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

t 13 14 63
f 02 4925 1999

e nib@nib.com.au
w nib.com.au

2009 nib holdings limited (nib) Annual General Meeting
Chairman's Address
Wednesday 28 October 2009

At last year's AGM, we anticipated that the emerging global financial crisis would create a challenging business operating environment for the 2009 financial year. In the ensuing 12 months it became apparent that, as a business, nib was not been immune to this crisis.

Without doubt the financial crisis's greatest impact on nib, like many other businesses, has been on our investment returns, with investment losses for the period of $1.8 million.

Overall, our portfolio returns were in line with relevant benchmarks, with the exception of our Overseas Fixed Interest portfolio. However, in the last 6 months we have seen an improved performance in this portfolio with the 12 months to September 2009 result at above benchmark levels.

The negative investment return was reflected in our disappointing consolidated profit of $23.8m for the year.

Nevertheless, the underlying performance of nib for FY09 was very strong, with a pre-tax underwriting profit of $40.2m, an increase of almost 22% on the previous year. Notably, we grew our policyholder base by 5.2% compared to 3.3% for the entire private health insurance industry.

Mark Fitzgibbon will soon provide you with further analysis of nib's results, key performance metrics and outlook for the year.

Our FY09 underlying results highlight that, against the backdrop of a global financial crisis, the past 12 months was very positive and continued to build a strong foundation for nib as a listed public company.

nib's earnings and capital strength have allowed for dividend payments totalling 7.4 cents per share, fully franked for the year.

Shareholders would have received their final dividend of 4.4 cents per share, fully franked, in their bank accounts on the 9th of October.

The board's position is that in addition to an earnings payout ratio of between 50-60%, we will continue to distribute surplus capital in the form of dividends, to the extent made possible by franking credits. This is reflected in our FY09 full year dividend of 7.4 cents per share, of which 2.4 cents per share was effectively a normal dividend with 5 cents per share a capital management initiative.

Equally however, we are keen to retain sufficient capital strength to take advantage of any investment opportunities that may arise in the short to medium term.

On that matter, playing a key role in further industry consolidation remains a priority for nib. Having the capital structure to allow nib to participate in industry consolidation was one of the key motives for listing nib on the ASX in 2007.

Since then three major health funds, in MBF, AHM and Manchester Unity, have been acquired.

It's no secret that nib has been actively pursuing strategic M&A opportunities. However, nib is a disciplined bidder and is not prepared to pay above what we believed is fair value for potential acquisitions. I think it's also fair to observe that nib has the prowess to originate potential acquisitions.

Industry consolidation will continue in the short to medium term, and nib remains committed to exploring M&A opportunities that increase shareholder value during this process.

I would like to take the opportunity to explain the Board's rejection of an unsolicited and incomplete proposal made last October to acquire a controlling stake in nib.

It was the Board's view at the time that the proposal was opportunistic and significantly undervalued nib. At the time the third party's valuation to take a controlling stake in the company was $1.15 - $1.20 per share. I believe the company's subsequent performance has vindicated our position. In such matters the Board has no other motive than doing what they judge as what is in the best interest of shareholders and maximising return.

Capital Management was a key focus for the year with nib buying back and cancelling shares through the on-market share buy-back and returning part of our surplus capital by way of our dividend policy, which I mentioned previously.

Through the on-market share buy-back we have purchased and subsequently cancelled approximately 21.8 million shares at a total cost of $17.8 million. These shares were purchased at an average cost of 82 cents per share. For FY09 we have calculated that the on-market share buy-back will be accretive to earnings per share in the order of 4%. nib intends to continue buying back up to 10% of issued shares at the time of the commencement of the buyback in October last year, subject to market price.

During the year nib also offered an unmarketable parcel sale facility to shareholders who were the registered holders of less than a marketable parcel of nib shares. nib values all of its shareholders. However, the administrative costs, such as registry and communication expenses, of maintaining many small shareholder accounts is exceedingly high. In addition, nib recognises that small shareholders may find it difficult or expensive to dispose of their shares.

Under the ASX Listing Rules an unmarketable parcel of shares is any parcel valued at $500 or less. In accordance with the terms and conditions of the unmarketable parcel sale facility and nib's constitution, shareholders who held an unmarketable parcel, which equated to 624 shares or less on the 28 May 2009, had six weeks to positively elect and return a retention form to retain their shares.

As a consequence, almost 22 million shares, representing nearly 58,000 shareholders were offered for divestment in the unmarketable parcel sale facility.

Under the terms and conditions for the facility, the maximum price nib could pay for the shares under a minimum holding buy-back was $1.04 per share. Instead, institutional investors, by way of an institutional bookbuild, were prepared to pay $1.06 per share.

Participants in the unmarketable parcel sale facility have been sent a cheque for the proceeds from the sale of their unmarketable parcel. All costs associated with the sale of shares in the unmarketable parcel sale facility have been met by nib.

nib considers that the unmarketable parcel divestment process is an easy, convenient and cost-effective way for small shareholders to sell their shares and was fair for all shareholders, as was the price achieved for the sale of those shares.

Government policy, such as the 30% Private Health Insurance Rebate, Medicare Levy Surcharge and Lifetime Health Cover, continue to play an enormous role in industry dynamics. Amendments to the Medicare Levy Surcharge last year were distracting. It appears, however, that the changes had a minimal impact on nib. Similarly this year, the Government proposed means testing the 30% Rebate. This proposal was recently defeated in the Senate, and while it may be reintroduced by the Government, we do not think the proposal would have had a material impact on nib.

Recent developments such as the report handed down by the National Health and Hospital Reform Commission only highlight that the Government must look seriously at more fundamental reforms of our nation's health system, in particular the need for more private funding and service delivery.

We continue to be actively engaged with the Government to ensure as much as possible, that nib and the industry are appropriately consulted on future health reform.

I mentioned at last year's AGM the establishment of the nib foundation, to promote and support the health and wellbeing of Australians. It was funded by a $25 million donation from nib, raised through the issue of new shares at the time of listing nib on ASX.

The primary goal in establishing the nib foundation was to fund programs that address health issues of regional or national relevance.

The work of the foundation is one of the great legacies of nib's demutualisation.

Since October last year the nib foundation has allocated
$1.3 million in funding of health and wellbeing initiatives, including:

- $100,000 to the Black Dog Institute for research into Bipolar. This money was used to open a Mood Assessment Program Centre in the Hunter Region and fund an INSIGHT Program for secondary school students.

- $50,000 to the Red Cross Victorian Bushfire Relief Fund.

- $1 million to the Hunter Institute of Mental Health to provide programs to support carers right across Australia over the next three years.

- $35,000 to the Mayumarri Healing Centre to provide assistance to survivors of child abuse. The funds will be used to rebuild a community centre near Cessnock, which was destroyed by fire in August this year.

In addition, over the coming few weeks the nib foundation will also announce more than $500,000 in various Community Grants to charity and community-focused organisations in Queensland, Victoria and right here in the Hunter.

If you would like to know more about the nib foundation, Anne Long, the foundation's Executive Officer, will be available in the foyer after the meeting to answer any questions or enquiries.

FY10 is showing all the signs of another strong year for nib, especially given the recent improvement in macro economic conditions.

A focus for the business this year will be to deliver strong shareholder returns through three key areas:

Firstly, we will continue to grow our premium revenue and policyholder base above expected private health insurance system growth through increased market share. To this same end, we will also continue to explore M&A opportunities as we have consistently to date.

Secondly, we will move into our long-term underwriting profit margin range of 5 – 6% and seek to stabilise this position through managing costs and as far as possible ensuring premiums keep up with claims inflation.

Thirdly, we will continue our drive towards a return on equity invested in nib of at least 15% and examine possibilities to more optimally capitalise the business.

Delivering strong shareholder returns remains a fundamental goal for your Board of Directors. Our FY09 results are true to the business and financial goals we set when we listed in 2007 and I am confident that our business strategy will deliver on the financial goals we have set ourselves for FY10.

I would now like to introduce your Managing Director and Chief Executive Officer, Mark Fitzgibbon to report on our business activities for the year.

ends//