ltd will apply for listing on the ASX.

Liability limited by a scheme approved under Professional Standards Legislation

2 Income Tax Framework for Demutualisations

Division 326 of Schedule 2H of the Income Tax Assessment Act 1936 ("ITAA36") contains specific provisions governing the Demutualisation of mutual entities other than general and life insurance companies. Under the current legislative framework, there is significant uncertainty regarding the application of Division 326 to the Demutualisation of a health benefits organisation such as NIB Health Funds Ltd. Accordingly, these provisions have not been utilised.

3 Extinguishment of Rights

Policyholders

Your legal advisors have advised that it is considered that Policyholders of NIB Health Funds Ltd have no rights other than those in respect of the contractual relationship between the Policyholder and NIB Health Funds Ltd as specified in their health insurance contract.

These rights are unaffected by the proposed Demutualisation, and accordingly there is no extinguishment of any Policyholder's rights.

Company Members

Company Members have some identifiable rights in NIB Health Funds Ltd, however these rights are considered to have little, if any financial value as they are primarily the right to vote on certain matters and to appoint the Board of NIB Health Funds Ltd. The proposed Demutualisation will result in the Company Members' rights in NIB Health Funds Ltd being cancelled as NIB Health Fund Ltd will no longer have any Company Members, only Shareholders (this does not affect a Company Member's health insurance Policies).

Company Members will not receive Shares over and above their entitlement as Eligible Policyholders. The extinguishment of any identifiable rights of Company Members will have no taxation consequences to the Company Members, as they did not pay (and were not deemed to pay) any consideration to acquire these rights and no compensation will be provided to the Company Members.

4 Shareholders Taxation Consequences associated with new Shareholdings in NIB Holdings Ltd

Receipt of Shares

No income tax will be immediately payable by Eligible Policyholders as a consequence of receiving Shares in NIB Holdings Ltd in their capacity as Eligible Policyholders. The tax treatment of disposing of these Shares is discussed below.

Company Members do not receive Shares over and above their entitlement as Eligible Policyholders.

Taxation of dividends

If an Australian resident individual receives a dividend from NIB Holdings Ltd, that shareholder's assessable income will include the amount of the dividend. For individuals, the amount included in assessable income is increased by any franking credits that are attached to the dividend (franking credits represent tax paid by the company on the profits out of which the dividend is declared).

EXPERTS' REPORTS CONT.



Australian resident individuals in receipt of franked dividends are entitled to claim a tax offset against their income tax liability equal to the amount of any franking credits attached to the dividend, subject to the 45 day rule discussed below. A refund is generally available where the franking credit rebate exceeds the individual's income tax liability.

The Income Tax Assessment Acts contain specific anti-avoidance measures designed to prevent abuse of the franking credit system. These include the 45 day rule which involves the denial of franking credits where the shareholder fails to hold the Shares at risk for at least 45 days.

We note that:

- the rules do not apply unless a taxpayer is entitled to franking credits totalling more than \$5,000 in an income year; and
- it is unlikely that NIB Holdings Ltd will pay a franked dividend within 45 days of the allotment of Shares pursuant to the Demutualisation.

Cost base of Shares issued by NIB Holdings Ltd

No tax cost base will be available to Eligible Policyholders for the Shares issued by NIB Holdings Ltd as no consideration has been paid by the Eligible Policyholder for the Shares. Health insurance premiums paid by Eligible Policyholders are not considered to be consideration for the issue of the Shares.

Disposal of Shares by Australian resident shareholders

If a Shareholder disposes of Shares, any net capital gain (calculated under the Australian capital gains tax ("CGT") provisions), will be included in the Shareholder's assessable income. If a Shareholder realises a capital loss on the disposal of Shares, the capital loss can only be offset against capital gains.

A capital gain or loss is broadly calculated as the difference between the capital proceeds received for the disposal of the Shares and the cost base of the Shares. The cost base of Shares generally includes the consideration payable in respect of the acquisition of those shares and any incidental costs incurred in relation to those shares. Where capital losses exceed capital gains in any one year, the excess capital loss may generally be carried forward for utilisation against capital gains in later years.

As no consideration has been paid for the Shares, it would be expected that only a capital gain would arise on the disposal of the Shares.

The assessable net capital gain (after offsetting available capital losses) of an individual will be reduced by a CGT discount of 50% where the individual has held the Shares giving rise to the gain for 12 months or more. The CGT discount is not available where an individual disposes of shares within 12 months of acquiring them. For this purpose the Shares in NIB Holdings Ltd will be acquired on the day that the Shares are issued by NIB Holdings Ltd.

The comments above do not apply if a Shareholder buys and sells in the ordinary course of a share trading business, or if the Shares are acquired by a business with the dominant intention of resale at a profit. In either of these cases, any gain will generally be taxed as ordinary income without the benefit of the CGT discount. Shareholders in this situation should seek their own taxation advice.

5 Corporate Taxation Consequences

NIB Holdings Ltd

NIB Holdings Ltd will be subject to income tax on annual taxable income at the normal corporate rate (presently 30%). It will operate in its capacity as a holding company and is not subject to any exemption or other concessional criteria.

The income tax paid by the company can be passed on to its shareholders in the form of franking credits on dividends paid. Refer above for the taxation consequences to the shareholders of receiving these dividends.

NIB Holdings Ltd will have wholly owned subsidiary companies, and accordingly will form a tax consolidated group once NIB Health Fund Ltd ceases to be a tax exempt entity. In broad terms, the consequence of forming a tax consolidated group will be that NIB Holdings Ltd will recognise and pay income tax in respect of the taxable transactions of all wholly owned subsidiaries, from the date of formation of the consolidated group. The whole group would be treated as a single entity for income tax purposes.

Some of the main consequences of entering the tax consolidation regime are as follows:

- (i) Transactions between members of the tax consolidated group are ignored for income tax purposes, for example dividend payments, interest payments, asset transfers etc;
- (ii) On consolidation, all assets in the group are taken to be transferred to NIB Holdings Ltd and the value of the shares in the subsidiary members are reflected in the value of the underlying assets;
- (iii) NIB Holdings Ltd would be required to lodge one consolidated tax return on behalf of all subsidiaries within the tax consolidated group;
- (iv) NIB Holdings Ltd would be responsible for paying the quarterly tax instalments due for the tax consolidated group;
- (v) Detailed calculations are required to set tax bases upon entering and leaving a tax consolidated group; and
- (vi) All current and future Australian wholly owned companies of the head company ("NIB Holdings Ltd") would be included in the tax consolidated group.

Any intra-group transactions will be ignored. This allows the profits and losses of all group entities to be consolidated. We would expect that a Tax Sharing and Tax Funding Agreement will be executed between group entities allowing NIB Holdings Ltd to recover from the subsidiaries the income tax paid by it on their behalf.

NIB Health Funds Ltd

NIB Health Funds Ltd is presently exempt from tax pursuant to Division 50 of the Income Tax Assessment Act 1997 ("ITAA97").

NIB Health Funds Ltd will cease to be income tax exempt from the date it loses its non-profit status (the transition time) and will pay income tax from that date on its annual taxable income at the normal corporate tax rate (presently 30%).

Transitional rules contained in Division 57 ITAA36 and Division 58 ITAA97 will operate once NIB Health Funds Ltd loses its non-profit status. These rules are designed to allocate income, deductions, gains and losses to the period either before or after the transition time. Only the taxable transactions or movements in provisions and reserves which occur after the transition time should be subject to income tax. Valuations set the tax bases for all assets and liabilities of NIB Health Funds Ltd as at the transition time, such that any profits or losses on disposal of assets will be calculated by reference to the market value at the transition time.

EXPERTS' REPORTS CONT.



Any franking credits of subsidiary entities will be cancelled at the transition time in accordance with the relevant legislation.

As the process of the Scheme of Arrangement will access the rollover provisions of Subdivision 124-G of ITAA97 for the Shareholders, NIB Health Funds Ltd will be required to form a tax consolidated group with its current subsidiaries, immediately before the interposition of NIB Holdings Ltd as the new head company.

As a wholly owned subsidiary of NIB Holdings Ltd, NIB Health Funds Ltd will form part of a tax consolidated group as this is required to satisfy the conditions that achieve the correct outcomes for the group and the shareholders. Accordingly, all taxable transactions of NIB Health Funds Ltd will be recognised by NIB Holdings Ltd. Refer above for broad details regarding the tax consequences of entering the tax consolidation regime.

Other taxes, such as goods and services tax, fringe benefits tax and stamp duty will not be affected by the change to a tax paying entity, or by being part of a tax consolidated group. An election can be made to form a GST group, such that all GST transactions are recorded by the responsible entity, which does not have to be the head entity of the group.

Unconfirmed and Overseas Policyholders

The Trustee of the NIB Unconfirmed and Overseas Policyholders Trust will hold the Shares on trust for Unconfirmed and Overseas Policyholders for a period of three years after the Demutualisation.

As no beneficiary will be presently entitled to the income of the trust, the Trustee will be taxable on any dividends received by it in respect of these Shares at the top marginal rate, reduced by any attached franking credits. The Trustee will also be taxable at the top marginal rate on net gains in respect of Shares which are sold by it and any other investment earnings.

When an Unconfirmed and Overseas Policyholder becomes entitled to the Shares held by the Trustee, no additional tax will be payable by the Shareholder.

Taxation of Benefit Payments

There will be no change to the taxation treatment of health insurance benefit payments received by Shareholders under their insurance policies as a result of the Proposal to Demutualise. No income tax will be payable on health benefit payments received.

It should be noted that although PricewaterhouseCoopers has given its consent to the inclusion of this letter into the Explanatory Statement, we give no assurance or guarantee in respect of the successful operation or performance of NIB Health Funds Ltd or NIB Holdings Ltd or the proposed Demutualisation and that consent should not be taken as an endorsement or recommendation.

Yours faithfully

A handwritten signature in black ink that reads 'Murray D Evans'.

Murray D Evans
Partner

7 ADDITIONAL INFORMATION

7.1 No offer, solicitation with respect to Shares

This document is not an offer document. If the Proposal is implemented, Shares will be issued to Eligible Policyholders. However, this document does not constitute:

- ✓ an offer or invitation to issue or sell Shares by any person; or
- ✓ an offer or invitation or the solicitation of an offer or recommendation to subscribe for, or buy, Shares by any person.

This document should not be construed as implying any such offer, invitation or solicitation.

Shares have not been and will not, in connection with the Proposal, be registered under the United States Securities Act of 1933 or qualified for sale under the laws of any State of the United States.

Shares are not being directly offered to Overseas Policyholders and nothing in this document should be understood to mean that Shares are being offered to Overseas Policyholders. All statements in this document and in the other documents sent with this document relating to Eligible Policyholders receiving Shares are expressly qualified by the preceding sentence.

The Trustee of the NIB Unverified and Overseas Policyholders Trust will transfer Shares to Unverified and Overseas Policyholders upon completion of the required details as specified in the constituent documents of that Trust.

Please refer to Section 7.5 for more information.

7.2 Material Demutualisation documents Demutualisation Implementation Deed

In anticipation of the Demutualisation, NIB and NIB Holdings have entered into a Demutualisation Implementation Deed to facilitate the implementation of the Eligible Policyholders' Scheme and the Company Members' Scheme.

Under the Demutualisation Implementation Deed, NIB and NIB Holdings have agreed to perform all actions necessary to implement the:

- ✓ Demutualisation Schemes;
- ✓ change of company type of NIB pursuant to the Company Members' General Meeting Resolutions; and
- ✓ the capital reduction in accordance with the Capital Reduction Resolution.

Deed Poll

The Deed Poll sets out covenants given by NIB Holdings in favour of the Policyholders and Company Members in relation to the performance of steps attributed to it under the Demutualisation Schemes, including:

- ✓ the subscription for NIB Shares;
- ✓ the issue of NIB Holdings Shares; and
- ✓ to vote in favour of the Capital Reduction Resolution.

7.3 Incorporation of NIB Holdings

NIB Holdings was incorporated in Victoria under the Corporations Act in May 2007. It is a public company limited by shares. If the Proposal is implemented, NIB Holdings will become the new holding company of the NIB Group.

7.4 Constitutions

There are four constitutions relevant to the Proposal to Demutualise:

- ✓ new interim NIB constitution which will be effective from the Conversion Date;
- ✓ new final NIB constitution which will be effective from the Demutualisation Date;
- ✓ initial NIB Holdings constitution which is effective until the Listing Date; and
- ✓ final NIB Holdings constitution which is effective from the Listing Date.

Rights attaching to Shares in either NIB or NIB Holdings are set out in the relevant constitution and arise from a combination of the constitution, statute, general law and, if the company is listed on the ASX, the Listing Rules.

A summary of the rights attaching to Shares and certain provisions of the constitutions are set out below. This summary is not intended to be exhaustive and is qualified by the full terms of each constitution (a copy of which is available for inspection as described in Section 7.11).

Common terms in all constitutions

Voting rights

- ✓ Subject to any special rights or restrictions attached to any class or classes of Shares, at a general meeting each Shareholder present in person or by proxy representative or attorney has one vote on a show of hands and one vote for each fully paid Share held on a poll.
- ✓ The quorum required for a meeting of Shareholders is two members present in person or by proxy, attorney or representative.

ADDITIONAL INFORMATION CONT.

General meeting and notices

- ✓ Each Shareholder is entitled to receive notices of meetings, and to attend and vote at general meetings of the company and to receive all notices, accounts and other documents required to be sent to Shareholders under the constitution, the Corporations Act or the Listing Rules.

Variation of class rights

- ✓ Subject to the Corporations Act, whenever the capital of the company is divided into different classes of Shares, the rights attached to any class of Share may be altered with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class or with the written consent of the holders of at least three-quarters of the Shares of that class on issue.

Further issue of Shares and options

- ✓ Subject to any restrictions on the allotment and issue of Shares imposed by the constitution, the Corporations Act, the Listing Rules or any special rights conferred on the holders of any Shares, the allotment and issue of Shares is under the control of the directors, who may allot, issue and cancel Shares, and grant options over unissued Shares, in the company on such terms and conditions as they see fit.

Directors – appointment and removal

- ✓ The Board is responsible for the overall corporate governance of the company, including establishing its strategic direction, establishing goals for management and monitoring the achievement of these goals. The minimum number of directors is three and the maximum number is 10. Shareholders may vary the number by resolution in general meeting.

Alteration of constitution

- ✓ The constitution can only be amended by special resolution passed by at least three-quarters of Shareholders present and voting at a general meeting of the company.

Terms specific to the new interim NIB constitution

General meeting and notices

- ✓ Under the Corporations Act, a notice must currently be provided to Shareholders at least 21 days in advance of the meeting.

Dividends

- ✓ In general, no part of the income or property of the company may be paid to or distributed among the members.

Transfer of Shares

- ✓ Interests in Shares may not be directly or indirectly transferred, sold or disposed of except in very limited circumstances. In addition, a Shareholder may not take any action to enter into any relevant agreement that has the effect that any person:

- acquires a relevant interest in a Share; or
- becomes an associate of the Shareholder in relation to the Share.

For the purposes of this article, “relevant interest”, “relevant agreement”, “acquire” and “associate” have the meaning set out in the Corporations Act. If these restrictions were to be contravened, the Directors may require the disposal of the Shares.

Winding up

- ✓ If the company is wound up, no member has any right to any surplus assets of the company remaining after the completion of the winding up or dissolution of the company. Any surplus assets must be given or transferred to charitable institutions.

Terms specific to the constitution of NIB Holdings until the Listing Date

General meeting and notices

- ✓ Under the Corporations Act, a notice must currently be provided to Shareholders at least 21 days in advance of the meeting.

Dividends

- ✓ Subject to the Corporations Act, the constitution and the rights of holders of Shares issued with any special or preferential rights, the profits of the company which the directors may from time to time determine to distribute by way of dividend are divisible amongst the Shareholders in proportion to the Shares held by them respectively and will be paid in proportion to the amounts paid, or credited as paid, on the issue price of those Shares.

Transfer of Shares

- ✓ Interests in Shares may not be directly or indirectly transferred, sold or disposed of except in very limited circumstances. In addition, a Shareholder may not take any action to enter into any relevant agreement that has the effect that any person:

- acquires a relevant interest in a Share; or
- becomes an associate of the Shareholder in relation to the Share.

For the purposes of this article, “relevant interest”, “relevant agreement”, “acquire” and “associate” have the meaning set out in the Corporations Act. If these

restrictions were to be contravened, the directors may require the disposal of the Shares.

Winding up

- ✓ Subject to the rights of holders of Shares issued with any special or preferential rights, if the company is wound up, the liquidator may with the sanction of a special resolution divide among the Shareholders in kind the whole or any part of the property of the company and for such purpose may set such value as he or she deems fair on any property and may determine how the division shall be carried out as between Shareholders or different classes of Shareholders.

Terms specific to the constitution of NIB Holdings after the Listing Date

General meeting and notices

- ✓ Under the Corporations Act, a notice must currently be provided to the Shareholders of a listed entity at least 28 days in advance of the meeting.

Dividends

- ✓ Subject to the Corporations Act, the constitution and the rights of holders of Shares issued with any special or preferential rights, the profits of the company which the directors may from time to time determine to distribute by way of dividend are divisible amongst the Shareholders in proportion to the Shares held by them respectively and will be paid in proportion to the amounts paid, or credited as paid, on the issue price of those Shares.

Transfer of Shares

- ✓ Subject to the constitution, Shares may be transferred by a proper transfer effected in accordance with the ASTC Settlement Rules, by a written instrument of transfer approved by the directors which complies with the constitution or by any other method of transfer that is required or permitted by the Corporations Act and the Listing Rules.
- ✓ The company will not issue Share certificates to Shareholders.

Holding locks

- ✓ The directors:
 - may, if the Listing Rules permit the company to do so; and
 - must, if the Listing Rules require the company to do so (or if the transfer is in breach of the Listing Rules or any restriction agreement);

request the ASTC to apply a holding lock to prevent a transfer of Shares through CHESS or decline to register any transfer of Shares.

Small holdings

- ✓ Subject to the Corporations Act, the Listing Rules and the ASTC Settlement Rules, the company may sell the Shares of a Shareholder who holds less than a marketable parcel of Shares.

Share buy-backs

- ✓ Subject to the Corporations Act and the Listing Rules, the company may buy back Shares on such terms and conditions as may from time to time be determined by the directors.

Proportional takeover provisions

- ✓ The constitution contains provisions which prohibit the registration of any transfer of voting Shares giving effect to an offer made under a proportional takeover bid (i.e. an offer for some but not all of the holders' Shares) until the persons holding Shares in a class for which the offer made under the takeover bid was made have passed an ordinary resolution approving the bid. The bidder and any associate of the bidder are excluded from voting on that resolution. To remain effective, these provisions must be renewed by the company in a general meeting every three years from the later of their adoption or renewal.

Winding up

- ✓ Subject to the rights of holders of Shares issued with any special or preferential rights, if the company is wound up, the liquidator may with the sanction of a special resolution divide among the Shareholders in kind the whole or any part of the property of the company and for such purpose may set such value as he or she deems fair on any property and may determine how the division shall be carried out as between Shareholders or different classes of Shareholders.

7.5 NIB Unverified and Overseas Policyholders Trust

Unverified Policyholders

Overview

You will be an Unverified Policyholder if you have not verified your details as a Policyholder by the Demutualisation Date. Details of how to verify your details are set out in Section 2.3 under the sub-heading "What steps do Eligible Policyholders need to take in order to receive Shares?".

The number and identity of Unverified Policyholders will not be known until the Demutualisation Date.

ADDITIONAL INFORMATION CONT.

Locating Unverified Policyholders

The Trustee must:

- ✓ hold Shares issued in respect of an Unverified Policyholder on trust for that Unverified Policyholder; and
- ✓ take such steps as the Trustee considers appropriate to locate and verify the identity of the Unverified Policyholders within three years after the Demutualisation Date.

Unless the relevant Unverified Policyholder is located and verified, or the Shares are subject to compulsory acquisition under the Corporations Act (including pursuant to a scheme of arrangement), the Shares held in this Trust will be sold or cancelled upon the expiry of three years from the Demutualisation Date (refer below).

Unverified Policyholder who is located or verified within three years

If the Trustee can locate and verify the details of the Unverified Policyholder within the required three year period, then the Trustee must distribute the Shares to which that Unverified Policyholder is entitled, together with any other entitlements referable to those Shares (e.g. dividends) after deducting any applicable tax or expenses, unless the Policyholder has a registered address outside Australia.

Unverified Policyholders who are not later located or verified within three years

If, three years after the Demutualisation Date, there are Unverified Policyholders who still have not been located and verified, their interest under the NIB Unverified and Overseas Policyholders Trust will come to an end. The Shares held in trust will be sold or cancelled for the benefit of the Shareholders of NIB Holdings at that time.

If an Unverified Policyholder attempts to verify their details more than three years after the Demutualisation Date, they will not be entitled to any compensation for those Shares that would have been otherwise attributable to the Policyholder if they had verified their details some time before three years after the Demutualisation Date.

The Eligible Policyholders' Scheme provides for these restrictions on compensation.

Overseas Policyholders

You will be an Overseas Policyholder if, according to your completed Verification of Details Form, your registered address is outside Australia. You are not an Overseas Policyholder if you are an Unverified Policyholder.

If you are an Overseas Policyholder, you will not be issued Shares as this may result in a breach of the securities or other laws of overseas jurisdictions. Instead, such Shares will be issued to the Trustee to be held on the terms of the NIB Unverified and Overseas Policyholders Trust Deed. This will be the case unless you can satisfy the Trustee (in its absolute

discretion) that the issue of Shares to you will not violate the laws of the relevant overseas jurisdiction.

The Trustee will sell those Shares at prices and in a manner determined by the Trustee, in its discretion, at or about the Listing Date (included as part of any Sale Facility). The net proceeds of sale together with any other entitlements referable to those Shares (e.g. dividends) after deducting any applicable tax or expenses will be distributed to the Overseas Policyholders on whose behalf the Shares were sold.

An Overseas Policyholder may notify the Trustee (through NIB Holdings) of a bona fide change of address to Australia before their Shares are sold and, if the Trustee accepts the change, the Policyholder will receive their Shares instead of the net sale proceeds.

Voting power of the Trustee

If there is a vote on any scheme of arrangement or corporate reconstruction which may involve the disposal of Shares which the Trustee holds on behalf of Unverified Policyholders and Overseas Policyholders, or any resolution which would have the effect of amending or deleting articles in the constitution of NIB Holdings, then the Trustee:

- ✓ will be bound to vote against it if the Board has not unanimously recommended it; or
- ✓ must vote in favour of it if the Board has unanimously recommended it.

The Trustee must also vote in favour of any resolution proposed by the Board of NIB Holdings at any general meeting of NIB Holdings for the purposes of implementing certain determinations in relation to the Trust property and ancillary purposes. Otherwise, the Trustee will vote in its absolute discretion.

7.6 NIB Foundation

The NIB Foundation will be established as a not-for-profit foundation. Funds from the NIB Foundation will be used as a means to offer support to the health and wellbeing of the Australian community, particularly the Hunter region.

NIB Foundation

The NIB Foundation will be governed by the NIB Foundation Deed.

Subsequent to Listing, the NIB Group proposes to donate \$25 million (received from the issue of new Shares as part of the Listing process) to the NIB Foundation. The proceeds from the issuance of these Shares will be held on trust for charitable purposes. The establishment of the NIB Foundation will have no impact on NIB's capital or solvency position.

Trustee

The trustee of the NIB Foundation will be a new company called NIB Foundation Trustee Limited. NIB Holdings will have

the power to remove and replace the trustee. NIB Foundation Trustee Limited will be a company limited by guarantee controlled by members who are also directors.

The trustee will not be a related body corporate of NIB Holdings or NIB. The directors of the trustee will be appointed by NIB Holdings. It is proposed of the NIB Foundation that there will be a minimum of four directors and a majority of the directors must be independent of the NIB Group. The chairman of the trustee must be one of those independent directors.

7.7 Capital Reduction Resolution

An extraordinary general meeting of NIB will be held at 10:00am (Sydney time) on the next business day following the Conversion Date at the registered office of NIB, 384 Hunter Street, Newcastle NSW 2300 to consider and, if thought fit, to pass the Capital Reduction Resolution.

The Capital Reduction Resolution is:

“That the issued ordinary share capital of NIB Health Funds Limited be reduced by cancelling all of the ordinary shares held by shareholders, other than the 5 ordinary shares registered in the name of NIB Holdings Limited, in consideration for the issue of an identical number of ordinary shares in the capital of NIB Holdings Limited on a one for one basis, on the terms and subject to the conditions set out in the Eligible Policyholders’ Scheme, with effect from the Demutualisation Date.”

The Capital Reduction Resolution must be passed by two separate special resolutions voted on by different groups of Shareholders as outlined below.

First, the Capital Reduction Resolution must be passed as a special resolution of the Shareholders whose Shares are to be cancelled (being the Eligible Policyholders who have been allocated Shares pursuant to the Conversion Resolution). NIB Holdings may not vote on this resolution.

Pursuant to clause 4 of the Eligible Policyholders’ Scheme, each person eligible to vote on this resolution has appointed NIB as its attorney and agent to amongst other things, appoint the company secretary of NIB as the proxy of the Eligible Policyholder to attend and vote on behalf of the Policyholder in favour of the Capital Reduction Resolution in respect of all the NIB Shares held by that Eligible Policyholder. As a result, an Eligible Policyholder is not required to physically attend the Capital Reduction Meeting or lodge a proxy form in order to exercise their vote on the Capital Reduction Resolution.

An Eligible Policyholder may withdraw the appointment of the company secretary of NIB as the proxy of the Policyholder by attending the Capital Reduction Meeting and voting in person on the Capital Reduction Resolution or appointing another person as the proxy of the Policyholder for the purposes of the Capital Reduction Meeting or by the Policyholder

lodging a valid written revocation of the authority proxy at the registered office of NIB prior to the date of the Capital Reduction Meeting.

Secondly, the Capital Reduction Resolution must be passed as a special resolution in accordance with section 256C(2) of the Corporations Act with no votes being cast on this resolution by persons who are to receive consideration as part of the reduction. The Eligible Policyholders, whose shares are to be reduced and cancelled pursuant to the Capital Reduction Resolution, will be excluded from voting on this resolution. The only shareholder who may vote on this resolution is NIB Holdings. Pursuant to the Demutualisation Implementation Deed and the Deed Poll, NIB Holdings has undertaken to vote in favour of that special resolution.

7.8 Regulatory modifications and approvals

The following regulatory approvals, exemptions and declarations have been given or are being sought in relation to the Proposal. Where approvals are being sought, they may ultimately be given subject to one or more conditions. It is also possible that the approvals being sought may not be given.

ASIC approval

NIB has applied to ASIC for:

- ✓ an exemption from section 1071H of the Corporations Act to allow NIB to not issue share certificates to Eligible Policyholders in respect of Shares issued on the Conversion Date; and
- ✓ an exemption from the requirement to provide the information required by paragraphs 8201 and 8203 of Part 2 of Schedule 8 of the Corporations Regulations.

ASX approval

ASX has approved, in-principle, that it has no objection to the constitution of NIB Holdings post-Listing.

ATO approval

Applications for Private Rulings and Class Rulings in respect of the Proposal have been lodged with the ATO so as to confirm the tax treatment for NIB and Policyholders.

PHIAC approval

The Private Health Insurance Act provides a mechanism under section 126-42 that NIB is required to comply with in order to convert to being registered as a for-profit insurer. In order to be registered as a for-profit insurer in accordance with section 126-42 of the Private Health Insurance Act, NIB was required to make an application to PHIAC in the approved form at least 90 days before the day on which the insurer proposed to become registered as a for-profit insurer.

NIB has made an application to PHIAC to obtain this approval. Approval is a condition to the Eligible Policyholders’ Scheme and the Company Members’ Scheme.

ADDITIONAL INFORMATION CONT.

Stamp Duty exemption

The steps undertaken to result in the issue of Shares should not result in a Stamp Duty liability.

7.9 Directors and officers

Appointments

The directors of NIB Holdings after the Listing Date will be the same as the Directors of NIB on the Demutualisation Date. The Directors in office at the date of lodgement of this Explanatory Statement for registration by ASIC are as listed below. Further details of the Directors are set out in Section 4.6.

Interests under or in connection with the Proposal

All of the existing Directors of NIB are Eligible Policyholders and, accordingly, will be entitled to receive Shares if the Proposal is implemented and they remain Policyholders until 19 July 2007. The number of Shares which the Directors would be eligible to receive is as follows:

Director	No. Shares
Keith Lynch	3,000
David Brewer	1,000
Grahame Cannon	2,200
Dr Annette Carruthers	1,000
Janet Dore	500
Philip Gardner	3,600
Michael Slater	5,400

Other than as set out above and elsewhere in this Section 7.9, there are no agreements or arrangements between a Director of NIB and any other person in connection with or conditional on the outcome of the Proposal.

Employee retention and transaction arrangements

NIB has Employee retention arrangements to cover key Employees who the Board believes are critical to the Proposal or are critical to the continuation of the business of NIB. Under these arrangements, key Employees will receive a transaction bonus conditional on matters relating to the successful implementation of the Proposal and a retention payment conditional on either the successful implementation of the Proposal or the Employee remaining employed by NIB, whichever date is earlier. The retention arrangements apply to seven Employees.

If the Proposal is implemented, the transaction bonuses and retention payments will be made on or about six months after Listing. The transaction bonus is calculated in accordance with a formula that is dependent on the value of the Shares

on Listing. The retention payment arrangements have an aggregate maximum cost of approximately \$2.3 million.

Current interests in NIB and NIB Holdings

No marketable securities of NIB are currently held by or on behalf of any Director. The following hold the indicated number of ordinary shares in NIB Holdings:

Director	No. Shares
Keith Lynch	1
Mark Fitzgibbon	1

Other than as described above, no marketable securities of NIB Holdings are held by or on behalf of any Director. Each Director is a Company Member.

Other than as set out above and elsewhere in this Section 7.9, no Director of NIB has any interest in any contract entered into by NIB Holdings.

Remuneration

The constitution of NIB Holdings (interim and final) contains the following provisions as to the remuneration of executive and non-executive directors of NIB Holdings:

10.8 Remuneration of directors

The directors are to be remunerated for their services as directors as follows:

- the amount of the remuneration of the directors is a yearly sum not exceeding the sum from time to time determined by the Company in general meeting. The notice convening the meeting must include the proposal to increase the directors' remuneration and specify both the amount of the increase and the new yearly sum proposed for determination;*
- the amount of the remuneration of the directors is to be divided among them in the proportion and manner they agree or, in default of agreement, among them equally;*
- the remuneration is to be provided wholly in cash unless the directors, with the agreement of the Director concerned, determine that part is to be satisfied in the form of non-cash benefits, including the issue or purchase of shares in the Company or the grant of options to subscribe for such shares. The sum determined by the Company in general meeting under article 10.8(a) does not include remuneration in the form of share, option or other equity plans approved separately by the Company in general meeting;*
- in making a determination under paragraph (c), the directors may fix the value of any non-cash benefit; and*
- the directors' remuneration accrues from day to day, except for any non-cash benefit which is taken to*

accrue at the time the benefit is provided, subject to the terms on which the benefit is provided.

This article does not apply to the remuneration of the managing director or any other director appointed under article 11.8.

10.9 Superannuation contributions

If required by law, the Company may make contributions to a fund for the purpose of making provision for or obtaining superannuation benefits for a director. A contribution made by the Company under this article is not remuneration to which article 10.8 applies if the contribution is excluded from the amount to be approved by shareholders under the Listing Rules.

10.11 Retirement benefit

Subject to the Listing Rules and Corporations Act, the Company may pay a former director, or the personal representatives of a director who dies in office, a retirement benefit in recognition of past services of an amount determined by the directors. The Company may also enter into a contract with a director providing for payment of a retiring benefit. A retirement benefit paid under this article is not remuneration to which article 10.8 applies.

11.11 Remuneration of managing and executive directors

The remuneration of a managing director or an executive director may be fixed by the directors and may be by way of salary or commission or participation in profits or by all or any of those modes, but may not be by a commission on or percentage of operating revenue.

12.12 Alternate director and remuneration

An alternate director is not entitled to receive from the Company any remuneration or benefit under article 10.9 or 10.11.

Indemnity, insurance and access

NIB Holdings will execute a deed of access, insurance and indemnity with each Director before the Demutualisation Date. In summary, each deed will provide:

- ✓ an indemnity to the Director against all liability incurred by the director as a director of NIB Holdings and its wholly-owned subsidiaries, including as a result of appointment or nomination of the Director by NIB Holdings or any of its subsidiaries as trustee or as an officer of another corporation. The indemnity applies to the extent permitted by law;
- ✓ that NIB Holdings will use its best endeavours to ensure that the Director is insured, in respect of claims made during the Director's term of office as a director of NIB Holdings or any of its subsidiaries and for a period of

seven years thereafter, under a directors' and officers' liability insurance policy against liability incurred by the Director as a director of NIB Holdings or any of its subsidiaries, including as a result of appointment or nomination of the Director by NIB Holdings or any of its subsidiaries as trustee or as an officer of another corporation. NIB Holdings must pay the premiums in respect of that insurance policy to the extent permitted by law;

- ✓ the Director with rights concerning access to Board papers held by NIB Holdings (or any subsidiary of NIB Holdings of which the Director is or has been a director) relating to the period during which the Director holds office as a director of NIB Holdings (or the relevant subsidiary), whether or not the Director still holds office as a director when the Board papers are sought; and
- ✓ that NIB Holdings will meet the costs of independent professional advice obtained by the Director in furtherance of the Director's duties to NIB Holdings in certain circumstances.

The constitution of NIB Holdings provides for the entry into these deeds.

7.10 Explanatory Statement provided to ASIC

This Explanatory Statement was registered with ASIC on 7 June 2007 pursuant to section 412(6) of the Corporations Act.

This Explanatory Statement has also been lodged with ASIC as a notice of meeting for the Capital Reduction Resolution in accordance with section 256C(5) of the Corporations Act.

7.11 Documents available for inspection

Copies of the following documents are available for inspection free of charge during normal business hours at the registered office of NIB at 384 Hunter Street, Newcastle NSW 2300:

- ✓ new interim constitution of NIB which will be effective from the Conversion Date;
- ✓ new final constitution of NIB which will be effective from the Demutualisation Date;
- ✓ initial constitution of NIB Holdings which is effective until the Listing Date;
- ✓ final constitution of NIB Holdings which will be effective from the Listing Date;
- ✓ Trust Deed to establish the Trust;
- ✓ Deed Poll and Demutualisation Implementation Deed; and
- ✓ NIB Foundation documents.

ADDITIONAL INFORMATION CONT.

7.12 Material contracts

Consents have been obtained or will be sought to ensure that implementation of the Proposal will not result in any breach or default under any material contract involving NIB or any of its subsidiaries.

7.13 Other statutory information

Introduction

This Section 7.13 sets out additional information required pursuant to section 412(1)(a)(ii) of the Corporations Act and Part 3 of Schedule 8 of the Corporations Regulations.

Directors' recommendation

The Directors recommend Eligible Policyholders and Company Members vote "For" the Proposal.

Intentions of Directors voting on the Proposal

Each Director intends to vote in favour of the Proposal (by voting "For" the Demutualisation Resolutions on which they are entitled to vote).

Compensation payments

No payment or other benefit is proposed to be made or given in connection with the Proposal to any Director, secretary or executive officer of NIB, or any related body corporate of NIB, as compensation for loss of, or as consideration for or in connection with, his or her retirement from office in NIB or any related body corporate of NIB.

Intention of Directors concerning the business and Employees

The Proposal will generally not adversely affect the position, tenure or entitlements of Employees. If the Proposal is implemented, it is the intention of the Directors to only make changes to organisational arrangements or restructuring where driven by the need to align skills and resources with the business strategy.

Marketable securities held by or on behalf of Directors

No marketable securities of NIB are held by or on behalf of any Director.

Agreements or arrangements with Directors

NIB Holdings may establish Employee/executive share schemes and any executive directors may be eligible and elect to participate in any such scheme.

NIB Holdings will execute a deed of indemnity, insurance and access with each of the Directors, the material terms of which are summarised in Section 7.9.

Keith Lynch, Philip Gardner and Mark Fitzgibbon have entered into the Demutualisation Implementation Deed as set out in Section 7.2.

Except as set out above, there are no agreements or arrangements made between any Director and any other person in connection with or conditional upon the outcome of the Proposal.

Material change in the financial position of NIB

Within the knowledge of the Directors and other than as disclosed in this Explanatory Statement, the financial position of NIB has not materially changed since 30 June 2006, being the date of the balance sheet which was laid before the company in general meeting on 23 November 2006.

Other information material to the making of a decision in relation to the Proposal

Except as set out in this Explanatory Statement, there is no information material to the making of a decision in relation to the Proposal, being information that is within the knowledge of any Director of NIB or of a related body corporate of NIB, which has not previously been disclosed to Company Members and Policyholders.

Independent Financial Expert's Report

The Independent Financial Expert has prepared the Independent Financial Expert's Report set out in Section 6.1 advising as to whether the Proposal to Demutualise is in the best interests of Policyholders and Company Members as a whole and whether the Proposal provides an equitable basis for allocating Shares to Policyholders.

The Independent Financial Expert has not withdrawn its written consent to the inclusion in Section 6.1 of the Independent Financial Expert's Report in the form and context in which it is included.

Consents to inclusion of other expert reports

PricewaterhouseCoopers Securities Ltd has prepared the Investigating Accountant's Report set out in Section 5.3 and the taxation advice set out in Section 6.4.

PricewaterhouseCoopers Securities Ltd has not withdrawn its written consent to the inclusion in Section 5.3 of the Investigating Accountant's Report, and to the inclusion in Section 6.4 of the taxation advice, in the form and context in which they are included.

The Appointed Actuary has prepared the report set out in Section 6.2. The Appointed Actuary has not withdrawn his written consent to the inclusion in Section 6.2 of that report, in the form and context in which it is included.

The Consulting Actuary has prepared the report set out in Section 6.3. The Consulting Actuary has not withdrawn its written consent to the inclusion in Section 6.3 of that report, in the form and context in which it is included.

Consideration offered to Eligible Policyholders

The consideration offered to Eligible Policyholders is set out in Section 2.3. NIB Holdings will issue approximately 460 million Shares under the Proposal, in accordance with the Share Allocation Rules (set out in the Eligible Policyholders' Scheme – refer to Schedule 1 to this Explanatory Statement). The basis on which the Share Allocation Rules were developed is summarised in the Consulting Actuary's Report in Section 6.3.

NIB Holdings marketable securities

Eligible Policyholders will receive Shares. Such Shares are not currently granted official quotation on a securities exchange. NIB Holdings intends to make application for such quotation in the future (although there can be no guarantee that this will occur). No securities of NIB Holdings have been sold in the period between incorporation and the date of lodgement of this Explanatory Statement for registration by ASIC.

Definitions and interpretation

The following expressions used in this Section 7.13 have the meanings given to them in the Corporations Act:

“entitled”, “executive officer”, “marketable securities” and “related body corporate”, “relevant interest” and “voting power”.

8 GLOSSARY OF TERMS

In this Explanatory Statement (other than in Schedules 1 and 2), the definitions below apply unless the context indicates otherwise.

In addition, unless the context indicates otherwise, a reference to:

- ✓ the singular includes the plural and vice versa;
- ✓ a person, corporation, trust, partnership, unincorporated body or other entity includes any of them;
- ✓ we/us means NIB, including all of NIB's subsidiaries; and
- ✓ you means you as either a Policyholder or Company Member, or both, as indicated by the context.

If a word or phrase is defined, its other grammatical forms have a corresponding meaning.

Term	Definition
Ambulance Only Policy	A Policy that covers the costs of ambulance transport to a hospital (excludes transport for out patient services and transport for reasons which the doctor does not consider are a medical necessity).
Annual Report	The annual report of NIB.
Appointed Actuary	Mr Mark Bishop.
Appointed Actuary's Report	Report by the Appointed Actuary.
ASIC	Australian Securities and Investments Commission.
ASTC	ASX Settlement and Transfer Corporation Pty Limited.
ASTC Settlement Rules	Settlement rules of ASX Settlement and Transfer Corporation Pty Limited.
ASX	ASX Limited.
ATO	Australian Taxation Office.
BDO Corporate Finance	BDO Kendalls Corporate Finance (NSW) Pty Limited.
Board	The board of directors from time to time of the following companies in the NIB Group: <ul style="list-style-type: none"> ✓ currently, NIB; and ✓ upon Listing, NIB Holdings and NIB.
Capital Reduction Meeting	The extraordinary general meeting of NIB to consider the Capital Reduction Resolution.
Capital Reduction Resolution	The resolution of NIB to selectively reduce its capital as set out in Section 7.7.
Centrelink	The Australian Government agency which administers social security entitlements.
CGT	Capital Gains Tax.
Chairman's Letter	The letter from the Chairman addressed to each Policyholder and Company Member which accompanies this Explanatory Statement.
CHESS	Clearing House Electronic Subregister System, operated by ASTC.

Term	Definition
Class Ruling	Legally binding advice provided by the ATO to a specific class of persons in relation to a particular arrangement or factual circumstance.
Company Member	A company member of NIB.
Company Members' Constitution Resolution	The proposed special resolution of Company Members to approve the adoption of a new constitution as set out in the notice of Company Members' General Meeting in Section 9.
Company Members' Conversion Resolution	The proposed special resolution of Company Members to approve the conversion of NIB to a company limited by shares, as set out in the notice of Company Members' General Meeting in Section 9.
Company Members' General Meeting	The extraordinary general meeting of Company Members convened to consider the Company Members' General Meeting Resolutions.
Company Members' General Meeting Resolutions	The Company Members' Conversion Resolution and the Company Members' Constitution Resolution.
Company Members' Resolutions	The Company Members' Scheme Resolution and the Company Members' General Meeting Resolution.
Company Members' Scheme	The proposed scheme of arrangement between NIB and the Company Members, subject to any alterations or conditions made or required by the Court.
Company Members' Scheme Meeting	The meeting of Company Members to approve the Company Members' Scheme.
Company Members' Scheme Resolution	The proposed resolution of Company Members to approve the Company Members' Scheme, in the form set out in the notice of the Company Members' Scheme Meeting in Section 9.
Company Membership/ Company Membership Rights	The rights possessed by Company Members in their capacities as Company Members, rather than their capacities as Policyholders, including the rights to attend general meetings of NIB and vote on resolutions at those meetings.
Constitution of NIB	The constitution as adopted by the Company Members at an extraordinary general meeting held on 28 October 2004 and subsequently amended at an extraordinary general meeting held on 28 July 2005.
Consulting Actuary	Ernst & Young ABC Pty Limited.
Consulting Actuary's Report	Report by the Consulting Actuary.
Conversion Date	The date NIB changes from a company limited by guarantee to a company limited by shares in accordance with section 164(5) of the Corporations Act.
Corporations Act	The Corporations Act 2001 (Cth).
Court	The Federal Court of Australia.

GLOSSARY OF TERMS

Term	Definition
Deed Poll	The deed poll entered into by NIB Holdings in favour of NIB, the Company Members and the Policyholders.
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 Adjustments	Adjustments made in the pro-forma consolidated financial statements in order to more appropriately reflect the underlying financial position and ongoing operations of the NIB Group as if the Proposal had been implemented at 28 February 2007.
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.
Demutualisation Implementation Deed	The demutualisation implementation deed between NIB, NIB Holdings, Keith Lynch, Philip Gardner and Mark Fitzgibbon.
Demutualisation Meetings	The Eligible Policyholders' Scheme Meeting, the Company Members' Scheme Meeting and the Company Members' General Meeting.
Demutualisation Resolutions	The Company Members' Resolutions and the Eligible Policyholders' Scheme Resolution.
Demutualisation Schemes	The Eligible Policyholders' Scheme and the Company Members' Scheme set out in Schedules 1 and 2, respectively. The schemes of arrangement will be binding on NIB and its Policyholders and Company Members if they are approved.
Director	The directors of NIB.
Eligible Policyholder	You are an Eligible Policyholder if you are a person who: <ul style="list-style-type: none"> ✓ was a Policyholder on 20 March 2007 (the day prior to the announcement of the Proposal) and you remain a Policyholder on the date of the Eligible Policyholders' Scheme Meeting; or ✓ becomes a Policyholder in respect of an existing Policy, in substitution for the previous Policyholder, between 20 March 2007 and the date of the Eligible Policyholders' Scheme Meeting and: <ul style="list-style-type: none"> – the previous Policyholder was a Policyholder as at 20 March 2007; and – the new Policyholder remains a Policyholder as at the date of the Eligible Policyholders' Scheme Meeting.
Eligible Policyholders' Scheme	The proposed scheme of arrangement between NIB and the Eligible Policyholders, subject to any alterations or conditions made or required by the Court.
Eligible Policyholders' Scheme Meeting	The meeting of Eligible Policyholders ordered by the Court to consider the Eligible Policyholders' Scheme Resolution.
Eligible Policyholders' Scheme Resolution	The proposed resolution of Policyholders to approve the Eligible Policyholders' Scheme, in the form set out in the notice of Eligible Policyholders' Scheme Meeting in Section 9.
Employee(s)	Employee(s) of any member of the NIB Group with a registered address in Australia.
Executive Director	A Director who is employed by NIB as an executive under an employment contract.

Term	Definition
Ex-IOOF Member	An Eligible Policyholder who was a member of IOOF when the health business of IOOF was acquired by NIB with effect from the IOOF Transfer Date.
Explanatory Statement	This booklet.
Family Policy	A Policy that insures more than one person. This will include single parent families, couples, and couples with children under coverage.
Federal Government Rebate	A payment from the Australian Government in partial reimbursement of premiums payable under a health insurance policy.
Financial Condition Report	A report prepared for the board of a private health insurer by its appointed actuary on their assessment of the financial condition of the insurer, considering the insurer's recent and prospective performance, principal risks, solvency, capital adequacy, and adequacy of contribution rates.
IBIS	IBISWorld Pty Ltd.
Independent Financial Expert	BDO Corporate Finance Pty Ltd.
Independent Financial Expert's Report	Report by the Independent Financial Expert.
Insured Person	A person who is insured under a Policy.
Investigating Accountant	PricewaterhouseCoopers Securities Ltd.
Investigating Accountant's Report	Report by the Investigating Accountant.
IOOF Transfer Date	1 May 2003.
Lifetime Health Cover/LHC	A scheme which determines the amount of premiums that a person will have to pay for their health insurance policy by reference to their age at the time they take out a health insurance policy.
Listing/List(s)/Listed	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 Date	The day on which NIB Holdings Lists.
Listing Rules	The listing rules of the ASX.
MBS	Medical Benefits Schedule.
NIB	NIB Health Funds Limited.
NIB Foundation	A trust to be established, if the Proposal is approved, 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.

GLOSSARY OF TERMS

Term	Definition
NIB Foundation Deed	The deed which will establish the NIB Foundation.
NIB Group	The NIB group of companies comprising: <ul style="list-style-type: none"> ✓ currently, NIB and all its related bodies corporate; and ✓ after the Demutualisation Date, NIB Holdings, NIB and all of their related bodies corporate.
NIB Holdings	The new holding company of NIB if the Proposal is approved, in which Eligible Policyholders, including Company Members, will be issued Shares.
NIB Information Hotline	131 NIB (131 642).
Non-Executive Director	A Director who is not employed by NIB as an executive under an employment contract.
Notice(s) of Meeting	The notice of Eligible Policyholders' Scheme Meeting, notice of Company Members' Scheme Meeting or the notice of Company Members' General Meeting which accompany this Explanatory Statement.
Overseas Policyholder	An Eligible Policyholder (not being an Unverified Policyholder) who, according to the records of NIB, has their registered address outside Australia.
PHIAC	Private Health Insurance Administration Council.
Policy	A policy of private health insurance issued by NIB.
Policyholder	A person who is insured under a Policy and is recorded by NIB as the person in whose name the Policy is held.
Priority Allocation	Employees and Company Members will have the right to purchase Shares prior to Listing. The terms of the Priority Allocation (including the guaranteed minimum allocation) will be disclosed closer to the Listing Date.
Private Health Insurance Act/Act	The Private Health Insurance Act 2007 (Cth).
Private Ruling	Legally binding advice provided by the ATO to a taxpayer regarding the application or operation of relevant tax provisions.
Proposal to Demutualise/ Proposal	The proposal to demutualise NIB as outlined in this Explanatory Statement and the intended subsequent Listing.
Proxy Form	One of the Proxy Forms.
Proxy Forms	The forms headed "Your Scheme Meeting Proxy Form" and "Your General Meeting Proxy Form" which accompany this Explanatory Statement and allow you to appoint a representative to vote on your behalf at the Demutualisation Meetings.
Rules	Rules made by a legislative instrument under the Private Health Insurance Act.

Term	Definition
Sale Facility	A facility established to enable Shareholders to sell Shares prior to Listing without paying brokerage and other costs normally associated with selling Shares. If you choose to sell Shares through the facility, your Shares will be pooled with the Shares of other Shareholders who want to sell.
Share(s)	Fully paid ordinary share(s) in NIB Holdings and/or, if the context requires, fully paid ordinary share(s) in NIB.
Share Allocation/Share Allocation Rules	The method by which Shares are allocated to Eligible Policyholders under the Eligible Policyholders' Scheme.
Share Allocation Form	The form entitled "Your Share Allocation Form" which accompanies this Explanatory Statement, that displays the Share Allocation for each Eligible Policyholder.
Shareholder	The legal owner of a Share.
Single Policy	A Policy that insures one person.
Stamp Duty	A state tax imposed on certain transactions resulting in a change of ownership of assets.
Trust	The Overseas Policyholders and Unverified Policyholders Trust.
Trust Deed	The Overseas Policyholders and Unverified Policyholders Trust Deed settled by NIB.
Trustee	The trustee of the Trust.
Unverified Policyholder	An Eligible Policyholder whose name, registered address or Policy details have not been verified in one of the ways described on page 3.
Verification of Details Form	The form entitled "Your Verification of Details Form" which accompanies this Explanatory Statement, that Eligible Policyholders may use to verify their name and address.
\$	All dollar amounts are in Australian dollars, unless otherwise specified.

9 NOTICES OF MEETING

NIB Health Funds Limited (ACN 000 124 381) ("NIB")

Notice of Court Ordered Meeting Eligible Policyholders' Scheme Meeting

By an order of the Federal Court of Australia made on 6 June 2007 pursuant to section 411(1) of the Corporations Act, a meeting of the Eligible Policyholders of NIB will be held at 10:00am (Sydney time) at the Newcastle Entertainment Centre, Newcastle Showground, Brown Road, Broadmeadow, NSW 2292 on 19 July 2007.

The Court has directed that Keith Lynch act as chairman of the Eligible Policyholders' Scheme Meeting or failing him Mark Fitzgibbon and has directed the chairman to report the result of the Eligible Policyholders' Scheme Meeting to the Court.

Item of business – Eligible Policyholders' Scheme Resolution

To consider, and if thought fit, to pass the following resolution:

"That pursuant to the provisions of section 411 of the Corporations Act, the scheme of arrangement proposed between NIB and the Eligible Policyholders ("Eligible Policyholders' Scheme") as set out in the document accompanying the notice convening this meeting is agreed to (with or without modification as approved by the Federal Court of Australia)."

For further information, please refer to the Explanatory Statement of which this notice forms part.

By order of the Board



David Lethbridge
Company Secretary

Date: 11 June 2007

Defined terms

Terms defined in Section 8 of the Explanatory Statement of which this notice forms part have the same meaning in this notice.

Entitlement to attend and vote at the Eligible Policyholders' Scheme Meeting

All persons who are Eligible Policyholders as at 10:00am (Sydney time) on 19 July 2007 will be eligible to attend and vote at the Eligible Policyholders' Scheme Meeting.

Required majority

Pursuant to section 411(4) of the Corporations Act, for the Eligible Policyholders' Scheme to be binding, the Eligible Policyholders' Scheme Resolution must be passed by a majority in number of the Eligible Policyholders present and voting (either in person or by proxy), being a majority whose debts and claims against NIB as Eligible Policyholders amount to at least 75% of the total amount of debts and claims of Eligible Policyholders present and voting in person or by proxy. Please refer to section 2.1 ("Required approvals") of the Explanatory Statement for further detail on the required majority for this resolution.

Court approval

In accordance with section 411(4)(b) of the Corporations Act, the Eligible Policyholders' Scheme (with or without modification) must be approved by an order of the Court.

If the resolutions put to this meeting, the Company Members' Scheme Meeting and the Company Members' General Meeting are passed, NIB intends to apply to the Court for

approval of the Eligible Policyholders' Scheme and the Company Members' Scheme.

Voting by proxy

An Eligible Policyholder entitled to attend and vote at a meeting of Eligible Policyholders may appoint a person as the Eligible Policyholder's proxy or proxies to attend and vote for the Eligible Policyholder at the meeting. A proxy need not be an Eligible Policyholder.

NIB requests that it receive the proxy's appointment and, if signed by the appointor's attorney, the authority under which the appointment was signed or a certified copy of the authority, no later than 10:00am (Sydney time) on 17 July 2007 or, if the Eligible Policyholders' Scheme Meeting is adjourned, at least 48 hours before the resumption of the Eligible Policyholders' Scheme Meeting in relation to the resumed part of the Eligible Policyholders' Scheme Meeting.

The proxy's appointment and, if applicable, the authority appointing an attorney, may be lodged:

- ✓ by mail by using the enclosed reply paid envelope, or by posting it to: NIB Health Funds Limited, C/- Computershare Investor Services Pty Limited GPO Box 242, Melbourne, Victoria, 8060;
- ✓ by placement in the ballot box provided at the registered office of NIB on the Ground Floor, NIB Head Office, 384 Hunter Street, Newcastle 2300;
- ✓ by fax to: 1300 761 986; or
- ✓ electronically as set out in the Internet Proxy instructions on the Proxy Form.

**NIB Health Funds Limited
(ACN 000 124 381)
("NIB")**

**Notice of Court Ordered Meeting
Company Members' Scheme Meeting**

By an order of the Federal Court of Australia made on 6 June 2007 pursuant to section 411(1) of the Corporations Act, a meeting of the Company Members of NIB will be held at 11:30am (Sydney time) at the Newcastle Entertainment Centre, Newcastle Showground, Brown Road, Broadmeadow, NSW 2292 on 19 July 2007.

The Court has directed that Keith Lynch act as chairman of the Company Members' Scheme Meeting or failing him Mark Fitzgibbon and has directed the chairman to report the result of the Company Members' Scheme Meeting to the Court.

Item of business – Company Members' Scheme Resolution

To consider, and if thought fit, to pass the following resolution:

"That pursuant to the provisions of section 411 of the Corporations Act, the scheme of arrangement proposed between NIB and the Company Members ("Company Members' Scheme") as set out in the document accompanying the notice convening this meeting is agreed to (with or without modification as approved by the Federal Court of Australia)."

For further information, please refer to the Explanatory Statement of which this notice forms part.

By order of the Board



David Lethbridge
Company Secretary

Date: 11 June 2007

Defined terms

Terms defined in Section 8 of the Explanatory Statement of which this notice forms part have the same meaning in this notice.

Entitlement to attend and vote at the Company Members' Scheme Meeting

All Company Members on the register of NIB as at 11:30am (Sydney time) on 19 July 2007 will be eligible to attend and vote at the Company Members' Scheme Meeting.

Required majority

Pursuant to section 411(4) of the Corporations Act, for the Company Members Scheme to be binding, the Company Members' Scheme Resolution must be passed by a majority in number of the Company Members present and voting (either in person or by proxy).

Court approval

In accordance with section 411(4)(b) of the Corporations Act, the Company Members' Scheme (with or without modification) must be approved by an order of the Court.

If the resolutions put to this meeting, the Eligible Policyholders' Scheme Meeting and the Company Members' General Meeting are passed, NIB intends to apply to the Court for approval of the Eligible Policyholders' Scheme and the Company Members' Scheme.

Voting by proxy

A Company Member entitled to attend and vote at a meeting of Company Members may appoint a person as the Company Member's proxy or proxies to attend and vote for the Company Member at the meeting. A proxy need not be a Company Member.

NIB requests that it receive the proxy's appointment and, if signed by the appointor's attorney, the authority under which the appointment was signed or a certified copy of the authority, no later than 11:30am (Sydney time) on 17 July 2007 or, if the Company Members' Scheme Meeting is adjourned, at least 48 hours before the resumption of the Company Members' Scheme Meeting in relation to the resumed part of the Company Members' Scheme Meeting.

The proxy's appointment and, if applicable, the authority appointing an attorney, may be lodged:

- ✓ by mail by using the enclosed reply paid envelope, or by posting it to: NIB Health Funds Limited, C/- Computershare Investor Services Pty Limited GPO Box 242, Melbourne, Victoria, 8060;
- ✓ by placement in the ballot box provided at the registered office of NIB on the Ground Floor, NIB Head Office, 384 Hunter Street, Newcastle 2300;
- ✓ by fax to: 1300 761 986; or
- ✓ electronically as set out in the Internet Proxy instructions on the Proxy Form.

NOTICES OF MEETING CONT.

**NIB Health Funds Limited
(ACN 000 124 381)
("NIB")**

**Notice of General Meeting
Company Members' General Meeting**

An extraordinary general meeting of the Company Members of NIB will be held at 11:30am (Sydney time) at the Newcastle Entertainment Centre, Newcastle Showground, Brown Road, Broadmeadow, NSW 2292 on 19 July 2007.

Items of business

Conversion resolution

To consider and, if thought fit, to pass the following special resolution:

"That, subject to the satisfaction of the conditions precedent in clause 2.1 of the Eligible Policyholders' Scheme and clause 2.1 of the Company Members' Scheme and subject to the passing of the other resolutions proposed at this meeting:

- (a) NIB convert to a public company limited by shares; and**
- (b) Immediately following change of company type, NIB issue ordinary shares in the capital of NIB to Eligible Policyholders, on the terms and subject to the conditions of the Demutualisation Schemes."**

New Constitution resolution

To consider and, if thought fit, to pass the following as a special resolution:

"That, subject to the passing of the other resolutions proposed at this meeting:

- (a) the document submitted to the meeting, and for the purpose of identification signed by the Chairman of the meeting, is adopted as the new Constitution of NIB with effect from the Conversion Date, in substitution for the present Constitution of NIB, which is repealed with effect from the Conversion Date; and*
- (b) the benefit conferred on Directors and other officers of NIB by the indemnity and insurance provisions contained in Part 20 of the new Constitution is approved."*

For further information, please refer to the Explanatory Statement of which this notice forms part.

By order of the Board



David Lethbridge
Company Secretary

Date: 11 June 2007

Defined terms

Terms defined in Section 8 of the Explanatory Statement of which this notice forms part have the same meaning in this notice.

Entitlement to attend and vote at the Company Members' General Meeting

All Company Members on the register of NIB as at 11:30am (Sydney time) on 19 July 2007 will be eligible to attend and vote at the Company Members' General Meeting.

Voting by proxy

A Company Member entitled to attend and vote at a meeting of Company Members may appoint a person as the Company Member's proxy or proxies to attend and vote for the Company Member at the meeting. A proxy need not be a Company Member.

NIB requests that it receive the proxy's appointment and, if signed by the appointor's attorney, the authority under which the appointment was signed or a certified copy of the authority, no later than 11:30am (Sydney time) on 17 July 2007 or, if the Company Members' General Meeting is adjourned, at least 48 hours before the resumption of the Company Members' General Meeting in relation to the resumed part of the Company Members' General Meeting.

The proxy's appointment and, if applicable, the authority appointing an attorney, may be lodged:

- ✓ by mail by using the enclosed reply paid envelope, or by posting it to: NIB Health Funds Limited, C/- Computershare Investor Services Pty Limited GPO Box 242, Melbourne, Victoria, 8060;
- ✓ by placement in the ballot box provided at the registered office of NIB on the Ground Floor, NIB Head Office, 384 Hunter Street, Newcastle 2300;
- ✓ by fax to: 1300 761 986; or
- ✓ electronically as set out in the Internet Proxy instructions on the Proxy Form.

1 NIB HEALTH FUNDS LIMITED – ELIGIBLE POLICYHOLDERS' SCHEME

Scheme of arrangement pursuant to section 411 of the *Corporations Act 2001 (Cth)* between:

NIB Health Funds Limited (ACN 000 124 381) (“NIB Health Funds”)

and **Eligible Policyholders of NIB Health Funds Limited**

Recitals	A	NIB Health Funds is a company limited by guarantee incorporated in New South Wales.
	B	NIB Holdings Limited (ACN 125 633 856) (“NIB Holdings”) is a company limited by shares incorporated in Victoria. There are two NIB Holdings Shares on issue, one of which is held by Keith Lynch and one of which is held by Mark Fitzgibbon.
	C	The Board considers that: <ul style="list-style-type: none"> (a) the Eligible Policyholders’ Scheme is in the best interests of NIB Health Funds and the Policyholders as a whole; (b) the Eligible Policyholders’ Scheme does not adversely affect any creditors of NIB Health Funds; and (c) the Share Allocation Rules provide a fair and reasonable basis for allocating NIB Health Funds Shares and NIB Holdings Shares to Eligible Policyholders.
	D	NIB Holdings has entered into the NIB Holdings Deed Poll under which it has agreed to observe all the provisions of the Eligible Policyholders’ Scheme which relate to it and to do everything within its power that is necessary to give full effect to the Eligible Policyholders’ Scheme.

GENERAL TERMS

1 Definitions and interpretation

1.1 Definitions

In this Eligible Policyholders’ Scheme, the following words have these meanings, except where the context otherwise requires:

Appointed Actuary means Mr Mark Bishop.

ASIC means the Australian Securities and Investments Commission.

ASX means Australian Securities Exchange Limited.

Board means the board of directors of NIB Health Funds from time to time.

Business Day means a weekday on which banks are open in Newcastle, Australia.

Capital Reduction Meeting means the extraordinary general meeting of NIB Health Funds to consider the Capital Reduction Resolution.

Capital Reduction Resolution means the resolution of NIB Health Funds to selectively reduce its capital as set out in schedule 7 of the Demutualisation Implementation Deed.

Committee means the dispute resolution committee established under clause 9.1 of this scheme.

Committee Member means a member of the Committee.

Company Member means a member of NIB Health Funds.

Company Members’ General Meeting means the general meeting of NIB Health Funds to consider the resolution to convert to a company limited by shares and to adopt a new constitution.

Company Members’ Scheme means the proposed scheme of arrangement between NIB Health Funds and the Company Members, subject to any alterations or conditions made or required by the Federal Court of Australia pursuant to s411(6) of the Corporations Act.

Company Members’ Scheme Meeting means the meeting of Company Members to approve the Company Members’ Scheme.

Conditions Precedent mean the conditions precedent set out in clause 2.1.

Conversion Date means the date NIB Health Funds changes type from a company limited by guarantee to a company limited by shares in accordance with section 164(5) of the Corporations Act.

Corporations Act means the *Corporations Act 2001 (Cth)*.

Court means the Federal Court of Australia.

Demutualisation Date means 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.

Demutualisation Implementation Deed means the demutualisation implementation deed dated 31 May 2007 between NIB Health Funds, NIB Holdings, Keith Lynch, Philip Gardner and Mark Fitzgibbon.

Demutualisation Meetings means:

- a. the Eligible Policyholders' Scheme Meeting;
- b. the Company Members' Scheme Meeting;
- c. the Company Members' General Meeting; and
- d. the Capital Reduction Meeting.

Demutualisation Schemes means the Eligible Policyholders' Scheme and the Company Members' Scheme.

Dispute Resolution Mechanism means the mechanism provided for in clause 9 to be used to resolve any disputes in respect of an Eligible Policyholder's Allocation.

Dividend means a dividend declared or paid in respect of NIB Holdings Shares held by the Trustee in the Trust and any amount distributed in respect of those NIB Holdings Shares pursuant to a reduction of capital by NIB Holdings.

Eligible Policyholder means:

- a. a person who was a Policyholder on 20 March 2007 and remains a Policyholder on the date of the Eligible Policyholders' Scheme Meeting; or
- b. a person who became a Policyholder in respect of an existing Policy, in substitution for the previous Policyholder, between 20 March 2007 and the date of the Eligible Policyholders' Scheme Meeting, if:
 - i. the previous Policyholder was a Policyholder on 20 March 2007; and
 - ii. the new Policyholder remains a Policyholder on the date of the Eligible Policyholders' Scheme Meeting.

Eligible Policyholder's Allocation means the number of NIB Health Funds Shares, or as the case requires, NIB Holdings Shares, which are to be issued to an Eligible Policyholder pursuant to the Share Allocation Rules.

Eligible Policyholders' Scheme means this proposed scheme of arrangement between NIB Health Funds and the Eligible Policyholders, subject to any alterations or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act.

Eligible Policyholders' Scheme Meeting means the meeting of Eligible Policyholders to consider, and if thought fit, approve the Eligible Policyholders' Scheme.

End Date means 1 December 2007 or such later date as is determined by the Board prior to 1 December 2007.

Explanatory Statement means the booklet of materials to be sent to Eligible Policyholders and the Company Members in relation to the Demutualisation Schemes which accompanies the notices convening the Eligible Policyholders' Scheme Meeting, the Company Members' Scheme Meeting and the Company Members' General Meeting.

Final Constitution means the constitution of NIB Holdings attached as schedule 5 to the Demutualisation Implementation Deed.

Government Agency means any government or governmental, semi-governmental, administrative or judicial entity or authority; it also includes any self-regulatory organisation established under statute.

Interim Constitution means the constitution of NIB Holdings attached as schedule 4 to the Demutualisation Implementation Deed.

Listing means the process of NIB Holdings being included on the official list of the ASX and having NIB Holdings Shares granted official quotation by the ASX and **Lists** has a corresponding meaning.

Listing Date means the date on which Listing occurs.

Listing Rules means the listing rules of the ASX.

NIB Health Funds Secretary means the company secretary of NIB Health Funds from time to time.

NIB Health Funds Shares means fully paid ordinary shares in the capital of NIB Health Funds.

NIB Health Interim Constitution means the constitution of NIB Health Funds attached as schedule 3 to the Demutualisation Implementation Deed.

NIB Holdings Deed Poll means the deed poll dated 31 May 2007 entered into by NIB Holdings in favour of NIB Health Funds, the Company Members and the Eligible Policyholders with respect to the Demutualisation Schemes.

NIB Holdings Shares means fully paid ordinary shares in the capital of NIB Holdings.

Overseas Policyholder means an Eligible Policyholder, not being an Unverified Policyholder, whose Registered Address is outside Australia.

PHIAC means the Private Health Insurance Administration Council.

Private Health Insurance Act means the *Private Health Insurance Act 2007* (Cth).

Policy means a policy of health insurance issued by NIB Health Funds.

Policy Details means the details of the Policy held by the Policyholder with NIB Health Funds which are required to determine the Eligible Policyholder's Allocation.

NIB HEALTH FUNDS LIMITED – ELIGIBLE POLICYHOLDERS' SCHEME CONT.

Policyholder means a person who is insured under a Policy and is recorded by NIB Health Funds as the person in whose name the Policy is held.

Registered Address, in relation to an Eligible Policyholder, means the address recorded on the register of Policyholders for the Eligible Policyholder as at 10:00am (Sydney time) fourteen days prior to the Demutualisation Date or, if the Eligible Policyholder ceased to be a Policyholder before the Demutualisation Date, the last address entered on the register of Policyholders for that Eligible Policyholder.

Regulatory Approvals means such consents, approvals or other acts by a Government Agency necessary or desirable to implement the Eligible Policyholders' Scheme.

Scheme Effective Date means the date on which the Conditions Precedent in clause 2.1(d) and 2.1(g) ("Conditions Precedent") are satisfied.

Share Allocation Form means the form so entitled to be provided to Eligible Policyholders with the Explanatory Statement.

Share Allocation Rules means the allocation rules in respect of NIB Health Funds Shares and NIB Holdings Shares set out in schedule 1.

Trust means the trust to be established in respect of Overseas Policyholders and Unverified Policyholders and governed by the Trust Deed, the terms of which are summarised in the Explanatory Statement.

Trust Deed means the Overseas Policyholders and Unverified Policyholders Trust Deed to be entered into by NIB Health Funds, NIB Holdings and the initial Trustee.

Trustee means the person acting as trustee of the Trust.

Unverified Policyholder means an Eligible Policyholder whose name, Registered Address or Policy Details have not been verified.

Verification of Details Form means the form so entitled accompanying the Explanatory Statement which Eligible Policyholders may use to confirm their name and address so as not to be an Unverified Policyholder.

1.2 Interpretation

Headings are for convenience only and do not affect interpretation in the Eligible Policyholders' Scheme.

Unless the context otherwise requires:

- a. where relevant, words and phrases have the same meaning as in the Corporations Act;
- b. the singular includes the plural and conversely;
- c. a gender includes all genders;
- d. if a word or phrase is defined, its other grammatical forms have a corresponding meaning;

- e. a reference to a person, corporation, trust, partnership, unincorporated body or other entity includes any of them;
- f. a reference to a clause/recital/schedule is a reference to a clause or recital of, or a schedule to, the Eligible Policyholders' Scheme;
- g. a reference to an agreement or document is to the agreement or document as amended, varied, supplemented, novated or replaced, except to the extent prohibited by the Eligible Policyholders' Scheme or that other agreement or document;
- h. a reference to a party to the Eligible Policyholders' Scheme or another agreement or document includes the party's successors, permitted substitutes and permitted assigns (and, where applicable, the party's legal personal representatives);
- i. a reference to legislation or to a provision of legislation includes a modification or re-enactment of it, a legislative provision substituted for it and a regulation or statutory instrument issued under it; and
- j. the meaning of general words is not limited by specific examples introduced by including, or for example, or similar expressions.

2 Conditions Precedent

2.1 Conditions Precedent

The Eligible Policyholders' Scheme is conditional upon the satisfaction of the following Conditions Precedent:

- a. the Company Members approving all resolutions at the Company Members' General Meeting;
- b. the Court approving the Eligible Policyholders' Scheme under section 411(4)(b) of the Corporations Act;
- c. the Court approving the Company Members' Scheme under section 411(4)(b) of the Corporations Act;
- d. approval by PHIAC of the conversion of NIB Health Funds to a "for profit" company pursuant to section 126-42 of the Private Health Insurance Act;
- e. all necessary Regulatory Approvals being obtained;
- f. the lodgement with ASIC of an office copy of the Court order approving the Company Members' Scheme under section 411(10) of the Corporations Act; and
- g. the lodgement with ASIC of an office copy of the Court order approving the Eligible Policyholders' Scheme under section 411(10) of the Corporations Act.

2.2 Regulatory approval

For the purposes of clauses 2.1(d) and 2.1(e) ("Conditions Precedent"), a Regulatory Approval will be regarded as having been obtained even though a condition has been attached to that Regulatory Approval, if the Board reasonably

consider the condition acceptable and determine to treat the approval as having been obtained.

2.3 End date

The Eligible Policyholders' Scheme will lapse and be of no further force or effect if the Conditions Precedent set out in clause 2.1 ("Conditions Precedent") have not been fulfilled on or before the End Date.

3 Demutualisation

3.1 Implementation steps – Conversion Date

On the Conversion Date, subject to the satisfaction of the Conditions Precedent, the following will occur with effect in the following order:

- a. NIB Health Funds will issue NIB Health Funds Shares to Eligible Policyholders in accordance with the Share Allocation Rules and clause 3.2: and
- b. NIB Holdings will subscribe for, and NIB Health Funds will issue to NIB Holdings, five NIB Health Funds Shares for an aggregate price of \$5.00.

3.2 Discharge of obligation to issue NIB Health Shares on Conversion Date

The obligation of NIB Health to issue NIB Health Funds Shares will be discharged by NIB Health:

- a. in respect of each Overseas Policyholder:
 - i. issuing the NIB Health Shares to which the Overseas Policyholder is entitled to the Trustee to be held on trust for the Overseas Policyholder in accordance with the Trust Deed; and
 - ii. as soon as practicable after the Conversion Date, procuring the entry of the Trustee's name in the NIB Health register;
- b. in respect of each Unverified Policyholder:
 - i. issuing the NIB Health Shares to which the Unverified Policyholder is entitled to the Trustee to be held on trust for the Unverified Policyholder in accordance with the Trust Deed; and
 - ii. as soon as practicable after the Conversion Date, procuring the entry of the Trustee's name in the NIB Health register; and
- c. in respect of each other Eligible Policyholder:
 - i. issuing the NIB Health Shares to which the Eligible Policyholder is entitled to that Eligible Policyholder; and
 - ii. as soon as practicable after the Conversion Date, procuring the entry of the Eligible Policyholder's name in the NIB Health register.

3.3 Implementation steps – Demutualisation Date

On the Demutualisation Date, subject to the satisfaction of the Conditions Precedent, the occurrence of the steps set out in clause 3.1 ("Implementation steps – Conversion Date") and the approval of the Capital Reduction Resolution at the Capital Reduction Meeting, the following will occur with effect in the following order:

- a. NIB Health Funds will reduce its capital in accordance with the Capital Reduction Resolution; and
- b. NIB Health Funds will procure that NIB Holdings, in accordance with 3.4, issues the same number of NIB Holdings Shares to each Eligible Policyholder as the number of NIB Health Funds Shares of the Eligible Policyholder cancelled pursuant to the Capital Reduction Resolution.

3.4 Discharge of obligation to issue NIB Holdings Shares

The obligation of NIB Health Funds to procure NIB Holdings to issue the relevant NIB Holdings Shares will be discharged by NIB Holdings:

- a. in respect of each Overseas Policyholder:
 - i. issuing the NIB Holdings Shares to which the Overseas Policyholder is entitled to the Trustee to be held on trust for the Overseas Policyholder in accordance with the Trust Deed; and
 - ii. as soon as practicable after the Demutualisation Date, procuring the entry of the Trustee's name in the NIB Holdings register and the dispatch of an uncertificated holding statement to the Trustee, with respect to the shareholding of the Overseas Policyholder;
- b. in respect of each Unverified Policyholder:
 - i. issuing the NIB Holdings Shares to which the Unverified Policyholder is entitled to the Trustee to be held on trust for the Unverified Policyholder in accordance with the Trust Deed; and
 - ii. as soon as practicable after the Demutualisation Date, procuring the entry of the Trustee's name in the NIB Holdings register and the dispatch of an uncertificated holding statement to the Trustee, with respect to the Unverified Policyholder; and
- c. in respect of each other Eligible Policyholder:
 - i. issuing the NIB Holdings Shares to which the Eligible Policyholder is entitled to that Eligible Policyholder; and
 - ii. as soon as practicable after the Demutualisation Date, procuring the entry of the Eligible Policyholder's name in the NIB Holdings register and the dispatch of an uncertificated holding statement to the Eligible Policyholder, with respect to that shareholding.

NIB HEALTH FUNDS LIMITED – ELIGIBLE POLICYHOLDERS' SCHEME CONT.

3.5 Eligible Policyholders' shareholdings

Subject to clauses 3.2 and 3.4, each Eligible Policyholder:

- a. accepts the issue of NIB Health Funds Shares and NIB Holdings Shares to the Eligible Policyholder under clauses 3.1(a) ("Implementation steps – Conversion Date"), 3.2 ("Discharge of obligation to issue NIB Health Shares on Conversion Date"), 3.3(b) ("Implementation steps – Demutualisation Date") and 3.4 ("Discharge of obligation to issue NIB Holdings Shares") respectively; and
- b. consents for purposes of section 163(3) of the Corporations Act to the inclusion of the details required by section 163(3) of the Eligible Policyholder (or the Trustee, as the case may be) in the application to be made pursuant to section 163(1) of the Corporations Act, including:
 - i. name and address; and
 - ii. the number and class of shares the Eligible Policyholder will take up under clause 3.1(a) ("Implementation steps – Conversion Date");
- c. agrees to become a member (or that the Trustee will become a member, as the case may be) of NIB Health Funds for the purpose of section 231 of the Corporations Act and to be bound by the constitution of NIB Health Funds; and
- d. agrees to become a member (or that the Trustee will become a member, as the case may be) of NIB Holdings for the purpose of section 231 of the Corporations Act and to be bound by the constitution of NIB Holdings.

3.6 Correction of allocation of Eligible Policyholder

Each Eligible Policyholder agrees that the indicative share allocation on the Share Allocation Form sent to them is not binding on NIB Health Funds or NIB Holdings and acknowledges that NIB Health Funds and NIB Holdings have the right to correct that indicative share allocation in determining the Eligible Policyholder's Allocation, subject only to the Dispute Resolution Mechanism.

3.7 Transfer of NIB Health Funds Shares

Each Eligible Policyholder agrees that the Eligible Policyholder will not execute a transfer of any of the NIB Health Funds Shares issued pursuant to clause 3.1(a) ("Implementation steps – Conversion Date").

3.8 Transfer of NIB Holdings Shares

Each Eligible Policyholder agrees that, prior to the Listing Date and subject to the provisions of the Eligible Policyholders' Scheme:

- a. the Eligible Policyholder will not execute a transfer of any of the Eligible Policyholder's NIB Health Funds Shares or NIB Holdings Shares; and
- b. any such transfer is void and of no effect.

3.9 Constitutions

Each Eligible Policyholder agrees that:

- a. prior to the Demutualisation Date, its rights and obligations as a holder of NIB Health Funds Shares will be governed by the NIB Health Interim Constitution;
- b. from the Demutualisation Date and prior to the Listing Date, its rights and obligations as a holder of NIB Holdings Shares will be governed by the Interim Constitution; and
- c. on and from the Listing Date, its rights and obligations as a holder of NIB Holdings Shares will be governed by the Final Constitution.

3.10 Joint shareholdings

Notwithstanding the provisions of this clause 3, if before the date of issue of NIB Health Funds Shares under this clause 3, the Board determines that it is necessary to do so to obtain the approval of PHIAC contemplated by clause 2.1(d), the Board may determine that where there is more than one person insured under a Policy the persons in whose names the NIB Health Funds Shares (and subsequently the NIB Holdings Shares) are issued are the Eligible Policyholder and other persons specified by the Board who are a "holder" of the Policy within the meaning of the PHI Act, as joint holders. If it makes such a determination the Board may adopt guidelines as to how those arrangements would be implemented.

4 Agency and proxy arrangements

4.1 Authority

On and from the Scheme Effective Date and without the need for any further act, each Eligible Policyholder appoints NIB Health Funds and its directors and secretaries as its attorney and agent to do each of the following things on behalf of the Eligible Policyholder:

- a. give a consent in writing for purposes of section 163(3) of the Corporations Act as provided for in clause 3.5(b) ("Eligible Policyholders' shareholdings");
- b. nominate for the purposes of section 249J(3)(b) of the Corporations Act the address of NIB Health Funds as the alternative address of the Eligible Policyholder for receipt of notice of the Capital Reduction Meeting;
- c. for the purpose of section 249H(2) of the Corporations Act, consent to short notice of the Capital Reduction Meeting so that the Capital Reduction Meeting is held on the day following the Conversion Date;
- d. empower the NIB Health Funds Secretary to receive the Eligible Policyholder's notice of the Capital Reduction Meeting with no obligation to pass on that notice to the Eligible Policyholder; and

- e. appoint the NIB Health Funds Secretary as the proxy of the Eligible Policyholder to attend and vote on behalf of the Eligible Policyholder in favour of the Capital Reduction Resolutions at the Capital Reduction Meeting in respect of all the NIB Health Funds' Shares held by that Eligible Policyholder.

4.2 NIB Health Funds undertaking

Subject to clause 4.4 ("No exercise of power if notice received"), NIB Health Funds undertakes in favour of each Eligible Policyholder that it will appoint (or procure that as directors and secretaries appoint) the NIB Health Funds Secretary as the proxy of the each Eligible Policyholder to vote in favour of the Capital Reduction Resolutions, as contemplated by clause 4.1(e) ("Authority") and to do the other things provided by clause 4.1 ("Authority").

4.3 Revocation

The authority conferred upon NIB Health Funds and its directors and secretaries by an Eligible Policyholder pursuant to clause 4.1(e) ("Authority") and the appointment of the NIB Health Funds Secretary as the proxy of the Eligible Policyholder may be withdrawn by that Eligible Policyholder by:

- a. attending the Capital Reduction Meeting and voting in person on the Capital Reduction Resolution; or
- b. appointing another person as the proxy of the Policyholder for the purposes of the Capital Reduction Meeting; or
- c. the Policyholder lodging a valid written revocation of the proxy prior to the date of the Capital Reduction Meeting.

Except as set out in this clause 4.3 ("Revocation"), the authority conferred upon NIB Health Funds and its directors and secretaries and the proxy granted to the NIB Health Secretary pursuant to a provision of clause 4.1 ("Authority") cannot be withdrawn or revoked.

4.4 No exercise of power if notice received

NIB Health Funds must not (and must procure that its directors and secretaries do not) exercise the power vested in NIB Health Funds and its directors and secretaries under clause 4.1(e) ("Authority") to appoint the NIB Health Funds Secretary in relation to an Eligible Policyholder where the Eligible Policyholder has notified NIB Health Funds in writing that it does not wish that power to be exercised in relation to it.

4.5 Enforcement

The undertaking by NIB Health Funds in favour of each Eligible Policyholder under clause 4.2 ("NIB Health Funds undertaking") may be enforced by each Eligible Policyholder in respect of NIB Health Funds Shares held by that Eligible Policyholder but may not be enforced by that Eligible Policyholder in respect of any NIB Health Funds Shares held by any other Eligible Policyholder.

5 Transfer restrictions before Listing

5.1 Restrictions

Each Eligible Policyholder agrees to the restrictions and other requirements set out in this clause 5 ("Transfer restrictions before Listing") until the Listing Date:

- a. in relation to the NIB Health Funds Shares issued to that Eligible Policyholder pursuant to clause 3.1(a); and
- b. in relation to the NIB Holdings Shares issued to that Eligible Policyholder pursuant to clause 3.3(b),

and from the Listing Date the restrictions and other requirements set out in this clause 5 (other than clause 5.7) will cease to apply.

5.2 Restrictions not to apply

The restrictions and other requirements set out in this clause 5 (other than clause 5.7):

- a. will not apply if the Board of NIB Health Funds (in the case of NIB Health Funds Shares) or the Board of NIB Holdings (in the case of NIB Holdings Shares) determine those restrictions shall cease to apply to Eligible Policyholders generally in relation to all shares on and from a date before the Listing Date, in its absolute and unfettered discretion; and
- b. will not prevent a transmission of shares to a personal representative following the death of a member in accordance with the constitution of the relevant company. Upon such a transmission, the personal representative will be bound by this section as if that person was an Eligible Policyholder.

5.3 No transfer

The Eligible Policyholder may not directly or indirectly transfer, sell, deal with or dispose of any legal or equitable interest in that share to any person other than as provided in the Eligible Policyholders' Scheme.

5.4 No relevant interest or voting power

The Eligible Policyholder may not take any action or enter into any relevant agreement that has the effect that:

- a. any person other than the Eligible Policyholder acquires a relevant interest in those shares; or
- b. any person becomes an associate of the Eligible Policyholder in relation to those shares.

For the purposes of this clause "relevant interest", "relevant agreement" and "acquire" have the meanings set out in the Corporations Act and "associate" has the meaning set out in sections 12 and 15 of the Corporations Act.

5.5 Notice to be given of contravention

A person must give notice in writing to NIB Health Funds (in the case of NIB Health Funds Shares) or NIB Holdings (in the case of NIB Holdings Shares) within 2 Business Days

NIB HEALTH FUNDS LIMITED – ELIGIBLE POLICYHOLDERS' SCHEME CONT.

after becoming aware that the person has contravened the restrictions set out in clause 5.3 or clause 5.4.

5.6 Obligation to respond to request for information

NIB Health Funds (in the case of NIB Health Funds Shares) and NIB Holdings (in the case of NIB Holdings Shares) may by notice in writing (in such form as the Board may specify, which may require a statutory declaration) require a member within 5 Business Days after receiving the notice to furnish to NIB Health Funds (in the case of NIB Health Funds Shares) and NIB Holdings (in the case of NIB Holdings Shares) a statement in writing setting out, insofar as it lies within the Eligible Policyholder's knowledge, full details of:

- a. whether or not there has been contravention of clause 5.3 or clause 5.4; and
- b. the identity of, and details required by, the Board of any person who has received a transfer, sale or disposal of shares or a relevant interest in shares or has become an associate in relation to shares or of any relevant agreement.

5.7 Contravention

- a. The provisions of this section shall be applicable where:
 - i. a person has contravened clause 5.3 or clause 5.4;
 - ii. a person has not fully complied with the requirements of clause 5.5; or
 - iii. a person has not fully complied with the requirements of clause 5.6.
- b. Where the provisions of this clause are applicable, the Board (in the case of NIB Health Funds Shares) and the board of NIB Holdings (in the case of NIB Holdings Shares), in their absolute discretion, may procure the disposal of the shares held by the Eligible Policyholder on such terms as the Board considers fit, in its absolute discretion;
- c. The Board may appoint a person to execute any documents and implement any procedures as may be required to procure the transfer of the shares on behalf of the Eligible Policyholder and to receive and give a good discharge for the purchase price. The Eligible Policyholder hereby appoints that person as its attorney for that purpose;
- d. If that disposal is effected at or around the Listing Date, the Board may, in its absolute discretion, dispose of the shares pursuant to any bookbuild or share offering undertaken at that time;
- e. The net proceeds of any sale under this clause shall be paid to the Eligible Policyholder;
- f. Upon the name of the purchasers being entered in the register of members in exercise of the power of sale under this clause, the validity of the sale may not be challenged by any person; and

- g. The Board may refuse to register a transfer of Shares if the Board considers that transfer does not comply with the terms and conditions of this article 5.

6 Overseas Policyholders and Unverified Policyholders

6.1 Transfer to Unverified Policyholder

NIB Holdings will procure that if, within three years of the Demutualisation Date, the identity of an Unverified Policyholder is verified, either by a method of verification contemplated by the Explanatory Statement or another method approved by the Board, the Trustee will, as soon as reasonably practicable, transfer the NIB Holdings Shares to which that Unverified Policyholder is entitled, together with any Dividend referable to those NIB Holdings Shares, net of any applicable tax or expenses, pursuant to the Eligible Policyholders' Scheme to the Unverified Policyholder, provided that the Trustee is under no obligation to transfer a NIB Holdings Share if to do so would contravene the Corporations Act, the Listing Rules or any other applicable law, and provided that the Unverified Policyholder is not, or does not, upon verification, become an Overseas Policyholder.

6.2 Overseas Policyholders

NIB Holdings will procure that the Trustee will sell all NIB Holdings Shares held on behalf of Overseas Policyholders at or about the Listing Date, at such price and in such manner as the Trustee may be directed by the Board. The net proceeds of sale together with any Dividends referable to those Shares (net of any applicable tax or expenses) will be distributed to the Overseas Policyholders no later than 6 weeks after the Listing Date.

6.3 Voting

Each Eligible Policyholder who, as at the Demutualisation Date, is an Unverified Policyholder or an Overseas Policyholder directs the Trustee to exercise all votes attaching to the NIB Holdings Shares held by the Trustee pursuant to the Trust, in accordance with the Trust Deed:

- (a) in favour of any scheme of arrangement or corporate reconstruction which may involve the disposal of NIB Holdings Shares which the Trustee holds and which is endorsed by a resolution of the board of NIB Holdings;
- (b) against any scheme of arrangement or corporate reconstruction, other than as permitted by clause 6.5(a);
- (c) in favour of any resolution proposed by the board of NIB Holdings at any general meeting of NIB Holdings for the purpose of implementing the determinations of the board of NIB Holdings or the Trustee in relation to the distribution of the property of the Trust after the third anniversary of the Demutualisation Date or for any purpose ancillary to that purpose; and
- (d) otherwise in the Trustee's absolute discretion.

7 Limitation on liability

No Eligible Policyholder will be entitled to compensation of any kind from the Trustee, NIB Holdings, NIB Health Funds or any of their subsidiaries from time to time in relation to that Eligible Policyholder's capacity as an Unverified Policyholder after the third anniversary of the Demutualisation Date.

8 Indemnity of directors, officers and agents

To the maximum extent permitted by the Corporations Act or any other law, NIB Health Funds shall indemnify each director, officer or agent of the Trustee, NIB Health Funds or NIB Holdings against any liability incurred as such a director, officer or agent to any other person (other than NIB Health Funds or NIB Holdings or a related body corporate) arising from anything done or omitted to be done in performance or purported performance of this Eligible Policyholders' Scheme, unless the liability arises out of conduct involving a lack of good faith.

9 Dispute resolution

9.1 Establishment of the Committee

NIB Health Funds will establish the Committee to resolve disputes about an Eligible Policyholder's Allocation.

The Committee will comprise:

- a. one representative from, and nominated by, JPMorgan Australia Limited;
- b. one representative from, and nominated by, NIB Health Funds; and
- c. the Appointed Actuary or such other actuary nominated by NIB Health Funds.

A Committee Member must, and NIB Health will procure that a Committee Member does, enter into a deed in the form of schedule 2.

9.2 Request for review by Eligible Policyholder

An Eligible Policyholder may, at any time but no later than two weeks prior to the Demutualisation Date, in respect of which time of the essence give written notice addressed to the company secretary of NIB Health Funds requesting a review of the Eligible Policyholder's Allocation and detailing exhaustively the grounds for requesting a review and all information relevant to such review.

NIB Health Funds must forward the written notice from the Eligible Policyholder to the members of the Committee as soon as practicable.

9.3 Review of Eligible Policyholder's Allocation

The Committee must meet within two weeks of receipt of a written notice from NIB Health Funds under clause 9.2 ("Request for review by Eligible Policyholder") to consider a request for review.

Any member of the Committee may convene a meeting of the Committee on the giving of 3 Business Days notice at any other time.

The Committee must calculate the number of NIB Health Funds Shares which, in their opinion, should be or should have been issued in respect of the Eligible Policyholder in accordance with the Share Allocation Rules.

The Committee must act in a fair manner but is not required to interview any person and may deal with all matters by correspondence.

9.4 Committee to reach determination

The determination of the Committee will be passed by a decision of the majority of the members of the Committee.

If the number of NIB Health Funds Shares allocated to the Eligible Policyholder was determined by the Committee to be less than the number calculated pursuant to the Share Allocation Rules, the Committee must adjust the Eligible Policyholder's Allocation to be in accordance with the Share Allocation Rules.

The Committee must notify the Board of their decision following their review of the Eligible Policyholder's Allocation within two weeks of each Committee meeting.

The Committee must notify the Eligible Policyholder of its determination no later than 2 weeks after the determination is made.

9.5 Additional allocation of NIB Holdings Shares

In accordance with the Committee's notice issued under paragraph 9.4 ("Committee to reach determination"), the Board must take all reasonable steps to either:

- a. arrange for any additional allocation of NIB Health Funds Shares, by way of issue or transfer, as soon as practicable after the Directors receive notice from the Committee; or
- b. in its absolute discretion, procure the issue or transfer of the corresponding number of NIB Holdings Shares to the Eligible Policyholder, in respect of the additional allocation.

9.6 Finality of Committee determination

Any determination made by the Committee in relation to the Eligible Policyholder under clause 9.4 ("Committee to reach determination") is final and binding to the extent permitted by law.

NIB HEALTH FUNDS LIMITED – ELIGIBLE POLICYHOLDERS' SCHEME CONT.

9.7 Interpretation

For the purpose of clause 9.2 (“Request for review by Eligible Policyholder”), the Committee may, in their absolute discretion, agree to treat a written notice to NIB Health Funds from any other person as if it were a notice from an Eligible Policyholder in accordance with clause 9.2 (“Request for review by Eligible Policyholder”).

10 General

10.1 Costs

NIB Health Funds will pay the costs (including any stamp duty necessarily incurred in implementing) of the Eligible Policyholders' Scheme.

10.2 Appointment of agent

Each Eligible Policyholder, without the need for any further act, irrevocably appoints NIB Health Funds as its agent for the purpose of executing any document or doing any other act necessary to give effect to the terms of the Eligible Policyholders' Scheme other than as provided in clause 4 (“Agency and proxy arrangements”).

NIB Health Funds, as agent of each Eligible Policyholder, may sub-delegate its functions under this clause 10.2 (“Appointment of agent”) to all of its directors and secretaries (jointly and severally).

10.3 Consent

Each Eligible Policyholder consents to NIB Health Funds doing all things necessary, incidental or expedient to the implementation and performance of the Eligible Policyholders' Scheme and acknowledges that the Eligible Policyholders' Scheme binds NIB Health Funds and all of the Eligible Policyholders from time to time (including those who do not attend the Demutualisation Meetings, do not vote at those meetings or vote against the Eligible Policyholders' Scheme).

10.4 Court amendments to the Eligible Policyholders' Scheme

If the Court proposes to approve the Eligible Policyholders' Scheme subject to any alterations or conditions, NIB Health Funds may, by its counsel, consent to those alterations of conditions on behalf of all persons concerned (including an Eligible Policyholder).

10.5 Eligible Policyholders' Scheme binding

The Eligible Policyholders' Scheme will bind NIB Health Funds and all Eligible Policyholders and overrides the Constitution of NIB Health Funds.

10.6 Further assurances

NIB Health Funds will do all such things and execute all such documents as may be necessary or desirable to give full effect to the provisions of the Eligible Policyholders' Scheme and the transaction contemplated by it.

10.7 Governing law

The Eligible Policyholders' Scheme is governed by the law of New South Wales. The parties submit to the non-exclusive jurisdiction of the courts of New South Wales.

SCHEDULE 1 – SHARE ALLOCATION RULES

1 Object

The object of these rules is to set out the basis on which NIB Health Fund Shares will be issued to Eligible Policyholders on the Conversion Date. On the Demutualisation Date, each Eligible Policyholder's Allocation of NIB Health Funds Shares will be cancelled and the same number of NIB Holdings Shares will be issued to each Eligible Policyholder as that number of NIB Health Funds Shares cancelled.

2 Eligibility

The number of NIB Health Funds Shares to be allocated to each Eligible Policyholder pursuant to clause 3.1 of the Eligible Policyholders' Scheme (“Implementation steps – Conversion Date”) will be calculated in the manner set out in rules 3 to 7.

3 Type of Policy held

NIB Health Funds Shares will be allocated to each Eligible Policyholder under rules 4 to 7 based on:

- a. in the case of a person who is an Eligible Policyholder under paragraph (a) of the definition of Eligible Policyholder, the type of Policy held by that Eligible Policyholder on the First Qualifying Date; and
- b. in the case of a person who is an Eligible Policyholder under paragraph (b) of the definition of Eligible Policyholder, the type of Policy held by the previous Policyholder on the First Qualifying Date.

4 Ambulance Only Policy

Each Eligible Policyholder with an Ambulance Only Policy will be allocated 10 NIB Health Funds Shares per Year of Membership, subject to a minimum allocation of 100 NIB Health Funds Shares and a maximum allocation of 300 NIB Health Funds Shares.

5 Single Policy

Each Eligible Policyholder with a Single Policy will be allocated 100 NIB Health Funds Shares per Year of Membership, subject to a minimum allocation of 300 NIB Health Funds Shares and a maximum allocation of 3,000 NIB Health Funds Shares.

6 Family Policy

Each Eligible Policyholder with a Family Policy will be allocated 200 NIB Health Funds Shares per Year of Membership, subject to a minimum allocation of 600 NIB Health Funds Shares and a maximum allocation of 6,000 NIB Health Funds Shares.

7 Multiple Policies

If an Eligible Policyholder has more than one Policy, the Eligible Policyholder's Allocation will be determined by reference only to the Policy which provides the highest number of NIB Health Funds Shares and all other Policies will be ignored.

Only one Eligible Policyholder's Allocation will be made for each Eligible Policyholder, regardless of the number of Policies held.

8 Unverified Policyholders and Overseas Policyholders

These rules also apply to the calculation of the Eligible Policyholder Allocation of Overseas Policyholders and Unverified Policyholders. Notwithstanding rules 4 and 5, the issue of NIB Health Funds Shares to Unverified Policyholders and Overseas Policyholders is governed by clause 6 of this Scheme.

9 Definitions

9.1 Definitions

Ambulance Only Policy means a Policy that only provides ambulance cover.

Days Suspended means, in respect of an Eligible Policyholder, the number of days that a Policy has been suspended at the request of the Eligible Policyholder prior to the First Qualifying Date.

Ex-IOOF Member means a Policyholder who was a member of IOOF when the health business of IOOF was acquired by NIB Health Funds with effect on the IOOF Transfer Date.

Family Policy means a Policy that is not a Single Policy or an Ambulance Only Policy.

First Qualifying Date means 20 March 2007.

IOOF means IOOF Limited.

IOOF Transfer Date means 1 May 2003.

Joining Date means:

- a. in respect of an Eligible Policyholder who is an Ex-IOOF Member, the IOOF Transfer Date;
- b. in respect of a person who is an Eligible Policyholder under paragraph (b) of the definition of Eligible Policyholder:
 - i. the most recent date on which the previous Policyholder became a contributor in relation to a Policy; or
 - ii. if the previous Policyholder was an Ex-IOOF Member, the IOOF Transfer Date; and
- c. in respect of any other Eligible Policyholder, the most recent date of that Eligible Policyholder becoming a contributor in relation to a Policy,

(even if the type of Policy has changed since that date).

Single Policy means a Policy (other than an Ambulance Only Policy) where premiums are paid at the single rate.

Total Years and Days means, in respect of an Eligible Policyholder, the number of years and days from the Joining Date to the First Qualifying Date.

Years of Membership means Total Years and Days less Days Suspended rounded up the nearest whole year, and "Year of Membership" has the same meaning.

9.2 Scheme definitions apply

For the avoidance of doubt, except as set out in rule 9.1, words and phrases used in these rules have the meaning given in clause 1 of the Eligible Policyholders' Scheme ("Definitions and interpretation").

SCHEDULE 2 – DISPUTE RESOLUTION COMMITTEE MEMBERS’ DEED POLL

Party [insert name of Committee Member]

Committee Member Name []
Address []
Fax []

In favour of NIB Health Funds Limited ACN 000 124 381
NIB Holdings Limited ACN 125 633 856
Each Eligible Policyholder

Recitals A NIB Health and the Eligible Policyholders are bound by the Eligible Policyholders’ Scheme.
B Pursuant to clause 9.1 of the Eligible Policyholders’ Scheme, three persons are to be appointed to be responsible for the resolution of any disputes with respect to application of the Share Allocation Rules referred to under clause 9.3 and schedule 1 of the Eligible Policyholders’ Scheme.
C The appointment of a Committee Member is subject to the execution and delivery of this Deed.

Date of deed poll See Signing page.

General terms

1 Interpretation

Words defined in the Eligible Policyholders’ Scheme have the same meaning in this deed.

2 Consent to act as Committee Member

The Committee Member consents to act as a Committee Member pursuant to the terms and conditions of the Eligible Policyholders’ Scheme.

3 Acknowledgement of Committee Member

3.1 Responsibility for dispute resolution

The Committee Member acknowledges that the Committee will be responsible for the resolution of disputes about an Eligible Policyholders’ Allocation referred to it under clause 9.3 of the Eligible Policyholders’ Scheme.

3.2 Enforcement

The Committee Member acknowledges and agrees that the benefit of this deed can be enforced directly by any one or more of NIB Health, NIB Holdings and the Eligible Policyholders against the Committee Member.

4 Covenant by Committee Member

The Committee Member covenants in favour of NIB Health, NIB Holdings and each of the Eligible Policyholders that he or she will be bound to act in accordance with the terms of the Eligible Policyholders’ Scheme as if he or she were a party to the Eligible Policyholders’ Scheme.

5 General

5.1 Variation

A provision of this deed may not be varied unless the variation is approved by the Court.

5.2 Notices

Any notices to be given under this deed will be in accordance with the notice provisions of the Eligible Policyholders’ Scheme.

5.3 Governing law and jurisdiction

This deed is governed by the laws of New South Wales, Australia. The parties irrevocably submit to the non-exclusive jurisdiction of the courts of New South Wales, Australia.

5.4 Further steps

The Committee Member will do all such things and execute all such documents as may be necessary or desirable to give full effect to the provisions of the Eligible Policyholders’ Scheme and the transaction contemplated by it.

EXECUTED as a deed poll

2 NIB HEALTH FUNDS LIMITED – COMPANY MEMBERS' SCHEME

Scheme of arrangement pursuant to section 411 of the Corporations Act 2001 (Cth) between:

NIB Health Funds Limited (ACN 000 124 381) (“NIB Health Funds”)

and **Company Members of NIB Health Funds Limited**

Recitals	A	NIB Health Funds is a company limited by guarantee incorporated in New South Wales.
	B	NIB Holdings Limited (ACN 125 633 856) (“NIB Holdings”) is a company limited by shares incorporated in Victoria. There are two NIB Holdings Shares on issue, one of which is held by Keith Lynch and one of which is held by Mark Fitzgibbon.
	C	The Board considers that: <ul style="list-style-type: none"> (a) the Company Members’ Scheme is in the best interests of NIB Health Funds and the Company Members as a whole; and (b) the Company Members’ Scheme does not adversely affect any creditors of NIB Health Funds.
	D	NIB Holdings has entered into the NIB Holdings Deed Poll under which it has agreed to observe all the provisions of the Company Members’ Scheme which relate to it and to do everything within its power that is necessary to give full effect to the Company Members’ Scheme.

1 Definitions and interpretation

1.1 Definitions

In this Company Members’ Scheme, the following words have these meanings, except where the context otherwise requires:

ASIC means the Australian Securities and Investments Commission.

Board means the board of directors of NIB Health Funds from time to time.

Capital Reduction Meeting means the extraordinary general meeting of NIB Health Funds to consider the Capital Reduction Resolution.

Capital Reduction Resolution means the resolution of NIB Health Funds to selectively reduce its capital as set out in schedule 6 of the Demutualisation Implementation Deed.

Company Member means a member of NIB Health Funds.

Company Members’ General Meeting means the general meeting of NIB Health Funds to consider the resolution to convert to a company limited by shares and to adopt a new constitution.

Company Members’ Scheme means this proposed scheme of arrangement between NIB Health Funds and the Company Members, subject to any alterations or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act.

Company Members’ Scheme Meeting means the meeting of Company Members to approve the Company Members’ Scheme.

Conditions Precedent mean the conditions precedent set out in clause 2.

Conversion Date means the date NIB Health Fund changes type from a company limited by guarantee to a company limited by shares in accordance with section 164(5) of the Corporations Act.

Corporations Act means the *Corporations Act 2001* (Cth).

Court means the Federal Court of Australia.

Demutualisation Date means 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.

Demutualisation Implementation Deed means the demutualisation implementation deed dated 31 May 2007 between NIB Health Funds, NIB Holdings, Keith Lynch, Philip Gardner and Mark Fitzgibbon.

Demutualisation Meetings means:

- a. the Eligible Policyholders’ Scheme Meeting;
- b. the Company Members’ Scheme Meeting;
- c. the Company Members’ General Meeting; and
- d. the Capital Reduction Meeting.

Demutualisation Schemes means the Eligible Policyholders’ Scheme and the Company Members’ Scheme.

NIB HEALTH FUNDS LIMITED – COMPANY MEMBERS' SCHEME CONT.

Eligible Policyholder means:

- a. a person who was a Policyholder on 20 March 2007 and remains a Policyholder on the date of the Eligible Policyholders' Scheme Meeting; or
- b. a person who became a Policyholder in respect of an existing Policy, in substitution for the previous Policyholder, between 20 March 2007 and the date of the Eligible Policyholders' Scheme Meeting, if:
 - i. the previous Policyholder was a Policyholder on 20 March 2007; and
 - ii. the new Policyholder remains a Policyholder on the date of the Eligible Policyholders' Scheme Meeting.

Eligible Policyholders' Scheme means the proposed scheme of arrangement between NIB Health Funds and the Eligible Policyholders, subject to any alterations or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act.

Eligible Policyholders' Scheme Meeting means the meeting of Eligible Policyholders to consider, and if thought fit, approve the Eligible Policyholders' Scheme.

End Date means 1 December 2007 or such later date as is determined by the Board prior to 1 December 2007.

Government Agency means any government or governmental, semi-governmental, administrative or judicial entity or authority; it also includes any self-regulatory organisation established under statute.

Membership Rights means the rights of the Company Member under the constitution of NIB Health Funds.

NIB Health Funds Shares means fully paid ordinary shares in the capital of NIB Health Funds.

NIB Holdings Deed Poll means the deed poll dated 31 May 2007 entered into by NIB Holdings in favour of NIB Health Fund; the Company Members and the Eligible Policyholders with respect to the Demutualisation Schemes.

NIB Holdings Shares means fully paid ordinary shares in the capital of NIB Holdings.

Policy means a policy of health insurance issued by NIB Health Funds.

Policyholder means a person who is insured under a Policy and is recorded by NIB Health Funds as the person in whose name the Policy is held.

PHIAC means the Private Health Insurance Administration Council.

Private Health Insurance Act means the *Private Health Insurance Act 2007* (Cth).

Regulatory Approvals means such consents, approvals or other acts by a Government Agency necessary or desirable to implement the Company Members' Scheme.

Share Allocation Rules means the allocation rules in respect of NIB Health Funds Shares and NIB Holdings Shares set out in schedule 1 to the Eligible Policyholders' Scheme.

1.2 Interpretation

Headings are for convenience only and do not affect interpretation in the Company Members' Scheme.

Unless the context requires otherwise:

- a. where relevant, words and phrases have the same meaning as in the Corporations Act;
- b. the singular includes the plural and conversely;
- c. a gender includes all genders;
- d. if a word or phrase is defined, its other grammatical forms have a corresponding meaning;
- e. a reference to a person, corporation, trust, partnership, unincorporated body or other entity includes any of them;
- f. a reference to a clause/recital is a reference to a clause or recital of the Company Members' Scheme;
- g. a reference to an agreement or document is to the agreement or document as amended, varied, supplemented, novated or replaced, except to the extent prohibited by the Company Members' Scheme or that other agreement or document;
- h. a reference to a party to the Company Members' Scheme or another agreement or document includes the party's successors, permitted substitutes and permitted assigns (and, where applicable, the party's legal personal representatives);
- i. a reference to legislation or to a provision of legislation includes a modification or re-enactment of it, a legislative provision substituted for it and a regulation or statutory instrument issued under it; and
- j. the meaning of general words is not limited by specific examples introduced by including, or for example, or similar expressions.

2 Conditions Precedent

2.1 Conditions Precedent

The Company Members' Scheme is conditional upon the satisfaction of the following Conditions Precedent:

- a. the Company Members approving all resolutions at the Company Members' General Meeting;
- b. the Court approving the Eligible Policyholders' Scheme under section 411(4)(b) of the Corporations Act;
- c. the Court approving the Company Members' Scheme under section 411(4)(b) of the Corporations Act;
- d. approval by PHIAC of the conversion of NIB Health Funds to a "for profit" company pursuant to section 126-42 of the Private Health Insurance Act;

- e. all necessary Regulatory Approvals being obtained;
- f. the lodgement with ASIC of an office copy of the Court order approving the Company Members' Scheme under section 411(10) of the Corporations Act; and
- g. the lodgement with ASIC of an office copy of the Court order approving the Eligible Policyholders' Scheme under section 411(10) of the Corporations Act.

2.2 Regulatory Approval

For the purposes of clauses 2.1(d) and 2.1(e) ("Conditions Precedent"), a Regulatory Approval will be regarded as having been obtained even though a condition has been attached to that Regulatory Approval, if the Board reasonably consider the condition acceptable and determine to treat the approval as having been obtained.

2.3 End Date

The Company Members' Scheme will lapse and be of no further force or effect if the Conditions Precedent set out in clause 2.1 ("Conditions Precedent") have not been fulfilled on or before the End Date.

3 Demutualisation

3.1 Implementation steps – Conversion Date

On the Conversion Date, subject to the satisfaction of the Conditions Precedent, the following will occur with effect in the following order:

- a. NIB Health Funds will issue NIB Health Funds Shares to Eligible Policyholders in accordance with the Share Allocation Rules and enter the Eligible Policyholders in the NIB Health Funds register; and
- b. NIB Holdings will subscribe for and NIB Health Funds will issue to NIB Holdings five NIB Health Funds Shares for an aggregate price of \$5.00.

3.2 Implementation steps – Demutualisation Date

On the Demutualisation Date, subject to the satisfaction of the Conditions Precedent the occurrence of the steps set out in clause 3.1 ("Implementation steps – Conversion Date") and the approval of the Capital Reduction Resolution at the Capital Reduction Meeting, the following will occur with effect in the following order:

- a. NIB Health Funds reduces its capital in accordance with the Capital Reduction Resolution; and
- b. NIB Health Funds will procure that NIB Holdings issues the same number of NIB Holdings Shares to each Eligible Policyholder as the number of NIB Health Funds Shares of the Eligible Policyholder cancelled pursuant to the Capital Reduction Resolution.

3.3 Cancellation of Membership Rights

On the Conversion Date:

- a. the Membership Rights of that Company Member are cancelled;
- b. the liability of each Company Member as a guarantor on winding up of NIB Health Funds is extinguished;
- c. except as contemplated in clause 3.1(a), the Company Member ceases to be a member of the Company; and
- d. the Company Member will be issued NIB Health Funds Shares as contemplated by clause 3.1(a), such allocation being in their capacity as an Eligible Policyholder and not in their capacity as a Company Member.

4 Indemnity of directors, officers and agents

To the maximum extent permitted by the Corporations Act or any other law, NIB Health Funds shall indemnify each director, officer or agent of NIB Health Funds or NIB Holdings against any liability incurred as such a director, officer or agent to any other person (other than NIB Health Funds or NIB Holdings or a related body corporate) arising from anything done or omitted to be done in performance or purported performance of this Company Members' Scheme, unless the liability arises out of conduct involving a lack of good faith.

5 General

5.1 Costs

NIB Health Funds will pay the costs (including any stamp duty necessarily incurred in implementing) of the Company Members' Scheme.

5.2 Appointment of agent

Each Company Member, without the need for any further act, irrevocably appoints NIB Health Funds as its agent for the purpose of executing any document or doing any other act necessary to give effect to the terms of the Company Members' Scheme.

NIB Health Funds, as agent of each Company Member, may sub-delegate its functions under this clause 5.2 ("Appointment of agent") to all of its directors and secretaries (jointly and severally).

5.3 Consent

Each Company Member consents to NIB Health Funds doing all things necessary, incidental or expedient to the implementation and performance of the Company Members' Scheme and acknowledge that the Company Members' Scheme binds NIB Health Funds and all of the Company Members from time to time (including those who do not

NIB HEALTH FUNDS LIMITED – COMPANY MEMBERS' SCHEME CONT.

attend the Demutualisation Meetings, do not vote at those meetings or vote against the Company Members' Scheme).

5.4 Court amendments to the Company Members' Scheme

If the Court proposes to approve the Company Members' Scheme subject to any alterations or conditions, NIB Health Funds may, by its counsel, consent to those alterations of conditions on behalf of all persons concerned (including a Company Member).

5.5 Company Members' Scheme binding

The Company Members' Scheme will bind NIB Health Funds and all Company Members and overrides the constitution of NIB Health Funds.

5.6 Further assurances

NIB Health Funds will do all such things and execute all such documents as may be necessary or desirable to give full effect to the provisions of the Company Members' Scheme and the transaction contemplated by it.

5.7 Governing law

The Company Members' Scheme is governed by the law of New South Wales. The parties submit to the non-exclusive jurisdiction of the courts of New South Wales.

CORPORATE DIRECTORY

Registered office of NIB

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384 Hunter Street
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nib.com.au

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Investigating Accountant

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Sydney NSW 2000

Tax advisor to NIB

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Independent Financial Expert

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Share registry

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Appointed Actuary

Mr Mark Bishop

Legal advisor to NIB

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Consulting Actuary

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