

Date **Wednesday 6 October 2010**

Subject **\$140 million cash proposal for 100% of GMHBA**

Highlights

- **All cash proposal of \$140 million for 100% of health insurer GMHBA**
- **The combined company would have 9% market share with approximately 500,000 policyholders and premium revenue of \$1.2 billion**
- **Proposal represents a 54% premium to the net assets of GMHBA of \$91.2 million as at 30 June 2009**
- **If a transaction is successful, GMHBA's approximately 91,500 members will receive a tax free cash payment**
- **Merger expected to provide a significant economic boost to the economy of Geelong and surrounding areas**
- **Expected to be EPS accretive (excluding integration and transaction costs) for nib shareholders in its first full year**

Proposal for GMHBA

nib holdings limited (nib) announced today that it has submitted a proposal to the Board of GMHBA Limited (GMHBA), under which nib would pay \$140 million in cash for GMHBA. The Board of Directors of GMHBA have formally rejected this proposal and refused to further engage with nib.

Given the rejection of nib's proposal by the GMHBA Board, nib felt it was necessary to make its proposal public to ensure the true owners of GMHBA, its members, have an understanding of the value of their interest in GMHBA and the opportunity.

For the proposal to be accepted, nib expects the Board of GMHBA must allow a vote on the offer by GMHBA members.

nib's Managing Director, Mark Fitzgibbon said the merger would create a stronger company and improve the competitiveness of both health funds.

"Our proposal is strategically and financially compelling for both GMHBA members and nib shareholders. It would also be a very logical merger within the context of wider industry consolidation," Mr Fitzgibbon said.

"Importantly, the merger would unlock the considerable value that around 91,500 GMHBA members have in their fund.

"Based on previous health fund demutualisations, nib believes the cash payment to GMHBA members could be as much as \$6,500 (tax free). The average payment would be approximately \$1,500 (tax free).

"Our proposal will also help reduce the pressure on any future increase in health fund premiums for members of both GMHBA and nib," Mr Fitzgibbon added.

The proposal allows for an existing Director of the GMHBA Board to join the Board of nib.

Mr Fitzgibbon added that if successful the proposal would leverage the strong attributes of both health funds.

"A big attraction for us is that we regard GMHBA as a solid and successful organisation. If our proposal is approved, we will maintain GMHBA's product range, protect jobs and keep open all of GMHBA's retail centres.

"Our \$140 million proposal to GMHBA provides an exciting opportunity for its members. If accepted, it will provide the business with access to additional capital and capacity to grow and improve services to GMHBA policyholders."

Benefits of nib's proposal for GMHBA members and Geelong Community

Based on the offer price of \$140 million, the offer represents an attractive premium of 54% to the net assets of GMHBA of \$91.2 million as at 30 June 2009

"The benefits of the merger are many, but centre upon the ability of a larger fund to improve service, invest in new technologies and drive down costs. This has the combined effect of reducing the pressure on any future premium increases," Mr Fitzgibbon said.

"As part of our proposal, we have offered various undertakings to protect current GMHBA service levels including no GMHBA retail centre closures, as well as GMHBA employees being covered by nib's no forced redundancy policy.

"We will also maintain GMHBA's product range, allowing current GMHBA members to stay on their current product if they choose to do so."

nib's proposal for GMHBA includes the establishment of a state-of-the-art nib dental "supercentre" in Geelong.

nib confirmed its commitment to continue to support the local community through sponsorship of local teams and events, as well as philanthropic causes, and will maintain GMHBA's current sponsorship commitments.

"nib is already heavily involved in the greater Geelong community and has plans to escalate that involvement. Like GMHBA, nib has a proud tradition as a regional health insurer and understands its obligation to regional communities," Mr Fitzgibbon added.

Consistent with nib's strategy

nib continues to explore new opportunities to grow market share, revenue and earnings. In examining and pursuing merger and acquisition opportunities nib has always ensured a disciplined approach in finding the appropriate balance between value for nib shareholders and value to the members of these health funds. Consistent with this approach, nib expects that the proposed GMHBA transaction will deliver an EPS accretive outcome (excluding integration and transaction costs) in the first full year.

Overwhelming support from members for health insurance demutualisations

nib believes the GMHBA Board should support the proposal and allow GMHBA members the opportunity to vote on the proposal. Using previous health fund demutualisations as a guide, members have voted overwhelmingly in favour of demutualisation, when given the opportunity.

- nib's demutualisation in 2007 - 95% of voting nib policyholders voted in favour
- BUPA/MBF merger in 2008 - 98% of voting MBF policyholders voted in favour
- Acquisition of AHM by Medibank Private in 2008 - 99% of voting AHM policyholders voted in favour
- Acquisition of Manchester Unity by HCF in 2008 - 99% of voting Manchester Unity policyholders voted in favour

Details of the proposal

nib believes its \$140 million cash proposal for GMHBA is a fair and attractive offer for GMHBA members. In addition to the cash consideration, nib has also offered several undertakings including:

- Maintaining GMHBA's product range, allowing GMHBA members to stay on their current product if they choose to do so;
- Establishing a state-of-the-art nib dental "supercentre" to enhance the services available to GMHBA and nib members in and around Geelong;
- No GMHBA retail centre closures;
- GMHBA employees will be covered by nib's no forced redundancy policy; and
- Offer of a nib Board position to a GMHBA Director to ensure GMHBA's values and local focus is retained.

Transaction financing and conditions precedent

The transaction would be financed primarily through nib's excess capital, and potentially, a small bank facility if required.

nib's proposal is subject to customary conditions precedent, including completion of satisfactory due diligence.

nib is being advised by J.P. Morgan Australia Limited and Mallesons Stephen Jaques.

Policyholder update

nib's net policyholder growth rate for the three months ending 30 September 2010 was 8,563 policies (excluding overseas students and temporary migrant workers). This compares favourably to the result for the same period last year of 6,923 net new policies.

Mr Fitzgibbon said he was pleased with nib's net policyholder growth for the first quarter of FY11.

"Our policyholder growth reflects the sound investment in organic growth and has the company well on track to deliver a result within our net policyholder growth rate range of 5% to 6% for the full year. We expect to again be well above system growth."

About nib

nib is Australia's fifth largest private health insurer with approximately 7.3% market share. nib has approximately 415,000 policyholders, providing cover for over 800,000 people. In FY10 nib's net policyholder growth rate was 5.9%, compared to the industry's average of 2.9%. With just 7.3% market share, nib accounted for 14.3% of the industry's total policyholder growth.

Established over 50 years ago, nib in 2007 became the first Australian health fund to demutualise and list on the Australia Securities Exchange (ASX).

About GMHBA

GMHBA is Australia's eighth largest private health insurer with around 91,500 policyholders and provides cover for over 197,000 people. In FY10, GMHBA's policyholder growth rate was 6.2%, compared to the industry average of 2.9%.

In FY09, GMHBA reported premium income of more than \$191 million and pre tax profit of approximately \$8 million. As at 30 June 2009, GMHBA had net assets of approximately \$91 million.

GMHBA was formed when a group of cement workers banded together in the late 1920s to negotiate with hospitals for medical treatment. The health fund was officially launched in 1934. GMHBA remains based in Geelong.

MEDIA AND INVESTOR RELATIONS

Matthew Neat
Tel: 02 4914 1777
Mob: 0411 700 006
Email: m.neat@nib.com.au

Ian Pemberton or Iain McDonald
Tel: 02 9231 5411
Mob: 0402 256 576 / 0488 390 151
Email: ian.pemberton@plcorporate.com.au