

2010 NOTICE OF **MEETING**

nib holdings limited
abn 51 125 633 856

nib

Notice is given that the Annual General Meeting (“AGM”) of nib holdings limited (“Company” or “nib”) will be held:

Date: 26 October 2010
Time: 1.00pm
Venue: Newcastle City Hall
1st Floor Concert Hall
290 King Street, Newcastle 2300

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ITEMS OF BUSINESS

ORDINARY BUSINESS

1. Consideration of Reports

To receive and consider the Financial Report, the Directors' Report and the Independent Auditor's Report of the Company for the financial year ended 30 June 2010.

Shareholders will be given a reasonable opportunity to ask questions about, or comment on, the management and audit of the Company.

There is no vote on this item.

2. Remuneration Report

To consider and, if thought appropriate, pass the following Advisory Resolution:

"That the Remuneration Report of the Company for the financial year ended 30 June 2010 (set out in the Directors' Report) is adopted."

Under the Corporations Act, this resolution is advisory only and does not bind the Directors or the Company.

3. Re-election of Dr Annette Carruthers

To consider and, if thought appropriate, pass the following Ordinary Resolution:

"That Dr Annette Carruthers be re-elected as an Independent Non-Executive Director of the Company."

4. Election of Mr Steve Crane

To consider and, if thought appropriate, pass the following Ordinary Resolution:

"That Mr Steve Crane be elected as an Independent Non-Executive Director of the Company."

SPECIAL BUSINESS

5. Approval of participation in Long Term Incentive Plan

To consider and, if thought appropriate, pass the following Ordinary Resolution:

"That the following be approved:

- participation in the nib holdings limited Long Term Incentive Plan (**LTIP**) by Mark Fitzgibbon, Managing Director;
- acquisition accordingly by Mr Fitzgibbon of performance rights and in consequence of the vesting of those performance rights, of ordinary shares of the Company; and
- the provision of benefits to Mr Fitzgibbon under the LTIP, all in accordance with the terms of the LTIP and on the basis as described in the Explanatory Notes to this Notice of Annual General Meeting."

Voting exclusion statement

The Company will disregard any votes cast on this resolution by:

- a Director of nib (except one who is ineligible to participate in any employee incentive scheme in relation to nib); and
- an associate of that Director of nib (except one who is ineligible to participate in any employee incentive scheme in relation to nib).

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

6. Cancellation of shares held by the Overseas and Unverified Policyholders Trust

To consider and, if thought appropriate, pass the following special resolution:

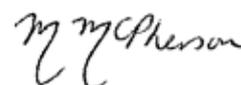
"That the cancellation of the ordinary shares held by the trustee ("**Trustee**") of the Overseas and Unverified Policyholders Trust be approved for the purposes of section 256C of the Corporations Act and all other purposes, subject to approval of the Trustee, whose shares are to be cancelled, and the Board of the Company."

Voting exclusion statement

The Company will disregard any votes cast on this resolution by the Trustee.

Dated: 15 September 2010

By Order of the Board



Michelle McPherson
Company Secretary

ITEMS OF BUSINESS CONTINUED

Notes:

1. A shareholder entitled to attend and vote is entitled to appoint not more than two proxies. Shareholders can appoint a body corporate as well as an individual as their proxy. A body corporate may appoint an individual as its representative to exercise any of the powers the body may exercise at general meetings of nib holdings limited or in the capacity of a shareholders proxy at general meetings of nib. The appointment may be a standing one. Unless the appointment states otherwise, the representative may exercise all of the powers that the appointing body could exercise at a general meeting or in voting on a resolution.
2. A shareholder who appoints two proxies may state on the proxy form what proportion or number of the shareholder's votes each proxy is being appointed to exercise. If a shareholder appoints two proxies and does not specify the proportion or number of votes each proxy may exercise, each of the proxies may exercise half the shareholder's votes.
3. If a shareholder has appointed two proxies, when a resolution is decided on a show of hands, only the first person named on the proxy form may vote. If two proxy forms have been completed, the person whose name is earlier in alphabetical sequence may vote.
4. A proxy need not be a shareholder of nib holdings limited.
5. Either the original, facsimile or electronic transmission of the proxy form(s) and any Power of Attorney or authority under which they are signed must be received at least 48 hours prior to the AGM (i.e. by no later than 1.00pm on Sunday, 24 October 2010) or any adjournment. Any proxy form received after this deadline, including at the AGM, will be invalid.
6. A proxy form accompanies this Notice of Meeting.
7. Additional proxy forms will be supplied by the nib share registry on request.
8. An electronic proxy facility is also available to shareholders via the nib shareholders website – nib.com.au/shareholders
9. If a corporate representative is to attend the AGM on behalf of a corporation, a formal Notice of Appointment must be brought to the AGM.
10. In accordance with Regulation 7.11.37 of the Corporations Regulations and ASTC Settlement Rule 5.6.1, the Board has determined that a person's entitlement to vote at the AGM will be the entitlement of that person set out in the register of shareholders as at 7.00pm (Sydney time) on 24 October 2010. Accordingly, transactions registered after that time will be disregarded in determining shareholders entitled to attend and vote at the AGM.
11. If you wish a question to be put to the Chairman or Auditor and you are not able to attend the AGM, please complete the question form which is included with this Notice of Meeting.
12. Either the original or facsimile transmission of the question form must be received at least five business days prior to the AGM (i.e. by no later than 5.00pm on 19 October 2010 or any adjournment). This is to allow time to collate questions and to prepare answers.

EXPLANATORY NOTES

on the business to be transacted at the nib holdings limited ("Company" or "nib") Annual General Meeting ("AGM")

ORDINARY BUSINESS

1. Consideration of Reports

Section 317(1) of the *Corporations Act 2001 (Cth)* ("**Corporations Act**") requires a public company to lay before its AGM the Financial Report, the Directors' Report and the Auditor's Report for the Company for the financial year that ended before the AGM.

Shareholders will be given a reasonable opportunity to consider, comment on and ask questions of the Directors and the Auditor of the Company about the management of the Company, the conduct of the audit, and the preparation and contents of the financial statements and reports for the financial year ended 30 June 2010.

2. Remuneration Report

The Corporations Act requires listed companies to put a Remuneration Report relating to Director and executive remuneration for each financial year to a resolution of members at their Annual General Meeting. The Remuneration Report is set out on pages 5-14 of the Company's annual financial report.

Under section 250R(3) of the Corporations Act, the vote on this resolution is advisory only and does not bind the Directors or the Company. Shareholders will be given a reasonable opportunity to ask questions about, and make comments on, the Remuneration Report at the AGM.

The Directors unanimously recommend that shareholders vote in favour of adopting the Remuneration Report.

3. Re-election of Dr Annette Elizabeth Carruthers

In accordance with Article 10.3(b) of the Constitution dealing with the rotation of Directors, Dr Annette Carruthers retires from office at the AGM and, being eligible to do, offers herself for re-election as an Independent Non-Executive Director.

Dr Annette Carruthers was appointed as a Director of the Company in September 2007. She has been a Director of nib health funds limited since 2003. She is also a Director of nib health care services pty limited and The Heights Private Hospital Pty Limited.

Dr Carruthers is a general medical practitioner with comprehensive experience in health management. She was the Clinical Director at GP Access (formerly known as Hunter Urban Division of General Practice) until August 2009 and was previously a Director of the Hunter Area Health Service. She is a member of the NSW Medical Experts Committee Avant Pty Ltd and a Board member of Haematology and Oncology Clinics of Australia Pty Ltd, HOCA Pty Ltd, Haematology and Oncology Clinics of Australia Research Centre Limited and BANTB Pty Ltd.

Dr Carruthers is a member of the nib Audit Committee and Nomination and Remuneration Committee. She is also the Chair of the Risk and Reputation Committee.

The Directors (with Dr Carruthers abstaining and not voting) recommend that you vote in favour of this Ordinary Resolution.

4. Election of Mr Steve Crane

Mr Steve Crane was appointed by the Directors as an Independent Non-Executive Director of nib in September 2010 pursuant to Article 10.7 of the Constitution, which allows the Board to appoint a Director to fill a casual vacancy.

Steve Crane retires in accordance with Article 10.3(b) of the Constitution and, being eligible, offers himself for election as an Independent Non-Executive Director.

Mr Crane holds a Bachelor of Commerce degree, is a Senior Fellow of the Financial Services Institute of Australasia, as well as a Fellow of the Australian Institute of Company Directors and Australian Institute of Management.

Mr Crane has worked in financial markets since 1970. He began his career at AMP and largely worked in the fund management area. In 1988, he joined BZW Australia, where he was promoted to Managing Director – Financial Markets in 1995 and became Chief Executive in 1996.

In 1998, when ABN AMRO acquired BZW Australia and New Zealand, Mr Crane became Chief Executive and remained in this role until his retirement in June 2003.

Mr Crane is now a member of the Advisory Council for RBS Group (Australia) Pty Limited (formerly ABN AMRO), Chairman of Global Valve Technology Limited, and also a Director of Transfield Services Limited, Bank of Queensland Limited, APA Ethane Limited, The Sunnyfield Association and Taronga Conservation Society Australia.

Mr Crane has previously been a Non-Executive Director of the following listed companies: Investa Property Group (Chairman 2006-2007), Foodland Associates (2003-2005), Adelaide Bank Limited (2005-2007), Adelaide Managed Funds (Chairman 2006-2008). He was also the Chairman of the Investment Banking and Securities Association and a Trustee of Australian Reward Investment Alliance (ARIA) (2007-2009).

The Directors (with Mr Crane abstaining and not voting) recommend that you vote in favour of this Ordinary Resolution.

SPECIAL BUSINESS

5. Approval of participation by the Managing Director in the nib Long Term Incentive Plan

Approval Sought

nib seeks shareholder approval for Mr Mark Fitzgibbon, Managing Director, to participate in the Long Term Incentive Plan ("**LTIP**") for three financial years from 1 July 2010. In 2008, the LTIP was adopted by nib and shareholder approval

EXPLANATORY NOTES CONTINUED

on the business to be transacted at the nib holdings limited ("Company" or "nib") Annual General Meeting ("AGM")

was granted at the 2008 AGM for Mr Fitzgibbon to participate in the LTIP for the three financial years from 1 July 2007.

Background

The LTIP forms part of nib's remuneration strategy. The LTIP is designed to align the interests of executives and shareholders and to assist nib in the attraction, motivation and retention of executives. In particular, the LTIP provides executives with an incentive for future performance, thereby encouraging those executives to remain with nib and contribute to the Company's future performance.

Under the LTIP, eligible persons participating in the LTIP may be granted options and/or performance rights on terms and conditions determined by the Board from time to time. An option and a performance right are both rights to acquire a share in nib, subject to the satisfaction of applicable vesting and/or exercise conditions (if applicable) including the achievement of Board determined performance hurdles. A summary of the LTIP rules ("**LTIP Rules**") is set out in the Schedule to these Explanatory Notes.

Overview of awards to Mark Fitzgibbon

It is proposed that performance rights will be awarded to Mark Fitzgibbon on an annual basis from 2010. The performance rights for each annual award will be granted in two tranches of equal value. The performance periods will be as follows:

Performance Period 1	1 July 2010 to 30 June 2014
Performance Period 2	1 July 2011 to 30 June 2015
Performance Period 3	1 July 2012 to 30 June 2016

Vesting conditions

The performance rights will vest in accordance with the achievement of the following vesting conditions:

Vesting Condition 1	Vesting Condition 2
50% of the performance rights (" Tranche 1 ")	50% of the performance rights (" Tranche 2 ")
Total shareholder return targets (" TSR Hurdle ") for the relevant performance period are met	Earnings per share growth targets (" EPS Hurdle ") for the relevant performance period are met

The TSR Hurdle and the EPS Hurdle have been chosen by the Board to focus management attention on four year strategic and financial objectives, as well as shareholder alignment.

TSR Hurdle

The TSR Hurdle measures the growth in the price of securities plus cash distributions notionally reinvested in securities. In order for the Tranche 1 performance rights to vest, the TSR of nib will be compared to companies in the S&P/ASX 300 as at the commencement of the relevant performance period. For the purpose of calculating the TSR measurement, the security prices (plus cash distributions notionally reinvested in securities) of each comparator company in the S&P/ASX 300 and of nib will be averaged over the 20 consecutive ASX

trading days preceding the start date and end date of the relevant performance period. The percentage of Tranche 1 performance rights that vest will be as follows:

nib's TSR performance compared to the relevant peer group	Percentage of Tranche 1 performance rights to vest
<50th percentile	No vesting
≥50th percentile to 74th percentile	Pro-rata straight line vesting between 50% and 100%
≥75th percentile	100% vesting

EPS Hurdle

The principle used in setting the EPS Hurdle is to use the prior financial year's normalised EPS as a base and apply a range of compound annual growth rates in EPS from 10% to 25%, which in turn determines the percentage of Tranche 2 performance rights that will vest on 1 September following the end of the relevant performance period, depending on the compound annual growth rate in EPS achieved. No performance rights will vest if the compound annual growth rate is below 10%.

The EPS Hurdle base for performance period 1 is 12.4 cents per share, being the Company's 2010 financial year normalised earnings per share which is calculated based on net profit after tax of \$61.525 million. Normalised earnings per share is EPS calculated on earnings adjusted for non-recurring items associated with any successful merger and acquisition activities.

The EPS Hurdle for performance period 1 is set out in the table below and will be tested as at 30 June 2014 and the percentage of performance rights that will vest on 1 September 2014 will be calculated in accordance with the EPS Hurdles shown below:

Percentage of performance rights vesting	EPS Hurdle (base EPS = FY2010 EPS 12.4 cps)
100%	Compound annual growth rate of 25% (equates to EPS of \$0.3030 in the financial year ending 30 June 2014)
75%	Compound annual growth rate of 20% (equates to EPS of \$0.2573 in the financial year ending 30 June 2014)
50%	Compound annual growth rate of 15% (equates to EPS of \$0.2171 in the financial year ending 30 June 2014)
25%	Compound annual growth rate of 10% (equates to EPS of \$0.1817 in the financial year ending 30 June 2014)
0%	Nil

Notes:

1. For the purposes of calculating the LTI entitlement, 25% and 50% will be discrete thresholds (eg performance will be assessed at 25% for EPS greater than \$0.1817 but less than \$0.2171), with performance above the 50% entitlement calculated on a pro rata basis to a maximum entitlement of 100%.

The EPS Hurdle for performance period 2 will be based on the 2011 financial year normalised earnings per share and will be tested on or after the date of announcement of nib's annual financial results for the financial year ending 30 June 2015. The EPS Hurdle for performance period 3 will be based on the 2012 financial year normalised earnings per share and will be tested on or after the date of announcement of nib's annual financial results for the financial year ending 30 June 2016.

Number of Performance Rights

The number of performance rights to be granted to the Managing Director for each financial year in the three year period commencing 1 July 2010 is calculated as follows:

$$\frac{55\% \times \text{TFR}}{\text{Strike Price}}$$

TFR =

The Managing Director's total fixed remuneration for the relevant financial year (being base salary plus superannuation).

Strike Price =

Performance period 1

Volume weighted average price ("VWAP") for the nib shares for the first 10 trading days following the announcement of the full year financial results for the financial year ending 30 June 2010, which is \$1.2874

Performance period 2

VWAP for the nib shares for the first 10 trading days following the announcement of the full year financial results for the financial year ending 30 June 2011

Performance period 3

VWAP for the nib shares for the first 10 trading days following the announcement of the full year financial results for the financial year ending 30 June 2012

If approved by shareholders, the number of performance rights to be granted to the Managing Director for the financial year commencing 1 July 2010 is calculated as follows:

$$\frac{55\% \times \$552,300}{\$1.2874} = 235,952 \text{ performance rights}$$

The number of performance rights to be granted for each of the financial years commencing 1 July 2011 and 1 July 2012 is to be calculated using the relevant TFR and the relevant strike price for that financial year.

Delivery of Shares on vesting of Performance Rights

Each participant will receive one share for every vested performance right, subject to the LTIP Rules, and the Company may elect whether to allocate shares for the purpose of the LTIP by way of an issue of shares or by procuring the

on-market purchase and transfer of shares. The Company currently proposes that it will satisfy its obligations to allocate shares for the purpose of the LTIP by arranging for the on-market purchase and transfer of shares to participants after the participants have satisfied the particular performance hurdles.

A two year non-disposal period applies to 50% of the shares allocated to a participant on vesting of performance rights.

Participation in the LTIP by Mr Fitzgibbon

nib seeks shareholder approval for Mr Mark Fitzgibbon, Managing Director, to participate in the LTIP for three financial years from 1 July 2010, with the number of performance rights to be awarded to Mr Fitzgibbon to be calculated in accordance with the formula set out on this page.

It is proposed that the performance hurdles will be the same as that applied to any other offer of performance rights to nib Executives. Details relating to the performance hurdles are described on page 4.

Further Information

Listing Rule 10.14 provides that a listed company may only permit a Director to acquire shares or rights to shares under an employee incentive scheme where that Director's participation has been approved by an ordinary resolution of shareholders. This rule does not apply in respect of shares purchased on-market. Although it is the Board's current intention that if the performance rights vest, shares will be acquired on-market for the purposes of the LTIP, the Board nevertheless wishes to seek approval for the acquisition of performance rights and shares by the Managing Director under the LTIP as discussed in these Explanatory Notes.

In accordance with the Listing Rules, the following information is provided for shareholders:

- 1 the maximum number of performance rights for which approval is sought will be calculated as described above and will be provided to shareholders in the relevant Annual Report;
- 2 the performance rights will be granted at no cost to Mr Fitzgibbon and the Board has determined that no amount is payable by Mr Fitzgibbon on the vesting of each performance right granted under the LTIP;
- 3 upon satisfaction of the performance hurdles set by the Board, the performance rights will vest and Mr Fitzgibbon will be allocated or issued shares on a one-for-one basis;
- 4 no loan will be made by nib in connection with the acquisition of performance rights or shares by Mr Fitzgibbon under the LTIP;
- 5 Mr Fitzgibbon is the only person referred to in Listing Rule 10.14 entitled to receive an award of performance rights under the LTIP. Since the 2008 AGM, 901,351 performance rights relating to the three financial years from 1 July 2007 were granted to Mr Fitzgibbon at no cost to Mr Fitzgibbon;

EXPLANATORY NOTES CONTINUED

on the business to be transacted at the nib holdings limited ("Company" or "nib") Annual General Meeting ("AGM")

- 6 details of any performance rights or shares issued or granted under the LTIP to Mr Fitzgibbon will be published in each Annual Report relating to the period in which the securities have been issued or granted and that approval for the issue or grant of securities was obtained under Listing Rule 10.14;
- 7 any additional persons (for whom shareholder approval is required) who become entitled to participate in the LTIP after Resolution 5 is approved and who are not named in the Notice of AGM, will not participate in the LTIP until approval is obtained under Listing Rule 10.14; and
- 8 no performance rights will be granted under this approval later than three years after the date of the 2010 AGM.

Recommendation

The Directors (with Mr Fitzgibbon abstaining and not voting) recommend that shareholders vote in favour of the resolution in Item 5 on the basis that the overall remuneration of Mr Fitzgibbon, which includes his participation in the LTIP, is reasonable having regard to the circumstances of the Company and Mr Fitzgibbon, and that the grant of performance rights to Mr Fitzgibbon under the LTIP and on the terms described in these Explanatory Notes:

- is in the best interests of the Company as a whole;
- is consistent with the Company's remuneration policy, in particular the Company's policy of linking remuneration to achievement, and the objective of attracting and retaining highly skilled executives and Directors; and
- will, therefore, have a positive impact on the Company's prospects.

6. Cancellation of shares held by the Overseas and Unverified Policyholders Trust

a) Why is nib seeking shareholder approval?

nib is seeking shareholder approval for the cancellation of shares held by the Overseas and Unverified Policyholders Trust ("Trust") for nil cash consideration.

If shareholder approval is obtained, the Company may, at the discretion of the Board of the Company and subject to approval of the trustee of the Trust, Australian Executor Trustees Limited ("Trustee"), cancel the shares held by the Trust for nil cash consideration.

In 2007, nib health funds limited ("nib health") demutualised and became a wholly owned company of nib. nib listed on the ASX in November 2007.

Under the terms of the demutualisation, a person who was considered an eligible policyholder¹ at that time, was entitled to receive shares in nib. The Trust was established to hold shares on behalf of those nib policyholders whose

registered address was outside of Australia or who had not verified their details by the requisite date (this second group of policyholders are known as "Unverified Policyholders"). The Trustee has held nib shares on behalf of Unverified Policyholders since 2007 ("Unclaimed Shares").

The Trustee has been required to deal with the Unclaimed Shares in accordance with the Trust Deed, which broadly involves the Trustee transferring the Unclaimed Shares to Unverified Policyholders once that Unverified Policyholder has undertaken a verification process. The Trustee must hold shares issued in respect of an Unverified Policyholder on trust for that Unverified Policyholder.

Under the terms of the Trust Deed, as soon as reasonably practicable after the third anniversary of the "Demutualisation Date", which was 1 October 2007, the Trustee must dispose of all of the Trust property (which includes the shares held by the Trustee, the dividends paid by nib on the shares held by the Trustee and the interest income) in such manner as directed by the Board of nib.

As at 14 September 2010, the Trustee held 28,184,740 shares in nib, which represents approximately 5.7% of nib's issued share capital with a market value of approximately \$34 million².

At the time of the demutualisation and listing, policyholders were told that unless the relevant Unverified Policyholder was located and verified, the shares held in the Trust would be sold or cancelled upon the expiry of three years from the Demutualisation Date.

b) Has nib attempted to contact the Unverified Policyholders?

Over the past three years, nib and the Trustee have attempted to contact Unverified Policyholders on numerous occasions to remind them to verify their details, including by way of written correspondence, placing advertisements in major newspapers (being *The Australian*, *Australian Financial Review*, *The Daily Telegraph*, *Herald Sun*, *The Courier Mail* and *Newcastle Herald*) and by way of announcements made to the ASX.

c) What happens to the rights of Unverified Policyholders after 1 October 2010?

The number of Unclaimed Shares is likely to decrease further once Unverified Policyholders verify their details. Unverified Policyholders have until 30 September 2010 to verify their details. Any Unverified Shareholder who attempts to verify their details after 30 September 2010 will not be entitled to the Unclaimed Shares or any form of compensation for those shares.

1. An "eligible policyholder" was a nib health policyholder as at 20 March 2007 and who remained a nib health policyholder on 19 July 2007. For the complete definition of "eligible policyholder" refer to the definition set out in section 8 of the Explanatory Statement prepared by nib health funds dated 11 June 2007. A copy of the Explanatory Statement is available at nib.com.au/shareholders

2. Market value calculated based on the price of nib shares as at the close of business on 14 September 2010, being \$1.19 per share.

d) What impact does the cancellation have on shareholders?

If the Unclaimed Shares are cancelled, the overall shares on issue by the Company will reduce by approximately 28.2 million shares. As noted on the previous page, this number is likely to decrease between the date of this Notice of Meeting and 30 September 2010 (the last day on which Unverified Policyholders can verify their details). Accordingly, the Company is unable to provide the exact number of shares that will be cancelled in this Notice of Meeting. An update will be provided to shareholders at the AGM.

The cancellation of shares will have no effect on the number of ordinary shares held by shareholders other than the Unclaimed Shares held by the Trustee.

e) Why are shareholders required to approve this resolution?

The cancellation of the Unclaimed Shares is a selective capital reduction for the purposes of the Corporations Act. Under section 256B of the Corporations Act, the Company may only reduce its capital if:

- a. it is fair and reasonable to the Company's shareholders as a whole;
- b. does not materially prejudice the company's ability to pay its creditors; and
- c. it is approved by shareholders in accordance with section 256C of the Corporations Act.

Section 256C of the Corporations Act requires that a selective capital reduction be approved by a special resolution of the Company's shareholders passed at a general meeting of the Company, with no votes being cast in favour of the resolution by any person who is to receive consideration as part of the reduction, or by their associates.

The Directors consider that the capital reduction:

- a. is fair and reasonable to the Company's members as a whole; and
- b. will not materially prejudice the Company's ability to pay its creditors.

As the capital reduction involves a cancellation of shares, the reduction must also be approved by a special resolution passed at a meeting of the members whose shares are to be cancelled. This means that the Trustee must also approve the cancellation of shares at a separate meeting to this Meeting. It is intended that a separate meeting will be held after the AGM.

f) What are the advantages and disadvantages of the cancellation of shares?

The potential advantages of the cancellation of shares are as follows:

- a. the Board expects the cancellation of shares to be earnings per share ("EPS") accretive for nib in that the earnings of nib will be referable to a smaller number of shares on issue;

- b. the cancellation of shares will be capital neutral for nib in that the amount of share capital of nib as set out in its financial statements will not change;
- c. there will be no immediate tax implications for shareholders (other than the Trustee); and
- d. it is an administratively simple and cost effective process when compared to other options.

The potential disadvantage of the cancellation of shares is that the cancellation of shares will not increase share trading liquidity.

g) What consideration will the Trustee receive for the cancellation of the Unclaimed Shares?

As stated above, the Trustee will receive no cash consideration for the cancellation of the Unclaimed Shares.

The Trustee will receive the benefit of an indemnity to be provided by nib with respect to the selective reduction ("Indemnity"). The Indemnity will extend to any costs or liabilities incurred by the Trustee in relation to the cancellation of the shares, which includes any tax liabilities that the Trustee may incur that relate to the cancellation.

h) What are the interests of Directors?

At 15 September 2010, no Director of the Company has any interest in the Unclaimed Shares or the Trust.

i) What is the financial impact of the cancellation on the Company?

If the cancellation proceeds, the number of the Company's shares on issue will be reduced by approximately 28.2 million shares. As stated in section (g) above, the cancellation is likely to be EPS accretive for nib. In addition, the cancellation of shares is capital neutral for nib.

The Board intends to direct the Trustee to pay any other remaining Trust property, less any expenses incurred by the Trustee in relation to the Trust, to nib.

j) What are the tax implications?

There should be no tax implications for shareholders of the Company, except for the Trustee. The Company and the Trustee are currently seeking a ruling from the Australian Taxation Office as to the taxation outcomes associated with the proposed share cancellation for both the Company and the Trustee. This ruling should not directly impact shareholders other than the Trustee.

k) Will the Trustee vote the Unclaimed Shares on this resolution?

No.

Recommendation

The Directors unanimously recommend that shareholders vote in favour of the cancellation of shares.

EXPLANATORY NOTES CONTINUED

on the business to be transacted at the nib holdings limited ("Company" or "nib") Annual General Meeting ("AGM")

ENCLOSURES

Enclosed with the Notice of Meeting are:

- i. a proxy form to be completed if you would like to be represented at the AGM by proxy. An electronic proxy facility is also available to shareholders via the nib shareholders website (nib.com.au/shareholders).
- ii. an AGM question form to be completed if you would like a specific question to be addressed by the Chairman or Auditor at the AGM; and
- iii. a reply paid envelope for you to return either or both the proxy form and AGM question form.

SCHEDULE

Summary of the LTIP Rules

A grant of options and/or performance rights is subject to both the LTIP Rules and the terms of the specific grant as determined by the Board. The Board is responsible for administering the LTIP in accordance with the LTIP Rules and the terms and conditions of specific grants of options and/or performance rights to participants in the LTIP.

Eligibility and Participation

The Board may determine which persons will be eligible to participate in the LTIP from time to time. Eligible persons may be invited to apply to participate in the LTIP. The Board may, in its discretion, accept such applications.

Options and Performance Rights

A person participating in the LTIP ("**Executive**") may be granted options and/or performance rights on terms and conditions, including tenure conditions and performance hurdles, determined by the Board. The Board will determine the exercise price payable on exercise of a vested option. The main difference between an option and a performance right is that an exercise price as determined by the Board is required to be paid to exercise a vested option, whereas a performance right has a nil exercise price and in accordance with the LTIP Rules is exercised automatically on vesting unless determined otherwise by the Board. The Board may also determine the exercise period of an option.

Consideration for Grant

The Board may determine the amount (if any) payable for the grant of an option or a performance right from time to time.

Vesting

Following the satisfaction of the performance hurdles applying to an option or a performance right, the option or performance right vests on, and, in the case of an option, becomes exercisable on or after, a date predetermined by the Board ("**Vesting Date**"), provided that the Executive remains employed by nib as at that date.

Accelerated Vesting

Unless the Board determines otherwise, early vesting (prior to the relevant Vesting Date) of an option or a performance right will automatically occur if there is a winding up, delisting of the Company, change of control or reconstruction or amalgamation of the Company for the purposes of the LTIP Rules.

The Board may, in its discretion, decide to accelerate the vesting of all or part of the options or performance rights held by an Executive in specified circumstances including the Executive's death or cessation of employment for other reasons (including total and permanent disablement, retirement in certain circumstances, or redundancy of that Executive).

Lapse

An unvested option or performance right will lapse on the earliest of:

- a. the expiry date applicable to that option or performance right;
- b. the Board determining that the performance hurdles in respect of the option or performance right are not satisfied and not capable of being satisfied on the relevant testing date and that the option or performance right has lapsed;
- c. 30 days after the Executive's death or total and permanent disablement, if death or total and permanent disablement occurs, unless the Board makes a determination that the option or performance right has vested;
- d. 30 days after the Executive ceases to be employed by the Company (for retirement or redundancy or where the Executive's employer ceases to be an entity in nib or its business has been transferred to a non-nib entity) unless the Board makes a determination that the option or performance right has vested;
- e. 30 days after the Executive ceases to be employed by the Company for any other reason (other than referred to in paragraphs (c) or (d) above); or
- f. the Board determining that the Executive has committed (or it is evident that the Executive intends to commit) any act (whether by omission or commission) of dishonesty, fraud, wilful misconduct, wilful breach of duty, serious and wilful negligence or incompetence in the performance of the Executive's duties, or is convicted of a criminal offence (other than minor/trivial offences) or is guilty of wilful or recklessly indifferent conduct which may injure the reputation or business of a nib entity, and that the option or performance right has lapsed.

A vested option will lapse on the earliest of:

- a. 12 months after the Executive's death or total and permanent disablement;
- b. 6 months after the Executive ceases to be employed by the Company by reason of retirement or redundancy and three months for any other reason (other than termination with cause);
- c. the date (excluding any notice period) on which the Executive's employment with the Company is terminated with cause; or
- d. 30 days after the Board determining that the Executive has committed (or it is evident that the Executive intends to commit) any act (whether by omission or commission) of dishonesty, fraud, wilful misconduct, wilful breach of duty, serious and wilful negligence or incompetence in the performance of the Executive's duties, or is convicted of a criminal offence (other than minor/trivial offences) or is guilty of wilful or recklessly indifferent conduct which may injure the reputation or business of a nib entity, and that the option has lapsed.

Subject to the Listing Rules, the Board may, in its discretion, extend a period during which an Executive may exercise an option, provided that the Board may not extend the exercise period. If the Board exercises its discretion to extend the period during which an Executive may exercise an option, the Board will give written notice of such extension to the Executive as soon as reasonably practicable.

Delivery of Shares on Exercise of Vested Options or Vesting of Performance Rights

Following the Vesting Date or the accelerated vesting of an option, the vested option may be exercised by the Executive subject to any exercise conditions and the payment of the exercise price (if any), and the Executive will then be allocated or issued the number of shares comprised in each option. Following the Vesting Date or the accelerated vesting of a performance right, the Executive will be allocated or issued the number of shares comprised in each performance right.

The Board has the discretion to have shares issued or transferred to an Executive on the exercise of vested options or vesting of performance rights. Any shares issued under the LTIP will rank equally with those shares of the same class for the time being on issue except for any rights attaching to those shares by reference to a record date prior to the date of issue.

Adjustment

In the event of any capital reorganisation by the Company (including any bonus issues), an Executive's options or performance rights, and the shares allocated to the Executive on exercise of the Executive's options or vesting of the Executive's performance rights, will be adjusted as set out in the LTIP Rules and otherwise in accordance with the Listing Rules. In general, it is intended that the Executive will not receive any advantage or disadvantage from such adjustment.

Restrictions on Disposal of Shares

An Executive may not dispose of, deal in, or grant a security interest over any interest in, a share allocated to the Executive on exercise of a vested option or vesting of a performance right for any relevant period determined by the Board. The Board may implement such arrangements (including a holding lock) as it determines are necessary to enforce this restriction.

Once the restriction is removed, and subject to the Company's Trading Policy, shares acquired on exercise of vested options or vesting of performance rights may be dealt with freely.

MR JOHN SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Lodge your vote:



Online:

www.investorvote.com.au



By Mail:

Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only
(custodians) www.intermediaryonline.com

For all enquiries call:

(within Australia) 1300 664 316
(outside Australia) +61 3 9415 4651

Alternatively you can email your enquiry to
nibshareregistry@computershare.com.au

Proxy Form



Vote online or view the annual report, 24 hours a day, 7 days a week:

www.investorvote.com.au

- Cast your proxy vote
- Access the annual report
- Review and update your securityholding

Your secure access information is:

Control Number: 123456

SRN/HIN: 11234567890 PIN: 123456



PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

For your vote to be effective it must be received by 1.00pm (AEDT) on Sunday, 24 October 2010

How to Vote on Items of Business

All your shares will be voted in accordance with your directions.

Appointment of Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person in Step 1. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy.

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of shares you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of shares for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of shares for each in Step 1 overleaf.

A proxy need not be a shareholder of nib holdings limited (nib).

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the shareholder must sign.

Joint Holding: Where the holding is in more than one name, all of the shareholders should sign.

Power of Attorney: To sign under Power of Attorney, you must lodge a Power of Attorney with the registry. If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person.

If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate shareholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, "Downloadable Forms".

Comments & Questions: If you have any comments or questions for nib, please write them on a separate sheet of paper and return with this form.

**GO ONLINE TO VOTE at www.investorvote.com.au
or turn over to complete the form →**

MR JOHN SAMPLE
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 SAMPLE ESTATE
 SAMPLEVILLE VIC 3030

Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 1234567890

I N D

Proxy Form

Please mark to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a shareholder(s) of nib holdings limited hereby appoint

the Chairman of the Meeting OR

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Annual General Meeting of nib to be held at Newcastle City Hall, 1st Floor Concert Hall, 290 King Street, Newcastle NSW 2300 on Tuesday, 26 October 2010 at 1.00pm and at any adjournment of that meeting.

Important for Item 5: If the Chairman of the Meeting is your proxy (or may be appointed by default) and you have not directed him/her how to vote on Item 5 below, please mark the box in this section. If you do not mark this box and you have not directed your proxy how to vote, the Chairman of the Meeting will not cast your votes on Item 5 and your votes will not be counted in computing the required majority if a poll is called on this Item. The Chairman of the Meeting intends to vote undirected proxies in favour of Item 5.

I/We acknowledge that the Chairman of the Meeting may exercise my proxy even if he/she has an interest in the outcome of Item 5 and that votes cast by him/her for Item 5, other than as proxy holder, would be disregarded because of that interest.

STEP 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

ORDINARY BUSINESS

		For	Against	Abstain
2	That the Remuneration Report of the Company for the financial year ended 30 June 2010 (set out in the Directors' Report) is adopted	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	Re-election of Dr Annette Carruthers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	Election of Mr Steve Crane	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

SPECIAL BUSINESS

5	Approval of participation in Long Term Incentive Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	Cancellation of shares held by the Overseas and Unverified Policyholders Trust	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact Name _____

Contact Daytime Telephone _____ Date ____/____/____