NIB Holdings Limited Listing Prospectus

Dated 5 October 2007

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

Disclaimer

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

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

NIB has no obligation to update or revise forward looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in the 2008 Financial Forecast Booklet or this Listing Prospectus, except where required by law.

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

References to "Company"

The Company is a new entity to be Listed on ASX. As set out in Section 2.1 of the Explanatory Statement, the post-Demutualisation structure will result in NIB Holdings being the holding company of NIB Health. For ease of reference in this Listing Prospectus, except where the context otherwise indicates or requires, references to NIB are to the Company and its wholly-owned subsidiaries post-Demutualisation.

Defined terms and abbreviations

Certain terms and abbreviations used in this Listing Prospectus are defined in Section 5. All financial amounts contained in this Listing Prospectus are expressed in Australian dollars.

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

Expiry date

No Shares are to be issued or sold on the basis of this Listing Prospectus. For the purposes of section 711(6) of the Corporations Act, the expiry date of this Listing Prospectus is 1 November 2007.

Obtaining a copy of this Listing Prospectus

A paper copy of this Listing Prospectus is available free of charge to any person in Australia, including persons who have received a copy of this Listing Prospectus in electronic form, by calling the NIB Information Hotline on 131 NIB (131 642).

This Listing Prospectus is also available in electronic form at NIB's website (nib.com.au).

NIB Holdings Limited Listing Prospectus
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1 Important Information

1.1 Purpose of Listing Prospectus

This Listing Prospectus has been prepared by NIB Holdings:

(a) in connection with the Listing of NIB Holdings on ASX; and

(b) to enable the on-sale of Shares without the need for a disclosure document following the Listing of NIB Holdings, by providing adequate disclosure to facilitate the granting of a modification by ASIC from section 708A(11) of the Corporations Act and other relevant provisions of the Corporations Act.

This document does not constitute or contain any offer of Shares for issue or sale or any invitation to apply for the issue or sale of Shares.

This Listing Prospectus is a "disclosure document" as defined in Chapter 6D of the Corporations Act. However, the information in this Listing Prospectus is not financial product advice and does not take into account your investment objectives, financial situation or particular needs. This Listing Prospectus is dated 5 October 2007 and a copy was lodged with ASIC on that date. ASIC and ASX take no responsibility for the contents of this Listing Prospectus.

The Company will apply for the admission of Shares on issue to be Listed for quotation by ASX under the code NHF within seven days of the date of this Listing Prospectus.

The fact that ASX may admit NIB Holdings to its official list is not to be taken in any way as an indication of the investment merits of NIB Holdings.

1.2 Key dates

Date of this Listing Prospectus	5 October 2007
Last day for Sale Facility Election Forms to be received	19 October 2007
Institutional Bookbuild conducted	25-26 October 2007
Facility Price announced	26 October 2007
Settlement date (Shares issued / transferred under the Institutional Bookbuild)	31 October 2007
Deferred settlement trading on ASX expected to commence and dispatch of holding statements	1 November 2007
Normal trading on ASX expected to commence	6 November 2007
Sale Facility proceeds distributed	Early November 2007

1. This timetable is indicative only. The Company, in consultation with the Sole Lead Manager, reserves the right to vary the dates indicated in the timetable.

2 Inclusion of other documents in the Listing Prospectus

This Listing Prospectus includes the following documents:

(a) the Explanatory Statement;

(b) the 2007 Annual Report;

(c) the 2008 Financial Forecast Booklet;

(d) the Sale Facility Booklet; and

(e) the Institutional Investor Presentation.

2.1 Summary of information included with this Listing Prospectus

(a) Explanatory Statement

The Explanatory Statement was prepared for, and sent to, all Eligible Policyholders and Company Members for the primary purpose of providing Eligible Policyholders and Company Members with the information they needed to decide how to vote on the Proposal to Demutualise.

The Explanatory Statement contains a detailed description of the Proposal and includes the following information:

(i) the proposed scheme of arrangement between Company Members and NIB Health (**"Company Members' Scheme"**);

(ii) the proposed scheme of arrangement between Eligible Policyholders and NIB Health (**"Eligible Policyholders' Scheme"**);

(iii) the notices of meeting regarding the Company Members' Scheme, Eligible Policyholders' Scheme and the general meeting of Company Members;

(iv) recommendation of the Board and reasons underlying the recommendation;

(v) an overview of the private health insurance industry and NIB;

(vi) financial information;

(vii) the Investigating Accountant's Report;

(viii) the Independent Financial Expert's Report;

(ix) the Appointed Actuary's Report;

(x) the Consulting Actuary's Report;

(xi) taxation advice; and

(xii) additional information including information relating to the constitutions, the Trust, the NIB Foundation, regulatory modification and approvals.

All Eligible Policyholders and Company Members should have received a copy of the Explanatory Statement in June 2007. The Explanatory Statement is dated 11 June 2007.

(b) 2007 Annual Report

The 2007 Annual Report was prepared by NIB Health in accordance with the relevant laws and accounting requirements for the financial year ended 30 June 2007.

(c) 2008 Financial Forecast Booklet

The 2008 Financial Forecast Booklet was prepared in connection with the Listing of NIB Holdings on ASX. The 2008 Financial Forecast Booklet sets out financial and risk information relating to NIB and contains a financial forecast for the financial year ending 30 June 2008.

(d) The Sale Facility Booklet

The Sale Facility Booklet was prepared in connection with the Listing of NIB Holdings on ASX and was sent to Eligible Policyholders on 24 September 2004. The Sale Facility Booklet provides information to help Eligible Policyholders decide whether to sell their Shares in the Sale Facility prior to NIB Holdings Listing on ASX.

(e) Institutional Investor Presentation

The Institutional Investor Presentation was also prepared in connection with the Listing of NIB Holdings on ASX, and more specifically, in relation to the Institutional Offer. The Institutional Investor Presentation sets out information relating to NIB and was produced for the purpose of offering institutional investors Shares pursuant to the Institutional Offer.

Copies of these documents are available free of charge electronically from the NIB website (nib.com.au) or by calling the NIB Information Hotline on 131 NIB (131 642).

3 The Board, management and corporate governance

3.1 Board of Directors

The Board is comprised of the following people.

(a) Keith Lynch - Non-executive Chairman

Mr Lynch is currently the Chairman of Kip McGrath Education Centres Limited. He has previously held senior executive positions with several Hunter-based engineering firms and is a former director of Newcastle Grammar School and CW Pope & Associates Pty Limited.

Mr Lynch's NIB responsibilities are as Chairman of NIB Health Services Limited, The Heights Private Hospital Pty Limited, 063 465 949 Pty Ltd and NIB Servicing Facilities Pty Limited.

Mr Lynch has been a Director of NIB Health since 1982 and was appointed as Chairman of NIB Health on 28 November 2001.

(b) Mark Fitzgibbon - Chief Executive Officer and Managing Director

Mr Fitzgibbon commenced with NIB in October 2002 as Chief Executive Officer. He was previously the Chief Executive Officer of both the national and NSW peak industry bodies for licensed clubs. Before that, he held several Chief Executive Officer positions in local government, including as General Manager of Bankstown Council between 1995 and 1999.

Mr Fitzgibbon has a Masters in Business Administration (UTS) and Masters of Arts (MGSM). He is also a director of NIB Health Care Services Pty Ltd, 063 465 949 Pty Ltd, NIB Servicing Facilities Pty Ltd, The Newcastle Knights, and Australian Health Insurance Association Limited.

(c) Dr Annette Carruthers - Non-executive Director

Dr Carruthers is currently a general practitioner and a director of the National Heart Foundation of Australia (NSW Division). Dr Carruthers is also employed as a Clinical Director at Hunter Urban Division of General Practice and is a former director of Hunter Area Health Service and Hunter Urban Division of General Practice.

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.

Dr Carruthers has been a Director of NIB Health since 2003.

(d) Janet Dore - Non-executive Director

Ms Dore is currently the General Manager of Newcastle City Council and a former Chief Executive Officer City of Ballarat. Ms Dore is also a current 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. She is a former 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. 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.

Ms Dore has been a Director of NIB Health since 2002.

(e) Philip Gardner - Non-executive Director

Mr Gardner is currently the 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. He is a former Chair of the Hunter Regional Tourism Organisation, the Hunter Area Health Service, the Hunter Medical Research Foundation and the Club Gaming Council of Australia.

Mr Gardner has been a Director of NIB Health since December 2005.

The Board intends to appoint two additional non-executive Directors shortly after Listing.

3.2 Key management

The key management of NIB is comprised of the following people.

(a) Mark Fitzgibbon - Chief Executive Officer and Managing Director

Please refer to Section 3.1(b) above.

(b) Michelle McPherson - Deputy Chief Executive Officer / Chief Financial Officer

Michelle commenced with NIB in March 2003 as Chief Financial Officer. She was previously employed by Caltex Australia for ten years in a range of financial positions. Prior to being employed by Caltex Australia, she spent eight years in chartered accounting. Michelle is a Chartered Accountant and has a Bachelor of Business (Accounting) from UTS.

(c) David Lethbridge - General Manager Corporate Office, Company Secretary

David commenced with NIB in March 2002 as Company Secretary. He was previously Board Secretary/Senior Legal Advisor at the New Zealand Apple and Pear Marketing Board and prior to that was the Legal Advisor at the New Zealand Dairy Board. David is Company Secretary for all companies in the NIB Group and a director of NIB Servicing Facilities Pty Limited.

(d) Jayne Drinkwater - Chief Marketing Officer

Jayne commenced with NIB in February 2003, firstly in the role of Chief Operating Officer and more recently as Chief Marketing Officer. She has previously worked for organisations such as Westpac, Commonwealth Bank, ASX and Citibank.

(e) Dr Ian Boyd - Medical Director

Ian commenced with NIB in February 2005 as Medical Director. He was in full time general practice from 1992 and has practised as a general practitioner in a part-time capacity since 2005.

NIB is in the process of recruiting a Chief Operating and Technology Officer.

3.3 Corporate governance

NIB recognises the importance of good corporate governance.

The corporate governance framework for NIB is currently underpinned by the ASX Principles of Good Corporate Governance and Best Practice Recommendations as published by the ASX Corporate Governance Council ("**ASX Guidelines**"). The ASX Guidelines were released by the ASX Corporate Governance Council on 31 March 2003 as a set of guidelines designed to maximise corporate performance and accountability in the interests of shareholders and the broader economy. The ASX Guidelines encompass matters such as board composition, committees and compliance procedures.

Following extensive review, ASX recently released the Corporate Governance Principles and Recommendations (**"Revised Principles"**).

The effective date for the Revised Principles is a listed entity's first financial year commencing on or after 1 January 2008. Although the Revised Principles do not apply to NIB until its financial year 1 July 2008 - 30 June 2009, NIB is committed to good corporate governance and intends to use its best endeavours to comply with the Revised Principles to the full extent possible prior to this time.

Listed entities are required to disclose in their annual report the extent of their compliance with the ASX Guidelines (or once effective, the Revised Principles) and to explain why they have not adopted an ASX guideline or recommendation if they consider it to be inappropriate in their particular circumstances.

The Board is in the process of establishing various policies designed to ensure that NIB Holdings meets all applicable standards of disclosure pursuant to the ASX Listing Rules, Corporations Act and any other applicable laws. In addition, NIB intends to include on its website (nib.com.au) details of its corporate governance regime and copies of its corporate governance charters and policies. A corporate governance statement will be included in future NIB annual reports. All material disclosed to ASX will also be promptly accessible through NIB's website (nib.com.au).

(a) The Board and its committees

The Board is responsible for the overall corporate governance of the Company including establishing and monitoring key performance goals. The Board intends on adopting a Board Charter prior to Listing on ASX.

To assist with execution of its responsibilities, the Board intends on establishing an Audit Committee, a Risk Committee and a Nomination and Remuneration Committee. These committees will have written mandates and operating procedures.

(b) Audit Committee

The role of the Audit Committee will be to advise the Board on the quality and reliability of the financial information prepared by the Company, working on behalf of the Company with the external auditor and review non-audit services provided by the external auditor to confirm they are consistent with maintaining external audit independence.

(c) Risk Committee

The role of the Risk Committee will be to advise the Board on the internal controls and appropriate ethical standards for the management of the Company. The Risk Committee will provide advice to the Board and reports on the status and management of the risks to the Company. The purpose of the committee's risk management process is to ensure that risks are identified, assessed and appropriately managed.

(d) Nomination and Remuneration Committee

The role of the Nomination and Remuneration Committee will be to review and make recommendations to the Board on the composition and performance of the Board and its committees and on the remuneration packages and policies related to the Directors and senior executives. In addition, the committee will be responsible for ensuring that adequate succession plans are in place and to ensure the Company's remuneration policies and practices are consistent with the Company's strategic goals and human resources objectives.

(e) Continuous disclosure

The Board aims to ensure that Shareholders are informed of all major developments affecting the Company's state of affairs. Information will be communicated with Shareholders through ASX announcements, the Company's annual report, annual general meeting, half and full year results announcements and the NIB website (nib.com.au).

(f) Securities Trading Guidelines

The Company intends to adopt a Trading Policy which will apply to the Directors and employees of NIB.

The Trading Policy is intended to explain the type of conduct in relation to dealings in Shares that is prohibited under the Corporations Act, and establish procedures in relation to Directors, executives or employees dealing in Shares.

4 Additional information

4.1 Employee incentive plans

NIB intends to establish an Employee Share Acquisition (Tax Exempt) Plan **("ESAP"**), pursuant to which it is intended that the NIB Employee Gift Opportunity **("Opportunity"**), open to Eligible Employees, will be made. The ESAP is intended to assist in the attraction, retention and motivation of employees of NIB.

The ESAP will be a general employee share plan pursuant to which the grants of Shares may be offered to employees of NIB on terms and conditions as determined by the Board from time to time. At this stage, it is intended that the Opportunity will be offered in NIB's first year of Listing. However, it is likely that in subsequent years, at the election of an Eligible Employee, the ESAP will be an offer involving a salary sacrifice arrangement.

In accordance with current Australian taxation legislation and in order that employees of NIB can make an election to seek an exemption from taxation in relation to Shares acquired under the ESAP, Shares acquired under the ESAP must be held in the ESAP for a minimum of three years (or earlier cessation of relevant employment). During that time, Shares are subject to a disposal restriction such that the participant cannot deal in (i.e. sell or transfer) the Shares.

Pursuant to the ESAP, NIB intends on offering Eligible Employees the possibility of participating in the Opportunity. Eligible Employees who wish to participate in the Opportunity will be issued, at no cost to the employee, the nearest number of whole Shares (rounded down) to the value of $1,000.

It is intended that full details of this Opportunity, including all relevant information relating to taxation, will be set out in documentation provided by NIB to Eligible Employees after Listing.

NIB also intends to establish a Long Term Incentive Plan (**"LTIP"**) which will form part of NIB's remuneration strategy. The LTIP will be designed to align the interests of executives and Shareholders, and to assist NIB in the attraction, motivation and retention of executives. In particular, it is intended that the LTIP will provide relevant executives with an incentive for future performance, thereby encouraging those executives to remain with NIB and contribute to the future performance of NIB.

Subject to the ASX Listing Rules and applicable law, it intended that the Chief Executive Officer and certain other eligible executives will be invited to participate in the LTIP, and to acquire securities in NIB from time to time in accordance with the terms of the LTIP.

4.2 Employee retention and transaction arrangements

NIB Holdings has employee retention arrangements to cover key employees who the Board believes are critical to the Demutualisation and Listing and/or to the continuation of NIB's business. 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 and have an aggregate maximum cost of $2.3 million.

A transaction bonus is payable to up to seven employees if the conditions are satisfied. NIB will make appropriate termination payments to any of the seven employees who will not be continuing as an employee of NIB following Listing.

The transaction bonus payable to each eligible employee will be calculated in accordance with a formula that is dependent on the value of the Shares on Listing (calculated at the volume weighted average price of Shares over the three trading days from Listing).

Certain eligible employees have been invited to elect to receive part of their transaction bonus as Shares which will be issued to them at the Facility Price prior to Listing. Mark Fitzgibbon has elected to receive 250,000 Shares as part of his transaction bonus. Michelle McPherson, David Lethbridge and Ian Boyd have all elected to receive 100,000 Shares as part of their respective transaction bonus. The total number of Shares to be issued to eligible employees prior to Listing under these arrangements is 550,000 Shares. The balance of the transaction bonus will be paid in cash shortly after Listing for those eligible employees who have elected to take part of their transaction bonus in the form of Shares.

The Shares that these employees will receive as part of their transaction bonus will be held in escrow for three years. Details of these escrow arrangements are outlined in Section 4.3 below.

Further, subject to the ASX Listing Rules and applicable law, employees who elect to take part of their transaction bonus as Shares will, subject to achievement of certain performance hurdles based on a comparison of Total Shareholder Return ("**TSR**") to the ASX small ordinaries index (**"Index"**), be eligible to receive additional Shares at the end of the three year escrow period (**"Additional Shares"**).

Additional Shares will be awarded on the following basis:

(a) one Share will be granted for every four Shares held in escrow if the TSR at the end of the three year escrow period equals or exceeds the 75% quartile of the Index; or

(b) one Share will be granted for every eight Shares held in escrow if the TSR is equal to or exceeds the Index median.

No Additional Shares will be awarded if the TSR is less than the Index median. Any employee whose employment with NIB has terminated before the expiry of the three year escrow period will not be entitled to receive Additional Shares.

Eligible employees who are continuing as an employee of NIB and have not elected to be paid part of their transaction bonus as Shares will receive their transaction bonus in cash on or about six months following the Listing of NIB Holdings on ASX.

For any of the seven employees who will not be continuing as an employee, the transaction bonus will be paid shortly after Listing once the final amount has been determined.

The proposed issue of Shares described in this section will not impact on the disclosure contained in the 2008 Financial Forecast Booklet. In particular, NIB confirms that the issue of any Shares to employees as part of their transaction bonus will not impact any of the disclosure made by NIB in relation to its pro-forma consolidated forecast financial information.

4.3 Voluntary escrow arrangements

Each of the employees who will receive part of their transaction bonus as Shares (as described in Section 4.2) has agreed to enter into escrow deeds with the Company in respect of all the Shares to be held by them (**"Escrow Shares"**) pursuant to the arrangements described in Section 4.2.

Under the proposed escrow arrangements, the relevant Shareholder may not:

(a) deal directly or indirectly in any or all of its Escrow Shares or deal directly or indirectly in any interest or right in respect of all or any part of its Escrow Shares;

(b) create, or agree or offer to create, a security interest or encumbrance over or affecting any or all of its Escrow Shares; or

(c) do or omit to do any act which would have the effect of transferring effective ownership or control of any or all of its Escrow Shares,

until three years after the date on which the Shares were issued to the employee.

The relevant Shareholder is permitted to deal in its Escrow Shares that are subject to escrow arrangements only if:

(a) the Company becomes subject to a takeover bid in respect of all Shares under the Corporations Act, and acceptances of that bid are received from the holders of at least 50% of Shares. If the takeover bid does not become unconditional, the escrow arrangements will continue to apply to any Escrow Shares that the relevant employee has tendered into the takeover bid;

(b) the Company is involved in a merger by way of scheme of arrangement under the Corporations Act provided that any Escrow Shares which are the subject of the scheme of arrangement will remain subject to the escrow arrangements if the merger by scheme of arrangement does not take effect; or

(c) the employee transfers any or all of its Escrow Shares to a permitted transferee (being a family member, trustee of a family trust or a family controlled company associated with the Escrow Shares) provided the transferee of the Escrow Shares enters into a deed on the same terms as the escrow deed prior to any transfer, and where such a transferee ceases to be permitted transferee, it will immediately notify the Company of such an event and shall within five business days of such event transfer any Escrow Shares transferred to it to the relevant employee.

4.4 Overview of Directors' interests

Other than as set out this Listing Prospectus:

(a) no Director or proposed Director of NIB Holdings has at the date of this Listing Prospectus, or has had within two years before the date of this Listing Prospectus, an interest in the formation or promotion of NIB Holdings or any property acquired or proposed to be acquired by NIB Holdings in connection with its formation or promotion; and

(b) no amount has been paid or agreed to be paid, by any person to any Director or proposed Director or to any entity in which a Director or proposed Director is a member or partner, either to induce them to become, or to qualify them as, a director, or otherwise for services rendered by them or by the entity in connection with the promotion or information of NIB Holdings.

4.5 Directors' interests in Shares

All of the Directors were Eligible Policyholders and, accordingly, received Shares as part of the Demutualisation. The number of Shares that the Directors received was calculated in accordance with the Share Allocation Rules. The number of Shares that the Directors currently hold is as follows:

(a) Keith Lynch - 3,000 Shares;

(b) Mark Fitzgibbon - 2,600 Shares;

(c) Dr Annette Carruthers - 1,000 Shares;

(d) Janet Dore - 500 Shares; and

(e) Philip Gardner - 3,600 Shares.

In addition to the Shares Mark Fitzgibbon received as part of the Demutualisation, he has elected to receive part of his transaction bonus as Shares and accordingly will receive an additional 250,000 Shares prior to Listing. Please refer to Section 4.2 for further details.

4.6 Remuneration of Directors

The Directors are entitled to receive remuneration for the services they provide, as the Directors decide, but the total amount paid for such services to non-executive Directors must not exceed in aggregate the sum determined by the Company in general meeting. The current maximum aggregate is $1.1 million.

The total annual fee of the Chairman will be $175,000. The non-executive Directors will be paid a base annual fee of $80,000. Such fees are inclusive of superannuation and fees for sitting on Board committees. A chairman of a Board committee will be entitled to an additional $18,000 per annum in respect of duties carried out as chairman of that committee. Members of a Board committee will be entitled to an additional $9,000 per annum in respect of duties carried out as a member of that committee.

Subject to the constitution, ASX Listing Rules and applicable law, NIB is considering requiring its non-executive Directors to receive a portion of their annual director's fees in the form of Shares. To the extent that this proposal is adopted, it is currently expected that the non-executive Directors will participate in a salary sacrifice scheme and that Shares will be purchased on-market by or on behalf of the non-executive Directors. It is not intended that non-executive Directors would participate in employee incentive schemes designed for the remuneration of executives.

A Director may also be paid a retirement benefit and is entitled to reimbursement for reasonable travelling, accommodation and other expenses in attending meetings and carrying out their duties.

4.7 Remuneration of the Chief Executive Officer

Mark Fitzgibbon's salary has been structured so that he receives a base salary of $500,000 per annum (inclusive of superannuation), together with the capacity to qualify for an annual bonus of up to 50% of his base salary as short term incentive compensation, depending on certain performance criteria relating to financial and operational goals being met, with (subject to the ASX Listing Rules and applicable law) 50% of his bonus to be awarded in the form of Shares, to be held in escrow for one year from the date of allocation.

As outlined in Section 4.2, Mr Fitzgibbon has elected to receive part of his transaction bonus by way of Shares. In addition, it is also proposed that Mr Fitzgibbon will participate in employee incentive plans (such as the proposed LTIP) as determined by the Board and the Nomination and Remuneration Committee from time to time, subject to the ASX Listing Rules and applicable laws.

4.8 Deed of access, indemnity and insurance

The Company has entered into a deed of access, indemnity and insurance with each officer of NIB Holdings, which confirms their right of access to Board papers and requires the Company to indemnify the officer for liability incurred as an officer of the Company, subject to the restrictions imposed by the Corporations Act and the terms of the constitution.

4.9 Re-registration of NIB as a private health insurer

In addition to the information set out in the 2008 Financial Forecast Booklet, an organisation intending to carry on business as a private health insurer after 1 July 2008 (including NIB) is required to be registered as a private health insurer under the Private Health Insurance Act 2007 (**"Act"**).

NIB is currently in the process of re-registering as a private health insurer and is following the process specified by the Department of Health and Ageing ("**Department**"). In accordance with this process, NIB's Fund Rules ("**Rules**") were submitted to the Department for pre-assessment. Following discussions with the Department, a revised set of Rules was submitted taking into account the amendments requested by the Department.

Once the Department is satisfied with the Rules, it is expected that it will provide approval for NIB to make a formal application to the Private Health Insurance Administration Council ("**PHIAC**") to re-register as a private health insurer.

PHIAC may, in accordance with the Act, grant the application, subject to such terms and conditions as PHIAC thinks fit, or refuse the application.

Although there is a risk that PHIAC will not approve NIB's application before 1 July 2008, NIB considers this risk to be low. If however, NIB could not obtain re-registration as a private health insurer, this would have a very negative impact on NIB's business as it would be unable to act as a private health insurer.

The business activities of NIB are subject to a number of risks and uncertainties, and there are many factors that may affect the future performance of NIB including, but not limited to, compliance with regulation. Section 4.9 of the 2008 Financial Forecast Booklet sets out risks associated with compliance with regulation. Section 4 of the 2008 Financial Forecast Booklet also sets out other risks that may impact NIB's business.

4.10 Interests of persons named

Except as set out in this Listing Prospectus:

(a) neither the Sole Lead Manager nor any other person named in this Listing Prospectus as performing a function in a professional, advisory or other capacity in connection with the Demutualisation or Listing of NIB Holdings holds, or has held in the two years before lodgement of this Listing Prospectus with ASIC, an interest in the formation or promotion of NIB Holdings, or any property acquired or proposed to be acquired by NIB Holdings in connection with its formation or promotion; and

(b) no amount has been paid or agreed to be paid and no benefit has been given or agreed to be given to any person named in this Listing Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Listing Prospectus, in connection with the formation or promotion of NIB Holdings.

Mallesons Stephen Jaques has acted as legal adviser to the Company in connection with the Demutualisation and Listing, has performed work in relation to the legal due diligence enquires made on legal matters and advised NIB on Australian legal matters generally in relation to the Demutualisation and Listing. NIB has paid or has agreed to pay approximately $1.5 million (exclusive of GST) in relation to these services. Further amounts may be paid to Mallesons Stephen Jaques in accordance with its time-based charges.

The Sole Lead Manager has acted as the exclusive financial adviser to the Company in connection with the Demutualisation and Listing and as sole lead manager in connection with the Institutional Offer. NIB has paid or has agreed to pay approximately $10.9 million in relation to these services.

The Investigating Accountant has prepared the Investigating Accountant's Reports contained in Section 5.3 of the Explanatory Statement and Section 3 of the 2008 Financial Forecast Booklet. NIB has paid or agreed to pay the Investigating Accountant approximately $505,000 (exclusive of GST) for these services to the date of this Listing Prospectus.

PricewaterhouseCoopers has acted as tax adviser in respect of the Demutualisation and Listing of NIB Holdings and has prepared the taxation report contained in Section 6.4 of the Explanatory Statement. NIB has paid or agreed to pay PricewaterhouseCoopers approximately $525,000 (exclusive of GST) for these services in accordance with its time-based chargers, to the date of this Listing Prospectus. A number of partners and professional staff of PricewaterhouseCoopers hold health insurance policies with NIB on normal terms and conditions. As a result of being Eligible Policyholders, those partners and professional staff acquired shares in NIB on its Demutualisation. For auditor independence reasons, it is intended that these shareholdings will be disposed of as soon as possible.

The Independent Financial Expert has prepared the Independent Financial Expert's Report contained in Section 6.1 of the Explanatory Statement. The Independent Financial Expert's fees for these services were $80,636 (exclusive of GST).

The Appointed Actuary has prepared the Appointed Actuary's Report contained in Section 6.2 of the Explanatory Statement. The Appointed Actuary was not remunerated over and above his normal remuneration as Appointed Actuary for the Appointed Actuary's Report.

The Consulting Actuary has prepared the Consulting Actuary's Report contained in Section 6.3 of the Explanatory Statement. The Consulting Actuary's fees for these services were $306,122 (exclusive of GST).

4.11 Consents

Each of the parties referred to as consenting parties who are named below:

(a) has given, and has not before the lodgement of this Listing Prospectus with ASIC, withdrawn, its written consent to being named in this Listing Prospectus in the form and context in which it is named;

(b) has not made any statement, that is included in this Listing Prospectus or on which a statement made in this Listing Prospectus is based, other than as specified in paragraph (d);

(c) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any statements in or omissions from this Listing Prospectus, other than the reference to its name and a statement included in this Listing Prospectus with consent of that person as specified in paragraph (d);

(d) in the case of:

(i) the Investigating Accountant, it has given, and has not before lodgement of this Listing Prospectus with ASIC withdrawn, its consent to the inclusion of its Investigating Accountant's Reports (contained in Section 5.3 of the Explanatory Statement and Section 3 of the 2008 Financial Forecast Booklet) in the form and context in which they are included;

(ii) the Independent Financial Expert, it has given, and has not before lodgement of this Listing Prospectus with ASIC withdrawn, its consent to the inclusion of its Independent Financial Expert's Report (contained in Section 6.1 of the Explanatory Statement) in the form and context in which they are included;

(iii) the Appointed Actuary, he has given, and has not before lodgement of this Listing Prospectus with ASIC withdrawn, his consent to the inclusion of the Appointed Actuary's Report (contained in Section 6.2 of the Explanatory Statement) in the form and context in which they are included;

(iv) the Consulting Actuary, it has given, and has not before lodgement of this Listing Prospectus with ASIC withdrawn, its consent to the inclusion of its Consulting Actuary's Report (contained in Section 6.3 of the Explanatory Statement) in the form and context in which they are included; and

(v) the taxation adviser, it has given, and has not before lodgement of this Listing Prospectus with ASIC withdrawn, its consent to the inclusion of its Taxation Advice (contained in Section 6.4 of the Explanatory Statement) in the form and context in which they are included.

Role	Consenting party
Sole Lead Manager / Exclusive financial adviser to NIB	J.P. Morgan Australia Limited
Investigating Accountant	PricewaterhouseCoopers Securities Ltd
Tax adviser to NIB	PricewaterhouseCoopers
Legal adviser to NIB	Mallesons Stephen Jaques
Share Registry	Computershare Investor Services Pty Limited
Independent Financial Expert	BDO Kendalls Corporate (NSW) Finance Pty Limited
Appointed Actuary	Mr Mark Bishop
Consulting Actuary	Ernst & Young ABC Pty Limited
Communications Advisor to NIB during the Demutualisation	Third Person

None of the persons referred to above has caused or authorised the issue of this Listing Prospectus. Accordingly, none of the persons referred to above makes any representations regarding, and has any responsibility for, any other statements or material in, or omissions from, this Listing Prospectus. This applies to the maximum extent permitted by law and does not apply to any matter to the extent to which consent is given above.

4.12 ASIC relief

The Company will apply to ASIC for an exemption from having to produce half yearly accounts for the period from its date of incorporation to 28 November 2007, the date six months after incorporation.

The Company has received from ASIC the following relief:

(a) a modification to section 708A(11) of the Corporations Act in relation to the Shares issued to institutional investors under the Institutional Bookbuild;

(b) an exemption from Division 5A, Part 7.9 of the Corporations Act in relation to the Share Sale Facility;

(c) an exemption from Part 7.6 of the Corporations Act in relation to the Share Sale Facility; and

(d) a no action letter regarding the potential application of Part 7.2 of the Corporations Act in relation to the Share Sale Facility.

4.13 ASX waivers and exemptions

In connection with its application to ASX for admission to the official list, the Company will apply to ASX for a waiver from the requirement in ASX Listing Rule 4.2A to permit it not to file a half yearly report for the period ending 28 November 2007.

4.14 The Overseas Policyholders and Unverified Policyholders Trust Deed

(a) Overview

An Eligible Policyholder will be an Unverified Policyholder if they have not verified their details.

(b) Locating Unverified Policyholders

The Trustee must:

(i) hold Shares issued in respect of an Unverified Policyholder on trust for that Unverified Policyholder; and

(ii) 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).

(c) 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.

(d) 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 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 from time to time. To give effect to this, the Trustee will as directed by the Board make payment to NIB Holdings or to Shareholders on such terms as the Board may direct. For the avoidance of doubt those terms can include payment to persons who are Shareholders on a particular date specified by the Board. The Trustee shall act in accordance with the direction so given and must not act in accordance with any subsequent direction that is inconsistent with a previous direction.

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 Eligible Policyholder if they had verified their details some time before three years after the Demutualisation Date.

(e) Trustee's holding of Shares

The Trustee must elect to participate, or not to participate, in any dividend reinvestment plan offered by NIB Holdings as directed by the Board in the Board's absolute discretion.

If NIB Holdings offers Shares under a rights issue or a share purchase plan, the Trustee must, on the direction of the Board (subject to its obligations to pay expenses and tax), apply in whole or in part income of the Trust to subscribe for Shares under the rights issue or share purchase plan. If the rights issue is renounceable, the Board may direct the Trustee to sell those rights and hold the proceeds on trust for Unverified Policyholders.

In the event of a takeover bid for NIB Holdings, the Trustee must, on direction of the Board, accept or reject the takeover bid in relation to the Shares held in the Trust.

(f) Voting power of the Trustee

If there is a resolution put to a general meeting of NIB Holdings:

(i) to approve a scheme of arrangement or corporate reconstruction which may involve the disposal of Shares which the Trustee holds on behalf of Unverified Policyholders or Overseas Policyholders;

(ii) to amend the constitution of NIB Holdings;

(iii) to approve a capital reduction of NIB Holdings,

(iv) to approve an on-market buy-back, or an off-market buy-back, by NIB Holdings which would result in NIB Holdings purchasing greater than 10% of its issued capital within a 12 month period; or

(v) to approve a selective buy-back by NIB Holdings,

the Trustee must vote as directed by the Board.

4.15 Settlement underwriting agreement

The Company and the Sole Lead Manager intend to enter into an offer management agreement (**"OMA"**) in respect of the Institutional Offer. The OMA will set out the terms on which the Sole Lead Manager agrees to manage the Institutional Bookbuild and provide settlement support for the Institutional Offer.

It is intended that the OMA will contain customary representations and warranties, termination events and indemnities in favour of the Sole Lead Manager.

4.16 Consents to lodgement

Each Director has consented to the lodgement of this Prospectus with ASIC as required by section 720 of the Corporations Act.

5 Glossary of terms

Appointed Actuary means Mr Mark Bishop.

Appointed Actuary's Report means the report by the Appointed Actuary.

ASIC means the Australian Securities and Investments Commission.

ASX means the Australian Securities Exchange.

ASX Listing Rules means the listing rules of the ASX.

Board means the board of directors from time to time of NIB Holdings.

Company Members means company members of NIB Health.

Company Members' Scheme means the scheme of arrangement between NIB and the Company Members approved by the Company Members on 19 July 2007 and by the Court on 23 July 2007.

Consulting Actuary means Ernst & Young ABC Pty Limited.

Consulting Actuary's Report means the report by the Consulting Actuary.

Corporations Act means the Corporations Act 2001 (Cth).

Court means the Federal Court of Australia.

Demutualise / Demutualisation means the process by which NIB will convert from a company limited by guarantee to a company limited by shares and from a not-for-profit to a for-profit company.

Demutualisation Date means 1 October 2007.

Directors means Directors of NIB from time to time.

Eligible Employee means an employee eligible to participate in the ESAP as determined by the Board from time to time.

Eligible Policyholder(s) has the same meaning given in section 8 of the Explanatory Statement.

Explanatory Statement means the Explanatory Statement prepared by NIB Health dated 11 June 2007.

Facility Price means the price per Share determined by the Institutional Bookbuild.

Independent Financial Expert means BDO Kendalls Corporate Finance (NSW) Pty Limited.

Independent Financial Expert's Report means the report by the Independent Financial Expert.

Institutional Bookbuild means the process conducted by the Sole Lead Manager where institutional investors will be invited to submit bids indicating the number of Shares they wish to purchase at a range of prices.

Institutional Investor Presentation means presentation given by NIB to institutional investors.

Institutional Offer means the offer by which institutions will be invited to bid for Shares.

Investigating Accountant means PricewaterhouseCoopers Securities Ltd.

Investigating Accountant's Reports means the reports by the Investigating Accountant.

Listing / List(s) means the process of NIB Holdings being included on the official list of ASX and having its Shares granted official quotation by ASX.

Listing Prospectus means the Listing Prospectus dated 5 October 2007 (this document).

NIB means the NIB group generally comprising NIB Holdings, NIB Health and all of their related bodies corporate.

NIB Foundation means the trust to be established to provide a vehicle for charitable, community purposes in support of the health and wellbeing of the Australian community and in particular the Hunter region.

NIB Health means NIB Health Funds Limited (ABN 83 000 124 381).

NIB Holdings / the Company means NIB Holdings Limited (ABN 51 125 633 856).

NIB Information Hotline means 131 NIB (131 642).

Overseas Policyholder means an Eligible Policyholder who, according to the records of NIB, has their registered address outside of Australia.

Policy means a policy of private health insurance issued by NIB.

Policyholder means a person who is insured under a Policy and is recorded by NIB as the person in whose name the policy is held.

Proposal / Proposal to Demutualise means the proposal to demutualise NIB as outlined in the Explanatory Statement (which was effected on 1 October 2007) and the intended subsequent Listing.

Sale Facility means the facility whereby Shareholders can sell Shares at Listing as set out in the Sale Facility Booklet.

Sale Facility Booklet means the booklet dated 24 September 2007 sent to Eligible Policyholders providing information to help them decide whether to sell their Shares in the Sale Facility prior to NIB Holdings Listing on ASX or to hold their Shares when NIB Holdings Lists.

Sale Facility Election Form is the form received by Eligible Policyholders with the Sale Facility Booklet.

Share(s) means fully paid ordinary share(s) in NIB Holdings.

Share Allocation Rules means the method by which Shares were issued to Eligible Policyholders under the Demutualisation.

Shareholder means the legal owner of a Share.

Sole Lead Manager means J.P.Morgan Australia Limited (ABN 52 002 888 0011/AFSL 238188).

Trust means the Overseas Policyholders and Unverified Policyholders Trust.

Trustee means the trustee of the Trust.

Unverified Policyholder means an Eligible Policyholder whose name, registered address or Policy details have not been verified.

2007 Annual Report means the annual report of NIB Health for the financial year ended 30 June 2007.

2008 Financial Forecast Booklet means the booklet containing the financial forecasts of NIBfor the financial year ending 30 June 2008 and the discussion of risk factors concerning NIB.

nib Health Funds

PROPOSAL TO DEMUTUALISE

EXPLANATORY STATEMENT

11 JUNE 2007

NIB HEALTH FUNDS LIMITED
ABN 83 000 124 381
384 Hunter Street
Newcastle NSW 2300

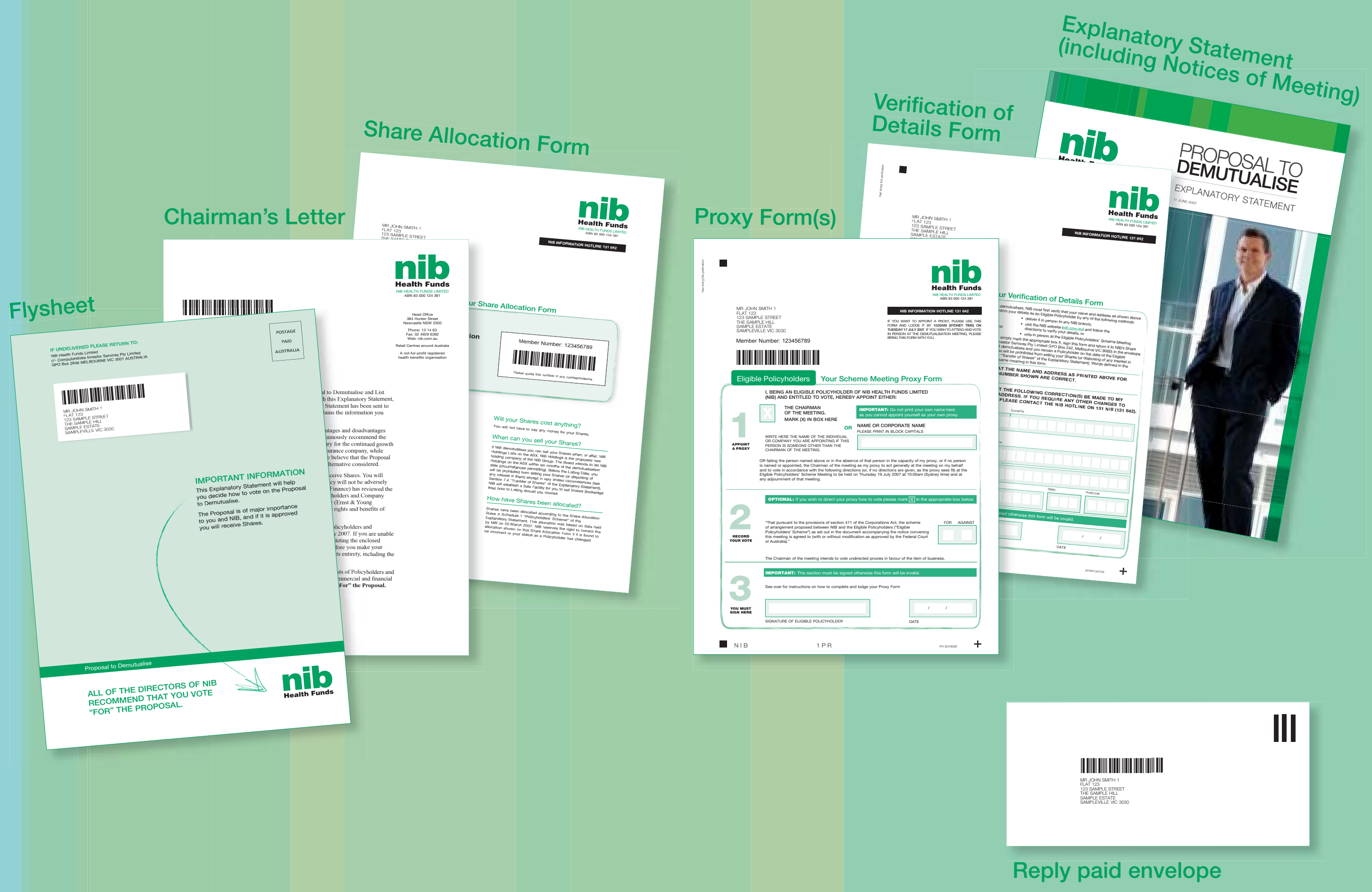
CONTENTS

PROPOSAL TO
DEMUTUALISE

EXPLANATORY STATEMENT

The Proposal to Demutualise and the Notices of Meeting

What you have received in this pack



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, PHIAC.

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:

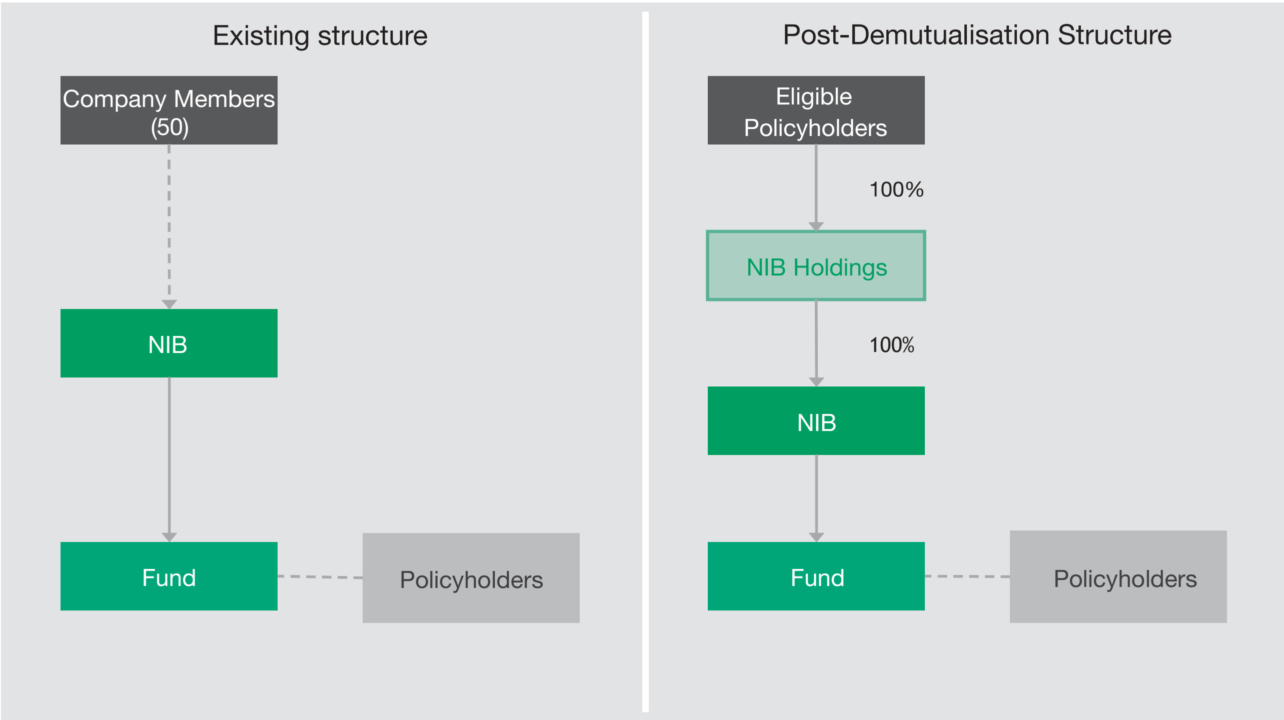
1. NIB converts from a company limited by guarantee to a company limited by Shares and NIB issues Shares to Eligible Policyholders;
2. NIB issues Shares to NIB Holdings;
3. NIB cancels the Shares it has issued to the Eligible Policyholders (the Shares NIB has issued to NIB Holdings are not cancelled) 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



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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

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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
Keith Lynch BSc (Tech) (UNSW), MAICD Chairman, Independent Non-Executive Director	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. 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. A Director since 1982 – appointed Chairman 28 November 2001. Mr Lynch is also a director of NIB Holdings.
David Brewer BSc, FAICD Independent Non-Executive Director	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. 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. A Director since 2003.
Grahame Cannon FAICD, JP Independent Non-Executive Director	A former state manager, NSW/ACT Health Insurance Commission. Previous directorships include Australian Administrative Staff College Limited and Psychiatric Rehabilitation Association of NSW. 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. A Director since 1998.
Dr Annette Carruthers MBBS (Hons), FRACGP, FAICD Independent Non-Executive Director	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. 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. A Director since 2003.

NIB OVERVIEW CONT.

Director	Qualifications
Janet Dore BAppSc (Planning), MBA, FAICD, FAIM, FAPI, FIMM Independent Non-Executive Director	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. 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. 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. A Director since 2002.
Philip Gardner BComm, CPA, CCM, FAICD, JP Independent Non-Executive Director	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. Mr Gardner's NIB responsibilities are as a member of the Audit and Compliance Committee and Membership Committee. A Director since 2005. Mr Gardner is also a director of NIB Holdings.
Michael Slater BComm, MBA, FCPA, FCIS, FTIA, FAICD, FAIM, FCIM Independent Non-Executive Director	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. 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. A Director since 2001.

Exhibit 4.2

NIB senior management

Senior manager	Qualifications
Mark Fitzgibbon MBA, MA, ALCA, FAICD Chief Executive Officer	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.
David Lethbridge LLB (Otago, NZ), MAICD Executive Manager – Strategy and Governance	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. David is Company Secretary for all companies in the NIB Group and a director of NIB Servicing Facilities Pty Limited.
Michelle McPherson BBus, CA, AAICD Chief Financial Officer	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.
Jayne Drinkwater BEc, MBA (with Merit), GAICD Chief Marketing Officer	Jayne Drinkwater has been with NIB since February 2003 firstly in the role of Chief Operating Officer and more recently as Chief Marketing Officer. Jayne has worked for organisations such as Westpac, Commonwealth Bank, the ASX and Citibank.
Diane Lally Grad Dip Bus, BBus, Cert IV Assessment and Workplace Training, CAHRI, MAITD, MAPT Human Resources Director	Diane Lally joined NIB in February 2003 as Human Resources Director. Diane has worked for many organisations including Capcoal, BOC Gases, Ernst & Young, York International and finally the Heath Lambert Group before joining NIB.
Dr Ian Boyd BMed, FRACGP, GAICD Medical Director	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.
Peter Small BComm – (Economics/ Econometrics) Chief Operating Officer	Peter Small has been with NIB since February 2004 and joined the NIB executive team in July 2006 as Chief Operating Officer. 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.

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 Demutualisaton 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

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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.

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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).

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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.

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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:

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to 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.

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(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

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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

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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

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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

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers Securities Ltd
ACN 003 311 617
ABN 54 003 311 617
Holder of Australian Financial Services Licence No 244572

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
www.pwc.com/au
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999
Direct Phone +61 2 8266 2740
Direct Fax +61 2 8286 2740

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.

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.

PricewaterhouseCoopers

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

Wayne Russell
Authorised Representative of
PricewaterhouseCoopers Securities Ltd

Bob Prosser
Authorised Representative of
PricewaterhouseCoopers Securities Ltd

6 EXPERTS' REPORTS

6.1 Independent Financial Expert's Report

BDO

NIB HEALTH FUNDS LIMITED

FINANCIAL SERVICES GUIDE AND INDEPENDENT EXPERT'S REPORT

31 May 2007

BDO Kendalls

BDO Kendalls Corporate
Finance (NSW) Pty Ltd
Level 19, 2 Market St
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GPO Box 2551 Sydney NSW 2001
Phone 61 2 9286 5555
Fax 61 2 9286 5599
cf.sydney@bdo.com.au
www.bdo.com.au

ABN 91 003 946 030
AFS Licence No. 244345

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 the report.

5 REMUNERATION OR OTHER BENEFITS RECEIVED BY OUR EMPLOYEES

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

6 REFERRALS

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

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.

8 COMPLAINTS RESOLUTION

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.

NIB HEALTH FUNDS LIMITED

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BDO Kendalls

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ABN 91 003 946 030
AFS Licence No. 244345

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).

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.

Advantages and Disadvantages			
Section	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;

- 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	• 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	The 50 Company Members have the following rights: • 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).

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

- 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.

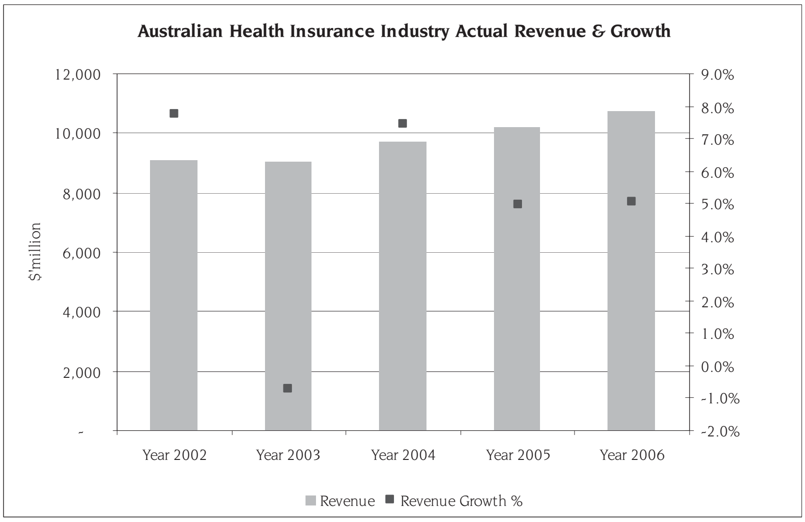
5 INDUSTRY OVERVIEW

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.

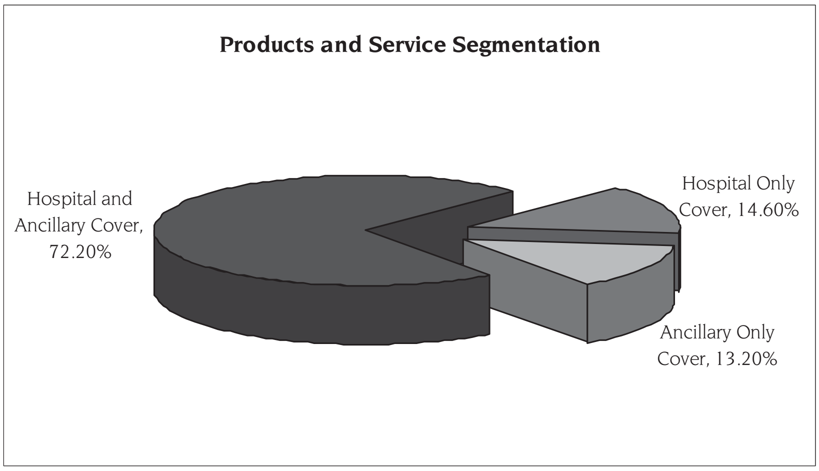
In 2006, the PHIAC indicated that the Industry had improved its financial position with the largest profit contribution coming from investment income.

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.

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

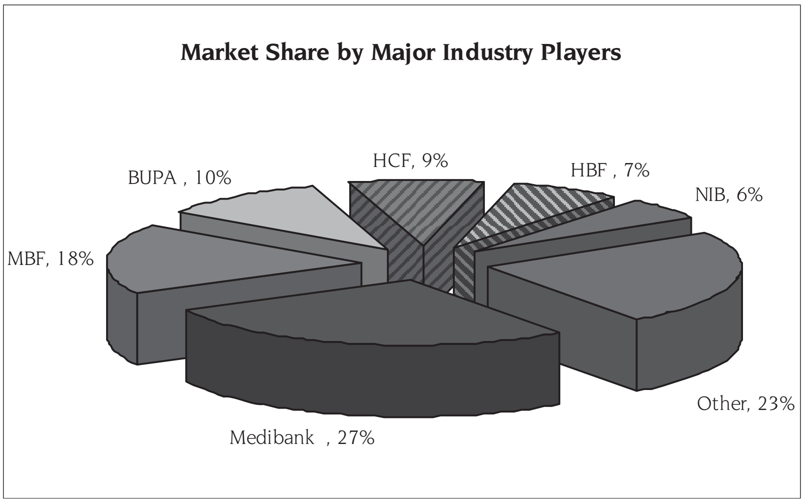
The industry is difficult to enter given it is highly regulated by the Government. There is minimum capital reserve required and the cost of setting up a selling network is very high. The established players dominate the majority market share in the industry.

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.

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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")

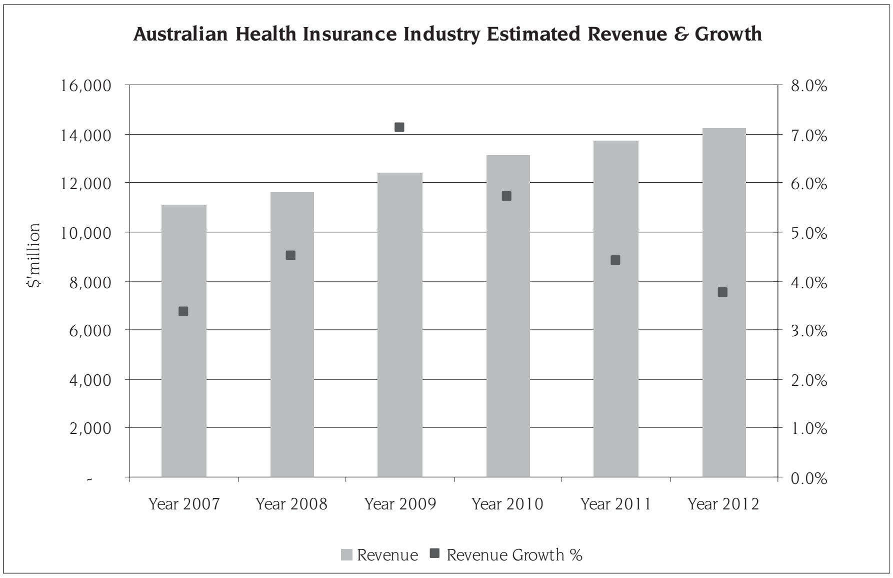
HBF, an origin of the Perth Metropolitan Hospitals Benefit Fund, has an estimated 70% market share in its geographical location in Western Australia.

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.

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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).

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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.

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 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.

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 overview".

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;

- 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	• 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	• 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	• Shares to be allocated in proportion to length of membership subject to
	  • 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	• 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	Recommendation of a maximum of 30 years membership for the following reasons: • 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.

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.

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

6.3 Consulting Actuary's Report

ERNST & YOUNG

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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.

Ernst & Young ABC Pty Limited ABN 12 003 794 296
Australian Financial Services Licence No. 238167

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.

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.

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

D. M. Goodsall.

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.

Contacting Ernst & Young ABC	Contacting the Independent Dispute Resolution Schemes:
Compliance Manager Ernst & Young 680 George Street Sydney NSW 2000 Telephone: (02) 9248 5555	Financial Industry Complaints Service Limited PO Box 579 – Collins Street West Melbourne VIC 8007 Telephone: 1800 335 405 Insurance Brokers Disputes Limited Level 10 99 William Street Melbourne VIC 3000 Telephone 1800 064 169

This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572

EXPERTS' REPORTS CONT.

6.4 Taxation advice

PRICEWATERHOUSECOOPERS

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

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.

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).

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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.

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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.

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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 of 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

PricewaterhouseCoopers

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.

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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:

a. *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;*

b. *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;*

c. *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;*

d. *in making a determination under paragraph (c), the directors may fix the value of any non-cash benefit; and*

e. *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: ✓ 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: ✓ 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 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: ✓ 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.

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.

SCHEDULE 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:

(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

SCHEDULE 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:

(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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nib.com.au

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Investigating Accountant

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Independent Financial Expert

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Appointed Actuary

Mr Mark Bishop

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Third Person
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Sydney NSW 2000

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NIB annual report 2007

nib
Health Funds

It's been a big year for nib

nib Health Funds

NIB HEALTH FUNDS LIMITED
ABN 83 000 124 381

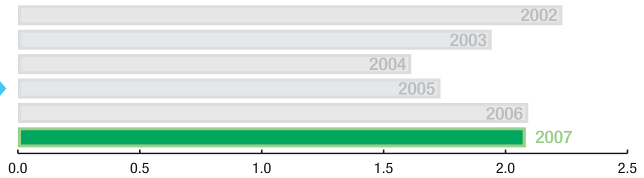
CONTENTS

...but it's been worth it!

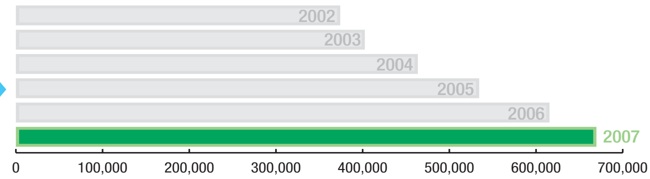
NIB'S MISSION IS TO SHAPE THE FUTURE OF PRIVATE HEALTHCARE FUNDING IN A WAY THAT INCREASES PARTICIPATION, ENHANCES HEALTH OUTCOMES AND CREATES ENTERPRISE VALUE.

HIGHLIGHTS

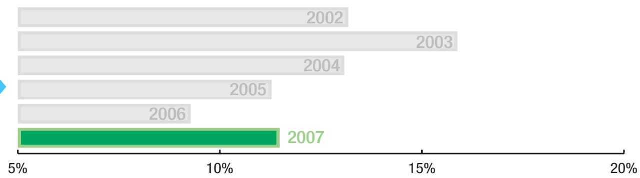
Solvency ratio
STABLE



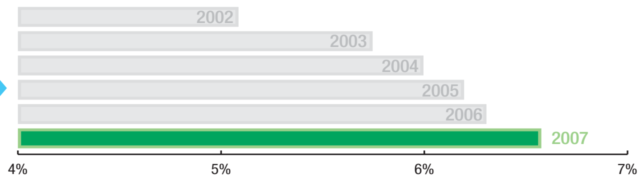
Premium revenue
UP 8.8% TO $666M



Management expense ratio
(% contribution income)



Market share (%)
UP FROM 6.3% TO 6.6%

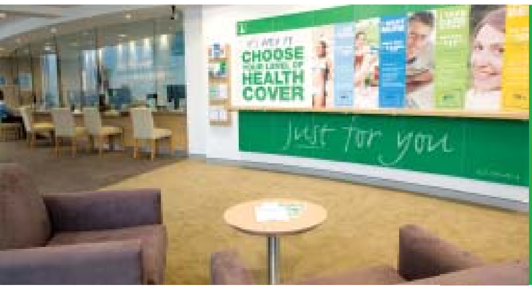


JUNE 06

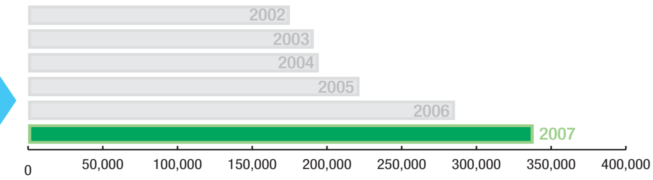
NIB launches a new product portfolio. The new range of products further enhances NIB's strategic position as a provider of affordable health cover.

JANUARY 07

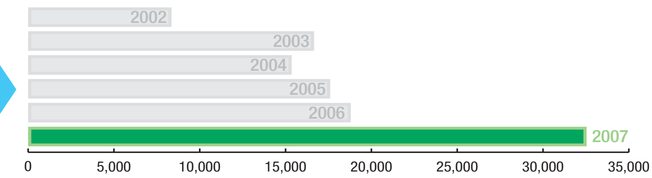
NIB launches a major marketing and brand awareness campaign targeting national policyholder growth in key target demographics.



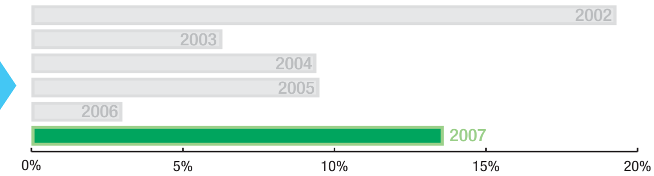
Net assets
UP 19% TO $336M



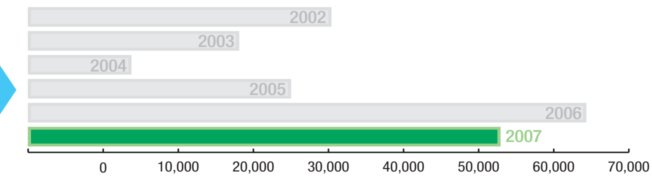
Investment income
UP 74% TO $32M



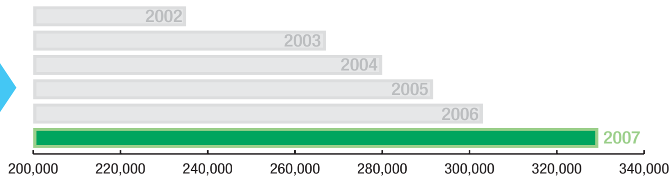
Claims inflation
(% growth in benefits per person)



Consolidated profit ($'000)
DOWN 18% TO $52M



Policies
UP 8.8% TO 328,784



FEBRUARY 07

NIB Board votes in favour of NIB to demutualise and list on the Australian Securities Exchange (ASX). NIB is Australia's first private health insurer to pursue demutualisation and ASX listing.

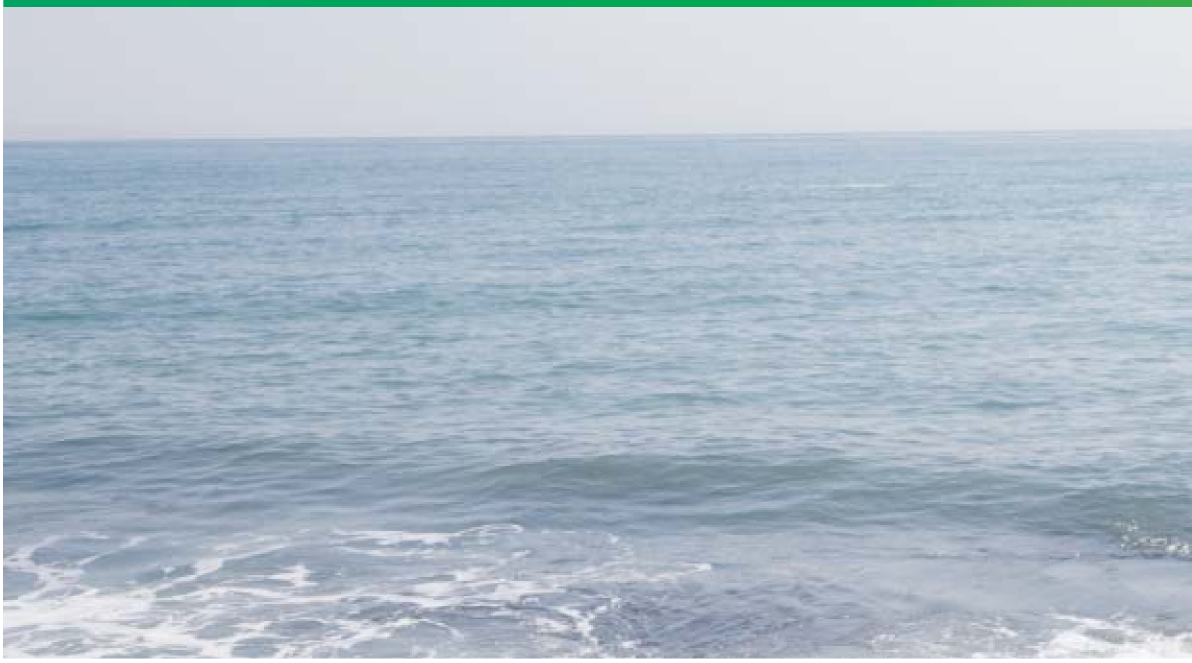
APRIL 07

The Federal Government introduces Broader Health Cover to enable health funds to increase their offering to include medical treatments that are considered 'beyond the hospital gate'.

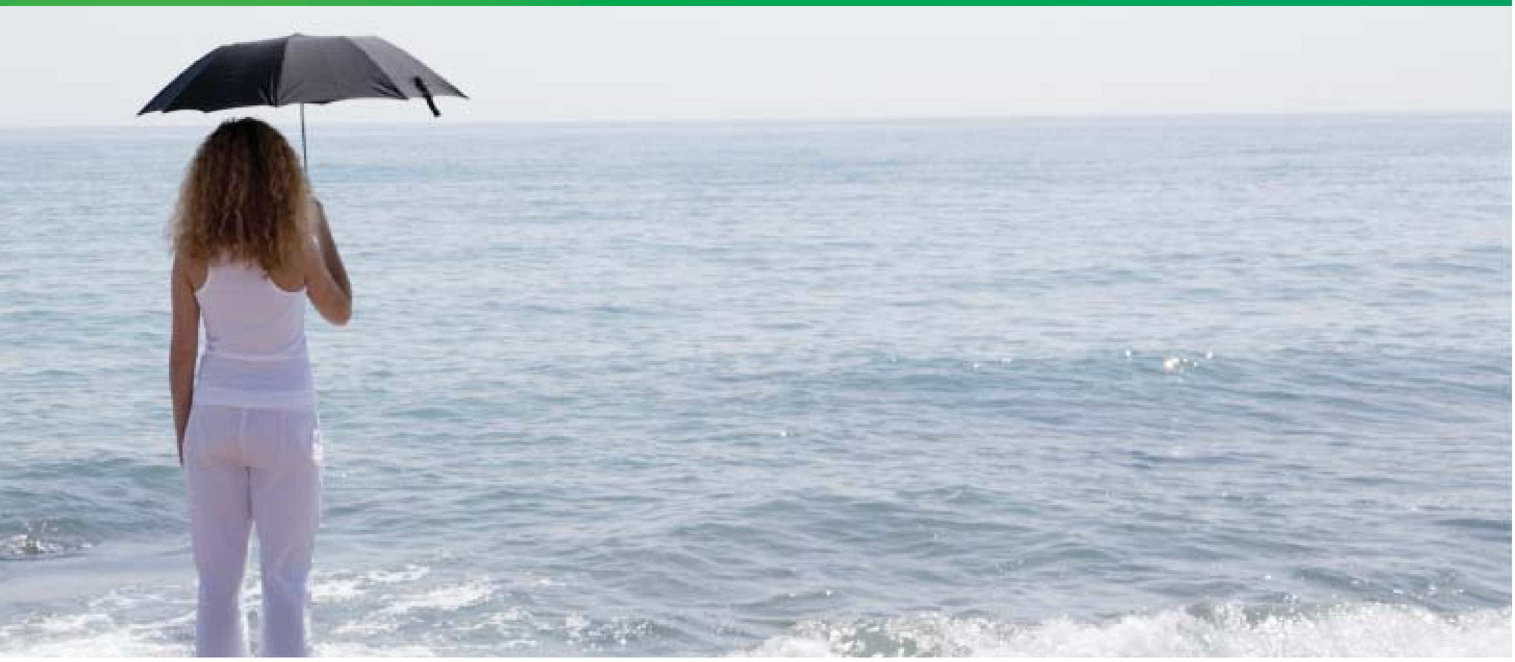
JUNE 07

Construction begins on NIB's new national head office building at Honeysuckle. The new state-of-the-art building will feature efficient operational workspaces that will meet the ongoing needs of a growing national organisation.

the industry



AS AUSTRALIA'S POPULATION CONTINUES TO GROW, SO DOES THE RELIANCE ON HEALTH SERVICES. THIS HAS PLACED ADDED PRESSURE ON THE FEDERAL GOVERNMENT TO INCREASE SPENDING WITHIN THE HEALTH SECTOR.



In response the Government introduced legislation to support the private health industry and to encourage more of the Australian population to join a health fund. Broader Health Cover was introduced on 1 April 2007 to enable health funds to increase their scope of cover to include medical treatments that can be conducted 'beyond the hospital gate'.

This allows health funds to generate greater value in their product offering and reduce the burden on both the public and private hospital systems.

The legislation changes were supported by a national advertising campaign highlighting the benefits of private health insurance.

nib

CHAIRMAN'S REPORT

The past 12 months have seen tremendous change for NIB and the health insurance industry we operate in. The Federal Government's announcement in 2006 of its intention to privatise Australia's largest health fund, Medibank Private, set a platform for a new era in the Australian private health insurance industry.

Currently there are 38 funds operating in a relatively fragmented industry. However, the top six funds collectively hold a combined market share of approximately 77%.

NIB is the sixth largest health insurer in Australia, yet has only 6.6% market share, making it vulnerable to more aggressive competition which is certain to flow from the proposed privatisation and rationalisation across the industry.

Fundamental to NIB's future success is the ability to generate significant and sustained growth, particularly among people aged 20 to 39 years. Growth is positive for both NIB and its policyholders. Growth will improve the fund's risk profile, spread fixed business costs over more policies and enable the fund to accrue additional resources to invest in new and improved services.

In the pursuit of our growth strategy we continue to significantly invest in product and service innovation. We have also been executing brand building and marketing campaigns, particularly in New South Wales, Victoria and Queensland.

While this strategy has been successful in delivering organic growth, our mutual structure had reached the point where it was limiting the potential to build an even greater national business and brand. To meet our strategic growth goals we needed a corporate and capital structure that provided the ability to raise funds from investors, efficiently distribute our profits and better manage our capital.

This was the basis for the Board's extensive examination of a number of options that would enable NIB to meet its growth aspirations. The principal focus was to maximise value for policyholders, while ensuring protection of their interests.

Keith Lynch
Chairman

At the core of our growth strategy was a new product portfolio, launched in June 2006. This new range of products was designed to maintain and further build our strategic position as a provider of affordable health cover.

As a result, in February 2007, the Board voted and unanimously agreed to demutualise NIB and list on the Australian Securities Exchange (ASX) – the first Australian private health insurer to pursue this path. This was viewed as the most appropriate strategy to support the company's ongoing sustainability and future growth.

The Board strongly believes this direction, and change in the fundamental corporate structure, will best position the company to meet its aspirations of becoming a truly national business that offers innovative products and services and greater value to policyholders. The proposal will provide the strategic flexibility required to achieve these goals.

The demutualisation will also allow our eligible policyholders to realise their share of the value which is currently embedded in the business and which will continue to accumulate over time. These policyholders will receive NIB shares or cash (if they choose to take advantage of the sale facility) when the company lists on the ASX, which is expected to take place in early November 2007.

Equally important for policyholders is that these changes will not have a direct impact on future premiums or policy entitlements. Competition and efficiency will be the greatest determinates of these factors, not company structure. We will continue to be extremely price conscious to enable us to achieve our overall growth goals.

While our path through to demutualisation and now on to listing on the ASX will result in a number of changes for the health fund, we have an established corporate governance framework that will assist in the successful transition to a publicly listed company.

Another significant change following the decision to demutualise is that NIB will become a company limited by shares rather than a company limited by guarantee. In doing so, the former Company Member classification will no longer exist. It is appropriate for me to use this opportunity to thank our former Company Members for their contribution to the success of NIB over many years. Collectively they have shared the Board's vision and have actively participated in its realisation.

The significance of the role that NIB's Board has played during financial year 2007 cannot be understated. I thank the Directors for their dedication, counsel and unwavering support as we move to undertake the most significant change in NIB's history.

I would like to thank our Chief Executive Officer, Mark Fitzgibbon, and the NIB Executive team for our continued success over the past 12 months and the role they have played in driving the business towards this new and challenging phase.

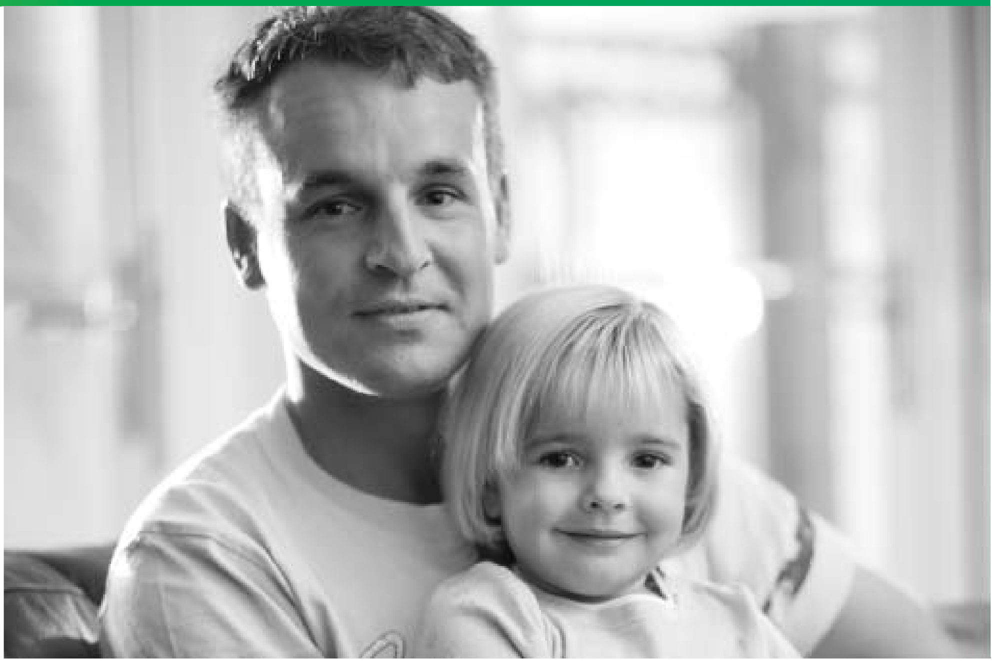
Finally, my thanks must go to all NIB employees who continue to deliver outstanding service to our customers right across Australia.

Keith Lynch
Chairman

THE BOARD VOTED AND UNANIMOUSLY AGREED TO DEMUTUALISE NIB AND LIST ON THE ASX – THE FIRST AUSTRALIAN PRIVATE HEALTH INSURER TO PURSUE THIS PATH

the fund

NIB'S DEMUTUALISATION AND LISTING ON THE AUSTRALIAN SECURITIES EXCHANGE IS SET TO DELIVER SIGNIFICANT CHANGES AND BENEFITS FOR THE HEALTH FUND AS IT AIMS TO MEET ITS ASPIRATIONS OF BECOMING A TRULY NATIONAL BUSINESS.



This fundamental change to NIB's corporate structure will also allow NIB's approximately 320,000 policyholders to realise their share of the value which is currently embedded in the business and which will continue to grow over time.

Eligible Policyholders will each receive between 100 and 6,000 shares in NIB Holdings. Shares will be allocated to all eligible policyholders based on the type of policy they hold and how long they have been with the health fund.

CEO'S REPORT

As the Chairman has outlined in his report, NIB will soon be demutualised and is now on a path to listing on the Australian Securities Exchange (ASX) in early November 2007. I also make this observation because so much effort during financial year 2007 was devoted to preparing our business for this historic transformation. We invested enormously in examining strategic options, business valuation, completing a scheme of arrangement, policyholder and Company Member engagement and necessary regulatory approvals.

Our experience and performance served to underscore the very reason for our demutualisation and upcoming listing. During the year it became increasingly evident that NIB has attributes and the potential to play a much larger role in the market but that a more contemporary capital funding and ownership model was necessary. Most notably, over the past 12 months we have demonstrated:

- the latent potential in the market for more affordable, appealing and creative products. Having launched a completely new product portfolio in June 2006 we sold 49,757 new policies during financial year 2007, with 74.4% of these policyholders new to private health insurance. Overall, our growth rate was 8.8% – more than double industry growth.
- the power and efficacy of market segmentation and focus. In keeping with our deliberate skew towards people aged 20 to 39 years, 76.5% of new policies sold came from within this underdeveloped market segment.
- the giant strides we have made towards building a truly national brand. Sales outside our traditional geographic base of NSW accounted for 32.2% of total sales and with a significant proportion of new sales made online our distribution already has national reach. Our sponsorship of the Geelong Football Club and the NIB Lorne Pier to Pub ocean swim in Victoria have proved to be very powerful brand building initiatives.
- the inherent difficulties associated with encouraging sensible industry consolidation with a mutual structure.

Mark Fitzgibbon
Chief Executive Officer

NIB policyholders have received information about the demutualisation and ASX Listing via direct mailouts, the NIB website and the media.

Growth remains the pre-eminent goal of our business strategy. More than any other initiative it will keep premiums down, stimulate product innovation, enhance customer service and drive enterprise value. Our impending ASX listing should assist our growth ambitions by providing us with the ability to raise shareholder capital and create a 'ready made' shareholder platform for other like minded health funds to convert their own businesses.

And importantly, for our policyholders, it unlocks the enormous value they effectively own in the business.

Our end of year financial results were heavily affected by our escalating investment in growth and creation of a national brand. While we made a consolidated profit of $52.5 million, the net underwriting margin for the Health Fund was just 3.1% compared to 9.0% the previous year. The difference reflecting:

- additional benefit expenses arising out of our new loyalty rewards program for customers, which enables them to claim more ancillary benefits;
- additional costs associated with brand building and marketing given our aggressive national organic growth strategy; and
- an extraordinary result in financial year 2006 following our unfounded fears in pricing year 2005 about claims inflation.

Going forward, we expect a more certain underwriting environment and we are working towards a commercial model in which each year we achieve an ongoing target gross margin with earnings growth a function of increased volume, product value 'buy-up' and lower unit running costs.

The success during 2007 of our new product portfolio demonstrates just how important innovation is to our future and our capacity to challenge current industry mindsets and practice. Innovation at both a product and business model level will remain a feature of our business.

I would like to thank and commend everyone at NIB for their efforts and contribution in what was a year of tremendous change and progress.

My thanks also to our Chairman, Keith Lynch, and the Board of Directors for their vision and leadership. I have no doubt that financial year 2007 will be viewed in years to come as the most important milestone year in the company's history and evolution.

Mark Fitzgibbon
Chief Executive Officer

OUR IMPENDING ASX LISTING SHOULD ASSIST OUR GROWTH AMBITIONS BY PROVIDING US WITH THE ABILITY TO RAISE SHAREHOLDER CAPITAL AND CREATE A 'READY MADE' SHAREHOLDER PLATFORM FOR OTHER LIKE MINDED HEALTH FUNDS TO CONVERT THEIR OWN BUSINESSES.

the policyholders

NIB IS ONE OF THE FASTEST GROWING HEALTH FUNDS IN AUSTRALIA.

FOR FINANCIAL YEAR 2007 NIB'S POLICYHOLDER BASE INCREASED BY 8.8%. THIS RESULT WAS LARGELY DUE TO THE SUCCESS OF NIB'S NEW AND INNOVATIVE PRODUCT PORTFOLIO AND THE ROLL OUT OF A NATIONAL BRAND AWARENESS CAMPAIGN.

NIB continues to enjoy strong growth within its traditional market of New South Wales, however greater awareness of the health fund, coupled with its competitive product offering, has seen outstanding growth in the Queensland and Victorian markets.

In the six months to 30 June 2007, NIB was one of the fastest growing health funds in Victoria with a 12.1% increase in policyholders, while an increase of 15.8% was experienced in Queensland.

nib

REVIEW OF OPERATIONS

CUSTOMER GROWTH

Products driving customer acquisition

Growing the customer base is fundamental to our future success. In financial year 2007, we made significant progress in driving growth across our traditional and non-traditional markets.

At the core of our growth strategy was a new product portfolio, launched in June 2006. This new range of products was designed to maintain and further build our strategic position as a provider of affordable health cover. In addition, the products were presented as simple to understand, easy to claim on and meeting the needs of consumers according to their life stage.

These products were also positioned in the market to target two key potential growth areas – the 56% of Australians who do not have private health insurance and those aged between 20 and 39 years.

Enhancements to the new product portfolio were implemented on 1 April 2007. These changes focused on the provision of additional ancillary benefits to enhance our customer value proposition and included:

- removing the limit on the number of prescription glasses or contact lenses customers can claim each year;
- expanding the range of Natural Therapies to include Bowen Therapy and Shiatsu massage; and
- improving physiotherapy services to include a benefit for Exercise Physiology.

Our product-driven growth strategy has been highly successful in driving overall policyholder growth, which increased by 8.8% during financial year 2007 against an industry growth rate of 4.2%. Of particular significance, with regard to these results, is the level of growth in our key target markets.

We saw strong growth in the 20 to 39 year age bracket, with 76.5% of all new policyholders falling into this key demographic. In addition, 74.4% of our new policyholders did not have private health insurance, which is important in growing the base across the entire industry.

Corporate products

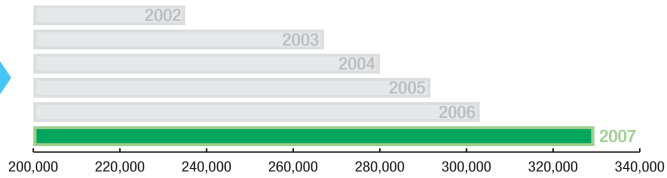
An extensive review of corporate products was completed during the first half of financial year 2007. This resulted in a change in the corporate offering to make it consistent with the fund's retail product portfolio and included the introduction of a new product in response to demand from the corporate sector.

The new *Premier Plus* corporate product strongly positions NIB in this very competitive market while also allowing the fund to improve product penetration with existing clients.

Over the past financial year NIB achieved a policyholder growth rate of 8.8% - more than double the industry average.

Policies

UP 8.8% TO 328,784



In addition, we are working with larger corporate clients to develop more efficient joining processes and customer support mechanisms through interfaces with corporate intranet systems.

Additional work is being undertaken to develop and expand NIB's corporate products to include wellness and lifestyle programs that drive even greater value for customers and employers.

Growing NIB nationally

Our move into the national market started in 1993, with the opening of retail centres in Queensland, Victoria and South Australia. However, limited public awareness of the NIB brand in comparison to the established private health insurance providers in these states resulted in minimal growth.

The strong performance of our new product portfolio launched in June 2006 provided the platform for us to execute strategies aimed at meeting long held ambitions to successfully compete at a national level.

A new advertising agency was appointed in November 2006 to develop a highly visible, integrated marketing campaign that would be rolled out on a scale not experienced previously by the fund. The agency's brief was to effectively communicate product messages and build brand awareness to assist our pursuit of growth in the youth segment and outside of NSW.

Launched on 1 January 2007, the campaign messages focus on a combination of brand, price and value in order to reach the many consumers who still consider private health insurance a 'grudge' purchase. This strategy has been successful in providing NIB with distinct category differentiation among its highly competitive and price sensitive target markets.

The television campaign featured NIB's long-standing brand ambassador – rugby league icon and television personality Paul Harragon. While Paul's recognition and popularity is high in the rugby league heartlands of New South Wales and Queensland, his personal presence has also been extremely effective in other states.

Independent research conducted in Victoria showed that he possessed the necessary attributes – sincere, fit and healthy – to front a health fund campaign specifically targeting 20 to 39 year olds.

Beyond the strong focus on advertising in traditional media such as television and radio, we have also invested heavily in online and outdoor marketing. The increasing emergence of the internet as a primary means of obtaining health insurance information, and the interest in online transactions for our target 20 to 39 age demographic, encouraged us to develop and execute a range of online strategies.

Display and banner advertising placed through a number of national and state-based websites drove significant new customer enquiries to the NIB website. Search engine marketing through Google, Yahoo and Ninemsn also played a key role in promoting the fund to people conducting online research on private health insurance.

During financial year 2007 we undertook a review of our brand awareness to support the fund's national growth strategy. It was identified that the brand did not yield the levels of recognition needed to obtain acquisition targets in areas of growth. As a result, we implemented a number of strategies based purely on increasing brand awareness.

We secured stadium signage at Brisbane's Suncorp Stadium and Melbourne's Telstra Dome for the respective National Rugby League and Australian Football League seasons. The stadium signage promotes the NIB brand among the thousands of spectators that attend matches at the venues and the millions who watch match broadcasts from these venues on free-to-air and pay television.

Securing and leveraging high profile sponsorships in Victoria and Queensland has also provided us with the opportunity to generate significant brand awareness at a state and national level.

In February 2007, we announced a three-year major sponsorship agreement with AFL team, the Geelong Football Club. The sponsorship was tailored to maximise exposure of the NIB brand and includes NIB logo placement on the playing shorts, match ball and stadium signage.

We continued our support of the NIB Lorne Pier to Pub event in 2007. Held on the Victorian holiday coast during January, the world's largest open water swim attracts around 5,000 competitors and more than 25,000 spectators. The sponsorship provides NIB with brand awareness through naming rights, signage, promotional activity as well as media and public relations activities.

In June 2007, we announced a three-year major sponsorship of the NIB Coolangatta Gold, Australia's ultimate Ironman and Ironwoman endurance race. Conducted by Surf Life Saving Australia, the event will take place on Queensland's Gold Coast and surrounding beaches on 14 October 2007.

Like the Victorian sponsorships, the NIB Coolangatta Gold will play a similar role in building brand awareness and customer growth in Queensland.

We also sponsor a number of other organisations and activities that contribute to our overall brand awareness strategy. These include the National Rugby League team, Newcastle Knights; National Netball League team, Hunter Jaegers; and Sydney-based corporate sport competition, NIB Lunchtime Legends.

This strategy to build brand awareness has assisted to achieve the solid growth we have experienced across all states, in particular Victoria and Queensland. In the six months to 30 June 2007, we achieved a 12.1% increase in policyholders in Victoria – compared with an industry average for the state of 2.3%. We were also the fastest growing fund in the 20 to 39 year demographic in Victoria growing by 20.4% during this period. There were similar growth trends across Queensland, with policyholders in the state increasing by 15.8% in the six months to 30 June 2007. In the 20 to 39 year demographic we increased our policyholders by 23.7%.

Results in our traditional market of New South Wales remain strong, where, in the same period, we had the highest growth rates of all funds in terms of percentage and number of new policyholders.

Our strong growth has been achieved in a market that is faced with increased regulation imposed by the Federal Government. New legislation introduced on 1 April 2007 makes it more difficult for health funds to differentiate themselves through unique offers due to tight restrictions placed on rebates, incentives and promotional offers.

Customer retention

During the past year we have implemented a range of initiatives that form the basis of the fund's retention strategy. The introduction of the NIB Loyalty Bonus in June 2006, combined with a number of other retention initiatives, saw the overall policyholder lapse rate reduce and customer satisfaction increase.

Loyalty Bonus replaced the Health Rewards Program, and has been an outstanding success in providing added value for existing and long term customers. It has allowed customers to claim additional benefits on ancillary items such as optical, dental, and orthodontic work.

NIB research has shown that customers want private health insurance that provides products and benefits that are matched to their current life stage. Understanding what products and benefits are best suited to customers is an integral part of our retention strategy.

Highlighting the importance we have placed on retention as part of our overall growth strategy, a specialist team was established during the financial year to deliver a range of key retention initiatives. This has delivered a 9.8% reduction in the number of cancellations compared to the previous year, despite significant growth in policyholders.

Our ability to manage and resolve customer issues and complaints is an ongoing priority for the health fund and is crucial to ensuring customer retention. We are committed to delivering a best practice complaints handling system that aims to ensure that customer issues are responded to quickly and in a transparent and accountable manner to provide an effective resolution for the customer.

Despite recent policyholder growth, the number of complaints recorded has remained static over the past year. This reflects continued improvement in service levels generally and the effectiveness of our processes in identifying and resolving issues before they are escalated to complaints.

We are committed to providing customers with clear and transparent information regarding product offerings. This commitment is vital in negating customer issues and complaints and has been underpinned in 2007 with the fund's adoption of the Australian Health Insurance Association (AHIA) Code of Conduct.

The Code was introduced to complement the existing regulations that funds work under and to enhance the relationship between consumers and health funds by adopting voluntary industry self-regulation.

GROWING VALUE FOR CUSTOMERS

Claims

NIB paid out $571.1 million in claims, reinsurances and state levies to policyholders during financial year 2007. This represents a 17.2% increase on the 2006 figure of $487.4 million.

The increase in claims can be largely attributed to our continued growth, the improved product benefits provided as part of NIB's new product portfolio, and the introduction of Loyalty Bonus in June 2006.

Total benefits paid for hospital claims increased 14.1% to $336.7 million, while there was a 27.4% increase to $169.4 million on Extras claims. The introduction of NIB's Loyalty Bonus was the major contributor to the increase in Extras claims. We paid out $18.6 million in Loyalty Bonus claims – more than double the amount that was paid out for Health Rewards in financial year 2006. This highlights the real value the new loyalty program is providing for NIB customers.

Over the past 12 months we have seen an increase in the use of electronic channels by customers making claims. This is attributable to the increased availability of these payment systems and customers' appreciation of their convenience.

A total of 67.3% of all Extras claims are now processed through the point-of-sale systems HICAPS and IBA as well as our online services. We have also increased the range of Extras that can be processed through these systems to include occupational therapy, dietetics, acupuncture, speech therapy and psychology.

We have developed and implemented a series of new systems that have improved policy administration and increased efficiencies across hospital and Extras claims processing.

Examples include the introduction of Electronic Data Interchange enabling customer information and claims data to be exchanged electronically with hospitals

and, the Eclipse system that allows the health fund to communicate electronically with health care providers and Medicare Australia.

These systems provide the foundation for greater automation of back-office claims processing and are scaleable to support the fund's growth aspirations.

Our Investigations Unit continues to play an important and proactive role in detecting and reducing the incidence of fraudulent claims by service providers and customers. During financial year 2007 the work of the Investigations Unit resulted in savings to the health fund of $2.2 million through the detection and management of fraudulent behaviour.

A number of new initiatives have also been introduced at NIB to further reduce fraudulent claiming. These include limiting point-of-service claiming to one service per customer for each ancillary benefit per day, tooth identification collection to prevent duplication of dental treatments and the implementation of phantom shopping to identify and gather evidence on fraudulent providers.

The launch of a Fraud Code of Conduct is also set to increase the detection of incidents across the industry by allowing health funds to share information regarding fraud experiences. This practice was previously prohibited under government legislation.

Contributions

During financial year 2007 we collected $666.0 million in contributions, up from $611.9 million the previous year – representing an 8.8% increase. This growth in contribution income was driven by the 8.8% net growth in policyholders combined with a 4.65% rate increase, partially off-set by the policyholder growth largely being in lower value products.

As with claims processing, we have seen a significant shift towards electronic methods for contribution payments. Currently 80.7% of contributions are paid electronically through BPAY®, Direct Debit and Payroll.

Provision of health service

During 2007 we completed the process of divesting our provider businesses with the sale of our Dental and Eye Care businesses and Newcastle Private Hospital.

Hunter-based company Pacific Smiles Group (PSG) now operates NIB Dental Centres in Sydney, Newcastle and Wollongong under a licensing agreement with the health fund, while its affiliate Pacific Optical, now operates NIB's four Eye Care Centres under a similar agreement.

These agreements will see the NIB Dental Care and Eye Care network continue to expand, allowing more policyholders the opportunity to access these facilities and the quality products and services they provide.

A new co-located Dental and Eye Care Centre incorporating an NIB Retail Centre is being developed in Melbourne and is due to open early in 2008. Planning is also underway to establish Centres in South-East Queensland as well as a second NIB Dental and Eye Care Centre in Sydney.

To provide customers with greater access to quality dental services we have also implemented a preferred provider relationship with Pacific Smiles Dental Care Centres in Newcastle, the Hunter, Lake Macquarie, Port Stephens and Mid North Coast regions.

Newcastle Private Hospital, the Hunter region's flagship 162-bed private hospital, has operated very successfully under our ownership and management since opening in 1994.

However, without access to the buying and leveraging power of the larger hospital groups, the operation was not profitable for the health fund. Accordingly, we decided to sell the hospital operation to Healthscope Limited, one of Australia's largest operators of private hospitals. After managing the hospital on our behalf for a 13 month period, the sale of the hospital business was finalised on 31 May 2007.

Provider Relations

Providing access to both affordable and quality health care is a core function of NIB.

Over the past year we have continued to streamline operations to ensure the process of credentialing health care providers is of the highest standard. While the vast majority of providers continue to deliver a quality service, we have a rigorous system in place that will recognise and deregister those providers that do not meet best practice or where fraudulent activity has been detected.

NIB PAID OUT $571.1 MILLION IN CLAIMS, REINSURANCES AND STATE LEVIES TO POLICYHOLDERS DURING FINANCIAL YEAR 2007

GROWING ACCESS FOR CUSTOMERS

nib.com.au

The past year has seen significant growth in the use of our website – nib.com.au – as a key sales and service channel for new and existing customers.

The most significant addition to the NIB website has been the Join Online capability. Launched in June 2006, the online system is fully automated, incorporating live policyholder enrolment and a new payment gateway that accepts credit card payments in real time.

The introduction of the new system has resulted in a 221% increase in the number of online policyholder sales received compared with the previous year.

Our online services continue to provide customers with comprehensive policy and health related information. Since its introduction in September 2005, more than 63,000 policyholders have registered to use the system.

A number of enhancements, designed to provide greater functionality and service for customers were made to online services during the past financial year. These include the expansion of the number of Extras services that can be claimed online, a live credit card gateway for contribution payments, as well as improvements to the site's overall look and navigation.

Our website also played an important role in the facilitation of our demutualisation process. A new site was launched in March 2007 following the announcement of NIB's intention to demutualise and list on the ASX. The site provided key information and support for eligible policyholders during the process.

In the lead-up to the Scheme Meeting in July 2007, where eligible policyholders and Company Members voted on the demutualisation process, the site was expanded to incorporate online voting and address verification capabilities. To the end of the financial year, the demutualisation site received close to 50,000 visits.

The overall look of the website was refreshed during the year, which was well received by visitors to the site. The Customer Satisfaction Survey showed that 86% of visitors to the site were satisfied with its visual appeal. This was an increase from 79% the previous year.

Health and Wellness information, an increased presence for our sponsorship activity and the role of NIB in the community have also been features added to the site during the year.

Customer Care Centre

While an increasing number of new and existing customers are using the Internet to contact the health fund, our Customer Care Centre continues to be an important service channel.

The Centre received 706,612 inbound calls during financial year 2007, averaging over 2,000 enquiries per business day. Outbound call activity also increased as the Centre delivered a range of contact campaigns that focused on both customer retention and acquisition.

We continue to work towards ensuring the service and information provided by Customer Care Centre employees is of the highest level. This is reflected in the annual Customer Satisfaction Survey. The survey areas that achieved the highest results were employee friendliness, where 98% of customers interviewed rated a score of 7 or higher out of 10, and the ability of employees to explain details, where 93% of customers interviewed rated a score of 7 or higher out of 10.

Retail Network

Our Retail Network continues to provide an essential, personalised service to new and existing customers across Australia.

NIB's 32 Retail Centres receive high levels of general enquiries and during the year delivered more than 20% of all new policy sales.

The services provided throughout the Retail Network also scored well in our Customer Satisfaction Survey. Employee friendliness and product knowledge achieved the best results with 94% of customers interviewed rating these as a score of 7 or higher out of 10.

Our Retail Centre refurbishment program continued during the year at the Charlestown, Parramatta and Shellharbour centres. The refurbishments incorporate a new open-plan layout and functional design that allows for more personal interaction with customers.

We remain committed to maintaining a strong retail presence with a focus on those areas where demand for these services is increasing.

We opened a co-located Retail and Dental Care Centre in Glendale (NSW) to better service the growing population in the north western Lake Macquarie area of the Hunter Region. The new centre provides customers with traditional Retail Centre services as well as the latest technologically-advanced dental facilities and services.

As a result of declining patronage the Belmont and Toronto Retail Centres were closed in October 2006.

Work started this year on a new head office building located at the Honeysuckle precinct overlooking Newcastle Harbour. It is anticipated that NIB will occupy the new building by the end of 2008.

GROWING OPPORTUNITIES FOR OUR EMPLOYEES

Our success in growing the business is a testament to the high quality service and dedication of our employees.

We are committed to investing in programs that enhance the professional skills and personal wellbeing of employees, as well as creating a working environment that encourages and enhances safety and productivity.

During financial year 2007 we invested more than $500,000 in learning and education programs aimed at providing employees with career pathways within the organisation, while also focussing on areas of personal development.

A Certificate III in Business Awareness was introduced for the first time as part of NIB's suite of employee training programs. The NSW TAFE-accredited program provides employees with the necessary business fundamentals required to perform in the frontline, operations or administration areas of NIB. Two employee groups have graduated from the program with more expected to undertake the course in 2008.

We have a philosophy of promoting wellbeing and encouraging the take up of healthy lifestyle options for our customers. In addition, we are actively engaged in assisting employees to make those same choices. In 2007, we continued to deliver initiatives promoting healthy lifestyle choices among employees. Along with improving individual health and wellbeing, these programs can also lead to positive outcomes for the organisation through increased productivity and workplace morale.

One of the initiatives was the introduction of a pilot program known as *Healthy Living @ NIB* that was rolled out to 91 employees. Conducted in partnership with an external provider, Good Health Solutions, the program offered participants a comprehensive and integrated program to better understand their current state of health and the support mechanisms to initiate positive lifestyle changes.

While work on the pilot program is ongoing, with vital feedback from employees being incorporated, initial participant response has been very positive. Once completed, we aim to use this model to develop similar programs to be integrated with corporate and retail products offered by the health fund.

One lifestyle factor proven to have detrimental effects on health and wellbeing is smoking. During 2007 we launched an innovative program to help employees quit the habit. The six-week program was offered free to employees who were given the option of using hypnotherapy, nicotine patches or gum to help quit smoking. From this initial program 10% of participants quit smoking while a further 50% significantly reduced their habit.

Recognising the highly addictive nature of cigarettes and the difficulties faced in trying to quit, we will continue to deliver the program and provide support for employees who are attempting to quit smoking.

Our annual employee flu vaccination program was again successful and well received. More than 200 employees received the free flu vaccination in 2007 – up from 186 the previous year.

Continued investment in Occupational Health and Safety (OH&S) programs over the past five years highlights the value we place on the wellbeing of our employees. This commitment has resulted in a significant improvement in the work environment and greater awareness of OH&S issues among employees.

A measure of the effectiveness of our OH&S program is the Lost Time Injury Frequency Rate[1], which for 2007 was 7.2 which equates to one lost time incident every two months. While this is a pleasing result, we aim to eliminate all lost time injuries. Work will continue in 2008 to meet this target by continuing to provide a safe work environment and promote safe work practices.

Work started this year on our new state-of-the-art head office building located at the Honeysuckle precinct overlooking Newcastle Harbour. The new building will feature efficient operational workspaces that will meet the ongoing needs of a growing national organisation. The new head office remains on track to be completed in the second half of the 2008 calendar year.

The fifth annual survey of employee satisfaction was conducted in January 2007 by the Hunter Valley Research Foundation on behalf of NIB. It sought to measure the level of employee satisfaction across 20 key business dimensions. The survey highlighted 15 dimensions that scored higher or maintained a current high result by comparison with 2006 benchmarks. Work Area Goals, Work Commitment, Customer Focus and Work Area Performance were the highest performing areas, while Workplace Flexibility saw the greatest improvement. We will focus resources on improving areas identified in the survey as having the greatest potential for improvement, including Mission and Values, Training and Job Security.

1. LTIFR = (incidents x 1,000,000)/hours worked

the community

THE HEALTH FUND SUPPORTED A RANGE OF COMMUNITY AND HEALTH-RELATED PROGRAMS,

EVENTS AND INITIATIVES THAT PROMOTE HEALTHIER LIFESTYLES FOR OUR CUSTOMERS, EMPLOYEES AND THE BROADER COMMUNITY.

SUPPORTING OUR COMMUNITY

NIB provides support that aims to make a real difference to the communities it services.

Below are some of the initiatives supported by NIB.

HUNTER MEDICAL RESEARCH INSTITUTE

NIB is a foundation sponsor of Hunter Medical Research Institute (HMRI) and is currently sponsoring a Doctoral Research Scholarship that aims to provide long-term benefits to the health of stroke patients.

The research team at the University of Newcastle, in conjunction with John Hunter Hospital in Newcastle, has been investigating the links between high blood sugar levels in the first 48 hours after a stroke, and depression and disability at three months post-stroke.

It is hoped that the research findings will one day improve the quality of life for stroke victims throughout the world.

We have been a long-time supporter of research that aims to develop preventative measures, improved medical treatments and where possible, cures.

HUNTER ACADEMY OF SPORT

Long-term health problems such as diabetes and obesity can start in juvenile years. That is why we support programs that promote the health and wellbeing of young people.

One such program is the Hunter Academy of Sport and its flagship event, the NIB Festival of Sport.

The Hunter Academy of Sport now hosts 30 talent development programs in various sports across the region involving 550 elite young athletes and 200 coaches, coordinators and program managers.

The Academy's flagship event, NIB Festival of Sport, consists of a range of programs and activities aimed at encouraging young people to get active and participate in sport. In 2007 the Festival attracted more than 10,000 participants from across the region.

SALVATION ARMY

We contribute to the ongoing social service performed by the Salvation Army through its support of the Hunter Red Shield Appeal Business Luncheon.

In addition, we opted to make an annual donation to the Salvation Army in lieu of producing a printed Christmas Card.

REDKITE

NIB has continued its support of the Hunter Red Kite Corporate Quiz.

The event raises awareness and funds for the Redkite organisation, which supports children, young people and their families through cancer treatment by providing emotional guidance, financial relief and educational services. We were a round sponsor and participant at the 2007 Quiz. The NIB corporate team took out the Quiz and was crowned the 'Hunter's smartest company'.

REGIONAL RELIEF FUND

In June 2007 storms and flooding affected many Hunter and Central Coast families and businesses.

We assisted in raising much needed funds for regional charities and community service organisations through support of the Regional Relief Fund Dinner.

LIFE ACTIVITIES

Life Activities provides opportunities, training and support to people who have a disability or who are disadvantaged.

As one of Life Activities '50 Kindest Companies' and supporter of the 'NIB Music and Moonlight' concert, we are proud to aid Life Activities fundraising efforts so they can continue to provide innovative education and support programs that improve the quality of life of those people living with a disability.

DELTA SOCIETY PET PARTNERS

The Delta Society Pet Partner Program brings joy to many people staying in health and community facilities across Australia. A Delta Society Pet Partner Team consists of a trained volunteer and their Delta accredited pet dog.

NIB supports six Delta Society Pet Partner Teams as they spread happiness and provide companionship to many children at the John Hunter Hospital.

EMPLOYEE PARTICIPATION

Our employees have continued their generous support of community awareness and fund raising events in 2007. These activities are conducted independent of NIB's corporate sponsorships and were well supported by employees at the head office and throughout the retail network.

The major beneficiaries of employee fundraising activities were the World's Biggest Morning Tea supporting the Cancer Council, Bandaged Bear Day supporting the Children's Hospital at Westmead, the Starlight Foundation, Genes for Jeans Day and Daffodil Day.

OUR EMPLOYEES HAVE CONTINUED THEIR GENEROUS SUPPORT OF COMMUNITY AWARENESS AND FUND RAISING EVENTS IN 2007

NIB BUSINESS LISTING

Directors	**Chairman** Keith Lynch David Brewer Grahame Cannon Dr Annette Carruthers Janet Dore Michael Slater Philip Gardner
Company Secretary	David Lethbridge
Executive Management	**Chief Executive Officer** Mark Fitzgibbon **Medical Director** Ian Boyd **Chief Marketing Officer** Jayne Drinkwater **Human Resources Director** Diane Lally **Executive Manager – Strategy & Governance** David Lethbridge **Chief Financial Officer** Michelle McPherson **Chief Operating Officer** Peter Small
Principal registered office in Australia	384 Hunter Street NEWCASTLE NSW 2300
Auditor	PricewaterhouseCoopers PricewaterhouseCoopers Centre 26 Honeysuckle Drive Newcastle NSW 2300
Website address	nib.com.au

financial report

nib

DIRECTOR'S REPORT
YEAR ENDED 30 JUNE 2007

The directors of NIB Health Funds Limited present their report on the consolidated entity (referred to hereafter as the Group) consisting of NIB Health Funds Limited and the entities it controlled at the end of or during the year ended 30 June 2007.

Directors

The following persons were directors of NIB Health Funds Limited during the whole of the financial year and up to the date of this report:

- Keith Lynch
- David Brewer
- Grahame Cannon
- Annette Carruthers
- Janet Dore
- Philip Gardner
- Michael Slater

Principal Activities

During the year the principal continuing activities of the Group consisted of:

- Operating as a private health insurer under the Private Health Insurance Act 2007 (and formally a registered health benefits organisation under the National Health Act 1953)
- Operating a Private Hospital (Subsidiary activity)
- Operating Eye Care Centres (Subsidiary activity)
- Operating an Eye Safety business (Subsidiary activity)

The following significant changes in nature of the activities of the group occurred during the year:

a) Newcastle Private Hospital Pty Limited, which operated Newcastle Private Hospital, was sold to Healthscope Limited on 31 May 2007. Healthscope entered into a lease with NIB Health Funds Limited effective 1 June 2007 to lease the land and buildings that house the operations of Newcastle Private Hospital.

b) The Dental and Eye Care businesses operated by NIB Health Care Services Pty Limited were sold to Pacific Smiles Group Pty Limited and Pacific Optical Pty Limited respectively on 30 November 2006.

Newcastle Private Hospital sale

As a result of the Conditions Precedent being satisfied on 31 May 2007, the Share Sale Agreement between NIB Servicing Facilities Pty Limited, NIB Health Funds Ltd and Healthscope Limited was finalised, completing the sale of Newcastle Private Hospital Pty Limited to Healthscope Limited.

On completion of the Share Sale Agreement, NIB Health Funds Limited entered into an agreement to 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.

During the financial year Newcastle Private Hospital was operated under a management agreement whereby Healthscope Limited managed the operations of Newcastle Private Hospital for Newcastle Private Hospital Pty Ltd and NIB Health Funds Limited and received the following payments:

1. all manager's costs and expenses incurred in providing the services and managing the operations, totalling $617,518 (2006: $62,166)
2. a fixed proportion of the manager's overheads, totalling $275,000 (2006:$50,000)
3. a further proportion of the manager's overheads up to a maximum amount subject to a defined financial savings target being achieved, totalling $216,667 (2006:$nil).
4. a Management Fee up to a maximum amount subject to a defined financial target being achieved, totalling $1,303,183 (2006:$nil).

The management agreement was terminated on the completion of the Share Sale Agreement on 31 May 2007.

Dental and Eye Care Centre sale

During the year NIB Health Care Services Pty Limited operated an Eye Care Centre business and an Eye Safety business. The Eye Care and Eye Safety businesses were sold to Pacific Optical Pty Limited on 30 November 2006. The centres continue to be branded as NIB Eye Care Centres. NIB Health Care Services Pty Limited receives a percentage of retail product sales revenue from the Eye Care Centres.

NIB Health Care Services Pty Limited also formerly operated Dental Centres in Newcastle and Sydney. From 1 September 2004, the operation of the NIB Dental Care Centres was transferred from NIB Health Care Services Pty Limited to Pacific Smiles Group Pty Limited. The Dental business was then sold to Pacific Smiles Group Pty Limited on 30 November 2006. The centres continue to be branded as NIB Dental Centres. NIB Health Care Services leases dental and support equipment and premises to Pacific Smiles Group, and receives a percentage of the revenue from diagnostic and preventative services provided to NIB members at the Dental Care Centres.

NIB Servicing Facilities Pty Limited and NIB Eye Safety Pty Limited did not trade during the financial year.

Review of Operations

The consolidated profit of the Group for the financial year, after income tax expense, was $52.496 million (2006: $63.918 million).

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

- Aggressively pursuing growth both in the under 40 segment and outside of NSW, by utilising NIB's strong brand and well designed and competitively priced products and online capacity;
- 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 other health funds to enable rapid growth, lower unit costs and provide a larger national platform.

The demutualisation and listing of NIB, discussed below, is intended to allow NIB to more effectively pursue its strategy through an improved capital and corporate structure. As a listed company NIB will have access to equity and greater access to debt markets and be able to offer a more attractive platform for potential mergers with other health insurers.

On 1 April 2007, the Private Health Insurance Act 2007 (Cth) and associated legislation came into force, repealing the National Health Act 1953 (Cth). We continue to operate in a highly regulated environment, and these changes have no significant implications for the operation of the business. Importantly, the Australian Government continues to provide a number of regulatory incentives (the Federal Government Rebate, Lifetime Health Cover and the Medicare Levy Surcharge) under the new legislation, to encourage participation in private health insurance.

NIB's experience and performance during the 2007 financial year served to underscore the very reason for demutualisation and listing of NIB on the ASX. During the year it became even more evident that the business has attributes and the potential to play a much larger role in the market. Most notable during the year was NIB demonstrating:

- The latent potential in the market for more affordable, appealing and creative products. Having launched a new product portfolio at the beginning of the year, we sold 49,757 new policies and 74.4% of these policyholders were new to private health insurance.
- The positive impact of a focus on retention of existing customers. The introduction of the NIB Loyalty Bonus in June 2006 combined with a number of other retention initiatives saw the overall lapse rate reduce by 13.2% and membership satisfaction increase.
- The power and efficacy of market segmentation and focusing efforts. In keeping with our deliberate skew towards the <40s, 78.5% of new policies sold came from within this underdeveloped market segment.
- The giant strides we have made towards building a truly national brand. Sales interstate accounted for 32.2% of total sales and with 32.6% made online, our distribution already has national reach. Our sponsorship of the Geelong Football Club and the Lorne Pier to Pub community swim in Victoria proved to be very powerful brand building initiatives.
- A willingness to invest in growing the business and delivering against our strategy. Although NIB Health Funds Limited's management expense ratio grew from 9.2% for the 2006 financial year to 11.4%, this included an additional $6.4 million on advertising, sponsorship and publicity, and $5.7 million expenditure associated with the demutualisation and listing. NIB Health Funds Limited's management expense ratio would have otherwise been 9.6%.
- An investment strategy that resulted in a solid return of 8.7% (2006: 6.5%) driven by an appropriately diversified investment portfolio.
- A strong capital position with the net asset position of $336.2 million (2006: $283.6 million), an increase of 19%, and a solvency ratio of 2.07, well in excess of regulatory requirements.

The 2007 financial year results also emphasise the challenges we face:

- A need to deliver greater underwriting certainty and stability. The gross underwriting margin of 14.4% (2006:18.3%) compares unfavourably with the prior year. In a regulated environment where we only have the opportunity to change prices once a year, the main reasons behind the lower 2007 margin were claims inflation having been overestimated in the setting of the prior year price and the launch of the new NIB Loyalty Bonus in June 2006. Moving forward we are working towards a commercial model in which we aim to achieve a gross margin in the order of 15% with earnings growth a function of increased volume, product value "buy-up" and lower per unit management expenses.
- Growing revenue in a generally stagnant market place and enhancing our value proposition to garner more interest in private health insurance.
- The need for continued focus on occupational health and safety, with our lost time injury frequency rate increasing to 7.2 (2006:5.4).
- Encouraging sensible industry consolidation and improved efficiency. To date, we have had limited success in convincing other health funds to consider merging with NIB notwithstanding some compelling logic and economic advantages for each business and its customers.

Significant changes in the State of Affairs

There were no other significant changes in the nature of activities conducted by the Group during the year.

Matters Subsequent to the End of the Financial Year

NIB referred to in this report is defined as NIB Health Funds Limited and NIB Holdings is defined as NIB Holdings Limited.

As set out in "Proposal to Demutualise – Explanatory Statement" dated 11 June 2007, the Board unanimously recommended the Proposal as being in the best interest of both Policyholders and Company Members. In summary, the Proposal involves a change to NIB's corporate and company membership structure. The approval of the Proposal means that 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 involves:

- 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.

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).

Since 30 June 2007 all required approvals have been received. Given the required approvals have been received, the implementation steps are expected to occur on or about the dates shown below:

1. NIB converts from a company limited by guarantee to a company limited by Shares and NIB issues Shares to Eligible Policyholders – 31 August 2007;
2. NIB issues Shares to NIB Holdings – 31 August 2007;
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 – 1 October 2007;
4. NIB Holdings issues the same number of Shares as cancelled in step 3 to Eligible Policyholders – 1 October 2007; and
5. NIB Holdings lists on the ASX – November 2007.

Other than the change in NIB's corporate and company membership structure discussed above, there has not been any other matter or circumstance, that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Likely Developments and Expected Results of Operations

Given the expectation that NIB Holdings will list on the ASX in November 2007, it is contemplated that the initial public offering and listing of NIB Holdings will comprise the following key steps:

Step 1 NIB Holdings shareholders ("Shareholders") invited to offer their ordinary shares in NIB Holdings ("Shares") for sale ("Sale Facility").

Step 2 NIB Holdings conducts an institutional bookbuild ("Bookbuild") to raise approximately $50,000,000 of new capital and to sell to the institutions the Shares offered by NIB Holdings shareholders under Step 1.

Step 3 NIB lists on ASX.

The final price at which the Shares will be sold pursuant to the Sale Facility and the Bookbuild ("Final Price") will be determined through the Bookbuild at Step 2.

Forecast information in respect of the financial year ended 30 June 2008 will be provided as part of steps 1 and 2 and has not yet been finalised as at the date of this report.

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual financial report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental Regulation

The Group is not subject to any specific environmental regulation and has not breached any general legislation regarding environmental matters.

Information on directors

Details of the qualifications, experience and special responsibilities of the directors are as follows:

Name and qualifications	Age	Experience and special responsibilities
Keith Lynch BSc (Tech) UNSW, MAICD, Chair Independent Non-Executive Director	65	Chair of Kip McGrath Education Centres Limited since May 2005. Previously held senior executive positions with Hunter-based engineering firms. Formerly a director of Newcastle Grammar School and CW Pope & Associates Pty Ltd. Mr Lynch's NIB responsibilities are as Chair 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. A director since 1982 – appointed Chair 28 November 2001. Mr Lynch is also a director of NIB Holdings Limited.

Information on directors (continued)

Name and qualifications	Age	Experience and special responsibilities
David Brewer BSc, FAICD, Independent Non-Executive Director	61	Executive General Manager Queensland Regional Freight. 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, University of Newcastle, the Royal Newcastle Aero Club and a member of the Salvation Army Advisory Board. 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, Remuneration Committee and Membership Committee. A director since 2003.
Grahame Cannon FAICD, JP, Independent Non-Executive Director	66	A former state manager, NSW/ACT Health Insurance Commission. Previous directorships include Australian Administrative Staff College Limited and Psychiatric Rehabilitation Association of NSW. 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. A director since 1998.
Dr Annette Carruthers MBBS (Hons), FRACGP, FAICD, Independent Non-Executive Director	52	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. 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, and a member of the Audit and Compliance Committee and Chair of the Remuneration Committee. A director since 2003.
Janet Dore B.App.Sc (Planning), MBA, FAICD, FAIM, FAPI, FIMM, Independent Non-Executive Director	58	Currently General Manager of Newcastle City Council and a former Chief Executive Officer City of Ballarat. Currently a director of Newcastle Airport Ltd, 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. 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. 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. A director since 2002.

Information on directors (continued)

Name and qualifications	Age	Experience and special responsibilities
Philip Gardner B. Comm, CPA, CCM, FAICD, JP, Independent Non-Executive Director	49	Currently Chief Executive Officer of the Wests 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 Newcastle University. 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. Mr Gardner's NIB responsibilities are as a member of the Audit and Compliance Committee and Membership Committee. A director since 2005. Mr Gardner is also a director of NIB Holdings Limited.
Michael Slater B. Comm, MBA, FCPA, FCIS, FTIA, FAICD, FAIM, FCIM, Independent Non-Executive Director	61	Currently Deputy Chair of the Newcastle Permanent Building Society, Director of Dennis Veitch and Associates Pty Ltd, Corporate Internet Business Information Systems Pty Ltd, 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 Director on both the Hunter Economic Development Corporation and the Hunter Regional Development Organisation. Mr Slater's NIB responsibilities are as a Director of NIB Health Services Limited and The Heights Private Hospital Pty Ltd, Chair of the Finance and Investment Committee and member of the Corporate Governance Committee. A director since 2001.
Company Secretary		
David Lethbridge LLB (Otago NZ), GAICD Company Secretary	48	Currently Executive Manager Strategy and Governance at NIB Health Funds Limited. Formally Board Secretary/Senior Legal Adviser New Zealand Apple and Pear Marketing Board and Legal Adviser New Zealand Dairy Board. Mr Lethbridge is Company Secretary for all companies in the NIB group and a director of NIB Servicing Facilities Pty Limited. Company Secretary since 2002.

In addition to Keith Lynch and Philip Gardner holding the office of director of NIB Holdings Limited, Mark Fitzgibbon is also a director of NIB Holdings Limited.

Meetings of Directors

The number of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2007, and the numbers of meetings attended by each director were:

	Board of Directors		Finance & Investment Committee		Audit & Compliance Committee		Corporate Governance Committee		Remuneration Committee	
	Scheduled meetings	Meetings attended	Scheduled meetings	Meetings attended	Scheduled meetings	Meetings attended	Scheduled meetings	Meetings attended	Scheduled meetings	Meetings attended
Keith Lynch	16	16	–	–	–	–	–	–	3	3
David Brewer	16	14	7	7	–	–	–	–	3	3
Grahame Cannon	16	16	7	7	7	7	–	–	–	–
Annette Carruthers	16	16	–	–	7	7	–	–	3	3
Janet Dore	16	15	–	–	7	5	–	–	–	–
Philip Gardner	16	15	–	–	7	6	–	–	–	–
Michael Slater	16	15	7	7	–	–	–	–	–	–

Remuneration report

The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration

B Details of remuneration

C Service agreements

D Details of Remuneration – cash bonuses

The information provided under these headings includes remuneration disclosures that are required under Accounting Standard AASB 124 *Related Party Disclosures*. These disclosures have been transferred from the financial report and have been audited. The disclosures in section D are additional disclosures required by the *Corporations Act 2001* and the *Corporations Regulations 2001* which have not been audited.

A. Principles used to determine the nature and amount of remuneration (audited)

The objective of the group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to policyholders
- performance linkage/alignment of executive compensation
- transparency
- capital management.

In consultation with external remuneration consultants, the company has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the organisation.

Alignment to policyholders' interests:

- has financial performance as a core component of plan design
- focuses on sustained growth in net assets as well as focusing the executive on key non-financial drivers of value
- attracts and retains high calibre executives.

Alignment to executives' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in net assets
- provides clear structure for earning rewards
- provides recognition for contribution.

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees are reviewed annually by the Board. The Board has also sought the advice of an independent remuneration consultant to ensure non-executive directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market.

Directors' fees

The current base remuneration was last reviewed with effect from 1 July 2006. The Chairman's and directors' remuneration is inclusive of committee fees.

Non-executive directors' fees are determined within an aggregate directors fee pool limit, which is periodically recommended for approval by members. The maximum currently stands at $652,500. Directors fees and superannuation are to be paid out of this pool. Additional compensation of travel allowances, non-monetary benefits and retirement benefits are not included in this pool.

Retirement allowances for directors

On 24 November 2005, the Board resolved to remove retirement allowances for non-executive directors appointed on or after that date, in line with recent guidance on non-executive directors' remuneration.

Retirement benefits are provided for in the financial statements. Non executive directors employed before 24 November 2005 are entitled to a lump sum defined benefit based on number of years service.

Executive pay

The executive pay and reward framework has three components:

- remuneration package inclusive of superannuation
- prescribed non financial benefits at the company's discretion
- short-term performance incentives.

The combination of these components comprises the executive's total reward.

The overall level of executive reward takes into account the performance of the Group for the year ended 30 June 2007.

Remuneration Package

The remuneration package may be delivered as a combination of cash, vehicle allowance (inclusive of FBT if appropriate), other allowances (inclusive of FBT if appropriate) and superannuation (which must meet the superannuation guarantee charge minimum set by legislation). The total of all these components is at the discretion of the company, while the breakdown and combination of components is at the discretion of the employee.

Remuneration report (continued)

A. Principles used to determine the nature and amount of remuneration (audited) (continued)

Executives are offered a competitive package following the provision of analysis and advice from external remuneration consultants to ensure the remuneration package is reflective of comparable roles in the market. Total remuneration for executives is reviewed annually to ensure the executive's reward is competitive with the market. An executive's remuneration is also reviewed on position change and/or promotion. Although the review occurs on an annual basis, there is no guaranteed increase in any executive's remuneration.

Prescribed non-financial benefits

Executives receive prescribed non financial benefits including car parking, group life (death benefit) insurance, salary continuance (income protection) insurance and motor vehicle operating expenses. These are provided under company policy and are at the company's discretion.

Short-term incentives

Should the group achieve pre determined performance targets set by the Board's Remuneration Committee then a short-term incentive (STI) pool is available for executives for allocation during the annual review. Cash incentives (bonuses) are payable prior to 15 October each year. The incentive pool is leveraged for performance above the pre determined performance targets to provide an incentive for executive out-performance.

Each executive has a target STI opportunity depending on the accountabilities of the role and impact on the organisation or business unit performance. For executives the maximum target bonus opportunity is 40% of total executives' remuneration package. There is no minimum entitlement to STI.

Each year, the Remuneration Committee considers the appropriate targets and key performance indicators (KPIs) to link the STI plan and the level of payout if targets are met. This includes setting any maximum payout under the STI plan, and minimum levels of performance to trigger payment of the STI.

For the year ended 30 June 2007, the KPIs linked to the STI plans were grouped into three components:

- Group performance which included measures such as profitability and cost control for the entire Group
- Strategic functional objectives relating to the individual executive's functional responsibilities
- Individual personal competencies.

Each of the three components were weighted evenly in calculating the bonus payable for the individual executive, and were chosen as the most appropriate basis for aligning members and executives interests.

The Remuneration Committee is responsible for assessing whether the KPIs are met by the CEO. The CEO is responsible for assessing whether the KPIs are met for other executives and recommends to the Remuneration Committee bonus payments for the other executives. To help make this assessment, the Remuneration Committee receives reports and documented evidence on performance from management either specifically for the Remuneration Committee or via other board and committee reporting.

The short term bonus payments may be adjusted up or down in line with under or over achievement against the target performance levels. This is at the discretion of the Remuneration Committee. The STI target annual payment is reviewed annually.

Amounts forfeited in any year are not available to be recouped in future years.

B. Details of remuneration (audited)

Details of the remuneration of each director of NIB Health Funds Limited and other key management personnel are set out in the following tables. The cash bonuses are dependent on the satisfaction of performance conditions as set out in the section headed "Short-term incentives" above. All other elements of remuneration are not directly related to performance.

The key management personnel of NIB Health Funds Limited, the "parent", and the Group, consisting of NIB Health Funds Limited and its subsidiaries, includes the directors as per pages 28 to 30 and the following executive officers who have the authority and responsibility for planning, directing and controlling the activities of the Group:

- Mark Fitzgibbon — Chief Executive Officer
- Ian Boyd — Medical Director
- Jayne Drinkwater — Chief Marketing Officer
- Diane Lally — Human Resources Director
- David Lethbridge — Executive Manager – Strategy & Governance
- Michelle McPherson — Chief Financial Officer
- Peter Small — Chief Operating Officer

Remuneration report (continued)

B. Details of remuneration (audited) (continued)

2007

Name	Short-term employee benefits: Cash fees $	Short-term employee benefits: Cash bonus $	Short-term employee benefits: Non-monetary benefits $	Post-employment: Super-annuation $	Post-employment: Retirement benefits $	Total $
Keith Lynch	26,383	–	3,738	116,117	40,979	187,217
David Brewer	16,678	–	3,738	68,322	3,436	92,174
Grahame Cannon	36,829	–	3,738	52,940	9,499	103,006
Annette Carruthers	52,196	–	–	33,012	3,528	88,736
Janet Dore	14,438	–	–	70,562	4,020	89,020
Philip Gardner	77,982	–	–	7,018	–	85,000
Michael Slater	38,991	–	3,738	46,009	5,074	93,812
Sub-total directors	**263,497**	**–**	**14,952**	**393,980**	**66,536**	**738,965**
Mark Fitzgibbon*	442,416	388,000	12,995	27,174	–	870,585
Ian Boyd*	221,348	220,500	7,377	19,397	–	468,622
Jayne Drinkwater*	183,604	224,100	6,086	48,522	–	462,312
Diane Lally	173,190	214,500	2,844	28,101	–	418,635
David Lethbridge*	50,020	217,500	10,070	181,342	–	458,932
Michelle McPherson*	243,422	232,500	10,926	33,509	–	520,357
Peter Small	148,183	210,000	8,730	50,761	–	417,674
Sub-total executives	**1,462,183**	**1,707,100**	**59,028**	**388,806**	**–**	**3,617,117**
Total key management personnel compensation	**1,725,680**	**1,707,100**	**73,980**	**782,786**	**66,536**	**4,356,082**

2006

Name	Cash fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Total $
Keith Lynch	16,100	–	3,883	96,455	24,810	141,248
David Brewer	61,311	–	–	5,518	20,689	87,518
Grahame Cannon	34,592	–	3,883	36,174	20,225	94,874
Annette Carruthers	61,311	–	–	5,518	20,682	87,511
Janet Dore	22,826	–	–	44,002	20,644	87,472
Philip Gardner (24/11/2005–30/6/2006)	38,916	–	–	3,502	–	42,418
John Graham (1/7/2005–24/11/2005)	2,641	–	–	27,371	7,236	37,248
Michael Slater	61,311	–	3,883	5,518	20,563	91,275
Sub-total directors	**299,008**	**–**	**11,649**	**224,058**	**134,849**	**669,564**
Mark Fitzgibbon*	347,678	112,500	7,137	28,000	–	495,315
Ian Boyd*	211,187	66,000	3,683	18,165	–	299,035
Jayne Drinkwater*	211,823	70,500	4,351	38,702	–	325,376
Diane Lally	191,978	60,000	2,453	16,291	–	270,722
David Lethbridge*	192,544	60,000	5,033	15,074	–	272,651
Michelle McPherson*	228,131	72,000	7,005	18,577	–	325,713
Christine Morriss	119,130	–	2,883	5,104	–	127,117
Peter Small	50,596	–	1,754	3,551	–	55,901
Sub-total executives	**1,553,067**	**441,000**	**34,299**	**143,464**	**–**	**2,171,830**
Total key management personnel compensation	**1,852,075**	**441,000**	**45,948**	**367,522**	**134,849**	**2,841,394**

* Denotes one of the 5 highest paid executives of the Group, as required to be disclosed under the *Corporations Act 2001*.

Remuneration report (continued)

C. Service agreements (audited)

On appointment, all executives enter into a service agreement with the company. The agreement summarises employment terms and conditions, including compensation, relevant to the executive's position. Each of these agreements provide for the provision of performance-related cash bonuses and other entitlements.

All executives in employment at 30 June 2007 executed service agreements commencing 01 July 2006 with the following identical terms:

- Remuneration packages including superannuation are set out below in Details of Remuneration – cash bonuses. There is no share based compensation.
- Term of Agreement – 3 years ending 30 June 2009.
- Termination Provisions – Payment of a termination benefit on early termination by the Company, other than for gross misconduct is equal to the remuneration package for the remaining term of the agreement, up to a maximum of 12 months of the remuneration package. The agreement may be terminated early by either party with three months notice.

Retention Payments and Transaction Bonuses

NIB has executive retention arrangements to cover key personnel who the Board believes are critical to the "Proposal to Demutualise" (Proposal) or are critical to the continuation of the business of NIB. Under these arrangements, executives 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 executive remaining employed at NIB, whichever date is the earlier.

If the Proposal is implemented, the transaction bonuses will be triggered by the completion of the transaction. The transaction bonus is calculated in accordance with a formula that is dependent on the value of the Shares at Listing. The retention payment arrangements have an aggregate maximum cost of approximately $2.3 million. The retention payment arrangements were designed to be in respect of the 3 years ended 30 June 2009 or the period from 1 July 2006 to a date 6 months post a defined transaction. Given that the most likely outcome is a transaction, being the listing of NIB Holdings, occurring in November 2007, the retention payment is being accrued over the period 1 July 2006 to 30 June 2008.

D. Details of Remuneration – cash bonuses (unaudited)

Included in the table below are details of the accruals as at 30 June 2007 in respect of the retention payment (as discussed above) and the normal short term incentive (STI) payment for each executive.

Each executive has a target STI opportunity depending on the accountabilities of the role and impact on the organisation or business performance. The executive STI has three components (group performance, individual goals and personal competencies) upon which each executive is measured. For executives the maximum target bonus opportunity is 40% of remuneration package.

Included in the financial statements for the year ended 30 June 2007 is a provision equal to 30% of each executives remuneration package, which was based on a preliminary assessment of performance against the KPI criteria. The final bonus amount is subject to determination by the Remuneration Committee.

Actual bonuses are paid on or around 15 September each year in respect of the year ended 30 June once the financial statements are finalised. The maximum bonuses attainable and actual bonuses provided are as follows:

	Remuneration Package including Superannuation $	Retention Payment Provided $	STI Maximum Bonus $	STI Bonus Provided $
Mark Fitzgibbon	460,000	250,000	184,000	138,000
Ian Boyd	235,000	150,000	94,000	70,500
Jayne Drinkwater	247,000	150,000	98,800	74,100
Diane Lally	215,000	150,000	86,000	64,500
David Lethbridge	225,000	150,000	90,000	67,500
Michelle McPherson	275,000	150,000	110,000	82,500
Peter Small	200,000	150,000	80,000	60,000
	1,857,000	**1,150,000**	**742,800**	**557,100**

Insurance of Officers

During the financial year, the Group paid a premium in respect of a contract insuring the directors and officers of the Group against a liability incurred as such a director or officer, other than conduct involving a wilful breach of duty in relation to the Group, to the extent permitted by the *Corporations Act*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Non-audit services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the Group are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services during the year are set out below.

The board of directors has considered the position and, in accordance with advice received from the audit and compliance committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit and compliance committee to ensure that they did not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated		Parent Entity	
	2007 $	2006 $	2007 $	2006 $
1. Audit services				
PricewaterhouseCoopers				
Audit and review of financial report and other audit work under the *Corporations Act 2001*	204,000	181,950	191,200	154,902
Total remuneration for audit services	204,000	181,950	191,200	154,902
2. Non-audit services				
Audit-related services				
PricewaterhouseCoopers				
Audit of regulatory returns	31,050	33,710	31,050	33,710
Total remuneration for audit-related services	31,050	33,710	31,050	33,710
Taxation services				
PricewaterhouseCoopers				
Advice on demutualisation	311,420	–	311,420	–
Other	34,885	72,205	34,885	72,205
Total remuneration for taxation services	346,305	72,205	346,305	72,205
Other services				
PricewaterhouseCoopers				
IFRS accounting services	–	66,552	–	66,552
Advice on demutualisation	215,900	–	215,900	–
Other activities undertaken to support audit of financial report	84,850	12,400	84,850	12,400
Total remuneration for other services	300,750	78,952	300,750	78,952
Total Remuneration	**882,105**	**366,817**	**869,305**	**339,769**

DIRECTOR'S REPORT (CONTINUED)

YEAR ENDED 30 JUNE 2007

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 42.

Rounding of Amounts

The company is of a kind referred to in ASIC Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars or in certain cases nearest dollar.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of the directors.

On behalf of the Board

Keith Lynch
Director

Janet Dore
Director

Newcastle, NSW, 30 August 2007

NIB Health Funds Limited (the Company) and the board are committed to achieving and demonstrating the highest standards of corporate governance for the company and the Group. The board continues to review the framework and practices to ensure they meet the interests of its policyholders.

The relationship between the board and senior management is critical to the Company's long-term success. The board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Company. The board has the final responsibility for the successful operations of the Company.

Day to day management of the Company's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the board to the Chief Executive Officer who then delegates to the senior executives as set out in the Company's delegations policy.

A description of the company's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year.

The Board of Directors

The board operates in accordance with the broad principles set out in its Corporate Governance Manual. The Corporate Governance Manual details the board's composition and responsibilities.

Board Composition

The Corporate Governance Manual states:

- The Company shall be headed by an effective board, which shall lead and control the Company.
- The Chairman is elected by the full board and is required to meet regularly with the Chief Executive Officer.
- The Company is to maintain a mix of directors on the board providing a balance of special knowledge, experience and personal attributes to ensure the continuing success and prosperity of the Company.
- The board is required to undertake an annual board performance review and consider the appropriate mix of skills required by the board to maximise its effectiveness and its contribution to the Company.

Responsibilities

The responsibilities of the board include:

- Providing strategic guidance to the Company including contributing to the development of and approving the strategic direction of the Company.
- Reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives.
- Overseeing and monitoring:
  - Organisational performance and the achievement of the Group's strategic goals and objectives.
  - Compliance with the company's Expectations of Our Employees Policy.
  - Progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments.
- Monitoring financial performance including approval of the annual and half-year financial reports and liaison with the company's auditors.
- Appointment and performance assessment of the Chief Executive Officer.
- Ratifying the appointment and/or removal and contributing to the performance assessment for the members of the executive management team.
- Ensuring there are effective management processes and policies in place and approving major corporate initiatives and certain expenditure in accordance with the delegations manual.
- Establishing and determining the powers and functions of the committees of the board.
- Overseeing the operation of the Group's system for compliance and risk management reporting.

Board Members

Details of the members of the board, their experience, expertise, qualifications, term of office and independent status are set out in the directors' report under the heading "information on directors". There are seven non-executive directors, all of whom are deemed independent under the principles set out below.

The seven non-executive directors meet prior to each board meeting without the presence of management, to discuss the operation of the board and a range of other matters.

The board seeks to ensure that:

- At any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Company and directors with an external or fresh perspective.
- The size of the board is conducive to effective discussion and efficient decision-making.

Directors' Independence

The board has adopted specific principles in relation to directors' independence. These state that to be deemed independent, a director must be a non-executive and:

- Not be an officer of the Company.
- Within the last three years, not have been employed in an executive capacity by the company or a controlled entity, or have been a director after ceasing to hold any such employment.

The Board of Directors (continued)

Directors' Independence (continued)

- Within the last three years not have been a principal of a material professional adviser or a material consultant to the company or any other Company member, or an employee materially associated with the service provided
- Not be a material supplier or customer of the company or any other member of the NIB group, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- Must have no material contractual relationship with the company or a controlled entity other than as a director of the Company
- Not have been on the board for a period which could, or could reasonable be perceived to, materially interfere with the director's ability to act in the best interests of the Company
- Be free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

Term of Office

The company's Constitution specifies that all non-executive directors must retire from office no later than the third annual general meeting (AGM) following their last election. Where eligible, a director may stand for re-election.

Chairman and Chief Executive Officer

The Chairman is responsible for leading the board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating board discussions and managing the board's relationship with the company's senior executives.

The CEO is responsible for implementing Company strategies and policies.

Commitment

The number of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2007, and the number of meetings attended by each director is disclosed on page 30. An additional corporate strategy workshop was also held during the year.

Non-executive directors are expected to spend at least 25 days a year preparing for and attending board and committee meetings and associated activities.

The commitments of non-executive directors are considered by the corporate governance committee prior to the directors' appointment to the board of the company and are reviewed each year as part of the annual performance assessment.

Prior to appointment or being submitted for re-election, each non-executive director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the company.

Conflict of Interests

The Newcastle City Council of which Janet Dore is General Manager considers matters from time to time that relate to the operations of the Company, notably development applications relating to the establishment of a car park at Newcastle Private Hospital and the construction of new head office premises for the Company. In accordance with Corporate Governance Manual Janet Dore declared an interest in those matters and took no part in decisions relating to them. In addition, Janet Dore did not receive any papers from the Company pertaining to those dealings and, in respect of the development application for the Newcastle Private Hospital, was absent from the meeting during the time the matter was discussed by the board.

Independent Professional Advice

Directors and board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense.

Performance Assessment

The board undertakes an annual self assessment of its collective performance, the performance of the Chairman and of its committees which is facilitated by an independent third party. The results and any action plans are documented together with specific performance goals which are agreed for the coming year. This assessment was undertaken during December 2006.

The Chairman undertakes an annual assessment of the performance of individual directors and meets privately with each director to discuss this assessment.

Corporate Reporting

The CEO and CFO have made the following certifications to the board:

- That the company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Group and its controlled entities and are in accordance with relevant accounting standards; and
- That the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

Board Committees

The board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the board are the remuneration, corporate governance, audit and compliance, and the finance and investment committees. Other than the finance and investment committee which has Mr John O'Connor, an independent advisor from Forsythes, as a member, each is comprised entirely of non-executive directors. The committee structure and membership is reviewed on an

The Board of Directors (continued)

Board Committees (continued)

annual basis. A policy of rotation of non-executive director committee members applies.

Each committee has its own written terms of reference setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All matters determined by committees are submitted to the full board as recommendations for board decisions.

Minutes of committee meetings are tabled at the subsequent board meeting. Additional requirements for specific reporting by the committees to the board are addressed in the terms of reference of the individual committees.

Remuneration Committee

The remuneration committee consists of the following non-executive directors:

- Annette Carruthers (Chairman)
- David Brewer
- Keith Lynch

Details of these directors' qualifications and attendance at remuneration committee meetings are set out in the directors' report on pages 28–30.

The remuneration committee operates in accordance with its terms of reference which is available on the Company's website.

The remuneration committee advises the board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for senior executives and non-executive directors.

Committee members receive regular briefings from an external remuneration expert on recent developments on remuneration and related matters.

Further information on directors' and executives' remuneration, including principles used to determine remuneration, is set out in the directors' report under the heading "Remuneration report".

The committee also assumes responsibility for overseeing management succession planning.

Corporate Governance Committee

The corporate governance committee consists of the following non-executive directors:

- Keith Lynch (Chairman)
- Janet Dore
- Michael Slater

Details of these directors' qualifications and attendance at corporate governance committee meetings are set out in the directors' report on pages 28–30.

The Committee did not meet during the year. The Committee's functions were either performed by the Board as a whole or delegated to the Chairman to undertake (the latter being most notably the evaluation of Board performance and recommendations relating to the appointment and removal of directors).

The corporate governance committee operates in accordance with its terms of reference.

The committee reviews specific aspects of corporate governance and the terms of reference for each of the board's committees.

The committee also performs the function of a nomination committee and undertakes the following:

- assess the manner in which good corporate governance can be promoted within the Company;
- review the role, function and composition of each committee of the board on not less than an annual basis;
- review compliance with the Corporate Governance Manual;
- assess the necessary and desirable competencies of board members;
- review board succession plans;
- evaluate board performance; and
- recommend the appointment and removal of directors.

New directors are provided with a letter of appointment setting out the company's expectations, their responsibilities, rights and the terms and conditions of their employment. All new directors participate in an induction program which covers the operation of the board and its committees and financial, strategic, operations and risk management issues.

Audit and Compliance Committee

The audit committee consists of the following non-executive directors:

- Janet Dore (Chairman)
- Grahame Cannon
- Annette Carruthers
- Philip Gardner

Details of these directors' qualifications and attendance at audit and compliance committee meetings are set out in the directors' report on pages 28–30.

The audit and compliance committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industry in which the Company operates.

The audit and compliance committee operates in accordance with its terms of reference. The main responsibilities of the committee are to:

- Understand and evaluate the overall effectiveness of the internal control and risk management frameworks and consider whether recommendations made by the

Audit and Compliance Committee (continued)

internal and external auditors have been implemented by management.

- Oversee the periodic financial reporting process implemented by management and review the annual financial statements and such other financial statements as the Committee may, from time to time, determine.
- Review the effectiveness of the system for monitoring compliance with laws and regulations.
- Review on an annual basis the performance of the external auditors and make recommendations to the board for the appointment, reappointment or termination of the appointment of the external auditors.
- Ensure that significant findings and recommendations made by the external auditors and management's proposed response are received, discussed and appropriately acted on.
- Review the activities, resources and organisational structure of the internal audit function and ensure no unjustified restrictions or limitations are made.
- Ensure that significant findings and recommendations made by the Internal Auditors and management's proposed response are received, discussed and appropriately acted on.
- Have responsibility for the oversight of the continuous development of risk management policy at NIB and the implementation of risk management in compliance with the principles established.
- Review the adequacy and effectiveness of risk management at NIB.
- Ensure the board is aware of matters that may significantly impact on the financial condition or affairs of the business.
- Report to the board on matters relevant to the committee's role and responsibilities.

In fulfilling its responsibilities, the audit and compliance committee:

- Receives regular reports from management, the internal and external auditors.
- Meets with the internal and external auditors at each meeting of the Committee or more frequently if necessary.
- Reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved.
- Meets separately with the external auditors and the chief internal auditor at least twice a year without the presence of management.
- Provides the internal and external auditors with a clear line of direct communication at any time to either the Chairman of the audit and compliance committee or the Chairman of the board.

The audit and compliance committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

Finance and Investment Committee

The finance and investment committee consists of four members of which three are non-executive directors:

- Michael Slater (Chairman)
- David Brewer
- Grahame Cannon
- John O'Connor (independent adviser)

Details of these directors' qualifications and attendance at finance and investment committee meetings are set out in the directors' report on pages 28–30.

The finance and investment committee operates in accordance with its terms of reference.

The main responsibilities of the committee are to make recommendations on:

- The appointment, compensation, retention and oversight and performance of the work of the Asset Consultant and individual Fund Managers.
- The appropriate investment objectives, strategic benchmark, investment structure and investment managers' target allocation for NIB's investment portfolio.
- Financial policies including those that address NIB's fund raising and funding, capital expenditure and investment strategy.
- Capital expenditure proposals and their compliance with NIB's policies.

External Auditors

The company and audit and compliance committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is considered by the committee annually. PricewaterhouseCoopers was appointed as the external auditor in 2003. It is PricewaterhouseCoopers' policy to rotate audit engagement partners on listed companies at least every five years, and in accordance with that policy a new audit engagement partner will be introduced for the year commencing 1 July 2008 if PricewaterhouseCoopers are successful in retaining the external audit which will be market tested during the first half of 2008.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the directors' report and note 30 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the audit and compliance committee.

The external auditor will attend the annual general meeting and be available to answer questions about the conduct of the audit and the preparation and content of the audit report.

Risk Assessment and Management

The board, through the audit and compliance committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. These policies are available on the company website. In summary, the company policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority.

The company risk management policy and the operation of the risk management and compliance system are managed by the company secretary. The board receives monthly reports on material risks that may impede meeting business objectives.

Detailed control procedures cover management accounting, financial reporting, project appraisal, environment, health and safety, IT security, compliance and other risk management issues. Internal audit, undertaken by KPMG, carries out regular systematic monitoring of control activities and report to both relevant business unit management and the audit and compliance committee.

Refer to note 4 for Private Health Insurance Contracts – Risk Management Policies and Procedure.

AUDITOR'S INDEPENDENCE DECLARATION
YEAR ENDED 30 JUNE 2007

PRICEWATERHOUSECOOPERS

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Auditor's Independence Declaration

As lead auditor for the audit of NIB Health Funds Limited for the year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of NIB Health Funds Limited and the entities it controlled during the period.

W M Russell
Partner
PricewaterhouseCoopers

Newcastle
30 August 2007

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Independent auditor's report to the members of NIB Health Funds Limited

Report on the financial report and the AASB 124 Remuneration disclosures contained in the directors' report

We have audited the accompanying financial report of NIB Health Funds Limited (the company), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both NIB Health Funds Limited and the NIB Health Funds Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "remuneration report" in pages 31 to 34 of the directors' report and not in the financial report.

Directors' responsibility for the financial report and the AASB 124 Remunerations disclosures contained in the directors' report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

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Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Matters relating to the electronic presentation of the audited financial report

This audit report relates to the financial report and remuneration disclosures of NIB Health Funds Limited (the company) for the financial year ended 30 June 2007 included on the NIB Health Funds Limited web site. The company's directors are responsible for the integrity of the NIB Health Funds Limited web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report and remuneration disclosures identified above. It does not

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provide an opinion on any other information which may have been hyperlinked to/from the financial report or remuneration disclosures. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration disclosures to confirm the information included in the audited financial report and remuneration disclosures presented on this web site.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion on the financial report

In our opinion:

(a) the financial report of NIB Health Funds Limited is in accordance with the *Corporation Act 2001*, including:

  (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements and notes also complies with International Financial Reporting Standards as disclosed in Note 1.

Auditor's opinion on the AASB 124 Remuneration disclosures contained in the directors' report

In our opinion, the remuneration disclosures that are contained in pages 31 to 34 of the directors' report comply with Accounting Standard AASB 124

PricewaterhouseCoopers

Wayne Russell
Partner

Newcastle
30 August 2007

DIRECTORS' DECLARATION
YEAR ENDED 30 JUNE 2007

In the Directors' opinion:

a) the financial statements and notes set out on pages 47 to 88 are in accordance with the *Corporations Act 2001*, including:
   i. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
   ii. giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the financial year ended on that date; and

b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and

c) the audited remuneration disclosures set out on pages 31 to 34 of the directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*.

This declaration is made in accordance with a resolution of the Directors.

On behalf of the Board

Keith Lynch
Director

Janet Dore
Director

Newcastle, NSW, 30 August 2007

INCOME STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

		Consolidated		Parent Entity	
	Notes	2007 $000	2006 $000	2007 $000	2006 $000
Premium revenue	5	665,964	611,869	665,964	611,869
Claims expense		(505,315)	(441,196)	(505,315)	(441,196)
HBRTF/RETF Levy		(46,939)	(42,830)	(46,939)	(42,830)
State levies		(17,599)	(16,095)	(17,599)	(16,095)
Claims handling expenses	6	(16,295)	(15,944)	(16,295)	(15,944)
Net claims incurred		(586,148)	(516,065)	(586,148)	(516,065)
Acquisition costs		(18,982)	(11,343)	(18,982)	(11,343)
Other underwriting expenses		(41,643)	(33,104)	(40,487)	(29,155)
Underwriting expenses	6	(60,625)	(44,447)	(59,469)	(40,498)
Underwriting result		**19,191**	**51,357**	**20,347**	**55,306**
Investment income	5	32,353	18,616	31,094	18,570
Other revenue	5	1,263	1,054	1,512	1,683
Impairment of investment in subsidiary		–	–	(88)	(15,082)
Investment expenses	6	(1,099)	(675)	(1,099)	(776)
Other expenses	6	(894)	(905)	–	–
Profit before income tax		50,814	69,447	51,766	59,701
Income tax expense	7	–	–	–	–
Profit from continuing operations		50,814	69,447	51,766	59,701
Profit/(Loss) from discontinued operations	7,8(i)(b),8(ii)(b)	1,682	(5,529)	–	–
Profit attributable to members	**26**	**52,496**	**63,918**	**51,766**	**59,701**

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

BALANCE SHEETS
AS AT 30 JUNE 2007

	Notes	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Assets					
Current assets					
Cash and cash equivalents	9	17,570	11,368	17,522	11,261
Receivables	10	27,355	24,036	26,616	24,571
Inventories	11	–	195	–	–
Financial assets at fair value through profit or loss	12	376,361	308,995	376,361	308,995
		421,286	344,594	420,499	344,827
Non-current assets classified as held for sale	13	9,889	–	9,889	13,918
Assets of disposal group classified as held for sale	8(i)(c)	–	20,956	–	–
Total Current assets		431,175	365,550	430,388	358,745
Non-current assets					
Receivables	14	7,026	353	7,684	1,051
Other financial assets	15	–	–	14,583	14,583
Investment properties	16	30,000	1,800	30,000	31,800
Property, plant and equipment	17	15,904	46,228	15,862	16,842
Intangible assets	18	9,943	10,215	9,943	10,215
Total Non-current assets		62,873	58,596	78,072	74,491
Total Assets		494,048	424,146	508,460	433,236
Liabilities					
Current liabilities					
Payables	19	45,188	26,722	59,651	40,927
Borrowings	20	1,431	2,989	1,381	2,946
Outstanding claims liability	21	53,955	55,331	53,955	55,331
Unearned premium liability	22	51,580	44,502	51,580	44,502
Current tax liabilities	8(ii)(b),24	54	–	–	–
Provision for employee entitlements	25	4,753	4,694	4,753	4,427
		156,961	134,238	171,320	148,133
Liabilities directly associated with assets of a disposal group classified as held for sale	8(i)(c)	–	5,588	–	–
Total Current liabilities		156,961	139,826	171,320	148,133
Non-Current liabilities					
Provision for employee entitlements	25	873	736	873	736
Total Non-current liabilities		873	736	873	736
Total Liabilities		157,834	140,562	172,193	148,869
Net Assets		**336,214**	**283,584**	**336,267**	**284,367**
Equity					
Retained profits	26	329,161	276,665	329,214	277,448
Reserves	27	7,053	6,919	7,053	6,919
Total Equity		**336,214**	**283,584**	**336,267**	**284,367**

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2007

		Consolidated		Parent Entity	
	Notes	2007 $000	2006 $000	2007 $000	2006 $000
Total equity at the beginning of the financial year		283,584	219,666	284,367	224,666
Revaluation of land and buildings, net of tax	27	134	–	134	–
Net income recognised directly in equity		134	–	134	–
Profit for the year	26	52,496	63,918	51,766	59,701
Total recognised income and expense for the year		52,630	63,918	51,900	59,701
Total equity at the end of the financial year		**336,214**	**283,584**	**336,267**	**284,367**

The above statements of changes in equity should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

		Consolidated		Parent Entity	
	Notes	2007 $000	2006 $000	2007 $000	2006 $000
Cash flows from operating activities					
Receipts from policyholders and customers (inclusive of goods and services tax)		719,419	665,352	671,298	618,768
Payments to members, suppliers and employees (inclusive of goods and services tax)		(673,713)	(597,228)	(625,541)	(546,753)
		45,706	68,124	45,757	72,015
Dividends received		–	62	–	62
Interest received		22,210	11,476	22,304	11,605
Interest paid		(29)	(6)	(29)	(4)
Net cash provided by operating activities	31(b)	67,887	79,656	68,032	83,678
Cash flows from investing activities					
Proceeds from sale of available-for-sale investment properties		479	686	479	686
Proceeds from disposal of other financial assets at fair value through the profit and loss		105,716	27,670	105,716	27,670
Payments for other financial assets at fair value through the profit and loss		(164,644)	(108,067)	(164,644)	(108,067)
Payments for property, plant and equipment and intangibles	17,18	(11,682)	(6,230)	(11,213)	(4,885)
Proceeds from sale of property, plant and equipment and intangibles		80	7,165	438	6,009
Proceeds from sale of subsidiary, net of cash disposed	8(i)(d)	8,997	–	10,249	–
Proceeds from sale of Eye Care and Dental businesses	8(ii)(d)	325	–	–	–
Loans to related parties		–	–	(1,231)	(4,693)
Net cash (used in) investing activities		(60,729)	(78,776)	(60,206)	(83,280)
Cash flows from financing activities					
Proceeds from finance lease		177	165	–	–
Net cash inflow from financing activities		177	165	–	–
Net increase (decrease) in cash and cash equivalents		7,335	1,045	7,826	398
Cash and cash equivalents at beginning of the financial year	31(a)	8,804	7,759	8,315	7,917
Cash and cash equivalents at the end of the financial year	31(a)	**16,139**	**8,804**	**16,141**	**8,315**
Non-cash financing and investing activities	31(c)				

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for NIB Health Funds Limited as an individual entity and the Group consisting of NIB Health Funds Limited and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with International Financial Reporting Standards (IFRSs)

Australian Accounting Standards include AIFRSs. Compliance with AIFRSs ensures that the consolidated financial statements and notes of NIB Health Funds Limited comply with IFRSs. The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Disclosure and Presentation*.

Historical cost convention

These 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 properties.

Critical accounting estimates

The preparation of 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 financial statements, are disclosed in note 2.

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is NIB Health Funds Limited's functional and presentation currency.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of NIB Health Funds Limited ("company" or "parent entity") as at 30 June 2007 and the results of all subsidiaries for the year then ended. NIB Health Funds Limited 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 de-consolidated 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(j)).

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 consolidated income statement and balance sheet respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements of NIB Health Funds Limited and NIB Servicing Facilities Pty Limited.

(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 parent entity financial statements using the cost method and in the 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group's share of its associates' post-acquisition profits or losses is recognised in the 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 are recognised in the parent entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

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.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products and services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Revenue recognition

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

(i) Premium revenue

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

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

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

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

(ii) Investment income

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

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

(iii) Other revenue

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

(e) Unexpired risk liability

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

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability, less related intangible assets and related deferred acquisition costs, then the unearned premium is deemed to be deficient. The company applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability, refer to note 1(f).

(f) Outstanding claims liability

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

The expected future payments include those in relation to claims reported but not yet paid and claims incurred but not yet reported, together with allowances for Health Benefit Reinsurance Trust Fund/Risk Equalisation 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Acquisition costs

Acquisition costs incurred in obtaining private health insurance contracts are recognised in the income statement as incurred and are not deferred due to the nature of private health insurance contracts.

(h) Income tax

The company, being a Registered Private Health Insurer, is exempt from income tax pursuant to Section 50-30 of the Income Tax Assessment Act 1997 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.

(i) 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 income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

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

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

(j) Business combinations

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

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 (refer to note 18). 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 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.

(k) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Assets backing private health insurance liabilities

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

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

(i) Financial assets

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

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

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

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

In cases where the point between trade and settlement exceeds this time frame, the transaction is recognised at settlement date. Financial assets are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and the Company 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 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 income statement.

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

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

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

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

Collectibility of trade and other receivables is reviewed on a ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment is established where there is objective evidence that 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 income statement.

(o) Inventories

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

(q) Property, plant and equipment

Land and buildings (except for investment properties – refer to note 1 (l)(ii)) are shown at fair value, based on periodic, but at least every three years, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

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

- Buildings – 25 to 40 years
- Plant and equipment – 3 to 20 years
- 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(k)).

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

(r) 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 half years.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Payables

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

(t) 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) Bonus plans

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

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

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

(iv) Retirement benefits

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

(v) Termination benefits

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

(u) Goods and Services Tax (GST)

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

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

(v) Rounding of amounts

The company is of a kind referred to in ASIC Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(w) New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Group's assessment of these new standards and interpretations is set out below.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) New accounting standards and UIG interpretations (continued)

(i) AASB 7 *Financial Instruments: Disclosures* and AASB 2005-10 *Amendments to Australian Accounting Standards [AASB s132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038]*

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's financial instruments.

(ii) AASB2007-4 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments [AASB 1, 2, 3, 4, 5, 6, 7, 102, 107, 108, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127, 128, 129, 130, 131, 132, 133, 134, 136, 137, 138, 139, 141, 1023 & 1038]*

AASB 2007-4 is applicable to annual reporting periods beginning on or after 1 July 2007. The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements.

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.

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

Provision is made at the year end for the liability for outstanding claims which is measured as the central estimate of the expected payments against claims incurred but not settled at the reporting date under private health insurance contracts issued by 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 Risk Equalisation Trust Fund ('RETF') consequences and claims handling expense.

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 analysis of historical experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including changes in the Company processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods.

The calculation was determined taking into account one month of actual post balance date claims.

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 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 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, two methods are used. For service months March 2007 and earlier for hospital, medical and ancillary, a chain ladder method is used; this assumes that the development pattern of the current claims will be consistent with historical experience. For hospital, the service months for April 2007 to June 2007 a case estimate method is used.

3. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

Actuarial assumptions

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

	2007			2006		
	Hospital	Medical	Ancillary	Hospital	Medical	Ancillary
Average weighted term to settlement from reporting date (months)	1.2	1.8	2.7	1.3	1.6	2.7
Expense rate	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Discount rate	0%	0%	0%	0%	0%	0%

The risk margin of 5.4% (2006: 4.5%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% (2006: 95%).

Process used to determine assumptions

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

(i) Average weighted term to settlement

The assumption made in the chain ladder method is for cumulative development per service month, calculated separately by valuation class, based on historic settlement patterns. The average weighted term to settlement summarises the speed of development assumed. Where a case estimate method is used, an expected claim numbers and average claims size has been determined on the basis of recent hospital and medical claims experience.

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

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

3. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

Sensitivity analysis – insurance contracts (continued)

ii) Impact of changes in key variables

		Profit		Equity	
		Consolidated 2007	Parent entity 2007	Consolidated 2007	Parent entity 2007
Recognised amounts in the financial statements		52,496	51,766	336,214	336,267
		Adjusted amounts			
Variable	Movement in variable	$000	$000	$000	$000
Average weighted term to be settled	+0.1 Month	49,076	48,346	332,794	332,847
	–0.1 Month	55,916	55,186	339,634	339,687
Expense rate	+1%	52,017	51,287	335,735	335,788
	–1%	52,975	52,245	336,693	336,746
Application of a discount rate of	6.35%	52,981	52,161	336,609	336,662

4. PRIVATE HEALTH INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES

The financial condition and operation of the Company are affected by a number of key risks including insurance risk, interest rate risk, credit risk, market risk, liquidity risk, financial risk, compliance risk, fiscal risk and operational risk. Notes on the Company's policies and procedures in respect of managing these risks are set out in this note below.

(a) Objectives in managing risks arising from private health insurance contracts and policies for mitigating those risks

The Company manages risks by:

- establishing Committees to assist the Board in the execution of its responsibilities;
- maintaining a robust risk management framework;
- the application of standards for solvency and capital adequacy legislated under division 140 and 143 of the Private Health Insurance Act 2007; and
- the Company's internal policies and procedures designed to mitigate such risks.

Two of these committees have oversight for the various risks the Company faces. These committees are:

1. the Audit and Compliance Committee whose responsibilities include:
   - reviewing the annual reports and other financial information distributed externally;
   - assisting the Board to review the effectiveness of the Company's system of internal control;
   - monitoring the risk management system;
   - monitoring the activities of the internal audit function; and
   - reviewing the nomination and performance of the external auditor.
2. the Finance and Investment Committee whose responsibilities include:
   - recommending the appointment and reviewing the performance of the Company's Asset Consultant and Fund Managers;
   - recommending the appropriate investment objectives, strategic benchmarks and individual allocations for investment managers; and
   - reviewing the Company's financial policies and particular those policies that relate to the Company's fund raising and funding, capital expenditure and investment strategy.

The Board, both directly and through the Audit and Compliance Committee, and senior management of the Company have developed, implemented and maintain a sound and prudent Risk Management Framework (RMF).

4. PRIVATE HEALTH INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES (CONTINUED)

(a) Objectives in managing risks arising from private health insurance contracts and policies for mitigating those risks (continued)

The RMF identifies the Company's policies, procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the Company. Annually, the Company, as a Registered Private Health Insurer certifies to the Private Health Insurance Administration Council (PHIAC) that:

- The insurer has referred to the Australian Standard for Risk Management (AS/NZ 4360) as an accepted measure of appropriate risk management processes;
- The Board has approved the risk management system in place, and understands its contents;
- The risk management system in place has been formulated from a framework for establishing the context, identification, analysis, evaluation, treatment, monitoring and communication of risk;
- The system in place includes comprehensive written policies and procedures and adequate control systems to measure, monitor and manage risk;
- The Board reviews the policies and procedures, at least annually, to assess their implementation, effectiveness, and to endorse them;
- The Board receives regular reports on the operation of the risk management system and is satisfied with the level of adherence to those polices and procedures; and
- The Board has ensured that there has been, at all times, appropriate Director's and Officer's (D&O) insurance cover in place.

The solvency and capital adequacy standards are established under The Private Health Insurance Act 2007 (The Act), and are an integral component of the prudential reporting and management regime for registered private health insurers under the Act.

These standards impose a two tier capital requirement on private health insurers with each tier considering the capital requirements in a different set of circumstances.

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. 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.

Key aspects of the processes established in the RMF to mitigate risks include:

- The maintenance and use of management information systems which provide up to date, reliable data on the risks which the business is exposed to at any point in time.
- Actuarial models, using information from the management information systems, are used to calculate premiums and monitor claims pattens. Past experience and statistical methods are used as part of the process.
- A rigorous approach to product design to mitigate the risk of the Company being exposed to adverse selection.
- Maintenance of reserves in excess of solvency and capital adequacy regulatory requirements.
- An investment strategy which delivers a diversified portfolio with a heavier weighting to defensive assets verses growth assets.

(b) Insurance risk

The provision of private health insurance in Australia is governed by the Private Health Insurance Act 2007 (the Act) and shaped by a number of regulatory factors.

The first is the principle of 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.

The second is risk equalisation which supports the principle of community rating. Private health insurance averages out the cost of hospital treatment across the industry. The risk equalisation scheme transfers money from 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. Thirdly the Act limits the types of treatments that private health insurers are able to offer as part of their health insurance business and fourthly premiums for health insurance can only be changed with the approval of the Minister.

(c) Development of claims

The outstanding claims liability (note 1(f) and note 21) recognises that claims are fully developed within 12 months of being incurred.

4. PRIVATE HEALTH INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES (CONTINUED)

(d) Interest rate risk

The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate on those financial assets are as follows:

Class of asset	Effective Weighted average interest rate
Receivables	6.56% (2006: 7.0%)
Financial assets at fair value through profit and loss	6.39% (2006: 5.65%)
Cash and cash equivalents	6.36% (2006: 5.70%)

All other financial assets and liabilities are non-interest bearing.

(e) Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognise financial assets is the carrying amount, net of any provisions for impairment loss, as disclosed in the balance sheet and notes to the financial statements. The Group does not have any material credit risk to any single debtor or group of debtors under financial instruments entered into.

(f) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. The Group holds a high percentage of highly liquid investments.

(g) Market risk

(i) Price risk

The Group is exposed to equity securities price risk. This arises from investments held by the Group and classified on the balance sheet as at fair value through profit or loss. The Group is not exposed to commodity price risk.

(ii) Fair value interest rate risk

Refer to (d) above

5. REVENUE

	Notes	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Premium revenue		665,964	611,869	665,964	611,869
Investment Income					
Rent received		144	261	144	261
Net fair value gains on financial assets at fair value through profit or loss		30,771	18,355	30,950	18,309
Fair value adjustment on investment properties		1,438	–	–	–
		32,353	18,616	31,094	18,570
Other revenue					
Interest received – controlled entities		–	–	189	193
Net gain on disposal of property, plant and equipment and investment properties		8	227	8	227
Fair value adjustment to property, plant and equipment		140	–	140	–
Sundry income		1,115	827	1,175	1,263
		1,263	1,054	1,512	1,683

6. UNDERWRITING AND OTHER OPERATING EXPENSES

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Expenses by function				
Claims handling expenses	16,295	15,944	16,295	15,944
Investment expenses	1,099	675	1,099	776
Underwriting expenses	60,625	44,447	59,469	40,498
Other expenses	894	905	–	–
Total expenses	78,913	61,971	76,863	57,218
Expenses by nature				
Employee costs	37,847	33,181	37,138	31,889
Depreciation and amortisation	4,454	4,020	3,740	3,155
Impairment loss or provision for impairment loss	–	–	(1,156)	(3,949)
Impairment of property, plant & equipment	–	246	–	199
Impairment of investment properties	–	11	–	59
Operating lease rental expenses	2,543	2,891	2,377	2,534
Demutualisation/listing expenses	5,721	–	5,721	–
Other	28,348	21,622	29,043	23,331
Total expenses	78,913	61,971	76,863	57,218

Demutualisation/listing expenses are non-recurring items.

7. INCOME TAX

(a) Income tax expense

	Notes	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Recognised in the income statement					
Current tax expense	8(i)(b)	54	–	–	–
Deferred tax expense		–	–	–	–
Under (over) provided in prior years		–	–	–	–
		54	–	–	–
Income tax expense is attributable to:					
Profit from continuing operations		–	–	–	–
Profit from discontinuing operations		54	–	–	–
Aggregate income tax expense		54	–	–	–

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Profit from continuing operations before income tax expense	50,814	69,448	51,766	59,701
Profit from discontinuing operations before income tax expense	1,736	(5,529)	–	–
	52,550	63,919	51,766	59,701
Tax at the Australian tax rate of 30% (2006: 30%)	15,764	19,175	15,530	17,910
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Write back of provision on consolidation	320	(3,196)	–	–
Net exempt income	(15,530)	(17,910)	(15,530)	(17,910)
Net income from disposed entity	116	–	–	–
Special building write-off	–	(8)	–	–
Non-assessable income	(614)	390	–	–
Other non-deductible expenses	151	128	–	–
Prior year revenue losses not recognised now recouped	(208)	–	–	–
Prior year capital losses not recognised now recouped	(17)	–	–	–
Deferred tax asset not recognised	72	1,421	–	–
Income tax expense	54	–	–	–

NIB Health Funds Limited is exempt from income tax under the provisions of Section 50-30 of the Income Tax Assessment Act 1997 as amended.

(c) Amounts recognised directly in equity

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity				
Net deferred tax – debited (credited) directly to equity	–	–	–	–
	–	–	–	–

7. INCOME TAX (CONTINUED)

(d) Tax losses

	Notes	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Unused revenue tax losses for which no deferred tax asset has been recognised		1,239	8,697	–	–
Unused capital tax losses for which no deferred tax asset has been recognised		1,552	2,401	–	–
		2,791	11,098	–	–
Potential tax benefit @ 30%		837	3,329	–	–

All unused tax losses were incurred by Australian entities. The tax losses have not been brought to account as a future economic benefit by any of the entities that have generated the tax losses as recovery of the benefit is not regarded as probable.

(e) Unrecognised temporary differences

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Temporary differences relating to deferred tax assets have not been recognised				
Doubtful Debts	30	1,112	–	–
Legal expense	32	68	–	–
Income from finance lease	–	(530)	–	–
Depreciation	2,041	2,234	–	–
Employee entitlements	–	2,469	–	–
Insurance	–	9	–	–
Audit expense	13	–	–	–
Deductible temporary differences	–	38	–	–
	2,116	5,400	–	–
Unrecognised deferred tax assets relating to the above temporary differences	635	1,620	–	–

8. DISCONTINUED OPERATIONS

(i) Newcastle Private Hospital Pty Limited

(a) Description

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

a) Share Sale Agreement – whereby all the shares held by NIB Health Funds Limited and NIB Servicing Facilities Pty Ltd in Newcastle Private Hospital Pty Ltd are sold to Healthscope Limited, and in regard to this:
   i. NIB Health Funds Limited subscribed for 29,000,000 shares of $1.00 each in Newcastle Private Hospital Pty Limited on 27 April 2006 in satisfaction of the advances made to Newcastle Private Hospital Pty Limited by the ultimate parent entity, NIB Health Funds Limited in current and prior years;
   ii. the Share Sale Agreement was subject to certain conditions precedent which were satisfied on 31 May 2007;
   iii. subject to the completion of the Share Sale Agreement, NIB Health Funds Limited will lease the land and buildings that house the operations of Newcastle Private Hospital to Healthscope 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 (3) years of the lease.

8. DISCONTINUED OPERATIONS (CONTINUED)

(i) Newcastle Private Hospital Pty Limited (continued)

(a) Description (continued)

b) Management Agreement – whereby Healthscope Limited manages the operations of Newcastle Private Hospital for Newcastle Private Hospital Pty Ltd and NIB Health Funds Limited, and in regard to this:

   i. the term of the management agreement commenced 1 May 2006 and continued until the completion of the Share Sale Agreement.

   ii. Healthscope Limited as manager received the following payments:

      1. all Manager's costs and expenses incurred in providing the Services and managing the Operations;
      2. a fixed proportion of the Manager's Overheads;
      3. a further proportion of the Manager's Overheads up to a maximum amount subject to a defined financial savings target being achieved; and
      4. a Management Fee up to a maximum amount subject to a defined financial target being achieved.

As a result of the Conditions Precedent being satisfied on 31 May 2007, the Share Sale Agreement between NIB Servicing Facilities Pty Limited, NIB Health Funds Ltd and Healthscope Limited was finalised, completing the sale of Newcastle Private Hospital Pty Limited to Healthscope Limited.

On completion of the Share Sale Agreement, NIB Health Funds Limited entered into an agreement to 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.

During the financial year Newcastle Private Hospital was operated under a management agreement whereby Healthscope Limited managed the operations of Newcastle Private Hospital for Newcastle Private Hospital Pty Ltd and NIB Health Funds Limited and received the following payments:

1. all manager's costs and expenses incurred in providing the services and managing the operations;
2. a fixed proportion of the manager's overheads;
3. a further proportion of the manager's overheads up to a maximum amount subject to a defined financial savings target being achieved; and
4. a Management Fee up to a maximum amount subject to a defined financial target being achieved.

The management agreement was terminated on the completion of the Share Sale Agreement on 31 May 2007.

Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

(b) Financial Performance and cash flow information

The financial performance and cash flow information presented are for the eleven months ended 31 May 2007 and the year ended 30 June 2006:

	2007 $000	2006 $000
Revenue	40,909	42,342
Expenses	(41,240)	(48,346)
Profit/(Loss) before income tax	(331)	(6,004)
Income tax expense	–	–
Profit/(Loss) after income tax of discontinued operation	(331)	(6,004)
Gain on the sale of the operation before income tax	601	–
Income tax expense	–	–
Gain on the sale of the operation after income tax	601	–
Profit/(Loss) from discontinued operations	**270**	**(6,004)**

8. DISCONTINUED OPERATIONS (CONTINUED)

(i) Newcastle Private Hospital Pty Limited (continued)

(b) Financial Performance and cash flow information (continued)

	2007 $000	2006 $000
(1) Expenses		
Materials and consumables	(11,759)	(13,022)
Employee costs	(22,428)	(24,860)
Depreciation and amortisation	–	(2,049)
Finance costs	–	(1)
Medical malpractice insurance	(417)	(643)
Compensation payment	–	(1,300)
Physicians fees	(1,156)	(1,318)
Nursing Agency Fees	(1,117)	(835)
Other expenses	(4,363)	(4,318)
	(41,240)	(48,346)
Cash flows		
Net cash inflow (outflow) from operating activities	417	(4,429)
Net cash inflow (outflow) from investing activities (2007 includes an inflow of $10,248,697.90 from the sale of the operation)	10,659	(132)
Net cash inflow (outflow) from financing activities	–	–
Net increase (decrease) in cash generated by the operation	**11,076**	(4,561)

(c) Carrying amounts of assets and liabilities

The carrying amounts of assets and liabilities as at 31 May 2007 and 30 June 2006 are:

Cash and cash equivalents	1,252	425
Trade and other receivables	6,399	6,212
Inventories	867	849
Plant and equipment	13,789	13,373
Intangible assets	396	97
Total assets	**22,703**	**20,956**
Trade and other payables	4,316	3,316
Employee Benefits	2,282	2,272
Total liabilities	**6,598**	**5,588**
Net assets	**16,105**	**15,368**

(d) Details of the sale of the operations

Consideration received or receivable:

Cash	10,249	–
Present value of amount due on or about 31 August 2007	39	–
Present value of amount due on 31 May 2008	810	–
Present value of amount due on 31 May 2009	3,564	–
Present value of amount due on 31 May 2010	2,258	–
Total disposal consideration	16,920	–
Carrying amount of net assets sold	(16,105)	–
Selling costs	(214)	–
Gain on sale	601	–

8. DISCONTINUED OPERATIONS (CONTINUED)

(i) Newcastle Private Hospital Pty Limited (continued)

(e) Commitments and Contingent Liabilities

The terms of the Newcastle Private Hospital Operations Management Agreement gave rise to commitments as at 30 June 2006 for payments to the Manager as set out in (a) (1) and (2) above.

The terms of the Newcastle Private Hospital Operations Management Agreement gave rise to contingent liabilities as at 30 June 2006 for payments to the Manager as set out in (a) (3) and (4) above.

The required disclosure on commitments and contingent liabilities due under the above agreement is included in notes 28 and 29.

(ii) NIB Eye Care and Dental businesses

(a) Description

During the year NIB Health Care Services Pty Limited operated an Eye Care Centre business and an Eye Safety business. The Eye Care and Eye Safety businesses were sold to Pacific Optical Pty Limited on 30 November 2006. The centres continue to be branded as NIB Eye Care Centres. NIB Health Care Services Pty Limited receives a percentage of retail product sales revenue from the Eye Care Centres.

NIB Health Care Services also formerly operated Dental Centres in Newcastle and Sydney. From 1 September 2004, the operation of the NIB Dental Care Centres was transferred from NIB Health Care Services Pty Limited to Pacific Smiles Group Pty Limited. The Dental business was then sold to Pacific Smiles Group Pty Limited on 30 November 2006. The centres continue to be branded as NIB Dental Centres. NIB Health Care Services leases dental and support equipment and premises to Pacific Smiles Group, and receives a percentage of the revenue from diagnostic and preventative services provided to NIB members at the Dental Care Centres.

The Eye Care, Eye Safety and Dental businesses disposed of are reported in this this financial report as a discontinuing operation. Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

(b) Financial Performance and cash flow information

The financial performance and cash flow information presented are for the five months ended 30 November 2006 (2007 column) and the year ended 30 June 2006:

	2007 $000	2006 $000
Revenue	2,153	4,481
Expenses	(2,132)	(4,006)
Profit before income tax	21	475
Income tax expense	–	–
Profit after income tax of discontinued operation	21	475
Gain on the sale of the operation before income tax	1,445	–
Income tax expense	(54)	–
Gain on the sale of the operation after income tax	1,391	–
Profit from discontinued operations	**1,412**	**475**
Cash flows		
Net cash inflow (outflow) from operating activities	(453)	459
Net cash inflow (outflow) from investing activities (2007 includes an inflow of $325,297.42 from the sale of the operation)	266	(43)
Net cash inflow (outflow) from financing activities	–	–
Net increase (decrease) in cash generated by the operation	**(187)**	**416**

8. DISCONTINUED OPERATIONS (CONTINUED)

(ii) NIB Eye Care and Dental businesses (continued)

(c) Carrying amounts of assets and liabilities

The carrying amounts of assets and liabilities as at 30 November 2006 are:

	$000
Inventories	146
Plant and equipment	180
Total assets	**326**
Employee Benefits	196
Total liabilities	**196**
Net assets	**130**

(d) Details of the sale of the operations

Consideration received or receivable:

Cash	325
Present value of amount due on 30 November 2007	250
Present value of amount due on 30 November 2008	250
Present value of amount due on 30 November 2009	250
Present value of amount due on 30 November 2010	250
Present value of amount due on 30 November 2011	250
Total disposal consideration	1,575
Carrying amount of net assets sold	(130)
Gain on sale before income tax	1,445
Income tax expense	(54)
Gain on sale after income tax	1,391

9. CASH AND CASH EQUIVALENTS

		Consolidated		Parent Entity	
	Notes	2007 $000	2006 $000	2007 $000	2006 $000
Cash at bank and cash on hand		**17,570**	**11,368**	**17,522**	**11,261**

(a) Interest rate risk

The Group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following tables:

		Fixed Interest maturing in:					
	Floating interest rate $'000	1 year or less $'000	Over 1 to 2 years $'000	Over 2 to 3 years $'000	Over 3 to 4 years $'000	Non-interest bearing $'000	Total $'000
2007							
Cash at bank and cash on hand	9,000	8,000	–	–	–	570	17,570
	9,000	8,000	–	–	–	570	17,570
Weighted average interest rate	6.2%	6.6%	–	–	–	–	
2006							
Cash at bank and cash on hand	11,000	–	–	–	–	368	11,368
	11,000	–	–	–	–	368	11,368
Weighted average interest rate	5.7%	–	–	–	–	–	

10. CURRENT ASSETS – RECEIVABLES

		Consolidated		Parent Entity	
	Notes	2007 $000	2006 $000	2007 $000	2006 $000
Premium receivable		5,516	6,000	5,516	6,000
Other receivables		20,688	17,431	20,077	17,155
Provision for impairment loss		(258)	(258)	(228)	(246)
		25,946	23,173	25,365	22,909
Lease receivables		149	177	–	–
Prepayments		1,260	686	1,251	660
Receivable from controlled entities		–	–	–	1,002
		27,355	**24,036**	**26,616**	**24,571**

(a) Effective interest rates

Information concerning the effective interest rate of both current and non-current receivables is set out in the non-current receivables note (note 14).

11. CURRENT ASSETS – INVENTORIES

Raw materials and stores – at cost	**–**	**195**	**–**	**–**

12. CURRENT ASSETS – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

		Consolidated		Parent Entity	
	Notes	2007 $000	2006 $000	2007 $000	2006 $000
Equity securities		107,134	53,820	107,134	53,820
Interest-bearing securities		269,227	255,175	269,227	255,175
		376,361	**308,995**	**376,361**	**308,995**

(a) Interest rate risk

The Group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following tables.

		Fixed Interest maturing in:					
	Floating interest rate $'000	1 year or less $'000	Over 1 to 2 years $'000	Over 2 to 3 years $'000	Over 3 to 4 years $'000	Non-interest bearing $'000	Total $'000
2007							
Equity securities	–	–	–	–	–	107,134	107,134
Interest-bearing securities	127,218	142,009	–	–	–	–	269,227
	127,218	142,009	–	–	–	107,134	376,361
Weighted average interest rate	6.0%	6.8%	–	–	–	–	
2006							
Equity securities	–	–	–	–	–	53,820	53,820
Interest-bearing securities	144,854	110,321	–	–	–	–	255,175
	144,854	110,321	–	–	–	53,820	308,995
Weighted average interest rate	5.6%	5.7%	–	–	–	–	

13. NON-CURRENTS ASSETS CLASSIFIED AS HELD FOR SALE

		Consolidated		Parent Entity	
	Notes	2007 $000	2006 $000	2007 $000	2006 $000
Investment properties		1,335	–	1,335	–
Land & buildings		8,554	–	8,554	–
Shares in controlled entities		–	–	–	29,000
Provision for impairment		–	–	–	(15,082)
		9,889	**–**	**9,889**	**13,918**

14. NON-CURRENT ASSETS – RECEIVABLES

	Notes	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Amounts receivable from controlled entities		–	–	6,667	6,819
Provision for impairment		–	–	(4,611)	(5,768)
		–	–	2,056	1,051
Other receivables		6,822	–	5,628	–
Lease receivables		204	353	–	–
		7,026	**353**	**7,684**	**1,051**

(a) Interest rate risk

The Group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following tables.

	Floating interest rate $'000	Fixed Interest maturing in: 1 year or less $'000	Over 1 to 2 years $'000	Over 2 to 3 years $'000	Over 3 to 4 years $'000	Non-interest bearing $'000	Total $'000
2007							
Premium receivable	–	–	–	–	–	5,288	5,288
Other receivables	7,882	–	–	–	–	19,598	27,480
Lease receivables	–	149	123	81	–	–	353
	7,882	149	123	81	–	24,886	33,121
Weighted average interest rate	6.4%	7.0%	7.0%	7.0%	–	–	
2006							
Premium receivable	–	–	–	–	–	5,633	5,633
Other receivables	–	–	–	–	–	17,540	17,540
Lease receivables	–	177	149	123	81	–	530
	–	177	149	123	81	23,173	23,703
Weighted average interest rate	–	7.0%	7.0%	7.0%	7.0%	–	

15. NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

	Notes	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Shares in controlled entities		–	–	15,255	15,255
Provision for impairment loss		–	–	(672)	(672)
		–	**–**	**14,583**	**14,583**

16. NON-CURRENT ASSETS – INVESTMENT PROPERTIES

	Notes	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Investment properties					
At Directors' valuation – 30 June 2006		–	1,800	–	31,800
At Directors' valuation – 30 June 2007		30,000	–	30,000	–
		30,000	**1,800**	**30,000**	**31,800**

The basis of the valuation of investment properties is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. Freehold land and buildings were independently valued, excluding those in the course of construction, by a member of the Australian Property Institute during 2005. It is the opinion of the Directors that these valuations represent the fair value of the properties at 30 June 2007.

Reconciliation

A reconciliation of the carrying amounts of investment properties at the beginning and end of the current financial year is set out below:

At Fair Value

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Opening balance at 1 July 2006	1,800	3,285	31,800	32,085
Capitalised subsequent expenditure	–	11	–	59
Net gain/(loss) from fair value adjustment	1,438	(11)	–	(59)
Net transfer from property, plant and equipment	28,562	–	–	–
Classified as held for sale or disposals	(1,800)	(1,485)	(1,800)	(285)
Closing balance at 30 June 2007	**30,000**	**1,800**	**30,000**	**31,800**

(a) Amounts recognised in profit and loss for investment property

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Rental income	144	277	144	277
Rental income in discontinued operations	–	115	–	–
Direct operating expenses from property that generated rental income	–	(16)	–	(16)
Direct operating expenses from property that generated rental income in discontinued operations	–	(29)	–	–
Direct operating expenses from property that did not generate rental income	(187)	–	(187)	(3)
	(43)	**347**	**(43)**	**258**

(b) Leasing arrangements

The investment properties are leased to tenants under long term operating leases with rental payable monthly. Minimum lease payments receivable on leases of investment properties are as follows:

Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Within one year	–	110	–	124
Later than one year but not later than 5 years	–	163	–	225
	–	**273**	**–**	**349**

On completion of the Share Sale Agreement on 31 May 2007, NIB Health Funds Limited entered into an agreement to 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.

16. NON-CURRENT ASSETS – INVESTMENT PROPERTIES (CONTINUED)

(c) Contractual obligations

There are no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance or enhancements.

17. NON-CURRENT ASSETS – PROPERTY, PLANT & EQUIPMENT

	Consolidated			
	Land & Buildings $000	Plant & Equipment $000	Leasehold Improvements $000	Total $000
Fair value/Cost				
Balance at 1 July 2005	41,600	30,185	4,762	76,547
Additions	246	2,959	522	3,727
Assets included in a disposal group classified as held for sale or other disposals	–	(22,248)	(961)	(23,209)
Revaluations	(246)	–	–	(246)
Transfers	–	(111)	101	(10)
Balance at 30 June 2006	41,600	10,785	4,424	56,809
Balance at 1 July 2006	41,600	10,785	4,424	56,809
Additions	8,324	1,408	393	10,125
Assets included in a disposal group classified as held for sale or other disposals	(8,554)	(1,784)	(1,065)	(11,403)
Revaluations	(51)	–	–	(51)
Transfers	(30,000)	2	(2)	(30,000)
Balance at 30 June 2007	11,319	10,411	3,750	25,480
Depreciation and impairment losses				
Balance at 1 July 2005	–	(11,787)	(3,429)	(15,216)
Depreciation charge for the year	(951)	(3,557)	(502)	(5,010)
Assets included in a disposal group classified as held for sale or other disposals	4	8,679	953	9,636
Revaluations	–	–	–	–
Transfers	–	87	(78)	9
Balance at 30 June 2006	(947)	(6,578)	(3,056)	(10,581)
Balance at 1 July 2006	(947)	(6,578)	(3,056)	(10,581)
Depreciation charge for the year	(893)	(1,596)	(458)	(2,947)
Assets included in a disposal group classified as held for sale or other disposals		1,134	1,057	2,191
Revaluations	324	–	–	324
Transfers	1,437	–	–	1,437
Balance at 30 June 2007	(79)	(7,040)	(2,457)	(9,576)
Carrying amounts				
At 1 July 2005	**41,600**	**18,398**	**1,333**	**61,331**
At 30 June 2006	**40,653**	**4,207**	**1,368**	**46,228**
At 1 July 2006	**40,653**	**4,207**	**1,368**	**46,228**
At 30 June 2007	**11,240**	**3,371**	**1,293**	**15,904**

17. NON-CURRENT ASSETS – PROPERTY, PLANT & EQUIPMENT (CONTINUED)

	Parent Entity			
	Land & Buildings $000	Plant & Equipment $000	Leasehold Improvements $000	Total $000
Fair Value/Cost				
Balance at 1 July 2005	11,600	8,570	3,697	23,867
Additions	199	1,632	497	2,328
Disposals/write off	–	(316)	(953)	(1,269)
Revaluations	(199)	–	–	(199)
Transfers	–	(111)	101	(10)
Balance at 30 June 2006	11,600	9,775	3,342	24,717
Balance at 1 July 2006	11,600	9,775	3,342	24,717
Additions	8,324	967	366	9,657
Assets included in a disposal group classified as held for sale or other disposals	(8,554)	(338)	(1)	(8,893)
Revaluations	(51)	–	–	(51)
Transfers	–	2	(2)	–
Balance at 30 June 2007	11,319	10,406	3,705	25,430
Depreciation and impairment losses				
Balance at 1 July 2005	–	(4,563)	(2,446)	(7,009)
Depreciation charge for the year	(201)	(1,488)	(429)	(2,118)
Disposals	4	287	953	1,244
Revaluations	–	–	–	–
Transfers	–	87	(79)	8
Balance at 30 June 2006	(197)	(5,677)	(2,001)	(7,875)
Balance at 1 July 2006	(197)	(5,677)	(2,001)	(7,875)
Depreciation charge for the year	(206)	(1,577)	(450)	(2,233)
Disposals	–	215	1	216
Revaluations	324	–	–	324
Transfers	–	–	–	–
Balance at 30 June 2007	(79)	(7,039)	(2,450)	(9,568)
Carrying amounts				
At 1 July 2005	**11,600**	**4,007**	**1,251**	**16,858**
At 30 June 2006	**11,403**	**4,098**	**1,341**	**16,842**
At 1 July 2006	**11,403**	**4,098**	**1,341**	**16,842**
At 30 June 2007	**11,240**	**3,367**	**1,255**	**15,862**

17. NON-CURRENT ASSETS – PROPERTY, PLANT & EQUIPMENT (CONTINUED)

(a) Assets in the course of construction

The carrying amounts of the assets disclosed above include the following expenditure recognised in relation to property, plant and equipment which is in the course of construction:

		Consolidated		Parent Entity	
	Notes	2007 $000	2006 $000	2007 $000	2006 $000
Land & Buildings		**6,999**	–	**6,999**	–

(b) Valuations of land and buildings

The valuation basis of land and buildings is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction based on current prices in an active market for similar properties in the same location and condition. Freehold land and buildings were independently valued, excluding those in the course of construction, by a member of the Australian Property Institute during 2005. It is the opinion of the Directors that these valuations represent the fair value of the properties at 30 June 2007.

(c) Carrying amounts that would have been recognised if land and buildings were stated at cost

If freehold land and buildings were stated on historical cost basis, the amounts would be as follows:

Freehold land and buildings				
Cost	10,203	48,381	10,203	9,704
Accumulated depreciation	(546)	(6,515)	(546)	(3,315)
Net book amount	**9,657**	**41,866**	**9,657**	**6,389**

18. NON-CURRENT ASSETS – INTANGIBLE ASSETS

	Consolidated			
	Private Hospital Bed Licences $000	Goodwill $000	Software $000	Total $000
Balance at 1 July 2005	396	7,067	8,877	16,340
Additions	–	–	2,267	2,267
Assets included in a disposal group classified as held for sale or other disposals	(74)	–	(449)	(523)
Transfers	–	–	230	230
Balance at 30 June 2006	322	7,067	10,925	18,314
Balance at 1 July 2006	322	7,067	10,925	18,314
Additions	–	–	1,557	1,557
Assets included in a disposal group classified as held for sale or other disposals	(322)	–	–	(322)
Transfers	–	–	–	–
Balance at 30 June 2007	–	7,067	12,482	19,549
Depreciation and impairment losses				
Balance at 1 July 2005	–	–	(7,449)	(7,449)
Depreciation charge for the year	–	–	(1,059)	(1,059)
Assets included in a disposal group classified as held for sale or other disposals	–	–	409	409
Balance at 30 June 2006	–	–	(8,099)	(8,099)
Balance at 1 July 2006	–	–	(8,099)	(8,099)
Depreciation charge for the year	–	–	(1,507)	(1,507)
Assets included in a disposal group classified as held for sale or other disposals	–	–	–	–
Balance at 30 June 2007	–	–	(9,606)	(9,606)
Carrying amounts				
At 1 July 2005	**396**	**7,067**	**1,428**	**8,891**
At 30 June 2006	**322**	**7,067**	**2,826**	**10,215**
At 1 July 2006	**322**	**7,067**	**2,826**	**10,215**
At 30 June 2007	**–**	**7,067**	**2,876**	**9,943**

18. NON-CURRENT ASSETS – INTANGIBLE ASSETS (CONTINUED)

	Parent Entity			
	Private Hospital Bed Licences $000	Goodwill $000	Software $000	Total $000
Balance at 1 July 2005	322	7,067	3,848	11,237
Additions	–	–	2,266	2,266
Assets included in a disposal group classified as held for sale or other disposals	–	–	(380)	(380)
Transfers	–	–	230	230
Balance at 30 June 2006	322	7,067	5,964	13,353
Balance at 1 July 2006	322	7,067	5,964	13,353
Additions	–	–	1,557	1,557
Assets included in a disposal group classified as held for sale or other disposals	(322)	–	–	(322)
Transfers	–	–	–	–
Balance at 30 June 2007	–	7,067	7,521	14,588
Depreciation and impairment losses				
Balance at 1 July 2005	–	–	(2,465)	(2,465)
Depreciation charge for the year	–	–	(1,037)	(1,037)
Assets included in a disposal group classified as held for sale or other disposals	–	–	364	364
Balance at 30 June 2006	–	–	(3,138)	(3,138)
Balance at 1 July 2006	–	–	(3,138)	(3,138)
Depreciation charge for the year	–	–	(1,507)	(1,507)
Assets included in a disposal group classified as held for sale or other disposals	–	–	–	–
Balance at 30 June 2007	–	–	(4,645)	(4,645)
Carrying amounts				
At 1 July 2005	**322**	**7,067**	**1,383**	**8,772**
At 30 June 2006	**322**	**7,067**	**2,826**	**10,215**
At 1 July 2006	**322**	**7,067**	**2,826**	**10,215**
At 30 June 2007	**–**	**7,067**	**2,876**	**9,943**

(a) Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment. NIB Health Funds Limited has one CGU being private health insurance.

Goodwill relates to the acquisition of a subsidiary, NIB Health Services Limited (formerly IOOF Health Services Limited). The recoverable amount of a CGU is determined based on value-in-use calculation, and the recoverable amount exceeds the carrying value of the goodwill. The value-in-use calculation uses cash flow projections based on financial budgets approved by management covering a three-year period and financial forecasts covering a further two-year period.

18. NON-CURRENT ASSETS – INTANGIBLE ASSETS (CONTINUED)

(b) Key assumptions used for value-in-use calculations

The assumptions are in line with the current board approved budget. Key assumptions include membership growth, claims ratio and discount rate.

Membership growth is calculated by forecasting the number of sales each month based on budgeted advertising and promotions spend, less the number of expected lapses each month. Claims ratios are targeted that generate price increases that maintain price competitiveness, cover expected increases in claims costs, do not adversely affect the funds capital adequacy position and enable funding of future business growth. The discount rate used reflects NIB's capital allocation policy with risk premium for moderate risk projects.

19. CURRENT LIABILITIES – PAYABLES

		Consolidated		Parent Entity	
	Notes	2007 $000	2006 $000	2007 $000	2006 $000
Trade creditors		3,372	712	3,362	619
Other payables		27,297	14,012	27,137	13,684
HBRTF/RETF payable		14,519	11,998	14,519	11,998
Amounts owed to controlled entities		–	–	14,633	14,626
		45,188	**26,722**	**59,651**	**40,927**

20. CURRENT LIABILITIES – BORROWINGS

Bank overdraft	**1,431**	**2,989**	**1,381**	**2,946**

The bank overdraft is made of the closing balances of the bank account, less unpresented cheques and addition of outstanding deposits. As at the balance dates, the bank accounts had positive bank balances, however due to unpresented cheques, are represented in the accounts as a bank overdraft.

21. CURRENT LIABILITIES – OUTSTANDING CLAIMS LIABILITY

(a) Outstanding claims liability

Outstanding claims – central estimate of the expected future payments for claims incurred	43,773	47,201	43,773	47,201
Risk Margin	2,221	2,188	2,221	2,188
Claims handling costs	1,313	1,416	1,313	1,416
Gross outstanding claims liability	47,307	50,805	47,307	50,805
Outstanding claims – expected payment to the HRBTF/RETF in relation to the central estimate	6,105	4,331	6,105	4,331
Risk Margin	543	195	543	195
Net outstanding claims liability	**53,955**	**55,331**	**53,955**	**55,331**

21. CURRENT LIABILITIES – OUTSTANDING CLAIMS LIABILITY (CONTINUED)

(b) Risk margin

The risk margin of 5.4% (2006: 4.5%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95.0% (2006: 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 3 valuation classes, namely Hospital and Prostheses services combined, Medical services, and Ancillary and Ambulance services combined. Diversification benefits within a valuation class are implicitly allowed for through the model adopted. The determination of the risk margin has also implicitly allowed for diversification between valuation classes based on an analysis of past correlations in deviations from the adopted model.

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

The business written by 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:

	Parent and Consolidated Entity	
	2007 $000	2006 $000
Gross outstanding claims at 1 July	50,805	38,382
Administration component	(1,416)	(1,262)
Risk margin	(2,188)	(1,828)
Central estimate at 1 July	47,201	35,292
Change in claims incurred for the prior year	1,510	(1,167)
Claims paid in respect of the prior year	(48,711)	(34,125)
Claims incurred during the year (expected)	501,823	441,445
Claims paid during the year (expected)	(458,050)	(394,244)
Central estimate at 30 June	43,773	47,201
Administration component	1,313	1,651
Change in administration component assumptions	–	(235)
Risk margin	2,029	2,431
Change in risk margin assumption	406	(243)
Gross outstanding claims at 30 June	47,521	50,805

22. CURRENT LIABILITIES – UNEARNED PREMIUM LIABILITY

		Consolidated		Parent Entity	
	Notes	2007 $000	2006 $000	2007 $000	2006 $000
Unearned premium liability as at 1 July		44,502	41,544	44,502	41,544
Deferral of premiums on contracts written in the period		51,580	44,502	51,580	44,502
Earning of premiums written in previous periods		(44,502)	(41,544)	(44,502)	(41,544)
Unearned premium liability as at 30 June		**51,580**	**44,502**	**51,580**	**44,502**

23. CURRENT LIABILITIES – UNEXPIRED RISK LIABILITY

No deficiency was identified as at 30 June 2007 and 2006 that resulted in an unexpired risk liability needing to be recognised.

24. CURRENT LIABILITIES – CURRENT TAX LIABILITIES

Current tax payable	**54**	**–**	**–**	**–**

25. PROVISIONS FOR EMPLOYEE ENTITLEMENTS

Current				
Employee benefits				
Annual leave	2,851	2,803	2,851	2,669
Long service leave	1,275	1,319	1,275	1,186
Retirement benefits	627	572	627	572
	4,753	**4,694**	**4,753**	**4,427**
Non-current				
Employee benefits				
Long service leave	751	625	751	625
Retirement benefits	122	111	122	111
	873	**736**	**873**	**736**

26. RETAINED PROFITS

Balance at the beginning of the financial year	276,665	212,747	277,448	217,747
Net profit	52,496	63,918	51,766	59,701
Balance at the end of the financial year	**329,161**	**276,665**	**329,214**	**277,448**

27. RESERVES

(a) Reserves comprise:

	Notes	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Property revaluation		7,053	6,919	7,053	6,919
		7,053	6,919	7,053	6,919

(b) Movements in reserves:

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Property revaluation reserve				
Balance at the beginning of the year	6,919	6,919	6,919	6,919
Property revaluation	134	–	134	–
Balance at the end of the year	7,053	6,919	7,053	6,919

(c) Nature and purpose of reserves

The property revaluation reserve is used to record increments and decrements on the revaluation of non-current assets, as described in note1(q).

28. COMMITMENTS FOR EXPENDITURE

(a) Operating lease commitments

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
– not longer than one year	1,597	2,246	1,597	1,878
– longer than one year and not longer than five years	2,171	3,461	2,171	3,390
	3,768	**5,707**	**3,768**	**5,268**

(b) Capital expenditure commitments

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
– not longer than one year	29,749	117	29,749	106
– longer than one year and not longer than five years	3,652	–	3,652	–
	33,401	**117**	**33,401**	**106**

The above commitments include capital commitments of $33,366,759 (2006 – $ nil) relating to the construction of the new head office building at Honeysuckle.

(c) Other expenditure commitments

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
– not longer than one year	**–**	**250**	**–**	**–**

(d) Remuneration commitments

Commitments for the payment of salaries, wages and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities:

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
– not longer than one year	3,007	1,670	3,007	1,670
– longer than one year and not longer than five years	1,857	5,640	1,857	5,640
	4,864	**7,310**	**4,864**	**7,310**

29. CONTINGENT LIABILITIES

At the date of this financial report, NIB Health Funds Limited has given an undertaking to extend financial support to subsidiaries NIB Servicing Facilities Pty Limited and NIB Health Care Services Pty Limited by subordinating repayment of debts owed by the entities to NIB Health Funds Limited, in favour of all other creditors. This undertaking has been provided as a result of each of these subsidiaries experiencing deficiencies of capital and reserves, and is intended to enable the entities to continue their operations and fulfil all financial obligations now and in the future. The undertaking is provided for a minimum period of twelve months from 30 August 2007, or if earlier, to the date of sale of the entities should this occur.

30. REMUNERATION OF AUDITORS

		Consolidated		Parent Entity	
	Notes	2007 $	2006 $	2007 $	2006 $
1. Audit services					
PricewaterhouseCoopers					
Audit and review of financial report and other audit work under the *Corporations Act 2001*		204,000	181,950	191,200	154,902
Total remuneration for audit services		204,000	181,950	191,200	154,902
2. Non-audit services					
Audit-related services					
PricewaterhouseCoopers					
Audit of regulatory returns		31,050	33,710	31,050	33,710
Total remuneration for audit-related services		31,050	33,710	31,050	33,710
Taxation services					
PricewaterhouseCoopers					
Advice on demutualisation		311,420	–	311,420	–
Other		34,885	72,205	34,885	72,205
Total remuneration for taxation services		346,305	72,205	346,305	72,205
Other services					
PricewaterhouseCoopers					
IFRS accounting services		–	66,552	–	66,552
Advice on demutualisation		215,900	–	215,900	–
Other activities undertaken to support audit of financial report		84,850	12,400	84,850	12,400
Total remuneration for other services		300,750	78,952	300,750	78,952
		882,105	**366,817**	**869,305**	**339,769**

31. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of cash

For the purpose of the statement of cash flows, cash includes cash on hand and in banks net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items on the balance sheet as follows:

	Notes	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Cash and cash equivalents	9	17,570	11,368	17,522	11,261
Bank overdraft	20	(1,431)	(2,989)	(1,381)	(2,946)
Cash on hand in disposal group classified as held for sale	8(i)(c)	–	425	–	–
		16,139	**8,804**	**16,141**	**8,315**

(b) Reconciliation of profit after income tax to net cash inflow from operating activities:

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Profit for the year	52,496	63,918	51,766	59,701
Net (gain)/loss on disposal of non-current assets	(8)	(112)	(8)	31
Fair value (gain)/loss on other financial assets at fair value through profit or loss	(8,438)	(6,865)	(8,350)	8,217
Net profit on disposal of business	(1,445)	–	–	–
Fair value adjustments to property	(1,577)	258	(140)	–
Gain on disposal of subsidiary	(601)	–	(263)	–
Depreciation and amortisation	4,454	6,069	3,740	3,155
Change in operating assets and liabilities, net of effect from purchase of controlled entity				
Decrease (increase) in receivables	(943)	(5,373)	(1,891)	(7,480)
Decrease (increase) in inventories	31	38	–	–
Increase (decrease) in trade payables	24,910	8,376	24,233	7,004
Increase (decrease) in current tax payable	54	–	–	–
Increase (decrease) in provisions	(1,046)	13,347	(1,055)	13,050
Net cash flow from operating activities	**67,887**	**79,656**	**68,032**	**83,678**

(c) Non-cash investing activities

	Consolidated 2007 $000	Consolidated 2006 $000	Parent Entity 2007 $000	Parent Entity 2006 $000
Acquisition of shares in subsidiary	–	–	–	29,000
	–	**–**	**–**	**29,000**

32. SUBSIDIARIES

	Place of incorporation	Percentage of shares held 2007 %	2006 %
NIB Health Funds Limited	Australia		
NIB Servicing Facilities Pty Limited	Australia	100	100
NIB Health Care Services Pty Limited	Australia	100	100
Newcastle Private Hospital Pty Limited (formerly NIB Private Hospital Pty Limited)(i)	Australia	–	100
063 465 949 Pty Limited (formerly NIB Eye Safety Pty Limited)	Australia	100	100
NIB Health Services Limited (formerly IOOF Health Services Limited)	Australia	100	100
The Heights Private Hospital Pty Limited	Australia	100	100
The NIB Private Hospital Trust	Australia	100	100
Newcastle Private Hospital Trust	Australia	100	100

The ultimate parent entity is NIB Health Funds Limited.

(i) A share sale agreement was completed on 31 May 2007. Refer to note 8 for further information.

33. INVESTMENTS IN ASSOCIATES

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the parent entity. Information relating to the associates is set out below:

		Ownership interest		Consolidated carrying amount		Parent entity carrying amount	
Name of company	Principal activity	2007 %	2006 %	2007 $000	2006 $000	2007 $000	2006 $000
Newcastle Private Imaging Services Pty Limited	Trustee company	–	50%	–	–	–	–
Newcastle Private Imaging Service Trust	Medical imaging services	–	25%	–	–	–	–

Consolidated carrying amounts of investments are Nil at 30 June 2007 and were less than $500 at 30 June 2006, and hence have been rounded to nil.

34. FINANCIAL REPORTING BY SEGMENT

The group operates predominantly in the private health insurance industry and related health care activities in Australia.

35. EVENTS OCCURRING AFTER REPORTING DATE

As set out in “Proposal to Demutualise – Explanatory Statement” dated 11 June 2007, the Board unanimously recommended the Proposal as being in the best interest of both Policyholders and Company Members. In summary, 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 involves:

- Eligible Policyholders and Company Members (in their new 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.

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).

Since 30 June 2007 all required approvals have been received. Given the required approvals have been received, the implementation steps are expected to occur on or about the dates shown below:

1. NIB converts from a company limited by guarantee to a company limited by Shares and NIB issues Shares to Eligible Policyholders – 31 August 2007;
2. NIB issues Shares to NIB Holdings – 31 August 2007;
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 a parent company of NIB – 1 October 2007;
4. NIB Holdings issues the same number of Shares as cancelled in step 3 to Eligible Policyholders – 1 October 2007; and
5. NIB Holdings lists on the ASX – November 2007.

Other than change in NIB’s corporate and company membership structure discussed above, there has not been any other matter or circumstance, that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

36. RELATED PARTIES

(a) Related party transactions with key management personnel

There were no related party transactions during the year, whereby neither party had the presence of control, joint control or significant influence to effect the financial and operating policies of the entity.

(b) Transactions with associated companies

Details of ownership interests in these associate entities are set out in note 33.

Newcastle Private Imaging Service Trust

When Newcastle Private Hospital Pty Limited was a wholly owned subsidiary of the Group, it had the following transactions with Newcastle Private Imaging Trust:

i) Cash and non-cash advances from Newcastle Private Hospital Pty Limited to Newcastle Private Imaging Service Trust to meet working capital requirements and to cover losses during the year ended 30 June 2007 of $639,148 (2006: $664,808)

ii) Newcastle Private Hospital Pty Limited received fees for equipment and premises leases, and related outgoings, together with theatre procedure fees from Newcastle Private Imaging Service Trust during the year ended 30 June 2007 of $478,693 (2006: $712,560).

iii) Newcastle Private Hospital Pty Limited paid Newcastle Private Imaging Service Trust for the provision of radiology services, together with reimbursing Newcastle Private Imaging Service Trust for after hours call out fees unpaid by Newcastle Private Hospital patients during the year ended 30 June 2007 in the amount of $91,477 (2006: $120,509).

36. RELATED PARTIES (CONTINUED)

(b) Transactions with associated companies (continued)

Newcastle Private Imaging Service Trust (continued)

iv) Newcastle Private Hospital Pty Limited negotiated the future dissolution of Newcastle Private Imaging Service Trust as part of satisfying the conditions precedent in respect of the sale of the operation of Newcastle Private Hospital (refer note 8) and agreed to compensate Newcastle Radiology $1,300,000 + GST. This amount was provided for at 30 June 2006 and was paid on 2 March 2007.

The outstanding loan for the year ended 30 June 2006 was $66,735. This amount was fully provided for during the year ended 30 June 2006, and recognised as an expense in the income statement. The loan balance of $36,729 was written off at 31 May 2007.

(c) Transactions with related parties in the wholly owned consolidated group

The wholly-owned group consists of NIB Health Funds Limited and its controlled entities. Details of ownership interests in these controlled entities are set out in note 32.

Details of interest revenue and charges and provision for impairment in respect of transactions with entities in the wholly-owned group are disclosed in notes 5 and 6 to the financial statements.

a) Other transactions that occurred during the financial year between entities in the wholly-owned group were:
   - Accounting and administration services at cost, totalling $187,780 (2006: $270,771)
   - Rental of property, plant and equipment at cost, totalling $50,820 (2006: $123,500)
   - Computer bureau charges, totalling $94,299 (2006: $200,595)

Amounts receivable from and payable to entities in the wholly-owned group are disclosed in the notes to the balance sheet within the financial statements.

(d) Loans to/from related parties

		Consolidated		Parent Entity	
	Notes	2007 $	2006 $	2007 $	2006 $
Loans to subsidiaries					
Beginning of the year		–	–	7,820,803	32,126,385
Loans advanced		–	–	2,815,838	4,372,770
Loan repayments received		–	–	(2,688,154)	(4,884,767)
Loans advanced to discontinuing operations		–	–	3,891,278	20,074,542
Loan repayments received from discontinuing operations		–	–	(2,766,077)	(43,850,661)
Loans repaid on disposal of discontinuing operation		–	–	(2,390,739)	–
Interest Charged		–	–	188,594	192,853
Interest received		–	–	(204,066)	(210,319)
End of the year		**–**	**–**	**6,667,477**	**7,820,803**

During the year the Parent entity has advanced funds to wholly owned entities to meet operating cash flow requirements. These outstanding balances are unsecured and are repayable in cash.

		Consolidated 2007 $	Consolidated 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Loan from NIB Health Services Limited					
Beginning of the year		–	–	14,626,478	14,624,849
Loans advanced		–	–	6,111	1,629
Loan repayments received		–	–	–	–
End of the year		**–**	**–**	**14,632,589**	**14,626,478**

A provision for impairment has been raised in the relation to the related parties loans, and a release of a prior years provision has been made in the amount of $1,156,041 in the income statement, largely due to the profit on sale on the Eye Care and Dental businesses. In 2006, a release of a prior years provision was made in the amount of $3,948,645 in the income statement.

37. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

The following persons were directors of NIB Health Funds Limited during the financial year:

(i) Chairman – non-executive

- Keith Lynch

(ii) Non-executive directors

- David Brewer
- Grahame Cannon
- Annette Carruthers
- Janet Dore
- Philip Gardner
- Michael Slater

(b) Key management personnel (Executives)

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	Position	Employer
Mark Fitzgibbon	Chief Executive Officer	NIB Health Funds Limited
Ian Boyd	Medical Director	NIB Health Funds Limited
Jayne Drinkwater	Chief Marketing Officer	NIB Health Funds Limited
Diane Lally	Human Resources Director	NIB Health Funds Limited
David Lethbridge	Executive Manager – Strategy & Governance	NIB Health Funds Limited
Michelle McPherson	Chief Financial Officer	NIB Health Funds Limited
Peter Small	Chief Operating Officer	NIB Health Funds Limited

(c) Key management personnel compensation

		Consolidated		Parent Entity	
	Notes	2007 $	2006 $	2007 $	2006 $
Short-term employee benefits		3,506,760	2,339,023	3,506,760	2,339,023
Post-employment benefits		782,786	367,522	782,786	367,522
Other long-term benefits		66,536	134,849	66,536	134,849
Termination benefits		–	–	–	–
		4,356,082	2,841,394	4,356,082	2,841,394

The company has taken advantage of the relief provided by *Corporations Regulation* 2M.6.04 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections A-C of the remuneration report on pages 31 to 34.

38. SOLVENCY REQUIREMENT

NIB Health Funds Limited Solvency Reserve, as per the Solvency Standard in the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is $73.905 million. Total Health Benefits Fund Assets are $508.460 million, representing an excess of $262.362 million over the Solvency Reserve and Health Benefits Fund Liabilities.

39. COMPANY DETAILS

NIB Health Funds Limited is a company limited by guarantee, incorporated and domiciled in Australia. The registered office of the company is:

384 Hunter Street
NEWCASTLE NSW 2300

The financial report was authorised for issue by the directors on 30 August 2007. The company has the power to amend and reissue the financial report.

COMPANY DETAILS

NIB Retail Centre Locations

NSW

Blacktown	Shop T26E, Westpoint Shopping Centre, Blacktown 2148
Brookvale	Shop 190, Level 1, Warringah Mall, Brookvale 2100
Campbelltown	Shop 1, 274-276 Queen Street, Campbelltown 2560
Cessnock	73 Vincent Street, Cessnock 2325
Charlestown	Suite 2, 190 Pacific Highway, Charlestown 2290
Chatswood	Shop 235, Westfield Shoppingtown, Anderson Street, Chatswood 2067
Eastgardens	Shop 182, Westfield Shoppingtown, 152 Bunnerong Road, Eastgardens 2035
Erina	Shop T71A, Erina Fair Shopping Centre, Terrigal Drive, Erina 2250
Glendale	593 Main Rd, Glendale 2285
Hurstville	Shop 235B, Forest Road, Hurstville 2220
Kotara	Shop 1/19, Westfield Kotara, Kotara 2289
Liverpool	Shop 16, Liverpool Plaza, Macquarie Street, Liverpool 2170
Maitland	371 High Street, Maitland 2320
Miranda	Shop 1014, Westfield Shoppingtown, Miranda 2228
Muswellbrook	49 Bridge Street, Muswellbrook 2333
Newcastle	Ground Floor, 384 Hunter Street, Newcastle 2300
North Ryde	Shop 43, Level 2, Macquarie Shopping Centre, Crn. Waterloo & Herring Roads, North Ryde 2113
Parramatta	Shop 1138, Westfield Shoppingtown, Church Street, Parramatta 2150
Penrith	Shop 31, Centro Nepean, Station Street, Penrith 2750
Raymond Terrace	Shop 3, Raymond Terrace Marketplace, 35-39 William Street, Raymond Terrace 2324
Salamander Bay	1/67 Salamander Way, Salamander Bay 2315
Shellharbour	Shop 37, Stockland Shellharbour, Shellharbour 2529
Singleton	101 John Street, Singleton 2330
Sydney City	Shop 3B, 5 Hunter Street, Sydney 2000
Tamworth	Shop C, 430 Peel Street, Tamworth 2340
Taree	Hunter Arcade, 19 Manning Street, Taree 2430
Wollongong	136 Crown Street, Wollongong 2500

ACT

Belconnen	Shop 140A, Level 3 Westfield Shoppingtown, Belconnen 2617
Woden	Shop GD72, Woden Plaza, Woden 2606

QLD

Brisbane	Level 1, Store E150, Wintergarden, Queen Street Mall, Brisbane 4000

VIC

Melbourne	140 Queen Street, Melbourne 3000

SA

Adelaide	13 Grenfell Street, Adelaide 5000

NIB Dental Care Centres

Glendale	593 Main Rd, Glendale NSW 2285
Newcastle	366 Hunter Street, Newcastle NSW 2300
Sydney	Level 10, 333 George Street, Sydney NSW 2000
Wollongong	104 Crown St, Crown St Mall, Wollongong NSW 2500

NIB Eye Care Centres

Charlestown	190 Pacific Highway, Charlestown NSW 2290
Newcastle	366 Hunter St, Newcastle NSW 2300
Sydney	Level 10, 333 George St, Sydney NSW 2000
Wollongong	104 Crown St, Crown St Mall, Wollongong NSW 2500

NIB Corporate Office

Newcastle	384 Hunter Street, Newcastle NSW 2300

NIB Corporate Sales Office

Parramatta	Level 5, Suite 4, 20-22 Macquarie Street, Parramatta NSW 2150

Website

nib.com.au

Member Care Centre

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NIB HOLDINGS LIMITED
ACN 125 633 856

2008 FINANCIAL FORECASTS

24 September 2007

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

Contents

Important information

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

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

Disclaimer

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

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

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

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

Obtaining a copy of this Booklet

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

Defined terms and Abbreviations

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

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

1. INTRODUCTION

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

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

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

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

1.2 Demutualisation

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

On 31 August 2007, the following steps occurred:

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

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

1.3 Listing

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

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

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

2. FINANCIAL INFORMATION

2.1 INTRODUCTION

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

2.2 HISTORICAL AND FORECAST FINANCIAL INFORMATION

2.2.1 Basis of preparation and presentation of historical financial information

The historical financial information comprises:

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

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

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

2.2.2 Sources of historical financial information

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

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

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

2.2.3 Basis of preparation and presentation of forecast financial information

The forecast financial information comprises:

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

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

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

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

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

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

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

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

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

2. FINANCIAL INFORMATION

2.3 HISTORICAL AND FORECAST INCOME STATEMENTS

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

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

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

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

2. FINANCIAL INFORMATION

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

2.4.1 Introduction

NIB generates revenue from the following sources:

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

Each of these is discussed in more detail below.

Premium revenue

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

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

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

Investment income

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

Other revenue

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

Expenses

Claims expense represents benefits incurred.

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

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

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

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

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

Investment expenses represent investment management fees.

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

2.4.2 Historical FY2007 compared to FY2006

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

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

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

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

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

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

2. FINANCIAL INFORMATION

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

2.5 2008 FORECAST FINANCIAL INFORMATION

2.5.1 Directors' best estimate assumptions

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

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

2.5.2 General best estimate assumptions

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

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

2.5.3 Specific best estimate assumptions

Forecasts for FY2008 – Income Statement

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

Premium revenue

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

Claims expense

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

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

Health Benefits Reinsurance Trust Fund/ Risk Equalisation Trust Fund Levy

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

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State levies

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

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

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

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

Claims handling expenses

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

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

Acquisition costs

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

Other underwriting expenses

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

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

Investment income and expenses

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

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

Other revenue

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

Other expenses

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

Income tax expense

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

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

2.6.1 Normalised FY2008 compared to normalised FY2007

Premium revenue

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

Investment income

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

Other revenue

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

Gross margin

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

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

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

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

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

Expenses not included in gross margin

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

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

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

2.7 SENSITIVITY ANALYSIS

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

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

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

2. FINANCIAL INFORMATION

2.8 PRO-FORMA BALANCE SHEET

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

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

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

2. FINANCIAL INFORMATION

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

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

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

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

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2.10 MANAGEMENT DISCUSSION AND ANALYSIS OF LIQUIDITY AND CAPITAL RESOURCES

General

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

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

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

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

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

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

Seasonality

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

Capital Expenditure

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

Capital Management

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

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

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

2.11 FORECASTS FOR FY2008 – STATEMENT OF CASH FLOWS

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

Working capital assumptions

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

New capital assumptions

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

Capital Expenditure Assumptions

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

Tax Paid Assumption

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

2.12 DIVIDEND POLICY

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

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

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

2.13 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Preparation of financial information

Basis of preparation

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

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

Historical cost convention

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

Critical accounting estimates

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

Functional and presentation currency

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

Summary of significant accounting policies – Pre-Demutualisation

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

2.13.1 Principles of consolidation

(i) Subsidiaries

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

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

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

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

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

2.13.2 Revenue recognition

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

(i) Premium revenue

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

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

2. NOTES TO THE FINANCIAL INFORMATION

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

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

(ii) Investment income

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

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

(iii) Other revenue

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

2.13.3 Unexpired risk liability

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

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

2.13.4 Outstanding claims liability

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

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

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

2.13.5 Acquisition costs

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

2.13.6 Income tax

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

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

2.13.7 Leases

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

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

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

2.13.8 Business combinations

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

2. NOTES TO THE FINANCIAL INFORMATION

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

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

2.13.9 Impairment of assets

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

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

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

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

2.13.10 Assets backing private health insurance liabilities

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

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

(i) Financial assets

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

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

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

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

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

(ii) Investment properties

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

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

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

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

(iii) Receivables

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

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

2. NOTES TO THE FINANCIAL INFORMATION

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

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

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

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

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

2.13.13 Inventories

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

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

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

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

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

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

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

2.13.15 Property, plant and equipment

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

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

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

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

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

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

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

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

2.13.16 Intangible assets

(i) Goodwill

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

2. NOTES TO THE FINANCIAL INFORMATION

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

(ii) Software licences

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

2.13.17 Payables

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

2.13.18 Employee benefits

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

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

(ii) Long service leave

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

(iii) Bonus plans

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

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

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

(iv) Retirement benefits

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

(v) Termination benefits

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

2.13.19 Goods and Services Tax (GST)

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

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

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

Summary of significant accounting policies – Post Demutualisation

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

2.13.20 Income Tax

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

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

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

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

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

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

Tax consolidation legislation

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

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

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

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

2.13.21 Share-based payments

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

2.13.22 Reverse acquisition accounting policy

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

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

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

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

2.14 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

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

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

2. NOTES TO THE FINANCIAL INFORMATION

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

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

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

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

2.15 ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial methods

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

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

Actuarial assumptions

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

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

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

Process used to determine assumptions

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

(i) Average weighted term to settlement

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

(ii) Expense rate

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

(iii) Discount rate

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

Sensitivity analysis insurance contracts

(i)Summary

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

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

(ii) Impact of changes in key variables

		Normalised Profit		Normalised Equity
		2007 $'000	2008 $'000	2007 $'000
Recognised amounts in the financial statements		37,234	32,127	336,214
		Adjustment to amount recognised		
Variable	Movement in variable	2007 $'000	2008 $'000	2007 $'000
Average weighted term to be settled	+ 0.1 Month	(3,420)	(3,885)	(3,420)
	– 0.1 Month	3,420	3,885	342
Expense rate	+1%	(479)	(547)	(479)
	–1%	479	547	479
Application of a discount rate of	6.35%	395	452	395

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2.16 INCOME TAX

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

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

2. NOTES TO THE FINANCIAL INFORMATION

2.17 CURRENT LIABILITIES – OUTSTANDING CLAIMS LIABILITY

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

(b) Risk margin

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

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

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

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

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

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

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

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

2. NOTES TO THE FINANCIAL INFORMATION

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

2.18 RESERVES

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

(c) Nature and purpose of reserves

(i) Property revaluation reserve

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

(ii) Share-based payments reserve

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

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

2.19 PRO-FORMA ADJUSTMENTS

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

2.19.1 Transfer to risk equalisation arrangements

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

2. NOTES TO THE FINANCIAL INFORMATION

2.19.2 Demutualisation/Listing costs

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

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

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

2.19.3 Ongoing costs of a public company

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

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

2.19.4 Issue of shares to Policyholders

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

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

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

2.19.5 Donation to NIB Foundation

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

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

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

2.19.6 Income tax

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

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

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

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

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

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

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

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

2.19.8 Additional issue of shares

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

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

3. INVESTIGATING ACCOUNTANT'S REPORT

PRICEWATERHOUSECOOPERS

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The Directors
NIB Holdings Limited
Locked Bag 2010
NEWCASTLE NSW 2300

24 September 2007

Dear Directors

Investigating Accountant's Report on Historical and Forecast Financial Information

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

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

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

Scope

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

Historical financial information

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

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Forecast financial information

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

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

Scope of review of Historical Financial Information

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

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

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

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

(2)

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Review statement on Historical Financial Information

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

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

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

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

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

Scope of review of Forecast financial information

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

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

(3)

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

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

Review statement on the Forecasts

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

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

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

(c) the Forecasts are unreasonable.

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

Subsequent events

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

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Independence or Disclosure of Interest

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

Yours faithfully

Wayne Russell
Authorised Representative of
PricewaterhouseCoopers Securities Ltd

Jock O'Callaghan
Authorised Representative of
PricewaterhouseCoopers Securities Ltd

(5)

4. RISK FACTORS

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

4.1 Share price fluctuations

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

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

4.2 Impact of economic conditions on product demand and expenses

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

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

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

4.3 Investment market performance

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

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

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

4.4 Competition in the health insurance industry

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

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

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

4.5 Pricing risk

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

4.6 Risk Equalisation trust arrangements

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

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

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

4. RISK FACTORS

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

4.7 Changes in government policy or legislation

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

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

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

4.8 Rapid growth

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

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

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

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

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

4.9 Compliance with regulation

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

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

4.10 Estimation of claims provisions

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

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

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

4. RISK FACTORS

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

4.11 Operational risk

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

4.12 Loss of key personnel

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

4.13 Tax Treatment

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

4.14 Technology

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

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

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

4.15 Litigation and legal action

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

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

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

4.16 Future Events

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

5. GLOSSARY OF TERMS

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

5. GLOSSARY OF TERMS

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

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NIB HOLDINGS LIMITED
ACN 125 633 856

NIB Holdings Limited
ABN 51 125 633 856

384 Hunter Street
Newcastle NSW 2300

NIB HOLDINGS LIMITED
ACN 125 633 856

Pre-Listing
Share Sale Opportunity

Invitation to Eligible Policyholders to sell your Shares prior to Listing

*Your decision to **sell** or **hold** your Shares*

Read this Invitation carefully.
It contains important information to help you decide what to do with your Shares.

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

Important dates[1]

Date of this Invitation
24 September 2007

Demutualisation Date
1 October 2007

Last day for Sale Facility Election Forms to be received
19 October 2007

Facility Price determined under the Institutional Bookbuild
25–26 October 2007

Facility Price announced
26 October 2007

Dispatch of holding statements
Early November 2007

Expected Listing
Early November 2007

Sale Facility proceeds distributed
Early November 2007

1. Dates are indicative only and are subject to change.

Contents

This Invitation provides you with information to help you decide whether to sell or hold your Shares prior to NIB Holdings Listing on the Australian Securities Exchange (ASX).

The Board makes no recommendation as to whether you should sell or hold your Shares.

The Indicative Facility Price Range is between $0.70 and $0.90 per Share[2]

2. Facility Price is not guaranteed and may be below, within or above this range. If the Facility Price is below the Floor Price the Sale Facility will not proceed – see Section 4.2.

With this Invitation you should have received:

1. Chairman's Letter

2. Sale Facility Election Form

3. Reply paid envelope

1

Overview and background

On 19 July 2007, NIB's Company Members and Eligible Policyholders overwhelmingly approved the proposal to Demutualise. On 23 July 2007, the Federal Court of Australia made orders to give effect to the Demutualisation.

As an Eligible Policyholder, you are eligible to be issued Shares in NIB Holdings when NIB Demutualises. This is scheduled to occur on 1 October 2007.

It is important to understand that you must have Verified your details to be able to either sell or hold your Shares. Your current verification status is indicated on your Sale Facility Election Form.

Section 2.3 outlines how you can Verify your details if you have not already done so. For example, you can Verify by returning the Sale Facility Election Form in the reply paid envelope provided.

If you have NOT Verified your details by 1 October 2007, your Shares will be issued to the Overseas Policyholders and Unverified Policyholders Trust (Trust) on your behalf. You will then have until 1 October 2010 to Verify your details and claim your Shares from the Trust. For more details, see Section 7.5 of the Explanatory Statement, which is available at the NIB website (nib.com.au).

Following Demutualisation, NIB Holdings intends to List its Shares on ASX, however there is no guarantee that Listing will occur. For more details, see Section 2.1 of the Explanatory Statement which is available at the NIB website (nib.com.au), under the sub-heading "What happens if Listing does not occur?"

2

What you need to do

2.1 Read this Invitation carefully

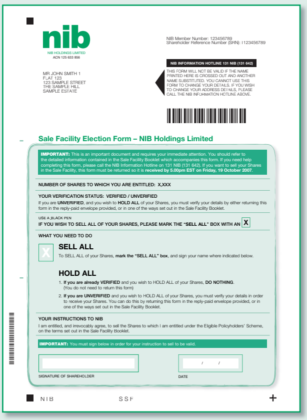
It contains important information to help you decide what to do with your Shares.

2.2 Decide whether to sell or hold your Shares

Sell your Shares

You may sell your Shares by completing the Sale Facility Election Form. Simply mark the SELL ALL box and sign and return the form in the enclosed reply paid envelope. If you decide to sell your Shares through the Sale Facility, you must sell all of your Shares.

Participation in the Sale Facility is not the only way you can sell your Shares. You also have the option of selling your Shares on ASX following Listing. You would normally incur brokerage costs if you sell your Shares after Listing. There will be no brokerage cost if you sell your Shares through the Sale Facility.



nib
NIB HOLDINGS LIMITED
ACN 125 633 856

NIB Member Number: 123456789
Shareholder Reference Number (SRN): I123456789

MR JOHN SMITH 1
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE

NIB INFORMATION HOTLINE 131 NIB (131 642)

THIS FORM WILL NOT BE VALID IF THE NAME PRINTED HERE IS CROSSED OUT AND ANOTHER NAME SUBSTITUTED. YOU CANNOT USE THIS FORM TO CHANGE YOUR DETAILS. IF YOU WISH TO CHANGE YOUR ADDRESS DETAILS, PLEASE CALL THE NIB INFORMATION HOTLINE ABOVE.

Sale Facility Election Form – NIB Holdings Limited

IMPORTANT: This is an important document and requires your immediate attention. You should refer to the detailed information contained in the Sale Facility Booklet which accompanies this form. If you need help completing this form, please call the NIB Information Hotline on 131 NIB (131 642). If you want to sell your Shares in the Sale Facility, this form must be returned so it is **received by 5.00pm EST on Friday, 19 October 2007.**

NUMBER OF SHARES TO WHICH YOU ARE ENTITLED: X,XXX

YOUR VERIFICATION STATUS: VERIFIED / UNVERIFIED

If you are **UNVERIFIED**, and you wish to **HOLD ALL** of your Shares, you must verify your details by either returning this form in the reply-paid envelope provided, or in one of the ways set out in the Sale Facility Booklet.

USE A BLACK PEN

IF YOU WISH TO SELL ALL OF YOUR SHARES, PLEASE MARK THE "SELL ALL" BOX WITH AN X

WHAT YOU NEED TO DO

X **SELL ALL**

To SELL ALL of your Shares, **mark the "SELL ALL" box**, and sign your name where indicated below.

HOLD ALL

1. **If you are already VERIFIED** and you wish to HOLD ALL of your Shares, **DO NOTHING.** (You do not need to return this form)
2. **If you are UNVERIFIED** and you wish to HOLD ALL of your Shares, you must verify your details in order to receive your Shares. You can do this by returning this form in the reply-paid envelope provided, or in one of the ways set out in the Sale Facility Booklet.

YOUR INSTRUCTIONS TO NIB

I am entitled, and irrevocably agree, to sell the Shares to which I am entitled under the Eligible Policyholders' Scheme, on the terms set out in the Sale Facility Booklet.

IMPORTANT: You must sign below in order for your instruction to sell to be valid.

SIGNATURE OF SHAREHOLDER

DATE / /

NIB SSF

If you decide to sell your Shares through the Sale Facility, you need to return your Sale Facility Election Form in the reply paid envelope provided with this Invitation so it is received no later than 19 October 2007.

The proceeds you receive from the sale of your Shares will be taxable in full as a capital gain. This gain will be offset against any capital losses you may have accumulated, with any excess (or the full amount if you have no capital losses) added to your taxable income to be assessed at your marginal income tax rate. This rate varies depending on your taxable income. No capital gains tax discount will be available, as you will not have held your Shares for more than 12 months. See Section 7 of this Invitation for more information regarding taxation.

Hold your Shares

If you are already Verified, you do not have to do anything if you want to hold your Shares. Your verification status is set out on your Sale Facility Election Form.

If you are not yet Verified, you must Verify your details in order to hold your Shares. You can do this by simply returning the Sale Facility Election Form (do not mark the SELL ALL box if you do not wish to sell). Some other ways you can Verify are set out in Section 2.3 of this Invitation. If you do not Verify, your Shares will be issued to the Trust. Refer to Section 7.5 of the Explanatory Statement available at the NIB website (nib.com.au) for further information.

Each of these options have different financial and tax implications. You should seek independent financial advice (including tax advice) specific to your circumstances when determining whether to sell or hold your Shares. Please see Section 7 of this Invitation for a general summary of the likely taxation consequences of your decision to sell or hold your Shares.

The Board makes no recommendation as to whether you should sell or hold your Shares.

2.3 Verify your details

It is important to understand that you must have Verified your details to be able to either sell or hold your Shares. Your current verification status is indicated on your Sale Facility Election Form.

You can Verify your details through the following methods:

(a) returning the Sale Facility Election Form in the reply paid envelope provided;

(b) visiting the NIB website (nib.com.au) and following the directions to Verify your details;

(c) calling the NIB Information Hotline on 131 NIB (131 642) and Verifying your details with the operator; or

(d) completing the Verification of Details Form which was included with your Explanatory Statement and returning it in the reply paid envelope or delivering it in person to any NIB retail centre (details of retail centre locations are available at the NIB website (nib.com.au)).

3

Financial Information

3.1 Summary financial information

Set out below is an extract of NIB's normalised pro-forma consolidated historical financial information for the year ended 30 June 2007 and normalised pro-forma consolidated forecast financial information for the year ended 30 June 2008[1].

The financial information set out below is a summary only. For full details of the historic financial information for the year ended 30 June 2007 refer to the 2007 Annual Report, which is available at the NIB website (nib.com.au). For full details of the forecast financial information for the year ended 30 June 2008 and the pro-forma historical financial information for the year ended 30 June 2007 refer to the 2008 Financial Forecast Booklet, which is also available at the NIB website (nib.com.au).

This financial information is "normalised" to give a meaningful assessment of NIB's financial performance and position from on-going operations excluding the impact of non-recurring items which do not reflect NIB's ordinary business.

3.2 Dividend policy

The issue of Shares by NIB to Eligible Policyholders will be accounted for to create a share-based payments reserve in NIB Health and a corresponding offsetting charge to the earnings of NIB Health. Further details are contained in the 2008 Financial Forecast Booklet. As a result, NIB will not be able to pay a dividend in the 2008 financial year because it will not have accounting profits in that year. Importantly, the making of this charge to earnings has no implication for the underlying profitability and outlook for NIB's earnings and will not impact on NIB's ability to undertake alternative capital management initiatives.

	YEAR ENDED 30 JUNE 2007 NORMALISED (ACTUAL)	YEAR ENDED 30 JUNE 2008 NORMALISED (FORECAST)
Premium revenue ($m)	666.0	750.7
Net profit after tax ($m)	37.2	32.1
Earnings per share (cents)*	7.03–7.24	6.06–6.25
Price/earnings ratio*	10.0x–12.4x	11.5x–14.4x
Price/net assets*	1.1x–1.4x[2]	n/a

* Based on Indicative Facility Price Range as set out in Section 4.2 of this Invitation.

1. Historical financial information excludes one off Demutualisation Adjustments. Those Demutualisation Adjustments include a charge against earnings to create a share based payment reserve with the result that NIB Holdings will report a substantial loss in its statutory financial statements. See Section 5 of the Explanatory Statement and the 2008 Financial Forecast Booklet, both of which are available at the NIB website (nib.com.au), for more details.
2. Pro-forma post-Listing Net Assets.

After the 2008 financial year, NIB Holdings expects to have accounting profits from which to pay dividends. Importantly, any payment of dividends will need to ensure NIB is in compliance with the solvency and capital adequacy standards as outlined in the Private Health Insurance Act, together with NIB's internal target level of capital. The Board aims to provide Shareholders with a steady or rising stream of dividends, in line with the long-term, sustainable earnings of NIB. Each of these expectations is subject to market conditions, growth plans, capital levels and requirements and other factors.

3.3 Capital management

In the absence of strategic growth initiatives, the Directors intend reviewing NIB's capital position and gearing levels at or around the time of release of NIB's 30 June 2008 financial results, with a view to returning capital to Shareholders. The quantum of any capital return will be determined having regard to a number of factors including, the necessary capital required to fund both NIB's organic and inorganic growth opportunities, market conditions and growth plans. The exact timing and quantum of any capital return will be determined following the necessary discussions with, and approvals from, the ATO and PHIAC.

4

Sell or hold your Shares?

If you are an Eligible Policyholder and you have Verified your details, you will be issued Shares on 1 October 2007.

At this time, you will become a Shareholder in NIB Holdings. It is expected that NIB Holdings will List in early November 2007. If you are an unverified Eligible Policyholder on 1 October 2007, your Shares will be issued to the Trust. Refer to Section 7.5 of the Explanatory Statement, which is available at the NIB website (nib.com.au), for further information.

4.1 Selling your Shares through the Sale Facility

The Board has established the Sale Facility to enable Shareholders to sell their Shares before Listing without paying brokerage costs. NIB Holdings will pay all costs associated with the sale of Shares by Shareholders under the Sale Facility. Using the Sale Facility is entirely your choice.

The Board makes no recommendation as to whether you should sell or hold your Shares.

Please see Section 7 of this Invitation for a general summary of the likely taxation consequences of your decision to sell or hold your Shares.

If you wish to sell your Shares through the Sale Facility, your Shares will be combined with the Shares of other Shareholders who want to sell and they will be offered to institutional investors.

4.2 Facility Price

If you choose to sell your Shares, you will receive the Facility Price for each of the Shares to which you are entitled. The Facility Price for each Share is expected to be announced on 26 October 2007.

NIB Holdings currently estimates that the Facility Price is likely to be between $0.70 and $0.90 per Share **but this range is indicative only. The Facility Price may be outside this Indicative Facility Price Range.** The Indicative Facility Price Range has been estimated based on a preliminary sounding of institutional investors.

The final price per Share will be the Facility Price, which will be determined by way of the Institutional Bookbuild.

Please note that the sale of Shares under the Sale Facility will not proceed if the Facility Price is less than $0.70 per Share (this is the Floor Price). The Floor Price for the Sale Facility is a requirement imposed by ASIC as a condition of permitting relief from the operation of certain provisions of the Corporations Act.

If you decide to sell your Shares through the Sale Facility you will be bound to sell your Shares if the Facility Price is greater than or equal to the Floor Price. NIB Holdings and the Board provide no assurance that the Facility Price will be within the Indicative Facility Price Range. Further, NIB Holdings may in its absolute discretion decide not to proceed with the Sale Facility, even if the Facility Price is greater than or equal to the Floor Price.

It is expected that the Facility Price will be announced on 26 October 2007 on the NIB website (nib.com.au) or will be available by calling the NIB Information Hotline on 131 NIB (131 642).

4.3 Holding your Shares

If you have already Verified, you do not need to do anything if you want to hold your Shares. However, if you have not yet Verified, you must Verify your details in order to hold your Shares. You can do this by simply returning the Sale Facility Election Form in the enclosed reply paid envelope or by one of the other methods set out in Section 2.3. If you have not Verified your details by 1 October 2007, your Shares will be issued to the Trust on your behalf. For more details, see Section 7.5 of the Explanatory Statement, which is available at the NIB website (nib.com.au).

A holding statement setting out the number of Shares held by you will be sent to you in early November 2007. The number of Shares to which you are entitled is set out on your Sale Facility Election Form. In addition, the number of Shares to which you are entitled was also set out on the Share Allocation Form that you should have received in June 2007, with the Explanatory Statement.

4.4 ASX quotation and Listing

NIB Holdings intends to apply for admission of the Shares to quotation on ASX. Listing is not guaranteed or automatic. NIB Holdings expects the Shares to List in early November 2007. If Listing does not occur as intended, the sale of Shares pursuant to the Sale Facility will not proceed and any offer you have made to sell your Shares will lapse. It is unlikely that Listing will proceed if the Facility Price is below the Floor Price.

4.5 Risks associated with holding your Shares

Ownership of shares involves risks. Shares may increase or decrease in value. The content of this Invitation does not, and is not intended to, constitute financial advice provided by NIB Holdings.

You should seek independent financial advice (including tax advice) specific to your circumstances when determining whether to sell or hold your Shares.

Further details regarding key risks are outlined in Section 6 of this Invitation.

4.6 Other ways to sell your Shares

Participation in the Sale Facility is not the only way you will be able to sell your Shares. If NIB Lists on ASX you will be able to sell your Shares on-market. You will also be able to sell your Shares off-market if you can find a buyer. Under the constitution of NIB Holdings, generally the only way you can sell your Shares before Listing is by participating in this Sale Facility.

If you sell your Shares normally on ASX you will likely incur brokerage costs. Selling your Shares by participating in the Sale Facility does not involve brokerage costs.

The price of Shares on ASX is likely to be different to the Facility Price and will change over time. NIB Holdings and the Board provide no assurance as to what the price of Shares will be on ASX from time to time.

You must form your own view as to whether you would receive a higher return by selling your Shares through the Sale Facility as compared to selling your Shares on ASX.

4.7 Institutional Offer by way of an Institutional Bookbuild

NIB Holdings is making an offer to institutional investors under which institutions will be invited to bid for Shares submitted for sale by Eligible Policyholders through the Sale Facility, as well as new Shares issued by NIB Holdings (primarily to cover Listing costs and fund its initial grant to the NIB Foundation). Institutional investors will submit bids indicating the number of Shares they wish to purchase at specified prices (this is called an Institutional Bookbuild).

Bids will only be received once the Sale Facility is closed. The bids received will be taken into account in determining the Facility Price and the allocation of Shares between institutional investors.

The timing of the Institutional Bookbuild is at the discretion of NIB Holdings and the Sole Lead Manager, and is currently expected to take place on or about 25–26 October 2007. However, the actual date of the Institutional Bookbuild will depend on sharemarket conditions, amongst other things. NIB Holdings and the Sole Lead Manager reserve the right to defer or cancel the Bookbuild in their absolute discretion.

If the Institutional Bookbuild has not taken place on or before 31 December 2007, it is likely that the sale of Shares pursuant to the Sale Facility will not proceed and that any offer you have made to sell your Shares will lapse. Also, if the Facility Price is less than the Floor Price, it is likely that Listing will be deferred for a period of time determined by NIB Holdings and the Sole Lead Manager in their absolute discretion.

	Selling Shares through the Sale Facility	Selling Shares after Listing on ASX
Price	Facility Price (but not less than the Floor Price)	Market price (which may be higher or lower than the Facility Price)
Pricing Period	Before Listing, expected to be 25–26 October 2007	At the time of the sale
Deal with a stockbroker	No	Yes
Brokerage Cost	Nil	Varies by broker
Limit on sales	Must sell complete holding	Can sell all or part of holding, subject to agreement with broker
Timing	Sale Facility Election Forms must be received by 19 October 2007	Any time after Listing

Some frequently asked questions

(a) What is the Sale Facility?

A brokerage-free facility for Eligible Policyholders who wish to sell all their Shares prior to Listing.

(b) What do I need to do if I want to SELL ALL my Shares in the Sale Facility?

If you wish to sell your Shares before Listing by participating in the Sale Facility, you must complete and sign the Sale Facility Election Form that you should have received with this Invitation and return it so it is received by 19 October 2007.

(c) What do I need to do if I want to HOLD ALL my Shares?

If you have already Verified, you do not have to do anything if you want to hold your Shares. If you have not yet Verified, you must Verify your details in order to hold your Shares. You can do this by returning the Sale Facility Election Form in the reply paid envelope. Refer to Section 2.3 of this Invitation for more ways you can Verify your details.

(d) How many Shares can I sell?

If you decide to sell your Shares through the Sale Facility, you must sell all of your Shares. You cannot sell only a proportion of your Shares.

(e) What if I want to sell only some of my Shares?

You must sell all of your Shares if you sell your Shares through the Sale Facility. If you wish to sell only some of your Shares, you will be able to do so on-market after Listing on ASX, however, you will typically incur a brokerage charge.

(f) Is the Sale Facility the only way I can sell my Shares?

No. You can also sell your Shares after Listing.

(g) How much money will I receive?

If you sell your Shares through the Sale Facility you will receive the Facility Price for each of your Shares. Tax is likely to be payable on the sale of Shares (see Section 7 of this Invitation for further details).

(h) What is the Facility Price?

The Facility Price for each Share is expected to be announced on 26 October 2007. NIB Holdings currently estimates that the Facility Price will be between $0.70 and $0.90 per Share but this range is indicative only and the Facility Price may be outside this range. If you participate in the Sale Facility you will be bound to sell your Shares at whatever the Facility Price is, providing the Facility Price is greater than or equal to the Floor Price.

(i) How is the Facility Price determined?

The Facility Price will be determined by way of an Institutional Bookbuild (outlined in Section 4.7 of this Invitation).

(j) When will I know the Facility Price?

It is expected that the Facility Price will be announced on 26 October 2007 on the NIB website (nib.com.au) or will be available by calling the NIB Information Hotline on 131 NIB (131 642).

(k) How has the Indicative Facility Price Range been determined?

The Indicative Facility Price Range of $0.70 to $0.90 per Share has been estimated based on a preliminary sounding of institutional investors. The final price per Share will be the Facility Price, which will be determined by way of the Institutional Bookbuild. The final price will not be less than the Floor Price. Further, it is unlikely that Listing will proceed if the Facility Price is below the Floor Price.

(l) Do I have to pay brokerage and other costs?

No. If you sell your Shares through the Sale Facility you will not have to pay brokerage that you would normally be required to pay when selling shares. NIB Holdings will pay those costs.

(m) When will I receive my money?

If you sell your Shares through the Sale Facility, you will be paid by cheque. It is expected cheques will be dispatched in early November 2007.

(n) Can I change my mind once I have returned the Sale Facility Election Form?

No. You cannot change your decision to sell or hold your Shares once you have returned your Sale Facility Election Form.

(o) How do I sell my Shares after Listing?

After Listing, you will be able to sell your Shares through ASX by contacting a broker. There is a table in Section 4.7 of this Invitation which compares certain aspects of selling your Shares via the Sale Facility and selling your Shares on ASX after Listing.

(p) How do I buy more Shares?

After Listing, you can purchase more Shares on ASX. To do so, please contact a broker.

(q) What impact does this have on my social security payments?

If you currently receive social security or veterans' entitlements from Centrelink or the Department of Veterans' Affairs you should consider whether your entitlements will be reduced or lost if you sell or hold your Shares.

Please read Section 2.3 of the Explanatory Statement, which is available at the NIB website (nib.com.au) for further detail.

(r) What is the cost base of my Shares for taxation purposes?

The cost base of your Shares is nil. See Section 7 of this Invitation for further details on the likely taxation implications of selling or holding your Shares.

Key risks

There are a number of risks associated with being a Shareholder in NIB Holdings. The key risks that may impact the performance of NIB Holdings and an investment in Shares include, but are not limited to:

(a) share market and price variations;

(b) impact of general economic conditions on the demand for NIB's products;

(c) investment performance of NIB's investment portfolio;

(d) increasing competition in the health insurance industry;

(e) compliance with, and changes to, regulatory factors and legislation;

(f) government regulation of premium rate increases;

(g) medical cost or utilisation inflation exceeding actuarial expectations; and

(h) the planned rapid growth of NIB.

The above is only a summary of the key risks that may impact the performance of NIB Holdings and an investment in Shares. For full details, see the 2008 Financial Forecast Booklet and Section 4.5 of the Explanatory Statement, which are both available at the NIB website (nib.com.au).

7

Taxation

The taxation consequences of a decision to sell or to hold your Shares may vary, depending on your personal circumstances. To assist you, we have outlined below in general terms some of the likely results of this decision. However, you should not rely solely on this information, and should seek your own professional taxation advice prior to finalising your decision.

7.1 Receiving Shares

No amount should be recognised as a taxable amount when you are issued Shares in NIB Holdings.

7.2 Selling your Shares through the Sale Facility

The proceeds you receive from the sale of your Shares will be taxable in full as a capital gain. This gain will be offset against any capital losses you may have accumulated, with any excess (or the full amount if you have no capital losses) added to your taxable income to be assessed at your marginal income tax rate. This rate varies depending on your taxable income. No capital gains tax discount will be available, as you will not have held the Shares for more than 12 months.

7.3 Selling your Shares through a broker after Listing

If you sell your Shares on ASX through a broker after NIB Holdings Lists, then the net amount you receive, after deducting transaction costs, will be taxable in full as a capital gain, as described above. Should this sale occur more than 12 months after you have been issued with your shares in NIB Health (your shares in NIB Health were issued on 31 August 2007 unless notified otherwise), then you may be able to take advantage of a capital gains tax discount, reducing the capital gain recognised by 50%.

7.4 Holding your Shares

If you hold your Shares, then any dividends you receive will be included in your taxable income. Any franking credits attaching to those dividends will be offset against tax payable by you. In some circumstances a refund of these franking credits will be paid to you. Should you eventually sell your Shares then the outcomes detailed at Section 7.3 should apply.

These comments are made in the absence of clarification from the ATO or Treasury on their interpretation of the law. It is expected that these aspects will be clarified by these regulators shortly.

Additional information

8.1 What is the Invitation?

If you decide to sell your Shares by completing the Sale Facility Election Form you are offering to sell your Shares on the terms set out in this Invitation and appoint NIB Holdings as your agent to arrange that sale. If the Institutional Bookbuild has not taken place on or before 31 December 2007, it is likely that the sale of Shares pursuant to the Sale Facility will not proceed and that any offer you have made to sell your Shares will lapse. Also, if the Facility Price is less than the Floor Price, it is likely that the Listing will be deferred for a period of time determined by NIB Holdings and the Sole Lead Manager in their absolute discretion.

By offering to sell your Shares you acknowledge and agree, to the maximum extent permitted by law, to release and discharge NIB, the Board and NIB's advisors from any liability in relation to the process by which your Shares are sold, including in relation to the process by which the Facility Price is determined. For further details please refer to Section 9 of this Invitation.

8.2 Important information regarding the Sale Facility

There are some important things you need to know about this Invitation:

(a) no Shares will be issued directly to Eligible Policyholders whose registered address is outside Australia;

(b) Shares will only be issued if the reconstruction of NIB Health is completed;

(c) the Indicative Facility Price Range is indicative only and there is no guarantee that the Facility Price will be in this range; and

(d) the sale of Shares under the Sale Facility will not proceed at a price less than the Floor Price.

8.3 More information on NIB

Additional information on NIB, including information that may be relevant to your decision whether to sell or hold your Shares, can be obtained from the following sources:

(a) the Explanatory Statement that you should have received in June 2007;

(b) the 2007 Annual Report for NIB; and

(c) the 2008 Financial Forecast Booklet.

Copies of these documents are available at the NIB website (nib.com.au). Copies can also be obtained by contacting the NIB Information Hotline on 131 NIB (131 642). The NIB Listing prospectus is expected to be made available on 5 October 2007.

8.4 ASIC relief

NIB Holdings has applied to ASIC for:

(a) a modification to section 708A(11) of the Corporations Act in relation to the Shares issued to institutional investors under the Institutional Bookbuild;

(b) an exemption from Division 5A, Part 7.9 of the Corporations Act in relation to this Invitation;

(c) an exemption from, or confirmation of ASIC's view regarding, Chapter 5C and Part 7.6 of the Corporations Act in relation to the Sale Facility; and

(d) a no action letter regarding the potential application of Part 7.2 of the Corporations Act in relation to the Sale Facility.

9

Terms of the Sale Facility

If you decide to sell your Shares by completing, signing and returning the Sale Facility Election Form, you:

(a) accept these Facility Terms;

(b) accept that the operation of the Sale Facility is conditional on Demutualisation;

(c) are bound irrevocably to sell the number of Shares specified in the Sale Facility Election Form through the Sale Facility at the Facility Price (providing this is not less than the Floor Price), and otherwise in accordance with these Facility Terms;

(d) acknowledge that you will only be entitled to receive the Facility Price for each of your Shares;

(e) acknowledge that the Facility Price may not be the highest price at which your Shares could be sold;

(f) acknowledge that the Facility Price may be higher or lower than the price at which the Shares trade on ASX on the first day of Listing or at any later point in time;

(g) acknowledge that you will have no recourse against NIB or the Directors or any other party involved with the Sale Facility in relation to the process by which your Shares are sold, including in respect of the determination of the Facility Price;

(h) agree that NIB Holdings may, in its sole discretion, at any time determine that your Sale Facility Election Form is a valid acceptance of these Facility Terms and an offer to sell even if the form is incomplete, contains errors or is otherwise defective;

(i) agree that NIB Holdings is authorised to correct any error in or omission from your Sale Facility Election Form by the insertion of any missing details;

(j) acknowledge that despite (h) and (i) above, NIB Holdings reserves the right not to accept instructions which are not given on the Sale Facility Election Form, or which have not been properly completed;

(k) agree that NIB Holdings may assume the authenticity of any Sale Facility Election Form given or purportedly given by you and that any person claiming to be you is in fact you and you authorise us to act on any Sale Facility Election Form believed by us to be authentic;

(l) agree not to dispute the validity or enforcement of any Sale Facility Election Form;

(m) acknowledge that NIB Holdings and the Sole Lead Manager reserve the right (for any reason) not to proceed with, or to modify the timetable for, the Sale Facility and Listing in their absolute discretion;

(n) accept the risk associated with payment being dispatched to you by cheque to the address shown on the share register;

(o) acknowledge that neither NIB, nor any other party involved with the Sale Facility, have provided you with any investment or taxation advice, nor does NIB Holdings or any other party involved with the Sale Facility have any obligation to provide you with this advice, concerning your decision to sell or hold your Shares;

(p) acknowledge that NIB Holdings may appoint agents and delegates to perform any of its obligations under the Sale Facility;

(q) acknowledge that NIB Holdings or its agents or delegates may take such action on your behalf and do all things as is necessary to effect the sale and settlement of your Shares through the Sale Facility;

(r) acknowledge that you are bound by such other terms relating to participation in the Sale Facility as set out in this Invitation; and

(s) acknowledge that these Facility Terms are governed by the laws in force in New South Wales.

10

Glossary of terms

ASX means the Australian Securities Exchange.

ASIC means the Australian Securities and Investments Commission.

ATO means the Australian Taxation Office.

Board means the board of directors from time to time of the following companies in the NIB group:

(a) NIB Health; and

(b) NIB Holdings.

Chairman's Letter means the letter from the Chairman addressed to each Eligible Policyholder which accompanies this Invitation.

Company Member means the former company members of NIB Health.

Corporations Act means the Corporations Act 2001 (Cth).

Demutualisation / Demutualise / Demutualising means the process by which NIB Health converts from a company limited by guarantee to a company limited by shares and from a not-for-profit to a for-profit company.

Demutualisation Date means 1 October 2007 or such later date as determined by the Board.

Directors means the directors of NIB from time to time.

Eligible Policyholder means an Eligible Policyholder as defined in the Explanatory Statement.

Explanatory Statement means the Explanatory Statement dated 11 June 2007.

Facility Price means the price per Share determined by the Institutional Bookbuild.

Facility Terms means the facility terms as set out in Section 9 of this Invitation.

Floor Price means $0.70. If the Facility Price is less than the Floor Price, the sale of Shares under the Sale Facility will not proceed.

Indicative Facility Price Range is $0.70 to $0.90.

Institutional Bookbuild means the process conducted by J.P. Morgan Australia Limited where institutional investors will be invited to submit bids indicating the number of Shares they wish to purchase at a range of prices.

Institutional Offer means the offer by which institutions will be invited to bid for Shares.

Invitation means this booklet.

Listing / List(s) means the process of NIB Holdings being included on the official list of ASX and having its Shares granted official quotation by ASX.

Listing Date means the day on which NIB Holdings Lists, expected to be early November 2007.

NIB means the NIB group generally comprising:

(a) currently, NIB Health and all its related bodies corporate (however, where applicable may refer to NIB Holdings); and

(b) after the Demutualisation Date, NIB Holdings, NIB Health and all of their related bodies corporate.

NIB Foundation means a trust established to provide a vehicle for charitable, community purposes in support of the health and wellbeing of the Australian community and in particular the Hunter region.

NIB Health means NIB Health Funds Limited (ABN 83 000 124 381).

NIB Holdings means NIB Holdings Limited (ABN 51 125 633 856).

NIB Information Hotline means 131 NIB (131 642).

PHIAC means the Private Health Insurance Administration Council.

Policy means a policy of private health insurance issued by NIB Health.

Policyholder means a person who is insured under a Policy and is recorded by NIB as the person in whose name the Policy is held.

Private Health Insurance Act means the Private Health Insurance Act 2007 (Cth).

Share(s) means fully paid ordinary share(s) in NIB Holdings.

Sale Facility means the facility whereby Shareholders can sell Shares at Listing as set out in this Invitation.

Sale Facility Election Form is the form you received with this Invitation.

Shareholder means the legal owner of a Share.

Sole Lead Manager means J.P. Morgan Australia Limited (ABN 52 002 888 0011/AFSL 238188).

Trust means the Overseas Policyholders and Unverified Policyholders Trust.

Verification of Details Form means the form entitled "Your Verification of Details Form" which accompanied the Explanatory Statement.

Verify / Verified / Verifying means the process by which an Eligible Policyholder verifies their details in order to become a Shareholder.

2007 Annual Report means the annual report of NIB Health for the financial year ending 30 June 2007.

2008 Financial Forecast Booklet means the booklet containing the financial forecasts of NIB for the financial year ending 30 June 2008 and the discussion of risk factors concerning NIB.

$ All dollar amounts are in Australian dollars.

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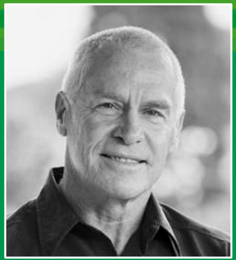
NIB HOLDINGS LIMITED
ACN 125 633 856

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

nib holdings

NIB Holdings Limited Management Presentation
ASX Listing



October 2007

Disclaimer

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- if you are outside Australia, (i) you are not in the United States nor are you a "U.S Person" (as defined in Rule 902(k) under the Securities Act of 1933, as amended (the "Securities Act") ("U.S. Person") or acting for the account or benefit of a U.S. Person; and (ii) you are a person to whom an invitation or offer to subscribe for shares in NIB and any issue of such shares is permitted by the laws of the jurisdiction in which you are situated without the need for any registration, lodgment or other formality.

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nib holdings

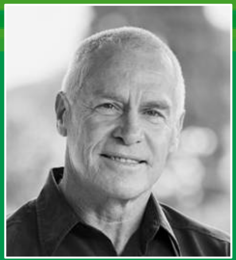
1. NIB overview

2. Business highlights and key risks

3. Financial overview

4. Details of the Institutional Offer

5. Appendix



Presenters

Mark Fitzgibbon — Managing Director and CEO

- Mark joined NIB in October 2002 as CEO. Mark was previously CEO of both the national and NSW peak industry bodies for licensed clubs. Prior to this, Mark held several CEO positions in local government, including General Manager of Bankstown Council between 1995 and 1999. Mark has a Masters in Business Administration (UTS) and Masters of Arts (MGSM). He is a director of The Australian Health Insurance Association Limited, a Fellow of the Australian Institute of Company Directors and a Director of the Newcastle Knights

Michelle McPherson — CFO and Deputy CEO

- Michelle joined 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. Michelle is a Chartered Accountant and has a Bachelor of Business (Accounting) from UTS and is a Graduate of the Australian Institute of Company Directors

NIB business snapshot

- Australia's 6th largest health insurer
- Incorporated in 1953 by workers at Newcastle's BHP Steelworks
- Head office in Newcastle, NSW
- Approximately 340,000 policyholders, providing cover for approximately 700,000 people (as at 30 August 2007)
- 6.6% national market share by number of policyholders (as at 30 June 2007)
- Expanding national footprint with approximately 21% of policyholders outside NSW/ACT (12% in Vic and 7% in Qld) - as at 30 June 2007
- Primary distribution channels:
  - Customer Care Centre (44% of new sales in FY07)
  - Online (33% of new sales in FY07)
  - 32 retail centres across NSW, ACT, QLD, VIC and SA (20% of new sales in FY07)
  - Corporate sales team (3% of new sales in FY07)
- 498 FTEs as at 30 June 2007

The NIB proposition

- NIB provides value for money and easy to understand private health insurance (PHI)
- PHI allows access to private hospitals (avoiding public hospital waiting times), choice of specialist and provides cover for ancillary services, e.g. dental and optical
- NIB's product design, pricing, brand positioning and distribution is designed to attract the under 40 market
- Focused on growing outside NSW and via online and telephone distribution
- Exposure to significant growth potential
  - almost 12 million Australians do not have hospital cover
  - 6.5 million Australians in NIB's target under 40 market do not have hospital cover
  - 3.5 million people in NSW do not have hospital cover

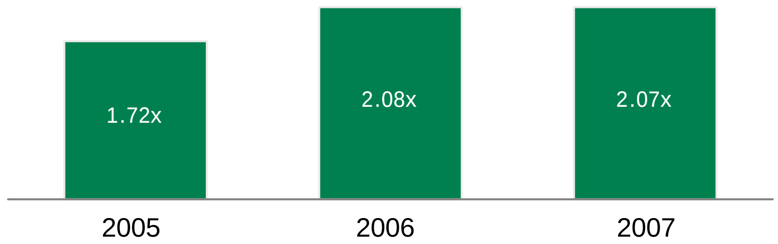
NIB financial snapshot

Summary normalised income statement

June year end (A$m)	2005	2006	2007	2008F	05-08 CAGR
Premium revenue	530.7	611.9	666.0	750.7	12.3%
Net claims incurred (incl. levies)	(459.0)	(500.1)	(571.1)	(648.7)	12.2%
Underwriting expenses	(56.3)	(60.4)	(71.2)	(83.3)	13.9%
Underwriting result	15.4	51.4	23.7	18.7	6.7%
Investment and other income	11.4	18.1	29.2	27.2	33.6%
Profit before tax	26.8	69.5	52.9	45.9	19.5%
Tax			(15.7)	(13.7)	
NPAT			37.2	32.1	

Very strong capital position and ungeared balance sheet

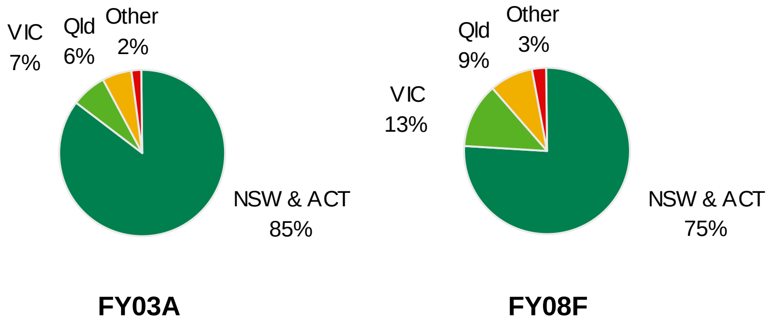
NIB Solvency Multiple



Key normalised metrics

June year end	2005	2006	2007	2008F
Policyholders	290,940	302,299	328,784	360,700
Av. hospital policyholder age – NIB	35.8	36.2	36.1	n/a
Av. hospital policyholder age - Industry	39.5	39.8	39.9	n/a
Premium growth	15.4%	15.3%	8.8%	12.7%
Claims ratio (excl Equalisation)	79.5%	74.7%	78.5%	77.0%
Claims ratio (incl Equalisation)	86.5%	81.7%	85.7%	86.4%
Management expense ratio (MER)	10.6%	9.9%	10.7%	11.1%
Gross margin	13.5%	18.3%	14.3%	13.6%
Net margin	2.9%	8.4%	3.6%	2.5%

Geographic breakdown premium revenue



ASX Listing overview

- Indicative market cap A$371m - $463m post A$50m raising
- Institutional placement of A$50m of new capital (A$25m to fund listing/demutualisation costs and initial working capital for NIB Holdings and A$25m for a donation to establish the NIB Foundation)
- Additional shares to be sold to institutional investors via Sale Facility being offered to all existing NIB shareholders
- 2008F normalised NPAT of A$32.1m and normalised underwriting result of A$18.7m
- Significant investment in growth and customer retention (which is being fully expensed and not capitalised) will adversely impact FY08F earnings
- Pro-forma net assets of A$340m at 30 June 2007
- Approx A$75m of capital above targeted requirements at 30 June 2007 and no gearing
- Key metrics based on indicative bookbuild range of $0.70 - $0.90
  - Price/pro-forma FY07A book value: 1.09x – 1.36x
  - FY08F P/E ratio: 11.5x – 14.4x

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2. **Business highlights and key risks**
3. Financial overview
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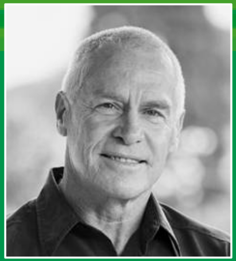


Key business highlights

Clear and successful strategy to capture significant latent demand especially in the under 40 segment

Strong focus on customer acquisition and retention - product innovation, competitive pricing, contemporary distribution and brand positioning

Strong track record of growth since 2002 driven by NIB's management team and Board

Potential for capital and operating efficiencies as a listed company

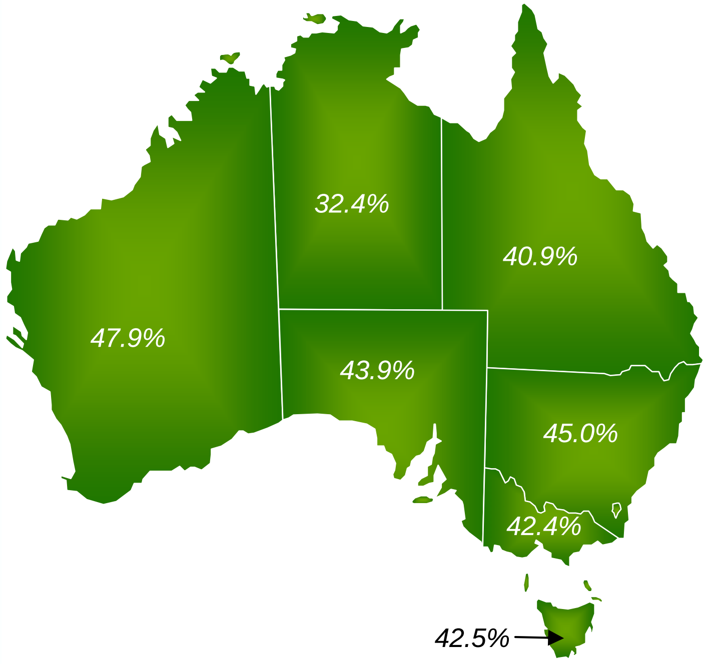
Platform for industry consolidation

Significant latent demand exists for PHI especially in the under 40 target market

PHI market penetration is less than 50%

- Approximately 44% of Australians have private hospital cover
  - Potential organic growth opportunity of nearly 12 million people
  - Potential new market of more than 3.5 million people in NSW alone, which represents NIB's strongest market
- Only 39% of under 40s have private hospital cover
  - Potential organic growth opportunity of more than 6.5 million people
- NIB expects continued take up of private health insurance due to
  - favourable economic conditions
  - decline in public hospital system confidence
  - the ongoing impact of government incentives such as the 30% rebate, Medicare Levy Surcharge and LHC
- NIB is ideally positioned to capture the uninsured market, particularly those in the under 40s segment

Hospital cover by state – 30 June 2007



Source: PHIAC Coverage of Hospital Treatment 30 June 2007

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NIB has a focused strategy to capture this demand

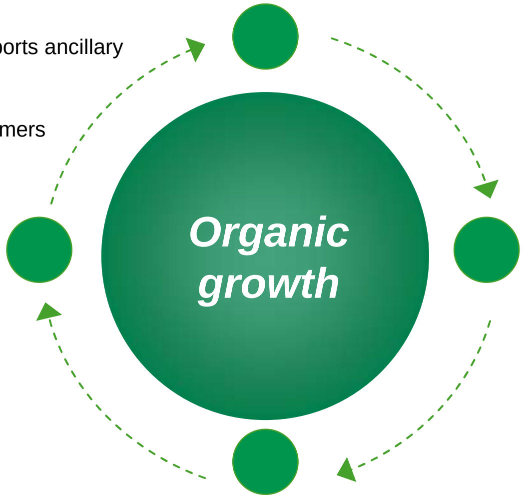
NIB's organic growth strategy is centred on profitable expansion in the medium term

Product design

- NIB carves out benefits that younger people are not likely to need (e.g. hip replacement)
- For other than the top cover, NIB only sells products with deductibles enhancing good risk self selection
- Loyalty rewards program (NIB Loyalty Bonus) supports ancillary benefits
- NIB's high ancillary benefits attracts younger customers and provides a strong value proposition

Product pricing

- Carve outs and deductibles keep premiums lower attracting better risks which in turn keeps premium increases down (virtuous cycle)
- NIB's $9.95 Basic Saver provides price point advertising and opportunity for migration to higher margin products



Realignment and expansion of distribution

- Interstate brand and marketing investment through sponsorship and marketing
- Online presence and service
- Continuing rationalisation of retail network
- Strong service culture

Brand positioning

- Brand identity – value for money, easy to understand affordable and designed for younger people
- Heavy investment in marketing and brand building

The key metrics of NIB's organic growth strategy

NIB's organic growth strategy is centred on profitable expansion in the medium term

Product design

- Strong focus on ancillary benefits:

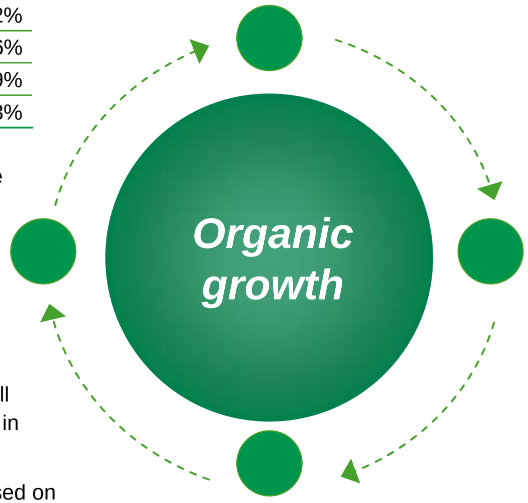
Ancillary as % of claims	2005	2006	2007
NIB	**30.5%**	**31.1%**	**33.5%**
Medibank	24.6%	25.4%	25.2%
MBF	26.1%	25.9%	24.6%
BUPA	20.7%	20.3%	20.9%
Industry	26.6%	26.6%	26.3%

Source: PHIAC. Claims = Hospital, Medical, Prostheses & Ancillary

- ~77% of NIB's hospital product policyholders have policies with front end deductibles compared with the industry average of ~68%

Realignment and expansion of distribution

- Significant move towards lower cost online and call centre distribution (represented 77% of new sales in 2007 c.f. 57% in 2005)
- Majority of the increased marketing spend is focused on non-NSW growth
- 84% of customers surveyed rated NIB 7 or more out 10 in customer satisfaction (Sweeney Research – Feb 10)



Product pricing

- NIB's product pricing is consistent with its target market and brand positioning as offering affordable health insurance

Annual premiums per person covered	2004	2005	2006
NIB	**$781**	**$868**	**$969**
Medibank	$863	$937	$1,003
MBF	$917	$981	$1,054
BUPA	$953	$1,036	$1,120
Industry	$873	$942	$1,016

Brand positioning

- Investing ~A$18m in advertising and promotion in FY08 c.f. A$14m in 07 and A$7m in 06
- Strong brand awareness across Australia (69%) and NSW (87%)

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The initial results are very promising

Key metrics	2005A	2006A	1H07A	2H07A	YTD to 31/8	2008 Target
Annualised growth in net membership	4.2%	3.9%	6.6%	10.5%	20.9%	9.7%
% of new sales new to PHI	68.7%	70.8%	75.9%	74.4%	82.6%	n/a
% of new sales <40	71.7%	73.6%	78.1%	78.8%	78.8%	n/a
% of new sales online	4.2%	13.6%	29.3%	35.1%	39.0%	35.8%
% of new sales outside of NSW	19.1%	23.4%	25.6%	37.5%	43.4%	41.1%
Average age of hospital persons covered (yrs) - NIB	35.8	36.2	36.2	36.1	n/a	n/a
Average age of hospital persons covered (yrs) – industry	39.5	39.8	n/a	39.9	n/a	n/a

Note: Organic growth strategy began on 1 January 2007

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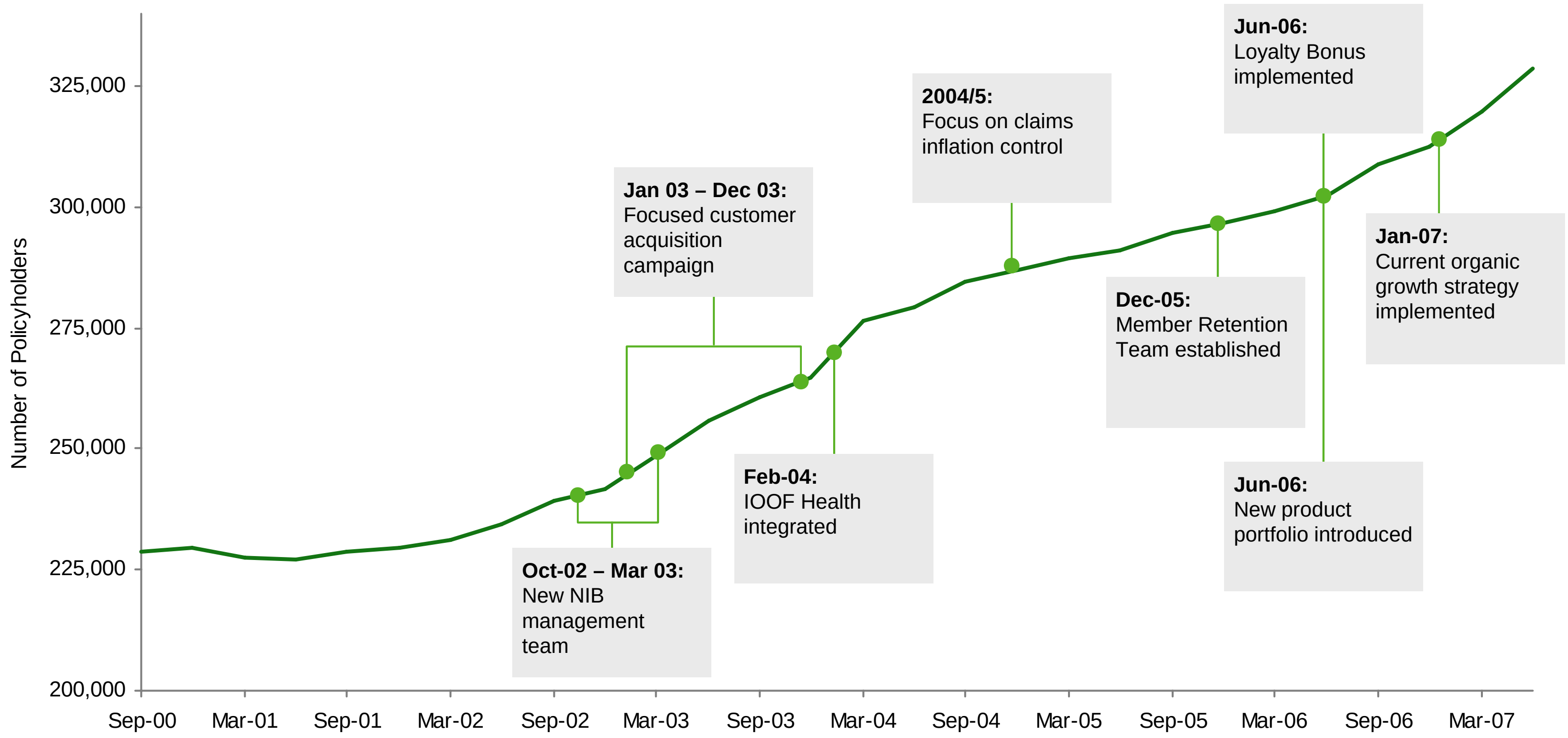
NIB has also strengthened its focus on customer retention

Key retention initiatives	
NIB Loyalty Bonus	■ Introduced in June 2006, the NIB Loyalty Bonus allows NIB customers to accrue loyalty dollars based on continuous time as an NIB customer ■ NIB customers can use loyalty dollars to increase their annual claim limits on certain ancillary services
Customer Retention Team	■ Introduced in December 2006, key initiatives include: — WinBack Team: Focused on retaining customers at their 'moment of truth' when contemplating changing funds or leaving health insurance altogether — Proactive service calls to welcome customers and service calls to customers with overdue payments — Tailored communications to customers to promote the value of their cover

- These retention initiatives have proved successful with the lapse rate falling from 8.9% in FY06 to 7.7% in FY07 and is expected to be slightly higher for FY08F (based on NIB internal measurement of lapse rates which are generally higher than PHIAC reported lapse rates)
- NIB expects the cost of the loyalty programme to be fully priced in by the beginning of April 2008

NIB’s management team have grown policyholder numbers significantly since arriving …

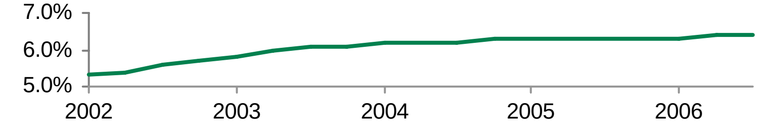
NIB policyholder growth since September 2000



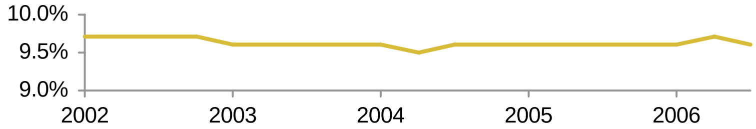
nib holdings

… resulting in growth well above the industry and NIB’s main competitors since Dec 2002

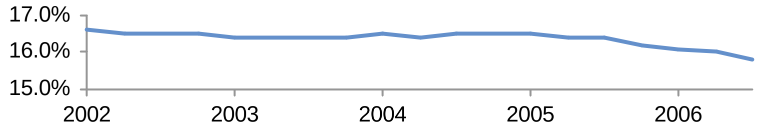
NIB’s market share has grown steadily since 2002



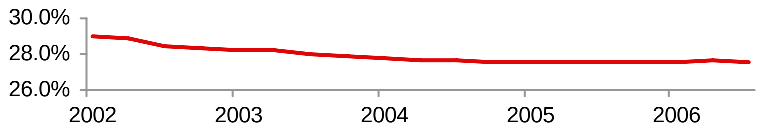
BUPA has maintained market share since 2002



MBF’s market share has declined since 2002

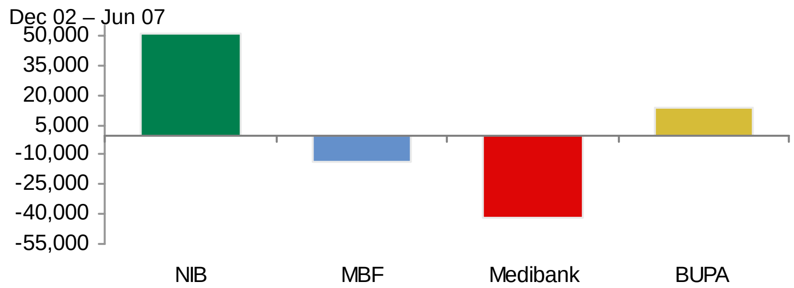


Medibank’s market share has declined since 2002



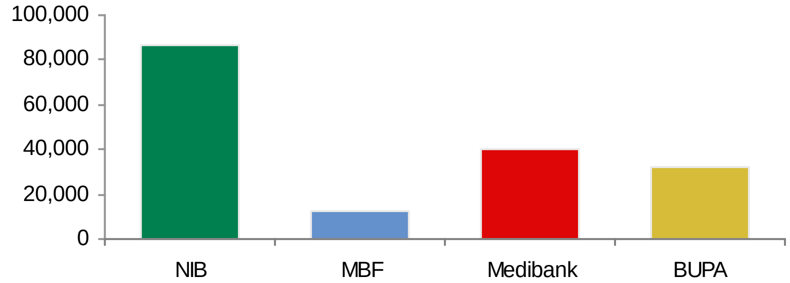
Market share by total persons covered to June 2007

Increase in persons between 20-39 with hospital coverage



Increase in total hospital persons covered of all ages

Dec 02 – Jun 07



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NIB's management team has driven the robust growth since 2002…

Senior Management

Mark Fitzgibbon Managing Director & CEO	■ Mark commenced with NIB in October 2002 as CEO ■ Prior to joining NIB, Mark was CEO of both the national and NSW peak industry bodies for licensed clubs ■ Prior to that, Mark held several CEO positions in local government, including General Manager of Bankstown Council between 1995 and 1999. Mark has a Masters in Business Administration (UTS) and Masters of Arts (MGSM) ■ Mark is a director of The Australian Health Insurance Association and the Newcastle Knights and is a Fellow of the Australian Institute of Company Directors
Michelle McPherson CFO & Deputy CEO	■ Michelle joined NIB in March 2003 as CFO ■ Prior to joining NIB, Michelle was at Caltex Australia for 10 years in a range of financial positions ■ Prior to Caltex Australia, Michelle spent eight years in chartered accounting ■ Michelle is a Chartered Accountant and has a Bachelor of Business (Accounting) from UTS and is a Graduate of the Australian Institute of Company Directors
David Lethbridge General Manager – Corporate Office	■ David joined NIB in March 2002 as Company Secretary ■ David was previously Board Secretary/Senior Legal Advisor at the New Zealand Apple and Pear Marketing Board and prior to that was the Legal Advisor at the New Zealand Dairy Board ■ David is Company Secretary for the NIB Group
Jayne Drinkwater Chief Marketing Officer	■ Jayne Drinkwater has been with NIB since February 2003 firstly in the role of Chief Operating Officer and more recently as Chief Marketing Officer ■ Jayne has worked for organisations such as Westpac, Commonwealth Bank, the ASX and Citibank
Dr Ian Boyd Medical Director	■ Ian Boyd joined the NIB executive team in February 2005 as medical director ■ Prior to joining NIB, Ian was in full time general practice since 1992 and has practised in a part time capacity since 2005
Mark Bishop Appointed Actuary	■ Mark joined NIB in 2003 as an actuary and became the Appointed Actuary in 2004 ■ Mark has over 22 years experience in actuarial and management roles in the life insurance industry ■ Mark is a Fellow of the Institute of Actuaries of Australia

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… and is overseen by a Board with a balance of health insurance and medical experience

Board of Directors

Keith Lynch BSc (Tech), MAICD Chairman, Independent Non-Executive Director	■ Keith has been a Director of NIB health since 1982 and was appointed Chairman of NIB Health in November 2001 ■ Keith is currently Chairman of ASX-listed Kip McGrath Education Centres Limited and previously held senior executive positions with Hunter-based engineering firms and is a former director of Newcastle Grammar School and CW Pope & Associates Pty Limited ■ Keith's NIB responsibilities are as Chairman of NIB Health Services Limited, The Heights Private Hospital Pty Limited, 063 465 949 Pty Ltd and NIB Servicing Facilities Pty Limited
Mark Fitzgibbon MBA, MA, DLGA, Fellow AICD Managing Director and CEO	■ See previous
Dr Annette Carruthers MBBS (Hons), FRACGP, FAICD Independent Non-Executive Director	■ Annette has been a Director of NIB Health since 2003 ■ Annette is currently a general practitioner and a director of the National Heart Foundation of Australia (NSW Division). Dr Carruthers is also employed as a Clinical Director at Hunter Urban Division of General Practice and is a former director of Hunter Area Health Service and Hunter Urban Division of General Practice ■ Annette's NIB responsibilities are as a director of NIB Health Services Limited, NIB Health Care Services Limited and The Heights Private Hospital Pty Limited
Janet Dore B.App.Sc (Planning), MBA, FAICD, FAIM, FAPI, FIMM Independent Non-Executive Director	■ Janet has been an NIB Health Director since 2002 ■ Janet is currently the General Manager of Newcastle City Council and a former Chief Executive Officer City of Ballarat. Janet is also a current director of Newcastle Airport Limited, Newcastle Alliance, Hunter Councils Inc, Hunter Integrated Resources and Life Activities Incorporated ■ Janet'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
Philip Gardner B.Comm, CPA, CCM, FAICD, JP Independent Non-Executive Director	■ Philip has been an NIB Health Director since 2005 ■ Philip is currently Chief Executive Officer of 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 ■ Philip 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

NIB expects to appoint 2 new Independent Non-Executive Directors shortly after the ASX Listing

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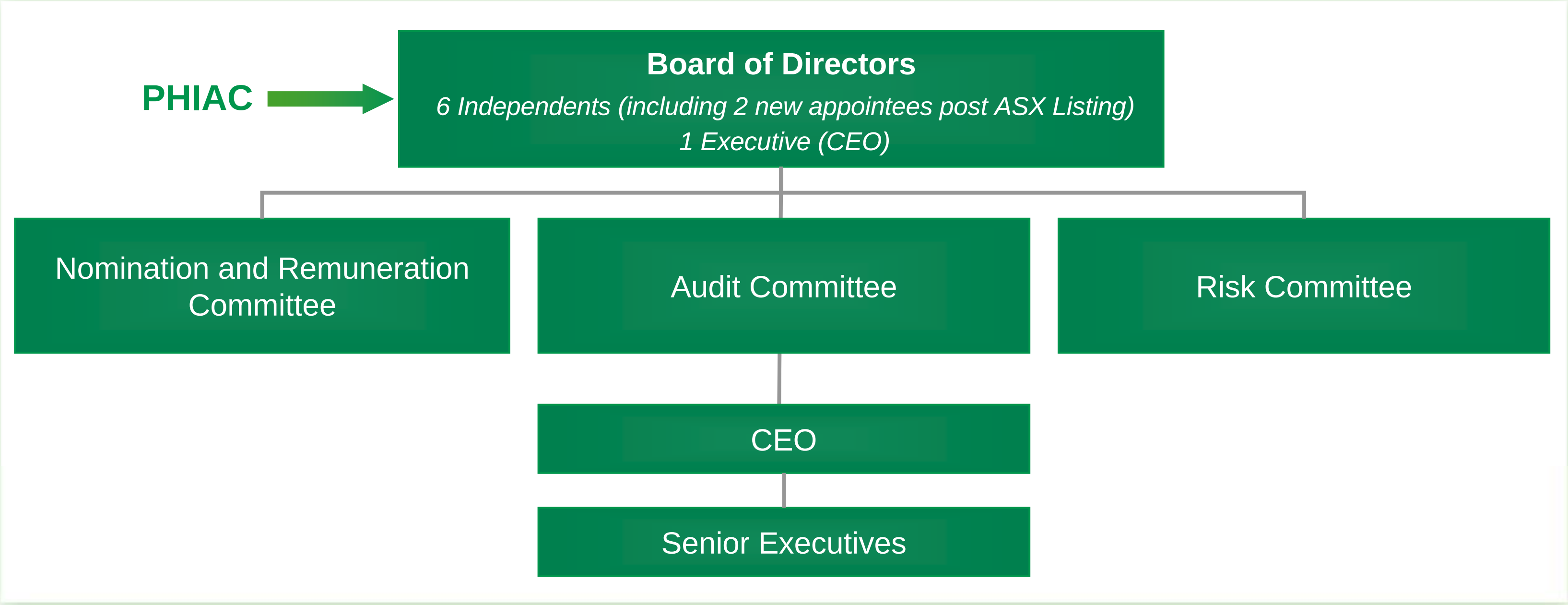
Regulated by PHIAC and supported by a stringent ASX Corporate Governance compliance regime



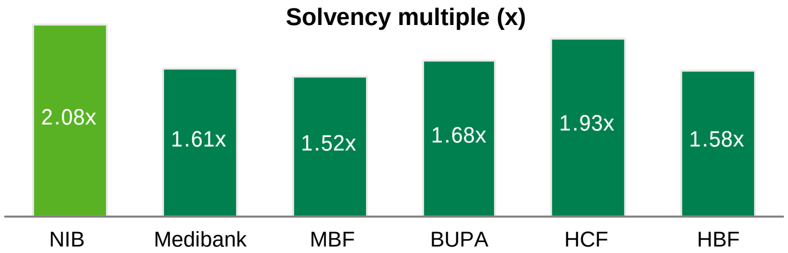
- Whilst not required to, NIB has complied with the ASX Corporate Governance framework since 2003/4 and will be fully compliant with all ASX policies regarding continuous disclosure, trading and code of conduct upon ASX Listing
- NIB is regulated by PHIAC

Significant potential for operating and capital efficiencies as a listed company

NIB expects improved cost performance as a "for-profit" company

- Profit motive to drive improved operating performance
- Improved capability to align management incentives now that NIB can issue shares to key employees
- Several cost reduction and rationalisation programmes are underway
  - Front and back office automation
  - Ongoing retail network rationalisation
  - Streamline back office
  - Ongoing strategic procurement initiatives

NIB remains well capitalised and debt free post-demutualisation . . .



Note: Solvency multiple are for FY06A as FY07A is not available for funds other than NIB, NIB had a Solvency Multiple of 2.07x at FY07A

. . . leaving room to improve balance sheet efficiency over time

- NIB has ~ A$75m of capital in excess of its target at 30 June 2007, is debt free and has a robust organic capital generation profile
- Opportunity to improve balance sheet efficiency over time through the introduction of debt or through capital management initiatives
- In the absence of any strategic initiatives, the Board intends reviewing NIB's capital position and gearing with a view to returning capital to shareholders (subject to ATO, shareholder and PHIAC approval) at or around the time of release of the FY08 results

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ASX Listing will provide NIB with a platform to drive industry consolidation

Key points

- The Australian private health insurance industry is highly fragmented, with 39 registered health funds, 25 of which have less than 1% market share
- NIB believes that with almost 40 registered health funds, the upcoming MBF float and the potential Medibank float, consolidation is imminent in the PHI industry
- ASX Listing will allow NIB to directly offer share and/or cash based consideration to policyholders of other Australian health insurers
- NIB has significant capacity to fund acquisitions given strong regulatory capital position and ungeared balance sheet
- Any potential acquisitions will be measured against several financial return metrics including impact on ROE and EPS

Desirable acquisition criteria

Policyholder age	Ideally any potential opportunity will have a young risk pool similar to NIB's However, with the risk equalisation levy older policyholders remain profitable and are generally more loyal
Product and pricing mix	Similar products and pricing will ensure a smoother transition and integration within NIB systems
Geographic presence	Focus on funds within the faster growing States Allow additional distribution presence for NIB's current expansion into non-NSW markets
Similar margins to NIB	Any acquisition target will need to be generating similar margins to NIB's medium term targets
Positive financial impact on NIB shareholders	Any acquisition will need to be beneficial for long term shareholder value on an EPS, ROE and TSR basis

NIB has experience in acquiring and integrating health funds having acquired IOOF Health in 2003

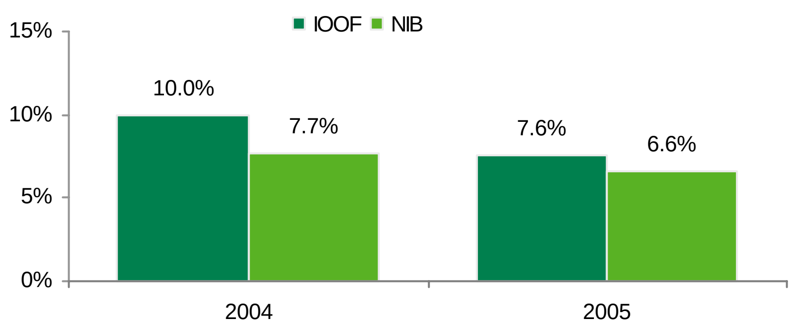
Key transaction metrics

Key acquisition metrics	
Date of acquisition	30 April 2003
Price	A$14.5m
Net Assets	$6.5m
Policyholders	10,736
Price/member	$1,350
Price/Net Assets	2.23x

Acquisition achievements

- The cost synergies estimated at the time of the acquisition were met within the budgeted timeframe and exceeded original forecasts
- The attrition rate was lower than anticipated with no shock loss occurring – NIB offered one month free if customers stayed for at least 12 months after the transaction
- IOOF has provided the platform for the current Victorian expansion

Lapse rates pre and post transaction



Lessons learned

- To minimise attrition the transfer of policyholders from IOOF systems was staggered. NIB would likely transition policyholders immediately onto the existing NIB product platform in future acquisitions
- Notwithstanding the risk equalisation arrangements, NIB experienced an up-tick in drawing rate inflation given IOOF's older policyholder base. As a result NIB is more likely to target funds with relatively low average policyholder age

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Key risks

- Change in the regulatory environment
- Investment market performance
- Economic slowdown
- Pricing risk
- Operation of the new Risk Equalisation Trust arrangements
- Increased competition from current competitors and potential new entrants
- Failure to recover investment in organic growth strategy

1. NIB overview
2. Business highlights and key risks
3. **Financial overview**
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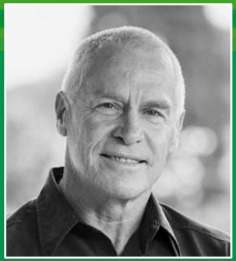

Financial snapshot

Summary normalised financials

June year end (A$m)	2005	2006	2007	2008E	05-08 CAGR
Premium revenue	530.7	611.9	666.0	750.7	12.3%
Claims expense	(406.5)	(441.2)	(505.3)	(558.3)	11.2%
Risk equalisation levy	(37.2)	(42.8)	(48.1)	(70.9)	24.0%
State levies	(15.3)	(16.1)	(17.6)	(19.5)	8.5%
Management expenses	(56.3)	(60.4)	(71.2)	(83.3)	14.0%
Underwriting result	**15.4**	**51.4**	**23.7**	**18.7**	6.7%
Investment and other income	11.4	18.1	29.2	27.2	33.4%
Profit before tax	**26.8**	**69.5**	**52.9**	**45.9**	19.5%
Tax expense			(15.7)	(13.7)	n/a
NPAT			**37.2**	**32.1**	**n/a**

Key Performance indicators:

	2005	2006	2007	2008E	05-08 CAGR
Policyholders	290,940	302,299	328,784	360,700	7.4%
% increase		3.9%	8.8%	9.7%	
Average rate increase	13.86%	4.85%	4.65%	n/a	
Claims ratio	86.5%	81.7%	85.7%	86.4%	
MER	10.6%	9.9%	10.7%	11.1%	
Underwriting margin	2.9%	8.4%	3.6%	2.5%	
Lapse rate	8.2%	8.9%	7.7%	n/a	

Commentary

- Premium revenue is forecast to grow at a CAGR of 12.3% 05-08 driven by a 7.4% CAGR in policyholders, and contribution rate increases
  - Forecast a net increase of 32,000 policyholders in FY08. In the first 2 months of FY08, NIB had a net increase of 11,681 (36.5% of forecast FY08 increase)
- Claims expenses have grown faster than contributions from 06-08 reflecting, The introduction of the Loyalty Bonus in June 06 at a cost of A$19m p.a. This will be fully reflected in pricing by April 2008 in line with the investment in growth
- Increase in MER is driven mainly by business reinvestment from 1 January 07 with the commencement of the 3-year organic growth strategy resulting in a step-up in management expenses from 06 to 07 (A$7m increase) and 07 to 08 (A$5m increase)
- Investment returns forecast to be 7.0% in FY08 compared to 8.7% for FY07
- Medium term target margins:
  - Gross margin: 15%
  - Net margin: 5%

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NIB has grown premium revenue at a CAGR well above the industry and its major competitors

Premium revenue growth

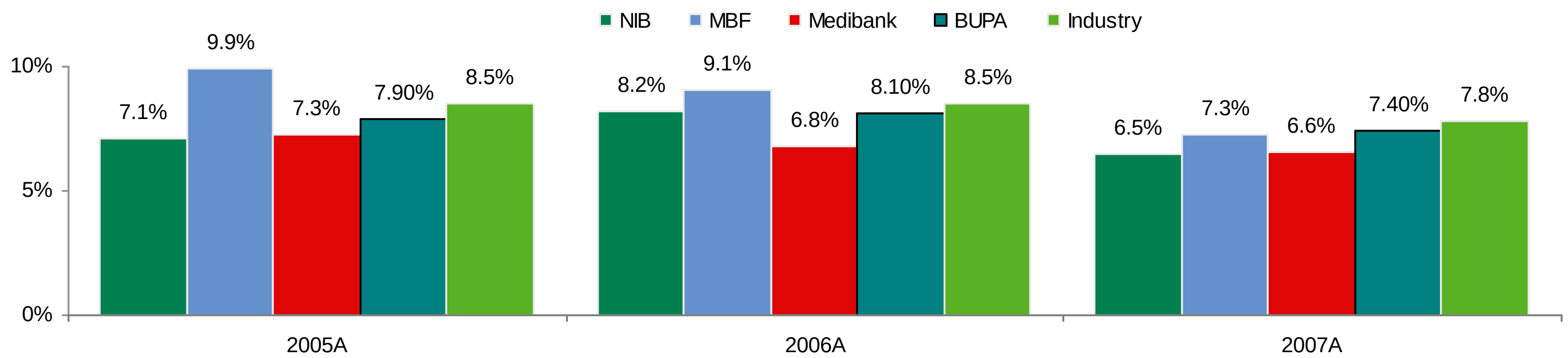
	FY05	FY06	FY07	CAGR 05-07
NIB	**15.4%**	**15.3%**	**8.8%**	**12.0%**
Medibank	7.6%	7.7%	10.8%	9.2%
MBF	7.9%	8.6%	5.8%	7.2%
BUPA	8.5%	9.4%	4.2%	6.8%
Industry	8.7%	9.3%	n/a	n/a

Commentary

- Three key drivers of premiums:
  - Policyholder growth
  - Product mix change
  - Premium increases
- Strong policyholder growth well above industry and key competitors (CAGR 05-07 of 6.3%)
- Brand positioning and product design support strong policyholder growth, with the Basic Saver product providing a strong price point advertising platform
- Strategy to drive growth in premium revenue
  - continued strong policyholder growth
  - life stage migration from lower value products to higher value products
  - premium increases that at least cover claims inflation

Premium revenue – lapse rates

NIB's lapse rates are below its key competitors and the industry average



Note lapse rates are calculated as the percentage of hospital persons covered two years previous that remain in the subject year. NIB's internal measurement of lapse measures the number of persons who leave NIB during the year as a percentage of NIB policyholders at the beginning of the year

Commentary

- NIB has a two-tiered approach with the NIB Loyalty Bonus and the dedicated Member Retention Team, both aimed at customer retention and reducing lapse rates
- These two programmes came into effect in FY07 and as a result the lapse rate (as per NIB internal measures) for NIB reduced dramatically from 8.9% in FY06 to 7.7% in FY07. On PHIAC measurements NIB's lapse rate was well below the industry average of 7.8% and those of Medibank and MBF

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Premium revenue – pricing regime

Historical premium rate increases					
Average annual premium rate increases	1-Apr-03	1-Apr-04	1-Apr-05	1-Apr-06	1-Apr-07
NIB	**3.20%**	**9.10%**	**13.86%**	**4.85%**	**4.65%**
Medibank	4.90%	8.95%	7.94%	5.88%	4.94%
MBF	7.40%	5.79%	7.74%	5.77%	4.39%
BUPA	6.30%	5.92%	7.40%	4.90%	4.50%
Industry	8.64%	7.58%	7.96%	5.68%	4.52%

Commentary

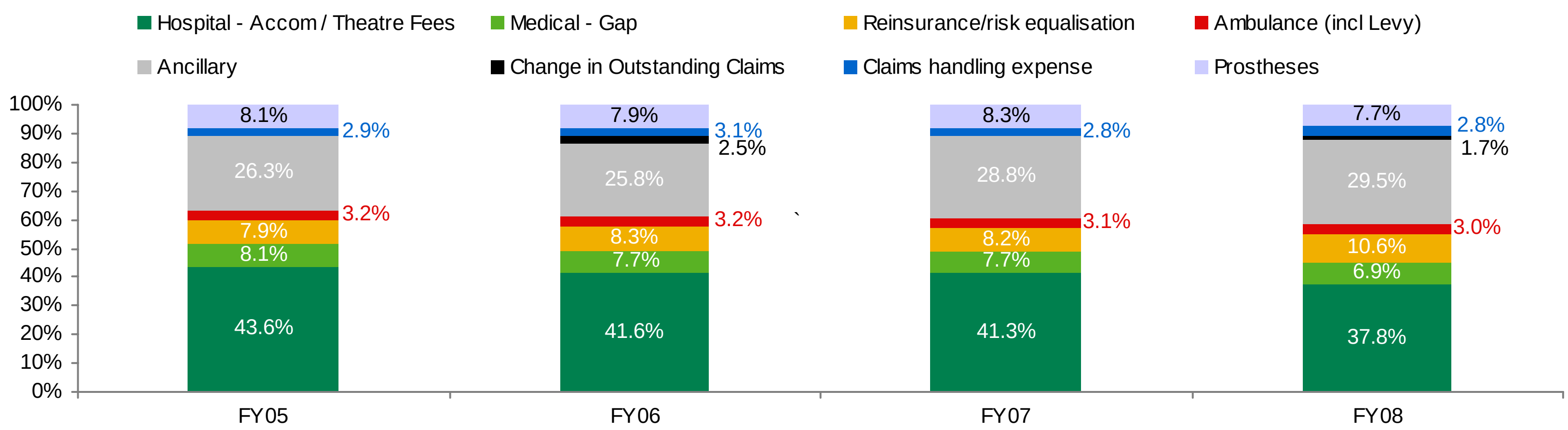
- Under Division 66 of the Private Health Insurance Act 2007 (Cth) changes in premiums require the approval of the Minister for Health and Ageing
- Whilst not specifically legislated, there is an annual process by which health insurers make pricing submissions based on the following broad timetable:
  - October: Notification from Department of Health & Ageing of the timing for submissions
  - December: Health insurers pricing submissions due
  - February: Approval typically received
  - April: Premium increases typically become effective

NIB's claims expenses (including risk equalisation) are lower than its key competitors and the industry

Claims ratio (including risk equalisation levy)

Claims ratio	2005A	2006A	2007A
NIB	**86.5%**	**81.7%**	**85.7%**
Medibank	88.4%	86.4%	n/a
MBF	87.9%	86.3%	n/a
BUPA	86.5%	83.2%	n/a
Industry av.	87.8%	85.3%	n/a

Claims expense components



Claims expenses – key drivers and levers

Utilisation	■ Attracting new low risk policy holders lowers relative utilisation ■ Wellness and disease management programs can mitigate illness ■ Co-pays create a price signal and discourage over utilisation
Hospital expenses	■ Bulk purchasing through Australian Health Industry Alliance creates strong bargaining power ■ Prosthesis reforms have reduced inflationary pressure ■ New laws (Broader Health Cover) allow treatment in less expensive settings to be covered by PHI
Doctor expenses	■ Medigap supplementary payments to Doctors carefully controlled
Adverse selection	■ Waiting periods prevent immediate claiming for pre-existing conditions ■ Benefit limitation periods discourage adverse selection
Ancillary expenses	■ Co-pays create a price signal and discourage over utilisation ■ Annual benefit limits control total exposure
Fraud prevention and claims leakage	■ In terms of claims leakage management NIB has improved its recoveries by 100% in the last financial year ■ Increasing member surveys of providers, as well as ‘phantom shopping’ investigations using internal and external sources to expose fraudulent providers and de-recognise them ■ Achieving greater co-operation with other funds in fraud investigations and working closely with various Government departments ■ Recovery of third party liability for claims is being aggressively pursued

Risk Equalisation levy and State levies

Risk Equalisation levy

- Risk Equalisation averages out the cost of hospital treatment across the PHI industry. The scheme transfers money from those organisations that are demographically younger and healthier, with lower claims payments, to those with an older and less healthy demographic distribution and which have higher claims payments. Through this method of shared costs, no funds or their members are disadvantaged by having an older risk pool
- The risk equalisation model includes hospital, hospital substitute, and chronic disease management program benefits paid in two pools:
  - Age Based Pool - benefits for persons aged 55 and over at an increasing rate, from 15% for 55 to 59 year old up to 82% for persons aged 85 and over, and
  - High Cost Claimants Pool - benefits paid for very high cost claims, being claims exceeding $50,000 after the age based benefits are taken into account
- Given NIB's size and lower average policyholder age it is the largest net contributor to the Risk Equalisation pool having paid over A$42m in FY06A whilst MBF, BUPA and Medibank received payments of approximately A$81.5m, A$31.7m and A$11.9m respectively
- Even with the operation of the risk equalisation levy, policyholders under 40 generally have lower claims drawing rates
- NIB's position as the largest contributor to the Risk Equalisation pool highlights it's success in attracting younger healthier Australians

State levies

- NSW and ACT governments charge a levy on non-concession card holding residents holding health insurance policies with hospital cover
- As NIB increases its penetration of markets outside of NSW/ACT this expense will fall as a proportion of premium revenue

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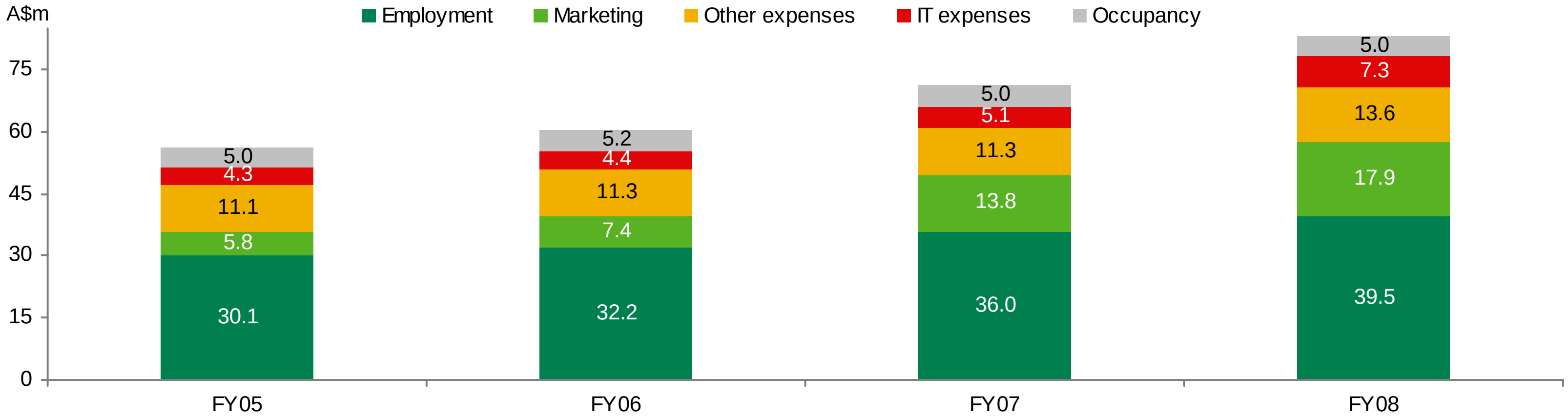
Management expenses

NIB Health Fund normalised management expense components



Given the investment in growth, NIB's MER remains slightly above the industry and its peers

MER	2005A	2006A	2007A
NIB	**10.6%**	**9.9%**	**10.7%**
Medibank	9.2%	10.2%	n/a
MBF	9.8%	9.2%	n/a
BUPA	7.7%	8.3%	n/a
Industry av.	9.5%	9.4%	n/a

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Management expenses – key drivers and levers

Labour costs	**Process improvement and automation** ■ Ongoing work process reengineering ■ Electronic automation of manual processes (e.g. imaging and workflow management) ■ Business unit rationalisation (e.g. merger of claims and contributions) **Rationalisation and automation of customer interface and distribution** ■ Retail centre rationalisation ■ Online service and straight through processing ■ Electronic claims payments **B2B** ■ Electronic provider data interchange and payments (e.g. Eclipse)
Brand building, marketing and promotion	■ Continuously measuring return on investment through management reporting and analysis ■ Disintermediation of sales ■ Retail centre rationalisation
Information technology	■ Possible outsourcing
Merger & Acquisitions	■ Improve scale ■ Cost synergy benefits
Running costs	■ Strategic procurement

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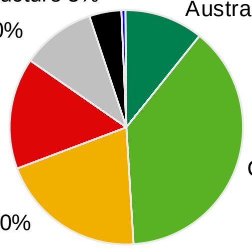
Investment portfolio and income

NIB has a diversified investment portfolio



As at 31 August 2007 (excluding direct property)

Comments

- NIB has ~A$400m of investment assets (excluding direct property of A$31.3m) as at 31 August 2007
- No direct exposure to sub-prime investments
- Portfolio is externally managed to a target split of 65% defensive assets and 35% growth assets to reflect the short tail nature of NIB's insurance liabilities
- All currency exposure is hedged
- Forecasting a 7.0% return on investment assets for 2008F, compared with 8.7% in 2007

Historical investment returns and balances (excluding direct property investments and returns)

	2005A	2006A	2007A	2008F
Opening balance	197,689	231,733	319,995	393,361
Investment income (net of fees)	16,538	17,360	29,211	26,520
Yearly return	8.2%	6.5%	8.7%	7.0%
Transfers	17,507	70,902	44,154	6,975
Closing balance	231,733	319,995	393,361	426,855

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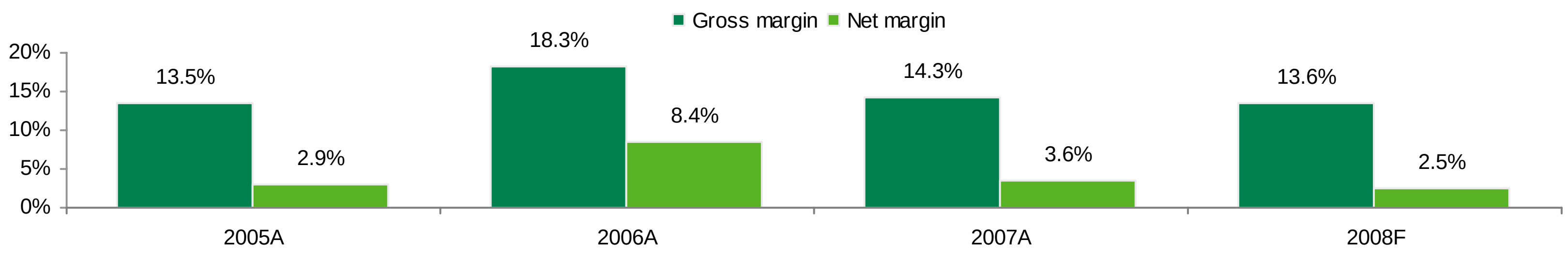
Underwriting margins

Underwriting margins



Commentary

- Gross underwriting margin and net underwriting margins for FY06 were above targeted levels due to high claims inflation leading to higher price setting for the 12 months from 1 April 2005
- Normalised FY2007 and forecast FY08 gross margins are below the medium term target of 15% due in part to the pricing in of the Loyalty Bonus over time. For normalised FY08 the shortfall of 1.4% ($10.4m) will be bridged in the medium term through various initiatives to mitigate claims inflation, including:
  - innovative product design
  - the Australian Health Services Alliance
  - ongoing fraud prevention and reduction of claims leakage initiatives
- Normalised FY07 and forecast FY08 net margin is below the medium term target of 5% partly due to the gross margin impact discussed above and the decision to invest significantly in the organic growth strategy from 1 January 2007. For normalised FY08, the shortfall after taking into consideration the gross margin shortfall is 1.1% or approximately $8.3 million. This shortfall will be overcome in the medium term through the impact of the organic growth strategy combined with various cost improvement initiatives

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Drivers of future earnings growth

- Volume
  - Organic (focus on the <40 market given low penetration and interstate growth)
  - M&A (listed platform provides an opportunity to participate in any industry consolidation)
- Product value “buy-up”
  - Life stage migration
- Efficiency, lower running costs and increased net margins
  - Automation (both front and back end processes are increasing their use of technology, e.g. significant new customer growth coming from the web)
  - Electronic Data Interchange (e.g. electronic claims lodgement and payment)
  - Ongoing retail network rationalisation
  - Expected move from investment in the NIB brand to maintenance of the NIB brand from 1 January 2010
  - M&A

Capital management and dividends

Capital management

- Strong balance sheet with no gearing, positions NIB for potential acquisitions
- In the absence of any strategic initiatives, the Board intends reviewing NIB's capital position and gearing at or around the time of release of the June 2008 results with the view to returning capital to shareholders (subject to PHIAC, shareholder and ATO approval)
- NIB had ~A$75m of capital above its targeted requirements as at 30 June 2007

Dividends

- As a result of the operation of accounting standards (AASB 2 and UIG 8) relating to the demutualisation, NIB Health Fund has negative retained earnings and will report an accounting loss for 2008. This has no impact on the underlying performance or profitability of NIB
- Accordingly, NIB cannot pay a dividend for the 2008 year. The operation of these accounting standards will not impact on NIB's ability to undertake alternative capital management initiatives
- Post FY08 NIB expects to have accounting profits from which to pay dividends. The Board expects a dividend payout ratio of 40-60% of normalised profits post 2008
- Dividends are expected to be fully franked

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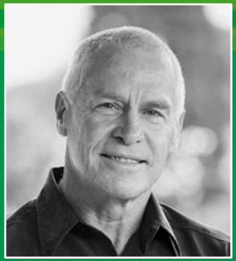

Key Institutional Offer information

Key offer statistics	
Indicative offer price range	$0.70 - $0.90
Total number of Shares outstanding pre ASX Listing/Institutional Offer	459.0m
Shares to be issued under the Institutional Offer	55.6m-71.4m
Cash proceeds – Institutional Offer	A$50m
Total number of Shares on issue following the Institutional Offer	514.6m-530.4m
Market capitalisation at the Offer Price	A$371m-A$463m

Additional shares arising from the Share Sale Facility being offered to all existing NIB shareholders, will be offered under the Institutional Offer

2008 Directors' Forecasts	
NPAT	A$32.1m
Underwriting result	A$18.7m
EPS	6.06 – 6.25 cents
Net Assets (pro-forma post Listing)	A$339.7m
Price/earnings ratio	11.5x – 14.4x
Price/Net Assets (pro-forma post Listing)	1.09x – 1.36x

Indicative sources and uses – Institutional Offer

Sources	A$m	Uses	A$m
Proceeds from Institutional Offer of new shares	50.0	Donation to the NIB Foundation	25.0
		Estimated fees and costs associated with the Offer and initial working capital for NIB Holdings	25.0
Total Sources	**50.0**	**Total Uses**	**50.0**

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Indicative timetable

Indicative key dates (subject to change)	
Last date for receipt of existing NIB shareholders Sale Facility Election Form	19 October 2007
Institutional Bookbuild opens	25 October 2007
Institutional Bookbuild closes	26 October 2007
Facility Price confirmed	26 October 2007
Institutional allocations notified	26 October 2007
Expected settlement date	31 October 2007
Expected allotment date	1 November 2007
Deferred Settlement trading on ASX expected to commence	1 November 2007
Expected dispatch of shareholder statements	1 November 2007
Normal trading on ASX expected to commence	6 November 2007

JPMorgan Sole Lead Manager

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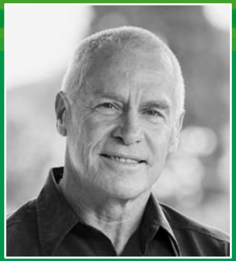


The healthcare market is big, and getting bigger, growing at more than twice the rate of GDP

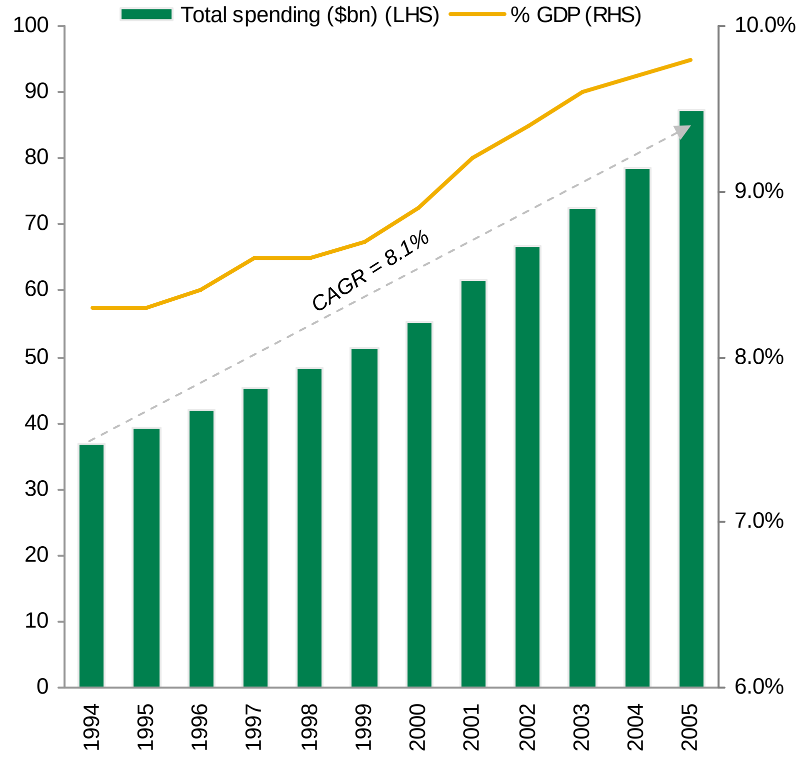
Industry snapshot

- During 2005, Australians spent approx. A$87bn on healthcare through public and private systems
- Spending now represents approx. 10% of GDP; US healthcare spending is approx. 16% of GDP
- Hospital services (35%) represent the largest single component of healthcare spending, followed by medical services[1] (17%) and pharmaceuticals (14%)
- Healthcare expenditure is expected to rise significantly due to:
  - Increasing affluence
  - Ageing population and trying to cure death
  - Increasing cost of treatment, driven by technological advances
  - Limited price signals

Source: Australian Institute of Health and Welfare (AIHW)

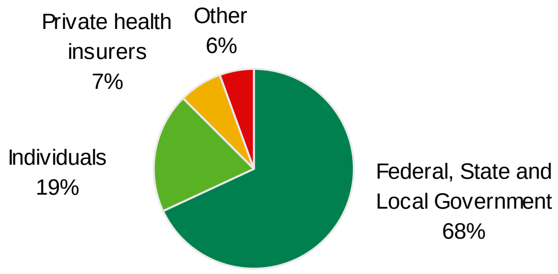
[1] Includes services provided by private medical practitioners operating on a fee-for-service basis

Total Australian healthcare expenditure



PHI plays a relatively small but important role in the healthcare economy

PHI represents only 7% of healthcare spending



Source: AIHW, 12mths ended 30 June 2005

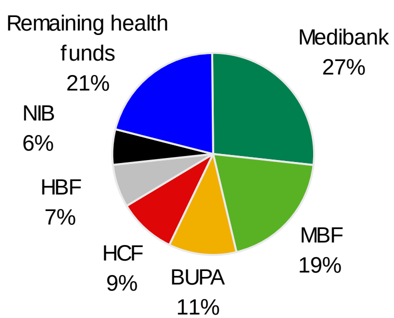
Industry landscape

- At 30 June 2006 there were 39 registered health insurers, 37 of which conducted a health benefits fund, 23 of which were open membership organisations
- Medibank Private is the only true 'national' fund – each state has three or four funds with dominant market shares
- Top six PHI players account for ~80% of the market by premium revenue
- NIB is Australia's sixth largest health insurer

PHI coverage

- Total Australian PHI contributions of $10.3bn for 12mths to 30 June 2006
- The PHI industry's value proposition is:
  - Access to private hospital and avoid waiting times
  - Choice of specialist
  - Provide cover for ancillary services (physio, chiro, dental, lifestyle goods (runners, gym etc))
- Currently PHI does not cover:
  - GP fees
  - Out of hospital pharmaceuticals
  - Out of hospital specialists
  - Residential care

The top 6 PHI players account for ~80% of the PHI market



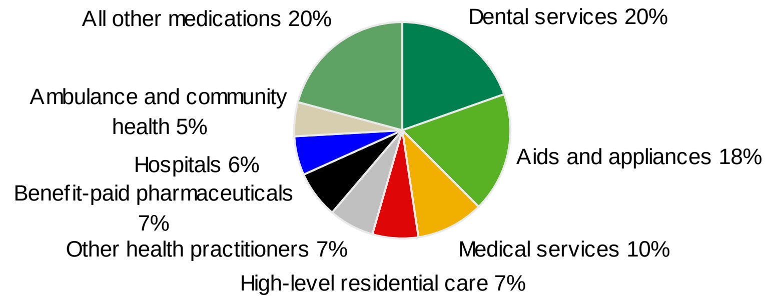
Source: PHIAC, 12mths ended 30 June 2006 premium revenue

The potential for growth in PHI is significant

Key points

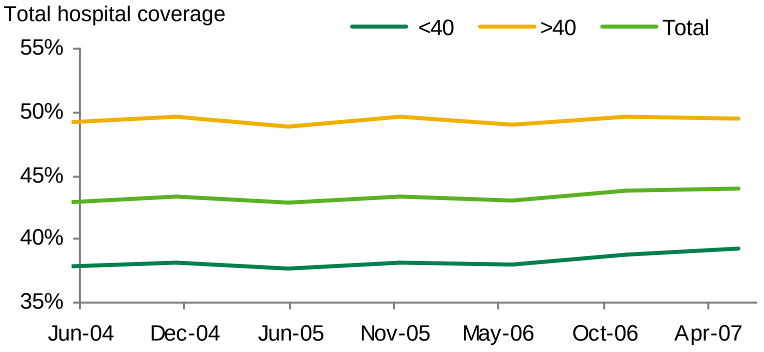
- PHI represents only 7% of the health economy
- Almost 12 million Australians do not have hospital cover
- Under 40s which are a better risk age group, remain underinsured relative to the rest of the population, with only 39% having cover vs. 44% of the total population
- Continued frustrations with the public health system and lengthening of waiting times for elective surgery
- Broader cover initiatives

Individual out-of-pocket spending is a significant opportunity



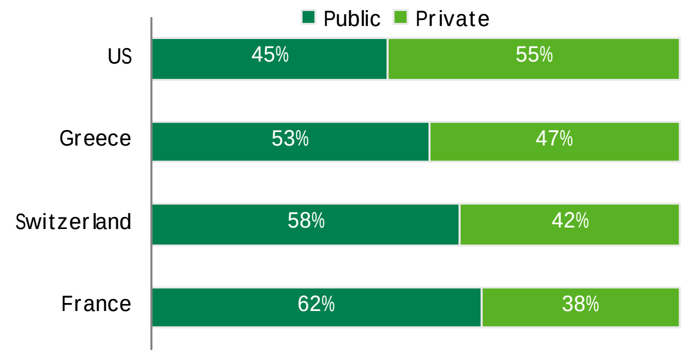
Source: AIHW

Under 40s are relatively underinsured



Source: PHIAC

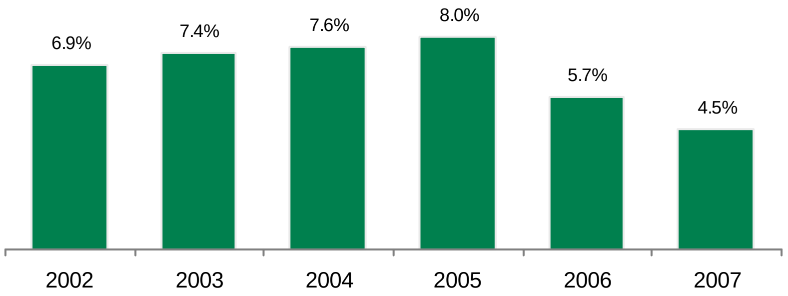
International comparisons of healthcare spending



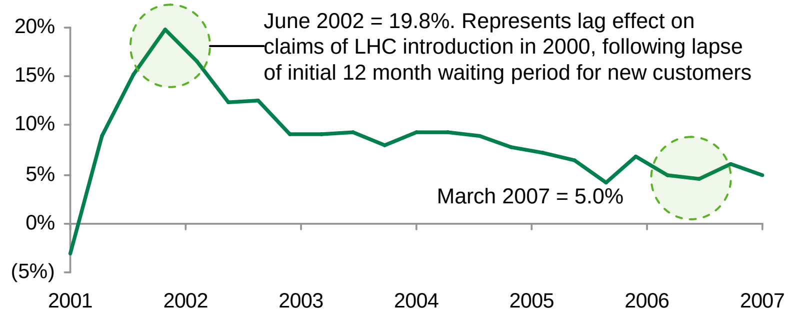
Source: McKinsey & Company Health International Number 9

Importantly, PHI profitability has stabilised and is now growing

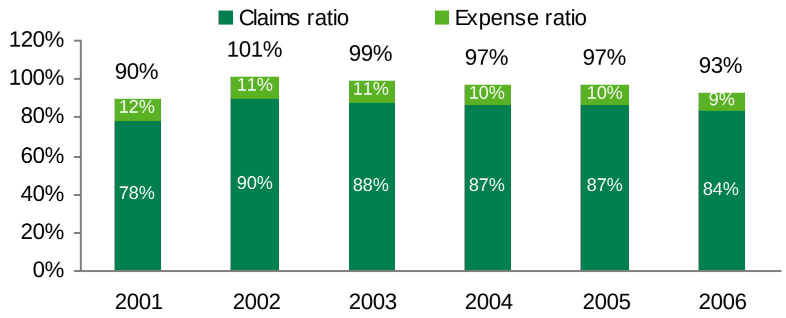
Premium growth has been consistently above GDP



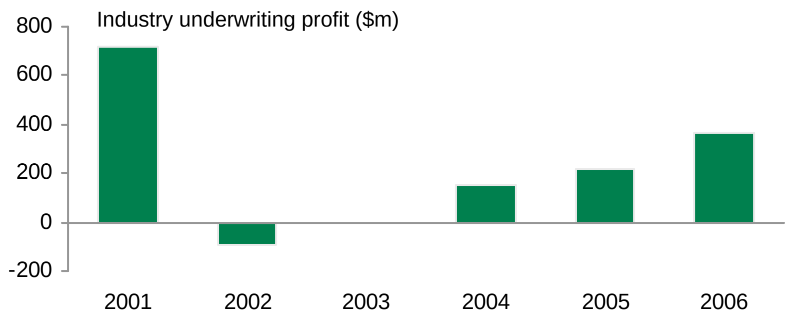
Claims inflation has subsided



PHI combined operating ratios have declined . . .



. . . leading to improved and growing industry profitability



Source: PHIAC, excludes state levies

Government policy is very supportive

Key PHI regulations	
Community rating	■ PHIs must charge all policyholders the same price for a policy regardless of risk ■ Designed to prevent price discrimination on the grounds of age, sex, health status or claims history
Risk equalisation levy	■ PHI funds that have lower claims vulnerability based on the risk profile of their customers have to subsidise those that insure customers who have a higher risk in terms of claims vulnerability
Price regulation	■ A private health insurer must apply to the Minister of Health and Ageing for approval of any increase in premium rates

Legislated initiatives to increase PHI take-up	
Medicare Levy Surcharge	■ A surcharge of 1% of taxable income is levied on those income earners (single and earning more than $50,000 p.a. or a couple/family earning more than $100,000 p.a.) who do not have PHI with a low front end deductible or a low excess
Federal Government Rebate	■ Government subsidises the cost of private health insurance by providing a rebate on premiums ■ Depending on the age of the oldest person on the policy, the level of rebate ranges between 30% (64 years or younger), 35% (65 to 69 years) and 40% (70 years or older)
Lifetime Health Cover (LHC)	■ People are encouraged to take out health insurance before they turn 31 years of age ■ People who join after 30 pay a 2% loading on top of their health insurance premium for every year they are aged over 30, however, loading is removed after 10 continuous years of PHI coverage
Current Government advertising campaign	■ Federal Government is spending $17.5m in 2007 on advertising to encourage PHI take-up and to promote the rebate ■ Recent changes make it easier for individuals to compare health funds

Support for PHI is bipartisan

Both sides of federal politics have expressed unequivocal support for the Government Rebate

"I think it's a good thing we are starting to see these old mutuals contemplating floating and subjecting themselves to the discipline of the free enterprise system"

"There are rebates and a tax deduction available for a whole range of things without it being described as a subsidy to particular industries."

- Nick Minchin (Minister for Finance)
11 July 2007,
National Press Club

"It is frightening that health costs have to compete with grocery costs, mortgage costs, petrol costs, child care costs, not to mention the interest rates that have just risen again. This is one of the reasons Labor remains firmly committed to the private health insurance rebates, recognising that many working families have come to rely on them and could not afford insurance without them."

- Nicola Roxon (Shadow Health Minister)
29 August 2007,
Catholic Health Australia's Annual Conference

nib
holdings