NOTICE OF GENERAL MEETING

nib holdings limited
(ABN 51 125 633 856)
("Company" or "nib")

Notice is given that a general meeting (**"Meeting"**) of nib will be held:

Date: 5 July 2011

Time: 10.00am Australian Eastern Standard Time (AEST)

Place: The Westin
Ballroom 1
No. 1 Martin Place
Sydney NSW 2000

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NOTICE OF GENERAL MEETING

ITEMS OF SPECIAL BUSINESS

1. **Approval of a capital return to shareholders ("Capital Return")**

   To consider and, if thought fit, to pass the following Resolution 1 as an **ordinary resolution**:

   "That, for the purposes of Part 2J.1 of the Corporations Act 2001 (Cth) and for all other purposes, approval is given for the Company to reduce its share capital by a total of approximately $75 million by way of an equal capital reduction, subject to the Australian Taxation Office issuing a class ruling confirming that any such payment will not be treated as a dividend for Australian income tax purposes. The reduction of capital is to be effected by the Company paying to each registered holder of fully paid ordinary shares in the Company, as at a date and time to be specified by the board of the Company, the pro rata amount of the capital reduction per ordinary share."

2. **Approval of an adjustment to the performance rights issued under nib's Long Term Incentive Plan ("Performance Rights Adjustment")**

   To consider and, if thought fit, to pass the following Resolution 2 as an **ordinary resolution**:

   "That, for the purposes of ASX Listing Rule 6.23.3 and for all other purposes, approval is given for the Company to adjust the terms of all performance rights granted under the nib Long Term Incentive Plan in the manner set out in the Explanatory Notes accompanying this Notice of Meeting."

   Voting exclusion statement

   The Company will disregard any votes cast on Resolution 2 by a person who holds a performance right that is the subject of the approval and any of their associates.

   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 provided electronically); or
   - the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form (or provided electronically) to vote as the proxy decides.

The Capital Return will be implemented if Resolution 1 is approved, regardless of whether Resolution 2 is approved. The Performance Rights Adjustment will only be implemented if Resolution 1 and Resolution 2 are both approved.

For further information, please refer to the Explanatory Notes which are included with, and form part of, this Notice of General Meeting.

Dated: 26 May 2011

By Order of the Board

Michelle McPherson
Company Secretary

Notes:

1 A shareholder entitled to attend and vote at the Meeting is entitled to appoint a proxy. A shareholder entitled to cast two or more votes may 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 or in the capacity of a shareholder's 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.

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 Meeting (i.e. by no later than 10.00am on Sunday, 3 July 2011) or any adjournment. Any proxy form received after this deadline, including at the Meeting, will be invalid.

6 A proxy form accompanies this Notice of Meeting and contains details of how to lodge your form.

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 Meeting on behalf of a corporation, a formal Notice of Appointment must be brought to the Meeting.

10 In accordance with Regulation 7.11.37 of the Corporations Regulations and ASX Settlement Operating Rule 5.6.1, the Board has determined that a person's entitlement to vote at the Meeting will be the entitlement of that person set out in the register of shareholders as at 7.00pm (AEST) on Sunday, 3 July 2011. Accordingly, transactions registered after that time will be disregarded in determining shareholders entitled to attend and vote at the Meeting.

11 If you wish a question to be put to the Chairman and you are not able to attend the Meeting, 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 Meeting (i.e. by no later than 5.00pm on 28 June 2011 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"**) general meeting (**"Meeting"**).

SPECIAL BUSINESS

What is the purpose of the Meeting?

The purpose of the Meeting is for shareholders of nib to consider and, if thought fit, to pass the following resolutions:

Resolution 1: Approval of a capital return to shareholders (**"Capital Return"**)

Resolution 2: Approval of an adjustment to the performance rights issued under nib's Long Term Incentive Plan (**"Performance Rights Adjustment"**)

The Capital Return will be implemented if Resolution 1 is approved, regardless of whether Resolution 2 is approved. The Performance Rights Adjustment will only be implemented if Resolution 1 and Resolution 2 are both approved.

RESOLUTION 1: APPROVAL OF A CAPITAL RETURN TO SHAREHOLDERS

1 What is the Capital Return?

1.1 nib proposes to reduce its share capital by a total of approximately $75 million by returning to shareholders the amount of approximately $0.16 per ordinary share held on a date and time (**"Record Date"**) to be determined by the board of nib (**"Board"**). The moneys that will be used to make the payments to relevant shareholders in respect of the Capital Return will be sourced from nib's existing cash reserves.

1.2 The amount of approximately $0.16 per ordinary share will be returned to relevant shareholders by way of an equal reduction of capital under Chapter 2J.1 of the Corporations Act. The date and time for determining which shareholders will participate in the Capital Return is the Record Date. The Record Date is expected to be 7pm on 13 July 2011.

1.3 The number of issued shares in nib will not change as a result of the Capital Return.

2 What are the reasons for the Capital Return?

2.1 nib has previously advised the market that, in the absence of potential strategic investment opportunities, the Board would consider capital management initiatives at the time that nib's half year results for the 2011 financial year were announced.

2.2 Following an unsuccessful proposal to merge with GMHBA[1], the Board undertook a detailed review as to how it should manage the nib group's capital position going forward. The financial advice that was received by the Board as part of this review, together with the absence of clear and present strategic investment opportunities available to nib, has led to the Board's decision to propose the Capital Return.

2.3 Another key factor considered by the Board was nib's regulatory capital requirements and how to best balance those requirements with other key financial indicators. Whilst the nib group must maintain adequate capital to satisfy relevant regulatory requirements, it is also important, on the basis that nib is a publicly listed entity, that the Board have regard to key indicators such as "return on equity".

1 Announced to the market on 8 December 2010.

2.4 Whilst nib itself is not subject to any capital standards, nib health funds limited is required to retain capital in excess of the standards (**"Minimum Capital Requirement"** or **"MCR"**) set by the Private Health Insurance Administration Council pursuant to Divisions 140 and 143 of the *Private Health Insurance Act 2007*. These capital standards have two principal objectives:

(a) the capital adequacy standard aims to ensure that there is sufficient capital within a health benefit fund to enable the ongoing conduct of the business of the fund; and

(b) the solvency standard aims to ensure that assets of sufficient quantum and quality exist to satisfy the liabilities of the fund.

The capital adequacy standard requirement can never be less than the solvency standard requirement.

2.5 Currently, the Board requires the nib group to maintain capital at the rate of 1.3 times MCR. As a result of the Board setting targets at an amount greater than MCR, nib has a significant buffer with respect to its capital base.[2]

2.6 The decision to propose the Capital Return reflects that the Board considers that the nib group has surplus capital above its internal prudential requirement (1.3 times MCR) at this point in time. On the basis that:

(a) no clear and present strategic investment opportunities are expected to arise in the near term; and

(b) nib's targets with respect to the MCR are being exceeded,

the Board has considered the potential negative consequences of carrying surplus capital above its internal prudential requirement. In particular, high levels of shareholders' funds result in a "return on equity" ratio which is lower than it would otherwise be, and can produce distorted impressions as to underlying profitability and financial performance.

2.7 Analysis of the records of the nib group indicate that the amounts which stand to the credit of nib's share capital account (as stand alone parent of the nib group) are referable to the mutual surplus of the nib fund just prior to the demutualisation of nib, and that a return of such amounts should be taken to be a return of capital for the purposes of the Corporations Act and will not be treated as a dividend for income tax purposes.

3 What is the effect of the Capital Return on nib?

3.1 *Effect on capital structure:* If the Capital Return is implemented, nib's issued share capital will be reduced by approximately $75 million, being approximately $0.16 per fully paid ordinary share. As no shares will be cancelled in connection with the Capital Return, the Capital Return will not affect the number of shares held by each shareholder or the control of nib. nib will continue to have approximately 466.8 million fully paid ordinary shares on issue.

It is proposed that the number of shares to be allocated on the vesting of performance rights issued under the Long Term Incentive Plan (**"LTIP"**) will be adjusted as a result of the Capital Return - see Resolution 2 and paragraphs 13 -19.

2 As at 30 April 2011, nib health funds limited had $165.7 million in surplus capital above the current Board approved targets (based on nib's unaudited management accounts). As at 31 December 2010, nib health funds limited had $145.4 million in surplus capital above the current Board approved targets (based on nib's audited half year results for the 2011 financial year).

3.2 *Impact on existing business and growth opportunities:* The Board considers that the Capital Return will not adversely affect nib's capacity to fund or pursue existing business and growth opportunities.

3.3 *Future capital returns:* As previously announced, the Board will consider whether to pursue any additional capital return in 2012 having regard to the extent of surplus capital and investment opportunities, such as merger and acquisition opportunities, at that time. Any future capital returns will be subject to separate approvals and would involve a separate class ruling being sought from the Australian Taxation Office (**"ATO"**).

3.4 *Share price impact:* If the Capital Return is implemented, nib shares may trade at a lower share price than they would have done had the Capital Return not been implemented. This is likely to occur from the "ex" date, being the day that nib shares trade without an entitlement to participate in the Capital Return.

3.5 *Dividends:* nib's current policy is to distribute as dividends approximately 50 - 60% of net profit after tax. The Capital Return will not impact the dividend policy of nib.

3.6 *Tax implications for nib:* No adverse tax consequences are expected to arise for nib as a result of the Capital Return.

3.7 *Impact on share buy-back:* On 29 August 2008, nib announced an on-market buy-back of up to 10% of its issued shares at the time of commencement of that on-market buy-back (29 August 2008) or 51,786,969 shares, in compliance with applicable laws and the ASX Listing Rules and as surplus capital and other capital management initiatives permit. On each of 31 August 2009 and 31 August 2010, nib announced the effective continuation of this on-market buy-back.

To date, 24,025,399 shares have been bought back and cancelled since 29 October 2008. nib intends to continue to undertake an on-market buy-back in compliance with applicable laws and the ASX Listing Rules and as surplus capital and other capital management initiatives permit. The Capital Return is not anticipated to impact nib's ability to undertake the current on-market buy-back.

3.8 *Impact on financial position of nib:* To assist shareholders to assess the impact of the Capital Return on the nib group, set out below is an abridged pro-forma balance sheet based on the audited accounts of nib dated 31 December 2010 which show the effect of the Capital Return of approximately $75 million as if it had taken place on 31 December 2010. The abridged pro-forma balance sheet is provided as a guide only and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with Australian Accounting Standards and the Corporations Act. The abridged pro forma balance sheet does not constitute a representation of the future financial position or prospects of the nib group. Further information about nib, its business, financial position and prospects is contained in the annual report and other reports which can be accessed on the website at www.nib.com.au/shareholders.

Please note that the audited accounts of the nib group have been prepared on the basis that the demutualisation of nib health funds limited was accounted for as a "reverse acquisition" (for the purposes of Accounting Standard AASB3) and as such, nib health funds limited is listed as the accounting parent of the nib group in the audited consolidated accounts. Under Accounting Standard AASB3, when an existing group is acquired by a new shell company, the legal acquirer may not be treated as the acquirer for accounting purposes. For accounting purposes, the demutualisation of nib health funds limited resulted in nib health funds limited being treated as if it had acquired nib and the demutualisation did not result in the creation of any fair value adjustments or goodwill upon consolidation. The stand alone accounts for nib will show the total amount of the payments made in respect of the Capital Return (approximately $75 million) debited to its share capital account. The final amount to be debited to the share capital account may vary as a result of the rounding of the amount to be paid in respect of each fully paid ordinary share held on the Record Date - see paragraph 8.

4 What approvals are required?

4.1 The Capital Return will constitute an equal capital reduction for the purposes of the Corporations Act as:

(a) it relates only to ordinary shares;

(b) it applies to each holder of ordinary shares in proportion to the number of ordinary shares they hold; and

(c) the terms of the reduction will be the same for each holder of ordinary shares.[3]

4.2 Section 256B(1) of the Corporations Act permits a company to reduce its share capital, including by returning capital in cash or in kind, if the reduction:

(a) is fair and reasonable to the company's shareholders as a whole (see section 5 below);

(b) does not materially prejudice the company's ability to pay its creditors (see section 6 below); and

(c) is approved by shareholders under section 256C.

Resolution 1 seeks the approval of the shareholders as required under section 256C.

4.3 The implementation of the Capital Return is also subject to the ATO issuing a class ruling (**"Class Ruling"**) for the benefit of shareholders confirming that any payment received under the Capital Return will not be treated as a dividend for Australian income tax purposes. For further details, see paragraph 7 below.

5 Is the Capital Return fair and reasonable to shareholders?

5.1 The Board considers that the Capital Return is fair and reasonable to nib's shareholders as it will apply to all shareholders equally having regard to the number of shares in nib held by each of them at the Record Date.

6 Is there any material prejudice to creditors?

6.1 The Directors have carefully reviewed nib's assets, liabilities and expected cash flows, and believe that the Capital Return will not materially prejudice nib's ability to pay its creditors and to continue with the current on-market buy-back. The Directors have also satisfied themselves as to the solvency of nib following the implementation of the Capital Return.

3 Section 256B(2) of the Corporations Act.

nib group
Historical and pro forma consolidated historical balance sheet
As at 31 December 2010

	31 December 2010 $000	Capital Return $000	Pro forma $000
ASSETS			
Current assets			
Cash and cash equivalents	171,549	(75,581)	95,968
Receivables	48,634	-	48,634
Financial assets at fair value through profit or loss	274,141	-	274,141
Total current assets	**494,324**	**(75,581)**	**418,743**
Non-current assets			
Receivables	20,000	-	20,000
Available-for-sale financial assets	1,500	-	1,500
Property, plant and equipment	42,616	-	42,616
Intangible assets	39,223	-	39,223
Deferred tax assets	4,175	172	4,347
Total non-current assets	**107,514**	**172**	**107,686**
Total assets	**601,838**	**(75,409)**	**526,429**
LIABILITIES			
Current liabilities			
Payables	71,131	-	71,131
Borrowings	2,676	-	2,676
Outstanding claims liability	60,240	-	60,240
Unearned premium liability	53,724	-	53,724
Current tax liabilities	7,041	-	7,041
Provision for employee entitlements	2,714	-	2,714
Total current liabilities	**197,526**	**-**	**197,526**
Non-current liabilities			
Provision for employee entitlements	903	-	903
Total non-current liabilities	**903**	**-**	**903**
Total liabilities	**198,429**	**-**	**198,429**
Net assets	**403,409**	**(75,409)**	**328,000**
EQUITY			
Share capital	41,947	(9,122)	32,825
Retained profits	359,890	(66,287)	293,603
Reserves	1,572	-	1,572
Total equity	**403,409**	**(75,409)**	**328,000**

Notes:

1) The Capital Return is calculated based on 466,765,752 shares at 16.07 cents per share (rounded to nearest hundredth of a cent).
2) Costs associated with the Capital Return of approximately $0.6 million before tax have been included, with an associated deferred tax asset raised for $0.2 million.
3) The impact of the Capital Return and associated costs on equity has been split between Share Capital and Retained profits as a result of AASB 3 Business Combinations. See paragraph 3.8.

7 Tax implications for shareholders

7.1 The tax consequences for a shareholder with respect to the Capital Return may vary depending upon a shareholder's individual circumstances. The information set out below is provided as a general guide only and does **not** constitute tax advice. Shareholders should consult their own tax adviser as to the potential tax consequences for them with respect to the Capital Return.

7.2 nib has sought a Class Ruling from the ATO in relation to the tax treatment of the Capital Return for certain shareholders. Once the Class Ruling has been issued by the ATO, a shareholder may rely on that Class Ruling in preparing their income tax return.

7.3 The following is a general outline of the Australian income tax consequences that will arise for shareholders with respect to the Capital Return provided that the Class Ruling is issued in accordance with nib's Class Ruling application. The following outline will only apply to those shareholders who hold their nib shares on capital account and who continue to hold their nib shares at the time the Capital Return is paid. The Class Ruling (and the outline below) does not apply to those shareholders who hold their nib shares as "revenue assets" or as "trading stock".

(a) No part of the Capital Return will be treated as a "dividend" for Australian income tax purposes.

(b) For those shareholders who hold their nib shares at the time the Capital Return is paid:

(i) The shareholder's cost base (and reduced cost base) in each nib share held by the shareholder will be reduced by the amount of the Capital Return per nib share. This is likely to have the effect of increasing any capital gain the shareholder later makes when it later disposes of its nib shares, as the cost base of the nib shares will be reduced pursuant to the Capital Return.

(ii) If the amount of the Capital Return per nib share exceeds the shareholder's cost base in an nib share, a capital gain will arise to the extent to which the Capital Return amount exceeds the cost base and the cost base will be reduced to nil.

(iii) If a capital gain arises in the hands of a shareholder, the shareholder may qualify for the general CGT discount if the shareholder is an eligible shareholder (ie, an individual, trust or complying superannuation fund) and they have held their nib shares for at least 12 months prior to receiving the Capital Return.

7.4 The final version of the Class Ruling will be published on the ATO website and a notice included in the Gazette. nib will make an announcement when the final Class Ruling is published and display the final Class Ruling on its website as soon as it becomes available. It is anticipated that the final Class Ruling will be published on the ATO website before the date of the Meeting although this is not certain.

8 Calculation of payment and payment details

8.1 The amount payable in respect of each fully paid ordinary share in nib on issue on the Record Date will be calculated as follows:

$$\text{Capital Return payable per ordinary share} = \frac{\$75{,}000{,}000}{\text{Number of fully paid ordinary shares on issue on the Record Date}}$$

This figure will then be rounded up or down to the nearest hundredth of a cent, applying standard rounding techniques.

8.2 If the Capital Return is approved by shareholders and the Class Ruling is obtained, payment will be made to entitled shareholders:

(a) with a registered address in Australia, by direct credit in accordance with nib's Constitution (article 16.8). For entitled shareholders who have a registered address in Australia but who have not provided nib's share registry with their direct credit instructions for payment, nib will withhold payment in respect of the Capital Return until the entitled shareholder's direct credit instructions have been provided to nib's share registry; and

(b) with a registered address outside of Australia, by cheque.

9 Timetable for the Capital Return

9.1 Subject to shareholder approval and the Class Ruling being obtained, the proposed Capital Return is expected to take effect in accordance with the following timetable (*):

Event	Date
Latest date for lodgement of proxies	10:00am 3 July 2011
General Meeting to approve Capital Return	10:00am 5 July 2011
nib shares trade "ex" the Capital Return	7 July 2011
Record Date for determining entitlement to participate in Capital Return	7:00pm, 13 July 2011
Implementation of the Capital Return	21 July 2011

(*) All dates and times are indicative only. nib reserves the right to vary these dates and times. All dates and times in this Notice of Meeting refer to Australian Eastern Standard Time. nib will make an announcement to ASX of any changes if they occur.

10 Are there any reasons to vote against Resolution 1?

10.1 The Board believes that the Capital Return is in nib's best interests for the reasons set out in this Notice of Meeting.

10.2 You may wish to vote against Resolution 1 for various reasons, for example if you believe that nib should retain these surplus funds or use them in a different way.

11 Directors' interests

11.1 As at the date of the Notice of General Meeting, the following directors of nib have an interest in the Capital Return as they are shareholders of nib:

Director	Interest
Keith Lynch (Chair Independent Non-Executive Director)	Direct - 100,951 ordinary shares held in nib holdings limited
Steve Crane (Independent Non-Executive Director)	Indirect - 100,000 ordinary shares in nib holdings limited held by Depeto Pty Limited
Annette Carruthers (Independent Non-Executive Director)	Direct - 1,000 ordinary shares held in nib holdings limited Indirect - 57,200 ordinary shares in nib holdings limited held by Carruthers Future Fund Pty Limited
Phil Gardner (Independent Non-Executive Director)	Direct - 16,862 ordinary shares held in nib holdings limited Indirect - 88,000 ordinary shares in nib holdings limited held by Sutton Gardner Pty Limited
Harold Bentley (Independent Non-Executive Director)	Indirect - 70,000 ordinary shares in nib holdings limited held by Sushi Sake Pty Limited
Christine McLoughlin (Independent Non-Executive Director)	Indirect - 37,500 ordinary shares in nib holdings limited held by Dundas Street Investments Pty Ltd
Mark Fitzgibbon (Managing Director/Chief Executive Officer)	Direct - 429,530 ordinary shares held in nib holdings limited Indirect - 413,600 ordinary shares in nib holdings limited held by Fitzy (NSW) Pty Limited 360,629 performance rights under FY09-FY11 Long Term Incentive Plan which may vest on 1 September 2011 270,280 performance rights under FY10-FY12 Long Term Incentive Plan which may vest on 1 September 2012 235,952 performance rights under FY11-FY14 Long Term Incentive Plan which may vest on 1 September 2014

12 Directors' recommendation

The Directors unanimously recommend that shareholders vote in favour of Resolution 1 to approve the Capital Return.

RESOLUTION 2: APPROVAL OF AN ADJUSTMENT TO THE PERFORMANCE RIGHTS ISSUED UNDER NIB'S LONG TERM INCENTIVE PLAN

13 What is nib's Long Term Incentive Plan?

13.1 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 future performance of nib. The LTIP has been in place since the financial year commencing 1 July 2007.

13.2 Under the LTIP, executives are granted performance rights for nil consideration to acquire ordinary shares in nib which only vest if certain performance standards are met and the executives are still employed by the nib group at the end of the vesting period.[4]

13.3 Each performance right currently entitles the holder, on satisfaction of the relevant performance hurdles and therefore vesting of the performance right, to one ordinary share in nib, subject to the holder being employed by nib at the end of the performance periods applicable to that participant and to the other LTIP Rules.

13.4 Currently there are a total of 1,694,295 performance rights that have been issued to eligible executives and which have not yet vested. These performance rights are in respect of the following three performance periods:

(a) FY09 to FY11 - 657,539 performance rights;

(b) FY10 to FY12 - 498,375 performance rights; and

(c) FY11 to FY14 - 538,381 performance rights.

13.5 On the vesting of a performance right, nib may elect whether to allocate shares by way of an issue of shares or by procuring the on-market purchase and transfer of shares. nib currently proposes that it will satisfy its obligations to allocate shares for the purposes of the LTIP by arranging for the on-market purchase and transfer of shares to relevant participants after those participants have satisfied the relevant performance hurdles and their performance rights have vested.

13.6 Further details of the performance rights issued under the LTIP are set out in the 2010 Financial Report and the Notices of Meeting for each of the 2008 Annual General Meeting and the 2010 Annual General Meeting.

14 Can holders of performance rights participate in the Capital Return?

14.1 Performance rights do not give holders any entitlement to participate in the Capital Return (only ordinary shareholders are eligible to participate).

4 There are certain circumstances such as the participant's death or total and permanent disablement that may trigger early vesting.

15 What is the proposed adjustment to the performance rights?

15.1 Clause 8.2 of Schedule 2 of the Long Term Incentive Plan Rules provides that:

> *If there is any reorganisation, including any subdivision, consolidation, reduction or return of the issued capital of the Company, the number of Performance Rights to which each Participant is entitled will be adjusted in the way specified by the Listing Rules from time to time.*

15.2 To compensate for the diminution in the value of the performance rights that have been issued but will not have vested before the 'ex' date of the Capital Return, it is proposed that the number of shares that will be allocated on the vesting of each performance right (in the event that the Capital Return is implemented) will be adjusted in accordance with the following formula:

$$\mathbf{AN} = \mathbf{N} \times \frac{\mathbf{SP}}{\mathbf{(SP - CR)}}$$

Where:

AN = The adjusted number of shares to be allocated on vesting of a performance right

N = The number of shares currently to be allocated on vesting of a performance right

SP = The volume weighted average price (VWAP) of nib ordinary shares in the 5 trading days up to, but excluding, the ex-date for participation in the Capital Return

CR = The cash amount per fully paid ordinary share returned to shareholders under the Capital Return

This adjustment is referred to as the **"Performance Rights Adjustment"** in this Notice of Meeting.

The intention of the Performance Rights Adjustment is for the value of the performance rights to be the same before and after the implementation of the Capital Return - it is intended that holders of performance rights will not receive any advantage or disadvantage from the Performance Rights Adjustment, rather it is to maintain the balance of rights between shareholders and holders of performance rights.[5]

15.3 The Performance Rights Adjustment will not apply to performance rights which are issued under the LTIP on or after the 'ex' date for the Capital Return.

15.4 No shares will be allocated in respect of, and no additional shares will be allocated as a result of the Performance Rights Adjustment to, any performance rights that do not vest (for example, because the performance hurdle is not met) in accordance with the LTIP Rules.

5 To provide a worked example using Mark Fitzgibbon's (CEO) performance rights in respect of FY09 to FY11 (assuming the Capital Return is implemented before the vesting date of 1 September 2011), assuming the VWAP of nib ordinary shares in the 5 trading days up to, but excluding, the 'ex' date for participation in the Capital Return is \$1.43 and the Capital Return is \$0.16 per ordinary share.

$$\mathbf{AN} = \mathbf{360{,}629} \times \frac{\mathbf{\$1.43}}{\mathbf{(\$1.43 - \$0.16)}}$$

$$\mathbf{AN} = \mathbf{406{,}062}$$

Assuming 100% vesting, the value of the performance rights using the above example is as follows:

Before the Capital Return:	360,629 x \$1.43	= \$515,699
After the Capital Return:	406,062 x \$1.27 (being \$1.43 - \$0.16)	= \$515,699

16 ASX waiver

16.1 Listing Rule 6.23.3 prohibits, among other things, a change to an option that has the effect of increasing the number of securities received on exercise of that option. ASX has granted nib a waiver from Listing Rule 6.23.3 to the extent necessary to permit the proposed Performance Rights Adjustment on the conditions that:

(a) shareholders approve the Performance Rights Adjustment by way of a separate ordinary resolution; and

(b) this Notice of Meeting sets out the formula that will be used to calculate the Performance Rights Adjustment.

17 Are there any reasons to vote against Resolution 2?

17.1 The Board believes that the Performance Rights Adjustment is in nib's best interests because the Performance Rights Adjustment is an equitable way to counter the diminution in value, as a result of the Capital Return, of the shares that will be allocated if the performance rights vest. By implementing the Performance Rights Adjustment, the Board believes that it will maintain the underlying principles of the LTIP, namely the alignment of the interests of executives and shareholders and assisting nib in the attraction, motivation and retention of executives.

17.2 You may wish to vote against Resolution 2 for various reasons, for example if you believe that the number of shares to be allocated on vesting of the performance rights should not be adjusted. However, the intention of the Performance Rights Adjustment is to maintain the balance between shareholders and performance rights holders as a result of the Capital Return, rather than to provide the holders of performance rights with any advantage as a result of the Capital Return or the Performance Rights Adjustment.

18 Directors' interests

18.1 Mark Fitzgibbon is the only director of nib who has been issued performance rights under the LTIP. As set out in the table in paragraph 11 above, Mr Fitzgibbon currently holds 866,861 performance rights which have not yet vested. The issue of these performance rights was approved by shareholders at either the 2008 Annual General Meeting or the 2010 Annual General Meeting.

If Resolution 2 is approved by shareholders, Mr Fitzgibbon's performance rights will be adjusted in the same way as the performance rights held by other holders of performance rights (that is, there will be an adjustment so that Mr Fitzgibbon is entitled to additional shares on the vesting of his performance rights to reflect the value of the Capital Return).

Further details of the performance rights issued to Mr Fitzgibbon are set out in the 2010 Financial Report and the Notices of Meeting for each of the 2008 Annual General Meeting and the 2010 Annual General Meeting. Mr Fitzgibbon was issued 235,952 performance rights on 23 May 2011 under the FY 2011 offer, which was approved by shareholders at the 2010 Annual General Meeting.

19 Directors' recommendation

19.1 The Directors (with Mr Fitzgibbon abstaining and not voting) unanimously recommend that shareholders vote in favour of Resolution 2 to approve the Performance Rights Adjustment.

OTHER INFORMATION

20 Lodgement

20.1 In accordance with section 256C(5) of the Corporations Act, a copy of this Notice of General Meeting has been lodged with the Australian Securities and Investments Commission.

21 No other material information

21.1 These Explanatory Notes provide shareholders with all information known to nib which has not previously been disclosed to shareholders that is material to the decision whether or not to vote in favour of Resolution 1 and Resolution 2.

22 Enclosures

22.1 Enclosed with the Notice of Meeting are:

(a) a proxy form to be completed if you would like to be represented at the Meeting by proxy. An electronic proxy facility is also available to shareholders via the nib shareholders website (nib.com.au/shareholders); and

(b) a reply paid envelope for you to return the proxy form.

NOTICE OF GENERAL MEETING

nib holdings limited
abn 51 125 633 856

All correspondence to:

Computershare
GPO Box 242
Melbourne VIC 3001

QUESTIONS FROM SHAREHOLDERS

Your questions regarding any matter relating to nib holdings limited that may be relevant to the Meeting are important to us. We invite you to use this form to submit any questions you may have relating to:

- the Capital Return;
- the Performance Rights Adjustment; and/or
- any other matters before the Meeting.

Please return this form in the reply paid envelope provided or fax to 1800 783 447 (within Australia), +61 3 9473 2555 (outside Australia). All questions must be received by 5.00pm on 28 June 2011.

We will attempt to respond to as many of the more frequently asked questions as possible in the Chairman's address at the Meeting. A list of written questions, if any, submitted by shareholders will be made available at the start of the Meeting.

Shareholder's Name

Address

Shareholder Reference Number or Holder Identification Number

I											or	X										

Please tick the relevant box: My question is for the: ☐ **Chairman** ☐ **Auditor**

Question/s

We advise that the *Corporations Act 2001* requires information about you as a security holder (including your name, address and details of the securities you hold) to be included in the share register of nib. If some or all of the information is not collected, it might not be possible to administer your security holding. Information must continue to be included in the share register if you cease to be a security holder. Information in the share register is available for inspection by you and the public (upon payment of a fee) as permitted under the *Corporations Act 2001*. These obligations are not altered by the *Privacy Act 1988*. The information collected by the nib Share Registry, Computershare, may also be disclosed to regulatory bodies (such as the Australian Taxation Office, print service providers and mail houses). Our privacy statement is available on our website at www.nib.com.au.