



Take a positive step

MBF Australia Limited
ABN 81 000 057 590

Information Memorandum



Financial Adviser

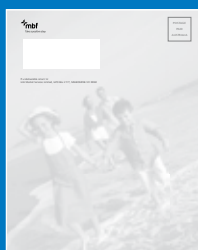
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What you have received



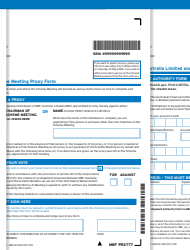
FLYSHEET



LETTER FROM
THE CHAIRMAN



ALLOCATION
FORM



PROXY FORM



PAYMENT
AUTHORITY FORM



INFORMATION
MEMORANDUM



BUSINESS REPLY
PAID ENVELOPE

Important notices

PURPOSE OF THIS INFORMATION MEMORANDUM

This Information Memorandum is the explanatory statement required to be sent to company members under Part 5.1 of the Corporations Act in relation to the Scheme. The purpose of this Information Memorandum is to explain the terms of the Scheme and the manner in which it will be implemented (if approved) and to provide information material to the decision of Participating Contributors whether to agree to the Scheme.

READ THIS DOCUMENT

You should read this Information Memorandum in its entirety before making a decision as to how to vote on the resolution to be considered at the Scheme Meeting.

Defined terms used in this booklet have capital letters. Their meaning is set out in the Glossary of Terms, in Section 13.

References in this Information Memorandum to "MBF" are to "MBF Australia Limited (ABN 81 000 057 590)".

FORWARD LOOKING STATEMENTS

This Information Memorandum includes forward looking statements. These statements may be identified by the use of forward looking words such as: "believe", "aim", "expect", "anticipate", "intending", "likely", "may", "estimate", "potential", or other similar words.

The forward looking statements in this Information Memorandum are based on MBF's and BUPA Australia's current expectations about future events. These statements, however, are subject to known and unknown risks, uncertainties and assumptions, many of which are outside the control of MBF and BUPA Australia, the Board and senior management team. These events may cause actual results, performance or achievements to differ materially from future results, performance or achievements expressed or implied by the forward looking statements in this Information Memorandum.

Other than as required by law, neither MBF nor BUPA Australia gives any representation, assurance or guarantee that the events

expressed or implied in any forward looking statements in this Information Memorandum will actually occur.

No person named in this Information Memorandum, nor any other person, guarantees the performance or achievements expressed or implied by the forward looking statements in this Information Memorandum.

RESPONSIBILITY STATEMENT

The information in this Information Memorandum (except for Sections 1.6, 2.2, 2.3, 2.27, 3, 7.2, 10, 11, and Schedules 6-9) (**MBF Information**) has been prepared by MBF and is MBF's responsibility.

The information in Sections 1.6, 2.2, 2.3, 2.27, 3, 10 and 11 (**BUPA Information**) has been prepared by BUPA Australia and is the responsibility of BUPA Australia.

The Independent Expert has prepared the Independent Expert's Report and is responsible for that Report. The concise version of the Independent Expert's Report is set out in Schedule 6.

The Appointed Actuary has prepared the Appointed Actuary's Report and is responsible for that Report. The Appointed Actuary's Report is set out in Schedule 7.

The Consulting Actuary has prepared the Consulting Actuary's Report and is responsible for that Report. The Consulting Actuary's Report is set out in Schedule 8.

Deloitte Touche Tohmatsu has prepared the Tax Advice Letter and is responsible for that Letter and the information set out in Section 7.2. The Tax Advice Letter is set out in Schedule 9.

None of BUPA Australia, the BUPA Group, or any of their respective directors, officers or advisers takes any responsibility for the accuracy or completeness of any information contained in the Information Memorandum other than in Sections 1.6, 2.2, 2.3, 2.27, 3, 10 and 11.

Except to the extent that the Corporations Act imposes responsibility on them, none of MBF, the MBF Group or any of their respective directors, officers or advisers takes any responsibility for the accuracy or completeness of the BUPA

Information, the Independent Expert's Report, the Appointed Actuary's Report, the Consulting Actuary's Report or the Tax Advice Letter.

ROLE OF ASIC

A copy of this Information Memorandum has been provided to ASIC for the purpose of section 411(2) of the Corporations Act and registered by ASIC as required by section 412(6) of the Corporations Act. ASIC has been requested to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no objection to the Scheme.

If ASIC provides that statement, then it will be produced to the Court at the time of the Court hearing to approve the Scheme. Neither ASIC nor any of its officers takes any responsibility for the contents of this Information Memorandum.

PRIVACY

Forms that accompany this Information Memorandum require you to provide information that may be personal information for the purposes of the *Privacy Act 1988* (Cth) as amended. This information may include the name, contact details, bank account details and policy details of Participating Contributors, and the name of persons appointed by those persons to act as a proxy at the Scheme Meeting.

MBF and BUPA Australia may collect, hold and use that personal information in the process of implementing the Scheme. The primary purpose of the collection of personal information is to assist MBF to conduct the Scheme Meeting and implement the Scheme.

Personal information may be disclosed to Link Market Services Limited, print and mail service providers, authorised securities brokers and members of the MBF Group.

Participating Contributors have certain rights to access personal information that has been collected. Participating Contributors should contact Link Market Services Limited in the first instance if they wish to access their personal information. Participating Contributors who appoint a named person to act as their proxy should ensure that they inform that person of these matters.

This Information Memorandum is dated 20 March 2008.

This Information Memorandum contains details of a Scheme to combine the businesses of the MBF Group and the BUPA Australia Group

What you need to do

1

Read the Information Memorandum (including the Notice of Meeting) carefully.

2

Vote at the Scheme Meeting to be held at 11.00am (AEST) on 12 May 2008 at City Recital Hall Angel Place, 2-12 Angel Place, Sydney.

3

If you are unable to attend the Scheme Meeting, you can appoint a proxy by completing the enclosed Proxy Form and returning it to PO Box 2177, Melbourne, VIC 8060 or in the business reply paid envelope provided or by faxing it to (02) 9857 1619 or by visiting the MBF website www.mbf.com.au and following the instructions on how to lodge an electronic proxy. Your proxy must be received by no later than 11.00am (AEST) on 10 May 2008.

KEY DATES IN CONNECTION WITH THE SCHEME ARE AS FOLLOWS:

EVENT	DATE
Latest time and date for lodgement of Proxy Form for the Scheme Meeting	11.00am (AEST) on 10 May 2008
Scheme Meeting	11.00am (AEST) on 12 May 2008
Second Court Hearing (for approval of the Scheme)	14 May 2008 [†]
Implementation of the Scheme	16 June 2008 [†]
Participating Contributors receive Entitlements	30 June 2008 [†]

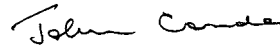
[†] All dates and times from the date of the Scheme Meeting are indicative only. The actual dates and times will depend on many factors outside the control of MBF, including the Court approval process and the satisfaction or, where appropriate, waiver of the conditions precedent to the Scheme under the Implementation Deed. Any changes to the above timetable will be notified by displaying the details on MBF's website www.mbf.com.au.

ALL OF THE MBF DIRECTORS RECOMMEND THAT YOU VOTE *IN FAVOUR OF THE SCHEME*

Your vote is important. All the MBF Directors encourage you to be involved by exercising your vote.

The MBF Directors' reasons for recommending the Scheme are set out in Section 4.

MBF BOARD



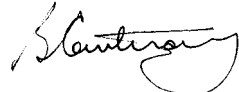
Mr John C Conde AO
CHAIRMAN



Mr Eric R Dodd
MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER



Mr John G Allpass
NON EXECUTIVE DIRECTOR



Dr Brett G Courtenay
NON EXECUTIVE DIRECTOR



Dr Cherrell Hirst AO
NON EXECUTIVE DIRECTOR



Mr Richard G Humphry AO
NON EXECUTIVE DIRECTOR



Mr Barrie R Martin
NON EXECUTIVE DIRECTOR



Ms Susan M Oliver
NON EXECUTIVE DIRECTOR



Dr Ross M Wilson
NON EXECUTIVE DIRECTOR



BUPA Australia Health is the second largest private health insurer in Victoria and the largest in South Australia. BUPA Australia Health's brands *HBA* and *Mutual Community* cover more than one million Australians and its health fund can be traced back for more than 70 years.

BUPA Australia Health is part of the BUPA Group, a global health and care organisation.

The ultimate holding company of the BUPA Group has no shareholders and it is therefore able to reinvest its profits back into its businesses for the benefit of customers.

The Combined Group will create a competitive private health insurance group with a national footprint, something MBF has long aspired to achieve.



The MBF Council approved changes to MBF's constitution enabling the Scheme to proceed to a vote of Participating Contributors

On 8 February 2008, the MBF Council, a body made up of MBF's Directors and regular MBF customers like you, approved the constitutional changes necessary to allow the Scheme to be put to a vote of Participating Contributors.



"MBF has looked after me since I was born. That obviously wasn't my decision, but the decision to stay with MBF for my family has been. I believe the merger of MBF and BUPA Australia will ensure the continuation of premium health and life insurance products for all Contributors."

Amanda Byrne - MBF Councillor from Queensland.



"As a doctor I understand the importance of a strong private health insurance industry to my patients and to the Australian health system and in my role as an MBF Councillor I have heard and considered both sides of the argument re the merger with BUPA Australia. It is my belief that to merge is the correct decision as it will result in a stronger company with increased capacity and flexibility to provide for its Contributors and their future healthcare needs, right across Australia."

Dr Rob Walters - MBF Council Member and GP from Tasmania.



"I've been an MBF member for most of my life and I'm really excited about the opportunities partnering with BUPA Australia will open up for MBF."

Caroline Williams - MBF Council Member, marketing consultant and mother of two from New South Wales.

Ernst & Young, the Independent Expert, has reviewed the Scheme and concluded that it is in the best interests of Participating Contributors.



Summary of the Scheme

1.1 OVERVIEW OF MBF AND THE SCHEME

MBF is Australia's largest non government owned private health insurer. It has been providing health insurance in Australia for over 60 years.

At present, MBF is structured as a company limited by guarantee and registered as a "not for profit" private health insurer. This means that MBF's health insurance business is not carried on for the profit or gain of individual contributors and MBF is therefore exempt from paying income tax.

This Information Memorandum contains details of a proposed transaction to combine the businesses of the MBF Group and the BUPA Australia Group. This transaction will be effected by way of a scheme of arrangement under the Corporations Act and certain other related steps (the **Scheme**). The Scheme will include changes to the company membership of MBF and its company type. In broad outline, the Scheme will involve the following key steps:

- BUPA Australia Holdings will pay \$2.41 billion to MBF to subscribe for shares in the capital of MBF (after it has changed its company type from a company limited by guarantee to a proprietary company limited by shares);
- MBF will distribute \$2.385 billion to Participating Contributors, in the form of a payment when the Scheme is implemented. The payment will be calculated in accordance with the Allocation Rules; and
- MBF will retain \$25 million of the \$2.41 billion until 31 December 2008 to deal with persons who were unable to seek a review of their circumstances prior to 21 May 2008. Any balance at 31 December 2008 will be paid to Participating Contributors and persons who

it is determined should have been included as Participating Contributors in accordance with the Allocation Rules.

Further details of the Allocation Rules are set out in Section 5.

The Scheme is subject to a number of conditions precedent, including approval at the Scheme Meeting and by the Court.

If the Scheme is implemented, MBF will remain a registered private health insurer and MBF has been advised that BUPA Australia has no intention of reducing any hospital or extras benefits under existing Policies of Contributors. MBF will also become a wholly owned subsidiary of BUPA Australia Holdings and part of the BUPA Group.

You have received this Information Memorandum because you are a Participating Contributor. Participating Contributors are:

1. Eligible Contributors, being persons who were Contributors of MBF who held a Qualifying Policy and who were not Company Members and in respect of whom the Trustee (as described in Sections 1.11 and 6.5 below) will become registered as a company member of MBF on its register of company members under clause 3 of the Trust Deed.

AND

2. Company Members of MBF, being persons who were company members under MBF's constitution on 8 November 2007 (the **Cut-off Date**). As at the Cut-off Date, MBF had 195 Company Members.

In certain circumstances, Participating Contributors will include persons whom the Review Committee determines should have been included as Participating Contributors.

1.2 BOARD'S RECOMMENDATION

The Board unanimously recommends that Participating Contributors vote in favour of the Scheme. The Board believes that the reasons for voting in favour of the Scheme outweigh the reasons for not voting in favour of the Scheme. The Board believes that the Scheme will achieve a better outcome for Participating Contributors as a whole than alternatives to the Scheme, in particular Listing.

The \$2.41 billion payment is certain and provides a significant premium to MBF's estimated trading range on Listing. The benefits of certainty are highlighted by the recent volatility in financial markets.

The Scheme also implements MBF's strategy of becoming a national participant in the private health insurance industry. Under Listing, the timing and success in achieving this objective would be uncertain. The benefits of scale and synergies from combining the businesses of the MBF Group and the BUPA Australia Group should benefit all customers as the Combined Group will be better positioned to limit premium price increases and provide improved services.

Importantly, the MBF brand will be retained, there will be ongoing involvement by some current MBF directors and the Scheme will not of itself cause any changes to hospital or extras benefits under existing Policies of Contributors.

1.3 EXPERTS' REPORTS

The Board has obtained reports from several experts in connection with the Scheme. The reports or summaries of them are included in Schedules 6 to 9. You should read each of these reports in full.

A summary of the reports commissioned and the opinions given is set out below.

The Independent Expert, Ernst & Young, has provided the Independent Expert's Report. A concise version of the Independent Expert's Report is set out in Schedule 6. The Independent Expert has concluded that the Scheme is in the best interests of Participating Contributors. In particular, the Independent Expert has assessed the value of MBF on a controlling basis to be within the range of \$2.0 - \$2.4 billion and notes that the Transaction Consideration of \$2.41 billion is consistent with the upper end of its range of values.

The long form version of the Independent Expert's Report, which contains more detailed information, is available for inspection in accordance with Section 12.9 and is also on the MBF website www.mbf.com.au.

The Appointed Actuary, Mr Ian Burningham, BSc, FIAA has provided the Appointed Actuary's Report (see Schedule 7). Mr Burningham is an employee of MBF and is appointed as its appointed actuary in accordance with the provisions of the PHI Act. His role includes overseeing MBF's compliance with the PHI Act. Mr Burningham receives a salary from MBF and is entitled to a retention payment of \$250,000 on 30 June 2008. Some Participating Contributors may regard the fact that Mr Burningham is entitled to a retention payment as meaning he has a conflict of interest and, if so, should take this into account in considering the conclusions in the Appointed Actuary's Report.

Mr Burningham reviewed the impact of the Scheme on the interests of Contributors and concluded, having regard to the matters set out in the Appointed Actuary's Report, that the Scheme:

- will not have an adverse impact on Contributors' reasonable benefit expectations, in respect of the health insurance policies issued by MBF;
- should not result in a material reduction in the level of security provided for Contributors' benefits;
- is not likely to have a materially adverse impact on the outlook for future premium rate increases for Contributors, following the adoption of the intended pricing policy for MBF; and
- will result in an allocation that is fair and reasonable and satisfies the requirements of section 126-42 of the PHI Act, that any distribution is not inequitable.

The Consulting Actuary, Towers, Perrin, Forster & Crosby Inc., an independent company of consulting actuaries has provided the Consulting Actuary's Report (see Schedule 8). The Consulting Actuary has considered the same matters as the Appointed Actuary and has also provided its opinion on those matters. The conclusions of the Appointed Actuary are supported by the Consulting Actuary's Report.

Deloitte Touche Tohmatsu Ltd has provided the Tax Advice Letter (see Schedule 9). The Tax Advice Letter sets out advice on the Australian income taxation consequences of the Scheme for Eligible Contributors and Company Members.

1.4 YOUR ENTITLEMENT

To be eligible to receive a payment from MBF (referred to in this Information Memorandum as your Entitlement), you must be a Participating Contributor.

Your Entitlement is determined in accordance with the Allocation Rules. In summary, your Entitlement is determined by taking into account:

- a. the type of Policy held on the Cut-off Date, such as ambulance only, hospital, extras or a combination of hospital and extras;
- b. the scale of the Policy held over the years, that is, single or non-single (couple, family or single parent family); and
- c. the tenure as a Contributor.

In certain circumstances, the tenure of a person insured under your Qualifying Policy will be recognised in calculating your Entitlement. See Section 5.

An estimate of your Entitlement (referred to in this Information Memorandum as your Estimated Entitlement) which is to be allocated to you in accordance with the Allocation Rules, is set out on the Allocation Form accompanying this Information Memorandum. This estimated amount may differ from your final Entitlement for the reasons set out in Section 5. MBF will distribute Entitlements within 10 Business Days of the Implementation Date, as set out in Section 6.11.

Section 5 also provides a summary of how the Allocation Rules are applied and includes some worked examples to help you understand how your Estimated Entitlement set out on your Allocation Form has been calculated. The detailed Allocation Rules including the relevant defined terms are set out in Schedule 3.

A review process has been established for persons who believe that:

- they have not been correctly identified as holding a Qualifying Policy; or
- their Estimated Entitlement or Entitlement is incorrect because the Allocation Rules have been incorrectly applied to them.

This process is summarised in Section 5.19, including information on how to request a review of your position. Requests for review must be made by completing a Review Request Form, a copy of which is included in Schedule 4. Copies of the Review Request Form can also be obtained from the MBF website www.mbf.com.au, your local MBF branch office or by calling the Scheme Hotline on 133 505.

The completed Review Request Form must be received by MBF no later than 5.00pm (AEST) on 21 May 2008.

In certain circumstances set out in Section 5.19, the Review Committee will consider requests for review received by MBF after 21 May 2008 and on or before 1 December 2008.

If you believe that you have not been correctly identified as holding a Qualifying Policy you should note that:

- to receive an Entitlement on the Implementation Date, your completed Review Request Form must be received by MBF no later than 5.00pm (AEST) on 21 May 2008; and
- your request for review should be submitted as early as possible because in order for you to become an Eligible Contributor and vote at the Scheme Meeting the request for review must be determined favourably by the Review Committee by 2 May 2008. This will enable the Trustee to take up a company membership on your behalf and information in relation to voting to be sent to you. There may be different taxation consequences if you do not become an Eligible Contributor. Details are set out in Section 7.2.

Any decision by the Review Committee as to whether you hold a Qualifying Policy or whether your Entitlement is correct, is final.

1.5 TAX IMPLICATIONS

The Australian taxation consequences of the Scheme for Participating Contributors will depend on their individual circumstances. Participating Contributors should make their own enquiries and seek appropriate independent professional advice on their own circumstances.

The taxation consequences for Participating Contributors will depend on the enactment of the proposed amendments announced in the Assistant Treasurer's press release of 26 February 2008 to provide a tax cost base for policyholders of demutualising private health insurers.

As more information in relation to the proposed amendments becomes known, MBF will publish updates on its website www.mbf.com.au.

A more detailed discussion of the taxation implications of the Scheme is set out in Section 7.2 and the Tax Advice Letter in Schedule 9.

1.6 BUPA AUSTRALIA'S INTENTIONS

BUPA Australia's intentions in relation to the MBF Group and its businesses (including in relation to premium pricing, Policy benefits, brands, retail offices, management and employees) are set out in Section 3.3. In particular, MBF has been advised that BUPA Australia has no intention of reducing any hospital or extras benefits under existing Policies of Contributors.

1.7 SCHEME IS CONDITIONAL

Implementation of the Scheme is subject to the satisfaction of a number of conditions including PHIAC's approval for MBF to convert to being registered as a "for profit" private health insurer.

MBF is registered with PHIAC as a not for profit private health insurer. A not for profit private health insurer is one that is not carried on for the profit or gain of its individual contributors. On that basis, not for profit private health insurers are exempt from paying income tax.

MBF has applied to PHIAC to convert to become registered as a for profit private health insurer. If approved, this will enable MBF to distribute profits to its shareholders (after it changes its company type) and it will also result in MBF becoming subject to income tax. As at the date of this Information Memorandum, MBF had not received PHIAC approval to convert to a for profit private health insurer.

MBF intends to publish updates in relation to the application for PHIAC approval on the MBF website www.mbf.com.au.

The conditions that need to be satisfied prior to implementation of the Scheme are more fully described in Section 12.1(b).

1.8 APPROVALS

To proceed, the Scheme must be approved by a majority in number of the company members of MBF (that is, the persons recorded on the register of company members of MBF), present and voting (either in person or by proxy) at the Scheme Meeting.

The Scheme is also subject to the approval of the Court at the Second Court Hearing.

1.9 ALTERNATIVES

The Board has considered a number of alternatives to the Scheme. These include retaining the existing structure (as a company limited by guarantee that is registered as a not for profit private health insurer) and Listing. A brief description of the alternatives considered by the Board is set out in Section 4.5.

The Board has concluded that the Scheme offers the best outcome for Participating Contributors.

1.10 MEETING DETAILS

The Scheme Meeting will be held at 11.00am (AEST) on 12 May 2008 at City Recital Hall Angel Place, 2-12 Angel Place, Sydney NSW 2000.

1.11 ELIGIBILITY TO VOTE

Each person recorded on the register of company members of MBF as at 11.00am (AEST) on 10 May 2008 will be eligible to vote (in person or by proxy) at the Scheme Meeting and will have one vote per company membership.

To facilitate the Scheme, an independent trustee has been appointed by MBF which will take up a company membership on behalf of:

- each person MBF has identified as a Contributor, who held a Qualifying Policy and who was not a Company Member and who has been sent an Allocation Form; and
- each additional person who requests a review from the Review Committee on the basis that they have not been correctly identified as holding a Qualifying Policy and in respect of whom the Review Committee makes a favourable determination by 2 May 2008.

Further details about the Trustee and its role are set out in Section 6.5.

Those persons who request a review from the Review Committee by 21 May 2008 but whose review request is dealt with by the Review Committee after 2 May 2008 will still receive an Entitlement under the Scheme but will not have a company membership taken out for them and will not vote in the Scheme and may have a different tax treatment (see Section 7.2).

The Trustee has one vote per company membership. However, the Trustee will not vote. The Trustee will appoint each Eligible Contributor as its attorney to vote in respect of the company membership held on trust for that Eligible Contributor. Eligible Contributors may therefore attend and vote (either in person or by sub-attorney) or appoint a proxy to attend and vote at the Scheme Meeting in respect of the company memberships held on trust for them.

1.12 SUMMARY OF VOTING AND OTHER ARRANGEMENTS

Votes can be cast at the Scheme Meeting in one of the following ways:

- by attending the Scheme Meeting in person or by sub-attorney; or
- if you are unable to attend the Scheme Meeting you may appoint a proxy to vote on your behalf by:
 - completing and returning the Proxy Form to MBF Australia Limited, PO Box 2177, Melbourne VIC 8060 or by using the reply paid envelope provided or by sending it by fax to (02) 9857 1619; or
 - visiting the MBF website www.mbf.com.au and clicking on the Demutualisation link and following the instructions on how to lodge an electronic Proxy Form.

Your Proxy Form must be received by no later than 11.00am (AEST) on 10 May 2008.

Under the MBF Constitution, a company member nominated by the Board and whose nomination is approved by the Governors, may become an Appointed Contributor Representative. The Appointed Contributor Representatives and the Directors form the MBF Council. The MBF Council is broadly representative of Contributors and votes at general meetings of MBF. The MBF Council appoints the Board. Under the MBF Constitution, the MBF Council must have between 75 and 100 members.

Unless they are members of the MBF Council (as either Appointed Contributor Representatives or Directors), company members do not normally have a vote at meetings of MBF.

As specified in the MBF Constitution, all Contributors (whether they are company members or not) receive notice of MBF's annual general meeting and are entitled to attend and be heard (but not vote) at the annual general meeting. Contributors have no right to receive notice of any other general meetings.

1.13 CONTRIBUTORS, COMPANY MEMBERS AND THE MBF COUNCIL

In this Information Memorandum, references are made to Contributors and Company Members, in the context of their relationship to MBF. An explanation of these terms is set out below.

A person who takes out a health insurance policy with MBF is known as a Contributor. As at 31 December 2007, MBF had approximately 800,000 Contributors, whose Policies covered approximately 1.7 million people.

Contributors are entitled under the MBF Constitution to apply to become company members of MBF. If the application is accepted by MBF and the membership fee is paid, that person will be entered on the MBF register of company members. Contributors who become company members are known as Contributor Members. Prior to the Scheme, most Contributors had not applied to become company members.

A registered medical practitioner, who is also a Contributor, may apply to MBF to become admitted as a Medical Member. If the application is accepted by MBF and the membership fee is paid, that person will be entered on the MBF register of company members.

Contributor Members and Medical Members together comprise the company members. As at the Cut-off Date, MBF had 195 Company Members.

Answers to Key Questions



Question	Answer	For more information see:
2.1 What is being proposed?	<p>On 14 December 2007, MBF and BUPA Australia signed the Implementation Deed concerning the Scheme which, if various conditions are met, will result in the combining of the business operations of the MBF Group and the BUPA Australia Group.</p> <p>If the Scheme is implemented, BUPA Australia Holdings will pay \$2.41 billion to MBF which will be distributed in accordance with the Allocation Rules. MBF will become a wholly owned subsidiary of BUPA Australia Holdings and part of the BUPA Group.</p>	Section 6.1
2.2 Who are BUPA Australia Health, BUPA Australia Holdings and BUPA Australia?	<p>BUPA Australia Health is a registered private health insurer covering more than one million Australians. It operates under the brand <i>HBA</i> in all States and Territories except South Australia and the Northern Territory where it operates under the brand <i>Mutual Community</i>.</p> <p>BUPA Australia is the holding company of BUPA Australia Health and BUPA Australia Holdings.</p> <p>BUPA Australia Holdings is the company that will acquire shares in MBF.</p>	Section 10
2.3 Who is BUPA?	<p>BUPA Australia is a wholly owned subsidiary of BUPA, a company limited by guarantee and incorporated under the laws of England and Wales. The BUPA Group is a global health and care organisation which looks after the health care needs of about eight million people in around 180 countries worldwide.</p>	Section 10
2.4 Who is a Contributor?	<p>A Contributor is a person in whose name the health insurance policy issued by MBF is registered and who is legally responsible for the payment of premiums.</p> <p>MBF often refers to this person as the “primary member”. As at 31 December 2007, MBF had approximately 800,000 Contributors, whose Policies covered approximately 1.7 million people.</p>	Sections 1.1, 1.13 and 5.3
2.5 Who is a Company Member?	<p>A Company Member is a person who was a company member under MBF’s constitution on the Cut-off Date. As at the Cut-off Date, MBF had 195 Company Members.</p>	Sections 1.1 and 1.13

Question	Answer	For more information see:
2.6 Who is an Eligible Contributor?	An Eligible Contributor is a person who was a Contributor who held a Qualifying Policy and who was not a Company Member and in respect of whom the Trustee will become registered as a company member of MBF on its register of company members under clause 3 of the Trust Deed.	Section 1.1
2.7 What is a Qualifying Policy?	<p>A Qualifying Policy is a health insurance policy issued by MBF which:</p> <ul style="list-style-type: none"> • was current and was not in arrears on the Cut-off Date; or • if it was in arrears on the Cut-off Date, any amount in arrears on the Cut-off Date was received in cleared funds by MBF on or before 8 February 2008; or • was validly suspended under the Fund Rules on the Cut-off Date or was approved for suspension by MBF after the Cut-off Date but before 8 February 2008; or • is a Policy determined by the Review Committee to be a Qualifying Policy. 	Section 5.4
2.8 Who is a Participating Contributor?	<p>Participating Contributors are:</p> <ul style="list-style-type: none"> • Eligible Contributors; and • Company Members. <p>In certain circumstances, Participating Contributors will include persons whom the Review Committee determines should have been included as Participating Contributors.</p>	Section 1.1
2.9 Why is there a Trustee?	<p>To facilitate the Scheme, an independent trustee has been appointed by MBF which will take up a company membership on behalf of:</p> <ul style="list-style-type: none"> • each person MBF has identified as a Contributor, who held a Qualifying Policy and who was not a Company Member and who has been sent an Allocation Form; and • each additional person who requests a review from the Review Committee on the basis that they have not been correctly identified as holding a Qualifying Policy and in respect of whom the Review Committee makes a favourable determination by 2 May 2008. <p>Further details about the Trustee and its role are set out in Section 6.5.</p>	Sections 1.11 and 6.5
2.10 Who is eligible to vote?	<p>Each person recorded on the register of company members of MBF as at 11.00am (AEST) on 10 May 2008 will be eligible to vote (in person or by proxy) at the Scheme Meeting and will have one vote per company membership.</p> <p>The Trustee will not vote. The Trustee will appoint each Eligible Contributor as its attorney in respect of the company membership held on trust for that Eligible Contributor. Eligible Contributors may therefore attend and vote (either in person or by sub-attorney) or appoint a proxy to attend and vote at the Scheme Meeting in respect of the company memberships held on trust for them.</p>	Section 6.8

Question	Answer	For more information see:
2.11 Should I vote?	The Directors believe that the Scheme is a matter of importance for all Participating Contributors. You are therefore encouraged to vote. However, voting is not compulsory.	Section 4.1
2.12 What level of approval is required to approve the Scheme?	For the Scheme to proceed, it must be approved by a majority in number of the company members of MBF (that is, the persons recorded on the register of company members of MBF as at 11.00am (AEST) on 10 May 2008), present and voting (either in person or by proxy) at the Scheme Meeting. These company members include the Trustee in respect of each company membership it holds on trust for Eligible Contributors.	Section 6.6
2.13 What does the Board recommend?	The Board unanimously recommends that Participating Contributors vote in favour of the Scheme. Each Director is a Participating Contributor and intends to vote in favour of the Scheme.	Section 4.1
2.14 Why should I vote in favour of the Scheme?	The Board unanimously recommends that you vote in favour of the Scheme and the Independent Expert has concluded that the Scheme is in the best interests of Participating Contributors. Additional reasons for why you may consider voting in favour of the Scheme are set out in Section 4.3.	Sections 4.1, 4.3 and Schedule 6
2.15 Why might I consider voting against the Scheme?	You may believe that the Scheme is not in the best interests of Participating Contributors. Additional reasons for why you may consider voting against the Scheme are set out in Section 4.4.	Section 4.4
2.16 Has the Scheme been independently reviewed?	The Scheme has been reviewed by the Independent Expert. The concise version of the Independent Expert's Report is set out in Schedule 6 and concludes that the Scheme is in the best interests of Participating Contributors.	Schedule 6
2.17 What happens if I do not vote or I vote against the Scheme?	Just because you do not vote or you vote against the Scheme, it does not mean that the Scheme will not be implemented. If the Scheme is approved by a majority in number of company members of MBF present and voting (either in person or by proxy) at the Scheme Meeting and other conditions precedent are satisfied, you will receive your Entitlement in accordance with the Allocation Rules, even if you do not vote or you vote against the Scheme.	N/A

Question	Answer	For more information see:
2.18 Is the Scheme subject to any conditions?	<p>The Scheme is subject to a number of conditions precedent. The conditions still to be satisfied at the date of this Information Memorandum include:</p> <ul style="list-style-type: none"> • approval of MBF's Registration Conversion by PHIAC; • approval by a majority of company members of MBF present and voting (either in person or by proxy) at the Scheme Meeting; • Court approval; • no legal restraint or prohibition preventing the Scheme; • no MBF Material Adverse Change; • no MBF Prescribed Occurrence or BAPL Prescribed Occurrence; • representations and warranties provided by the parties are materially true and correct as at the time specified in the Implementation Deed; • MBF demonstrates to BUPA Australia's reasonable satisfaction that the payments to be made to Participating Contributors under the Scheme will be made in accordance with the Allocation Rules (including the amount of any corrections or adjustments made under the Allocation Rules); and • ASIC publishing a notice of its intention to alter the details of MBF's company registration and the period of one month referred to in the notice elapsing. 	Section 12.1(b)
2.19 Has the Board considered alternatives?	The Board has considered a range of alternatives for the future of MBF, including Listing. The Board has concluded that the Scheme represents the outcome that best serves the interests of Participating Contributors as a whole.	Section 4.5
2.20 What is the role of the Court in the Scheme?	<p>The Court has approved MBF sending this Information Memorandum to Participating Contributors and the holding of the Scheme Meeting. If the company members of MBF approve the Scheme, then final approval of the Scheme will be sought from the Court at the Second Court Hearing.</p> <p>Participating Contributors are entitled to attend the Second Court Hearing. MBF will provide notice by newspaper advertisement of the time and place of the Second Court Hearing.</p> <p>The Court has the power to approve the Scheme subject to any alterations or conditions as it thinks fit.</p>	Section 6.6
2.21 What will I receive if the Scheme is implemented?	<p>If the Scheme is implemented and you are a Participating Contributor, you will receive your Entitlement. This may differ from your Estimated Entitlement shown on your Allocation Form for the reasons set out in Section 5. MBF reserves the right to correct the amount of your Estimated Entitlement shown on your Allocation Form if it is found to be incorrect.</p> <p>Your Entitlement is determined under the Allocation Rules, which are described in Section 5 and set out in full in Schedule 3.</p>	Section 5 and Schedule 3
2.22 What is my Entitlement and how is it calculated?	Your Entitlement is the payment you will receive. It is based upon a number of Units multiplied by a Unit Value. Units are allocated to you and the Unit Value is determined in accordance with the Allocation Rules. This is explained and examples are provided in Section 5 and the Allocation Rules are set out in full in Schedule 3.	Section 5 and Schedule 3

Question	Answer	For more information see:
2.23 What is my Estimated Entitlement and how is it calculated?	Your Estimated Entitlement is the amount set out on your Allocation Form, being an estimate of the payment you will receive. Your Entitlement may be different from the amount of your Estimated Entitlement. The Estimated Entitlement is calculated using an estimated Unit Value. The estimated Unit Value has been determined based on an estimate of the total number of Units which will be allocated to all Participating Contributors on the Implementation Date. An estimate has been used to allow for any additional Units that may need to be allocated as a result of determinations of the Review Committee prior to the Implementation Date. Accordingly, the final Unit Value cannot be determined until the Implementation Date.	Section 5.15
2.24 If the Scheme is implemented, when and how will I receive my Entitlement?	<p>MBF will distribute Entitlements within 10 Business Days after the Implementation Date. At the date of this Information Memorandum, the Implementation Date is expected to be 16 June 2008.</p> <p>If you have provided details of your financial institution account to MBF (by completing and returning the Payment Authority Form so that it is received by MBF at the address set out on the form no later than 2 June 2008), your Entitlement will be electronically transferred to that financial institution account. Otherwise, you will be sent a cheque for your Entitlement.</p>	Sections 6.10 and 6.11
2.25 What are the tax implications of the Scheme?	Everyone's tax position is different. A description of the general taxation consequences for Participating Contributors is set out in the Tax Advice Letter in Schedule 9. You should seek your own tax advice in respect of your individual tax position.	Sections 1.5, 7.2 and Schedule 9
2.26 What happens if the Scheme is not implemented?	<p>If the Scheme is not implemented:</p> <ul style="list-style-type: none"> • Participating Contributors will not receive their Entitlements; • MBF will continue to be a company limited by guarantee registered as a not for profit private health insurer; • MBF will remain exempt from paying income tax; • Company Members will not have their company memberships cancelled; • MBF will have incurred substantial transaction costs. MBF has estimated that costs of approximately \$14.5 million will have been incurred prior to the Scheme Meeting; • the Trustee will continue to be a company member of MBF until the earlier of either when it resigns or 16 September 2008 (when it will cease to be a company member and as a consequence all company memberships held by it on behalf of Eligible Contributors will also cease); • the Board may need to develop another proposal which might involve substantial cost and delay; and • a reimbursement fee may be payable to BUPA Australia or receivable by MBF depending on the circumstances (see Section 2.30). 	Section 6.13

Question	Answer	For more information see:
2.27 What will happen to my premium?	<p>Any increase in health insurance premiums requires the approval of the Federal Minister for Health and Ageing. Current industry practice is that insurers apply for premium rate increases annually, taking effect from 1 April each year.</p> <p>The Federal Minister for Health and Ageing has recently approved the rate that will apply to Contributors from 1 April 2008 following an application from MBF.</p> <p>For future years, it is BUPA Australia's intention that the form of MBF's pricing policy will be aligned with that of BUPA Australia Health. BUPA Australia believes that based on the information provided by MBF regarding its pricing policy, this realignment will not of itself have a materially adverse impact on the outlook for future premium rate increases.</p> <p>BUPA Australia has provided BUPA Australia Health's pricing policy to the Appointed Actuary who reviewed the impact of the Scheme on the interests of Contributors and concluded, having regard to the matters set out in the Appointed Actuary's Report, that the Scheme is not likely to have a materially adverse impact on the outlook for future premium rate increases for Contributors, following the adoption of the intended pricing policy for MBF. In considering the Appointed Actuary's conclusions, Participating Contributors are referred to the statement in Section 1.3 regarding the Appointed Actuary's potential conflict of interest. The conclusions of the Appointed Actuary are supported by the Consulting Actuary's Report.</p> <p>Through scale synergies, the Combined Group will be better placed to limit premium price increases in an environment where it is likely that the cost of hospital and medical services will continue to rise.</p>	Sections 3.3(f), 4.3(e) and Schedule 9
2.28 What will happen to my Policy features and benefits?	The Scheme will not of itself cause any changes to the hospital and extras benefits payable under existing Policies of Contributors. MBF has been advised that BUPA Australia has no intention of reducing any hospital or extras benefits under existing Policies of Contributors. In addition, your Policy will continue to be protected by regulatory safeguards, including Federal Government legislation. These safeguards are overseen by the Government Regulator and are designed to protect the financial strength and integrity of health insurance companies and the rights of their contributors.	Sections 3.3(g) and 4.3(e)
2.29 What will happen to company memberships?	If the Scheme is implemented, all company memberships other than that of BUPA Member will be cancelled. This includes all of the company memberships held on trust by the Trustee for Eligible Contributors.	Section 7.5

Question	Answer	For more information see:
2.30 What is the reimbursement fee?	<p>The MBF Reimbursement Fee is an amount of \$24.1 million that will become payable by MBF to BUPA Australia if certain circumstances arise, including if:</p> <ul style="list-style-type: none"> any of the Directors make a public statement to any MBF Council Member, Company Member or Contributor withdrawing or adversely modifying his or her recommendation or indicating that he or she no longer supports the Scheme other than in circumstances where: <ul style="list-style-type: none"> MBF validly terminates the Implementation Deed; BUPA Australia fails to meet a condition precedent to the Scheme; or MBF and BUPA Australia agree that the condition requiring approval by a majority of Participating Contributors is unlikely to be satisfied; or MBF wilfully breaches the no talk and no shop provisions of the Implementation Deed. <p>BUPA Australia is required to pay an equivalent reimbursement fee to MBF if:</p> <ul style="list-style-type: none"> MBF validly terminates the Implementation Deed; or BUPA Australia fails to meet certain conditions precedent to the Scheme. 	Sections 6.13 and 12.1
2.31 Is there anyone I can contact if I have a question about my Estimated Entitlement?	<p>If you believe that:</p> <ul style="list-style-type: none"> you have not been correctly identified as holding a Qualifying Policy; or your Estimated Entitlement is incorrect, <p>then you can request a review by completing a Review Request Form, a copy of which is included in Schedule 4 and sending it to the Company Secretary, MBF Australia Limited, Level 18, 50 Bridge Street, Sydney NSW 2000 by no later than 21 May 2008. Copies of the Review Request Form can also be obtained from the MBF website www.mbf.com.au, from your local MBF branch office or by calling the Scheme Hotline on 133 505.</p> <p>You will need to clearly set out the reasons why you believe that the Allocation Rules have not been applied correctly and provide evidence to support your claim.</p> <p>Details of how to lodge a Review Request Form are set out in Section 5.</p> <p>In certain circumstances set out in Section 5, a person may seek a review of whether they hold a Qualifying Policy or their Entitlement after 21 May 2008. The relevant Review Request Form must be sent to the above address so that it is received no later than 1 December 2008.</p>	Section 5
2.32 Why is MBF retaining \$25 million and what happens to that money?	<p>MBF will retain \$25 million until 31 December 2008 to deal with Contributors who were unable to seek a review of their circumstances prior to the Implementation Date. Any balance at 31 December 2008, will be paid to Participating Contributors and persons who the Review Committee determines should have been included as Participating Contributors in accordance with the Allocation Rules.</p>	Sections 5.10 and 5.16
2.33 What if I have a question about the Scheme?	<p>Further information about the Scheme is available:</p> <ul style="list-style-type: none"> on MBF's website www.mbf.com.au by clicking on the Demutualisation link; or by calling the Scheme Hotline on 133 505. 	N/A



BUPA Australia's Rationale and Intentions

3.1 WHO ARE BUPA AUSTRALIA HEALTH, BUPA AUSTRALIA AND BUPA?

BUPA Australia Health is a registered private health insurer covering over one million Australians. BUPA Australia Health is the second largest private health insurer in Victoria and the largest in South Australia. In 2002, BUPA acquired the private health insurance business of AXA Asia Pacific Holdings, known then as AXA Australia Health Insurance, which became known as BUPA Australia Health. It operates its health fund under the brands *HBA* and *Mutual Community*, the origins of which can be traced back for over 70 years. The BUPA Group also recently acquired DCA Aged Care Holdings Pty Ltd, an aged care provider in Australia (which trades as Amity).

BUPA Australia is the holding company of BUPA Australia Holdings and BUPA Australia Health. BUPA Australia Holdings is the company that will hold the shares in MBF.

BUPA is the United Kingdom's leading independent health and care organisation with about eight million customers in around 180 countries worldwide.

More information about the BUPA Group is set out in Section 10.

3.2 WHAT DOES BUPA AUSTRALIA CONSIDER TO BE ITS RATIONALE FOR AND THE KEY BENEFITS OF THE SCHEME?

BUPA Australia considers that its rationale for and the key benefits of combining the businesses of the MBF Group and the BUPA Australia Group are set out below.

a. Creation of a national private health insurance group with strong brands

Private health insurance is a core business of the BUPA Group throughout the world. The combination of the MBF Group's and BUPA Australia Group's private health insurance businesses will create Australia's largest private health insurance group.

If the Scheme is implemented, it will bring together three leading brands, *MBF*, *HBA* and *Mutual Community*, and two businesses which have been a feature of Australia's private health insurance sector for more than 60 years. Based on market share as at 30 September 2007, the combination of the MBF Group's and BUPA Australia Group's private health insurance businesses will create Australia's largest private health insurance group.

b. Deliver benefits for customers through improved product offering and service delivery

The Combined Group will be committed to delivering superior customer experiences for all customers. The businesses of the Combined Group will offer a broader range of products and services than would have been available to those customers without the merger. These products are accessible through a wide range of distribution channels, including retail offices, call centres, financial advisers, direct mail, the internet and intermediaries.

Product design and customer service delivery will draw upon the best of each other's products, processes and systems (as well as the BUPA Group's global expertise in health and care services).

The Combined Group will be able to draw from its collective knowledge and experience to develop claims management disciplines for the benefit of customers of the Combined Group.

c. Operational scale synergies to limit premium price increases

The Combined Group will be able to achieve scale synergies that previously were not available to the two organisations. Through these scale synergies, the Combined Group will be better positioned to limit premium price increases.

d. Become a leading voice in the private health sector

As the largest player in the Australian private health insurance industry, the Combined Group will be well placed to become the leading voice in the private health sector.

3.3 BUPA AUSTRALIA'S INTENTIONS

a. Introduction

This Section 3.3 sets out BUPA Australia's intentions in relation to the MBF Group if the Scheme is implemented.

These intentions are based on the information concerning MBF and its businesses which is known to BUPA Australia at the time of preparation of this Information Memorandum. This is limited to a due diligence review of material provided to BUPA Australia by MBF.

The statements set out in this Section 3 and repeated by MBF elsewhere in this Information Memorandum are statements of current intention, which may change through BUPA Australia's exposure to MBF and its businesses or as new information becomes available to BUPA Australia or as circumstances change.

b. General operational review

BUPA Australia intends to conduct a thorough and broad based general review of the operational structure, assets, businesses, personnel and operations of MBF, BUPA Australia Health and their respective subsidiaries. This review will be conducted through an integration committee comprising representatives from MBF and BUPA Australia. This committee currently comprises Eric Dodd (Chief Executive Officer and Managing Director, MBF) and Richard Bowden (Managing Director, BUPA Australia Health).

The review will focus on achieving a reduction of overlapping corporate and shared service functions and realising operational efficiencies across the entire business. In general, the approach to the integration of the businesses will be to combine the best from each business, leveraging experience, capability and resources across the businesses.

c. Merger of the health funds

In the longer term, BUPA Australia intends to seek to merge the health funds of the MBF Group and the BUPA Australia Group (HBA/Mutual Community) into a single health fund operated by a single private health insurer through a PHIAC supervised merger. It is not expected that the merger of the health funds will delay the realisation of the majority of synergies that BUPA Australia expects to obtain from combining the two businesses.

d. Brand strength

BUPA Australia intends to retain the *MBF* brand and the BUPA Australia Health brands (*HBA* and *Mutual Community*) and to use the strongest brand in each State or Territory. BUPA Australia currently uses the brand *HBA* in Victoria where it is the second largest private health insurer and the brand *Mutual Community* in South Australia where it is the largest private health insurer. MBF's brand is strongest in New South Wales, Queensland, Tasmania, the ACT and the Northern Territory.

e. Retail offices

BUPA Australia's intention is to focus on customer service excellence and principally retain the combined national network to ensure continuity of service. However, over time, where there is clear duplication some rationalisation is expected.

f. Premiums

Any increase in health insurance premiums requires the approval of the Federal Minister for Health and Ageing.

MBF has advised that the Minister for Health and Ageing has recently approved the rates that will apply to Contributors from 1 April 2008. Current industry practice is that insurers apply for premium rate increases annually taking effect from 1 April each year.

For future years, it is BUPA Australia's intention that the form of MBF's pricing policy will be aligned with that of BUPA Australia Health. BUPA Australia believes that based on the information provided by MBF regarding its pricing policy, this realignment will not of itself have a materially adverse impact on the outlook for future premium rate increases. BUPA Australia Health has provided its pricing policy to the Appointed Actuary who reviewed the impact of the Scheme on the interests of Contributors and concluded, having regard to the matters set out in the Appointed Actuary's Report, that the Scheme is not likely to have a materially adverse impact on the outlook for future premium rate increases for Contributors, following the adoption of the intended pricing policy for MBF. The matters he had regard to were:

- BUPA Australia's proposed pricing policy for MBF being based upon a target gross margin which is within the range already contemplated under MBF's current pricing policy;
- BUPA Australia's belief that the intended gross margin target for MBF's portfolio should be sufficient, for the reasonably foreseeable future, to meet its expectations for a return on its investment in MBF;
- the safeguards provided by legislation around the approval of premium rate increases; and
- BUPA Australia Health's historical ability to meet its pricing policy targets with below industry average premium rate increases.

In considering the Appointed Actuary's conclusions, Participating Contributors are referred to the statement in Section 1.3 regarding the Appointed Actuary's potential conflict of interest. The conclusions of the Appointed Actuary are supported by the Consulting Actuary's Report.

BUPA Australia Health has achieved an average premium rate increase in 2008 that is less than industry average for the seventh consecutive year.

Through scale synergies, the Combined Group will be better placed to limit premium price increases in an environment where it is likely that the cost of hospital and medical services will continue to rise.

g. Security of benefits and Policies

BUPA Australia does not intend to reduce any hospital or extras benefits under existing Policies of Contributors.

It is also important to note that private health insurance policies are protected by regulatory safeguards, including Federal Government legislation. These safeguards are overseen by the Government Regulator and protect the financial strength and integrity of health insurers and the rights of their policyholders.

PHIAC regulates the capital adequacy and solvency requirements of registered private health insurers. These requirements are discussed in Section 8.4. The safeguards provided by the Government Regulator ensure the financial strength of health insurers.

It is BUPA Australia's intention that MBF will continue to maintain as a minimum a target level of capital in excess of the capital adequacy requirement set by PHIAC. This target surplus level of capital will be determined by the MBF board in consultation with BUPA Australia and will be consistent with MBF's current capital management plan. Any surplus capital in excess of this amount will be accessible to the BUPA Group. BUPA Australia intends that MBF will release between \$500 million and \$600 million of

surplus capital to the BUPA Group by the end of 2008, provided that such a release is consistent with MBF's capital management plan. BUPA Australia intends that the release will be undertaken utilising the first of the hypothetical capital distribution scenarios described in section 5.1 of the Appointed Actuary's Report.

The Appointed Actuary has concluded that, having regard to the matters set out in his report, the ability to release capital following the Scheme, if managed in a manner consistent with the intended capital management plan, should not materially reduce the security of benefits provided to Contributors. In considering the Appointed Actuary's conclusions, Participating Contributors are referred to the statement in Section 1.3 regarding the Appointed Actuary's potential conflict of interest. The conclusions of the Appointed Actuary are supported by the Consulting Actuary's Report.

h. Corporate governance

(i) Board composition

Following implementation of the Scheme, the boards of MBF, BUPA Australia Health and BUPA Australia Holdings will be aligned with eight directors on each board, comprising four current MBF directors and four directors nominated by BUPA Australia.

The four MBF directors will be:

- Mr John Conde, AO as Chairman (MBF's current Chairman);
- Mr Eric Dodd (MBF's current Chief Executive Officer and Managing Director);
- Mr John Allpass; and
- Mr Richard Humphry, AO.

The four BUPA Australia directors will be:

- Mr Dean Holden (BUPA's Managing Director of International Businesses and current Chairman of BUPA Australia Health);
- Mr Richard Bowden (BUPA Australia Health's current Managing Director); and
- two other directors to be nominated by BUPA Australia.

It is expected that the number of directors on each of these boards will be reduced from eight to six, 12 months from the Implementation Date. At that time, Mr Allpass and one of BUPA Australia's nominees will resign as directors.

(ii) MBF Council and Governors

The roles of the MBF Council and Governors will cease.

(iii) Medical Advisory Panel

BUPA Australia Health has established a Medical Advisory Panel to assist its board and senior management in planning for and

responding to developments in medical research and clinical practice in health services.

The work of this panel will be expanded to cover MBF and MBF Alliances.

i. Management

MBF's current Chief Executive Officer and Managing Director, Mr Eric Dodd, will be appointed Managing Director of the Combined Group and has been invited to become a non-executive director after a transition period.

BUPA Australia Health's current Managing Director, Mr Richard Bowden, will be appointed Deputy Managing Director and Chief Operating Officer of the Combined Group.

The senior management team of the combined businesses of MBF and BUPA Australia Health will include members of MBF's and BUPA Australia Health's management teams as recommended by the Managing Director and the Deputy Managing Director and Chief Operating Officer of the Combined Group.

j. Employees

The Scheme presents an opportunity to combine the strengths of each business, whilst retaining employees from the MBF Group and BUPA Australia Health.

BUPA Australia intends to combine and integrate some functions of MBF and BUPA Australia Health. It is likely that some roles will be made redundant, however, it is BUPA Australia's intention, wherever appropriate, to rely on natural attrition and redeployment to ensure that the skills, knowledge and experience needed to support the future growth of the combined businesses are retained.

BUPA Australia is not in a position to determine exactly how many employees may be affected in this way, nor the full nature or timing of any redundancies, until it has completed its general operational review referred to in Section 3.3(b).

Employees who are made redundant will receive, on redundancy, payments and other benefits in accordance with their contractual and other legal entitlements.

k. Growth opportunities

The BUPA Group has significant resources and will continue to explore opportunities to grow its businesses in Australia as the opportunities arise.

l. Foundation

BUPA Australia supports the objectives of the Foundation and intends for it to continue in operation.

m. BUPA shareholdings

Immediately after implementation of the Scheme and the issue of shares in MBF to BUPA Australia Holdings, there will be two BUPA subsidiaries that will be shareholders. These will be BUPA Australia Holdings and a BUPA company to be nominated by BUPA Australia, BUPA Member. It is intended that BUPA Member's share in MBF will be cancelled or transferred to BUPA Australia Holdings so that BUPA Australia Holdings will ultimately own all the shares in MBF.

n. Other intentions

Other than as set out in or referred to in this Section 3, it is the present intention of the directors of BUPA Australia to procure that MBF will:

- generally continue the business of MBF and not make any major changes to the business of MBF;
- not redeploy any of the fixed assets of MBF; and
- continue the employment of MBF's present employees.

3.4 SOURCE OF FUNDING

The BUPA Group will finance the Transaction Consideration as follows:

a. Cash and external banking facilities

The BUPA Group intends to fund the Transaction Consideration through a combination of existing internal cash resources and external banking facilities with a view to minimising the amounts borrowed from external banks. As at the time of preparation of this Information Memorandum, it is not possible to specify the precise mix between existing internal cash resources and external banking facilities that will be used by the BUPA Group to finance the Transaction Consideration under the Scheme.

b. General comments on external banking facilities

To the extent that the BUPA Group will borrow to fund the payment under the Scheme, the BUPA Group has a number of committed external banking facilities in place which are available to meet the payment obligations under the Scheme, which are described in Section 3.4(c).

None of the money will be borrowed by companies in the Combined Group. The MBF Group will not be required to grant any encumbrances to secure these facilities.

c. Details of external banking facilities

(i) Facility with HSBC Bank PLC, The Royal Bank of Scotland PLC, ABN AMRO Bank N.V., Barclays Bank PLC, Bayerische Landesbank, London Branch, Lloyds TSB Bank PLC and National Australia Bank Limited

BUPA Finance has a £1,100,000,000 credit facility with the financial institutions listed above upon which it may draw in order to meet the BUPA Group's payment obligations under the Scheme.

This facility is not subject to any unfulfilled pre conditions to the making available or drawdown of the funds, other than the giving of a drawdown notice. This facility is unsecured and will still be available at the time the BUPA Group must meet its payment obligations under the Scheme.

(ii) Facility with HSBC Bank PLC and The Royal Bank of Scotland PLC

BUPA Finance has a £500,000,000 credit facility with HSBC Bank PLC and The Royal Bank of Scotland PLC upon which it may draw in order to meet the BUPA Group's payment obligations under the Scheme.

This facility is subject only to unfulfilled pre conditions to the making available or drawdown of the funds that are not an unusual feature of a facility of this kind and are within the power of the BUPA Group to procure. These relate to the accession of certain BUPA Group subsidiary companies as guarantors of the facility and the giving of a drawdown notice.

It is expected that these conditions will be satisfied before the Second Court Hearing. As at the time of preparation of this Information Memorandum, BUPA Australia is not aware of any reason why these conditions will not be satisfied in time to allow the facility to be used for part payment of the Transaction Consideration under the Scheme.

This external facility is unsecured and will still be available at the time the BUPA Group must meet its payment obligations under the Scheme.

d. Undrawn amounts

The aggregate of the internal cash resources referred to in Section 3.4(a) and the amount undrawn under the external facilities described in Section 3.4(c) exceeds the Transaction Consideration payable under the Scheme.

The Board's Recommendation



4.1 BOARD'S RECOMMENDATION

The Board unanimously recommends that Participating Contributors vote in favour of the Scheme.

Each Director is a Participating Contributor and intends to vote in favour of the Scheme.

The Board has considered the reasons for voting in favour of the Scheme and the reasons for not voting in favour of the Scheme, as well as alternatives to the Scheme, in particular Listing. The Board believes that the reasons for voting in favour of the Scheme outweigh the reasons for not voting in favour of the Scheme. Consequently, the Board unanimously recommends that Participating Contributors vote in favour of the Scheme.

Participating Contributors should carefully consider the factors outlined in this section, as well as the other information contained in this Information Memorandum, before deciding how to vote.

4.2 EVENTS LEADING TO THE BOARD'S RECOMMENDATION

Over the last 12-18 months, the Board has recognised the need for MBF to change its corporate structure in order to maintain its competitive position in the changing private health insurance industry.

To achieve this objective, the Board considered a number of alternatives including an earlier proposal from BUPA Australia to combine the two businesses, but ultimately recommended, in August 2007, that MBF proceed with Listing. At this time, the Board recommended Listing on the basis that it was the best way to:

- enable MBF to continue to offer Contributors quality products and services into the future;
- realise value for Participating Contributors; and
- provide MBF with the ability to execute its growth strategy to achieve substantial market coverage in private health insurance throughout Australia and expand its non private health insurance businesses.

On 27 November 2007, BUPA Australia presented a revised merger proposal to the Board. The Board considered the relative merits of continuing with Listing or ceasing work on Listing and recommending the proposal from BUPA Australia.

On 14 December 2007, MBF and BUPA Australia entered into the Implementation Deed. Under the Implementation Deed, the business operations of the MBF Group and the BUPA Australia Group will be combined, BUPA Australia Holdings will make a capital injection of \$2.41 billion into MBF which MBF will distribute as a payment in accordance with the Allocation Rules, company memberships in MBF will be cancelled and MBF will become a wholly owned subsidiary of BUPA Australia Holdings and part of the BUPA Group. The proposal from BUPA Australia is to be implemented by way of the Scheme.

The Board believes that the Scheme provides a superior outcome to Listing for Participating Contributors as a whole.

4.3 REASONS TO VOTE IN FAVOUR OF THE SCHEME

a. Value is realised for Participating Contributors

The Scheme will allow Participating Contributors to realise the value of MBF.

Under MBF's existing structure, it is not possible for Contributors to access directly the value of MBF. MBF is only able to distribute surplus capital to Contributors through reduced premiums (lower or no premium increases, premium rebates or premium discounts) and/or increased benefits, an approach that is neither sustainable nor equitable to existing Contributors. This point is discussed further in Section 4.5(c).

Realising value for Participating Contributors was one of the Board's main objectives in previously recommending Listing. The Scheme provides another means of allowing Participating Contributors to realise the value of MBF.

b. Realisation of value is certain and timely

The Scheme results in Participating Contributors receiving cash rather than the shares that would have been received on Listing.

If the Scheme is implemented, MBF will distribute Entitlements within 10 Business Days after the Implementation Date. At the date of this Information Memorandum, it is expected that the Implementation Date will be 16 June 2008. The implementation of the Scheme will allow Participating Contributors to realise value in a certain and timely manner. The Board believes that the certainty offered by the Scheme is a better outcome for Participating Contributors as a whole than Listing as the \$2.41 billion in cash is known and is not subject to market conditions in the future or other influences outside of the control of MBF. The benefits of certainty are highlighted by the recent volatility in the financial markets.

The Scheme is not subject to a finance condition. BUPA Finance will guarantee BUPA Australia Holdings' payment obligations.

c. Significant premium to estimated trading range on Listing

In July 2007 following the initial approach from BUPA, MBF received advice from its financial adviser, Grant Samuel, that post Listing, it was likely that shares in MBF would trade at prices that would value MBF at \$1.6 - \$1.8 billion once the market for these shares had stabilised. In the period immediately after Listing, these shares would be likely to trade at higher prices because of institutional buying.

In November 2007, Grant Samuel confirmed that its estimate of the likely trading range of shares in MBF had not changed.

The estimated market value of MBF of \$1.6 - \$1.8 billion represented multiples of:

- i. 13.9-16.5 times historical pro forma after tax profit (assuming a cash return on the capital supporting the operating business units and adjusting for the impact of MBF's surplus capital); and

- ii. 1.6-1.7 times net tangible assets (as at 31 December 2007) and 2.1-2.5 times adjusted net tangible assets (excluding MBF's surplus capital).

However, estimates of trading ranges involve uncertainty. The market value of MBF on Listing could have been higher or lower depending on:

- i. market conditions at the time of listing;
- ii. market perceptions of MBF and the private health insurance industry at the time of and subsequent to listing;
- iii. MBF's own performance;
- iv. regulatory behaviour; and
- v. changes in government policy.

In particular, the deterioration in equity markets in early 2008 means that a trading range of \$1.6 - \$1.8 billion for MBF could be optimistic without a strong recovery in the market.

The Transaction Consideration of \$2.41 billion represents a 34 - 51% premium to the estimated trading range of \$1.6 - \$1.8 billion. Takeover premiums in Australia over the last 10 years have generally been in the range 20 - 35%.

d. Independent Expert has concluded that the Scheme is in the best interests of Participating Contributors

The Independent Expert has assessed the value of MBF on a controlling basis to be within the range of \$2.0 - \$2.4 billion and notes that the Transaction Consideration of \$2.41 billion is consistent with the upper end of its range of values.

A concise version of the Independent Expert's Report is set out in Schedule 6. You are encouraged to read this summary. A copy of the complete Independent Expert's Report is available for inspection in accordance with Section 12.9 or may be obtained from MBF's website www.mbf.com.au.

e. No change to Policy benefits or premiums

The Scheme will not of itself cause any changes to MBF premiums or hospital or extras benefits payable under existing Policies of Contributors. MBF has been advised that BUPA Australia has no intention of reducing any hospital or extras benefits under existing Policies of Contributors.

Following implementation of the Scheme, BUPA Australia has advised MBF that it expects MBF to align the form of its pricing policy with that of BUPA Australia Health. BUPA Australia has indicated that it believes that based on the information provided by MBF regarding its pricing policy this realignment will not of itself have a materially adverse impact on the outlook for future premium increases. BUPA Australia has provided BUPA Australia

Health's pricing policy to the Appointed Actuary who reviewed the impact of the Scheme on the interests of Contributors and concluded, having regard to the matters set out in the Appointed Actuary's Report, that the Scheme is not likely to have a materially adverse impact on the outlook for future premium rate increases for Contributors, following the adoption of the intended pricing policy for MBF. In considering the Appointed Actuary's conclusions, Participating Contributors are referred to the statement in Section 1.3 regarding the Appointed Actuary's potential conflict of interest. The conclusions of the Appointed Actuary are supported by the Consulting Actuary's Report.

If the Scheme is implemented, MBF will pay income tax in the future. The pricing policy proposed for MBF by BUPA Australia targets a pre tax gross margin. The Appointed Actuary and the Consulting Actuary have considered this when providing their opinions in relation to the outlook for future premium rate increases.

Through scale synergies, the Combined Group will be better placed to limit premium price increases in an environment where it is likely that the cost of hospital and medical services will continue to rise.

f. Ongoing involvement of some current MBF directors

Following implementation of the Scheme, the boards of MBF, BUPA Australia Holdings and BUPA Australia Health will comprise eight directors, four of whom will come from the current Board. Mr John Conde, AO will continue as Chairman of MBF and become Chairman of BUPA Australia Health and Mr Eric Dodd will be the Managing Director of the Combined Group for a transitional period.

The equal representation of BUPA directors and MBF directors on the boards, and the roles of Mr Conde, AO and Mr Dodd, recognise the important contribution of MBF to the Combined Group.

g. Immediately executes MBF's strategy to become a national participant in the private health insurance industry

The Scheme immediately achieves MBF's strategic objective of creating a national private health insurance operation. The Combined Group:

- i. would be the leading private health insurance provider in Australia with a national market share of 27.6% (based on number of lives covered at 31 December 2007);
- ii. would have a strong position in all States and Territories in Australia (other than Western Australia) as a result of complementary geographic footprints, be the number one provider of private health insurance in Queensland, New

South Wales, South Australia, Tasmania, the ACT and the Northern Territory, number two in Victoria and number three in Western Australia; and

- iii. would be in a strong position to take a leadership role in the private health insurance industry and compete effectively with other private health insurers.

h. MBF brand is retained

The Scheme would result in strong and trusted brands in each State and Territory in Australia. *MBF*, *HBA* and *Mutual Community* are established and high profile brands in their foundation States. These brands are key to customer retention and attraction.

BUPA Australia intends to retain the *MBF* brand and the BUPA Australia Health brands (*HBA* and *Mutual Community*) and use the strongest brand in each State or Territory.

The *MBF* brand is the strongest brand of the Combined Group in Queensland, New South Wales, the ACT, the Northern Territory and Tasmania.

i. Scale synergies from combining the MBF and BUPA Australia Health businesses should benefit all customers

The Board believes that combining the MBF and BUPA Australia Health businesses should result in substantial operational efficiencies as a result of:

- the sharing of best practice across the Combined Group;
- the elimination of duplicated functions; and
- scale.

The Combined Group will be able to achieve scale synergies that previously were not available to the two organisations. Through these scale synergies the Combined Group will be better positioned to limit premium price increases.

j. The Combined Group will have access to the capital resources of the BUPA Group

Under its current structure, MBF's ability to raise capital is limited. Its primary source of capital is retained earnings. Retained earnings can be supplemented by debt (subject to regulatory approvals), although this has limits.

The Scheme will provide MBF with access to the resources of the broader BUPA Group. BUPA has significant capital resources (net assets of £3.3 billion (\$7.5 billion) at 31 December 2007). BUPA is a company limited by guarantee and does not have shareholders which means it is able to reinvest its profits back into its businesses.

Access to capital will provide the Combined Group with greater flexibility to respond to value enhancing opportunities (including mergers, takeovers and other corporate transactions). This will assist the Combined Group to maintain and improve its competitive position in any future consolidation of the Australian private health insurance industry.

k. No Superior Proposal has been received

Since MBF signed the Implementation Deed on 14 December 2007, the Board has not received or become aware of any Superior Proposal.

The Scheme is the result of a lengthy process that initially saw the Board recommend Listing in August 2007. The Board believes that the Scheme is superior to Listing. Given the process undertaken over the last nine months, the Board has no reason to believe that a Superior Proposal is likely to be forthcoming.

4.4 REASONS TO VOTE AGAINST THE SCHEME

a. You may disagree with the views of the Board and the Independent Expert

Despite the Board's recommendation, you may believe that the Scheme is not in the best interests of Participating Contributors. Some Participating Contributors may hold a different view from the Board and the Independent Expert, and are not obliged to follow the recommendation of the Board.

Some Participating Contributors may not agree with the Independent Expert's conclusions. In particular, some Participating Contributors may believe that \$2.41 billion does not reflect the full underlying value of MBF (including an adequate premium for control).

b. You may not consider the Allocation Rules fair and reasonable

Some Participating Contributors may consider that the Allocation Rules are neither fair nor reasonable. While such a process necessarily involves value judgements, the Board believes that the Allocation Rules, which were based upon the Appointed Actuary's Report and are supported by the conclusion of the Consulting Actuary, provide a fair, reasonable and not inequitable basis for allocating the Entitlement to be received by Participating Contributors. In considering the Appointed Actuary's conclusions, Participating Contributors are referred to the statement in Section 1.3 regarding the Appointed Actuary's potential conflict of interest. In particular, the Allocation Rules take into account:

- recognition of the past contribution and loyalty of current Contributors;

- that the basis should be understandable and not overly expensive or complex to implement; and
- that Participating Contributors have no contractual entitlement to the assets of MBF.

c. You may be concerned about MBF being owned by a foreign entity

Some Participating Contributors may be concerned that MBF will ultimately be owned by a foreign entity and that profits generated by the Combined Group in Australia might be repatriated overseas. BUPA has indicated that, provided it is consistent with MBF's capital management plan, it will release between \$500 million and \$600 million of MBF's surplus capital to the BUPA Group by the end of 2008. These funds may be distributed to BUPA companies inside or outside of Australia.

d. Company Members (including MBF Council Members) may be concerned that they will lose their company membership rights

Company Members, and in particular MBF Council Members, may be concerned that if the Scheme is implemented their existing rights, which are described in Section 7.5, will be cancelled. However, Company Members and MBF Council Members are receiving value in the form of their Entitlement in return for the cancellation of their company membership rights.

Eligible Contributors are not Company Members and therefore have no company membership rights (except as provided for under the Scheme).

e. You may be concerned that BUPA Australia Health will have a different culture to that of MBF

MBF has a long history of strong customer focus, in particular with its front line staff in retail offices and call centres. Participating Contributors may be concerned that this customer focus may change or may not continue in the Combined Group.

f. You may not believe MBF needs to change

Some Participating Contributors may believe that MBF does not need to change because it has been successful as it is for many years and Contributors may have decided to choose an MBF product because of MBF's reputation as a large, stable and conservative organisation. Any change to MBF's ownership may change people's perceptions of MBF. Other Participating Contributors may consider that MBF should not change so that it is able to retain its income tax exempt status.

g. You may believe MBF should have proceeded with the Listing

Some Participating Contributors may believe that MBF should have rejected BUPA's offer and continued with its Listing because:

- the \$500 million to \$600 million of surplus capital that BUPA intends to distribute, provided it is consistent with MBF's capital management plan, would remain in the MBF Group;
- as a shareholder of MBF you would have the potential to receive dividends from MBF; and
- as a shareholder of MBF you would have continued exposure to the performance of the MBF Group and the right to vote at company meetings.

4.5 WHAT ARE THE ALTERNATIVES?

The Board considered a number of alternatives to the Scheme, most notably Listing which was initially recommended by the Board in August 2007.

The Board believes that the Scheme provides a superior outcome for Participating Contributors compared to any of the alternatives, including Listing.

A brief description of the alternatives is outlined below.

a. Retain the current structure

MBF could continue to operate under its current structure. The Board believes that retaining the current structure is not in the best interests of Participating Contributors because:

- the value that can be provided to Contributors under the current structure, over time, is limited (refer to Section 4.5(c) below); and
- the current structure limits MBF's ability to implement its business strategy of growth and to respond to acquisition opportunities and the changes taking place in the private health insurance industry. The Board believes that effective execution of the business strategy is necessary to ensure the future financial sustainability and success of MBF.

b. Raise external debt capital

The Board considered borrowing funds under its current structure to provide access to capital to enhance its ability to execute its business strategy.

The Board concluded that raising sufficient debt to implement its business strategy on acceptable terms was difficult and there are regulatory restrictions on raising debt.

c. Distribute surplus capital by means of reduced premiums

The Board considered the option of returning MBF's surplus capital to its Contributors over a number of years through reduced premiums (lower or no premium increase, premium rebates or premium discounts). Only a limited reduction in premiums could be considered on an ongoing basis without materially impacting MBF's capital requirements. Under current law, MBF could not provide a reduction in premium only to existing Contributors so such an approach would also benefit future Contributors, diverting value away from existing Contributors. In any case this approach could access only MBF's surplus capital and it therefore relates only to a component of MBF's overall value. MBF's capital would be eroded by reduced premiums.

Reduced premiums create Contributor expectations as to future levels of premium rates and a decline in or withdrawal of the reduced premiums would result in Contributor retention issues and general Contributor confusion and dissatisfaction.

d. Sale of subsidiaries

This alternative involves selling one or more of MBF's subsidiaries.

MBF has a number of subsidiaries (for example, MBF Life and ClearView Financial Solutions) which, if sold, would contribute significant capital. The capital released and the sale price obtained by the disposal could, for example, be distributed to Contributors through lower premiums over time or could be used to implement MBF's business strategy (by making acquisitions). The Board felt that this alternative was not acceptable because it undermined MBF Group's strategy and did not solve MBF's need to be able to raise capital in the future.

In particular, the sale of one or more of MBF's subsidiaries would not be in the best interests of Participating Contributors, as it would be unlikely to release as much value for Participating Contributors as the Scheme.

e. Listing

In August 2007, the Board considered that of all the alternatives, Listing provided the best outcome for Participating Contributors. Listing would have involved the demutualisation of MBF, the conversion of MBF into a company limited by shares, MBF becoming a for profit health insurer and the issue of shares in a new holding company to Participating Contributors. The shares of the new holding company of MBF would then have been listed and able to be traded on the Australian Securities Exchange. The reasons why the Board previously recommended Listing are set out in Section 4.2. While Listing remains an alternative, the Board believes that the Scheme provides a superior outcome to Listing for Participating Contributors.



Allocation and Entitlements

5.1 INTRODUCTION

By approving the Scheme, company members of MBF will be approving the Allocation Rules which are used to determine their Entitlement.

This Section summarises how the Allocation Rules are applied and includes some worked examples to help you understand how your Estimated Entitlement and Entitlement are calculated. However in the event of any dispute, the Allocation Rules, and not this summary will be applied to determine your Entitlement.

The Allocation Rules are set out in Schedule 3.

If you believe that you have not been correctly identified as holding a Qualifying Policy or the Allocation Rules have not been correctly applied to you and you wish to have your position reviewed, this Section also explains how you can do this and details of the review process.

5.2 WHO WILL RECEIVE AN ENTITLEMENT?

A Participating Contributor will be entitled to receive an Entitlement.

The Entitlement allocated to a Participating Contributor will be calculated in the manner described in Section 5.9 and distributed as set out in Section 6.11.

5.3 WHO IS A CONTRIBUTOR?

A Contributor is the person in whose name a health insurance policy issued by MBF is held. They are also often referred to by MBF as the “primary member”.

A Contributor is the person who by signing the MBF application form has taken responsibility for the Policy including ensuring that the premiums for the Policy are kept up to date. They are not necessarily the person who actually makes the premium payments. For example, an employer who subsidises premiums is not the Contributor.

The Contributor is entitled to register certain individuals under their Policy such as a spouse, partner or other dependant and in doing so the Contributor is entitled to receive benefits for services provided to these registered individuals. The spouse, partner or other dependants registered under a Policy are not Contributors.

5.4 WHAT IS A QUALIFYING POLICY?

A Qualifying Policy is a private health insurance policy issued by MBF which:

- a. was current and was not in arrears on the Cut-off Date; or
- b. if it was in arrears on the Cut-off Date, any amount in arrears on the Cut-off Date had been received in cleared funds by MBF on or before 8 February 2008; or
- c. was validly suspended under the Fund Rules on the Cut-off Date or was approved for suspension by MBF after the Cut-off Date but before 8 February 2008; or
- d. is a Policy determined by the Review Committee to be a Qualifying Policy.

5.5 HOW DO I KNOW IF MY POLICY WAS CONSIDERED IN ARREARS?

Allocation Forms have not been despatched to those persons who MBF believes are in arrears and do not hold a Qualifying Policy.

5.6 WHAT ARE THE CONSEQUENCES IF MY POLICY WAS IN ARREARS ON THE CUT-OFF DATE?

If your Policy was in arrears on the Cut-off Date and MBF did not receive the full amount due in cleared funds by 8 February 2008, then you are not an Eligible Contributor and are not entitled to vote on the Scheme or receive your Entitlement if the Scheme is approved.

5.7 WHO IS A RELEVANT INSURED?

A Relevant Insured is an insured person who is not a Participating Contributor and who was:

- a. registered on a Qualifying Policy on 8 November 2007; and
- b. a Contributor in relation to an Eligible Policy.

5.8 WHAT IS AN ELIGIBLE POLICY?

If you or a Relevant Insured were, during the most recent period of continuous coverage with MBF, the Contributor on a prior Policy which was cancelled at the same time as you ceased to be the Contributor on that Policy, the Policy is known as that person's Eligible Policy.

5.9 HOW WILL YOUR ENTITLEMENT BE CALCULATED?

The method of calculating your Entitlement is set out in the Allocation Rules contained in Schedule 3.

Each Participating Contributor receives a proportionate share of the Transaction Consideration (less the Residual Amount set aside as described in Section 5.16). Your Entitlement is calculated based on the number of Units allocated to you. The Unit Value is calculated by dividing the Transaction Consideration less the Residual Amount by the total number of Units allocated to all Participating Contributors as at the Implementation Date. Your Entitlement is then calculated by multiplying the number of Units allocated to you by the Unit Value. So:

- a. your Entitlement = Number of Units x the Unit Value; and

- b. your Entitlement is rounded to a whole cent in accordance with the Allocation Rules.

5.10 HOW MUCH WILL I RECEIVE?

Your Entitlement will be calculated following the determination by the Review Committee of all review requests received by 21 May 2008. This amount may differ from your Estimated Entitlement stated on your Allocation Form as a result of decisions by the Review Committee (see Section 5.19).

In addition to your Entitlement, you may receive a payment from the Residual Amount. The Residual Amount has been set aside to allow for any decisions of the Review Committee made in respect of all review requests received after 21 May 2008 and on or before 1 December 2008, that a person should have been included as having held a Qualifying Policy or that a Participating Contributor's Entitlement was incorrect. Any amount remaining to be allocated on 31 December 2008 will be distributed to Participating Contributors and persons who the Review Committee determines should have been included as Participating Contributors in proportion to the number of Units allocated to them, in accordance with the Allocation Rules.

5.11 HOW ARE UNITS ALLOCATED?

Each Participating Contributor receives an allocation of Units made up of their:

BASE ALLOCATION



TENURE ALLOCATION

Your Base Allocation is determined by:

- the type of Qualifying Policy you held on the Cut-off Date; and
- the scale of Qualifying Policy on the Cut-off Date.

The type of Policy refers to whether it is one of the following types:

- an Ambulance Only Policy;
- an Extras Only Policy;
- a Hospital Only Policy; or
- a Combined Policy.

The scale of a policy is either:

- a Single Scale Policy; or
- a Non-Single Scale Policy.

Non-Single Scale Policies are Policies issued for couples, single parents and families.

A Single Scale Policy is a Policy issued for a single person.

Your Base Allocation is calculated by reference to the following table:

TYPE OF QUALIFYING POLICY ON THE CUT-OFF DATE				
Scale of Policy on the Cut-off Date	Ambulance Only	Extras Only Policy	Hospital Only Policy	Combined Policy
Single Scale Policy	15 Units	125 Units	250 Units	375 Units
Non-Single Scale Policy	30 Units	250 Units	500 Units	750 Units

The Tenure Allocation is calculated by reference to:

- the type of Qualifying Policy you held on the Cut-off Date;
- the scale of your Qualifying Policy and any Eligible Policy held by you over your Years of Membership; and
- the scale of any Eligible Policy held by a Relevant Insured over their Years of Membership.

Your Tenure Allocation is calculated by reference to the following table:

TYPE OF QUALIFYING POLICY ON THE CUT-OFF DATE				
Scale	Ambulance Only Policy	Extras Only Policy	Hospital Only Policy	Combined Policy
Number of Units for each Single Year of Membership	5 Units	25 Units	50 Units	75 Units
Number of Units for each Non-Single Year of Membership	10 Units	50 Units	100 Units	150 Units

5.12 HOW IS A PARTICIPATING CONTRIBUTOR'S YEARS OF MEMBERSHIP DETERMINED?

Generally, your Years of Membership is the period in full years between your Join Date and the Cut-off Date that you have been insured under the Qualifying Policy and, where relevant, any of your Eligible Policies.

Your Join Date will be the date on which you first became an insured and since that date you have continuously remained insured.

If your Join Date is prior to 2 November 1978, you will be allocated 30 Years of Membership.

If your Join Date is after 1 November 1978, your Years of Membership will be reduced by any period during which the Qualifying Policy and any of your Eligible Policies were suspended.

You are not given credit where you were an insured for a period under another Policy unless it is the Qualifying Policy or an Eligible Policy.

As only a full Year of Membership counts, a person with less than one Year of Membership will not receive a Tenure Allocation in respect of their Years of Membership.

5.13 RELEVANT INSURED'S YEARS OF MEMBERSHIP

The Years of Membership for a Relevant Insured is calculated as the period in full years between their Join Date and the Cut-off Date that they have been insured under any of the Relevant Insured's Eligible Policies.

The Relevant Insured's Join Date will be the date on which they first became an insured and since that date they have continuously remained insured.

If the Relevant Insured's Join Date is prior to 2 November 1978, their Join Date will be taken to be 1 November 1978.

The Relevant Insured's Years of Membership will be reduced by any period during which any of their Eligible Policies were suspended.

5.14 WHAT IF I MADE A CHANGE TO MY QUALIFYING POLICY AFTER THE CUT-OFF DATE?

The allocation of Units to Participating Contributors is based on the Qualifying Policy held on the Cut-off Date (or in the case of a Company Member insured under a Policy held by an Eligible Contributor, the Qualifying Policy held by that Eligible Contributor). Changes made to a Qualifying Policy after this date will be disregarded for the purposes of calculating the number of Units to be allocated.

5.15 HOW WAS MY ESTIMATED ENTITLEMENT CALCULATED AND HOW WILL IT DIFFER FROM MY FINAL ENTITLEMENT?

Your final Entitlement may differ from your Estimated Entitlement because your Estimated Entitlement is based on an estimate of the Unit Value.

The estimated Unit Value has been determined based on an estimate of the total Units which will be allocated on the Implementation Date. An estimate has been used to allow for any additional Units that may need to be allocated as a result of determinations of the Review Committee prior to the

Implementation Date. Accordingly, the final Unit Value cannot be determined until the Implementation Date when the total number of Units to be allocated is known.

The estimated Unit Value was calculated by dividing the Transaction Consideration less the Residual Amount, by the estimated total number of Units allocated to all Participating Contributors. This estimated Unit Value is \$1.40.

So your Estimated Entitlement was calculated as follows:

Number of Units allocated to you x the estimated Unit Value (of \$1.40).

5.16 HOW WILL THE RESIDUAL AMOUNT SET ASIDE BE APPLIED?

The amount of \$2.385 billion (being the Transaction Consideration less the Residual Amount) will be paid to Participating Contributors within 10 Business Days of the Implementation Date.

The Residual Amount (of \$25 million) will be set aside to deal with any applications for review received by the Review Committee after 21 May 2008 from persons who believe they should have been included as Participating Contributors or Participating Contributors who believe they received an incorrect Entitlement. The Review Committee will only consider these review requests if they are made prior to 1 December 2008 and they meet the criteria for review by the Review Committee. No later than 10 Business Days after 31 December 2008, MBF will make the following distributions from the Residual Amount:

- a. payments in accordance with the determinations of the Review Committee made in respect of review requests received after 5.00pm (AEST) on 21 May 2008 and on or before 1 December 2008; and
- b. the balance, if any, to Participating Contributors and persons who the Review Committee has determined should have been included as Participating Contributors in accordance with the Allocation Rules.

If a payment is to be made to Participating Contributors and persons who the Review Committee has determined should have been included as Participating Contributors from the Residual Amount, it will be distributed as set out in Section 6.12.

5.17 EXAMPLES OF ALLOCATION

Set out below are some examples of how the Allocation Rules will operate in relation to Participating Contributors.

For the purposes of these examples we have also provided the Estimated Entitlement for each example which was calculated using the estimated Unit Value of \$1.40.

Example 1 - Ambulance Only Policy

Oliver is a Contributor holding a Non-Single Scale Ambulance Only Qualifying Policy on the Cut-off Date. He has been a Contributor under that Policy for a continuous five full year period. He will receive an allocation of 80 Units made up of:

- a. 30 Units as a Base Allocation; and
- b. 50 Units as a Tenure Allocation (10 Units x five years on a Non-Single Scale Policy).

His Estimated Entitlement is \$112, that is:

80 x \$1.40.

Example 2 - change of scale

Margaret is a Contributor holding a Non-Single Scale Combined Qualifying Policy on the Cut-off Date. She has been a Contributor for a continuous 32 full year period. During that period she was the Contributor holding a Single Scale Policy under which she was covered for the first 10 years and the Contributor on a Non-Single Scale Policy for the remaining 22 years. She will receive an allocation of 4,650 Units made up of:

- a. 750 Units as a Base Allocation; and
- b. 3,900 Units as a Tenure Allocation (75 Units x eight years on a Single Scale Policy + 150 Units x 22 years on a Non-Single Scale Policy).

Her Estimated Entitlement is \$6,510, that is:

4,650 x \$1.40.

Example 3 - Spouse

Charlie was registered as a spouse on Julie's Qualifying Policy on the Cut-off Date. As he was not the Contributor, he will not be allocated any Units. However, Julie as the Contributor on the Cut-off Date, will be entitled to an allocation of Units in accordance with the Allocation Rules.

Example 4 - Dependant

Kim is a Contributor holding a Single Scale Hospital Only Qualifying Policy on the Cut-off Date. She has been covered under this Policy for six full years. Prior to taking out this Policy Kim was registered as a dependant child under her parent's

Policy for 20 years. She will receive an allocation of 550 Units made up of:

- a. 250 Units as a Base Allocation; and
- b. 300 Units as a Tenure Allocation (50 Units x six years on a Single Scale Policy).

Her Estimated Entitlement is \$770, that is:
550 x \$1.40.

Example 5 - Impact of suspension

Ken is a Contributor holding a Non-Single Scale Extras Only Qualifying Policy on the Cut-off Date. He has been covered continuously under that Policy for 15 years and six months. During those 15 years he has validly suspended his Policy for a total period of one year and three months. He will receive an allocation of 950 Units made up of:

- a. 250 Units as a Base Allocation; and
- b. 700 Units as a Tenure Allocation (50 Units x 14 years on a Non-Single Scale Policy).

14 years is Ken's Years of Membership because his suspension period of one year and three months is deducted from his continuous tenure period of 15 years and six months and then rounded down to the nearest year.

His Estimated Entitlement is \$1,330, that is:
950 x \$1.40.

Example 6 - Split Policies

Bob is a Contributor holding a Single Scale Hospital Only Qualifying Policy on the Cut-off Date. He has been covered under this Policy for six full years. Prior to taking out this Policy, Bob was the Contributor holding a Non-Single Scale Combined Policy with Arielle registered as his spouse on that Policy for 10 full years. When Bob left his previous Policy, Arielle became the Contributor on the Non-Single Scale Combined Policy and on the Cut-off Date Arielle remains the Contributor on a Non-Single Scale Combined Qualifying Policy.

Bob will receive an allocation of 550 Units made up of:

- a. 250 Units as a Base Allocation; and
- b. 300 Units as a Tenure Allocation (50 Units x six years on a Single Scale Policy).

Bob's tenure is based on the six years that he has held his current Policy.

His Estimated Entitlement is \$770, that is:
550 x \$1.40.

Arielle will receive an allocation of 3,150 Units made up of:

- a. 750 Units as a Base Allocation; and
- b. 2,400 Units as a Tenure Allocation (150 Units x 16 years on a Non-Single Scale Policy).

Arielle's Tenure Allocation is based on the 16 years she has been a Contributor in respect of the Policy or insured under that same Policy.

Her Estimated Entitlement is \$4,410, that is:
3,150 x \$1.40.

Example 7 - Change of product type

Sienna is a Contributor holding a Single Scale Combined Qualifying Policy on the Cut-off Date. She has been covered under this Policy since 1 April 2006. Prior to 1 April 2006, Sienna was the Contributor holding a Single Scale Hospital Only Policy which she had held for nine years. Sienna will receive an allocation of 1,125 Units made up of:

- a. 375 Units as a Base Allocation; and
- b. 750 Units as a Tenure Allocation (75 Units x 10 years on a Single Scale Policy).

Sienna's Tenure Allocation is based on the Policy she held on the Cut-off Date. Changes in product type over time do not impact on Tenure Allocation.

Her Estimated Entitlement is \$1,575, that is:
1,125 x \$1.40.

Example 8 - Recognition of Relevant Insured

Martin is a Contributor holding a Non-Single Combined Qualifying Policy on the Cut-off Date. Terri has been insured under Martin's Policy since 1 May 2005. Prior to 1 May 2005, Terri was the Contributor holding a Single Scale Combined Policy which she had held for 15 years and Martin was the Contributor holding a Single Scale Combined Policy which he had held for five years. Martin will receive an allocation of 2,550 Units made up of:

- a. 750 Units as a Base Allocation; and
- b. 1,800 Units as a Tenure Allocation (150 Units x two years on a Non-Single Scale Policy + 75 Units x five years on a Single Scale Policy + 75 Units x 15 years on a Single Scale Policy).

Martin's Tenure Allocation includes recognition of Terri's 15 year tenure as a Contributor on her Eligible Policy prior to becoming insured under Martin's Qualifying Policy.

His Estimated Entitlement is \$3,570, that is:
2,550 x \$1.40.

5.18 PLEASE READ THE ALLOCATION RULES

The Board recommends that you read the Allocation Rules set out in Schedule 3. If you have any questions in relation to the Allocation Rules, please call the Scheme Hotline on 133 505.

5.19 THE REVIEW COMMITTEE

The Review Committee has been established to consider any request for review of:

- a. whether the person requesting the review holds a Qualifying Policy; and
- b. the number of Units to be allocated to a Participating Contributor.

If you think the Allocation Rules have not been correctly applied to you or your Unit allocation is incorrect, you can submit a request for review.

The completed Review Request Form must be received by MBF no later than 5.00pm (AEST) on 21 May 2008.

If you believe that you have not been correctly identified as holding a Qualifying Policy you should note that:

- to receive an Entitlement on the Implementation Date, your completed Review Request Form must be received by MBF no later than 5.00pm (AEST) on 21 May 2008; and
- your request for review should be submitted as early as possible because in order for you to become an Eligible Contributor and vote at the Scheme Meeting the request for review must be determined favourably by the Review Committee by 2 May 2008. This will enable the Trustee to take up a company membership on your behalf and information in relation to voting to be sent to you. There may be different taxation consequences if you do not become an Eligible Contributor. Details are set out in Section 7.2.

In certain circumstances, the Review Committee will consider requests for review received by MBF after 21 May 2008 and on or before 1 December 2008. The Review Committee may only consider requests after 21 May 2008 if:

- a. the Participating Contributor was unable for a good reason to make the request before 21 May 2008; and
- b. the request is received by MBF on or before 1 December 2008.

In considering requests, the Review Committee can only consider:

- a. whether a person has been correctly identified as holding a Qualifying Policy;
- b. whether the Allocation Rules have been correctly applied to the person; or

- c. requests that a Policy be treated as a Qualifying Policy where a person has cancelled or altered a Policy between 17 August 2007 and 26 October 2007 and the person demonstrates to the Review Committee the matters set out in the Review Committee Charter.

Requests for review must be made by completing a Review Request Form, a copy of which is included in Schedule 4. Copies of the Review Request Form can also be obtained from the MBF website www.mbf.com.au, from your local MBF branch office or by calling the Scheme Hotline on 133 505.

The Review Committee will consider requests in accordance with the Allocation Rules and the Review Committee Charter.

A complete copy of the Review Committee Charter is set out in Schedule 4.

Decisions of the Review Committee are final.

The completed Review Request Form must be mailed to:

The Company Secretary
Review Request
MBF Australia Limited
Level 18
50 Bridge Street
Sydney NSW 2000.



The Scheme

6.1 OVERVIEW OF THE SCHEME

Under the Implementation Deed, MBF, BUPA Australia and BUPA Finance (as guarantor) have agreed to combine the businesses of the MBF Group and the BUPA Australia Group. This transaction will involve changes to the company membership and corporate structure of MBF and will be effected by means of the following steps:

- a. a scheme of arrangement under Part 5.1 of the Corporations Act;
- b. the granting of membership of MBF to BUPA Member;
- c. the changing of MBF's company type under Part 2B.7 of the Corporations Act from a company limited by guarantee to a proprietary company limited by shares, with the sole shareholder being BUPA Member;
- d. BUPA Member causing MBF to amend its constitution;
- e. MBF issuing shares to BUPA Australia Holdings; and
- f. the converting of MBF's registration as a private health insurer from "not for profit" to "for profit" under section 126-42 of the PHI Act.

Under the Corporations Act, a scheme of arrangement is a means by which a company is reorganised in some way that affects members' rights or interests. Under the terms of the Scheme, the company memberships of Scheme Members (including the Trustee and Remaining Company Members) other than BUPA Member will be cancelled and the liability of each such Scheme Member as a guarantor on the winding up of MBF will be cancelled.

The steps that will be taken to implement the Scheme are more fully described in Section 6.10.

The Scheme requires the approval of company members of MBF at the Scheme Meeting and the approval of the Court at the Second Court Hearing. If the Scheme is approved, MBF will become a wholly owned subsidiary company within the BUPA Australia Group on the Implementation Date.

6.2 ENTITLEMENT

Under the terms of the Scheme, the company memberships of Scheme Members (including the Trustee and Remaining Company Members) other than BUPA Member will be cancelled in consideration for payments, in the form of Entitlements to Participating Contributors, in accordance with the Allocation Rules.

The subscription price for the Subscription Shares of \$2.41 billion will be used by MBF to make the payments under the Scheme.

6.3 CONDITIONS PRECEDENT TO THE SCHEME

The implementation of the Scheme is subject to a number of conditions precedent being satisfied or waived in accordance with clause 3 of the Implementation Deed. A summary of these conditions is set out in Section 12.1(b).

6.4 CONDITIONS PRECEDENT TO THE SHARE ISSUE

The obligations of MBF and BUPA Australia in respect of the issue of the Subscription Shares are subject to a number of conditions precedent being satisfied or waived in accordance with clause 3 of the Implementation Deed. A summary of these conditions is set out in Section 12.1(c).

6.5 THE ROLE OF THE TRUST AND THE TRUSTEE

Trust Company Fiduciary Services Limited (ACN 000 000 993) has been appointed as the Trustee. The Trustee will become a company member on behalf of each Eligible Contributor prior to the Scheme Meeting.

The Trust exists to facilitate the participation of Eligible Contributors who are not themselves Company Members in the Scheme.

The Trustee will hold all rights, monies, or property acquired by, or transferred to and accepted by the Trustee as Trust Property in respect of an Eligible Contributor and any accretion to that Trust Property including but not limited to:

- a. the company membership of MBF (as a company limited by guarantee);
 - b. any Entitlement; or
 - c. any distribution of the Residual Amount,
- on trust separately for each Eligible Contributor.

The Trustee is obliged to hold this property on trust for the Eligible Contributor and only deal with it in accordance with the terms of the Trust Deed. The main terms of the Trust Deed are summarised in Section 12.3.

The Trustee will appoint each Eligible Contributor as its attorney to allow them to vote the company membership it holds on trust for them.

6.6 SCHEME APPROVAL

To proceed, the Scheme must be approved by a majority in number of company members of MBF (that is, the persons recorded on the register of company members of MBF), present and voting (either in person or by proxy) at the Scheme Meeting.

The Scheme must also be approved by the Court on the date of the Second Court Hearing (which is expected to be 14 May 2008).

6.7 SCHEME MEETING

The Scheme Meeting will be held at 11.00am (AEST) on 12 May 2008 at City Recital Hall Angel Place, 2-12 Angel Place, Sydney.

6.8 ELIGIBILITY TO VOTE

Each person recorded on the register of company members of MBF as at 11.00am (AEST) on 10 May 2008 will be eligible to vote at the Scheme Meeting and will have one vote per company membership.

To facilitate the Scheme, an independent trustee has been appointed by MBF which will take up a company membership on behalf of:

- each person MBF has identified as a Contributor, who held a Qualifying Policy and who was not a Company Member and who has been sent an Allocation Form; and
- each additional person who requests a review from the Review Committee on the basis that they have not been correctly identified as holding a Qualifying Policy and in respect of whom the Review Committee makes a favourable determination by 2 May 2008.

Those persons who request a review from the Review Committee by 21 May 2008 but whose review request is dealt with by the Review Committee after 2 May 2008 will still receive an Entitlement under the Scheme but will not have a company membership taken out for them and will not vote in the Scheme and may have a different tax treatment (see Section 7.2).

The Trustee has one vote per company membership. However, the Trustee will not vote. The Trustee will appoint each Eligible Contributor as its attorney in respect of the company membership held on trust for that Eligible Contributor. Eligible Contributors may therefore attend and vote (either in person or by sub-attorney) or appoint a proxy to attend and vote at the Scheme Meeting in respect of the company memberships held on trust for them.

6.9 HOW TO VOTE

If you are a Participating Contributor you can vote at the Scheme Meeting in one of the following ways:

- by attending the Scheme Meeting in person or by attorney and casting your vote. (If you are attending the meeting in person, you should bring your Proxy Form and MBF membership card with you to assist with registration); or
- if you are unable to attend the Scheme Meeting, you may appoint a proxy to vote on your behalf by:
 - completing and returning the Proxy Form to MBF Australia Limited, PO Box 2177, Melbourne, VIC 8060 or by using the reply paid envelope provided or by sending it by fax to (02) 9857 1619, so that the form is received by no later than 11.00am (AEST) on 10 May 2008; or
 - visiting the MBF website www.mbf.com.au and clicking on the Demutualisation link and following the instructions on how to lodge an electronic Proxy Form. You will need to lodge your Proxy Form by no later than 11.00am (AEST) on 10 May 2008.

Please also refer to the Notice of Meeting for more information on how to vote.

6.10 IMPLEMENTATION OF THE SCHEME

If all of the conditions precedent to the Scheme are satisfied or waived, including approval of the resolution at the Scheme Meeting and Court approval of the Scheme, then the following steps will occur:

- a. on or before the Effective Date, BUPA Australia will pay the amount of \$2.41 billion into the Trust Account to be applied in accordance with the Scheme;
- b. on the Effective Date, BUPA Member will apply to become a Contributor Member and MBF will grant that application and waive any associated membership fee; and
- c. within five Business Days of the Effective Date (or on such earlier date as MBF and BUPA Australia agree), MBF will apply for a Change of Company Type;
- d. on the Implementation Date:
 - i. the Account Trustee will commence to hold the moneys standing to the credit of the Trust Account (subject to clause 6.1(b) of the Scheme) on trust for MBF as pre-payment of the issue price for the Subscription Shares;
 - ii. the company memberships of the Scheme Members (including the Trustee and Remaining Company Members) other than BUPA Member will be cancelled and the liability of each Company Member and the Trustee as a guarantor on a winding up of MBF will be extinguished in consideration for the payments referred to in Section 6.10(e);
 - iii. the Change of Company Type will take effect, with the result that BUPA Member will become the sole shareholder in MBF as a proprietary company limited by shares;
 - iv. BUPA Member as sole shareholder will amend the MBF Constitution; and
 - v. MBF will issue additional shares to BUPA Australia Holdings for a subscription price equal to \$2.41 billion;
- e. within 10 Business Days after the Implementation Date, MBF will pay Participating Contributors their Entitlements, in accordance with the Allocation Rules, with the payments being satisfied from the Trust Account. The amount distributed will not include any interest that has accrued to the Trust Account; and
- f. on the Business Day immediately following the Implementation Date, the conversion of MBF's registration as a private health insurer from not for profit to for profit under section 126-42 of the PHI Act will take effect.

6.11 DISTRIBUTION OF ENTITLEMENTS

The Entitlement allocated to a Participating Contributor will be distributed by MBF as follows:

- a. if you are an Eligible Contributor (and not an Eligible Contributor described in Section 6.11(c)), your Entitlement will be paid to the Trustee who will distribute the payment to you;
- b. if you are a Company Member (and not a Company Member described in Section 6.11(c)), your Entitlement will be paid directly to you;
- c. if you are a Participating Contributor who is the Eligible Contributor in relation to a Qualifying Policy under which a Company Member is also insured, your Entitlement will be paid jointly to the Company Member and the Trustee who will distribute the payment to you; and
- d. if you are a person who the Review Committee determines should have been included as a Participating Contributor your Entitlement will be paid directly to you.

If you have provided details of your financial institution account to MBF (by completing and returning the Payment Authority Form so that it is received by MBF at the address set out on the form no later than 2 June 2008), your Entitlement will be electronically transferred to that financial institution account. Otherwise, you will be sent a cheque for your Entitlement.

6.12 DISTRIBUTION OF THE RESIDUAL AMOUNT

No later than 10 Business Days after 31 December 2008, the Residual Amount retained by MBF will be distributed in the manner set out in Section 6.11.

6.13 IF THE SCHEME DOES NOT PROCEED

If the Scheme is not approved, then:

- a. Participating Contributors will not receive their Entitlements;
- b. MBF will continue to be a company limited by guarantee registered as a not for profit private health insurer;
- c. MBF will remain exempt from paying income tax;
- d. MBF will continue its current business in its current form and will continue to be exposed to industry and operational risks;
- e. Company Members will not have their company memberships cancelled;
- f. the Trustee will continue to be a company member of MBF until the earlier of either when it resigns or 16 September 2008 (when it will cease to be a company member and as a consequence all company memberships held by it on behalf of Eligible Contributors will also cease);

- g. MBF will have incurred substantial transaction costs. MBF has estimated that costs of approximately \$14.5 million will have been incurred prior to the Scheme Meeting; and
- h. the Board may need to develop another proposal which might involve substantial cost and delay.

Depending on the reasons why the Scheme does not proceed, either MBF or BUPA Australia may be liable to pay a reimbursement fee to the other party. For further details of the circumstances in which a reimbursement fee might become payable, see Sections 12.1(g) and 12.1(h).



Impact of the Scheme

7.1 WHEN WILL I RECEIVE MY ENTITLEMENT?

If the Scheme is implemented, MBF must pay your Entitlement within 10 Business Days after the Implementation Date. At the date of this Information Memorandum, the Implementation Date is expected to be 16 June 2008.

7.2 WHAT ARE THE TAX CONSEQUENCES OF RECEIVING MY ENTITLEMENT?

This tax summary is general in nature only, does not purport to be a complete statement of the law and is based on the law at the date of this Information Memorandum. The Australian taxation consequences of the Scheme for Participating Contributors will depend on their individual circumstances.

Participating Contributors should make their own enquiries and seek appropriate independent professional advice on their own circumstances. A more detailed discussion of the taxation implications of the Scheme is included in the Tax Advice Letter in Schedule 9.

By way of a press release from the Assistant Treasurer dated 26 February 2008, the Australian Government announced its intention to amend the income tax law with effect from 1 July 2007, the effect of which will be to ensure that private health insurers which demutualise will be afforded similar tax concessions as those granted to mutual organisations that have previously demutualised.

MBF has been advised that the proposed amendments to the income tax law proposed by the Australian Government should not be contentious and the relevant legislation will be passed by Parliament in due course.

In summary, the following tax treatment should apply to Participating Contributors (other than those Participating Contributors that are not Australian residents).

- a. Participating Contributors will be taxed on disposal of their membership rights in MBF. Participating Contributors will be required to calculate the capital gain arising from the receipt of their Entitlement which will be the Entitlement received less the tax cost base.
- b. Under the current tax law, there would be no tax cost base for Participating Contributors other than Company Members who will have a tax cost base equal to the amount paid for membership. For Company Members who have held their membership since before 20 September 1985, any net capital gain arising on disposal will not be subject to tax.
- c. The Assistant Treasurer's press release dated 26 February 2008 announced the Australian Government's intention to provide a tax cost base for policyholders of demutualising private health insurers. If enacted, the tax cost base for Participating Contributors who acquired their Qualifying Policy on or after 20 September 1985 will be based on the net tangible assets of MBF. For Participating Contributors who acquired their Qualifying Policy before 20 September 1985, any net capital gain arising on disposal will not be subject to tax.
- d. For Participating Contributors who are subject to tax on the resulting capital gain, the amount will be included in their tax return for the year ended 30 June 2008.
- e. Any payment from the Residual Amount will represent part of the consideration received on disposal of the membership rights. Where a Participating Contributor has already lodged their tax return before the Residual Amount is determined he or she will, if taxable on the capital gain, be required to

amend his or her tax return for the year ended 30 June 2008 to include the additional capital gain.

- f. The tax consequences that apply to:
- i. persons who have applied to the Review Committee and who the Review Committee has determined on or after 10 May 2008 should have been included as Participating Contributors; and
 - ii. Company Members who cease to be company members before the Scheme becomes effective,
- may be different from that set out above. These people should seek their own tax advice.
- g. Health insurance benefit payments to policyholders will continue to be tax free to policyholders.

As more information in relation to the proposed amendments becomes known, MBF will publish updates on its website www.mbf.com.au.

7.3 WHAT ARE THE SOCIAL SECURITY CONSEQUENCES OF RECEIVING MY ENTITLEMENT?

If you or your dependents currently receive social security payments (for example, pensions, allowances or veterans' affairs payments), you should consider whether these payments will be affected as a result of receiving your Entitlement.

Depending on the amount of your Entitlement, the level of your other income and assets, and whether your pensions and allowances are means tested, receiving your Entitlement may affect your social security payments. However, the Board recommends that you carefully consider your personal circumstances.

Both Centrelink and the Department of Veterans' Affairs have been notified of the Scheme.

The Department of Veterans' Affairs has advised that if you are in receipt of any income support payment from the Department of Veterans' Affairs, you are obliged to notify the Department about the payment within 14 days of its receipt. The Department of Veterans' Affairs has also advised that it proposes to regard any payment received as a result of the Scheme as an exempt lump sum under section 5H(12) of the *Veterans' Entitlements Act 1986* (Cth). This will exclude the payment from assessment under the income test. However, if the payment is invested as a financial asset, then deeming provisions will apply.

Centrelink has advised that it will treat the payment as an asset, not income. Centrelink's normal notification requirements for a change in assets will apply. If you are Centrelink customer you should refer to the asset notification requirements you have been advised of by Centrelink. Normally, you will not need to notify Centrelink if the payment received is less than \$1,000.

If you would like more information about whether or not any of your social security payments are affected, you can find out more by contacting:

- Centrelink on 13 23 00 (for age pension) or 13 27 17 (for disability, illness or injury and carer entitlements) or 13 28 50 (for Newstart Allowance) or 13 24 90 (for Youth Allowance); or
- Department of Veterans' Affairs on 13 32 54 or your nearest Veterans' Affairs office.

Alternatively, you should consider consulting your financial planner or adviser to determine the impact of receiving your Entitlement.

If you are entitled to receive an overseas government pension or allowance, you should contact the relevant overseas body to determine the impact of receiving your Entitlement.

7.4 IMPACT ON CUSTOMERS OF OTHER COMPANIES IN THE MBF GROUP

Persons who are customers only of MBF Alliances, MBF Life, ClearView Financial Solutions, ClearView Life Nominees and/or MBF Travel are not Participating Contributors, and will not receive an Entitlement if the Scheme is implemented.

The Scheme will not alter the terms and conditions of contracts issued by subsidiaries of MBF which means that MBF Alliances, MBF Life, ClearView Financial Solutions, ClearView Life Nominees and MBF Travel customers will retain their contractual rights.

7.5 CANCELLATION OF COMPANY MEMBERSHIPS

One of the key steps under the Scheme is the cancellation of the company memberships of Scheme Members (including the Trustee and Remaining Company Members) other than BUPA Member.

In the case of a company member, these rights include the right to attend and be heard (but not vote) at meetings and the right to determine to whom the surplus property (if any) will be transferred on a winding up or dissolution of the Company. MBF Council Members (who are a subset of Company Members) have the right to attend, be heard and vote at meetings. These rights will also be cancelled. The MBF Council has the power to appoint and remove Directors. This power will also be extinguished because the MBF Council will be abolished as part of the Scheme.

The rights of Contributors specified in the MBF Constitution (as described in Section 1.13) will be removed when the new MBF Constitution is adopted, as described in Section 6.1.

Your relationship with MBF as a Contributor will continue following implementation of the Scheme.

7.6 CONVERSION TO FOR PROFIT STATUS

MBF is currently registered with PHIAC as a not for profit insurer. If the Scheme is implemented, MBF will become registered with PHIAC as a for profit health insurer.

Under the PHI Act, for profit insurers can use the assets of their health benefits fund for any purpose provided that the use of the assets meets the capital adequacy and solvency standards set out in the PHI Act and Rules or any capital adequacy or solvency direction given by PHIAC. These prudential requirements are designed to ensure that health benefits funds remain solvent and to maintain the capital adequacy of health benefits funds. Not for profit insurers can only use the assets of their health benefits fund for a limited range of activities listed in section 137-10 of the PHI Act. These include paying claims, meeting administrative expenses and making investments which further the business of the health benefits fund.

Consequently, after MBF converts from not for profit to for profit registration, MBF will be able to distribute profits, or return capital, to the BUPA Group where there is a surplus in MBF's health benefits fund after meeting the prudential requirements.

The Private Health Insurance Industry



8.1 THE PRIVATE HEALTH INSURANCE INDUSTRY

The Australian private health insurance industry operates as part of a mixed public and private health care environment. Private health insurance offers contributors greater choice in accessing a range of hospital and health care services. Australia's ageing population, the costs of medical technology and health care increasing at rates higher than general inflation and community expectations are expected to result in increased pressure on the Australian health system.

At 8 February 2008, there were 39 registered private health insurers operating in the private health insurance industry in Australia. The industry is dominated by the six largest health insurers, which share approximately 79% of the market. Twenty two health insurers each have less than 1% market share and combined comprise only approximately 5.9% of the market. The majority of health insurers are registered as not for profit private health insurers and are open to the general public. A not for profit private health insurer is one that does not distribute profit or gain to its individual contributors. On that basis, not for profit private health insurers are exempt from paying income tax. Being registered as a not for profit private health insurer does not mean that the health insurer operates on a breakeven basis. Rather, it means that the profit is not distributed to its contributors.

The proportion of Australians with private health insurance hospital cover has stabilised in recent years at around 43% of the population. As at 31 December 2007, 9.4 million people had hospital cover representing 44.4% of the population.

The MBF Group includes two private health insurers operating under different brands. MBF which is registered as a not

for profit private health insurer and MBF Alliances which is registered as a for profit private health insurer. MBF is Australia's largest non government owned private health insurer operating throughout Australia, but it is concentrated in its three foundation States of New South Wales, Queensland and Tasmania. MBF Alliances (formerly NRMA Health Pty Limited) is the health insurance business acquired by MBF from IAG on 1 July 2003. MBF Alliances operates predominantly in New South Wales, South Australia and Western Australia. Together, MBF and MBF Alliances provide health insurance to nearly two million Australians, representing an estimated market share of 18% as at 31 December 2007. Further details of the relationship between MBF and MBF Alliances are set out in Sections 9.1 and 9.2.

8.2 THE PRIVATE HEALTH INSURANCE INDUSTRY REGULATORY ENVIRONMENT

On 1 April 2007, the PHI Act came into effect, repealing the *National Health Act 1953* (Cth) (the **National Health Act**) to the extent it applied to private health insurers. Under the transitional arrangements for the PHI Act, health insurers which are registered under the National Health Act immediately prior to commencement of the PHI Act are deemed to be registered as private health insurers under the PHI Act until the earlier of a health insurer's registration under the PHI Act or 1 July 2008. Both MBF and MBF Alliances were granted registration under the PHI Act on 14 December 2007.

The PHI Act regulates private health insurers and their operations including registration, setting of premiums, benefit coverage, portability, capital and solvency requirements, reinsurance and governance.

The PHI Act also supports various Federal Government incentives to encourage people to hold private health insurance through:

- premium reductions under the Federal Government's "30% Rebate on Private Health Insurance Scheme". The level of premium reduction depends on the age of the persons covered under a health insurance policy and can be claimed by registering to receive a premium adjustment from a private health insurer, by receiving a direct payment from the Federal Government through Medicare or through tax returns;
- the Lifetime Health Cover initiative to encourage people to take out private health insurance by 1 July following their 31st birthday. Generally, people who take out cover after this date pay a 2% loading on top of their premium for every year they are over 30 at the time of first joining, with a maximum possible loading of 70%. There are some exceptions. This loading ceases to apply once a person has had hospital cover for a period of 10 continuous years; and
- the Medicare Levy Surcharge, which has been in place since 1 July 1997 and aims to encourage high income earners to take out private hospital cover. This levy is an additional 1% surcharge of taxable income imposed on high income earners who are eligible for Medicare but who do not have an appropriate level of hospital insurance with a registered private health insurer.

8.3 THE PRIVATE HEALTH INSURANCE INDUSTRY REGULATORS

PHIAC is the private health insurance industry prudential regulator. It supervises compliance by private health insurers with the PHI Act in relation to the management and operation of health benefits funds and seeks to promote industry conduct in the best interests of insured members. The Department of Health and Ageing administers the PHI Act and both the Department of Health and Ageing and PHIAC are authorised under the PHI Act to make Rules to apply to private health insurers.

The Private Health Insurance Ombudsman deals with inquiries and complaints about any aspect of private health insurance and provides and publishes independent information about private health insurance and the performance of health funds. It is independent of the private health funds, private and public hospitals and health service providers.

8.4 REGULATORY REQUIREMENTS FOR CONDUCTING HEALTH INSURANCE BUSINESSES

All private health insurers must operate their health benefits funds in accordance with the PHI Act. For example, private health insurers are required to:

- conduct their business in compliance with certain prudential solvency and capital adequacy standards;
- have appointed actuaries; and
- satisfy certain reporting and notification obligations.

In summary, the PHI Act specifies a two-tier capital requirement for health funds. The first tier is intended to ensure the basic solvency of the health fund so that under a wind up test an insurer will be able to meet, out of the fund's assets, all liabilities incurred for the purposes of the health fund as those liabilities become due and payable. The second tier is intended to secure the financial soundness of the health fund on a going concern basis. An insurer is required to meet the higher of these two tiers, so that there is adequate capital for the conduct of the health fund in accordance with the PHI Act and in the interests of policyholders of that health fund.

PHIAC monitors these measures for each health benefits fund on a quarterly basis. The PHI Act and its associated Rules restrict the transfer of assets from a health benefits fund if such a transfer would be inconsistent with the solvency standard or the capital adequacy standard. The operation of these standards provides a safeguard for the security of policyholder benefits. Similarly, the PHI Act regulates the way in which a health fund can be restructured or merged or acquired.

8.5 HEALTH INSURANCE PRODUCT AND PRICE CHANGES

The PHI Act imposes certain requirements on the types of products that can be offered by private health insurers through their health benefits funds and the manner in which these are made available. There are certain transitional provisions under the PHI Act for existing health insurance products that operate until the earlier of 1 July 2008 or the date the insurer makes a material change to a product.

PHIAC reviews all pricing applications and provides advice to the Minister for Health and Ageing in relation to the pricing applications. All fund rule changes (including changes to premiums) must be notified in writing to the Minister for Health and Ageing. The Minister for Health and Ageing has the power to direct a private health insurer not to make a fund rule change if he or she is satisfied that the change might or would result in a breach of the PHI Act and can also declare

that any change in premiums must not come into operation where it is considered that the change would be contrary to the public interest.

The PHI Act also regulates the types of treatments and the benefits that private health insurers are able to offer as part of their health insurance business. Under the PHI Act, the only kind of health insurance products or policies which a private health insurer can issue through its health benefits fund is a complying health insurance product or policy. The PHI Act sets out specific requirements which must be met for a complying health insurance product or policy. These include complying with the Community Rating Principle, minimum benefits for hospital cover products and restrictions on the types of treatments that can be covered under a product. The offering of products and policies which fail to meet the complying health insurance product requirements by private health insurers exposes the insurer to substantial fines and penalties.

Relevant features of the PHI Act concerning health insurance products and pricing include:

(a) Community Rating Principle

It is a condition of registration that a health fund ensures its rules and actions are consistent with the Community Rating Principle and that the entity does not undertake any activities which promote improper discrimination between policyholders, insureds or consumers. The Community Rating Principle aims to eliminate barriers to access to private health insurance by keeping it affordable, available and of value to everyone including the elderly and chronically ill by preventing discrimination amongst contributors on the basis of matters such as their health status, age (other than age at entry under Lifetime Health Cover), race, sex, sexuality or claims history.

The Community Rating Principle requires that private health insurers charge the same premium for the same product to all people on the same scale in the same State or Territory. Approval for price increases must be obtained from the Minister for Health and Ageing as described above.

The Risk Equalisation Scheme has been developed to support the Community Rating Principle and operates to average out the cost of hospital claims for specified ages across the industry. It also includes a high cost claims pool.

(b) Waiting periods and portability

The PHI Act specifies the maximum waiting periods that a private health insurer may impose on new policyholders (subject to portability requirements) before paying benefits in respect of hospital treatments. Portability refers to the ability

of members to change private health insurers with recognition of waiting periods served.

Contributors are entitled to continuity of cover when moving between private health funds in relation to all hospital treatments which are common to both their new and old product.

8.6 OTHER REGULATORY OBLIGATIONS

Private health insurers are also subject to regulatory frameworks and obligations imposed by legislation such as the *Health Insurance Act 1973* (Cth), the Corporations Act, the *Trade Practices Act 1974* (Cth), the *Privacy Act 1988* (Cth), the *Criminal Code 1995* (Cth) and various State and Territory legislation such as the Fair Trading legislation.



Information about MBF

9.1 BACKGROUND

MBF has been providing private health insurance to Australians for over 60 years. Its origins can be traced back to 1946 with the incorporation of the Medical Benefits Fund of New South Wales Limited, an initiative of the NSW Branch of the then British Medical Association and a group of New South Wales doctors. The intention was to establish a contributory medical scheme under which members would have a choice of doctor and would voluntarily contribute to a central pool from which benefits were paid for medical services. Donations in the form of non refundable registration fees from medical practitioners provided the initial capital.

By August 1947, the fund was opened to the public, and within a fortnight, had enrolled 91 members. In 1950, operations expanded to Queensland and the fund's name was changed to Medical Benefits Fund of Australia Limited. It subsequently expanded its operations to Victoria, Western Australia and Tasmania.

In 1960, MBF established a joint venture with The Hospital Contributions Fund of Australia Limited (**HCF**) to enable payment of both hospital and medical benefits to members in NSW and the ACT with MBF covering members' medical fees and HCF providing benefits for their hospital care. Although this joint venture was dissolved in November 1963, MBF remained committed to offering both hospital and medical benefits to its members and subsequently commenced offering these services in all States and Territories in which it operated.

Following the introduction of national registration in 1995, MBF changed its corporate structure from a series of individual State based funds each with its own board and administration, to a national fund with a single board of directors.

In 2003, MBF began implementing a strategy of growth through consolidation and diversification. On 1 July 2003, MBF acquired NRMA Health Pty Limited from IAG. This acquisition increased MBF's national market share from 17% to 19%. In January 2004, MBF acquired NRMA Life Limited, NRMA Life Nominees Pty Limited and NRMA Financial Management Limited from IAG, diversifying its product offering.

In November 2003, MBF changed its name from the Medical Benefits Fund of Australia Limited to MBF Australia Limited.

9.2 OVERVIEW OF OPERATIONS

MBF is the ultimate parent company of a diversified health insurance and financial services business. The MBF Group's business operations are as follows:

(a) Private health insurance

MBF's core business is the provision of private health insurance. As at the Cut-off Date, MBF provided private health insurance cover to approximately 1.7 million people, and its subsidiary, MBF Alliances, provided private health insurance (distributed as SGIO Health in Western Australia, SGIC Health in South Australia, the Northern Territory and Tasmania and NRMA Health in other States and Territories) to approximately 240,000 people. The combined market share for MBF and MBF Alliances remained relatively consistent at 18.9% at 30 June 2005 and 18.7% at 30 June 2006. However in the six months ended 30 June 2007, growth was below the growth in the overall market and as a result the combined market share fell to an estimated 18% at 31 December 2007.

(b) Travel insurance

MBF Travel distributes travel insurance which is issued by HBF Insurance Pty Limited.

(c) Life insurance

MBF Life provides life insurance products including accidental death, term life (including total and permanent disablement and trauma options) and income protection.

(d) Financial planning services, superannuation and managed investment products

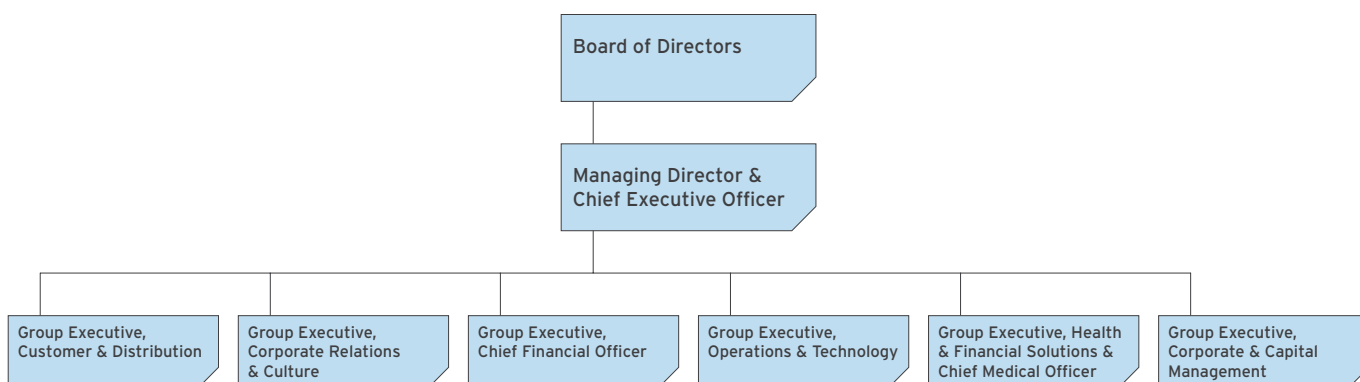
MBF's financial planning, managed investments and superannuation services are provided through ClearView Financial Solutions, ClearView Life Nominees and MBF Life.

These products are distributed through various channels such as MBF retail offices, call centres, financial advisers, the internet and by direct mail.

In 2005, MBF established the Foundation which is a separate entity. The Foundation is a not for profit, charitable organisation which operates to facilitate health research, health education and programs for leading healthy lives. Over the last two financial years, MBF has donated \$10 million of its investment income to the Foundation.

9.3 ORGANISATIONAL STRUCTURE

MBF's current organisational structure is illustrated in the following chart.



The Board comprises nine Directors, eight of whom are non-executive Directors. The current Board is: Mr John C Conde, AO (Chairman), Mr Eric R Dodd (Managing Director and Chief Executive Officer), Mr John G Allpass, Dr Brett G Courtenay, Dr Cherrell Hirst, AO, Mr Richard G Humphry, AO, Mr Barrie R Martin, Ms Susan M Oliver and Dr Ross M Wilson.

The Board is currently elected by the MBF Council. The MBF Council is broadly representative of Contributors, reflecting the range of ages, geography and vocations of the Contributors.

9.4 HISTORICAL FINANCIAL INFORMATION

This Section 9.4 sets out summary consolidated financial information for MBF for the years ended 30 June 2006 and 30 June 2007 and for the six months ended 31 December 2007. The summary financial information has been extracted from MBF's special purpose consolidated financial statements for the six months ended 31 December 2007 which have been subject to review by MBF's external auditor, PricewaterhouseCoopers.

(a) Basis of presentation

(i) Accounting convention

The summary financial information has been prepared in accordance with the recognition and measurement principles prescribed under AIFRS and other mandatory professional reporting requirements in Australia and does not take into account the impact of the Scheme. It has been presented in an abbreviated form and does not contain all the disclosures and notes applicable to annual reports prepared in accordance with the Corporations Act.

Copies of MBF's annual reports and special purpose half year financial report from which the financial information was extracted can be found on MBF's website www.mbf.com.au. These reports contain details of MBF's significant accounting policies and more detailed discussion and analysis by MBF management of the financial results for the respective periods.

(ii) Business unit basis

The financial information has been prepared on a business unit basis, reflecting the manner in which the MBF Group is managed. This basis does not necessarily reflect the legal entity structure of the group.

Certain income and expense items have been reallocated in the special purpose half year financial report and the financial information, as compared to their presentation in the audited financial statements for the year ended 30 June 2007. They have been removed from the Health Insurance and Financial Services business units to a Corporate business unit. The Corporate business unit is deemed to undertake the key corporate activities of the group. Previously, the Health Insurance business unit has recognised transactions relating to most of these Corporate business unit activities in its financial records as this business unit included MBF, the head legal entity of the MBF Group. MBF has been primarily responsible for managing corporate activities. The Corporate business unit activities include:

- the MBF Group's treasury function which manages the group's investment activities. The allocation of investment revenue has been determined in the following manner:
 - Health Insurance and Financial Services investment revenue represents the allocated return on invested assets supporting the capital requirements of the Health Insurance and Financial Services business unit operations. This is based on the return on cash or cash equivalent assets;

- Corporate investment revenue represents the return on excess capital above the requirements of each business and the variance between the allocated return on the invested assets supporting the capital requirements of the Health Insurance and Financial Services business units and the actual return achieved based on the actual asset mix deemed to be managed by the Corporate business unit; and
- Financial Services investment revenue attributable to unitholders of the Financial Services business is based on the underlying investments held by unitholders in the various MBF unitised trusts; and
- Corporate costs associated with managing the operations of the MBF Group and not specifically attributable to its operating businesses.

These reallocations allow a more accurate assessment of the performance of the core Health Insurance and Financial Services business units. These reallocations do not impact the total reported consolidated profit of MBF. A reconciliation of the financial information set out in this Information Memorandum to a statutory reporting basis is included as note 5 in the special purpose financial report for the six months ended 31 December 2007 which can be found on MBF's website www.mbf.com.au.

(b) Consolidated income statement

	12 months ended 30 June 2006 \$ millions	12 months ended 30 June 2007 \$ millions	6 months ended 31 December 2007 \$ millions
HEALTH INSURANCE			
Premium revenue	1,991.4	2,106.3	1,110.6
Net claims incurred	(1,754.9)	(1,872.4)	(954.5)
Underwriting expenses	(144.4)	(157.0)	(84.3)
Health Insurance underwriting result	92.1	76.9	71.8
Investment income	33.3	40.6	22.4
Share of net profits of joint venture partnership accounted for using equity method	-	-	0.1
Health Insurance result from operating activities	125.4	117.5	94.3
FINANCIAL SERVICES			
Life insurance premium revenue	31.1	33.3	17.6
Outwards reinsurance expense	(2.9)	(2.9)	(1.4)
Net premium revenue	28.2	30.4	16.2
Investment income	69.4	127.5	40.3
Fee and commission revenue	42.0	48.8	26.7
Net gains/(losses) on financial assets at fair value through profit or loss	184.3	135.9	(12.9)
	295.7	312.2	54.1
Claims expense	(12.6)	(11.6)	(5.4)
Reinsurance recoveries revenue	1.2	1.8	(0.1)
Net claims incurred	(11.4)	(9.8)	(5.5)
Underwriting expenses	(7.9)	(12.5)	(5.7)
Investment management expenses	(8.4)	(8.5)	(4.3)
Change in life insurance policy liabilities	1.6	2.4	0.4
Change in life investment policy liabilities	(194.6)	(227.9)	(21.2)
Change in reinsurers' share of life insurance liabilities	(0.7)	0.9	0.6
Other expenses	(46.1)	(43.1)	(23.0)
Other operating expenses	(256.1)	(288.7)	(53.2)
Movement in liability to minority interest of controlled unit trusts	(42.6)	(14.6)	(2.8)
Financial Services result from operating activities	13.8	29.5	8.8
CORPORATE			
Investment income	15.2	23.5	46.1
Net gains/(losses) on financial assets at fair value through profit or loss	52.0	96.9	(82.6)
Other expenses	(19.0)	(23.9)	(15.1)
Corporate result from operating activities	48.2	96.5	(51.6)
Profit for the period before income tax	187.4	243.5	51.5
Income tax expense	(6.4)	(20.0)	(4.6)
Net profit for the period attributable to Contributors of MBF	181.0	223.5	46.9

Discussion and analysis – consolidated income statement

Net profit for the six months ended 31 December 2007 attributable to the Contributors of MBF was \$46.9 million. This decline was mainly driven by net losses on financial assets as a result of the negative performance of the equity and property markets over this period. However, MBF reported a strong underwriting result from each of its core business units in the six months ended 31 December 2007.

In the year ended 30 June 2007, MBF reported consolidated net profit of \$223.5 million, an increase of \$42.5 million from the prior year. This increase reflected the strong performance of each of MBF's core business units which was driven by solid underwriting results and strong investment returns, due primarily to strong equity markets and the growth in MBF's capital base.

Health Insurance

Premium revenue for the six months ended 31 December 2007 was \$1.1 billion, compared to \$2.1 billion for the year ended 30 June 2007 and \$2.0 billion for the year ended 30 June 2006. These results reflect the rise in average premiums following the annual rate review process and growth in the number of contributors over the relevant periods.

The underwriting result for the six months ended 31 December 2007 improved significantly compared to those for the years ended 30 June 2007 and 30 June 2006. While the underlying underwriting performance remained stable, the result for the six months ended 31 December 2007 benefited from a higher level of recoveries from the risk equalisation pool and the release of prior year claims reserves that were found to be surplus to requirements. The impact of the release of the prior year reserves, net of the prudent level of reserves held as at 31 December 2007, was an increase to net profit of \$18 million in the six months ended 31 December 2007.

The underwriting result declined by \$15.2 million in the year ended 30 June 2007, primarily due to growth in hospital and medical claims as well as significant investment in the development and implementation of a new modernised health administration system. The implementation of this new system was substantially completed during the year ended 30 June 2007 for MBF and in the six months ended 31 December 2007 for MBF Alliances.

Investment income represents a standard cash investment return on investable assets backing required capital. The steady increase in investment income reflects both the increase in interest rates and the increase in invested assets supporting the business units over these periods.

Financial Services

Life insurance net premium revenue has grown steadily over the period reflecting steady new business growth and improved retention rates.

Fee and commission revenue has also steadily increased, predominantly due to strong sales of investment policies and an increase in funds under management.

The combined investment income for the six months ended 31 December 2007 of \$27.4 million was significantly lower than the combined investment income for the year ended 30 June 2007 of \$263.5 million. This result reflects the poor performance of the Australian and international equity and listed property markets over this period. The years ended 30 June 2006 and 30 June 2007 benefited from strong investment markets and increasing funds under management. The returns are largely in respect of investments managed on behalf of unitholders and as a consequence are offset by movements in the policy liabilities for these unitholders.

The change in life investment policy liabilities reflects net policyholder inflows plus investment earnings after tax and fees attributable to policyholders' funds. The smaller movement in the six months ended 31 December 2007 compared to the years ended 30 June 2007 and 30 June 2006 primarily reflects the performance of the investment markets.

Corporate

The high investment income and net gains in the years ended 30 June 2006 and 30 June 2007 reflect the growth in surplus funds and the strong performance across all investment sectors, particularly equity markets in the year ended 30 June 2007. The loss in the six months ended 31 December 2007 reflects the negative performance of the growth asset investment markets over this period.

Corporate expenses include investment management expenses as well as costs associated with managing the MBF Group. In the years ended 30 June 2006 and 30 June 2007, Corporate expenses include a \$5 million donation made to the MBF Foundation. Corporate expenses also include costs associated with Listing of \$2.6 million in the year ended 30 June 2007 and \$10.9 million in the six months ended 31 December 2007.

(c) Consolidated balance sheet

	AS AT		
	30 June 2006 \$ millions	30 June 2007 \$ millions	31 December 2007 \$ millions
ASSETS			
Cash and cash equivalents	630.3	661.9	640.9
Receivables	90.6	139.7	100.7
Other financial assets	2,197.0	2,801.3	2,835.5
Reinsurers' share of policy liabilities	(4.5)	(3.6)	(3.0)
Deferred acquisition costs	2.3	2.4	2.8
Deferred tax assets	2.8	2.9	7.2
Plant and equipment	25.0	26.6	29.4
Intangible assets	156.1	156.0	156.5
Other assets	0.6	0.5	0.7
Total assets	3,100.2	3,787.7	3,770.7
LIABILITIES			
Payables	92.3	77.1	71.8
Provisions - employee benefits	13.8	12.7	13.7
Current tax liabilities	-	8.0	0.8
Outstanding claims liabilities	203.6	256.2	245.0
Unearned premium liabilities	224.7	226.4	212.9
Deferred tax liabilities	14.9	10.4	-
Life insurance policy liabilities	(53.7)	(56.1)	(56.5)
Life investment policy liabilities	1,545.9	1,840.9	1,843.0
Liability to minority interest in controlled unit trusts	141.0	270.9	251.8
Total liabilities	2,182.5	2,646.5	2,582.5
Net assets	917.7	1,141.2	1,188.2
Equity			
Contributed equity	-	-	-
Retained profits	917.7	1,141.2	1,188.2
Total equity attributable to Contributors of MBF	917.7	1,141.2	1,188.2

Discussion and analysis – consolidated balance sheet

Other financial assets have increased at 31 December 2007 predominantly as a result of an increase in Financial Services assets of \$42.3 million. The Financial Services policyholder assets increased as a result of additional sales and the flow-on effect of the super simplification changes in the prior year that provided a stimulus to business volumes. Other financial assets also increased between 30 June 2006 and 30 June 2007, reflecting the strong performance of equity and listed property markets over the year and injections in new funds from both the Health Insurance business unit and strong positive net inflows into investment products in the Financial Services business unit.

Outstanding claims liabilities include a risk margin such that there is a 95% probability of sufficiency that the reserves will ultimately be adequate. Central estimate claims provisions set at each of the last three year ends have been found to be surplus to requirements.

The outstanding claims reserve for MBF at 30 June 2006 and 30 June 2007 contained allowances within the central estimate for data uncertainties and the effects of delays in claims processing associated with the transition to a new health administration system. These uncertainties were not evident at 31 December 2007. Consequently the result for the six months ended 31 December 2007 includes the release of excess reserves from 30 June 2007. This was partially offset by the recognition of prudent but less conservative provisions at 31 December 2007 that were based on more stable underwriting data.

Life insurance policy liabilities are negative due to the present value of future premiums being greater than the present value of future outflows. As a consequence, the reinsurers' share of policy liabilities is also negative. The stability of these balances reflects the steady growth of the business.

Life investment policy liabilities reflect the value of policyholders' unitised investments with MBF Life. The significant increase in life investment policy liabilities at 30 June 2007 compared to 30 June 2006 reflects the net funds inflow on MBF Life's investment products combined with the strong growth in equity and listed property assets backing the life investment policy liabilities during the year ended 30 June 2007.

(d) Consolidated statement of cash flow

	12 months ended 30 June 2006 \$ millions	12 months ended 30 June 2007 \$ millions	6 months ended 31 December 2007 \$ millions
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received - Health insurance	2,010.7	2,110.7	1,089.7
Health benefits and levies paid	(1,796.4)	(1,893.4)	(1,015.5)
Fees and commissions received	39.5	46.0	25.1
Premiums received - Life insurance	30.9	33.2	19.2
Life insurance claims paid	(12.9)	(11.6)	(6.0)
Deposits received from life investment contract holders	537.0	696.5	425.8
Withdrawals paid to life investment contracts holders	(432.3)	(585.9)	(429.5)
Income tax paid	(9.7)	(16.5)	(26.5)
Receipts from reinsurance recoveries	59.0	75.3	42.8
Payments to suppliers and employees	(220.6)	(293.9)	(147.5)
Outward reinsurance payment	(2.9)	(2.2)	(1.3)
Interest and distributions received	42.5	45.7	21.1
Dividends received	15.9	46.0	67.2
Other operating receipts	2.5	3.4	1.0
Net cash provided by operating activities	263.2	253.3	65.6
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for plant and equipment	(10.8)	(10.4)	(7.4)
Payments for software development	(19.0)	(5.1)	(3.8)
Proceeds from disposal of plant and equipment	0.1	-	-
Cash acquired on consolidation of controlled entities	261.9	-	-
Proceeds from disposal of investments	474.5	1,581.2	1,342.7
Payments for investment securities	(687.9)	(1,803.4)	(1,398.3)
Payment for investment in joint venture	-	-	(2.3)
Net cash provided by/(used in) investing activities	18.8	(237.7)	(69.1)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of units	137.7	169.6	10.7
Redemption of units	(31.8)	(153.6)	(28.2)
Net cash provided by/(used in) financing activities	105.9	16.0	(17.5)
Net increase/(decrease) in cash and cash equivalents held	387.9	31.6	(21.0)
Cash and cash equivalents at the beginning of the financial period	242.4	630.3	661.9
Cash and cash equivalents at the end of the financial period	630.3	661.9	640.9

Discussion and analysis – consolidated cash flow statement

Cash flows from operating activities

The steady rise in premiums received reflects the growth in the number of contributors and annual rate rises in private health insurance products. Benefit payments to contributors have increased in line with medical costs inflation and hospital and medical claims utilisation rates.

Fees and commissions received have shown steady growth over the period. The increase in fees and commissions is a result of continued growth in funds under management through steady sales levels and strong investment market conditions in the years ended 30 June 2006 and 30 June 2007.

Life insurance premiums received and claims paid from life insurance contract holders increased in line with the growth in the Financial Services business unit over the period as did deposits received from life investment contract holders and withdrawals paid to life investment contract holders.

Cash flows from investing activities

Proceeds from the disposal of investments and payments for investment securities are significantly higher in the six months ended 31 December 2007 compared to the years ended 30 June 2007 and 30 June 2006. The significant cash flow movements in the six months ended 31 December 2007 relate to the Health Insurance business unit and are a result of the transition of a number of investment managers and investment mandates.

During the year ended 30 June 2006, MBF was required to account for a one-off cash inflow of \$261.9 million on consolidation of the ClearView Pooled funds. During the year ended 30 June 2007, the investments of MBF Life were restructured in the interests of that entity and its policyholders. Investment activity also increased due to the normal transactions associated with positive net inflows from investment activities.

Cash flows from financing activities

In the year ended 30 June 2006, net cash provided by financing activities was unusually high as large cash inflows were received from the minority unitholders as part of the restructure of the investments of MBF Life. This resulted in a significantly higher volume of proceeds from the issue of units compared to the redemption of units for the year ended 30 June 2006.

During the year ended 30 June 2007, the decrease in net cash provided by financing activities is due to higher levels of applications and redemptions of units as a result of the restructuring of MBF Life's investments.

9.5 OUTLOOK FOR THE YEAR ENDING 30 JUNE 2008

For the year ending 30 June 2008, the strong performance of MBF's Health Insurance and Financial Services businesses is expected to continue. This reflects an increased number of contributors in health insurance leading to revenue growth, higher than expected receipts from the Risk Equalisation Scheme and premiums in life insurance being ahead of budget.

MBF has experienced investment losses in the six months ended 31 December 2007 and these continued into January 2008 in line with general movements in growth markets. By 16 January 2008, MBF had substantially removed the investment risk in its investment holdings, reducing the exposure to growth assets from 60% to 20%. Generally, investments in growth assets provide a higher return over the longer term than income assets.

Information about BUPA



10.1 BACKGROUND

(a) BUPA

BUPA was formed in 1947, the result of 17 British provident associations joining together, with the aim to preserve freedom of choice in health care. BUPA believed that with the British National Health Service being introduced a year later, there would still be a need for a complementary service enabling people from all walks of life to afford the benefits of choice in where, when and by whom they were treated.

The BUPA Group is now the United Kingdom's leading independent health and care organisation, working to help people live longer, healthier lives. Six decades after its formation, the BUPA Group has about eight million customers in around 180 countries worldwide.

Since 1947, BUPA has been a private company limited by guarantee. As such, BUPA does not have shareholders which means it is able to reinvest all of its profits back into the business for the benefit of present and future customers. For the year ended 31 December 2007, the BUPA Group achieved income of £4.5 billion (\$10.8 billion), a surplus before taxation of £1.3 billion (\$3.1 billion), a surplus before tax from continuing operations of £398.0 million (\$952.2 million) and had net assets of £3.3 billion (\$7.5 billion).

(b) BUPA Australia Group

In 2002, the BUPA Group acquired the company which owned the private health insurance business of AXA Asia Pacific Holdings, known then as AXA Australia Health Insurance, which became known as BUPA Australia Health.

BUPA Australia Health is a registered private health insurer covering over one million Australians. BUPA Australia Health operates under the brand *HBA* in all States and Territories except South Australia and the Northern Territory where it operates under the brand *Mutual Community*. BUPA Australia Health is the second largest health insurer in Victoria and the largest in South Australia, its foundation States. BUPA Australia Health was granted re-registration under the PHI Act on 8 February 2008.

The *HBA* and *Mutual Community* brands are well established and well known in their foundation States. The health funds of HBA and Mutual Community can be traced back for over 70 years.

The origins of HBA can be traced back to 1934, with the establishment of that health fund.

Mutual Community's origins can be traced back to 1937 when The Mutual Hospital Association Limited was founded in South Australia.

In 1990, the HBA and Mutual Community health funds were transferred into the National Mutual Group of companies, creating a single insurer, National Mutual Health Insurance, with separate State based health funds in Victoria and South Australia. The BUPA Group acquired the merged group in 2002.

BUPA Australia also has a joint venture interest in MCGI, a general insurance company. MCGI is 51% owned by IAG and 49% owned by BUPA Australia Health.

10.2 OVERVIEW OF OPERATIONS

(a) BUPA Group operations

The BUPA Group has operations in the United Kingdom, Australia, New Zealand, Spain, Denmark, Saudi Arabia, the United States, China, Mexico, Egypt, Hong Kong and Thailand. BUPA's main interests are health insurance, aged care homes (residential and nursing homes), health assessments, out-of-hospital care and care management services.

BUPA Group's operations are organised as follows:

(i) UK Insurance

UK Insurance is comprised of the following business units:

- UK Membership – the UK's leading private health insurance business, with about three million customers. It covers both individuals and corporate customers keen to ensure access to the best healthcare for their employees. More than half the UK's top 100 listed companies are BUPA customers;
- BUPA International – international health insurance covers about 350,000 customers;
- BUPA Health Assurance – life assurance, income protection and critical illness cover with over 400,000 customers; and
- BUPA Wellness – health assessments and occupational health services, with a focus on the corporate sector including services such as stress counselling and managing the cost of sickness absence.

(ii) International Insurance

The BUPA Group provides private health insurance in Australia, Spain, Saudi Arabia, Denmark, Latin America, Hong Kong and Thailand. In Spain, BUPA has 1.4 million insured customers and also operates a number of hospitals and clinics, primarily serving its private health insurance customers. Overall, BUPA's International Insurance operations cover over 3.5 million insured customers.

(iii) Care Homes

BUPA's care homes business is a major provider of nursing and residential care in the UK, Spain, Australia and New Zealand. In the UK, it employs around 19,500 staff at 303 homes with 21,346 beds. There are a further 36 homes with 4,544 beds in Spain and 101 homes with around 7,000 beds across Australia and New Zealand.

(iv) Care management

BUPA, through its wholly owned subsidiary, Health Dialog, provides care management services primarily in the United States.

(v) Health care at home

Clinovia, a wholly owned subsidiary of BUPA, provides health care services to people in their homes in the United Kingdom.

(b) BUPA Australia Health Operations

BUPA Australia Health, which forms part of BUPA Group's International Insurance business unit, provides health insurance for over one million Australians and has a retail office network, predominantly in Victoria and South Australia as the majority of its customers reside in these locations (approximately 537,000 HBA customers in Victoria and 354,000 Mutual Community customers in South Australia). BUPA Australia Health employs around 690 staff throughout its retail branch network and offices. In the 12 months to the end of December 2007, BUPA Australia paid over \$1 billion in benefits on behalf of contributors.

BUPA Australia Health also sells its customers the following general insurance products issued by MCGI:

- home and contents insurance;
- motor vehicle insurance;
- travel insurance; and
- insurance for boats and trailers.

10.3 CORPORATE GOVERNANCE

(a) BUPA Group

BUPA is a private company limited by guarantee. As such, it does not have shareholders and is able to reinvest all of its profits back into the business for the benefit of present and future customers. This also enables BUPA to take a long term view when making commercial decisions, without being driven by short-term or shareholder considerations.

BUPA has the corporate governance safeguards and commercial principles that would be expected of a listed company to the extent that these apply to a company without shareholders. BUPA's board of directors includes a majority of independent non-executive directors who currently outnumber executive directors by a ratio of three-to-one. The non-executive directors are eminent people in their own right and normally serve for two three-year terms.

Oversight is exercised by a body of currently around 100 distinguished Association Members drawn mainly from business, the charitable sector, academia, public life and the medical professions. BUPA's board appoints individuals with relevant experience as Association Members. Association Members serve on a voluntary basis and do not receive any financial

recompense from BUPA for holding their position. They have no claim on the assets of the company and are not entitled to receive a share of profits or dividends.

BUPA's two executive directors are Val Gooding, Chief Executive Officer, and Ray King, Group Finance Director. The remainder of the board is constituted by Lord Leitch (Chairman), Orna Ni-Chionna, Oliver James, Robert Walther, Peter Cawdron, George Mitchell and Baroness (Virginia) Bottomley of Nettlestone. Ms Gooding has announced that she will retire at the conclusion of BUPA's annual general meeting in May 2008 when Mr King will become the Chief Executive Officer.

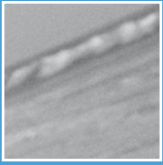
The board of BUPA has a number of committees, all of which comply with corporate governance principles, including Audit, Nomination and Remuneration Committees together with a Medical Advisory Panel which includes five leading independent medical professionals. In addition to the internal systems and controls that apply across the BUPA Group, most of BUPA's principal trading companies are monitored and supervised by external regulators, including in the UK the Financial Services Authority and the Commission for Social Care and Inspection. Separate regulatory requirements apply to each market in which the BUPA Group operates.

(b) BUPA Australia Health

BUPA Australia Health has a board of directors that is responsible for oversight of the corporate governance of the business and the application of a corporate governance framework and internal systems and controls.

The board of BUPA Australia Health comprises four directors, one of whom is a non-executive director. The current BUPA Australia Health board is:

- Mr Dean Holden (Chairman and BUPA Group Managing Director – International Businesses);
- Mr Richard Bowden (Managing Director);
- Ms Deirdre Blythe (Chief Financial Officer); and
- Mr Garry Royal (non-executive director).



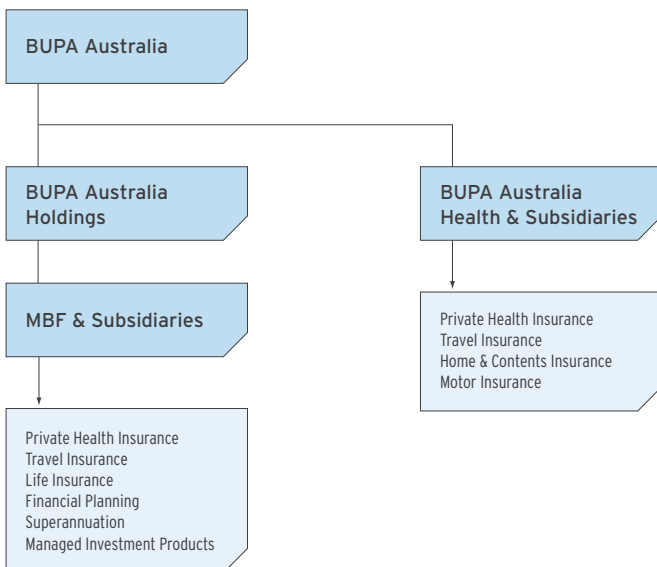
Information about the Combined Group

This Section contains information about the Combined Group if the Scheme is implemented.

11.1 CORPORATE STRUCTURE

Under the Scheme, the businesses of the MBF Group and the BUPA Australia Group will be combined by BUPA Australia Holdings becoming the holding company of MBF. BUPA Australia is the holding company of both BUPA Australia Holdings and BUPA Australia Health. BUPA Australia Health is a registered private health insurer, which operates under the brands *HBA* and *Mutual Community*.

The diagram below shows the structure of the Combined Group (which will be wholly owned by BUPA Australia) contemplated by the Scheme.



11.2 OVERVIEW OF OPERATIONS

(a) The Combined Group will deliver an expanded product set

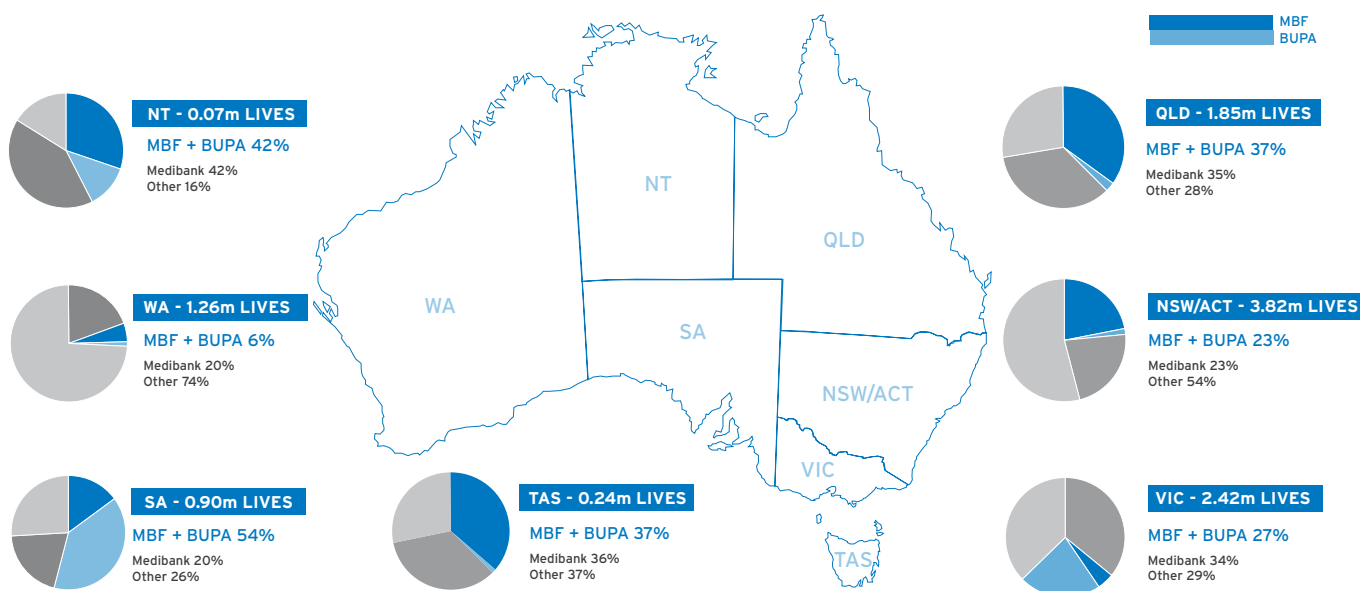
The Scheme will bring together the businesses of the MBF Group (as described in Section 9) and the BUPA Australia Group (as described in Section 10).

Upon implementation of the Scheme, the Combined Group's business operations will be as follows:

- private health insurance;
- home and contents and motor vehicle, boats and trailers insurance;
- travel insurance;
- life insurance; and
- financial planning services, superannuation and managed investment products.

(b) A national footprint

The Scheme will create a national private health insurance group covering approximately 2.93 million lives as illustrated below.



Source: Table 39, Pg 114, Operations of Private Health Insurers Annual Report 2006 - 07, Private Health Insurance Administration Council.

Total coverage (hospital plus extras) at 30 June 2007.

(c) Expanded retail operations

The retail operations of MBF and BUPA Australia Health do not significantly overlap as set out in the Table below. Combined, they represent a significant national retail presence. In addition, MBF and BUPA Australia Health distribute their products through other channels such as the internet, call centres, financial advisers, direct mail and intermediaries.

	NUMBER OF RETAIL OFFICES AS AT 4 MARCH 2008*	
	BUPA Australia Health	MBF
Australia	55	79
NSW and ACT	2	37
VIC	34	1
QLD	1	32
SA	16	1
WA	1	1
NT	1	1
TAS	0	6

*Retail offices includes offices operated by agents of each Insurer.



Additional Information

12.1 SUMMARY OF THE IMPLEMENTATION DEED

(a) Overview

MBF, BUPA Australia and BUPA Finance entered into the Implementation Deed on 14 December 2007. The Implementation Deed sets out the parties' obligations in respect of the proposed transaction to combine the businesses of the MBF Group and the BUPA Australia Group. A full copy of the Implementation Deed is available for inspection in accordance with Section 12.9.

(b) Conditions Precedent to the Scheme

Implementation of the Scheme is subject to various conditions precedent which must be satisfied or waived. In summary, the conditions precedent are as follows:

- i. approval of the Scheme by the Foreign Investment Review Board for the purposes of FATA. (This approval was granted on 4 January 2008.);
- ii. approval of MBF's Registration Conversion by PHIAC;
- iii. approval of the Scheme by APRA for the purposes of FSSA. (This approval was granted on 20 December 2007.);
- iv. all other mandatory approvals of Government Agencies;
- v. approval of the Change of Company Type by members of the MBF Council. (This approval was granted on 8 February 2008.);
- vi. approval of amendments to the MBF Constitution by members of the MBF Council and Contributor Members. (This approval was granted on 8 February 2008.);
- vii. approval of the Scheme by Participating Contributors at the Scheme Meeting by the requisite majority;
- viii. approval of the Scheme by the Court;

- ix. no legal restraint or prohibition preventing the Scheme being in effect at 8.00am (AEST) on the Court Approval Date;
- x. no MBF Material Adverse Change occurring before 8.00am (AEST) on the Court Approval Date (or in certain circumstances on the earlier of the Court Approval Date and the Satisfaction Date);
- xi. no MBF Prescribed Occurrence occurring before 8.00am (AEST) on the Court Approval Date;
- xii. except for certain warranties, the representations and warranties of MBF being true and correct at the relevant times;
- xiii. no BAPL Prescribed Occurrence occurring in relation to BUPA Australia before 8.00am (AEST) on the Court Approval Date;
- xiv. the representations and warranties of BUPA Australia being true and correct at the relevant times; and
- xv. MBF demonstrating to BUPA Australia's reasonable satisfaction that the payments to be made to Participating Contributors under the Scheme will be made in accordance with the Allocation Rules.

(c) Conditions Precedent to the share issue

The issue by MBF of the Subscription Shares to BUPA Australia Holdings is subject to conditions precedent which must be satisfied or waived. The conditions precedent are: the Scheme becoming Effective; and ASIC publishing a notice of its intention to alter the details of MBF's company registration and the period of one month referred to in the notice elapsing.

(d) Key obligations of MBF

The key obligations of MBF under the Implementation Deed are to:

- i. apply to PHIAC for Registration Conversion;
- ii. procure that the Trustee applies for membership of MBF on behalf of each Eligible Contributor and to grant such applications;
- iii. procure the resignation of a number of directors of MBF and the MBF Subsidiaries (in each case being the directors nominated by BUPA Australia) and appoint replacement directors nominated by BUPA Australia;
- iv. have the Board recommend that Participating Contributors vote in favour of the Scheme in the absence of a Superior Proposal unless certain conditions precedent are not satisfied or the Independent Expert does not conclude that the Scheme is in the best interests of the Participating Contributors;
- v. grant MBF membership to the BUPA Member and waive any associated membership fee;
- vi. apply to ASIC for the Change of Company Type; and
- vii. immediately after the Implementation Time, issue the Subscription Shares to BUPA Australia Holdings as fully paid and free from any Encumbrance.

(e) Key obligations of BUPA Australia

The key obligations of BUPA Australia under the Implementation Deed are to:

- i. pay the Transaction Consideration into the Trust Account on or before the date that the Scheme becomes Effective;
- ii. procure BUPA Australia Holdings to subscribe for and accept the issue of the Subscription Shares; and
- iii. notify MBF of the name of the BUPA Member and procure the BUPA Member to apply to be the holding company member of MBF under the MBF Constitution.

(f) Key joint obligations of MBF and BUPA Australia

The key joint obligations of MBF and BUPA Australia are to:

- i. appoint an external trustee;
- ii. direct the external trustee to establish a trust account into which the Transaction Consideration will be deposited to be dealt with in accordance with the Scheme; and
- iii. encourage the Treasurer of the Commonwealth to announce the intention of the Commonwealth Government to give effect to the tax law changes set out in the press release from the former Treasurer dated 17 October 2007.

(g) Payment of MBF Reimbursement Fee

MBF has agreed to pay BUPA Australia the MBF Reimbursement Fee of \$24.1 million if any of the following occur:

- i. other than in certain stated circumstances, any of the directors of MBF who, at the date of the Implementation Deed have agreed to recommend the Scheme, make a public statement or a statement to any MBF Council Member, Company Member or Contributor withdrawing or adversely modifying his or her recommendation of the Scheme or indicate that he or she no longer supports the Scheme or that he or she supports a Competing Transaction; or
- ii. MBF wilfully breaches its obligations under clause 11 of the Implementation Deed.

(h) Payment of BAPL Reimbursement Fee

BUPA Australia has agreed to pay MBF the BAPL Reimbursement Fee of \$24.1 million if MBF validly terminates the Implementation Deed or certain conditions precedent are not met by the Court Approval Date.

(i) Termination

MBF or BUPA Australia may terminate the Implementation Deed if:

- i. at any time before 8.00am (AEST) on the Court Approval Date, the other party is in material breach of the Implementation Deed;
- ii. at any time before 8.00am (AEST) on the Court Approval Date, a Court or Government Agency has taken any action permanently restraining or otherwise prohibiting the Scheme, or has refused to do any thing necessary to permit the Scheme, and the action or refusal has become final and cannot be appealed; or
- iii. the conditions precedent are not satisfied or waived by the End Date.

BUPA Australia may terminate the Implementation Deed if:

- i. an MBF director changes, modifies or withdraws his or her recommendation that the Participating Contributors vote in favour of the Scheme or makes a public statement or a statement to any MBF Council Member, Company Member or Contributor indicating that he or she no longer supports the Scheme or that he or she supports some other transaction;
- ii. the Court Approval Date has not occurred by the date which is one month before the End Date;
- iii. Completion has not occurred by the End Date following Court approval of the Scheme; or
- iv. MBF is in breach of its obligations under clause 11 of the Implementation Deed.

(j) Effect of termination

If the Implementation Deed is terminated for any of the reasons stated above, except to the extent that the termination results from a breach by either party of its obligations under the Implementation Deed, then except for some limited provisions, the Implementation Deed will become void and have no effect.

(k) End Date

MBF and BUPA Australia have termination rights if the Scheme is not implemented by the End Date.

(l) Guarantee

BUPA Finance unconditionally and irrevocably guarantees to MBF the payment of all the monetary liabilities of BUPA Australia under the Implementation Deed and the performance of all the obligations of BUPA Australia under the Implementation Deed.

12.2 SUMMARY OF THE DEED POLL

The Deed Poll sets out the promise given by BUPA Australia Holdings in favour of Scheme Members, subject to the Scheme becoming Effective, to pay the Transaction Consideration to the Account Trustee as and when the Transaction Consideration falls due for payment under the Implementation Deed.

MBF must use the Transaction Consideration to fund the payment by MBF of the Entitlements.

BUPA Finance agrees to guarantee the obligations of BUPA Australia Holdings under the Deed Poll.

12.3 SUMMARY OF THE TRUST DEED

MBF and the Trustee are parties to the Trust Deed under which MBF established the Trust and the Trustee declared that it holds the Trust Property on trust for Eligible Contributors. A separate trust is established under the Trust Deed for each Eligible Contributor and together they are referred to as the Trust. The main terms of the Trust Deed are as follows:

- a. MBF must advise the Trustee that MBF has determined to grant a company membership to each Contributor who held a Qualifying Policy and was not a Company Member and direct the Trustee to apply for those company memberships. The Trustee will hold each company membership on trust for the relevant Eligible Contributor. Prior to 10 May 2008, an Eligible Contributor may direct the Trustee to notify MBF that the Trustee wishes to transfer the relevant company membership to the Eligible Contributor personally. Any transfer is subject to the Eligible Contributor satisfying any requirements of MBF;
- b. if the Scheme is approved, on or immediately following the Implementation Date, MBF must pay to the Trustee the Entitlement of each Eligible Contributor;
- c. in respect of the Entitlement held by the Trustee for an Eligible Contributor, the Trustee must, at the time and date specified by MBF, pay the Entitlement in respect of each Eligible Contributor to each Eligible Contributor;
- d. in each accounting period, the income of the Trust in respect of each Eligible Contributor will be set aside for the benefit of that Eligible Contributor, with any income of the Trust not referable to an Eligible Contributor applied towards the expenses of the Trust;
- e. the Trustee may open and operate non-interest or interest bearing bank accounts;
- f. the Trustee may act through custodians or managers or employ a contractor, servant or others or an agent to transact any or all of the business to be done by the Trustee under the Trust Deed;
- g. the Trustee is entitled to a fee for its services, which will be paid by MBF on the terms set out in the Funding Agreement;
- h. MBF will indemnify the Trustee against any claim, loss, liability, cost and expense that may be incurred or sustained by the Trustee in performance of the trusts under the Trust Deed (although the Trustee may be indemnified out of Trust Property where the Trust Property is the Settlement Monies or certain residual income). The indemnity is subject to some limitations in the Funding Agreement;
- i. the Trustee may retire as the trustee of the Trust by giving three months notice to MBF, and must retire immediately upon the request of MBF if the Trustee breaches any trust which is not remedied within a specified period after being requested to do so by MBF; if the Trustee ceases to hold an appropriate Australian financial services licence; if an administrator or similar is appointed in respect of the Trustee or any of the Trustee's assets; or on the date on which the Trustee advises MBF it ceases to hold Trust Property;
- j. the Trustee must keep a complete and accurate record of all receipts and expenditures of the Trust and after the end of each accounting period, prepare or cause to be prepared a written accounting report. MBF may request that the Trustee appoint at the expense of MBF an auditor specified by MBF to examine the accounts of the Trust;
- k. MBF must give notice of any general meeting (and any meeting ordered by the Court for the purpose of considering and voting in respect of the Scheme) to Eligible Contributors and include in that notice information and a proxy in relation to that Eligible Contributor's entitlement to vote at the

meeting. The Trustee appoints each Eligible Contributor as its attorney to vote in person or by proxy (with power to appoint a sub-attorney) in relation to the membership in MBF held by the Trustee in relation to that Eligible Contributor. Notices may also be given to persons entitled to the Entitlement in consequence of death, disablement or bankruptcy of an Eligible Contributor;

- l. the Trustee's liability is limited in accordance with the terms of the Trust Deed, with exceptions by reason of the Trustee's own fraud, negligence or breach of trust; and
- m. an Eligible Contributor is only entitled to the benefits of the Trust Deed on condition that he or she is bound by the terms and conditions of the Trust Deed.

12.4 SUMMARY OF THE FUNDING AGREEMENT

MBF and the Trustee have entered into the Funding Agreement under which MBF provides for the funding of and provision of administrative services to the Trust. The main terms of the Funding Agreement are as follows:

- a. the Funding Agreement comes into effect upon the Trust Deed being executed, and is to be read in conjunction with the Trust Deed. The Trust Deed will prevail to the extent of any inconsistency;
- b. the Trustee must perform services including: holding Trust Property, establishing and maintaining Trust records, attending certain meetings, procuring the preparation and audit of annual Trust accounts, procuring the preparation of Trust tax returns and monitoring third party service providers;
- c. MBF must provide services to the Trustee including: providing to the Trustee or procuring the provision to the Trustee of, necessary information and Trust data to enable the Trustee to establish and maintain Eligible Contributor records, developing and liaising with the Trustee in relation to Eligible Contributor enquiries, establishing and maintaining certain administrative systems and accounting systems and enforcing or procuring the enforcement of compliance requirements on third party service providers;
- d. the Trustee must hold all appropriate authorisations and licences and comply with relevant laws;
- e. the Trustee must not delegate, sub-contract or engage a third party to provide any of the services to be provided to MBF by the Trustee except in accordance with certain conditions such as obtaining the prior written consent of MBF and being on such terms and/or conditions as MBF thinks fit;
- f. the appointment of a third party shall not relieve the Trustee of its obligations under the Funding Agreement where the third party is a related body corporate of the Trustee;
- g. MBF will pay service fees to the Trustee comprising an establishment fee, a bare trustee fee and certain in-house expense fees, together with certain external expenses, in consideration for the provision of services to MBF by the Trustee;
- h. MBF must maintain at its cost relevant insurance cover for the Trustee;
- i. MBF indemnifies the Trustee against losses incurred by the Trustee in connection with the proper performance or exercise by the Trustee of its duties under the Funding Agreement and the Trust Deed. (This indemnity will not apply to the extent the Trustee is indemnified out of the Settlement Monies and any residual income pursuant to the Trust Deed). This indemnity and the limitation noted in Section 12.4(k) will not apply to the extent the losses result from the dishonesty, fraud, negligence or wilful default of the Trustee or its related service providers;
- j. the Trustee may terminate the Funding Agreement on three months' prior written notice, and the Funding Agreement will terminate when the Trust Deed terminates, if the Trustee materially breaches its obligations under the Funding Agreement and it is not remedied within a specified period after being requested to do so by MBF, if the Trustee breaches its obligations under the Funding Agreement and in MBF's reasonable opinion monetary damages would not be adequate compensation, immediately on notice from MBF if the Trustee or its officers are fraudulent in respect of the Trust or services and in certain other circumstances; and
- k. the Trustee's liability is limited in accordance with the terms of the Funding Agreement, subject to the exceptions noted in Section 12.4(i).

12.5 DIRECTORS AND OFFICERS

(a) Changes to the Board

Immediately following Court approval of the Scheme, changes will be made to the composition of the Board.

The details of the current Directors are set out in Section 9.3. Further details of the composition of the Board after implementation of the Scheme are set out in Section 3.3(h)(i).

Following implementation of the Scheme, changes will be made to the senior management of MBF. Further details are set out in Section 3.3(i).

(b) Interests of Directors in connection with the Scheme

The MBF Constitution requires that all Directors be Company Members. Directors will, like other Company Members, be entitled to receive the Entitlement if the Scheme is implemented in accordance with the Allocation Rules. The Estimated Entitlement (based on an estimated Unit Value of \$1.40) which the Directors will be eligible to receive is as follows:

Director	Estimated Entitlement \$
Mr John C Conde, AO	6,720
Mr Eric R Dodd	2,100
Mr John G Allpass	3,675
Dr Brett G Courtenay	2,100
Dr Cherrell Hirst, AO	420
Mr Richard G Humphry, AO	3,150
Mr Barrie R Martin	630
Ms Susan M Oliver	3,150
Dr Ross M Wilson	1,470

Mr Eric R Dodd is entitled to a retention payment of \$1 million, 50% of which is payable on the Implementation Date and 50% payable two years later.

(c) Current interests in MBF

No marketable securities of MBF are held by or on behalf of any Director.

(d) Agreements or arrangements with Directors

There is no agreement or arrangement made between any Director and any other person in connection with or conditional upon the outcome of the Scheme other than the retention payment to Mr Dodd described in Section 12.5(b).

(e) Agreement or arrangements with officers

A group of seven senior officers of MBF are entitled to a transaction payment, payable in cash, following implementation of the Scheme. The aggregate maximum cost of these payments is \$1.32 million.

12.6 EMPLOYEE RETENTION AND TRANSACTION ARRANGEMENTS

Mr Eric Dodd is entitled to a payment upon implementation of the Scheme, as described in Section 12.5(b). Certain senior executives are entitled to payments upon implementation of the Scheme, as described in Section 12.5(e).

In addition, MBF has retention arrangements to cover other key employees whom the Board believes are critical to the Scheme. Under these arrangements eight key employees will receive a cash bonus conditional upon certain milestones being met in relation to the Scheme. These retention payments have an aggregate maximum cost of \$673,000, of which \$145,650 has already been paid.

12.7 COSTS OF THE TRANSACTION

MBF has incurred significant costs in connection with the Listing and, subsequently, the Scheme. Costs incurred in connection with the Listing were approximately \$12.7 million. Costs associated with implementing the Scheme are estimated to be \$33.1 million. These costs include the fees of MBF's professional advisors, printing and registry costs and costs associated with the Scheme Meeting. The estimate includes the retention fees referred to in Section 12.6. These costs will be met by MBF from its internal resources. While significant, the Board considers these costs are reasonable in the context of a transaction of the nature of the Scheme and in an organisation with over 800,000 Contributors.

12.8 INFORMATION MEMORANDUM REGISTERED WITH ASIC

This Information Memorandum was registered with ASIC on 20 March 2008 under section 412(6) of the Corporations Act.

ASIC has registered the Information Memorandum on the basis that it adequately sets out the matters referred to in Schedule 8, Part 3 of the Corporations Regulations, but this does not mean that ASIC has considered whether the Scheme is in the best interests of Participating Contributors.

12.9 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection free of charge during normal business hours at MBF's offices at Level 1, 50 Bridge Street, Sydney, New South Wales, Australia:

- Trust Deed;
- Funding Agreement;

- Implementation Deed; and
- the long form version of the Independent Expert's Report.

These documents are also displayed on the MBF website www.mbf.com.au.

12.10 LITIGATION

MBF is not involved in any material disputes.

12.11 MATERIAL CONTRACTS

Consents have been sought or will be sought to ensure that the implementation of the Scheme will not result in a breach or default under any material contract involving a company within the MBF Group.

12.12 OTHER STATUTORY INFORMATION

(a) Introduction

The information contained in this section is provided under section 411(3) of the Corporations Act in compliance with regulation 5.1.01 and Part 3 of Schedule 8 of the Corporations Regulations.

(b) Directors' recommendation

The names of the Directors are set out in Section 9.3.

Each of the Directors desires to make and considers himself or herself justified in making a recommendation in relation to the Scheme and recommends a vote in favour of the Scheme. The reasons for each Director's recommendation are set out in Section 4.

(c) How the Directors intend to vote

Each of the Directors is entitled to vote on the Scheme, and intends to vote in favour of the Scheme.

(d) Material change in the financial position of MBF

Except as disclosed in this Information Memorandum, to the knowledge of the Directors, there has not been a material change in the financial position of MBF since 30 June 2007 (being the date of the last balance sheet which was laid before the Company in general meeting on 9 November 2007).

(e) Payments or other benefits to directors, secretaries or executive officers

Other than the information provided in this Section 12, there are no payments or other benefits that will be made

or given to any director, secretary or executive officer of MBF or of any corporation related to MBF as compensation for loss of, or as consideration for or in connection with, his or her retirement from office as director, secretary or executive officer of MBF or any corporation related to MBF.

(f) Intention about MBF's business, assets and employees

BUPA Australia's intentions in relation to MBF's business, assets and employees are set out in Section 3.3.

(g) Consents

The following persons have given and, before the date of registration of this Information Memorandum, have not withdrawn, their consent to be named in this Information Memorandum in the form and in the context in which they are named:

- Ernst & Young Transaction Advisory Services Limited (ABN 87 003 599 844) as the Independent Expert and in respect of the Independent Expert's Report;
- Mr Ian Burningham, BSc, FIAA as the Appointed Actuary and in respect of the Appointed Actuary's Report;
- Towers, Perrin, Forster & Crosby Inc. (ABN 51 002 551 019) as the Consulting Actuary and in respect of the Consulting Actuary's Report;
- Deloitte Touche Tohmatsu Ltd (ABN 41 092 223 240) as the taxation adviser to MBF and in respect of the Tax Advice Letter;
- Trust Company Fiduciary Services Limited (ACN 000 000 993) as Trustee of the Trust;
- Grant Samuel Corporate Finance Pty Limited (ACN 076 176 657) as the financial adviser to MBF;
- Link Market Services Limited (ACN 083 214 537) in respect of the MBF register of company members;
- Allens Arthur Robinson as the legal adviser to MBF; and
- Gavin Anderson & Company (Australia) Ltd (ARBN 003 287 643) as the communications adviser to MBF.

(h) Disclosures and responsibility

Further, each person named in Section 12.12(g):

- has not authorised the issue or caused the issue of this Information Memorandum;
- does not make, or purport to make, any statement in this Information Memorandum or any statement on which a statement in this Information Memorandum is based, other than:

- Ernst & Young Transaction Advisory Services Limited (ABN 87 003 599 844) in relation to its Independent Expert's Report;
 - Mr Ian Burningham, BSc, FIAA in relation to his Appointed Actuary's Report;
 - Towers, Perrin, Forster & Crosby Inc. (ABN 51 002 551 019) in relation to its Consulting Actuary's Report; and
 - Deloitte Touche Tohmatsu Ltd (ABN 41 092 223 240) in relation to Section 7.2 and the Tax Advice Letter; and
- iii. to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding and takes no responsibility for, any part of this Information Memorandum other than a reference to its name and the statement (if any) included in this Information Memorandum with the consent of that party as specified in Section 12.12(g).

(i) Fees

Each of the persons (except for Ian Burningham) named in Section 12.12(g) is performing a function in a professional advisory or other capacity in connection with the preparation or distribution of this Information Memorandum, and will be entitled to receive professional fees charged in accordance with their normal basis of charging.

Mr Burningham is entitled to a retention payment of \$250,000 on 30 June 2008.

12.13 REGULATORY MODIFICATIONS AND APPROVALS

The following regulatory approvals, exemptions and declarations have been given or are being sought in relation to the Scheme. Certain approvals may ultimately be given subject to one or more conditions. It is also possible that the approvals being sought may not be given.

(a) ASIC approval

MBF will apply to ASIC under Part 2B.7 of the Corporations Act to change its company type from a public company limited by guarantee to a proprietary company limited by shares.

(b) PHIAC approval

As part of the Scheme, MBF will apply to PHIAC to convert to become registered as a for profit private health insurer. The application is governed by section 126-42 of the PHI Act. Under section 126-42(5), PHIAC must approve the application if formal requirements of that sub-section are satisfied.

These requirements include that the application must be in the approved form; it must include the relevant details of the conversion scheme and it must be given to PHIAC at least 90 days before the day specified in the application as the day on which the insurer proposes that it become registered as a for profit insurer.

MBF has made the application to PHIAC to obtain this approval with effect from the Implementation Date. This is one of the conditions that must be satisfied for the Scheme to be approved.

(c) FSSA approval

On 20 December 2007, APRA gave written notice under the FSSA that it approved BUPA and its associates holding a stake of 100% in MBF Life.

(d) FIRB approval

On 4 January 2008, FIRB gave written notice to BUPA Australia's lawyers that it had no objections in terms of the Government's foreign policy in respect of the proposal of BUPA to, through BUPA Australia, acquire MBF.

(e) ACCC approval

On 7 November 2007, the ACCC announced that it will not oppose the proposed merger of BUPA Australia and MBF pursuant to section 50 of the *Trade Practices Act 1974* (Cth).

12.14 INTERESTS OF PERSONS FOR DISCLOSURE

MBF has produced this Information Memorandum with the assistance of the professional advisers set out in the Corporate Directory. Some of the people employed or retained by those professional advisers may fall within one of the classes of person who is a Participating Contributor. If the Scheme is approved, these people will receive an Entitlement (in their personal capacity) in accordance with the Allocation Rules.

12.15 OTHER MATERIAL INFORMATION

Other than as contained in this Information Memorandum there is no information material to the making of a decision in relation to the Scheme (being information that is within the knowledge of any director of MBF or a related company) which has not previously been disclosed to Participating Contributors.



13.1 DEFINITIONS

In this Information Memorandum other than in Schedule 2 (Scheme of Arrangement), the following definitions apply unless the context requires otherwise.

Term	Definition
ACCC	means the Australian Competition and Consumer Commission.
Account Trustee	has the meaning given in clause 1.1 of the Scheme.
AEST	means Australian Eastern Standard Time.
AIFRS	means the Australian equivalents to the International Financial Reporting Standards.
Allocation Form	means the form headed "Allocation Form" which accompanies this Information Memorandum and sets out a Participating Contributor's Estimated Entitlement.
Allocation Rules	means the rules set out in Schedule 3 under which the Transaction Consideration is allocated to Participating Contributors and persons who the Review Committee determines should have been included as Participating Contributors.
Ambulance Only Policy	has the meaning given in rule 9 of the Allocation Rules.
Appointed Actuary	means Mr Ian Burningham, BSc, FIAA, an actuary employed by MBF in accordance with the PHI Act.
Appointed Actuary's Report	means the report by the Appointed Actuary set out in Schedule 7.
Appointed Contributor Representative	means a person appointed to the MBF Council by the Directors under rule 5 of the MBF Constitution, with approval of the Governors, or a Former State Board of Advice Member.
APRA	means the Australian Prudential Regulation Authority.
ASIC	means the Australian Securities and Investments Commission.
BAPL Nominee	means BUPA Australia Holdings.
BAPL Prescribed Occurrence	means: <ol style="list-style-type: none"> an Insolvency Event affecting BUPA Australia; a BUPA Finance Insolvency Event; or PHIAC appointing an external manager of the health benefits fund conducted by BUPA Australia Health under section 217-10 of the PHI Act.
BAPL Reimbursement Fee	means the amount equal to 1% of the Transaction Consideration.
Base Allocation	has the meaning given in rule 4 and sub-rule 6.1 of the Allocation Rules.

Term	Definition
Board	means the board of directors of MBF.
BUPA	means The British United Provident Association Limited, a company incorporated under the laws of England and Wales and having company number 432511.
BUPA Australia	means BUPA Australia Pty Ltd (ABN 81 098 309 025).
BUPA Australia Group	means BUPA Australia and all of its subsidiaries.
BUPA Australia Health	means BUPA Australia Health Pty Ltd (ABN 50 003 098 655).
BUPA Australia Holdings	means BUPA Australia Holdings Pty Limited (ACN 129 951 855).
BUPA Finance	means BUPA Finance Plc, a company incorporated under the laws of England and Wales and having company number 2779134.
BUPA Finance Insolvency Event	means BUPA Finance: <ul style="list-style-type: none"> a. is unable to pay its debts as and when they fall due; or b. has stopped or threatened to stop payment of its debts as they fall due.
BUPA Group	means the BUPA group of companies comprising BUPA and all of its related bodies corporate.
BUPA Member	means a company nominated by BUPA Australia and notified to MBF under clause 6.1(a) of the Implementation Deed.
Business Day	means a day on which banks are open for business in Sydney and Melbourne excluding a Saturday, Sunday or a day which is a public holiday in Sydney or Melbourne.
Centrelink	means the Government Agency which administers social security entitlements.
Chairman	means Mr John Conde, AO.
Change of Company Type	means a change in MBF's company type under Part 2B.7 of the Corporations Act from a public company limited by guarantee to a proprietary company limited by shares.
ClearView Financial Solutions	means ClearView Financial Management Limited (ABN 99 067 544 549).
ClearView Life Nominees	means ClearView Life Nominees Pty Limited (ABN 37 003 682 175).
Combined Group	means the MBF Group, BUPA Australia Health and BUPA Australia Holdings.
Combined Policy	has the meaning given in rule 9 of the Allocation Rules.
Community Rating Principle	means the principle by that name described in Chapter III of the PHI Act that health funds cannot charge contributors different premiums for the same level of cover because of certain characteristics such as their age (other than age at entry), claims history, gender or health status.
Company	means MBF.
Company Member	means a person who was a company member under MBF's constitution on the Cut-off Date.
Competing Demutualisation	means a scheme of arrangement or other transaction between MBF and the Company Members, the Trustee and/or the Contributors (other than the Scheme) the effect of which is to achieve or facilitate: <ul style="list-style-type: none"> a. a demutualisation of MBF; b. a change of company type of MBF under Part 2B.7 of the Corporations Act; c. the issuing of shares in MBF, a related body corporate of MBF or a company which is to become a related body corporate of MBF to some or all of the Company Members, the Trustee and/or Contributors; or d. an IPO.

Term	Definition
Competing Transaction	means: <ul style="list-style-type: none"> a. a Competing Demutualisation; or b. a transaction or arrangement pursuant to which a Third Party will, if the transaction or arrangement is entered into or completed: <ul style="list-style-type: none"> i. acquire (whether directly or indirectly) or become the holder of, or otherwise acquire, have a right to acquire or have an economic interest in all or a substantial part of the business of the MBF Group including, without limitation, the Policies; ii. become a Substantial Holder in MBF or an MBF Group Member; iii. acquire control (as determined in accordance with section 50AA of the Corporations Act) of MBF or an MBF Group Member; iv. otherwise acquire or merge with MBF or an MBF Group Member; or v. enter into any agreement, arrangement or understanding requiring MBF to abandon, or otherwise fail to proceed with, the Transaction, whether by way of: <ul style="list-style-type: none"> vi. takeover offer; vii. scheme of arrangement; viii. sale or purchase of assets; ix. sale or purchase or issue of shares; x. joint venture; or xi. other transaction or arrangement.
Completion	means the completion of the issue of the Subscription Shares under the Implementation Deed.
Consulting Actuary	means Towers, Perrin, Forster & Crosby Inc (ABN 51 002 551 019).
Consulting Actuary's Report	means the report by the Consulting Actuary set out in Schedule 8.
Contributor	means the person in whose name the relevant Membership (as defined in the Fund Rules) is registered and who is legally responsible for payment of premiums.
Contributor Member	means a Contributor who has applied for and, being eligible, has been accepted and entered on the register of company members of MBF.
Corporations Act	means the <i>Corporations Act 2001</i> (Cth) and the regulations made under that Act.
Court	means the Federal Court of Australia or any other court with jurisdiction to hear and approve the Scheme.
Court Approval Date	means, if the Court approves the Scheme, the date on which the Court grants the order under section 411(4)(b) of the Corporations Act approving the Scheme.
Cut-off Date	means 8 November 2007.
Deed Poll	means the deed poll entered into by BUPA Australia Holdings and BUPA Finance (as guarantor) in favour of Scheme Members as set out in Schedule 5.
Director	means a director of MBF.
Disclosed Transaction	means any transaction identified as such in the Disclosure Letter.
Disclosure Letter	means the letter so entitled provided by MBF to BUPA Australia on 14 December 2007 and countersigned by BUPA Australia.
Effective	when used in relation to the Scheme, means the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) in relation to the Scheme.
Eligible Contributor	means a person who was a Contributor who held a Qualifying Policy and who was not a Company Member and in respect of whom the Trustee will become registered as a company member of MBF on its register of company members under clause 3 of the Trust Deed.
Eligible Policy	has the meaning given in rule 7 of the Allocation Rules.

Term	Definition
Encumbrance	means any interest or power: <ul style="list-style-type: none"> a. reserved in or over any interest in any asset including, but not limited to, any retention of title; or b. created or otherwise arising in or over any interest in any asset under a bill of sale, mortgage, charge, lien, pledge, trust or power, by way of, or having similar commercial effect to, security for payment of a debt, any other monetary obligation or the performance of any other obligation, or any trust or any retention of title and includes, but is not limited to, any agreement to grant or create any of the above.
End Date	means 16 September 2008 or such later date as MBF and BUPA Australia agree in writing.
Entitlement	means the amount payable in respect of a Participating Contributor or a person who the Review Committee, prior to the Implementation Date, determines should have been included as a Participating Contributor calculated under sub-rule 7.5 of the Allocation Rules and distributed within 10 Business Days of the Implementation Date.
Ernst & Young	means Ernst & Young Transaction Advisory Services Limited (ABN 87 003 599 844).
Estimated Entitlement	means an estimate of a Participating Contributor's Entitlement calculated as set out on that person's Allocation Form.
Experts' Reports	means the Independent Expert's Report, the Appointed Actuary's Report, the Consulting Actuary's Report and the Tax Advice Letter.
Extras Only Policy	has the meaning given in rule 9 of the Allocation Rules.
FATA	means the <i>Foreign Acquisitions and Takeovers Act 1975</i> (Cth).
Financial Adviser	means any financial adviser retained by MBF in relation to the Scheme or a Competing Transaction from time to time.
Financial Indebtedness	means any debt or other monetary liability (whether actual or contingent) in respect of moneys borrowed or raised or any financial accommodation including under or in respect of any: <ul style="list-style-type: none"> a. bill, bond, debenture, note or similar instrument; b. acceptance, endorsement or discounting arrangement; c. guarantee; d. finance or capital lease; e. agreement for the deferral of a purchase price or other payment in relation to the acquisition of any asset or service; or f. obligation to deliver goods or provide services paid for in advance by any financier.
FIRB	means the Foreign Investment Review Board.
Former State Board of Advice Member	means a person who immediately prior to the annual general meeting of MBF held on 20 October 1997 (and at any postponement or adjournment of that meeting) was entitled to hold office of in a State Board of Advice as at 21 October 1997.
Foundation	means MBF Foundation Limited (ACN 113 817 637).
FSSA	means the <i>Financial Sector (Shareholdings) Act 1988</i> (Cth).
Fund Rules	means the by-laws entitled By-Laws made under the MBF Constitution and which were in force on the Cut-off Date.
Funding Agreement	means any agreement between the Trustee and MBF under which MBF agrees to indemnify the Trustee and pay any expenses incurred by and/or fees charged by the Trustee in respect of the Trust.
Government Agency	means any foreign or Australian government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any State.

Term	Definition
Government Regulator	means: a. PHIAC; b. the Department of Health and Ageing; or c. any combination of them.
Governors	means the persons appointed as governors under rule 4 of the MBF constitution.
Grant Samuel	means Grant Samuel Corporate Finance Pty Limited (ACN 076 176 657).
Hospital Only Policy	has the meaning given in rule 9 of the Allocation Rules.
IAG	means Insurance Australia Group Limited (ABN 60 090 739 923).
Implementation Date	means: a. the date of effect of the Change of Company Type; or b. if ASIC does not agree to the Change of Company Type taking effect at a specific time on the day after the expiry of the one month period after ASIC gives notice as mentioned in section 164(3) of the Corporations Act, but instead requires the Change of Company Type to take effect at the first moment of the day after the expiry of the one month period, the timing of the Scheme shall be varied in such manner as the parties agree, acting reasonably, to accommodate that fact, potentially by having the Implementation Time and Implementation Date (for steps preceding the Change of Company Type) as 11.59pm on the last day of that one month period and having the Change of Company Type occur at the first moment of the day after the expiry of the one month period, and by having steps following the Change of Company Type occurring immediately thereafter.
Implementation Deed	means the Merger Implementation Deed between MBF, BUPA Australia and BUPA Finance (as guarantor), dated 14 December 2007.
Implementation Time	means: a. 10.00am on the Implementation Date, or any other specific time on the Implementation Date at which (by agreement between ASIC, MBF and BUPA Australia) the Change of Company Type will take effect; or b. if ASIC does not agree to the Change of Company Type taking effect at a specific time on the day after the expiry of the one month period after ASIC gives notice as mentioned in section 164(3) of the Corporations Act, but instead requires the Change of Company Type to take effect at the first moment of the day after the expiry of the one month period, the timing of the Scheme shall be varied in such manner as the parties agree, acting reasonably, to accommodate that fact, potentially by having the Implementation Time and Implementation Date (for steps preceding the Change of Company Type) as 11.59pm on the last day of that one month period and having the Change of Company Type occur at the first moment of the day after the expiry of the one month period, and by having steps following the Change of Company Type occurring immediately thereafter.
Independent Expert	means Ernst & Young Transaction Advisory Services Limited (ABN 87 003 599 844).
Independent Expert's Report	means the concise version of the report by the Independent Expert set out in Schedule 6.
Information Memorandum	means this Information Memorandum, dated 20 March 2008.
Insolvency Event	means in relation to a company other than BUPA Finance, being in liquidation or provisional liquidation or under administration, having a controller or analogous person appointed to it or any of its property, being taken under section 459F(1) of the Corporations Act to have failed to comply with a statutory demand, being unable to pay its debts or otherwise insolvent, becoming an insolvent under administration as defined in section 9 of the Corporations Act, entering into a compromise with, or assignment for the benefit of, any of its creditors or any analogous event.

Term	Definition
IPO	means an initial public offering of shares in MBF, a related body corporate of MBF or a company which is to become a related body corporate of MBF.
Join Date	has the meaning given in rule 7 of the Allocation Rules.
Listing	means the Board's proposal to demutualise MBF and list the shares of a new holding company of MBF on the Australian Securities Exchange, as more fully described in the MBF media release, dated 9 November 2007. This proposal has been superseded by the Scheme.
Managing Director/CEO	means Mr Eric Dodd.
Material Adverse Effect	has the effect or likely effect of: <ul style="list-style-type: none"> a. reducing the value of the consolidated net assets of the MBF Group below \$1,027 billion for a period of 10 consecutive Business Days at any time during the financial year ending 30 June 2008 (calculated on the basis of AIFRS); or b. MBF being unable to carry on its business in substantially the same manner as it is currently carried on.
MBF	means MBF Australia Limited (ABN 81 000 057 590).
MBF Alliances	means MBF Alliances Pty Limited (ABN 89 075 799 236).
MBF Constitution	means the Constitution of MBF as in force on the date of this Information Memorandum.
MBF Contributors' Master Trust	means the trust established in respect of MBF and the Eligible Contributors and governed by the Trust Deed.
MBF Council	means the body established under the MBF Constitution known as the Council that comprises Appointed Contributor Representatives and the Directors.
MBF Council Member	means a member of the MBF Council.
MBF Group	means the MBF group of companies comprising MBF and all of its related bodies corporate.
MBF Life	means MBF Life Limited (ABN 12 000 021 581).
MBF Material Adverse Change	means one or more changes, events, occurrences or matters which (whether individually or when aggregated with all such changes, events, occurrences or matters of a like kind) has had, will have or could reasonably be expected to be likely to have a Material Adverse Effect.
MBF Prescribed Occurrence	means other than as required by the Implementation Deed, the Scheme or a Disclosed Transaction or as approved in writing by BUPA Australia (such approval not to be unreasonably withheld or delayed) the occurrence of any of the following which: <ul style="list-style-type: none"> a. a member of the MBF Group issuing shares, or granting an option over its shares, or agreeing to make such an issue or grant such an option, other than to a member of the MBF Group; b. a member of the MBF Group issuing or agreeing to issue securities convertible into shares; c. a member of the MBF Group making any change to its constitution; d. a member of the MBF Group disposing, or agreeing to dispose, of the whole, or a material part, of its business or property; e. a member of the MBF Group: <ul style="list-style-type: none"> i. acquiring or disposing of; ii. agreeing to acquire or dispose of; or iii. offering, proposing, announcing a bid or tendering for, any material business, entity or undertaking; f. a member of the MBF Group: <ul style="list-style-type: none"> i. acquiring or disposing of; ii. agreeing to acquire or dispose of; or iii. offering, proposing, announcing a bid or tendering for, any assets the value of which exceeds \$2 million individually or \$10 million in aggregate;

Term	Definition
MBF Prescribed Occurrence (continued)	<ul style="list-style-type: none"> g. a member of the MBF Group creating, or agreeing to create, any mortgage, charge, lien or other Encumbrance over the whole, or a material part, of its business or property otherwise than: <ul style="list-style-type: none"> i. in the ordinary course of business; and ii. a lien which arises by operation of law or legislation securing an obligation that is not yet due; h. a member of the MBF Group: <ul style="list-style-type: none"> i. entering into any contract or commitment (including in respect of Financial Indebtedness but excluding private health insurance policies issued by MBF or MBF Alliances and life insurance policies issued by MBF Life Limited) requiring payments by the MBF Group in excess of \$2 million individually or \$10 million in aggregate; ii. entering into any material contract or commitment that cannot be terminated on less than 12 months' notice without penalty, or varying the terms of any material contract with a term exceeding 12 months; iii. agreeing to any material restraint of trade or similar limitation relating to the activities of a member of the MBF Group; iv. entering into any incorporated or unincorporated joint venture or any partnership; v. waiving any Third Party default or releasing any Third Party from its obligations to a member of the MBF Group where the financial impact on the MBF Group will be in excess of \$2 million individually or \$10 million in aggregate; vi. accepting as a compromise of a matter less than the full compensation due to a member of the MBF Group where the compromise exceeds \$2 million individually or \$10 million in aggregate; or vii. making a donation, or otherwise transferring money or other assets to MBF Foundation, however, MBF may enter into Provider Agreements and agree new fee schedules under Provider Agreements provided that this does not breach clause 7.1(a)(5) (of the Implementation Deed); i. a member of the MBF Group providing financial accommodation other than to members of the MBF Group (irrespective of what form of Financial Indebtedness that accommodation takes) in excess of \$500,000.00 individually or \$10 million in aggregate; j. a failure to notify BUPA Australia of: <ul style="list-style-type: none"> i. a material change in the mix of the assets comprising the investment portfolio of the MBF Group (excluding assets held on behalf of customers of MBF Financial Services) before making the change; or ii. a material change in the value of assets of the kind described in paragraph (i) as soon as is practicable after the change occurs; k. except in the ordinary course of business, a member of the MBF Group entering into any agreement, arrangement or transaction (excluding an agreement, arrangement or transaction entered into on behalf of customers of MBF Financial Services): <ul style="list-style-type: none"> i. with respect to derivative instruments (including, but not limited to, swaps, futures contracts, forward commitments, commodity derivatives or options) or similar instruments; or ii. comprising an investment asset or financial product which cannot be sold, transferred, terminated, closed out or otherwise exited (as applicable) by the relevant MBF Group member within the period of six months after the target Implementation Date set out in the Timetable without the MBF Group member being required pay a break fee or similar fee; l. an Insolvency Event affecting a member of the MBF Group; m. a member of the MBF Group amending in any material respect any arrangement with its Financial Adviser, or entering into arrangements with a new Financial Adviser, in respect of the Transaction;

Term	Definition
MBF Prescribed Occurrence (continued)	<p>n. any investigation, prosecution, arbitration, litigation or dispute, or any two or more such events which are related, which could reasonably be expected to give rise to a liability or an aggregate liability (as applicable) for the MBF Group in excess of \$2 million (Material Proceedings) being notified to or threatened against MBF or its subsidiaries, or circumstances arising which could reasonably be expected to give rise to any Material Proceedings;</p> <p>o. other than as required to comply with law, MBF or MBF Alliances:</p> <ol style="list-style-type: none"> making any change to its fund rules, other than as contemplated for the 2008 rate review process or for the purposes of the re-registration of MBF or MBF Alliances (as applicable); or amending the terms of the proposed fund rules submitted to the Secretary for the purposes of the re-registration process before the proposed fund rules come into effect; <p>p. MBF altering the process by which a person applies to become a Company Member or a Contributor, including by changing the timing for the processing of such applications and/or the applicable fees (other than in respect of premium changes in the ordinary course of business);</p> <p>q. MBF or MBF Alliances breaching section 140-15 or section 143-15 of the PHI Act;</p> <p>r. MBF changing its status from that of a company limited by guarantee;</p> <p>s. PHIAC appointing an external manager of the health benefits fund conducted by either MBF or MBF Alliances under section 217-10 of the PHI Act;</p> <p>t. a member of the MBF Group entering into any lines of business or other activities in which the members of the MBF Group are not engaged as at the date of this deed;</p> <p>u. MBF changing the terms of appointment of any Senior Officer (including, without limitation, by agreeing to pay any increased retention, retirement or redundancy payment or any bonus); or</p> <p>v. MBF appointing a new Senior Officer or promoting an existing employee to a position as a Senior Officer.</p> <p>In this definition:</p> <ol style="list-style-type: none"> in paragraphs (h)(ii) and (h)(iii), “material” refers to a matter which is material to the member of the MBF Group to which it relates; and except in paragraphs (h)(ii), (h)(iii) and (m), “material” refers to a matter which is material in the context of the MBF Group, considered as a whole.
MBF Reimbursement Fee	means the amount equal to 1% of the Transaction Consideration.
MBF Subsidiaries	<p>means:</p> <ol style="list-style-type: none"> MBF Holdings Limited (ACN 101 151 080); MBF Alliances Pty Limited (ACN 075 799 236); MBF Travel Pty Limited (ACN 002 207 294); MBF Management Pty Limited (ACN 107 325 388); MBF Life Limited (ACN 000 021 581); ClearView Life Nominees Pty Limited (ACN 003 682 175); ClearView Financial Management Limited (ACN 067 544 549); Health Eyewear Pty Ltd (ACN 126 819 154); and MBF Foundation Limited (ACN 113 817 637).
MBF Travel	means MBF Travel Pty Limited (ABN 73 002 207 294).
MCGI	means Mutual Community General Insurance Pty Limited (ABN 59 007 895 543).
Medical Member	means a legally qualified registered medical practitioner, who is also a Contributor who has applied for and, being eligible, has been accepted and entered on the register of company members of MBF.
Non-Single Scale Policy	has the meaning given in rule 9 of the Allocation Rules.
Notice of Meeting	means the notice of Scheme Meeting set out in Schedule 1.

Term	Definition
Participating Contributors	means: a. Eligible Contributors; b. Company Members; and c. where the context requires, in relation to consideration or Entitlements, persons who the Review Committee determines, prior to the Implementation Date, should have been included as Participating Contributors and who are not Eligible Contributors.
Payment Authority Form	means the form headed "Payment Authority Form" that accompanies this Information Memorandum or such other form as MBF may approve.
PHI Act	means the <i>Private Health Insurance Act 2007</i> (Cth).
PHIAC	means the Private Health Insurance Administration Council.
Policy	means a policy of private health insurance issued by MBF.
Provider Agreements	means: a. hospital purchaser provider agreements; and b. medical purchaser provider agreements.
Proxy Form	means the form headed "Proxy Form" which accompanies this Information Memorandum and allows a Participating Contributor to appoint a representative to vote on their behalf at the Scheme Meeting.
Qualifying Policy	means a private health insurance policy issued by MBF which: a. was current and was not in arrears on the Cut-off Date; or b. if it was in arrears on the Cut-off Date, any amount in arrears on the Cut-off Date had been received in cleared funds by MBF on or before 8 February 2008; or c. was validly suspended under the Fund Rules on the Cut-off Date or was approved for suspension by MBF after the Cut-off Date but before 8 February 2008; or d. is a Policy determined by the Review Committee to be a Qualifying Policy. When a Policy is not in arrears is described in sub-rules 2.1 and 2.2 of the Allocation Rules.
Registration	means registration as a private health insurer under the PHI Act.
Registration Conversion	means a conversion of MBF's Registration from "not for profit" to "for profit" under section 126-42 of the PHI Act.
Relevant Insured	has the meaning given in sub-rule 7.3(a)(i) of the Allocation Rules.
Remaining Company Member	means a Company Member who remains on the register of company members of MBF at the relevant time.
Residual Amount	means \$25 million.
Review Committee	means the body established under the Review Committee Charter to determine whether a person should have been treated as a Participating Contributor or whether a Participating Contributor's Estimated Entitlement or Entitlement was correct.
Review Committee Charter	means the charter setting out the terms of reference of the Review Committee as set out in Schedule 4.
Review Request Form	means the form attached to the Review Committee Charter as set out in Schedule 4 or such other form as MBF approves.
Risk Equalisation Scheme	means the scheme that operates under the Private Health Insurance (Risk Equalisation Policy) Rules in respect of the method for calculating the amount to be paid into or out of the Risk Equalisation Trust Fund as a risk equalisation levy.
Risk Equalisation Trust Fund	means the fund of that name that forms part of the Risk Equalisation Scheme.
Rules	mean the Private Health Insurance Rules made by the Department of Health and Ageing or PHIAC under the PHI Act.
Satisfaction Date	means 16 January 2008.

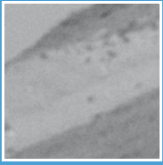
Term	Definition
Scheme	means the scheme of arrangement under Part 5.1 of the Corporations Act between MBF and the Scheme Members as set out in Schedule 2, subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and where the context requires it, the other steps set out in Section 6.1.
Scheme Meeting	means the meeting ordered by the Court to be convened pursuant to section 411(1) of the Corporations Act in relation to the Scheme.
Scheme Members	means the company members of MBF, being the persons who are on the register of company members of MBF.
Second Court Hearing	means the hearing of the application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme.
Secretary	has the meaning given in section 126-10(3) of the PHI Act.
Section	means a section of this Information Memorandum.
Senior Officer	means a person who is a member of the board of any member of the MBF Group; or an employee of a member of the MBF Group: (a) who is graded above Grade G in the “MBF Grade Structure”; or (b) whose base package exceeds the amount of \$95,000.00 per annum.
Settlement Monies	means the sum of \$10 settled by MBF, which is held by the Trustee on trust for MBF to meet the expenses incurred by the Trustee in carrying out the Trust.
Single Scale Policy	has the meaning given in rule 9 of the Allocation Rules.
Subscription Shares	means the number of ordinary shares in the capital of MBF nominated by BUPA Australia by written notice to MBF before the Implementation Date.
Substantial Holder	means a person who had a Substantial Holding in MBF or a member of the MBF Group.
Substantial Holding	has the meaning given in section 9 of the Corporations Act.
Superior Proposal	means a proposal which, in the opinion of MBF, acting reasonably and in good faith, compared to the Transaction, provides a superior outcome to Participating Contributors.
Tax Advice Letter	means the letter from Deloitte Touche Tohmatsu Ltd set out in Schedule 9.
Tenure Allocation	has the meaning given in rules 5 and 6 of the Allocation Rules.
Third Party	means a person other than BUPA Australia and its associates (where “associates” has the meaning given in Chapter 6 of the Corporations Act).
Timetable	means the indicative timetable for the implementation of the Transaction as set out in Attachment 2 of the Implementation Deed.
Transaction	means the merger of MBF with BUPA Australia by means of: a. the Scheme; b. the granting of membership of MBF to BUPA Member; c. the Change of Company Type; d. MBF issuing the Subscription Shares to BUPA Australia (or BAPL Nominee (if applicable)) for the Transaction Consideration; and e. the Registration Conversion.
Transaction Consideration	means \$2.41 billion.
Trust	means each trust established under the Trust Deed and together referred to as the MBF Contributors’ Master Trust.
Trust Account	has the meaning given in clause 1.1 of the Scheme.
Trust Deed	means the deed dated on or about 14 March 2008 between MBF and the Trustee which established the Trust.

Term	Definition
Trust Property	means in relation to MBF the Settlement Monies and any income that MBF may be entitled to under the Trust Deed, and in relation to each Eligible Contributor all rights, monies or property acquired by, or transferred to and accepted by the Trustee as Trust Property in respect of that Eligible Contributor and any accretion to that Trust Property including but not limited to: <ul style="list-style-type: none"> a. the company membership of MBF (as a company limited by guarantee); b. any Entitlement; or c. any distribution of the Residual Amount.
Trustee	means Trust Company Fiduciary Services Limited (ACN 000 000 993), the trustee of the Trust, or any new or additional trustee appointed by MBF.
Unit	means the measure used to allocate the Transaction Consideration, in accordance with the Allocation Rules.
Unit Value	has the meaning given in sub-rule 7.5 of the Allocation Rules.
Value at Risk	has the meaning given in the MBF Health Investment Policy Statement of June 2007.
Years of Membership	has the meaning given: <ul style="list-style-type: none"> a. in respect of a Participating Contributor, in sub-rule 7.2 of the Allocation Rules; and b. in respect of a Relevant Insured, in sub-rule 7.3 of the Allocation Rules.

13.2 INTERPRETATION

Headings are for convenience only and do not affect interpretation. The following rules apply unless the context requires otherwise.

- a. The singular includes the plural, and the converse also applies.
- b. A gender includes all genders.
- c. If a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- d. A reference to a *person* includes a corporation, trust, partnership, unincorporated body or other entity, whether or not it comprises a separate legal entity.
- e. A reference to *dollars* and \$ is to Australian currency.



Schedule 1 Notice of Meeting

**MBF Australia Limited
(ABN 81 000 057 590)**

Notice of Court Ordered Scheme Meeting

Company Members' Scheme Meeting

NOTICE IS GIVEN, in accordance with an order of the Federal Court of Australia made on 20 March 2008, under section 411(1) of the Corporations Act, that a meeting of Company Members of MBF Australia Limited will be held at 11.00am (AEST) on 12 May 2008 at City Recital Hall Angel Place, 2 - 12 Angel Place, Sydney NSW 2000 for the purpose of considering and, if thought fit, approving the following resolution:

THAT under, and in accordance with, the provisions of section 411 of the *Corporations Act 2001* (Cth), the scheme of arrangement proposed between MBF Australia Limited and the Scheme Members as set out in the Information Memorandum accompanying this Notice is agreed to (with or without any modification as approved by the Court).

BY ORDER OF THE BOARD

Allison Smart
Company Secretary
MBF Australia Limited

Date: 20 March 2008

Defined terms

The terms used in this Notice have the same meaning as set out in the Glossary of Terms in Section 13 of the Information Memorandum of which this Notice forms part, with the exception of the term “Company Member” which in this context means each person recorded on the register of company members of MBF as at 11.00am (AEST) on 10 May 2008 (and includes the Trustee in its capacity as a company member for each Eligible Contributor).

Material accompanying this Notice

The resolution should be read in conjunction with the Information Memorandum which accompanies this Notice. The Information Memorandum contains an explanation of the resolution and further information about the Scheme to enable you to make an informed decision as to how to vote on the resolution.

A copy of the Scheme is set out in Schedule 2 of the Information Memorandum.

A personalised Proxy Form and reply paid envelope (for use in Australia) also accompanies this Notice.

Chairman

The Court has appointed Mr John Conde, or, failing him, Mr Richard Humphry, to act as chairman of the Scheme Meeting and has directed the chairman to report the result of the resolution to the Court.

Entitlement to attend and vote at the Scheme Meeting

In order to attend and vote at the Scheme Meeting, you must be a Company Member. Each person recorded on the register of company members of MBF as at 11.00am (AEST) on 10 May 2008 will be eligible to vote at the Scheme Meeting.

The Trustee will appoint each Eligible Contributor as its attorney in respect of the company membership held on trust for that Eligible Contributor. Eligible Contributors may therefore attend and vote (either in person or by sub-attorney) or appoint a proxy to attend and vote at the Scheme Meeting in respect of the company memberships held on trust for them.

Voting and required majority

In accordance with section 411(4)(a)(ii) of the Corporations Act, for the Scheme to be effective, the resolution must be passed by a majority in number of Company Members, present and voting (either in person or by proxy).

Court approval

In accordance with section 411(4)(b) of the Corporations Act, the Scheme (with or without modification) must be approved by order of the Court. If the resolution put to the Scheme Meeting is passed (with or without modification) by the requisite majority set out above and the conditions precedent set out in clause 3 of the Scheme are satisfied or (where applicable) waived, MBF intends to apply to the Court for the necessary orders to give effect to the Scheme.

How to vote

Company Members and Eligible Contributors (who have been appointed as attorney in respect of the company membership held on trust for them by the Trustee) can vote at the Scheme Meeting in one of the following ways:

- by attending the Scheme Meeting and voting in person or by attorney. (If you are attending the meeting in person, you should bring your Proxy Form and MBF membership card or the Allocation Form with you to assist with registration); or
- by appointing a proxy to attend and vote on their behalf, using the personalised Proxy Form accompanying this Notice or by visiting the MBF website www.mbf.com.au and clicking on the Demutualisation link and following the instructions.

Voting in person (or by attorney)

Company Members (or their respective attorneys) and Eligible Contributors (or their respective sub-attorneys) who plan to attend the Scheme Meeting are asked to arrive at the venue 30 minutes prior to the time designated for the Scheme Meeting, if possible, to have names checked against any registers and have their attendances noted.

Attorneys and sub-attorneys should bring with them the original or certified copy of the power of attorney under which they have been authorised to attend and vote at the Scheme Meeting. Eligible Contributors attending in person do not need to bring the power of attorney from the Trustee.

Voting by proxy

A Company Member or Eligible Contributor may appoint a person as their proxy or proxies to attend and vote for the Company Member or Eligible Contributor at the meeting. A proxy need not be a Company Member.

For the proxy to be effective, MBF must receive the completed Proxy Form (together with any power of attorney or other authority under which the Proxy Form is signed, or a copy of that power of attorney certified as a true copy by statutory declaration) by 11.00am (AEST) on 10 May 2008, or if the Scheme Meeting is adjourned, at least 48 hours before its resumption in relation to the adjourned part of the Scheme Meeting.

Proxy Forms received after this time will be invalid.

Proxy Forms and, if applicable, the authority appointing an attorney, may be lodged:

- by mail to MBF Australia Limited, PO Box 2177, Melbourne, VIC 8060 or by using the reply paid envelope provided;
- by fax to (02) 9857 1619; or
- electronically by visiting the MBF website www.mbf.com.au and clicking on the Demutualisation link and following the instructions on how to lodge an electronic Proxy Form.



Schedule 2 Scheme of Arrangement



This scheme of arrangement is made under section 411 of the *Corporations Act 2001* (Cth) between the following parties:

MBF Australia Limited (ABN 81 000 057 590)

registered in New South Wales, of Level 18, 50 Bridge Street, Sydney, New South Wales, 2000 (**MBF**); and

the Scheme Members.

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In the Scheme, the following words have these meanings, except where the context otherwise requires.

Term	Definition
Account Trustee	means the trustee appointed to manage the Trust Account.
Allocation Form	means the form headed "Allocation Form" which accompanies the Information Memorandum and sets out a Participating Contributor's Estimated Entitlement.
Allocation Rules	means the rules under which the Scheme Consideration is allocated to Participants as set out in Schedule 1.
ASIC	means the Australian Securities and Investments Commission.
BUPA Australia	means BUPA Australia Pty Ltd (ABN 81 098 309 025).
BUPA Australia Group	means BUPA Australia and all of its subsidiaries.
BUPA Australia Holdings	means BUPA Australia Holdings Pty Ltd (ACN 129 951 855).
BUPA Finance	means BUPA Finance Plc, a company incorporated under the laws of England and Wales and having company number 2779134.
BUPA Member	means the company nominated by BUPA Australia and notified to MBF under clause 6.1(a) of the Implementation Deed.
Business Day	means a day on which banks are open for business in Sydney and Melbourne excluding a Saturday, Sunday or a day which is a public holiday in Sydney or Melbourne.
Change of Company Type	means a change in MBF's company type under Part 2B.7 of the Corporations Act from a company limited by guarantee to a proprietary company limited by shares.
Company Member	means a person who was a company member under MBF's constitution on the Cut-off Date.
Conditions Precedent	mean the conditions precedent described in Clause 3.
Contributor	means the person in whose name the relevant Membership (as defined in the Fund Rules) is registered and who is legally responsible for payment of premiums.
Corporations Act	means the <i>Corporations Act 2001</i> (Cth) and the regulations made under that Act.
Court	means the Federal Court of Australia or any other court with jurisdiction to hear and approve the Scheme.
Court Approval Date	means, if the Court approves the Scheme, the date on which the Court grants the order under section 411(4)(b) of the Corporations Act approving the Scheme.
Cut-off Date	means 8 November 2007.
Deed Poll	means the deed poll entered into by BUPA Australia Holdings and BUPA Finance (as guarantor) in favour of Scheme Members, a copy of which is set out in Schedule 2.
Effective or Effect	means, when used in relation to the Scheme, the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) in respect of the Scheme.
Effective Date	means the date the Scheme becomes Effective.
Eligible Contributor	means a person who was a Contributor who held a Qualifying Policy and who was not a Company Member and in respect of whom the Trustee has become registered as a company member of MBF on its register of members under clause 3 of the Trust Deed.
End Date	means 16 September 2008 or such later date as MBF and BUPA Australia may agree.
Entitlement	means the amount payable in respect of a Participating Contributor or Review Participant calculated under sub-rule 7.5 of the Allocation Rules and distributed within 10 Business Days of the Implementation Date.

Term	Definition
Estimated Entitlement	means the estimate of a Participating Contributor's Entitlement as set out on that Participating Contributor's Allocation Form.
Fund Rules	means the by-laws entitled By-Laws made under the MBF Constitution and which were in force on the Cut-off Date.
Government Agency	means any foreign or Australian government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any State.
Implementation Date	means: <ul style="list-style-type: none"> a. the date of effect of the Change of Company Type; or b. if ASIC does not agree to the Change of Company Type taking effect at a specific time on the day after the expiry of the one month period after ASIC gives notice as mentioned in section 164(3) of the Corporations Act, but instead requires the Change of Company Type to take effect at the first moment of the day after the expiry of the one month period, the timing of the Scheme shall be varied in such manner as the parties agree, acting reasonably, to accommodate that fact, potentially by having the Implementation Time and Implementation Date (for steps preceding the Change of Company Type) as 11.59pm on the last day of that one month period and having the Change of Company Type occur at the first moment of the day after the expiry of the one month period, and by having steps following the Change of Company Type occurring immediately thereafter.
Implementation Deed	means the Merger Implementation Deed between MBF, BUPA Australia and BUPA Finance (as guarantor) dated 14 December 2007.
Implementation Time	means: <ul style="list-style-type: none"> a. 10.00am on the Implementation Date, or any other specific time on the Implementation Date at which (by agreement between ASIC, MBF and BUPA Australia) the Change of Company Type will take effect; or b. it has the meaning given in paragraph (b) of the definition of Implementation Date.
Information Memorandum	means the Information Memorandum dated 20 March 2008 in respect of the Scheme.
MBF Constitution	means the constitution of MBF as in force at the date of the Information Memorandum.
MBF Contributors' Master Trust	means the trust established in respect of MBF and the Eligible Contributors and governed by the Trust Deed.
MBF Group	means the MBF group of companies comprising MBF and all of its related bodies corporate.
Participants	means Participating Contributors, Review Participants and Residual Participants.
Participating Contributors	means Eligible Contributors and Company Members.
Payment Authority Form	means the form headed "Payment Authority Form" that accompanies the Information Memorandum or such other form as MBF may require.
PHI Act	means the <i>Private Health Insurance Act</i> (2007) (Cth).
PHIAC	means the Private Health Insurance Administration Council.
Policy	means a policy of private health insurance issued by MBF.
Preferred Payment Method	means in relation to Participants: <ul style="list-style-type: none"> a. if the Participant has provided account details to MBF by completing and returning a Payment Authority Form, electronic funds transfer in Australian currency into that account; b. otherwise, a cheque in Australian currency in the name of the Participant, mailed to the address to which correspondence is sent for the purposes of the relevant Qualifying Policy or such other address as the Participant may nominate in writing for this purpose.

Term	Definition
Qualifying Policy	means a private health insurance policy issued by MBF which: <ul style="list-style-type: none"> a. was current and was not in arrears on the Cut-off Date; or b. if it was in arrears on the Cut-off Date, any amount in arrears on the Cut-off Date had been received in clear funds by MBF on or before 8 February 2008; or c. was validly suspended under the Fund Rules on the Cut-off Date or was approved for suspension by MBF after the Cut-off Date but before 8 February 2008; or d. is a Policy determined by the Review Committee to be a Qualifying Policy.
Record Time	means 11.00am on 10 May 2008.
Registration	means registration as a private health insurer under the PHI Act.
Regulatory Approvals	means such consents, approvals or other acts of a Government Agency necessary or desirable to implement the Scheme.
Remaining Company Member	means a Company Member who remains on the register of company members of MBF at the relevant time.
Residual Amount	means \$25 million.
Residual Participant	means a person who the Review Committee determines, after the Implementation Date but prior to 31 December 2008: <ul style="list-style-type: none"> a. should have been included as a Participating Contributor; or b. was a Participating Contributor but should have received a greater Entitlement.
Review Committee	means the body established under the Review Committee Charter to determine whether a person should have been treated as a Participating Contributor or whether a Participating Contributor's or a Review Participant's Estimated Entitlement or Entitlement was correct.
Review Committee Charter	means the charter setting out the terms of reference of the Review Committee as set out in Schedule 3.
Review Participant	means a person who the Review Committee determines, after the Record Time but prior to the Implementation Date, should have been included as a Participating Contributor.
Scheme	means this scheme of arrangement, subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and consented to by MBF and BUPA Australia.
Scheme Consideration	means \$2.41 billion, to be allocated to Participants in accordance with the provisions of the Scheme.
Scheme Meeting	means the meeting ordered by the Court to be convened pursuant to section 411(1) of the Corporations Act in relation to the Scheme.
Scheme Members	means the company members of MBF, being the persons who are on the register of company members of MBF.
Second Court Hearing	means the hearing of the application made to the Court for an application under section 411(4)(b) of the Corporations Act approving the Scheme.
Second Court Hearing Date	means the day on which the Second Court Hearing commences.
Trust	means each trust established under the Trust Deed and together referred to as the MBF Contributors' Master Trust.
Trust Account	means the bank account to be established by the Account Trustee under Clause 6.
Trust Deed	means the deed dated on or about 14 March 2008 between MBF and the Trustee which established the Trust.
Trustee	means Trust Company Fiduciary Services Limited (ACN 000 000 993), the trustee of the Trust or any new or additional trustee appointed by MBF.

1.2 Interpretation

In the Scheme, headings are for convenience only and do not affect the interpretation of the Scheme. The following rules apply unless the context requires otherwise:

- a. where relevant, words and phrases have the same meaning as in the Corporations Act;
- b. the singular includes the plural and conversely;
- c. a gender includes all genders;
- d. if a word or phrase is defined, its other grammatical forms have a corresponding meaning;
- e. a reference to a person, corporation, trust, partnership, unincorporated body or other entity includes any of them;
- f. a reference to a Clause, Recital or Schedule is a reference to a clause or recital of, or a schedule to, the Scheme;
- g. a reference to an agreement or document (including a reference to the Scheme) is to the agreement or document as amended, varied, supplemented, novated or replaced, except to the extent prohibited by the Scheme or that other agreement or document;
- h. a reference to a party to the Scheme or another agreement or document includes the party's successors, permitted substitutes and permitted assigns (and, where applicable, the party's legal personal representatives);
- i. a reference to legislation or to a provision of legislation includes a modification or re-enactment of it, a legislative provision substituted for it and a regulation or statutory instrument issued under it; and
- j. the meaning of general words is not limited by specific examples introduced by *including*, or *for example*, or similar expressions.

2. PRELIMINARY

2.1 MBF

MBF is a public company registered in New South Wales and is a company limited by guarantee.

2.2 BUPA

- a. BUPA Australia is a proprietary company registered in Victoria and is a company limited by shares.
- b. BUPA Australia Holdings is a proprietary company registered in Victoria and is a company limited by shares.
- c. BUPA Finance is a public company registered under the laws of England and Wales and is a company limited by shares.

- d. BUPA Australia, BUPA Australia Holdings, BUPA Member and BUPA Finance are wholly owned subsidiaries of The British United Provident Association Limited, which is a private company registered under the laws of England and Wales and is a company limited by guarantee.

2.3 The Trustee and the Trust

- a. The Trustee has taken up or will take up prior to the Record Time a company membership in MBF for each person identified as an Eligible Contributor as at the Record Time including as a result of determinations of the Review Committee.
- b. The Trustee will hold that company membership, any Scheme Consideration allocated to the Trustee for the benefit of an Eligible Contributor under the provisions of the Scheme and any other trust property referable to each Eligible Contributor separately on trust for each Eligible Contributor in accordance with the terms of the Trust Deed.
- c. As against the Trustee, each Eligible Contributor will have a vested and indefeasible right in and be absolutely entitled to:
 - i. any company membership of MBF (as a company limited by guarantee) that the Trustee is granted with respect to the Eligible Contributor; and
 - ii. the amount of Scheme Consideration to which the Eligible Contributor is entitled.
- d. The Trustee will appoint each Eligible Contributor as its attorney to vote personally or by proxy in relation to the membership of MBF held by the Trustee on trust for that Eligible Contributor.
- e. The Trustee will not vote personally or by proxy at any general meeting of MBF.

2.4 Scheme

The Board considers that the Scheme:

- a. is in the best interests of MBF and the Company Members and Eligible Contributors as a whole; and
- b. does not materially adversely affect any creditors of MBF.

2.5 Implementation Deed

- a. Under the Implementation Deed, MBF, BUPA Australia and BUPA Finance (as guarantor) have agreed to combine the businesses of the MBF Group and the BUPA Australia Group. The transaction is to be effected by means of the following steps:
 - i. the Scheme;
 - ii. the granting of membership of MBF to BUPA Member;

- iii. the changing of MBF's company type under Part 2B.7 of the Corporations Act from a company limited by guarantee to a proprietary company limited by shares, with the sole shareholder being BUPA Member;
 - iv. BUPA Member causing MBF to amend its constitution;
 - v. MBF issuing shares to BUPA Australia Holdings; and
 - vi. the conversion of MBF's Registration from "not for profit" to "for profit" under section 126-42 of the PHI Act.
- b. The subscription price of \$2.41 billion for the share issue referred to in Clause 2.5(a)(v) will be used to satisfy MBF's payment obligations under the Scheme.
 - c. To facilitate the Scheme, MBF, BUPA Australia and BUPA Finance (as guarantor) have entered into the Implementation Deed under which MBF and BUPA Australia have agreed to observe all the provisions of the Scheme which relate to them and to do everything within their power that is necessary to give full effect to the Scheme, and BUPA Finance has agreed to guarantee BUPA Australia and BUPA Australia Holdings' obligations under the Implementation Deed.

2.6 Deed Poll

To facilitate the Scheme, BUPA Australia Holdings and BUPA Finance have entered into the Deed Poll under which BUPA Australia Holdings gives promises in favour of Scheme Members that BUPA Australia Holdings will make the payment to MBF referred to in Clause 2.5(b) as and when the payment falls due under the terms of the Implementation Deed, and BUPA Finance has agreed to guarantee BUPA Australia Holdings' obligations under the Deed Poll.

3. CONDITIONS PRECEDENT

3.1 Conditions Precedent

The Scheme is conditional upon the satisfaction of the following conditions precedent:

- a. each condition precedent set out in clause 3.1 of the Implementation Deed being satisfied or, in accordance with the terms of the Implementation Deed, waived; and
- b. the Implementation Deed not having been terminated as at 8.00am on the Court Approval Date.

3.2 Certificates in relation to conditions

- a. MBF must provide to the Court on the Second Court Hearing Date a certificate stating, to the best of MBF's knowledge, whether or not the conditions precedent set out in clause 3.1 of the Implementation Deed (other than the condition precedent relating to Court approval of the Scheme) have

been satisfied or, in accordance with the terms of the Implementation Deed, waived (assuming that the Second Court Hearing Date is the Court Approval Date).

- b. BUPA Australia must provide to the Court on the Second Court Hearing Date a certificate stating, to the best of BUPA Australia's knowledge, whether or not the conditions precedent set out in clause 3.1 of the Implementation Deed (other than the condition precedent relating to Court approval of the Scheme) have been satisfied or, in accordance with the terms of the Implementation Deed, waived (assuming that the Second Court Hearing Date is the Court Approval Date).
- c. The certificates referred to in Clauses 3.2(a) and 3.2(b) will, if they are to the same effect, together constitute conclusive evidence of the matters stated therein.

3.3 Regulatory Approval

For the purposes of Clauses 3.1 and 3.2, a Regulatory Approval will be regarded as having been obtained even though a condition has been attached to that Regulatory Approval, if BUPA Australia notifies MBF that the condition is acceptable or MBF and BUPA Australia otherwise determine to treat that Regulatory Approval as having been obtained.

3.4 Satisfaction of Conditions

- a. MBF and company members of MBF shall not have any rights or obligations under Clause 5 unless and until the Conditions Precedent are satisfied.
- b. The Scheme will lapse and be of no further force or effect if the Conditions Precedent are not satisfied on or before 16 September 2008 or any later date that MBF and BUPA Australia agree in writing.

3.5 Termination of Implementation Deed

If the Implementation Deed is terminated in accordance with its terms, then each of MBF, BUPA Australia, BUPA Australia Holdings and BUPA Finance will be released from:

- a. any further obligation to take steps to implement the Scheme; and
- b. any liability with respect to the Scheme including, in the case of BUPA Australia Holdings and BUPA Finance without limitation, under the Deed Poll.

4. LODGEMENT

If the Conditions Precedent are satisfied, MBF will lodge with ASIC an office copy of the Court order made under section 411(4)(b) of the Corporations Act approving the Scheme. The Court order is taken to have effect on and from the time and date specified in that order.

5. IMPLEMENTATION OF SCHEME

5.1 Implementation Date steps

On the Implementation Date, the following steps will occur:

- a. (*Pre-payment of subscription moneys*) Subject to BUPA Australia Holdings making the payment of the Scheme Consideration into the Trust Account in accordance with the Implementation Deed, MBF will procure that the Account Trustee will commence to hold the moneys standing to the credit of the Trust Account (subject to Clause 6.1(b)) on trust for MBF (as pre-payment of the issue price for the share issue referred to in Clause 2.5(a)(v));
- b. (*Cancellation of memberships*) The company memberships of all Scheme Members (including the Remaining Company Members and the Trustee) other than BUPA Member will be cancelled and the liability of each Scheme Member (other than BUPA Member) as a guarantor on a winding up of MBF will be extinguished and each Scheme Member (other than BUPA Member) will cease to be a company member of MBF; and
- c. (*Scheme Consideration*) in consideration for the cancellation of the company memberships and extinguishing of liability referred to in Clause 5.1(b), MBF will pay the Scheme Consideration in the manner set out in Clause 5.2.

5.2 Payment of Scheme Consideration

- a. MBF will:
 - i. within 10 Business Days after the Implementation Date distribute Entitlements to Participating Contributors and Review Participants; and
 - ii. no later than 10 Business Days after 31 December 2008 distribute:
 - (A) any payments the Review Committee has determined are to be made to Residual Participants; and
 - (B) the balance, if any, of the Residual Amount to Participants,in each case in accordance with the Allocation Rules.
- b. MBF will distribute:
 - i. amounts allocated to Eligible Contributors, other than those described in Clause 5.2(b)(iii) below, to the

Trustee (which will distribute the payment to Eligible Contributors pursuant to the terms of the Trust Deed);

- ii. amounts allocated to Company Members (other than Company Members described in Clause 5.2(b)(iii) below), directly to the Company Member;
- iii. amounts allocated to Eligible Contributors who hold a Qualifying Policy under which a Company Member is also insured, to the Trustee and to the relevant Company Member such that there is a joint interest in the distribution; and
- iv. amounts allocated to Residual Participants who are not Participating Contributors and to Review Participants, directly to the Residual Participant or to the Review Participant,

in each case in accordance with the Allocation Rules with such payments being satisfied from the Trust Account in accordance with Clause 6.

- c. MBF will make any payment referred to in Clause 5.2(b)(i) or 5.2(b)(iii) directly to an Eligible Contributor if so directed by the Trustee in accordance with Clause 3.6 of the Trust Deed.

5.3 End Date

If the Implementation Date does not occur on or before the End Date:

- a. the steps referred to in Clauses 5.1 and 5.2 will not occur; and
- b. MBF and BUPA Australia must procure that the Account Trustee forthwith repays the Scheme Consideration, and all other moneys standing to the credit of the Trust Account, to BUPA Australia Holdings in cleared funds (and otherwise in such manner as BUPA Australia directs).

6. PAYMENTS UNDER THE SCHEME

6.1 Trust Account

- a. The Trust Account must be established on or before the Effective Date.
- b. Any interest on amounts standing to the credit of the Trust Account (less bank fees and other charges) shall be to BUPA Australia Holdings' account.
- c. The Trust Account must be managed in accordance with this Clause 6, and MBF must direct the Account Trustee accordingly.
- d. To the extent there is a surplus in the Trust Account (as a result of rounding of payments) after all amounts required to be paid under this Clause 6 have been paid, that surplus must be repaid to BUPA Australia Holdings.

6.2 Payment

Subject to:

- a. BUPA Australia Holdings making the payment of the Scheme Consideration into the Trust Account in accordance with the Implementation Deed; and
- b. the occurrence of the events described in Clauses 5.1(a) and 5.1(b).

MBF shall cause the Account Trustee to pay from the Trust Account the amounts required to be paid under Clause 5.2(a) in accordance with the requirements of Clauses 5.2(b) and 5.2(c), by sending those amounts by the relevant Participant's Preferred Payment Method or, where relevant, to the account nominated by the Trustee.

6.3 Unclaimed monies

- a. MBF may direct the Account Trustee to cancel a cheque issued under Clause 6.2 if the cheque:
 - i. is returned to MBF or the Account Trustee; or
 - ii. has not been presented for payment within six months after the date on which the cheque was sent.
- b. During the period of one year commencing on the Implementation Date, on request by a Participant, MBF must, or must cause the Account Trustee to, reissue a cheque that was previously cancelled under Clause 6.3(a).

6.4 Correction of Allocation

The Estimated Entitlement on the Allocation Form sent to Participating Contributors may be corrected by MBF with BUPA Australia's agreement, subject only to a decision made under the Review Committee Charter.

7. THE REVIEW COMMITTEE

MBF will establish the Review Committee, perform its obligations under the Review Committee Charter and implement the decisions made by the Review Committee in accordance with the Review Committee Charter. The provisions of the Review Committee Charter are incorporated into and form part of this Scheme.

8. POWER OF ATTORNEY

Each Scheme Member, without the need for any further act, irrevocably appoints MBF and all its directors, and officers (jointly and severally) as its attorney and agent for the purpose of executing any document or doing any other act necessary to give effect to the Scheme and the transactions contemplated by it.

9. INDEMNITY OF DIRECTORS, OFFICERS AND AGENTS

To the extent permitted by the Corporations Act, MBF must indemnify each director, officer or agent of MBF against any liability incurred as such a director, officer or agent to any other person (other than MBF or a related body corporate) arising from anything done or from anything omitted to be done in performance or purported performance of the Scheme unless the liability arises out of conduct involving a lack of good faith.

10. GENERAL SCHEME PROVISIONS

10.1 No changes to company members after Record Time

MBF must not admit any person to company membership (other than BUPA Member in accordance with the Implementation Deed) or grant any further company memberships to the Trustee after the Record Time.

10.2 Variations, alterations and other matters

MBF may, by its counsel or solicitors, on behalf of all parties concerned other than BUPA Australia, BUPA Australia Holdings, BUPA Finance or BUPA Member (including all Participants), consent to any modification or amendment of the Scheme or the Implementation Deed that the Court may require, provided that BUPA Australia must also agree to such modification or amendment.

10.3 Scheme binding

The Scheme:

- a. binds MBF and the Scheme Members (including the Trustee and all Remaining Company Members), including those who do not attend the Scheme Meeting, those who do not vote at that meeting and those who vote against the Scheme at that meeting; and
- b. to the extent permitted by law, overrides the MBF Constitution to the extent of any inconsistency.

10.4 Implementation

MBF must:

- a. use its reasonable endeavours to enforce the Implementation Deed; and
- b. execute all deeds and other documents and do all acts and things necessary for the full and effectual performance of its obligations in order to carry out the Scheme.

10.5 Consent

Each Scheme Member consents to MBF and BUPA Australia doing all things necessary, expedient or incidental to the implementation of the Scheme.

10.6 Costs and stamp duty

BUPA Australia will pay all costs and stamp duty and any related fines, interest and penalties in respect of the Scheme and each transaction effected by or made under the Scheme.

10.7 Notices

If a notice or other communication referred to in the Scheme is sent by post to MBF, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at MBF's registered office.

10.8 Governing law

The proper law of the Scheme is the law of the State of New South Wales.

SCHEDULE 1 (OF SCHEME)

Allocation Rules

See Schedule 3 to the Information Memorandum.

SCHEDULE 2 (OF SCHEME)

Deed Poll

See Schedule 5 to the Information Memorandum.

SCHEDULE 3 (OF SCHEME)

Review Committee Charter

See Schedule 4 to the Information Memorandum.



Schedule 3 Allocation Rules

1. PURPOSE OF ALLOCATION RULES

These Allocation Rules describe:

- when a Policy was in arrears on the Cut-off Date;
- what happens if a Contributor holds more than one Qualifying Policy;
- how an Entitlement is calculated and distributed; and
- how Review Committee determinations are to be dealt with.

2. QUALIFYING POLICY

2.1 When is a Policy in arrears?

A Policy was not in arrears on the Cut-off Date if, on that date, the Policy:

- being a Policy to which paragraphs 2.1(b), 2.1(c) and 2.1(d) do not apply, has a current Date Paid to Period ending on or later than the Cut-off Date and the entire premium due for that and any prior Date Paid to Period has been received in cleared funds by MBF on or prior to the Cut-off Date; or
- is a Policy in respect of which premiums are paid by salary deduction and remitted by an employer to MBF and the entire premium due for the Date Paid to Period which ends on a date not more than 60 days prior to Cut-off Date and any prior Date Paid to Period has been received in cleared funds by MBF on or prior to the Cut-off Date; or
- is a Policy in respect of which premiums are paid by a corporation on an invoice issued by MBF to the corporation where the corporation has agreed with MBF to be responsible for the payment of premiums; or
- is validly suspended in accordance with the Fund Rules on the Cut-off Date or the suspension was approved by MBF after the Cut-off Date and prior to 8 February 2008.

Any other Policy was in arrears on the Cut-off Date.

2.2 Grace period

If a Policy was in arrears on the Cut-off Date, it will be treated as not being in arrears on the Cut-off Date if:

- where paragraph 2.1(a) applies, all premiums outstanding on the Cut-off Date for the Date Paid to Period ending on or after the Cut-off Date (and any prior Date Paid to Period) were received by MBF in cleared funds on or before 8 February 2008;
- where paragraph 2.1(b) applies, all premiums outstanding on the Cut-off Date for the Date Paid to Period ending on a date not more than 60 days prior to the Cut-off Date and any prior Date Paid to Period were received by MBF in cleared funds on or before 8 February 2008; or
- the amount in arrears on the Cut-off Date was \$10 or less.

A Policy that was in arrears on the Cut-off Date may not be paid up on or after the Cut-off Date if the Contributor under the Policy has taken out another private health insurance policy with another private health insurer which includes the same type of cover provided by the Policy.

2.3 Rule if more than one Qualifying Policy

If a Contributor holds more than one Qualifying Policy:

- if the policies that are held are any of the following combinations:
 - an Ambulance Only Policy and another Policy;
 - more than one Ambulance Only Policy;
 - two or more Policies which provide cover for general treatment; or

- iv. two or more Policies which provide cover for hospital treatment,

the Qualifying Policy will be that Policy which gives rise to the highest Entitlement under these Allocation Rules or if the Entitlement in respect of two or more Policies is the same, the Qualifying Policy will be that determined by MBF; and

- b. in any other case, the Policies will be aggregated and treated as a Combined Policy for the purposes of the Allocation Rules and that Combined Policy shall be the Qualifying Policy.

3. ALLOCATION

A Participating Contributor who holds a Qualifying Policy which is not an Ambulance Only Policy will be allocated an Entitlement calculated in accordance with rule 7 by reference to the Base Allocation and the Tenure Allocation set out in rules 4 and 5.

A Participating Contributor who holds a Qualifying Policy which is an Ambulance Only Policy will be allocated the Entitlement calculated in accordance with rule 7 by reference to the Base Allocation and the Tenure Allocation set out in rule 6.

The Entitlement allocated to a Participating Contributor shall be distributed in accordance with the provisions of rule 8.

Allocations from the Residual Amount to Participating Contributors or to persons who the Review Committee determines should have been included as Participating Contributors shall be dealt with in accordance with sub-rule 7.7.

4. BASE ALLOCATION (OTHER THAN AMBULANCE ONLY POLICIES)

The Base Allocation for a Qualifying Policy (which is not an Ambulance Only Policy) is the number of Units set out in Table 1 determined by reference to the type of Qualifying Policy held by the Participating Contributor on the Cut-off Date and whether the Qualifying Policy is a Single Scale Policy or Non-Single Scale Policy at that date.

Table 1

Scale of Policy	TYPE OF QUALIFYING POLICY		
	Extras Only Policy	Hospital Only Policy	Combined Policy
Single Scale Policy	125 Units	250 Units	375 Units
Non-Single Scale Policy	250 Units	500 Units	750 Units

5. TENURE ALLOCATION (OTHER THAN AMBULANCE ONLY POLICIES)

The Tenure Allocation for each Year of Membership for a Qualifying Policy (which is not an Ambulance Only Policy) is the number of Units specified in Table 2 for each Single Year of Membership and each Non-Single Year of Membership for the type of Qualifying Policy held by the Participating Contributor on the Cut-off Date.

Table 2

Scale of Policy	TYPE OF QUALIFYING POLICY		
	Extras Only Policy	Hospital Only Policy	Combined Policy
Number of Units for each Single Year of Membership	25 Units	50 Units	75 Units
Number of Units for each Non-Single Year of Membership	50 Units	100 Units	150 Units

6. AMBULANCE ONLY POLICY

6.1 Base Allocation

The Base Allocation for a Qualifying Policy which is an Ambulance Only Policy is the number of Units set out in Table 3 determined by reference to whether the Ambulance Only Policy held by the Participating Contributor on the Cut-off Date is a Single Scale Policy or Non-Single Scale Policy at that date.

Table 3

Single Scale Policy	Non-Single Scale Policy
15 Units	30 Units

6.2 Tenure Allocation

The Tenure Allocation for each Year of Membership for a Qualifying Policy which is an Ambulance Only Policy on the Cut-off Date is the number of Units specified in Table 4 for each Single Year of Membership and each Non-Single Year of Membership.

Table 4

Single Scale Policy	Non-Single Scale Policy
5 Units for each Single Year of Membership	10 Units for each Non-Single Year of Membership

7. CALCULATION OF ENTITLEMENT

7.1 Allocation of Units

The number of Units allocated to each Participating Contributor at the Implementation Date is the sum of:

- a. the number of Units calculated under paragraph 7.2(g) for the Participating Contributor's Years of Membership; and
- b. where applicable the number of Units calculated under paragraph 7.3(f) for the Relevant Insured's Years of Membership; and
- c. the Base Allocation for that Participating Contributor calculated under rule 4 or sub-rule 6.1 (as applicable).

In the case where there is an Eligible Contributor in relation to a Qualifying Policy under which a Company Member is also insured the Participating Contributor is that Eligible Contributor and not the Company Member.

7.2 Unit allocation for a Participating Contributor's Years of Membership

The calculation of the Years of Membership and number of Units allocated for each Participating Contributor at the Implementation Date for their Years of Membership is as follows:

- a. for the purposes of this sub-rule 7.2:
 - i. the Join Date of a Participating Contributor is the first date on which the Participating Contributor became insured and since that date has continuously remained insured; and
 - ii. a Policy is an Eligible Policy of a Participating Contributor if that Participating Contributor was a Contributor under that Policy at the time that Policy ceased and the Policy is not a Qualifying Policy;
- b. unless paragraph 7.2(c) applies, determine the number of years and days between the Cut-off Date and the Join Date that the Participating Contributor was insured under the Qualifying Policy of that Participating Contributor and any Eligible Policy of that Participating Contributor and deduct from that period any period calculated in years and days during which any relevant Qualifying Policy or relevant Eligible Policy was suspended in accordance with the Fund Rules in force at the relevant time;
- c. if the Join Date of a Participating Contributor is prior to 2 November 1978, and at that time the Participating Contributor was insured under the Qualifying Policy or an Eligible Policy of that Participating Contributor, the Participating Contributor shall be entitled to a maximum allocation of 30 Years of Membership under this sub-rule 7.2 and any allocation of Units relevant to the period prior to 2 November 1978 shall be on the basis of whether the Participating Contributor was covered by a Single Scale Policy,

or a Non-Single Scale Policy on 1 November 1978. This is because of the inadequacy of data prior to 1 November 1978. As most of these policies are for periods in excess of 30 years no adjustment is made for any suspension during the 30 year period but the period of suspension is deducted from the calculation of the Single Years of Membership which maximises the Non-Single Years of Membership – see paragraph 7.2(e);

- d. the years and days determined under paragraph 7.2(b) are rounded down to the nearest whole year – this number of years, or if paragraph 7.2(c) applies the period of 30 years, is the Years of Membership of the Participating Contributor;
- e. determine the years and days (not including any period during which a relevant Qualifying Policy or Eligible Policy was validly suspended under the Fund Rules applicable at the relevant time) during which the Participating Contributor was covered by a Single Scale Policy (being a Qualifying Policy or an Eligible Policy) during the Years of Membership of the Participating Contributor and round that period down to the nearest whole year – this is the Single Years of Membership of the Participating Contributor;
- f. deduct from the Years of Membership of the Participating Contributor the Single Years of Membership of the Participating Contributor (if any) – this number of years is the Non-Single Years of Membership of the Participating Contributor; and
- g. by reference to the type of Qualifying Policy of the Participating Contributor held at the Cut-off Date calculate the sum of:
 - i. the Non-Single Years of Membership of the Participating Contributor multiplied by the number of Units per Year of Membership for a Non-Single Scale Policy; and
 - ii. the Single Years of Membership of the Participating Contributor multiplied by the number of Units per Year of Membership for a Single Scale Policy,

where the Units per Year of Membership are determined from Table 2 in the case of a Participating Contributor whose Qualifying Policy is not an Ambulance Only Policy and Table 4 in the case of a Participating Contributor whose Qualifying Policy is an Ambulance Only Policy.

7.3 Unit allocation calculation for the Years of Membership for a Relevant Insured

The calculation of the Units allocated to a Participating Contributor at the Implementation Date, in reference to a Relevant Insured's Years of Membership, is as follows:

- a. for the purposes of this sub-rule 7.3:
 - i. a Relevant Insured is a person, other than a Participating Contributor, who was insured under the Qualifying Policy at the Cut-off Date;

- ii. subject to sub paragraph 7.3(a)(iii) the Join Date is the first date on which the Relevant Insured became insured and since that date has continuously remained insured;
 - iii. if the Join Date under sub paragraph 7.3(a)(ii) is prior to 2 November 1978, the Join Date is 1 November 1978; and
 - iv. a Policy is an Eligible Policy of a Relevant Insured if that Relevant Insured was a Contributor under that Policy at the time that Policy ceased and the Policy is not a Qualifying Policy;
- b. determine the number of years and days between the Cut-off Date and the Join Date that the Relevant Insured was insured under any Eligible Policy of that Relevant Insured and deduct from that period any period calculated in years and days during which any relevant Eligible Policy was suspended in accordance with the Fund Rules in force at the relevant time;
 - c. the years and days determined under paragraph 7.3(b) are rounded down to the nearest whole year - this number of years is the Years of Membership of the Relevant Insured;
 - d. determine the years and days (not including any period during which any Eligible Policy was validly suspended under the Fund Rules applicable at the relevant time) during which the Relevant Insured held a Single Scale Policy (being an Eligible Policy) during the Years of Membership of the Relevant Insured and round that period down to the nearest whole year - this is the Single Years of Membership of the Relevant Insured;
 - e. deduct from the Years of Membership of the Relevant Insured the Single Years of Membership of the Relevant Insured (if any) - this number of years is the Non-Single Years of Membership of the Relevant Insured; and
 - f. by reference to the type of Qualifying Policy of the Participating Contributor held at the Cut-off Date calculate the sum of:
 - i. the Non-Single Years of Membership of the Relevant Insured multiplied by the number of Units per Year of Membership for a Non-Single Scale Policy; and
 - ii. the Single Years of Membership of the Relevant Insured multiplied by the number of Units per Year of Membership for a Single Scale Policy,

where the Units per Year of Membership are determined from Table 2 in the case of a Participating Contributor whose Qualifying Policy is not an Ambulance Only Policy and Table 4 in the case of a Participating Contributor whose Qualifying Policy is an Ambulance Only Policy.

7.4 Data

The data used for the calculation of Units has been compiled from the transactional data held on MBF's electronic administration systems and in particular in compiling the data if the Policy record maintained by MBF in respect of a Qualifying Policy or an Eligible Policy was broken but the break in record did not exceed 62 days, then that Policy was treated as continuing and the break in the record was disregarded.

7.5 Calculation of an Entitlement

The Entitlement of a Participating Contributor (including the Entitlement of a person who the Review Committee determines should have been included as a Participating Contributor and who is not a Participating Contributor at the Record Time) at the Implementation Date is calculated as follows:

$$\text{Number of Units} \times \text{Unit Value}$$

rounded down to the nearest whole cent,

where

Number of Units is the number of Units allocated to the Participating Contributor or person in accordance with sub-rules 7.1 and 7.6; and

Unit Value is calculated by dividing the Transaction Consideration minus the Residual Amount by the total number of Units allocated to all Participating Contributors or persons as at the Implementation Date in accordance with sub-rules 7.1 and 7.6.

7.6 Determination by the Review Committee prior to the Implementation Date

For the purposes of sub-rules 7.1 and 7.5, if prior to the Implementation Date the Review Committee determines in accordance with the Review Committee Charter that:

- a. a person should be treated as a Participating Contributor, then, if that person has not become a Participating Contributor at the Record Time, that person shall be treated as if they were a Participating Contributor and an Entitlement calculated under sub-rule 7.5 is payable to them;
- b. a person who was insured under a Qualifying Policy on the Cut-off Date is a Relevant Insured in respect of a Participating Contributor, then the number of Units allocated to that Participating Contributor shall be calculated having regard to that determination; and
- c. the number of Units allocated to a Participating Contributor shall be increased, then the increased number of Units shall be allocated to that Participating Contributor.

7.7 Determination of the Review Committee after the Implementation Date

If after the Implementation Date and prior to the Final Date the Review Committee determines to allocate Units to a person in accordance with the Review Committee Charter who should have been included as a Participating Contributor (a new entitlement) or increase the number of Units allocated to a Participating Contributor, then:

- a. a new entitlement of a such a person shall be calculated as if the person were a Participating Contributor for the purposes of these Allocation Rules and shall be the number of Units determined by the Review Committee to be allocated to the person multiplied by the Unit Value determined under sub-rule 7.5 at the Implementation Date rounded down to the nearest whole cent – subject to paragraph 7.7(c), this is the new entitlement of that person;
- b. the Entitlement of a Participating Contributor shall be increased by the number of additional Units allocated to that Participating Contributor by the Review Committee multiplied by the Unit Value determined under sub-rule 7.5 at the Implementation Date rounded down to the nearest whole cent – subject to paragraph 7.7(c), this is the increased entitlement of that Participating Contributor;
- c. if on the Final Date the sum of all of the new entitlements of relevant persons and increased entitlements of Participating Contributors determined by the Review Committee after the Implementation Date and before the Final Date exceeds the Residual Amount then that part of the Residual Amount, that remains unpaid shall be distributed to all unpaid persons in proportion to the additional number of Units allocated to them by the Review Committee in that period, rounded down to the nearest whole cent; and
- d. if after the Final Date, following the payment of all new entitlements and increased entitlements, any part of the Residual Amount remains then that amount shall be distributed to all Participating Contributors and persons entitled to a new entitlement in proportion to the number of Units allocated to each Participating Contributor or person entitled to a new entitlement rounded down to the nearest whole cent – this is the residual entitlement of each Participating Contributor or of a person entitled to a new entitlement.

7.8 Maximum distribution

The aggregate of all Entitlements, increased entitlements, residual entitlements and new entitlements paid under these Allocation Rules is capped at and cannot exceed the Transaction Consideration of \$2.41 billion.

8. DISTRIBUTION OF ENTITLEMENTS AND OTHER AMOUNTS

The Entitlement, any increased entitlement, residual entitlement or new entitlement shall be distributed by MBF as follows:

- a. the Entitlement, any increased entitlement or residual entitlement of a Participating Contributor who is an Eligible Contributor (and who is not an Eligible Contributor described in paragraph 8(c)) shall be paid to the Trustee to be held and applied by the Trustee for that Eligible Contributor in accordance with the terms of the Trust Deed;
- b. the Entitlement, any increased entitlement or residual entitlement of a Participating Contributor who is a Company Member (and who is not a Company Member described in paragraph 8(c)) shall be paid to that Company Member in its capacity as a Participating Contributor;
- c. the Entitlement, any increased entitlement or residual entitlement of a Participating Contributor who is the Eligible Contributor in relation to a Qualifying Policy under which a Company Member is also insured shall be paid jointly to the Company Member and the Trustee under which the joint interest of the Eligible Contributor shall be held and applied by the Trustee for that Eligible Contributor in accordance with the terms of the Trust Deed; and
- d. any Entitlement of a person who the Review Committee determines prior to the Implementation Date should have been included as a Participating Contributor and who has not become a Participating Contributor at the Record Time, any new entitlement granted by the Review Committee to a person who the Review Committee determines, after the Implementation Date, should have been included as a Participating Contributor or any residual entitlement of those persons shall be paid by MBF to those persons.

9. DEFINITIONS

The defined terms contained in the Glossary to the Information Memorandum have the same meaning as they have in the Information Memorandum in these Allocation Rules. In addition:

Term	Definition
Ambulance Only Policy	means the Policy specified in Appendix 3A of the Fund Rules and called " <i>MBF Emergency Ambulance Cover</i> ".
Combined Policy	means a Policy providing cover for both hospital treatment and general treatment as specified in Appendix 5 and Appendix 6B of the Fund Rules (where the long stay overseas visitor Policy has been issued on the basis that it provides insurance for hospital treatment and general treatment) as those terms are used in the PHI Act.
Date Paid to Period	means in relation to a Policy the period corresponding to the payment frequency period that the Contributor has chosen.
Extras Only Policy	means a Policy providing cover for general treatment and not including hospital treatment as specified in Appendices 3B to 3G (inclusive) and 4 of the Fund Rules.
Final Date	means 31 December 2008.
general treatment	has the same meaning as that term has in the PHI Act.
Hospital Only Policy	means a Policy providing cover only for hospital treatment and specified in Appendix 2 and Appendix 6 of the Fund Rules (other than in the case of a long stay overseas visitor Policy specified in Appendix 6B of the Fund Rules where it is a Combined Policy).
hospital treatment	has the same meaning as that term has in the PHI Act.
Join Date	has the meaning given in rule 7.
Non-Single Scale Policy	means a Policy in respect of which the membership category under rule C.1 of the Fund Rules is couples membership, single parent family membership or family membership or is the prior equivalent to those classes of membership under Fund Rules applying in prior periods.
Participating Contributor	has the same meaning as that term has in the Scheme.
Record Time	has the same meaning as that term has in the Scheme.
Review Committee Charter	has the same meaning as that term has in the Scheme.
Single Scale Policy	means a Policy in respect of which the membership category under rule C.1 of the Fund Rules is single membership or is the prior equivalent to this class of membership under Fund Rules applying in prior periods.

A reference to a person being insured under a Policy is a reference to a person who is registered under a Policy including as the Contributor.



Schedule 4 Review Committee Charter

1. OBJECTIVE AND DEFINITIONS

1.1 Charter

This is the Review Committee Charter referred to in the Scheme and the Information Memorandum to be issued by MBF and it sets out the role and powers of the Review Committee, who constitutes the Review Committee and the procedures for seeking and considering a Request for a review.

1.2 Definitions

In this Review Committee Charter terms defined in the Information Memorandum have the same meaning as those terms have in the Information Memorandum and:

Term	Definition
Alternate	means the alternate of a Member.
Applicant	means a person who was: a. a Contributor on the Cut-off Date; or b. in relation to a Request under clause 2.2(d), the Contributor under the Policy to which the Request relates.
Chairman	means the chairman of the Board of MBF.
Company Secretary	means a company secretary of MBF.
Member	means a member of the Review Committee appointed under clause 5.1.
Request	means a request made in accordance with this Charter.
Review Committee Secretary	means the person appointed as secretary to the Review Committee under clause 5.3.
Review Request Form	means the form attached to this Charter or such other form as MBF approves.
Reviewer	means the Chairman, or in his absence or if conflicted under clause 9, an Alternate agreed between MBF and BUPA Australia, or such other person as MBF and BUPA Australia agree to appoint as the Reviewer.

1.3 Requests for review

The Review Committee may only consider and determine a Request where the Request relates to:

- whether the Applicant holds a Qualifying Policy; or
- the number of Units to be allocated to the Applicant.

1.4 Requests for review before the Implementation Date

Prior to the Implementation Date the Review Committee may only consider and determine a Request received by the Company Secretary no later than 5.00pm (AEST) on 21 May 2008.

1.5 Requests for review after the Implementation Date

After the Implementation Date the Review Committee may only consider and determine a Request received by the Company Secretary after 21 May 2008 and on or before 1 December 2008, and if the Applicant has satisfied the Review Committee that there was a good reason as to why the request was not made prior to 21 May 2008.

1.6 Privacy

MBF and BUPA Australia will comply with the *Privacy Act 1988* (Cth) in relation to this Review Committee Charter. MBF may provide personal information of an Applicant (including personal information of any other person supplied by the Applicant) to BUPA Australia and to the Members and Alternates or any experts appointed to assist the Review Committee.

By providing information contained in the Review Request Form or providing any additional information sought in respect of a Request, an Applicant or that other person consents to the use and disclosure of their personal information for the purpose of considering and making a decision in respect of the relevant Request. An Applicant or other person can access most personal information that MBF holds about the Applicant or that other person (sometimes there will be a reason why that is not possible, in which case MBF will explain why). To make a request for access to information, an Applicant must contact the Company Secretary.

1.7 Form of Request by Applicant

A Request must be made by the Applicant personally by completing a Review Request Form, as described in clause 4.

1.8 Non-conforming Request

The Review Committee may accept a Request made on behalf of an Applicant if the Request cannot be made by the Applicant personally where the Applicant has died, lacks mental capacity or where there is some other good reason why the Applicant is unable to make the Request personally.

1.9 Initiation of Request by MBF

MBF may also make a Request on behalf of an Applicant or group of Applicants if it considers it appropriate to do so.

2. SCOPE OF AUTHORITY

2.1 Material to be considered

In considering a Request, the Review Committee shall only have regard to this Charter, the Allocation Rules, the information provided by the Applicant and the records of MBF.

2.2 Matters to be considered

In considering a Request the Review Committee shall only consider:

- a. whether the number of Units allocated to the Applicant under the Allocation Rules is correct;
- b. whether Units should be allocated under rule 7 of the Allocation Rules;
- c. in the case of a Request that a Policy be considered to be a Qualifying Policy, whether that is so and the number of Units to be allocated to the Applicant; or
- d. in the case of a Request that a Policy be considered to be a Qualifying Policy, in circumstances where the Applicant has cancelled or altered the type or scale of a Policy on or after 17 August 2007 and prior to 26 October 2007, whether the Applicant has demonstrated to the satisfaction of the Review Committee that:
 - i. the Applicant did not know and ought reasonably not to have known that MBF was proposing to demutualise; and
 - ii. the Applicant would not have cancelled or altered the type or scale of the Policy if they had known that MBF was proposing to demutualise.

2.3 Review Committee not required to give reasons

The Review Committee is not required to give reasons to the Applicant for its decision.

2.4 No decrease in Units

If the Review Committee determines that the Allocation Rules have not been correctly applied to an Applicant such that their correct application in relation to a Request under clauses 2.2(a), 2.2(b) and 2.2(c) would result in a lesser number of Units being allocated to the Applicant, or in the case of a Request under clause 2.2(d) the decision would result in a lesser number of Units in aggregate being allocated to the Applicant and the other affected person, if any, then the Review Committee (or the Reviewer) must dismiss the Request.

3. FACTORS FOR CONSIDERING A REQUEST UNDER CLAUSES 2.2(c) AND 2.2(d)

3.1 Request under clause 2.2(c)

In considering a Request under clause 2.2(c), the Review Committee may consider that a Policy was not in arrears at the Cut-off Date if the Review Committee is satisfied that:

- a. the Applicant did not know and/or reasonably ought not to have known that the Policy was in arrears;
- b. MBF failed to send a notice to the Applicant after 8 November 2007 advising the Applicant that the Policy was in arrears; and
- c. the Applicant has subsequently paid all premium due under the Policy such that at the time the Request is made the Policy is not in arrears as at the Cut-off Date in accordance with sub-rule 2.1 of the Allocation Rules.

3.2 Request under clause 2.2(d)

In considering a Request under clause 2.2(d), the Review Committee may have regard to the following factors:

- a. whether and for how long the Policy was in arrears at the time it was altered or cancelled;
- b. whether the Applicant has taken out a policy with another private health insurer in respect of the period before 8 November 2007;
- c. whether the Applicant sought advice from MBF in relation to the cancellation or alteration;
- d. information from the records or personnel of MBF as to contacts made by the Applicant with MBF; and
- e. such other matters as the Review Committee determines are relevant to considering the Request.

4. REQUEST BY APPLICANT

4.1 Content of Request

A Request must:

- a. be made by completing a Review Request Form; and
- b. attach any documents or information in support of the Request.

The Review Committee has the discretion to reject Requests made other than by way of correctly completed Review Request Form.

4.2 Statutory Declaration

The Company Secretary may require that information supplied or to be supplied by an Applicant be in the form of a statutory declaration.

5. MEMBERSHIP AND MEETINGS

5.1 Review Committee Membership

The Review Committee will comprise of four Members or their Alternates, two nominated by MBF and two nominated by BUPA Australia.

An Alternate appointed by MBF or BUPA Australia (as the case may be) may act as an Alternate for any Member nominated by MBF or BUPA Australia respectively.

If a Member or an Alternate is unable or unwilling to continue as a Member of the Review Committee, he or she shall notify MBF or BUPA Australia (as the case may be) and MBF or BUPA Australia (as the case may be) may appoint another person in their place.

Each of MBF and BUPA Australia may remove and replace its nominees on the Review Committee.

MBF must ensure that the Members appointed by MBF and the Reviewer act in accordance with this Charter.

BUPA Australia must ensure that the Members appointed by BUPA Australia act in accordance with this Charter.

5.2 Chairman

The Chair of the Review Committee will be a Member nominated by MBF under clause 5.1 or such other Member appointed by MBF and BUPA Australia.

5.3 Review Committee Secretary

The Review Committee shall appoint a person nominated by MBF to act as the Review Committee Secretary who shall:

- a. attend all meetings of the Review Committee and minute proceedings as directed by the Review Committee;
- b. notify the Company Secretary of all decisions of the Review Committee as soon as possible and in any case within a period of time that will enable the Company Secretary to respond to Applicants in accordance with clause 8; and
- c. maintain records including a register of all Requests received and considered and the decision made by the Review Committee.

5.4 Quorum

A quorum for a meeting of the Review Committee is three, one of whom must be a Member or Alternate appointed by MBF and one of whom must be a Member or Alternate appointed by BUPA Australia.

5.5 Meetings

The Review Committee shall meet at such times, at such places or in such manner as the Chair may decide and for this purpose the Members may attend meetings by telephone, teleconference or other means approved by the Chair. Meetings shall be scheduled and held with a view to dealing with all Requests consistently with the timetable specified in clause 5.13.

5.6 Resolutions in writing

A resolution signed by all Members is a valid resolution of the Review Committee.

5.7 Notice of meetings

The Review Committee Secretary shall give notice of meetings to the Members as directed by the Chair.

5.8 Voting

Each Member has one vote. The Chair does not have a casting vote.

5.9 Decisions - reference to Reviewer

- a. If a decision of the Review Committee is not unanimous (or a quorum can not be achieved to consider a Request due to the application of clause 9) then the Request shall be referred to the Reviewer who shall have the same powers and authorities as the Review Committee and whose decision shall be the decision of the Review Committee.
- b. The Review Committee Secretary shall, subject to clause 2.1, provide the Reviewer with all the information requested by the Reviewer to assist the Reviewer to reach a decision.

5.10 Procedure - stage 1

On receipt of a Request the Review Committee Secretary must:

- a. obtain data from MBF's records in relation to the Applicant including the calculation of the Units allocated to the Applicant or any relevant private health insurance policy held by the Applicant or a Relevant Insured;
- b. seek any additional information from the Applicant that the Review Committee Secretary considers may be relevant to the consideration by the Review Committee; and
- c. provide to the Review Committee the Request together with the information referred to in clauses 5.10(a) and 5.10(b) and may include a recommendation as to how the Request should be dealt with by the Review Committee.

5.11 Procedure - stage 2

On considering a Request, the Review Committee may:

- a. determine to reject the Request;
- b. if the Request is in respect of whether the Applicant holds a Qualifying Policy, determine that the Applicant is a Participating Contributor and determine the number of Units to be allocated;
- c. if the Request relates to the number of Units allocated to a Participating Contributor, determine to increase the number of Units allocated;
- d. if the Request is made after 21 May 2008, determine whether the Applicant has satisfied the Review Committee that there was a good reason as to why the Request was not made prior to 21 May 2008;
- e. request that the Review Committee Secretary obtain further information in respect of the Request;
- f. if the Applicant does not provide a correctly completed Review Request Form either determine to reject the Request or request that the Applicant complete a Review Request Form and if such a form is not provided, determine to reject the Request;
- g. if the Review Committee Secretary has requested further information in respect of the Request and the Applicant has failed to provide this information, or the Review Committee Secretary is unable to contact the Applicant to obtain the required further information, and the information before the Review Committee is insufficient to enable a decision to be made, determine to reject the Request;
- h. request the attendance of relevant MBF employees or senior management at a meeting of the Review Committee to assist in consideration of the Request; and
- i. request the provision of expert advice.

5.12 Procedure generally

The Review Committee may determine its procedures subject to this Charter and in particular may consider Requests in batches where it is reasonably satisfied that the Requests raise similar issues for decision that would allow the Requests to be considered together and a decision in relation to such a batch of Requests shall be a decision in relation to each Request in that batch subject to any contrary direction of the Review Committee. The Review Committee must act in a fair manner but is not required to interview any Applicant and may deal with all matters by correspondence.

5.13 Timing of decisions

If a Request is made on or before 21 May 2008, the Review Committee must ensure that a decision is made in respect of the Request by the Implementation Date.

If a Request is made after 21 May 2008, the Review Committee must ensure that a decision is made in respect of the Request by 31 December 2008.

5.14 Decisions binding

By making a Request, the Applicant agrees that a decision of the Review Committee is final and binding.

6. OBLIGATIONS OF MBF

6.1 Provision of services

MBF shall provide secretarial and other services that are reasonably required by the Review Committee and the Reviewer for the performance of their functions under this Charter.

6.2 Information, data and access to staff

MBF shall provide information and data relevant to a Request as required by this Charter, the Review Committee and the Reviewer and shall at the request of the Review Committee make staff and senior management directly available to the Review Committee to assist it in its deliberations.

6.3 Expert advice

If requested by the Review Committee, MBF shall arrange for the provision of expert advice to the Review Committee to assist it in its deliberations.

6.4 Timetable

MBF shall perform its duties and functions having regard to the need for the Review Committee to make decisions within the timeframes set out in clause 5.13.

6.5 Implementations of decisions

MBF shall, on being advised of a decision of the Review Committee, or where relevant the Reviewer:

- a. if the decision is made prior to the Record Time that an Applicant holds a Qualifying Policy:
 - i. arrange for the Trustee to apply for company membership of MBF in relation to the Applicant; and
 - ii. determine the Entitlement of the Applicant based on the number of Units determined by the Review Committee to be allocated to the Applicant;

- b. if the decision is made prior to the Implementation Date that an Applicant is entitled to be allocated additional Units, determine the increased Entitlement of the Applicant;
- c. if the decision is made after the Record Time and prior to the Implementation Date that an Applicant holds a Qualifying Policy, determine the Entitlement of the Applicant;
- d. if the decision is made after the Implementation Date that an Applicant is entitled to be allocated additional Units, determine the increased Entitlement of the Applicant;
- e. if the decision is made after the Implementation Date that an Applicant holds a Qualifying Policy, determine the new Entitlement of the Applicant; and
- f. otherwise ensure that the decisions of the Review Committee are notified to the Applicant and that they are implemented.

7. REPORTING

7.1 Report

The Review Committee must report to the MBF board of directors and BUPA Australia on matters and decisions arising from its responsibilities as outlined in this Charter.

7.2 Content of Report

Reports under clause 7.1 shall include information in relation to the decisions of the Review Committee including:

- a. a list of the Requests considered and decisions made by the Review Committee during the relevant period since the last report;
- b. the outcome of any Request referred to the Reviewer; and
- c. minutes of its meetings.

8. NOTIFICATION OF DECISIONS

The Company Secretary will promptly notify the Applicant in writing of the decision of the Review Committee or the Reviewer, as the case may be.

The Company Secretary may at any time and from time to time delegate the duty to notify the Applicant under this clause 8 to the Review Committee Secretary.

9. CONFLICTS OF INTEREST IN RELATION TO REQUESTS

9.1 Non-disclosure of names of Applicants

The Review Committee Secretary shall not be required to provide to the Review Committee or the Reviewer the name of any Applicant for the purposes of any decision.

9.2 Review Committee

If a Member becomes aware that a Request relates to a relative of the Member or a person with whom the Member has a personal relationship, the Member must advise the Review Committee Secretary and shall not participate in the consideration of that Request. If a Member is unable to participate by reason of this provision then an Alternate for that Member may participate so long as this clause does not also apply to that person.

9.3 Reviewer

If the Reviewer becomes aware that a Request relates to a relative of the Reviewer or a person with whom the Reviewer has a personal relationship the Reviewer must advise the Review Committee Secretary and require that another disinterested person be appointed as a Reviewer to consider that Request.

ATTACHMENT - REVIEW REQUEST FORM



YOUR REQUEST FOR A REVIEW OF YOUR ALLOCATION

1. Please complete all details that are relevant to you on this form. Ensure all relevant boxes are marked with a cross ☒.
2. Please read, sign and date the declaration on page 2.
3. All applications must be received by the MBF Company Secretary by the dates specified in Section 5.19 of the Information Memorandum, a copy of the Information Memorandum is available at www.mbf.com.au.
4. Mail this form to MBF by placing it in an envelope (**postage is required**) addressed to:

**COMPANY SECRETARY
REVIEW REQUEST
MBF Australia Limited
Level 18, 50 Bridge St
Sydney NSW 2000**

My reason for requesting the review

☐ I have received an Allocation Form, however I believe my allocation may be incorrect.

Please tick appropriate box(es):

- ☐ I believe my Base Allocation may be incorrect
- ☐ I believe that my Single Years of Membership noted on the Allocation Form is incorrect
- ☐ I believe that my Non-Single Years of Membership noted on the Allocation Form is incorrect
- ☐ Other

☐ I have NOT received an Allocation Form, however I believe that I am entitled to receive an allocation. I have contacted the Scheme hotline on 133 505 and confirmed that I have not been sent an Allocation Form.

Please tick appropriate box:

- ☐ I believe I held an MBF Policy which was not in arrears on 8 November 2007
- ☐ I believe I made payment of my arrears on my MBF Policy by 8 February 2008
- ☐ I believe my MBF Policy was validly suspended

Complete the details of your request overleaf. Ensure you provide as much information and evidence as you can to support your request for review

YOUR DETAILS AS AT 8 NOVEMBER 2007

MBF membership number

Note: Your membership number is the 7 or 8 digit / character number that appears on the bottom left of your membership card.

Were you the Contributor on 8 November 2007?

The Contributor is the person in whose name the membership is registered and who is legally responsible for the membership and payment of premiums. MBF often refers to them as the "primary member".

☐ Yes ☐ No

Note: If you answered NO, you may be required to produce evidence of your authority to make this request for review eg. power of attorney

I believe I have had continuous MBF membership since

M	M	Y	Y	Y	Y		
---	---	---	---	---	---	--	--

Surname

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

First name

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Title Initials Date of birth Sex (M/F)

		D	D	M	M	Y	Y	Y	Y		
--	--	---	---	---	---	---	---	---	---	--	--

Home phone no.

()																
---	---	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Daytime phone no. or mobile

()																
---	---	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Email address

(In providing this address you agree that MBF may contact you in relation to this Request by email)

Home address

Postal address (if different from home)

Have you ever changed your name? If Yes, complete below:

Previous first name

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Previous surname

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Date of change of name

D	D	M	M	Y	Y	Y	Y
---	---	---	---	---	---	---	---

You will need to clearly explain the reasons why you believe your allocation has been incorrectly calculated or if you did not receive an Allocation Form why you believe you are entitled to an allocation. If you believe that your allocation should have taken into account a Relevant Insured who held an Eligible Policy which has not been included in your allocation you will need to include all the details related to that Relevant Insured and the policy. Before completing this section you should carefully read Section 5 of the Information Memorandum and the Allocation Rules in Schedule 3, a copy of the Information Memorandum is available at www.mbf.com.au. (Please ensure you attach any documentation or relevant information including previous membership number(s) and copies of membership documentation)

I declare that the information provided on this Review Request Form is true, correct and complete and I will notify MBF of any changes.

I understand that the decision of the Review Committee is final and binding on MBF and myself, and the Review Committee is not required to provide me with any reasons for its decision.

I understand that MBF requires the information sought in this Review Request Form, which may include information in relation to a person other than myself, in order to enable the Review Committee to consider and make a decision in relation to this Request.

I agree that by providing my personal information, and the personal information of any other person, with this Review Request Form I consent to MBF providing the personal information, including the personal information of the other person, to BUPA Australia, the Review Committee and any experts appointed to assist the Review Committee in relation to this Request.

I consent to MBF contacting any private health insurer within Australia to determine whether I have held private health insurance with them. I understand MBF may seek to obtain this information where the Review Committee reasonably believes it is relevant to the consideration of this Request. The details that I consent to MBF seeking include the dates the cover was held, the level of cover and type of product held, they do not include any details of claims or other medical information.

X

Date /

Thank you for your request to review your allocation. You will receive a letter notifying you of the Review Committee's decision generally within four weeks from the receipt of this Review Request Form.



Schedule 5 Deed Poll

This deed poll

is made on 20 March 2008.

by

BUPA Australia Holdings Pty Ltd (ACN 129 951 855) of Level 2, 600 Glenferrie Road, Hawthorn VIC 3122 (BUPA Australia Holdings)

and

BUPA Finance Plc a company incorporated under the laws of England and Wales and having company no. 2779134 (BUPA Finance)

in favour of

Scheme Members

Background

1. Under the Merger Implementation Deed, MBF Australia Limited (ABN 81 000 057 590) (**MBF**) and BUPA Australia Pty Ltd (ABN 81 098 309 025) (**BAPL**) have agreed that MBF will merge with BUPA Australia Holdings by means of:
 - a. a members' scheme of arrangement under Part 5.1 of the Corporations Act between MBF and the Scheme Members;
 - b. the granting of membership of MBF to BUPA Member;
 - c. the change of MBF's company type under Part 2B.7 of the Corporations Act from a company limited by guarantee to a proprietary company limited by shares, with the sole shareholder being BUPA Member;
 - d. MBF issuing shares to BUPA Australia Holdings; and
 - e. the conversion of MBF's Registration from "not for profit" to "for profit" under section 126-42 of the PHIA.
2. MBF intends to use the Transaction Consideration to fund the payment by MBF of the Scheme Consideration.
3. BUPA Australia Holdings is entering into this deed poll for the purpose of covenanting in favour of Scheme Members that BUPA Australia Holdings will pay the Transaction Consideration as and when the Transaction Consideration falls due for payment under the Merger Implementation Deed.
4. BUPA Finance agrees to guarantee the obligations of BUPA Australia Holdings under this deed poll.

This deed poll provides

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this deed poll:

- a. **Guaranteed Moneys** means all monetary liabilities of BUPA Australia Holdings to the Scheme Members under or in relation to this deed poll irrespective of whether the liabilities:
 - 1. are present or future;
 - 2. are actual, prospective, contingent or otherwise;
 - 3. are at any time ascertained or unascertained;
 - 4. are owed or incurred by or on account of BUPA Australia Holdings alone, or severally or jointly with any other person;
 - 5. are owed or incurred to or for the account of the Scheme Member alone, or severally or jointly with any person;
 - 6. are owed or incurred as principal, interest, fees, charges, taxes, duties, imposts, damages (whether for breach of contract or tort or incurred on any other ground), losses, costs or expenses or on any other account; or
 - 7. comprise any combination of the above,and includes monetary liabilities under any representations and warranties made under clause 5 of this deed poll or any indemnity under this deed poll;
- b. **Guaranteed Obligations** means BUPA Australia Holdings' obligations under this deed poll;
- c. **Merger Implementation Deed** means the Merger Implementation Deed dated 14 December 2007 between MBF, BAPL and BUPA Finance;
- d. **Scheme** means the scheme of arrangement under Part 5.1 of the Corporations Act between MBF and the Scheme Members as set out in Schedule 2 of the Information Memorandum, subject to any alterations or conditions made or required by the Court under s411(6) of the Corporations Act and consented to by MBF and BUPA Australia;
- e. **Scheme Members** means the company members of MBF, being the persons who are on the register of company members of MBF;

f. **Trustee** means Trust Company Fiduciary Services Limited (ACN 000 000 993); and

g. other words and phrases used in this deed poll have the meaning given to them in the Scheme.

1.2 Interpretation

Clause 1.2 of the Scheme applies to the interpretation of this deed poll, except that references to the Scheme are to be read as references to this deed poll.

2. NATURE OF DEED POLL

BUPA Australia Holdings acknowledges that this deed poll may be relied on and enforced by any Scheme Member in accordance with its terms even though the Scheme Members are not parties to it.

3. CONDITIONS

3.1 Conditions

BUPA Australia Holdings' obligations under clauses 4 and 5 are subject to the Scheme becoming Effective.

3.2 Termination

The obligation of BUPA Australia Holdings under this deed poll to Scheme Members will automatically terminate and the terms of this deed poll will be of no further force or effect if:

- a. the Merger Implementation Deed is terminated in accordance with its terms; or
- b. the Scheme is not Effective by the End Date.

3.3 Consequences of termination

If this deed poll is terminated under clause 3.2, in addition and without prejudice to any other rights, powers or remedies available to it:

- a. BUPA Australia Holdings is released from its obligations to further perform this deed poll except those obligations under clause 9.1; and
- b. the Scheme Members retain the rights they have against BUPA Australia Holdings in respect of any breach of this deed poll which occurred before it was terminated.

4. PAYMENT OF TRANSACTION CONSIDERATION

Subject to clause 3, BUPA Australia Holdings undertakes in favour of each Scheme Member to pay the Transaction Consideration to the Account Trustee as and when the Transaction Consideration falls due for payment under the Merger Implementation Deed, in the manner specified in clause 4.8 of the Merger Implementation Deed.

5. REVIEW COMMITTEE

Subject to clause 3, BUPA Australia Holdings undertakes in favour of each Scheme Member to procure that BAPL will perform its obligations under the Review Committee Charter.

6. WARRANTIES

6.1 BUPA Australia Holdings

BUPA Australia Holdings represents and warrants that:

- a. BUPA Australia Holdings is a corporation validly existing under the laws of its place of registration;
- b. BUPA Australia Holdings has the corporate power to enter into and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;
- c. BUPA Australia Holdings has taken all necessary corporate action to authorise its entry into this deed poll and has taken or will take all necessary corporate action to authorise the performance of this deed poll and to carry out the transactions contemplated by this deed poll; and
- d. this deed poll is valid and binding on BUPA Australia Holdings.

6.2 BUPA Finance

BUPA Australia Holdings represents and warrants that:

- a. BUPA Finance is a corporation validly existing under the laws of its place of registration;
- b. BUPA Finance has the corporate power to enter into and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;
- c. BUPA Finance has taken all necessary corporate action to authorise its entry into this deed poll and has taken or will take all necessary corporate action to authorise the performance of this deed poll and to carry out the transactions contemplated by this deed poll; and
- d. this deed poll is valid and binding on BUPA Finance.

7. CONTINUING OBLIGATIONS

This deed poll is irrevocable and, subject to clause 3, remains in full force and effect until:

- a. BUPA Australia Holdings has fully performed its obligations under this deed poll; or
- b. the earlier termination of this deed poll under clause 3.

8. GUARANTEE

8.1 Guarantee

BUPA Finance unconditionally and irrevocably guarantees to the Scheme Members:

- a. the payment of the Guaranteed Moneys under this deed poll; and
- b. the performance of the Guaranteed Obligations.

8.2 Payment

If any Guaranteed Moneys are not paid when due, BUPA Finance must immediately on demand from a Scheme Member, pay to the Account Trustee the Guaranteed Moneys in the same manner and currency as the Guaranteed Moneys are required to be paid.

8.3 Performance

If BUPA Australia Holdings fails to perform any of the Guaranteed Obligations when they are due, BUPA Finance must immediately on demand from a Scheme Member cause BUPA Australia Holdings to perform the Guaranteed Obligations.

8.4 Extent of guarantee

- a. This clause 8 applies:
 1. to the present and future amount from time to time of the Guaranteed Moneys and the present and future Guaranteed Obligations; and
 2. to this deed poll as amended, supplemented, renewed or replaced.
- b. The obligations of BUPA Finance under this clause 8 extend to any increase in the Guaranteed Moneys and any change in the Guaranteed Obligations as a result of:
 1. any amendment, supplement, renewal or replacement of this deed poll given by BUPA Australia Holdings; or
 2. the occurrence of any other thing.
- c. This clause 8 is not affected nor are the Guaranteed Obligations released or discharged or otherwise affected by anything which but for this provision might have that effect.

- d. This clause 8.4 applies:
 - 1. regardless of whether BUPA Finance is aware of or has consented to or is given notice of:
 - A. any amendment, supplement, renewal or replacement of this deed poll given by BUPA Australia Holdings; or
 - B. the occurrence of any other thing; and
 - 2. irrespective of any rule of law or equity to the contrary.

8.5 Avoidance of payments

- a. If any payment, conveyance, transfer or other transaction relating to or affecting the Guaranteed Moneys or any Guaranteed Obligation is:
 - 1. void, voidable or unenforceable in whole or in part; or
 - 2. claimed to be void, voidable or unenforceable and that claim is upheld, conceded or compromised in whole or in part,

the liability of BUPA Finance under this clause 8 and any Power is the same as if:

 - 3. that payment, conveyance, transfer or transaction (or the void, voidable or unenforceable part of it); and
 - 4. any release, settlement or discharge made in reliance on any thing referred to in clause 8.5(a)(3),

had not been made and BUPA Finance must immediately take all action and sign all documents necessary or required by a Scheme Member to restore to the Scheme Members this clause 8 and any Encumbrance held by MBF immediately before the payment, conveyance, transfer or transaction.
- b. Clause 8.5(a) applies whether or not the Scheme Member knew, or ought to have known, of anything referred to in that clause.

8.6 Principal and independent obligation

- a. This clause 8 is:
 - 1. a principal obligation and is not to be treated as ancillary or collateral to any other right or obligation; and
 - 2. independent of and not in substitution for or affected by any other collateral security which a Scheme Member may hold in respect of the Guaranteed Moneys or any other Guaranteed Obligation.
- b. This clause 8 is enforceable against BUPA Finance:
 - 1. without first having recourse to any collateral security;
 - 2. whether or not the Scheme Member has:
 - A. made demand upon BUPA Finance; or

- B. given notice to BUPA Australia Holdings or any other person in respect of any thing; or
- C. taken any other steps against BUPA Australia Holdings or any other person; and
- 3. whether or not the relevant Guaranteed Moneys are due.

8.7 No competition

- a. Subject to clause 8.7(b), until the Guaranteed Moneys have been fully paid and until the Guaranteed Obligations have been fully performed, BUPA Finance must not, either directly or indirectly, prove in, claim or receive the benefit of any distribution, dividend or payment arising out of or relating to the liquidation of BUPA Australia Holdings.
- b. If required by the Scheme Member, BUPA Finance must prove in any liquidation of BUPA Australia Holdings for all amounts owed to BUPA Finance.
- c. All amounts recovered by BUPA Finance from any liquidation or under any Encumbrance from BUPA Australia Holdings must be received and held in trust by BUPA Finance for the relevant Scheme Members to the extent of the unsatisfied liability of BUPA Finance under this clause 8.

8.8 Continuing guarantee

This clause 8 is a continuing obligation of BUPA Finance, despite:

- a. any settlement of account; or
 - b. the occurrence of any other thing,
- and remains in full force and effect until:
- c. all the Guaranteed Moneys have been paid in full; and
 - d. the Guaranteed Obligations have been performed.

9. GENERAL

9.1 Stamp duty

BUPA Australia Holdings will:

- a. pay or procure the payment of all stamp duties and any related fines and penalties in respect of the Scheme and this deed poll, the performance of this deed poll and each transaction effected by or made under the Scheme and this deed poll; and
- b. indemnify each Scheme Member against any liability arising from failure to comply with clause 9.1(a).

9.2 Notices

Any notice or other communication to BUPA Australia Holdings and/or BUPA Finance in respect of this deed poll must be in legible writing and in English and:

- a. addressed as shown below:

Name: The Company Secretary
BUPA Australia Pty Ltd

Address: Level 2, 600 Glenferrie Road
HAWTHORN Victoria 3122 Australia

Fax no: +61 3 9937 4424

and:

Name: The Company Secretary
BUPA Finance Plc

Address: BUPA House, 15-19 Bloomsbury Way
LONDON United Kingdom

Fax no: +44 207 656 2725

- b. must be signed by the person making the communication or by a person duly authorised by that person;
- c. must be delivered or posted by prepaid post to the address, or sent by fax to the fax number, of BUPA Australia Holdings and/or BUPA Finance in accordance with clause 9.2(a);
- d. will be regarded as received by BUPA Australia Holdings and/or BUPA Finance:
1. if sent by prepaid post, on the fifth Business Day after the date of posting;
 2. if sent by fax, at the time at which that fax is sent as shown on the transmission report which is produced by the machine from which that fax is sent and which confirms transmission of that fax in its entirety, unless that local time is a not a Business Day, or is after 5.00pm on a Business Day, when that communication will be regarded as received at 9.00am on the next Business Day; and
 3. if delivered by hand, on delivery at the address of the addressee as provided in clause 9.2(a).

9.3 Governing law and jurisdiction

- a. This deed poll is governed by the laws of New South Wales.
- b. Each of BUPA Australia Holdings and BUPA Finance irrevocably submits to the non-exclusive jurisdiction of the courts exercising jurisdiction in New South Wales.

9.4 Waiver

If a Scheme Member does not exercise a right arising from a breach of this deed poll at a given time, it may, unless it has waived that right in writing, exercise the right at a later point in time.

9.5 Variation

A provision of this deed poll may not be varied unless the variation is agreed to by MBF, in which event BUPA Australia Holdings and BUPA Finance will enter into a further deed poll in favour of the Scheme Members giving effect to the amendment.

9.6 Cumulative rights

The rights, powers and remedies of BUPA Australia Holdings, BUPA Finance and the Scheme Members under this deed poll are cumulative and do not exclude any other rights, powers or remedies provided by law independently of this deed poll.

9.7 Assignment

The rights of each Scheme Member under this deed poll are personal and must not be assigned or otherwise dealt with at law or in equity without the prior written consent of BUPA Australia Holdings.

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Schedule 6 Independent Expert's Report



PART 1 – CONCISE INDEPENDENT EXPERT'S REPORT

20 March 2008

The Directors
MBF Australia Limited
50 Bridge Street
SYDNEY NSW 2000

Dear Sirs

Concise Independent Expert's Report

1. Introduction

On 14 December 2007, MBF Australia Limited ("MBF") announced that the MBF Board had recommended a proposal from BUPA Australia Pty Limited ("BUPA Australia") to combine the businesses of the MBF Group ("MBF and all of its related bodies corporate") and the BUPA Australia Group ("BUPA Australia and all of its subsidiaries")(the "BUPA Proposal") with consideration of \$2.41 billion ("Transaction Consideration") to be paid to MBF by BUPA Australia Holdings Pty Limited ("BUPA Australia Holdings") and distributed in accordance with the Allocation Rules¹. The BUPA Proposal superseded the proposed demutualisation of MBF and subsequent listing on the Australian Securities Exchange ("ASX") that had been announced on 17 August 2007.

If approved, this transaction will be effected by way of a scheme of arrangement under the Corporations Act 2001 (Clth) and certain other related steps (the "Scheme"). The Scheme will include changes to the company membership of MBF and its company type. In broad outline, the Scheme will involve the following key steps:

- BUPA Australia Holdings will pay \$2.41 billion to MBF to subscribe for shares in the capital of MBF;
- MBF will distribute \$2.385 billion to Participating Contributors, in the form of a cash payment. The cash payment will be calculated in accordance with the Allocation Rules; and
- MBF will retain \$25 million until 31 December 2008 to deal with persons who were unable to seek a review of their circumstances prior to 21 May 2008. Any balance at 31 December 2008, will be paid to Participating Contributors and persons who it is determined should have been included as Participating Contributors in accordance with the Allocation Rules.

Participating Contributors means Eligible Contributors (persons who were Contributors of MBF who held a Qualifying Policy and were not Company Members and in respect of whom the Trustee will become registered as a company member of MBF on its register of company members) on 8 November 2007 ("the Cut-off Date")) and Company Members (a person who was a company

¹ As defined in the Glossary of the Information Memorandum

member under the MBF constitution on the Cut-off Date). Participating Contributors will also include persons who submit their request for review by 21 May 2008 and who the Review Committee determines have not been correctly identified as holding a Qualifying Policy after 2 May 2008. Refer to the Glossary of the Information Memorandum for definitions of Contributor, Qualifying Policy, Trustee and Cut-off Date.

If the Scheme is approved MBF will become a wholly owned subsidiary of BUPA Australia Holdings and part of the BUPA Group.

The MBF Group provides private health insurance to almost two million people, and had a market share of approximately 18%². It also provides travel insurance, life insurance and financial services, including retirement planning and lifestyle management through various companies that are wholly owned by MBF. These business lines contributed approximately 13% of total revenues in the year ended 30 June 2007 and 7% in the six months ended 31 December 2007³.

BUPA Australia is a wholly owned subsidiary of British United Provident Association Limited. The BUPA Group is a global health and care organisation which has customers in approximately 180 countries. BUPA Australia owns BUPA Australia Health Pty Limited (“BUPA Australia Health”) a registered private health insurer which operates under the brands *HBA* and *Mutual Community*. It is the third largest private health insurer in Australia behind Medibank Private and MBF.

Ernst & Young Transaction Advisory Services Limited (“Ernst & Young Transaction Advisory Services”) has been engaged by MBF to prepare an Independent Expert’s Report regarding whether the Scheme is in the best interests of Participating Contributors. This concise independent expert’s report is a summary of our complete independent expert’s report and will be appended to the Information Memorandum to be sent to Participating Contributors. Our complete independent expert’s report is available for inspection by Participating Contributors during normal business hours at MBF’s offices at Level 1, 50 Bridge Street, Sydney, New South Wales and is also available on MBF’s website at www.mbf.com.au. This concise independent expert’s report contains a summary of Ernst & Young Transaction Advisory Services’ opinion and main conclusions.

2. Summary of opinion

In the opinion of Ernst & Young Transaction Advisory Services the Scheme is in the best interests of Participating Contributors.

In forming our opinion as to whether the Scheme is in the best interests of Participating Contributors Ernst & Young Transaction Advisory Services has considered matters in relation to:

1. value, including the ability of Participating Contributors to access value, the value to be paid by BUPA Australia Holdings in relation to the Scheme and the way this value is to be allocated to Participating Contributors;
2. the rights that Participating Contributors will surrender as a result of the Scheme;
3. the impact of the Scheme on the position of Participating Contributors as ongoing holders of MBF private health insurance policies and on MBF;

² As at 31 December 2007.

³ Based on external segment revenues, as contained in the Special Purpose Half-Yearly Financial Report, 31 December 2007.

4. other qualitative factors which we believe are either advantages or disadvantages to Participating Contributors or otherwise have the potential to impact upon them; and
5. the position in the event that the Scheme does not proceed and the likelihood of an alternative superior offer being made in respect of MBF.

3. Valuation of MBF

3.1 Definition of fair market value and valuation methodology selected

Ernst & Young Transaction Advisory Services has assessed the value of MBF on a fair market value basis. Business valuers typically define fair market value as:

“The price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm’s length.”

Our valuation of MBF is based on 100% ownership, that is, it incorporates a premium for control as required by ASIC Regulatory Guide 111.

Fair market value does not incorporate any special value. Special value is the additional value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

We have valued MBF as being the sum of the values of its major assets being:

- the private health insurance business;
- the financial services business; and
- MBF’s surplus capital.

3.1.1 Private health insurance business

In valuing MBF’s private health insurance business, we have elected to capitalise an assessment of the maintainable level of insurance underwriting profits, which is before investment income and income tax. A multiple has been applied to MBF’s insurance underwriting profit in order to calculate the value of MBF’s private health insurance business including the capital required for regulatory purposes.

3.1.2 Financial services business

The value of the financial services business has also been based on the capitalisation of earnings approach. Given that this business segment is not exempt from tax, and in line with common practice for financial services businesses, we have elected to capitalise profit after tax for this business.

3.1.3 Surplus capital

We have considered the value of MBF’s surplus capital using MBF Australia’s special purpose half-year financial report as at 31 December 2007, board papers detailing the level of surplus capital available within the MBF Australia and MBF Alliance health funds and discussions with MBF management.

3.2 Valuation

Key assumptions and calculations underlying the values of each part of MBF are outlined below.

3.2.1 Private health insurance business

The value of the private health insurance business has been calculated as the product of insurance underwriting profit and an assessed insurance underwriting profit multiple.

Insurance underwriting profit

The table below summarises the insurance underwriting profit generated by MBF in the three years ended 30 June 2007 and the six months ended 31 December 2007 together with adjustments that we have considered in forming our views as to the maintainable level of insurance underwriting profit for the purposes of our valuation.

	Year ended 30 June 2005	Year ended 30 June 2006	Year ended 30 June 2007	Six months ended 31 December 2007
<i>Currency: \$A million</i>				
Insurance underwriting result	61.3	92.1	76.9	71.8
Adjustments:				
less: corporate expenses allocated to health insurance business ¹	na	(19.0)	(21.2)	(4.2)
add: new policy administration system costs	7.2	12.6	19.3	2.6
Adjusted insurance profit	68.6	85.7	75.1	70.2

Source: Special purpose half-year financial report - 31 December 2007, financial report 30 June 2006 and adjustments discussed below.

¹ corporate expenses were not separately identified in respect of the financial performance in the year ended 30 June 2005.

We note the following in relation to the above:

- The approximate \$15 million decline in reported insurance underwriting result in FY07 is substantially attributable to higher costs of hospital and medical claims and an increase in expenses associated with the development and implementation of a new private health administration system in FY07.
- We note that prima facie the result for the six months ended 31 December 2007 reflects a very high level of profitability relative to prior years. We have discussed this position with management and have been provided with various analyses of the half year result. The analysis indicates that the first half has historically been stronger than the second half of the financial year due to matters including, the timing of premium increases, the seasonality of claims and various expenses typically being skewed towards the second half of the year. In the case of FY08, the first half has also been positively impacted by significant releases of claims provisions and reserves. Having regard to the above factors we have not placed significant reliance on the results for the first half of the financial year in our assessment of the maintainable insurance underwriting profit.

We note the following in relation to the adjustments made above:

- In MBF's accounts, separate results are reported for insurance underwriting profits, investment returns, the financial services business and the corporate result. For the purposes of our valuation, given the private health funds business is the core business of MBF and it makes up the majority of its operations, we have treated corporate costs (excluding costs relating to the formerly proposed demutualisation and listing, which are non-recurring in nature) as being attributable to the private health funds. We note that the deduction of corporate expenses for FY05 is not necessary as a corporate result was not reported separately in that year.

- MBF completed the implementation of a new policy administration system in December 2007. While some of these costs have been capitalised and are being amortised to future periods over its remaining useful life, there are significant implementation costs which have been charged to the income statement in the year incurred. We have added these costs back to the insurance underwriting profit to remove their impact on our assessment of maintainable insurance underwriting profits. These costs principally relate to system, contractor, consultant and transition costs.
- In the preparation of this report we have been provided with various budgets and forecasts provided by MBF and have had the opportunity to discuss MBF's prospective financial performance with management.

Based on all of the above factors we have elected to utilise a range of maintainable insurance underwriting profits of between \$70 million and \$75 million.

Insurance underwriting profit multiple

In assessing the insurance underwriting profit multiple, we have considered the insurance underwriting profit trading multiples of comparable companies and those implied by the acquisitions of private health insurers and to a lesser extent, general insurers, as contained in appendix 4 of our complete independent expert's report. We note the following key points that we have considered in forming our views in the most appropriate range of multiples to apply:

- NIB is trading at an insurance underwriting profit multiple (adjusted for surplus capital) of 20.3 times, after adjusting to include an assumed premium for control of 20%. NIB is the single most comparable company to MBF, as it is the only private health insurer listed on the ASX.
- IAG is trading at an insurance underwriting profit multiple (adjusted for surplus capital) of approximately 20.4 times, which is also after adjusting to include an assumed premium for control of 20%. With approximately 80% of its gross written premiums generated from short tail business, which is somewhat similar in nature to private health insurers, we believe that IAG is the general insurer most comparable to MBF.

In comparing IAG with MBF, we note that IAG is significantly larger than MBF, with IAG's total revenue for FY07 being approximately \$8.1 billion, compared to MBF's revenue for that period of approximately \$2.6 billion. IAG is also more geographically diversified than MBF, with its operations also extending to New Zealand, the United Kingdom and Asia. IAG also provides a more diverse range of insurance products than MBF. IAG offers commercial, motor, home and contents, workers' compensation, travel, public and product liability and marine insurance, whilst MBF predominantly offers private health insurance.

- QBE's insurance underwriting profit multiple (adjusted for surplus capital) is approximately 14.1 times, including an assumed premium for control of 20%. QBE is also significantly larger than MBF, with revenues of approximately \$14.5 billion in the year ended 31 December 2007. It is also more geographically and operationally diverse than MBF. Approximately 18% of QBE's total revenue was generated in Australia, 4% from Asia-Pacific, 37% for Europe and 29% for the Americas. QBE sells property, liability, motor, worker's compensation and marine insurance products.

We have considered the extent to which general insurance is similar to private health insurance and note the following:

- Like private health insurance, many forms of general insurance are relatively short tail in nature.
- Private health insurance is subject to a greater level of regulation than general insurance, particularly in the areas of pricing and product offerings.
- General insurers are exposed to the risk of catastrophic events, which means that their earnings have a greater level of volatility. While private health insurers generally do not have such exposures, the businesses generally realise lower margins than general insurers which means that earnings can be volatile particularly in the event that the timing or extent of price increases does not compensate for what have been fairly rapidly increasing medical costs.
- Policy growth rates for the general insurance industry have generally exceeded those of the private health insurance industry. However, with factors such as legislative changes encouraging people to obtain private health insurance and the aging population, there has been growth in the number of people purchasing private health insurance.
- Both private health insurers and general insurers report under the same financial reporting standard AASB 1023 *General Insurance Contracts*.
- Both private health insurers and general insurers are prudentially regulated, with participants in both industries required to hold a level of capital adequacy under the requirements of the various industry regulators.

The insurance underwriting profit transaction multiples also provide evidence of an appropriate multiple for use in valuing private health insurers, however, unlike the trading insurance underwriting profit multiples, they have not been adjusted to exclude surplus capital from multiple calculations because this information is generally not publicly available. As such they may be somewhat higher than they would be if an adjustment for surplus capital was to be made.

In assessing the insurance underwriting profit multiple, we have considered the insurance underwriting profit trading multiples of comparable companies and those implied by the acquisitions of private health insurers and to a lesser extent, general insurers. After considering the above factors we have selected a multiple of 17 to 20 times insurance underwriting profit to apply to the selected range of insurance underwriting profit of MBF.

Valuation

Based on the factors considered above and the calculations in the following table we consider the value of MBF's private health insurance business (excluding surplus capital) to be in the order of \$1.19 billion to \$1.50 billion.

Currency: \$A m	Low	High
Insurance underwriting result	70	75
Assessed insurance profit multiple	17.0x	20.0x
Value of health insurance business	1,190	1,500

Financial services business

As discussed above, the value of the financial services business has been calculated as the product of the maintainable after-tax earnings of the business segment and its assessed price to after tax earnings multiple.

After tax net profit

The table below summarises the net after tax profit generated by MBF's financial services business for the three years ended 30 June 2007 and six months ended 31 December 2007.

	Year ended 30 June 2005	Year ended 30 June 2006	Year ended 30 June 2007	Six months ended 31 December 2007
<i>Currency: \$A million</i>				
Profit/(loss) before income tax	18.7	13.8	29.5	8.8
Income tax expense	(12.6)	(13.4)	(19.5)	(3.6)
Reported after tax earnings of financial services business	6.1	0.4	10.0	5.2
Adjustment for impairment of goodwill	2.9	-	-	-
Adjusted after tax earnings of financial services business	9.0	0.4	10.0	5.2

Source: Special purpose half-year financial report - 31 December 2007 and Financial report 30 June 2006

Based on the above, and further details in relation to the financial services business contained within our complete independent expert's report, we have assessed maintainable after tax earnings of the financial services business to be in the order of \$10 million.

Price earnings multiple

In assessing the price earnings multiple, we have considered the price earnings trading multiples of comparable companies as outlined in our complete independent expert's report. After considering these comparable companies, inclusive of a premium for control, we have selected a multiple of 18 to 20 times to apply to the maintainable after tax earnings of MBF in valuing the financial services business of MBF.

Valuation

Based on the above factors considered and the calculations in the following table we consider the value of MBF's financial services business to be in the order of \$180 million to \$200 million, as calculated below.

<i>Currency: \$A m</i>	Low	High
Maintainable after-tax earnings for financial services business	10	10
Assessed price earnings multiple	18.0x	20.0x
Value of financial services business	180	200

Surplus capital

As outlined within the Appointed Actuary Report, MBF had surplus capital in excess of its statutory requirements (excluding that attributable to the financial services business that has been considered separately) of approximately \$669 million⁴ as at 31 December 2007.

We have not been provided with any information that provides a more up to date estimate of MBF's surplus capital subsequent to 31 December 2007 but have discussed MBF's investment strategy and performance subsequent to that date with MBF management. For the purposes of this valuation we have adopted a range of \$640 million to \$670 million in our valuation for MBF's surplus capital adjusted to exclude that amount of capital which is attributable to the financial services business which is considered separately above.

We note that Management have advised that MBF holds an additional amount of its capital over that required by PHIAC to ensure that the regulatory capital requirement is not breached as a result of a movement in equity markets. As the level of additional capital held by MBF (and other private health insurers and general insurers) is not publicly available information, for the purposes of our valuation, we have used the level of regulatory surplus capital for MBF.

Valuation of MBF

Our valuation for MBF is contained in the table below.

Currency: A\$m	Section	Low	High
Health insurance business	3.2.1	1,190	1,500
Financial services business	3.2.2	180	200
Value of surplus capital	3.2.3	640	670
Value of MBF Australia		2,010	2,370
Say (rounded)		2,000	2,400

Valuation cross checks

In this section we perform various cross checks of the above valuation using alternative methodologies and benchmarks.

Value per contributor

Value per contributor is one way of benchmarking value between private health funds taking into account their relative size. Based on the number of MBF contributors and our valuation of MBF, we have calculated the value per contributor as shown in the table below. We have also calculated the value per contributor excluding surplus capital.

Currency: \$A m	Low	High
Value of health insurance business - including surplus capital	1,830	2,170
Value of health insurance business - excluding surplus capital	1,190	1,500
# contributors (m)	0.90	0.90
Value per contributor - including surplus capital (\$)	2,023	2,399
Value per contributor - excluding surplus capital (\$)	1,315	1,658

*Note: totals may not add due to rounding

⁴ Surplus capital of \$694 million as advised in Appointed Actuary Report less \$25 million surplus capital attributed to financial services businesses (valued separately above).

The following table summarises the enterprise value (inclusive of surplus capital, if any) per contributor multiples of selected comparable companies.

	Transaction date	
<i>Currency: \$A m</i>		
NIB [^]	Currently listed	\$ 2,027
NRMA Health*	Jul-03	\$ 1,053
IOOF Health*	May-03	\$ 1,406
AXA Asia Pacific Health*	Jun-02	\$ 1,312

[^] Market capitalisation used to calculate NIB's enterprise value includes a 20% premium for control. *This company was acquired and so the multiple is a transaction multiple. Source: Ernst & Young Transaction Advisory Services valuation workings and comparable company annual reports, press releases, broker reports, Factiva, Thomson, mergermarket.

We note the following in relation to the above:

- The number of contributors refers to the number of policyholders or members of a private health insurer. For MBF this includes both the policyholders of the MBF (currently approximately 800,000) and MBF Alliance funds (approximately 104,700).
- We note that each of the NRMA Health, IOOF Health and AXA Asia Pacific Health transactions date back to 2002 and 2003 and therefore are somewhat limited in their relevance.
- We note that including surplus capital, the value per contributor for NIB is approximately within the range of values that we have estimated in relation to MBF.
- Unlike the other companies above, the value of NIB's surplus capital is publicly available. Its value excluding surplus capital per contributor of approximately \$1,182 falls slightly below our assessed range of values per contributor excluding surplus capital for MBF.

With regard to the above values per contributor, given that MBF has a significantly greater market position and is significantly larger in size than NIB, NRMA Health and IOOF Health, the fact that the value per contributor multiple for MBF is higher than those entities does not appear unreasonable.

Price earnings multiple

Given that companies operating in the financial services industry, including insurers, generate a large part of their earnings through interest income, price earnings multiples are commonly used in their valuations. The following table presents our calculation of the normalised after tax earnings of MBF for the year ended 30 June 2007.

	Year ended 30 June 2007
<i>Currency: \$A million</i>	
Reported NPAT	223.5
Pre-tax adjustments:	
Demutualisation costs	2.3
New policy administration system costs	19.3
Total pre-tax adjustments	<u>21.6</u>
Tax effect of above adjustments	(6.5)
Tax effect on conversion of MBF Australia to for-profit entity	<u>(61.3)</u>
Adjusted NPAT	177.4

We note the following in relation to the above:

- the tax effect of the above adjustments is calculated as 30% of the total adjustments; and
- the tax effect on conversion of MBF to a for-profit entity has been calculated by Management.

Based on the adjusted NPAT above for FY07, the FY07 NPAT multiples implied by our valuation are as summarised below.

<i>Currency: \$A m</i>	Low	High
Value of MBF Australia	2,010	2,370
Adjusted FY07 NPAT	177	177
FY07 price earnings multiple	11.3x	13.4x

The following table summarises the historical price earnings multiples of selected comparable companies.

<i>Currency: \$A m</i>	
NIB ^a	12.2x
IAG ^a	12.2x
IOOF Health*	14.4x
AXA Asia Pacific Health*	5.9x
Promina*	14.8x
OAMPS*	16.8x
QBE Merc Mutual*	8.9x

^a Market capitalisation used to calculate enterprise values include a 20% premium for control. *This company was acquired and so the multiple is a transaction multiple. Source: Ernst & Young Transaction Advisory Services valuation workings and comparable company annual reports, press releases, broker reports, Factiva, Thomson, mergermarket.

The comparable price earnings multiples above represent historical multiples, calculated using actual earnings achieved by each of the above companies. As such, they are calculated on a basis that is consistent with the calculation of the historical price earnings multiples implied by our valuation, as contained in the table above. The average of the above comparable companies is approximately 12.2 times, which is within the range implied by our valuation.

Price to net tangible assets multiple

Value to net tangible assets is another measure often used for benchmarking relative valuations. The following table summarises the price to net tangible asset multiple implied by our valuation.

<i>Currency: \$A m</i>	Low	High
Value of MBF Australia	2,010	2,370
NTA	1,032	1,032
P/NTA	1.9x	2.3x

We note that NTA above is calculated as MBF's net assets of \$1,188 million less intangible assets of \$156 million as at 31 December 2007.

The following table summarises the price to net tangible assets multiples of selected comparable companies.

<i>Currency: \$A m</i>	
NIB ^a	1.8x
IAG ^a	4.2x
NRMA Health*	2.2x
IOOF Health*	2.3x
AXA Asia Pacific Health*	6.5x
Promina*	5.1x
QBE Merc Mutual*	2.0x

^a Market capitalisation used to calculate enterprise values include a 20% premia for control. *This company was acquired and so the multiple is a transaction multiple. Source: Ernst & Young Transaction Advisory Services valuation workings and comparable company annual reports, press releases, broker reports, Factiva, Thomson, mergermarket.

We note the following in relation to the above:

- Of the above, NIB, NRMA Health, IOOF Health and AXA Asia Pacific Health are considered most similar to MBF. The average multiple for these companies is 3.2 times or 2.1 times if AXA Asia Pacific Health is excluded.
- NIB, thought to be the most comparable company to MBF, has a multiple of 1.8 times, which is consistent with the lower end of the multiple range of 1.9 times to 2.3 times implied by our valuation.

As such, we believe the above analysis supports the price to net tangible assets multiple range of 1.9 times to 2.3 times that is implied by our valuation.

Valuation conclusion

Based upon our analysis above, we are of the opinion that the value of MBF on a controlling basis is between \$2.0 billion and \$2.4 billion.

Analysis

In forming our opinion that the Scheme is in the best interests of Participating Contributors, Ernst & Young Transaction Advisory Services has considered the advantages, neutral considerations and disadvantages to Participating Contributors if the Scheme is approved and implemented as set out below:

Advantages

Ability to access value – under the current structure of MBF, surpluses can only be distributed to Participating Contributors through increased benefits or reduced premiums and charges. Clause 2.3 of the MBF Constitution states that no part of income or property of MBF may be paid or transferred by way of dividend, bonus or otherwise by way of profits to Company Members. MBF would also not be able to pay or transfer any such income or property to Contributors.

Value comparison – Ernst & Young Transaction Advisory Services has assessed the value of MBF on a controlling basis within the range of \$2.0 billion to \$2.4 billion. This compares to the value of the consideration being offered by BUPA Australia Holdings to MBF of \$2.41 billion. We note that the consideration being offered is consistent with the upper end of our range of values.

Valuation certainty – the Scheme offers Participating Contributors certainty in relation to the value that they will receive if the Scheme is approved and implemented.

Premium for control – our valuation of MBF includes a premium for control. A premium for control is applied where valuations are undertaken for controlling interests in entities or assets. A Participating Contributor would not be able to access this value premium unless a controlling interest in MBF was to be acquired. Under the Scheme, as our valuation (on a controlling interest basis) at the high end of our range is consistent with the consideration being offered by BUPA Australia Holdings, we consider that a premium for control is being paid.

Neutral considerations

Allocation of consideration – the basis upon which the Transaction Consideration will be allocated to individual Participating Contributors is set out in schedule 3 of the Information Memorandum with descriptions and example applications of the Allocation Rules provided in section 5 of the Information Memorandum. Appended to the Information Memorandum are reports from the Consulting Actuary and the Appointed Actuary. Both the Consulting Actuary and the Appointed Actuary are of the opinion that the Allocation Rules are reasonable to Participating Contributors. We have reviewed the Allocation Rules and have concluded the rules for allocation of the Transaction Consideration and arrangements for dispute resolution are reasonable to Participating Contributors. We also conclude that the final disposal of the Residual Amount is reasonable.

Impact on Participating Contributors as policyholders – we have considered the potential impact of the Scheme on Participating Contributors in their capacity as holders of private health insurance policies with MBF. Appended to the Information Memorandum are reports from the Consulting Actuary and the Appointed Actuary. The Appointed Actuary is of the opinion, having regard to the matters set out in the Appointed Actuary’s Report, that the Scheme:

- *“in itself will not impact any benefits or rights policyholders currently enjoy under their existing policies”;*
- *“and the adoption of the intended pricing policy for MBF, is (not) likely to have a materially adverse impact on the outlook for future premium rate increases for MBF’s policyholders”;* and
- *“should not result in a material reduction in the level of security provided for policyholders’ benefits.”*

We have reviewed the impact on Participating Contributors as policy holders in relation to:

- future changes in policy terms or Fund Rules;
- the impact of the Scheme on premiums; and
- the security of policy holders interests.

We have not identified any factor in relation to their rights and benefits under currently held policies or potential future premium levels or security levels that we consider to be a disadvantage to Participating Contributors as policyholders in our analysis.

Impact on MBF – if the Scheme is approved and implemented, MBF will:

- be wholly owned by BUPA Australia Holdings;
- the combined group will hold a larger market share than any other private health insurer;
- potentially be able to realise operational synergies;
- lose its tax exempt status; and
- have greater access to capital.

Disadvantages

Loss of rights as Participating Contributors – if the Scheme is approved and implemented, Participating Contributors would lose some rights that they currently hold including, where applicable, the right to attend AGM's, the right to become Company Members, if a Company Member – the right to become Council Members and (if a Council Member) the right to vote.

Transaction costs – MBF estimate that if the Scheme is approved and implemented total transaction costs of approximately \$45.8 million will have been incurred. Of this amount \$27.2 million will have been incurred prior to the Scheme Meeting (including \$12.7 million incurred in relation to the listing proposal) with the remaining \$18.6 million to be incurred prior to 30 June 2008.

Tax implications – it is expected that Australian resident Participating Contributors will be subject to capital gains tax ("CGT") on the disposal of their membership rights. A capital gain may arise for Participating Contributors if the Entitlement they receive exceeds the cost base they have in their membership rights. The current tax legislation provides for a \$nil cost base for membership rights of Eligible Contributors, and a cost base of the value of membership payments for Company Members.

The Assistant Treasurer released a press release on 26 February 2008 announcing that the Government intends to amend the income tax law to provide CGT relief to policyholders who receive shares or dispose of membership rights for a cash payment on the demutualisation of a mutual health insurer. Based on the Assistant Treasurer's press release, Participating Contributors who acquired their policies on or after 20 September 1985 will receive a cost base in their membership rights equal to their share of the net tangible assets of MBF. Participating Contributors who acquired their policies before this date are not expected to incur a CGT liability. The precise details of these amendments are as yet to be released by the Government or enacted and, as such, may ultimately differ from the current announcement.

A liability for capital gains tax may arise due to the Entitlement received by a Participating Contributor being greater than the cost base (including any cost base arising from the proposed Government amendments), for example due to goodwill attaching to MBF. However the tax will be able to be settled by part of the Transaction Consideration allocated to Participating Contributors. For Company Members who acquired their membership before 20 September 1985 (and who are not deemed to have acquired their membership after this date), any capital gain should not incur capital gains tax. We expect that in drafting the proposed amendments the Government will clarify whether, and if applicable, how, the CGT discount will apply to taxable gains arising for members.

The potential incurrence of tax on the proceeds of membership rights is a disadvantage to Participating Contributors who acquired their policies on or after 20 September 1985.

If the Scheme does not proceed

In the event that the Scheme does not proceed, the Board of MBF will need to consider options for the future of MBF. Other options that have been considered by the Board of MBF in addition to the proposed Scheme and, prior to that the proposed demutualisation and listing of MBF on the ASX include:

- retaining the current structure;
- raising external debt to enhance the ability to pursue its business strategy;
- distributing surplus capital by means of reduced premiums; or
- the sale of subsidiaries.

In relation to a potential demutualisation and listing of MBF on the ASX, this option would result in Participating Contributors receiving shares that would be traded on the ASX. There would be uncertainty in relation to the value at which shares would trade. We are of the opinion that the shares would trade at a value below that of the consideration that is being offered by BUPA Australia Holdings to MBF as the value of publicly traded shares generally do not contain a premium for control, which we have concluded is included in value offered under the Scheme.

Based on the above factors, we are not aware of any alternative to the Scheme that it is likely to be of greater benefit to Participating Contributors than the Scheme.

Likelihood of a superior offer

There is the possibility that a superior proposal may be made by BUPA Australia or another offeror. We note the following in relation to the potential for a superior offer:

- on 7 December 2007 BUPA Australia announced that its current offer was its final offer to MBF;
- we are not aware of any other options for a superior proposal being provided to MBF;
- the Transaction Consideration is consistent with the upper end of our valuation range for MBF;
- the Transaction Consideration being offered is cash, providing greater certainty of value than a share offer; and
- there has been a deterioration in financial markets since the Transaction Consideration was agreed.

4. Other matters

This concise independent expert's report has been prepared specifically for the Participating Contributors of MBF. Neither Ernst & Young Transaction Advisory Services, Ernst & Young, nor any member or employee thereof undertakes responsibility to any person, other than Participating Contributors of MBF, in respect of this concise independent expert's report, including any errors or omissions howsoever caused.

This concise independent expert's report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of Participating Contributors. The decision to vote in favour of or against the Scheme is a matter for individual Participating Contributors. Participating Contributors should consider the advice in the context of their own circumstances, preferences and risk profiles. Participating Contributors should have regard to the information memorandum prepared by the directors and management of MBF Australia Limited in relation to the Scheme. Participating Contributors should also consider the taxation implications in relation to the Scheme. Participating Contributors who are in doubt as to the action they should take in relation to the Scheme should consult their own professional adviser.

Our opinion is made at the date of this correspondence and reflects circumstances and conditions as at that date. This letter is a summary of Ernst & Young Transaction Advisory Services' opinion. The full report from which this summary has been extracted is available for viewing at MBF or on the internet at www.mbf.com.au.

5. Limitations and reliance on information

In reaching its conclusions, Ernst & Young Transaction Advisory Services has considered and relied upon information provided by MBF and information that has been placed on the public record. We note that certain information relied on constitutes internal management information that is not on the public record. In the preparation of this report Ernst & Young Transaction Advisory Services has relied upon and considered information believed after due inquiry to be reliable and accurate. We consider reliance on this information reasonable in the circumstances.

We have no reason to believe that any material facts have been withheld from us. Ernst & Young Transaction Advisory Services notes, however, that it has not audited the information provided to it and it does not warrant that its enquiries have disclosed all the matters that an audit or a more extensive examination might have disclosed.

Ernst & Young Transaction Advisory Services' opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. This report should be read in conjunction with the declarations outlined in the Statement of qualifications and declarations below.

6. Statement of qualifications and declarations

Ernst & Young Transaction Advisory Services, which is wholly owned by Ernst & Young holds an Australian Financial Services Licence under the Corporations Act and its Representatives are qualified to provide this report. The directors of Ernst & Young Transaction Advisory Services responsible for this report have not provided financial advice to either MBF or BUPA Australia.

Prior to accepting this engagement Ernst & Young Transaction Advisory Services considered its independence with respect to MBF and BUPA Australia with reference to the ASIC Regulatory Guide 112 "*Independence of experts*". In Ernst & Young Transaction Advisory Services' opinion it is independent of MBF and BUPA Australia.

We disclose that from time to time Ernst & Young and Ernst & Young Transaction Advisory Services have provided professional services to MBF, the BUPA Group and BUPA Australia although we have not provided services in relation to this transaction.

We also disclose that Ernst & Young has provided some independent advice to PHIAC in relation to the previously proposed demutualisation and listing of MBF.

This report has been prepared specifically for the members and eligible contributors of MBF. Neither Ernst & Young Transaction Advisory Services, Ernst & Young, nor any member or employee thereof undertakes responsibility to any person, other than a member or eligible contributor of MBF, in respect of this report, including any errors or omissions howsoever caused.

The statements and opinions given in this report are given in good faith and the belief that such statements and opinions are not false or misleading. In the preparation of this report Ernst & Young Transaction Advisory Services has relied upon and considered information believed after due inquiry to be reliable and accurate. Ernst & Young Transaction Advisory Services has no reason to believe that any information supplied to it was false or that any material information has been withheld from it. Ernst & Young Transaction Advisory Services has evaluated the information provided to it by MBF as well as other parties, through inquiry, analysis and review, and nothing has come to its attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base its report. Ernst & Young Transaction Advisory Services does not imply and it should not be construed that it has audited or in any way verified any of the information provided to it, or that its inquiries could have verified any matter which a

more extensive examination might disclose. MBF has provided an indemnity to Ernst & Young Transaction Advisory Services for any claims arising out of any misstatement or omission in any material or information provided to it in the preparation of this report.

Ernst & Young Transaction Advisory Services provided draft copies of this report to the management and board of MBF for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of Ernst & Young Transaction Advisory Services alone. Changes made to this report as a result of this review by the management and board of MBF have not changed the methodology or conclusions reached by Ernst & Young Transaction Advisory Services.

Ernst & Young Transaction Advisory Services will receive a professional fee based on time spent in the preparation of this report, estimated at approximately \$220,000. Ernst & Young Transaction Advisory Services will not be entitled to any other pecuniary or other benefit whether direct or indirect, in connection with the making of this report.

Mr Stuart Bright, director of Ernst & Young Transaction Advisory Services and a partner of Ernst & Young has assumed overall responsibility for this report. He has over 16 years experience in providing financial advice and valuation advice and has professional qualifications appropriate to the advice being offered. Mr John Gibson, a director of Ernst & Young Transaction Advisory Services and a partner of Ernst & Young has also been involved in the preparation of this report. He has over 20 years experience in providing financial advice and valuation advice and has professional qualifications appropriate to the advice being offered.

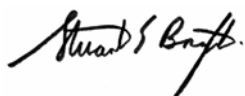
The preparation of this report has been undertaken pursuant to Section 411 of the Corporations Act. Ernst & Young Transaction Advisory Services has also had regard to relevant ASIC Regulatory Guides. It is not intended that the report should be used for any other purpose other than to accompany the information memorandum sent to Participating Contributors of MBF. In particular, it is not intended that this report should be used for any other purpose other than as an expression of its opinion as to whether or not the Scheme is in the best interest of members and eligible contributors.

The financial forecasts used in the preparation of this report reflect the board's and management's judgement based on present circumstances, as to both the most likely set of conditions and the course of action it is most likely to take. It is usually the case that some events and circumstances do not occur as expected or are not anticipated. Therefore, actual results during the forecast period will almost always differ from the forecast and such differences may be material. To the extent that our conclusions are based on forecasts, we express no opinion on the achievability of those forecasts.

Ernst & Young Transaction Advisory Services consents to the issue of this report in the form and context in which it is included in the information memorandum to be sent to Participating Contributors.

Yours faithfully

Ernst & Young Transaction Advisory Services Limited



Stuart G Bright
Director and Representative



John E Gibson
Director and Representative

THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE INDEPENDENT EXPERT'S REPORT

PART 2 – FINANCIAL SERVICES GUIDE

Issue date: 15 February 2005 (version 1)

1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited (“Ernst & Young Transaction Advisory Services” or “we,” or “us” or “our”) has been engaged to provide general financial product advice in the form of an Independent Expert’s Report (“Report”) in connection with a financial product of another person. The Report is set out in Part 1.

2. Financial Services Guide

This Financial Services Guide (“FSG”) provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits referred to above, neither Ernst & Young Transaction Advisory Services, nor any of its directors, employees or associated entities receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young Transaction Advisory Services is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the Compliance and Legal Manager and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Industry Complaints Service or the Insurance Brokers Disputes Limited for general insurance product advice.

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

This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/157

S7



Schedule 7 Appointed Actuary's Report

20 March 2008

The Board of Directors
MBF Australia Limited
Level 18, 50 Bridge Street
Sydney NSW 2000

Dear Directors,

APPOINTED ACTUARY'S REPORT

1. Introduction

MBF's Board has resolved to recommend Participating Contributors accept an offer from BUPA Australia to combine the two businesses for a total transaction consideration of \$2.41 billion. The transaction will be effected by way of a scheme of arrangement under the Corporations Act (the "Scheme"). If the Scheme is approved and implemented, MBF will become a wholly owned subsidiary of BUPA Australia Holdings and part of the BUPA Group.

The purpose of this report is to review the impact of the Scheme on the interests of its Contributors, including the basis upon which the financial benefit arising from the Scheme will be distributed amongst Participating Contributors.

I am a Fellow of the Institute of Actuaries of Australia. My working career of 19 years includes 9 years of actuarial practice within private health insurance. I am currently the Appointed Actuary of MBF Australia Limited and MBF Alliances Limited Pty, and have been so since the inception of the statutory role in 2004. I have been employed by MBF since 2003, over which time I have held a number of Executive roles. I currently hold the position of Group Executive, Corporate and Capital Management.

I have been a Contributor of MBF Australia since 2003. However, having regard to my role in advising on the Allocation Rules, it is my intention to forgo any financial benefit received from my Entitlement, by donating the cash proceeds to charity.

In my capacity as an Executive of MBF I am paid a salary. I am also entitled to receive a retention payment of \$250,000 on 30 June 2008.

Terms appearing in this report have the same meaning as those defined in the IM. Throughout this report I have used the term "Transaction" to refer collectively to the proposed Scheme and its associated implementation steps.

2. Overview of the Transaction

An overview of the Transaction is contained in Section 6.1 of the Information Memorandum ("IM").

3. Scope of Report and Overall Basis of Opinion

It is important to note that the conversion to 'for profit' and change in company structure considered as a part of the proposal to implement the Scheme relates to MBF Australia Limited only. As such, the scope of this report is limited to the impact of the Transaction on MBF's Company Members, Contributors and policyholders. MBF's subsidiary businesses and their customers are not considered as a part of this report. While the ultimate owner of these investments of MBF may change as a part of the Transaction, this does not impact the rights or entitlements of any of these customers.

In reviewing the impact of the Transaction on the interests of MBF's Contributors, I have considered two distinct sets of interests:

- the interests of Contributors, as policyholders of insurance contracts; and
- the interests of Contributors, as the 'quasi-owners', or 'quasi-proprietors' of MBF.

I have made this distinction on the basis that the interests of Contributors, as policyholders, are not necessarily the same as their interests as 'quasi-owners'. As such, I believe it is important to clearly distinguish between these interests and the impact of the Transaction on each.

In reviewing the impact of the Transaction on the interests of Contributors, as policyholders, I have had regard to the following:

- policyholders' reasonable benefits expectations;
- the security of policyholder benefits; and
- the outlook for future premium rate increases.

The Board has recommended the Allocation Rules consistent with my advice. This report details the primary considerations I took into account when formulating this advice and why I consider the basis to be a fair and reasonable method of distributing the financial benefit arising from the Transaction amongst Contributors.

I have relied on the advice provided by MBF and its advisors as to an individual's eligibility to participate in the distribution of cash. Based on this advice and my review of the subsequent eligibility rules, I believe the eligibility criteria, in particular the definition of a Participating Contributor and Qualifying Policy, to be fair and reasonable.

In assessing the Allocation Rules, I considered the fairness and reasonableness of the resulting distribution of financial benefit amongst Participating Contributors as a whole. Consideration was not given to the specific circumstances of individual Contributors, nor their specific tax and social security circumstances, which may vary considerably.

Special consideration was also given to the requirements of the Private Health Insurance Act 2007 (the "PHI Act"), in particular Section 126-42 of the Act, which requires PHIAC to determine whether the conversion scheme associated with a change to for profit status would not:

- "result in a financial benefit to any person who is not a policyholder of, or another person insured through, a health benefits fund conducted by the insurer; and"
- "result in financial benefits from the scheme being distributed inequitably between such policyholders and insured persons."

For the purpose of this report, I have adopted the term 'appropriate', or 'appropriate basis', as a reference to both 'fair and reasonable', and the requirements of Section 126-42 of the Act.

The opinions provided in this report rely in part on certain representations made by BUPA Australia in relation to their current management practices, along with their expectations and future intentions for the MBF Australia business. Section 3.3(a) of the IM states that BUPA Australia's currently stated intentions may change as new information becomes available to BUPA Australia or as circumstances change. In the event new information becomes available to BUPA Australia, or circumstances otherwise change which cause BUPA Australia to amend or withdraw such representations, this may in turn have a material impact on the opinions provided in this report. Accordingly, the opinions contained in this report are subject to and conditional upon BUPA Australia's stated intentions, as previously provided and detailed in Section 3 of the IM.

4. Policyholders' Reasonable Benefit Expectations

Contributors, as purchasers of private health insurance policies, have a contractual right to receive payment for benefits covered under their insurance policy, with MBF's benefit obligations being defined within its Fund Rules, as amended from time to time.

While MBF's legal obligation only extends to the Contributor, the Fund Rules provide for benefit payments in respect of other persons covered by a policy. In considering the impact of the Transaction on policyholders' reasonable benefits expectations, I have considered the impact of benefits payable in respect of all insured persons, not just the Contributor.

It is important to acknowledge that the reasonable benefit expectations of policyholders may be affected by circumstances unrelated to the Transaction, hence I have distinguished between changes that might result from the Transaction and those which can occur in the normal course of business, irrespective of whether the Transaction is implemented, with my report primarily focussing on the former.

4.1 Impact on Policyholders' Rights and Benefits

Policyholders' rights and benefits, as they relate to their health insurance policies, are set out in MBF's Fund Rules. These rights and benefits will not be amended as a part of the Transaction. As such, the Transaction, in itself, will not impact any benefits or rights policyholders currently enjoy under their existing policies.

BUPA Australia has stated that it does not have any intentions or plans, associated with or related to the Scheme, to seek any amendments to MBF's Fund Rules that would reduce any policy features or benefits of current MBF policyholders.

BUPA Australia has also stated that it does not have any intentions or plans, associated with or related to the Scheme, to seek any amendments to MBF's Fund Rules or Constitution that the Board believes would provide MBF with greater flexibility to vary policyholders' rights and benefits (arising under their health insurance policies) in the future compared to now.

MBF, like all insurers, is bound by the usual contractual law requirements to notify all policyholders prior to any product changes coming into effect. Further, the PHI Act requires insurers to provide reasonable notice to policyholders and to lodge any amendments with the Department of Health and Ageing ("DoHA").

Furthermore, the Transaction does not incorporate any amendments to MBF's Fund Rules or Constitution that would provide it with greater flexibility than it currently has to change policyholders' future benefits and rights under their health insurance policies. All amendments to Fund Rules must still be notified to policyholders and the DoHA.

4.2 Shareholder & Policyholder Interests

Some may consider that over time the interests of the BUPA Group, as the shareholder, would be in conflict with those of policyholders, and that this conflict may lead to a reduction in policyholder benefit entitlements, in order to provide greater shareholder profits.

I do not support this view. The private health insurance market is already very competitive. A primary consideration of MBF is the competitiveness of its products. Every year MBF has to balance the need to deliver sustainable underwriting margins, while maintaining a competitive product offering and affordable premiums for its policyholders.

I believe any strategy involving a material dilution of policyholder benefit entitlements, without a corresponding reduction in premiums, is unlikely to deliver a meaningful improvement in shareholder profits for any extended period of time.

Furthermore, all MBF policyholders will continue to be covered by the protections provided under the PHI Act, as policyholders of health insurance products. Continuity of coverage provides legislated protection enabling all complying PHI (hospital) policyholders to switch insurers and receive continuity of coverage across comparable (hospital) products, with no need to undergo underwriting or additional waiting periods. It is this continuity of cover, combined with community rated premiums and the minimal administrative burden associated with switching¹ that provides insurers with a strong incentive to maintain the market competitiveness of their product offerings to their policyholders.

While it is not legislated for insurers to provide continuity of coverage for general treatment products, MBF and BUPA Australia Health, along with many other insurers, do provide continuity of coverage for general treatment products. Given the market practice of providing continuity of coverage on these products, I believe it is unlikely that an insurer seeking to increase profitability and/or market share is likely to remove this offer.

This feature of private health insurance is in significant contrast to other forms of insurance, where policyholders can often be 'tied' to their current insurer due to significant financial costs associated with the cancellation of the policy, the need to undergo further underwriting, or the inability to gain similar coverage on comparable terms or price.

4.3 Impact on Policyholders' Reasonable Benefit Expectations

After having particular regard to:

- the Transaction not impacting MBF's Fund Rules, as they relate to benefits offered under its insurance products, nor impacting MBF's current ability to amend these benefits in the normal course of its business;
- BUPA Australia's confirmation that it has no intentions or plans, associated with or related to the Scheme, to seek any amendments to MBF's Fund Rules that would reduce any policy features or benefits of current MBF policyholders;
- the competitiveness of the private health insurance market;
- the requirement to notify all policyholders and the DoHA of any changes to their benefit entitlements; and
- the ability of policyholders to switch insurers with continuity of cover, the support of community rated premiums and no requirement to serve additional waiting periods,

I do not believe the Transaction will have an adverse impact on policyholders' reasonable benefit expectations, in respect of the health insurance policies issued by MBF.

5. Security of Policyholders' Benefits

5.1 Introduction

The security of policyholders' benefits is often measured by reference to the value of assets supporting the insurer's liabilities and ongoing financial obligations². While a larger asset base generally provides greater security of benefits, the exact amount necessary to 'secure' benefits is not capable of precise measurement. In addition security cannot be provided with 100% certainty. Furthermore, absolute security is not provided by MBF under its current structure.

¹ In addition to no requirement for underwriting, most incoming funds will gather the necessary documentation from the prior fund.
² including prudential capital requirements.

Following the implementation of the Scheme, MBF Australia will have the ability to distribute surplus capital to its new parent company, BUPA Australia Holdings. Section 3 of the IM states that BUPA Australia intends for MBF to release between \$500m and \$600m of its surplus capital to BUPA Australia Holdings, provided such a release is consistent with MBF's Capital Management Plan ("CMP").

Ultimately the quantum of capital transferred following the implementation of the Transaction, if approved, will be subject to separate actuarial advice at the time, taking into account (amongst other things), MBF's balance sheet, the prevailing regulatory capital requirement and the level of capital buffer MBF proposes to maintain in excess of regulatory minimums.

Following the implementation of the Transaction, if approved, it is BUPA Australia's intention that MBF's capital position will continue to be managed in a manner consistent with MBF's current CMP, as it relates to its subsidiary businesses.

Given the exact quantum of any future capital transfer is yet to be confirmed and that any such capital transfer will be limited to that permitted under MBF's CMP, for the purpose of assessing the security of policyholders' benefits, I have contemplated two hypothetical capital distribution scenarios. The first involving a distribution of surplus capital only and the second involving a subsequent transfer of subsidiary businesses out from under MBF. Under both scenarios I have considered the maximum capital transfer permissible under the intended CMP, whereby capital in excess of that necessary to meet regulatory capital requirements plus an additional capital buffer, known collectively as the Target Economic Capital ("TEC"), is distributed to BUPA Australia Holdings by way of dividend or return of capital.

I have assessed the security of policyholders' benefits in reference to MBF's regulatory capital requirements, as specified in the PHI Act and associated Private Health Insurance (Health Benefits Fund Administration) Rules 2007.

This legislation specifies a two tier capital requirement for the health benefits fund of private health insurers, which must be met on a continuous basis:

- The Solvency Standard: This standard is formulated from the perspective of a health benefits fund in run-off, requiring the fund to demonstrate that it will be able to reliably meet its accrued liabilities and obligations under a series of prescribed adverse events.
- The Capital Adequacy Standard: This standard is formulated from the perspective of a health benefits fund operating on a going concern basis, requiring the fund to demonstrate it has sufficient capital to withstand a series of prescribed adverse events, and other material risks faced by the insurer.

In its role as the regulator and administrator of the Solvency and Capital Adequacy Standards, the Private Health Insurance Administration Council ("PHIAC") has determined that a fund able to meet these standards is providing adequate security for policyholders' benefits.

It is my opinion that the scenarios contemplated in these standards, when considered in their totality, represent an extreme event. As such, any marginal increase in the level of capital maintained above that required by these standards, provides an ever-reducing marginal increase in policyholder security.

Notwithstanding this, MBF as a part of its broader CMP aims to maintain a capital buffer in excess of that required under these standards, thus providing added security above that already provided under the Solvency and Capital Adequacy Standards.

5.2 31 December 2007 Position

As at 31 December 2007, it would be possible (under the current CMP) to transfer between \$585m and \$630m in Surplus Capital from MBF to BUPA Australia Holdings (depending on whether MBF's current subsidiary businesses remain under MBF or have previously been transferred elsewhere within the BUPA Group), with sufficient assets still remaining within MBF to meet 100% of its TEC.

The following table shows the impact of each hypothetical scenario on the financial position on MBF Australia, as at 31 December 2007. Under the first scenario it would be possible to distribute \$630m in surplus capital, whereas under the second scenario it would be possible to distribute up to \$585m in surplus capital, in addition to transferring the subsidiary businesses from MBF.

Financial Position of MBF Australia as at 31 December 2007

	Actual \$m	Release of Surplus Capital Only \$m	Release of Surplus & Transfer of Subsidiaries \$m
Total Assets	1,681	1,051	749
Total Liabilities	449	449	449
Total Net Assets	1,232	602	300
Capital Adequacy Reserve	538	471	187
Excess Assets	694	131	113

Under both scenarios, MBF would still remain well capitalised with at least \$113m of excess assets above minimum regulatory capital standards, representing a capital buffer (of 60% of the Capital Adequacy Reserve for scenario 2) above that required to meet regulatory minimum capital standards, which in themselves already offer a high degree of protection. Had only the transfer of surplus capital taken place, MBF would have held \$131m in excess assets above minimum regulatory capital standards, although \$18m of this surplus capital would be supporting the TEC of subsidiary businesses.

While the level of assets (within MBF) will reduce, I have considered whether this reduction in assets will have a materially adverse impact on the security of policyholders' benefits, or alternatively, whether the remaining assets provide a level of security which is not materially less than currently enjoyed by policyholders.

In assessing the resulting level of security provided, I have also given consideration to the change in risk profile of MBF's asset base. It is BUPA Australia's intention that following the implementation of the Scheme, MBF's investment portfolio will be invested 100% in cash, significantly reducing the risk inherent in MBF's investment assets. Under the second scenario involving the transfer of subsidiary businesses, MBF's resulting asset base would not include its subsidiary businesses which currently provide limited liquidity and are subject to large regulatory capital reserves. With these assets transferred outside of MBF, the liquidity of the resulting asset base will be significantly improved and require less supporting (regulatory) capital.

5.3 Ongoing Security of Policyholders' Benefits

Beyond the immediate Transaction, there are a number of legislated safeguards in place to protect the security of policyholders' benefits. With the exception of safeguards related to the payment of dividends and other means of capital distributions (which are discussed below), these safeguards are unaffected by the proposed Transaction.

The PHI Act and its associated rules provide safeguards for the security of policyholders' benefits. The two-tier capital system prevents the transfer of assets outside of MBF's health benefits fund, if the transfer of assets would result in a breach of these capital requirements.

PHIAC monitors private health insurers' level of capitalisation on a quarterly basis and has the ability to issue directions to insurers, should their level of capital be deemed insufficient. In addition to the quarterly reporting to PHIAC, insurers must ensure they meet these requirements on a continuous basis.

This legislation also requires each insurer to nominate and employ the services of a suitably qualified actuary, referred to as their Appointed Actuary. The insurer must seek the advice of the Appointed Actuary on certain matters relating to the financial security of the insurer, including the appropriate choice of discretionary capital margin selected for determining the Capital Adequacy Requirement, a formal report to the Board on the financial condition of the insurer (which must also be submitted to PHIAC annually), changes to benefits offered on products, premiums charged and the mortgaging of health benefit fund assets, as well as a range of other more general specified events (including any changes to the insurers capital management plan) upon which the insurer must notify the Appointed Actuary in order to determine whether further actuarial advice is necessary.

While as a 'for profit' insurer, MBF would gain the ability to pay dividends or return capital via other means, no transfer of capital can be made out of the insurer's health benefits fund, if that transfer would result in the insurer breaching the solvency or capital adequacy standards. Hence, this provides MBF policyholders with a further safeguard in this regard.

The conversion to 'for profit' will also mean MBF becomes subject to income tax. While this will result in additional cash outflows from MBF, these outflows will only be significant in times the business is making profits. Given MBF must meet regulatory capital standards and that dividends are paid from after tax profits, I do not believe the additional cost of tax has a materially adverse impact on the security of policyholders' benefits.

In order to reduce the likelihood of breaching regulatory capital standards, MBF has a policy to target a capital buffer in excess of that required to meet regulatory minimums. Under MBF's CMP, no capital distributions will take place, where that distribution would result in a level of capital below 100% of its TEC. In this regard, BUPA Australia have stated that it is their intention that MBF's capital position will continue to be managed in a manner consistent with MBF's current Capital Management Plan, as it relates to subsidiary businesses.

While there exists the possibility that MBF's capital management plan may be amended at a later date following any broader review of the BUPA Group's total capital management policy, it is expected that MBF's capital management plan would have been reviewed and amended (as appropriate) from time to time as a part of usual business practices. In the event any amendments are proposed, legislation requires such amendments be notified to the Appointed Actuary for their consideration.

As a shareholder-owned company, MBF Australia will have the ability to seek additional equity capital (should the need arise), increasing the financial security provided to policyholders by reducing its reliance on the annual rate review process to replenish capital. Following the implementation of the Scheme, MBF will become part of the much larger BUPA Group. The relative size of the BUPA Group and its demonstrated ability to raise debt capital is likely to improve MBF's ability to raise capital when necessary.

5.4 Impact on Policyholders' Security

While the proposed corporate structure of MBF provides it with the ability to distribute the surplus capital out of MBF's health benefit fund, I believe any such distribution, when considered in conjunction with:

- the lower risk profile intending to be maintained following the implementation of the Scheme;
- the security already provided within regulatory capital standards;
- MBF's policy to hold a capital buffer above the regulatory capital standards;
- the ongoing safeguards provided by legislation; and
- MBF's greater ability to raise equity capital,

should not result in a material reduction in the level of security provided for policyholders' benefits.

Furthermore, I believe MBF's policy to target a capital buffer in excess of the minimum required under regulatory capital standards (and which already provides protection against a series of adverse scenarios), provides a high level of protection against all likely foreseeable events.

6. Likely Impact on the Outlook for Future Premium Rate Increases

MBF's premium rates have historically risen in line with the growing cost of medical and general treatment services, along with the increased rate of utilisation of these services by those insured by MBF. In the absence of a fundamental shift in service provider inflation, or service utilisation, the cost of providing private health insurance will continue to rise. While MBF will seek to minimise these costs, it, like all other insurers, will need to pass this cost on to policyholders through premium rate increases. This market dynamic is not impacted by the Transaction.

In considering the impact of the Transaction on the outlook for future premium rate increases, I have considered two alternative scenarios:

- The Transaction is not implemented, the business maintains its mutual structure and the business is continued to be run in a manner consistent with its current policies, procedures and philosophies; and
- The Transaction is implemented, and (in line with BUPA Australia's intentions) the form of MBF's pricing policy is aligned with the current pricing philosophy of BUPA Australia Health.

MBF has operated on a commercial basis for a number of years. A key element of this philosophy has been that insurance premiums are set at a level to deliver sustainable underwriting margins over the long-term. The Transaction will not change this philosophy.

Following the implementation of the Transaction it is BUPA Australia's intention that the form of MBF's pricing policy will be aligned with that of BUPA Australia Health. The philosophy underlying this pricing policy is to deliver products that are sustainable in terms of both benefit offerings and price. BUPA's intended pricing policy for MBF centres on achieving a target long term portfolio (before tax) gross margin.

The most significant difference between MBF's current pricing policy and that proposed by BUPA Australia is that the proposed policy targets a (long term) gross margin, whereas MBF's current pricing policy centres on delivering an underwriting margin.

The significance of this difference is that MBF's current policy relies on achieving a balance between gross margin performance and expense performance to achieve the targeted underwriting margin. An outworking of this policy is that, all other things being equal, a high expense ratio target requires a higher gross margin target to achieve the same level of underwriting target and vice versa. A consequence of this approach is that expense efficiencies or inefficiencies are effectively passed onto the policyholder to share in, or to pay for.

If the Transaction was not implemented and MBF was able to achieve material expense reductions under its current corporate structure, this would allow MBF to target a lower gross margin. However, I believe the merger of the business operations is likely to deliver expense efficiencies at a level that is not achievable by MBF under its current structure.

BUPA Australia's intended pricing policy for MBF Australia, to target a (long term) gross margin, implies that variations in operating expenses will not necessarily be reflected in premium rate increases, unless a subsequent change is made to the gross margin target. For reasons detailed below, I believe competitive pressures and regulatory safeguards are likely to result in the pricing policy adapting to sustained variations in operating expenses.

While the intended gross margin target is marginally above that achieved by MBF in recent years it is within the range contemplated under MBF's current pricing policy, hence could equally be contemplated in the future in any event, should the Transaction not be implemented.

Notwithstanding this, the proposed gross margin target is at the top end of the range³ contemplated under MBF's current pricing policy. BUPA Australia expects, through the larger scale of the combined businesses, to achieve claims cost synergies beyond those achievable by MBF in the absence of the merger. This is expected to provide downward pressure on future premium rate increases.

Given such a gross margin target could be contemplated under both pricing policies, and the ability to achieve such margins (in part) via claims cost synergies that would otherwise not have been achieved, I do not believe the revised gross margin target (in itself) is likely to result in a materially adverse impact on the outlook for premium rate increases.

Although the Transaction will mean MBF will become subject to income tax and have the ability to pay dividends to the BUPA Group, resulting in MBF's asset base growing more slowly than it may otherwise have done had the Transaction not occurred and MBF retained its mutual nature, MBF's current pricing policy does not incorporate any allowance for investment income. Hence any reduction in investment income associated with a reduced asset base would have no bearing on insurance premiums. MBF believes that insurance premiums should reflect the full insurance risk and not be subsidised by investment income earned on the capital supporting the business.

The pricing policy of BUPA Australia Health also does not incorporate an allowance for investment income. Accordingly the alignment of this element of the pricing policies will not have a bearing on the outlook for future premium rate increases.

BUPA Australia has stated that it considers the intended pricing policy, and the gross margin target outlined within this policy, should be sufficient, for the reasonably foreseeable future, to meet BUPA's expectations for a return on its investment in MBF. The gross margin target and its ability to meet BUPA Australia's return expectations rely on achieving expense synergies within MBF. While there exists a risk that sufficient expense synergies may not be achieved, which may, or may not, result in a revised gross margin target, given the level of overlap in head office functions, and after having undertaken a high level analysis of MBF's expense base, I do not believe such expense savings are unreasonable.

Beyond the proposed changes to MBF's pricing policy, there are a number of other factors which will have a bearing on the future outlook for premium rate increases. These are summarised below:

- a. Competitive forces and government regulation will keep rate increases in check.
 - The private health insurance industry is a very competitive industry, with strict disclosure requirements and a high degree of sensitivity to premium rate increases, amongst the public, the media and the government.
 - Competition amongst insurers has intensified in recent years, with MBF's primary competitors significantly increasing their level of media coverage and advertising to attract and maintain Contributors.
 - Continuity of coverage provides insurers with a strong incentive to maintain the market competitiveness of their product offerings. If MBF were to increase its premiums beyond industry norms, or levels acceptable to consumers, it would lose customers and business.
 - Furthermore, premiums are ultimately overseen by the Federal Minister for Health and Ageing, who in consultation with the key regulator PHIAC has the ability to effectively disallow rate increases deemed to be contrary to the public's interest. This right has been exercised in recent years. This process applies to all health insurers (including current shareholder entities), and I expect will continue to apply in the same manner, irrespective of whether the Transaction takes place.
- b. The greater access to capital provides MBF with a greater ability to manage premium rate increase volatility.

³ The top and bottom of this range spans 2%.

- Under MBF’s current mutual structure, its ability to manage its level of capital is largely restricted to an annual pricing decision. Capital reductions are only possible through underpricing of premiums, which need to be ‘caught up’ in the following year(s) via a rate increase that exceeds the following year’s expected underlying benefit inflation to return to a level of sustainable underwriting margins.
 - On the other hand, the relatively low margin nature of a PHI business and the market’s reluctance to reprice outside of the government regulated pricing cycle can result in sharp reductions in capital, often leading to insurers seeking significant rate increases to replenish capital shortfalls.
 - This limited ability to manage capital (effectively) can result in greater volatility in rate increases for policyholders and exposes MBF’s financial security.
 - As a part of the broader BUPA Group MBF will have the ability to seek additional equity capital, improving its financial security by reducing its reliance on the annual rate review process to replenish capital and enhancing its ability to minimise volatility of the rate increases passed on to policyholders.
- c. BUPA Australia Health has a demonstrated track record of consistently delivering below average premium rate increases.
- BUPA Australia Health is Australia’s only significant ‘for profit’ private health insurer. This business has operated successfully for a number of years, with underwriting margins consistently better than those of its major competitors (the vast majority of whom are not for profit).
 - BUPA Australia Health’s historical pricing policy and benefit management has been able to deliver strong underwriting margins at below industry average premium rate increases (over recent years). A contributing factor to the above average underwriting margins has been BUPA’s ability to achieve operating expense ratios well below that of the industry average.

6.1 Outlook for Future Premium Rate Increases

After having particular regard to:

- the proposed target gross margin being within the range already contemplated under MBF’s current pricing policy;
- BUPA Australia’s belief that the intended gross margin target for MBF’s portfolio should be sufficient, for the reasonably foreseeable future, to meet its expectations for a return on its investment in MBF;
- the safeguards provided by legislation around the approval of premium rate increases; and
- BUPA’s historical ability to meet its pricing policy targets with below industry average premium rate increases.

I do not believe the implementation of the Scheme, and the adoption of the intended pricing policy for MBF, is likely to have a materially adverse impact on the outlook for future premium rate increases for MBF’s policyholders.

7. Allocation Rules

An overview of the Allocation Rules is set out in Section 5 of the IM, with the detailed rules provided in Schedule 3 of the IM. Under the Transaction a cash payment, referred to as an Entitlement, will be allocated to Participating Contributors⁴ only.

⁴ Also defined in Section 13 of the IM.

In formulating my opinion on the appropriateness of the Allocation Rules, I have had particular regard to the following:

- Precedents set by prior demutualisations;
- The fairness and reasonableness of the principles used to help guide the Allocation Rules;
- MBF's current economic value and how this has arisen over time;
- Any rights being relinquished by Participating Contributors; and
- The quality of MBF's historical policy data, and any constraints this imposes on the allocation methodology.

7.1 Precedents

A number of demutualisations have taken place in Australia since the mid 1990's. Of most relevance are the life insurers NMLA, CMLA, Tower, and the AMP; the (predominately) general insurer NRMA; the friendly society IOOF; and the more recent demutualisation of NIB.

A commonly held view amongst these demutualisations was that the allocation of shares to members was in the nature of a windfall, with members generally having no reasonable expectation that the entity would demutualise during their period of membership, or that they would otherwise normally expect, in the normal course of business, to share in any distribution of assets from the entity. With no clear basis or precedent against which to assess fairness and reasonableness, each entity looked to its own specific circumstances and history to determine their own allocation methodology.

With the exception of NIB, there exists at least one major point of differentiation between these demutualisations and that proposed by MBF Australia Limited. The right to participate has predominately centred around a company member's rights, with a fixed proportion⁵ of the allocation commonly made more specifically in reference to the (company members) rights being relinquished as a part of the demutualisation. In view of the more limited rights of MBF's Company Members (as described below), the recommended Allocation Rules do not provide a fixed (or minimum) allocation of this type.

7.2 Rights of Company Members and Participating Contributors

Although MBF, consistent with the practice of other private health insurers, refers to its Contributors as fund members, there is no automatic appointment as a company member of MBF when a Contributor takes out a private health insurance Policy with the organisation.

Instead a separate application form is required to be completed together with the payment of a fee before a Contributor can become a company member under the Constitution of MBF. Contributors are nevertheless given recognition under the Constitution of MBF and so are entitled to receive notices of any Annual General Meeting and may attend and be heard at such a meeting.

As at 19 February 2008 MBF had only 195 Company Members, 87 of whom are Appointed Contributor Representatives. The Appointed Contributor Representatives together with the Directors constitute the MBF Council. It is the MBF Council that has the voting rights at general meetings of MBF, not Company Members, although all Appointed Contributor Representatives are Company Members. In broad terms, the MBF Council is appointed to achieve representation of different categories of policyholders.

The impact of the Transaction on Company Members' rights is described in Section 7.5 of the IM.

No individual Contributor or group of Contributors have any right, above any other Contributor, to share in the distribution of MBF's health benefit fund assets, beyond their contractual right to receive benefits under their insurance policies.

5. which varied between demutualisations.

Section 137-10 and Section 149-45 of the PHI Act prevents non 'for profit' insurers from making any distribution of the insurer's assets beyond that incurred in the normal course of its business, in paying claim benefits and the cost associated with administering these products and services.

Even in the exceptional circumstance that the insurer is wound-up, Contributors and Company Members have no entitlement to receive any distribution of a non 'for profit' insurers health benefit fund assets, beyond that which they are contractually entitled to under their insurance policies. In this circumstance the PHI Act requires any surplus assets to be effectively transferred to the State's risk equalisation scheme.

While the Constitution of MBF may afford its Company Members specific additional rights, which are not afforded to non Company Members, these additional rights are minor in nature. More importantly, all Contributors have the right to become Company Members, but not all have exercised this right.

The additional rights afforded Appointed Contributor Representatives, namely the right to call and vote at general meetings, and appoint and remove directors, while more substantive, are granted on a temporary basis, due to MBF's policy of rotating membership of Council. Furthermore, all Contributors, once Company Members, are eligible to sit on Council.

Notwithstanding this, Section 126-42 of the PHI Act requires that the distribution of financial benefit not be inequitable between policyholders and insureds, not just Company Members. MBF's prudential regulator PHIAC has provided clear guidance that it would not only consider a distribution to **only** Company Members inequitable, it would consider any preferential treatment of Company Members, due to their rights as Company Members, as an inequitable distribution.

After consideration of the above, I believe it is fair and reasonable that no preferential allocation be provided to Company Members, in recognition of their status as Company Members or Appointed Contributor Representatives.

7.3 The Nature of the Financial Benefit to be Distributed

To assist in considering an appropriate distribution of value, I undertook an attribution analysis. This determined, amongst other things, that only a small proportion of MBF's current economic value can be directly associated with the past contributions of current Contributors, with the remaining value, representing a combination of the value inherent in existing policies held by current Contributors and the residual balance of total economic value (the "Estate"), being in the nature of a 'true' windfall.

Given no individual Contributor, or group of Contributors have any right, above any other Contributor, to share in the distribution of MBF's health benefit fund assets, nor had any reasonable grounds for expecting a distribution⁶, I consider the allocation of cash to Participating Contributors to be in the nature of a windfall for all Contributors as a whole.

This view has been commonly held amongst most demutualisations in Australia, even where company members have held some right to share in the entities' assets.

Given there is no clear right of any Contributor to share in the distribution of cash in a particular manner, and that a significant proportion of the value being distributed cannot be directly associated with a specific cohort of current Contributors, there exists no clear criteria or precedent to assess the appropriateness of the allocation basis. The assessment requires considerable judgement, with the need to balance the interests of different cohorts of Participating Contributors. Ultimately there exists no single 'right' answer, as there are likely to be a range of methodologies that could be considered appropriate.

⁶ In the normal course of MBF's business.

7.4 Allocation Principles

The following principles were adopted to help guide the exercise of judgement with regard to the various elements of the Allocation Rules.

That the Allocation Rules:

- a. recognise that the allocation is in the nature of a windfall gain for current Contributors, in that Contributors would not generally have expected MBF to restructure at the time they effected their policies and the allocation to them has only come about because the demutualisation happens to have occurred during their time as a policyholder;
- b. provide reasonable recognition/reward for past contribution and/or loyalty of current Contributors;
- c. provide recognition that part of the value crystallised by a demutualisation represents a “legacy” inherited from prior Contributors;
- d. provide some recognition of the future value inherent in the policies held by current Contributors;
- e. be capable of being implemented relatively easily and at a reasonable cost;
- f. facilitate reliable and accurate determinations of individual allocations; and
- g. be relatively straightforward for Contributors to understand.

I believe the adopted principles are a fair and reasonable basis upon which to formulate and assess the Allocation Rules.

7.5 Data Constraints and Limitations

Allocation bases are typically influenced by the availability and quality of historical data. The following three (significant) data limitations were encountered when formulating MBF’s Allocation Rules:

- No electronic policy history exists for the vast majority of Contributors prior to the initial implementation of the legacy administration system in the late 1970’s, which restricted any recognition of tenure beyond 1 November 1978;
- There was insufficient confidence in the accuracy of data related to historical movements in product, restricting the ability to recognise historical movements in product in the allocation basis; and
- It is not possible to determine in every circumstance when a Contributor on a Policy first became the (named) Contributor of that policy in the circumstance where there has been more than one Contributor on that policy over its history. The inability to determine this ‘switching’ of Contributors affected the way in which the Allocation Rules were developed.

7.6 Allocation Rules

7.6.1 Recognition of Tenure

The Allocation Rules provides greater recognition for periods of greater tenure, subject to certain limits. I believe it is reasonable for a Contributor of longer tenure to receive a greater allocation than someone who has only joined MBF by a matter of days.

Generally recognition is only provided for periods a person was a Contributor over their most recent continuous period of insurance. However due to data limitations (as described in Section 7.5 of this report), the ability to recognise this when there has been more than one Contributor over the life of a policy was constrained.

The Allocation Rules also provide recognition for the prior tenure of other persons, who are insured on the Qualifying Policy as at the Cut-Off date, but have previously been a Contributor on an Eligible Policy during their most recent continuous period of insurance. While these individuals are not current Contributors, I believe it is appropriate that a Contributor who joins another MBF policy, whilst maintaining continuous insurance cover with MBF, should still receive recognition for their periods as a Contributor. While data limitations have restricted the ability to recognise this in all circumstances, I believe the basis adopted in the Allocation Rules is appropriate for Participating Contributors as a whole.

For practical reasons, and to maintain simple Allocation Rules, the Tenure Allocation of the Allocation Rules provides for tenure in one year bands, with no recognition provided for part years, or periods prior to 2 November 1978, although Participating Contributors with continuous tenure since 1 November 1978 will receive 30 years tenure.

The 2 November 1978 limitation relates primarily to an inability to reliably determine a Contributor's tenure beyond the implementation of MBF's legacy administration system in the late 1970's. While history does exist for a select group of Contributors, whose records have been manually updated over the years, given the vast majority of Contributors have not chosen to manually update their records historically and the difficulties associated with manually verifying all Contributors with tenure beyond this period, I believe it is reasonable that the Allocation Rules limit recognition of tenure in this manner.

The Allocation Rules contain specific provisions for those Participating Contributors who have had continuous tenure since 1 November 1978, providing them with the maximum 30 years tenure, even though these individuals could potentially have had less Year(s) of Membership (due to periods of suspension since 1978), had the provision not been incorporated in the Allocation Rules. I consider this rule fair and reasonable given the vast majority of Contributors who have been continuously in force since 1 November 1978 are likely to have years of tenure prior to the implementation of the legacy system, which cannot be established due to the lack of records. Not providing this rule would potentially result in Contributors with periods of suspension since 1978 receiving less than 30 years tenure, even though they may actually have had (non-suspended) tenure in excess of 30 years.

7.6.2 Recognition of Product

The Allocation Rules provide for differential recognition of a Contributor's current product holding(s). These differentials broadly represent the average premium relativities of the various product categories. Given the significant differential in average premiums between product categories, I consider it highly desirable to provide some form of differential recognition for product.

The inability to accurately determine a Contributor's historical product movements over the last 30 years was a primary consideration in only recognising a Contributor's current product holding(s).

In the absence of being able to accurately capture historical movements in product and having considered a number of approaches, I believe providing differential recognition of product, based on the product category at the Cut-off Date, is an appropriate basis upon which to distribute the cash proceeds.

A further consideration to utilising the current product category was the changing nature of private health insurance products over the last 30 years. The current product categories have not been in existence over the whole of the last 30 years. In particular, the general treatment product only came into existence in the mid 1980's. Given the small number of Contributors affected, the relatively small impact it has on the majority of those affected and the increased complexity associated with communicating any allocation basis that specifically dealt with this issue, I believe the use of current product, as at the Cut-off Date, is an appropriate basis for distributing the financial benefits arising from the Transaction.

7.6.3 Recognition of Scale

Scale represents the difference between a single, family, couple and single parent Policy. The Allocation Rules provide for a differential allocation of 1 to 2, as between single and non-single Contributors.

Scale has historically been priced with (or very close to) a relativity of 1:2, as between single and non-single policies. Utilising such a relativity in the Allocation Rules results in non-single Contributors receiving twice that of single Contributors of the same tenure and product.

Given the relative premium between single and non-single policies, I believe the Allocation Rules are fair and reasonable, particularly given a non-single Policy, in many respects, is simply the sum of two single policies.

Unlike historical product movements, it is possible to track historical movements in scale. Given the relative premium contributed by a Contributor on different scales, and given the ability to capture historical movements, I believe it is appropriate that the Tenure Allocation within the Allocation Rules recognise the different levels of scale of over time.

7.6.4 Base Allocation

MBF's base allocation stems from principle (d), that the Allocation Rules provide some recognition of the future value inherent in the policies held by current Contributors. Recognition of this value is via a Base Allocation provided to every Contributor. Approximately 25% of the total allocation will be made in relation to the base allocation, broadly representing the relative value of this component of MBF's total economic value.

I believe this is an appropriate basis for allocating this component of MBF's economic value.

7.7 Assessment of Allocation Rules against Adopted Principles

In my opinion the recommended Allocation Rules satisfy all the adopted principles. In particular:

- The methodology specifically seeks to identify and distribute (in an appropriate manner) the value attributed to:
 - Past contributions of current Contributors;
 - The future value inherent in the policies held by current Contributors; and
 - The value of the legacy/estate;
- The resulting allocation provides reasonable recognition/reward for loyalty; and
- It is relatively straightforward for Contributors to understand.

7.8 Fairness and Reasonableness of the Allocation Rules

Having made all the considerations summarised in this report, I believe the recommended Allocation Rules represent a fair and reasonable basis upon which to distribute the financial benefit arising from the Scheme amongst Participating Contributors and satisfy the requirements of Section 126-42 of the PHI Act, that the distribution of financial benefit not be inequitable amongst policyholders and insured persons.

8. Reliances and Limitations

I have prepared this report for the Board of MBF Australia Limited, in my capacity as its Appointed Actuary. This report must be read in its entirety. Individual sections of the report could be misleading if considered in isolation from each other.

In preparing this report I have relied on a substantial body of information from both MBF and BUPA Australia. While this information was tested for reasonableness and consistency, no independent audit of the information was carried out. The more substantive pieces of information provided by MBF and that which I have relied upon includes, audited financial accounts, PHIAC returns and annual PHIAC reports, MBF business plans, policy history statistics. I have also relied upon certain representations and other information provide by representatives of BUPA Australia, in relation to the current business practices of BUPA Australia Health and BUPA Australia's future intentions for the management of MBF.

As detailed in this report, my opinion on the Allocation Rules, is made in reference to Contributors as a whole. In providing this opinion I have not considered the specific circumstances of individual Contributors, nor their specific tax and social security circumstances, which may vary considerably.

Consequently, this report provides advice of a general nature only. Participating Contributors should seek appropriate independent professional advice that considers their own specific circumstances. Accordingly, to the extent permitted by law, I disclaim all responsibility and liability to any third party reader of this report for any loss or liability suffered or incurred by that party (including, without limitation, any direct or indirect or consequential costs, loss or damage or loss of profits) resulting from or in any way connected with this report or the opinions contained in it (including any such loss or liability resulting from negligence on my part).

I have relied on the advice provided by MBF and its advisors, as to an individual's eligibility to participate in the distribution of financial benefit.

Yours faithfully,

A handwritten signature in black ink, appearing to be 'IB', with a long horizontal line extending to the right.

Ian Burningham

Fellow of the Institute of Actuaries of Australia

S8

Schedule 8 Consulting Actuary's Report



The Board of Directors
MBF Australia Limited
Level 18, 50 Bridge Street
Sydney NSW 2000

Dear Directors,

REPORT ON MBF POLICYHOLDER IMPACTS AND PROPOSED ALLOCATION OF ENTITLEMENTS

1. Introduction

Towers, Perrin, Forster & Crosby Inc., trading as Towers Perrin, ("Towers Perrin", "we", "our") has been engaged by MBF Australia Limited ("MBF") to provide various actuarial opinions in relation to the impact on MBF policyholders of the Scheme, its associated implementation steps summarised in Section 6.1 of the Information Memorandum ("IM"), including the conversion of MBF's registration as a private health insurer from "not for profit" to "for profit", and an opinion on the allocation basis underlying the proposed Allocation Rules set out in Schedule 3 of the IM.

The Appointed Actuary of MBF has also provided opinions on these matters in his report set out in Schedule 7 of the IM.

Unless stated to the contrary, terms appearing in this report have the same meaning as those defined in the IM. For the purposes of this report, we have adopted the term "Transaction" as short-hand for the combination of the Scheme, its associated implementation steps summarised in Section 6.1 of the IM and the conversion of MBF's registration to "for profit" status. In considering the impact on MBF policyholders, we have considered the overall impact of the Transaction.

2. Scope

Report on the Impacts of the Transaction on MBF Policyholders

We have been asked by MBF to provide opinions regarding the impact of the Transaction, if implemented, in relation to the following matters, compared with a continuation of MBF under its current structure:

- Whether the reasonable benefit expectations of MBF's policyholders, arising from the private health insurance ("PHI") policies issued by MBF to them, are adversely impacted by the Transaction;
- Whether the security of benefits provided to MBF's policyholders, under the PHI policies issued by MBF to them, is adversely impacted by the Transaction and, if so, whether in our view this adverse impact is material; and
- The outlook for future premium rate increases for MBF's policyholders in relation to the PHI policies issued by MBF to them.

Our report and opinions on these matters are set out in Appendix A of this report and are provided jointly by Duncan Rawlinson and Robert Paton, for and on behalf of Towers Perrin.

Our scope of work did not extend to verifying MBF's calculations of policy-related liabilities, prudential reserves or target surplus. As noted later in this report, we have relied on MBF's calculations of these and other amounts for the purposes of this report. Further, our scope of work did not extend to considering

whether the Scheme is in the best interests of policyholders. We understand that the Independent Expert has considered this aspect.

In accordance with our scope of work, Towers Perrin has not considered the impact of the Scheme on policies (or similar contracts) issued by subsidiary companies of MBF. If the Scheme is implemented, BUPA Australia may change the manner in which these MBF subsidiary businesses are conducted. However, in the normal course of MBF's business, MBF could change the manner in which the MBF subsidiary businesses are conducted and could elect to sell these subsidiary businesses to another party without the need for a vote by Participating Contributors. Accordingly, MBF's subsidiary businesses are not directly impacted by the Scheme and fall outside the scope of this report.

Report on the Allocation Basis Underlying MBF's Proposed Allocation Rules

We have been asked by MBF to provide opinions on the following matters:

- a. Whether, in our view, the allocation basis underlying the proposed Allocation Rules ("Allocation Basis") is fair and reasonable for Participating Contributors as a whole; and
- b. Whether or not, in our view, the Allocation Basis would result in the financial benefit arising from the Transaction, namely the payment of monetary Entitlements to Participating Contributors, being distributed inequitably between Participating Contributors.

Our report and opinions on the Allocation Basis are set out in Appendix B of this report and are provided by Duncan Rawlinson, for and on behalf of Towers Perrin. Robert Paton has not been involved in Towers Perrin's consideration of, and is therefore not a signatory to Towers Perrin's opinions on, the Allocation Basis.

In certain instances within this report, we have adopted the term "appropriate" as short-hand for the two aforementioned opinions on the Allocation Basis. Unless stated otherwise, the use of the term "appropriate" in relation to an aspect of the Allocation Basis should be read as implying both fair and reasonable in the context of (a) and not inequitable in the context (b) above.

Our scope of work was confined to the above opinions in relation to the Allocation Basis as a whole and did not extend to reviewing the accuracy of the calculation of Entitlements for individual Participating Contributors (using the Allocation Rules).

Our scope of work did not extend to consideration of, or opining on, the criteria by which a person was determined to be a Participating Contributor (or not). These eligibility criteria have been determined separately by MBF and this report has been prepared on the basis of the Participating Contributor definition adopted by MBF for the purposes of the Transaction.

Similarly, our scope of work did not extend to consideration of, or opining on, the Residual Amount, the methodology for utilising the Residual Amount or the methodology for making adjustments to an Entitlement after the Implementation Date.

We note that Section 126-42 of the Private Health Insurance Act 2007 (the "PHI Act") includes various requirements that apply in circumstances where a health insurer proposes to convert to "for profit" status. In particular, where this conversion involves a demutualisation of the insurer, the prudential regulator, PHIAC, is required to consider whether the method adopted by the insurer to distribute the financial benefit crystallised by the conversion (and demutualisation) would result in this financial benefit being distributed inequitably (between relevant persons). In the case of MBF, the method of distribution will be the payment of the Entitlements in accordance with the Allocation Rules.

3. Summary of Opinions

We provide below an abridged summary of opinions. Towers Perrin's full opinions are set out in Appendix A and Appendix B, together with the factors considered in forming those opinions. These appendices and full opinions should be read in their entirety.

Summary of Opinions on the Impact of the Transaction on MBF Policyholders

For the purposes of formulating our opinions on the impact of the Transaction on MBF Policyholders, we have received certain information from BUPA Australia. This information is a combination of confidential material about BUPA Australia's existing business and BUPA Australia's intentions regarding the future management of MBF following the Implementation Date. Although we have discussed this information with representatives of BUPA Australia in order to further our understanding of matters relevant to our opinions, we are not in a position to independently review or verify the information BUPA Australia has provided and we have not done so.

Section 3.3(a) of the IM notes that BUPA Australia's currently stated intentions may change as new information becomes available to BUPA Australia or as circumstances change.

The information provided by BUPA Australia forms a key basis for our opinions and we have relied upon that information for the purposes of formulating our opinions. If BUPA Australia's currently stated intentions were to change as new information becomes available to BUPA Australia or as circumstances change, then this may have a material bearing on the assessment provided in this report and may render our opinions no longer appropriate. Accordingly, our opinions set out below are subject to and are conditional upon BUPA Australia's stated intentions.

Based upon the considerations set out in Appendix A, having reviewed the Appointed Actuary's report in relation to the Transaction and other relevant material provided by MBF and BUPA Australia, and subject to the foregoing and the reliances and limitations set out below, it is our opinion that:

- The reasonable benefit expectations of MBF's policyholders will not be adversely impacted by the Transaction, if implemented;
- Although there will be a large reduction in the asset base of MBF as a result of MBF releasing surplus capital to BUPA Australia Holdings, thereby causing the security of MBF policyholders' benefits to be reduced to some degree, this reduction should not have a materially adverse impact on the security of MBF policyholders' benefits as at the Implementation Date, provided that MBF ensures that the assets in excess of the prescribed prudential capital requirements remaining on MBF's balance sheet as at the Implementation Date (after all steps of the implementation of the Scheme have been completed) are at least equal to 100% of MBF's target surplus (determined in accordance with MBF's current capital management plan), and provided that MBF's capital management plan is kept under review for any deterioration in the risk characteristics of its business between 31 December 2007 and the Implementation Date;
- The PHI Act, in conjunction with BUPA Australia's intended adoption of MBF's current capital management plan (for the management of MBF's business) and BUPA Australia's intentions regarding MBF's procedures for detailed claims monitoring and premium/claims forecasting, should provide reasonable safeguards for the continuing security of MBF policyholders' benefits. Our opinion assumes that MBF will, in the future, be able to achieve premium increases, in response to future increases in its claim costs, which are at rates sufficient to keep MBF's overall pricing in line with its pricing policy. It should be noted, however, that no set of safeguards can provide an absolute assurance of security; and
- The implementation of the Scheme, together with the adoption of the intended pricing policy for MBF, in itself, should not have a materially adverse impact on the outlook for future premium rate increases for MBF's policyholders. However, irrespective of whether or not the Transaction proceeds, MBF policyholders should expect that premiums will continue to increase and that such increases are very likely to exceed retail/consumer price inflation.

Summary of Opinion on MBF's Proposed Allocation Basis

The development of an allocation basis involves striking a balance between potentially diverse interests of different groups of Participating Contributors. These interests cannot necessarily be accommodated within an allocation basis to the extent that each individual Participating Contributor might consider desirable. In our view, there is no definitive basis for allocating Entitlements and the selection of an appropriate basis for the allocation of Entitlements is a matter of judgement.

Based upon the considerations and conclusions set out in Appendix B, and subject to the reliances and limitations set out below, it is our opinion that the allocation basis underlying the proposed Allocation Rules is fair and reasonable for Participating Contributors as a whole and should not result in the financial benefit arising from the Scheme, namely the payment of Entitlements, being distributed inequitably between Participating Contributors.

4. Reliances and Limitations

This letter has been prepared for MBF, for the purposes of its inclusion within the IM to be issued by MBF in connection with the Transaction.

In performing our scope of work and in preparing this report, Towers Perrin has relied, without independent verification, upon the accuracy and completeness of a substantial body of information (both written and oral) supplied to us by MBF.

The information upon which we have relied includes, but is not limited to, MBF's summary of membership rules, MBF's audited financial statements (and notes to those statements), Financial Condition Reports, PHIAC returns, MBF's capital management plan, summary pro formas of MBF's financial position and business plan, other management and financial information provided by MBF regarding its current and historical operating experience, the information and analyses contained within or underlying the Appointed Actuary's report, various MBF internal actuarial papers relating to the Transaction, and various materials prepared by MBF in connection with the Transaction.

We have considered this information for the purpose of furthering our understanding of MBF's business. In the course of this, we have also considered the overall reasonableness and consistency of this information to the extent that this information falls within our areas of expertise. However, it should be noted that we have not independently verified the accuracy or completeness of this information.

In performing our scope of work and in preparing this report, Towers Perrin has also relied, without independent verification, upon the accuracy and completeness of certain representations and other information (both written and oral) supplied to us by or on behalf of BUPA Australia. This information relates to the BUPA Group's current intentions with regard to the future management of MBF following the Implementation Date.

With regard to our opinion on the Allocation Basis, we have not considered the position of any individual Participating Contributor in relation to their personal, social security and tax circumstances. Consequently, this report provides advice of a general nature only. Participating Contributors should seek appropriate independent professional advice that considers their own specific circumstances. Accordingly, to the extent permitted by law, Towers Perrin (including its employees) disclaims all responsibility and liability to any third party reader of this report (including Participating Contributors) for any loss or liability suffered or incurred by that party (including, without limitation, any direct or indirect or consequential costs, loss or damage or loss of profits) resulting from or in any way connected with our opinion on the Allocation Basis (including any such loss or liability resulting from negligence on the part of Towers Perrin, including its employees).

Further, Towers Perrin disclaims all responsibility and liability to the BUPA Member and the BUPA Group for any loss or liability suffered or incurred by them (including, without limitation, any direct or indirect

or consequential costs, loss or damage or loss of profits) resulting from or in any way connected with this report (including any such loss or liability resulting from negligence on the part of Towers Perrin, including its employees).

5. Disclosures and Consents

Towers Perrin has at various times been engaged by MBF to provide actuarial advice in connection with aspects of its business.

For our role in connection with the Transaction, including this report, Towers Perrin is being remunerated on a combination of time-charge and fixed fee bases. No part of our remuneration is contingent upon the outcome of the vote on the Transaction. Our Financial Services Guide in relation to our opinion on the Allocation Basis is attached as Appendix C to this report.

Under the terms of our engagement by MBF, and subject to a limited set of exclusions, Towers Perrin and MBF have agreed a cap on the maximum liability of Towers Perrin (including its employees) to MBF for claims by MBF in relation to this report. Towers Perrin (including its employees) has also been indemnified by MBF, on terms generally consistent with Towers Perrin's limitation of liability to MBF, in respect of any claims made against Towers Perrin by third parties.

Towers Perrin has given, and not withdrawn, its written consent to the inclusion of this report and its name within the IM in the form and context in which they are included. Towers Perrin does not authorise or cause the issue of the IM and takes no responsibility for its content, other than this report.

Duncan Rawlinson declares that he is not a policyholder of MBF and that he will receive no Entitlement in the event that the Transaction is approved and proceeds. Robert Paton declares that he is a policyholder of MBF and understands that he is likely to receive an Entitlement in the event that the Transaction is approved and proceeds. However, Duncan Rawlinson, on behalf of Towers Perrin, declares that Robert Paton has not been involved in any aspect of Towers Perrin's review of the Allocation Basis.

Yours faithfully,

For Towers Perrin,



Duncan Rawlinson
Principal
Fellow of the Institute of Actuaries of Australia



Robert Paton
Consultant
Fellow of the Institute of Actuaries of Australia

APPENDIX A

REPORT ON THE IMPACTS OF THE TRANSACTION ON MBF POLICYHOLDERS

1. Framework for Our Opinions

For the purposes of this Appendix, Towers Perrin has distinguished between two distinct sets of interests in relation to Contributors:

- Firstly, Contributors own PHI policies issued by MBF and will have various rights, as policyholders (i.e. customers) of MBF, under the terms and conditions applicable to those policies, principally relating to the payment of premiums and receipt of insured benefits; and
- Secondly, by virtue of holding a PHI policy, Contributors might be considered, in effect, to be quasi-owners or proprietors of MBF, and may have various interests arising from this quasi-ownership.

In normal circumstances, Contributors may not distinguish between their overall interests in this way. Our opinions provided in this Appendix are relevant to Contributors in their capacity as MBF policyholders only. Appendix B provides a separate assessment of the proposed Allocation Basis, which relates to Contributors in their quasi-ownership capacity.

MBF currently operates in a competitive market. In addition, a wide variety of factors impact upon MBF and its policyholders, including investment markets, changes relating to the provision and cost of health care, government actions and regulatory policies.

In formulating our opinions, it is necessary to distinguish between those impacts that arise solely on account of the Transaction and those that might otherwise arise in the normal course of business irrespective of whether or not the Transaction is implemented. We have considered only those impacts that arise solely on account of the Transaction as we believe that it is only those impacts that are relevant to MBF policyholders' consideration of the Transaction.

Section 3.3(c) of the IM refers to BUPA Australia's longer term intention to seek to merge the Health Benefit Funds of the MBF Group and the BUPA Australia Group. The PHI Act and associated Private Health Insurance Rules provide for such mergers and stipulate various requirements that govern them. These requirements include a report by the appointed actuary of each Fund and the approval of PHIAC. Although such a merger is facilitated by the Transaction, we have not considered the effects of such a merger for the purposes of this report because the details of any merger are not yet known and any future merger would be subject to the provisions and safeguards of the PHI Act at the relevant time.

The Appointed Actuary of MBF has prepared a report, as set out in Schedule 7 of the IM, in relation to the impact of the Transaction on MBF policyholders' reasonable benefit expectations, the security of policyholders' benefits and the outlook for future premium rate increases.

In formulating our opinions, we have considered the Appointed Actuary's report together with the substantive information (including actuarial documents and analysis) underlying that report. We have also discussed the Appointed Actuary's report, and information underlying that report, with the Appointed Actuary and his team. In accordance with our scope of work, we have not independently reviewed or verified the information upon which the Appointed Actuary's report is based.

2. MBF Policyholders' Reasonable Benefit Expectations

a. Basis for Our Opinion

For the purposes of this Appendix, we have considered policyholders' reasonable benefit expectations to be defined by the contractual rights and benefits afforded to MBF's policyholders (in their capacity as policyholders, as opposed to their capacity as quasi-owners) by virtue of the PHI policies issued to them. These rights and benefits are set out in MBF's Fund Rules.

We have considered whether the Fund Rules will change as part of the Transaction in a manner that affects those rights and benefits.

We have also considered what safeguards exist against the interests of BUPA Australia Holdings (as the immediate shareholder of MBF) and BUPA (as the ultimate shareholder of MBF) taking precedence over MBF policyholders' interests in such a way that would cause policyholders' rights and benefits (under the PHI policies issued to them) to be adversely impacted in future to a greater extent than would otherwise have been expected to occur had the Transaction not proceeded.

It should be noted that the ability to meet the reasonable benefit expectations of MBF's policyholders could potentially be impacted in the future by a variety of factors which are unconnected with the Transaction and which might arise irrespective of whether or not the Transaction is implemented.

In particular, it should be noted that MBF, in common with other health insurers, is able to vary its Fund Rules (with appropriate notice) without the consent of policyholders. Such variations have occurred regularly in the past and it should be expected that such variations will continue in the future irrespective of whether the Transaction is implemented. In this regard, for the purposes of our opinions, we believe that it is only relevant to consider:

- whether the Transaction, in itself, introduces any amendments to the Fund Rules or Constitution that would provide MBF with a greater flexibility (than currently applies) to change policyholders' rights and benefits in the future relating to the PHI policies issued to them; and
- whether the introduction of a shareholder might be considered to increase the likelihood of MBF exercising its current discretions to vary rights and benefits in the future.

b. Summary of Our Assessment

The Scheme does not propose any changes to the contractual rights of MBF policyholders under the PHI policies issued to them.

BUPA Australia has stated that it does not have any intentions or plans, associated with or related to the Scheme, to seek any amendments to MBF's Fund Rules that would reduce any policy features or benefits of current MBF policyholders.

BUPA Australia has also stated that it does not have any intentions or plans, associated with or related to the Scheme, to seek any amendments to MBF's Fund Rules or Constitution that they believe would provide MBF with greater flexibility to vary policyholders' rights and benefits (arising under their PHI policies) in the future compared to now.

Section 7.5 of the IM notes that MBF's Constitution will be amended as part of the Scheme to remove those policyholders' rights that relate to the quasi-ownership of MBF. However, as noted earlier, these amendments do not have a bearing on our assessment of the impact of the Transaction on the contractual rights and benefits afforded to MBF's policyholders by virtue of the PHI policies issued to them.

As noted above, MBF's Fund Rules may change from time to time in the future in the normal course of MBF's business irrespective of whether or not the Transaction proceeds.

The assets and investments of MBF will be affected by the Transaction. In particular, BUPA Australia intends that MBF will release between \$500 million and \$600 million of surplus capital to its parent, provided that such a release is consistent with MBF's capital management plan (discussed later in this Appendix). The conversion of MBF's registration to "for profit" status will enable such transfers to occur. The Appointed Actuary's report states that it would have been possible to transfer between approximately \$585 million and \$630 million of surplus assets from MBF to BUPA Australia Holdings as at 31 December 2007 (depending on whether the current MBF subsidiaries continue as direct subsidiaries of MBF after the Transaction or whether these subsidiaries are transferred to elsewhere within the BUPA Australia Group prior to the transfer of surplus assets taking place).

MBF's primary obligation to its policyholders is to accept premiums and pay insured benefits in accordance with the Fund Rules in force from time to time. This obligation is not impacted by the aforementioned transfers of assets. Accordingly, we consider that these transfers have no adverse impact on MBF policyholders' reasonable benefit expectations. Later in this Appendix, we consider the implications of these transfers for the security of policyholders' benefits.

If the Scheme is approved and implemented, MBF will be owned by its shareholder, BUPA Australia Holdings. Some MBF policyholders may be concerned that MBF will be run for the benefit of its shareholder and that, in certain circumstances, this may be to the detriment of policyholders (for example, in terms of higher premiums or lower benefits, or both). However, we note that MBF operates in a competitive market and policyholders are generally able to change health insurers at their own discretion. Although MBF has a substantial market share in some States, alternative insurers to MBF are available in all States. The Australian Competition and Consumer Commission, in its Public Competition Assessment dated 16 November 2007 relating to the proposed merger of the MBF Group and the BUPA Australia Group, concluded that the proposed merger would not be likely to result in a substantial lessening of competition in any relevant market. In addition, we note the following:

- Legislation requires that PHI premiums be community rated, which means that premiums are not permitted to vary, among other things, on account of the age of the policyholder (except to the extent allowed under Lifetime Health Cover).
- Legislation provides "continuity of cover" for complying hospital products, which means that each of MBF's policyholders who holds a complying hospital policy is able to change insurers without having to undergo underwriting or serve new waiting periods (provided that the policyholder does not seek to upgrade benefit coverage in the process). Consequently, it is likely to be considerably easier for policyholders with complying hospital products to change health insurers than might be the case, for example, with life insurance policies.
- Although not assured by legislation, prevailing market practice generally provides similar continuity of cover for general treatment (ancillary) products. While market practice could change in this regard in the future, we believe there is likely to be competitive pressure for this practice to remain.
- The terms of different PHI providers' products (in relation to premiums and benefits) are becoming increasingly transparent, such that it is becoming easier for policyholders to compare different products and providers.
- Lastly, under the PHI Act, all private health insurers are currently required to apply to the Federal Government's Minister for Health and Ageing ("the Minister") if they wish to increase PHI premiums. This Act enables the Minister to refuse an application for increase if the Minister considers that the application is not in the public interest.

We consider that these factors, taken together, offer significant safeguards for MBF policyholders.

At various points in this Appendix, we refer to the continuity of cover feature of the PHI industry and the availability of product/price comparator information as support for our conclusions. These references assume that these features remain available to policyholders in the future.

c. Conclusion

Based upon the considerations set out above, having reviewed the Appointed Actuary's report and other relevant material provided by MBF and BUPA Australia, and subject to our earlier comments in relation to Section 3.3(a) of the IM and the reliances and limitations set out earlier, it is our opinion that the reasonable benefit expectations of MBF's policyholders will not be adversely impacted by the Transaction, if implemented.

We consider that there is a strong incentive for MBF to maintain a reasonable balance between policyholders' and the shareholder's interests. This is because, in future, if policyholders were to perceive that MBF was advancing the shareholder's interests to the detriment of policyholders' benefit expectations, those policyholders could compare and change insurers with relative ease.

3. Security of MBF Policyholders' PHI Benefits

a. Basis for Our Opinion

In forming our opinion on the impact of the Transaction on the security of MBF policyholders' benefits, we have considered the implications of the transfer of surplus assets, based on summary restated financial statements prepared by MBF as at 31 December 2007.

As noted earlier, MBF's policyholders' benefits are defined by the contractual rights and benefits afforded to them (in their capacity as policyholders) by virtue of the PHI policies issued to them. These rights and benefits are set out in MBF's Fund Rules. MBF is able to reduce benefits (with appropriate notice) without the consent of policyholders. MBF is also able to increase premiums (with appropriate notice) subject to the approval of the Minister. The ability to vary benefits and premiums has an important bearing on our assessment of the security of MBF policyholders' benefits.

Absolute security of benefits is not provided for by the current MBF structure. As noted earlier, BUPA Australia intends that MBF will release between \$500 million and \$600 million of surplus capital to BUPA Australia Holdings, provided that such a release is consistent with MBF's capital management plan ("CMP"). This will cause the asset base of MBF to reduce. This reduction in asset base would imply some degree of adverse impact on the security of policy benefits. The question we have concerned ourselves with is whether or not this adverse impact would be material.

We have considered this question from the following perspective. We have considered the impact on MBF's balance sheet as at 31 December 2007 under a hypothetical scenario of MBF Australia having transferred, as at 31 December 2007, the amount described in the Appointed Actuary's report (determined in accordance with MBF's CMP) as being available for transfer as at that date. The question we have concerned ourselves with is whether, after this assumed transfer, the assets remaining in MBF as at 31 December 2007 could reasonably be considered to provide adequate security of policy benefits as at that date.

We have also considered what safeguards exist for the continuing security of policyholders' benefits after the Transaction is implemented. MBF's proposed change to "for profit" status will permit it to pay dividends to its new parent from its surplus assets (determined in accordance with MBF's capital management plan). As part of our assessment, we have also considered the implications of MBF being able to pay such dividends.

b. Summary of Our Assessment

Capital and Prudential Reserving Framework

MBF's PHI business is regulated by PHIAC in accordance with the PHI Act 2007. This Act requires that each health benefits fund of each private health insurer complies at all times with certain prudential capital requirements. These capital requirements are prescribed in the form of a Solvency Standard and a Capital Adequacy Standard. Each company must retain sufficient assets on its health benefits fund balance sheet to meet both the Solvency Standard and the Capital Adequacy Standard (unless PHIAC waives this condition).

The PHI Act states that the purpose of the Solvency Standard is "to ensure, as far as practicable, that at any time the financial position [of the relevant health benefits fund] is such that the insurer will be able...to meet all liabilities that are referable to the fund as those liabilities become due". It also states that the purpose of the Capital Adequacy Standard is "to ensure, as far as practicable, that there are sufficient assets [in the relevant health benefits fund] to provide adequate capital for the conduct of the fund...in the interests of the policy holders of the fund". PHIAC is responsible under the Act for the making of these Solvency and Capital Adequacy Standards.

MBF, in common with other insurers, also operates a capital management plan which contemplates that MBF will aim to hold additional capital, over and above the levels prescribed by the PHI Act. This additional capital is commonly referred to as "target surplus". Insurers generally formulate a target surplus policy in order to provide additional safeguards against breaching the minimum prudential capital (i.e. Solvency and Capital Adequacy) requirements prescribed by the PHI Act.

BUPA Australia has stated that its current intention is that, following the implementation of the Scheme, MBF's capital position will be managed in a manner consistent with MBF's existing CMP, as it relates to subsidiary businesses, and with the supporting framework to that CMP.

MBF's CMP currently covers all regulated entities within the MBF Group but adopts different target surplus risk settings depending on whether the entity is a subsidiary or the parent company (on the basis that subsidiaries may have access to additional capital from their parent). If the Transaction proceeds, MBF will become a subsidiary company of BUPA Australia Holdings. Hence the target surplus risk settings that will then apply to MBF will be those applicable to a subsidiary. We have allowed for the effect of this change in our assessment of the impact of the Transaction on the security of MBF's policyholders benefits. In this Appendix, unless stated otherwise, references to "target surplus" or "current target surplus" mean MBF's target surplus determined in accordance with MBF's current CMP (as at the date of this report) with MBF being treated as a subsidiary for this purpose.

In formulating our opinions, we have considered the overall level of security provided by the combination of the prescribed prudential capital requirements (which have the aforementioned stated purposes under the PHI Act) and MBF's current target surplus policy.

We have formulated our opinions on the basis of:

- the summary restated balance sheets, as at 31 December 2007, set out in the Appointed Actuary's report; and
- MBF's CMP requiring that only assets in excess of the aggregate of the prescribed prudential capital requirements and the target surplus are available for distribution to MBF's shareholder, whether that distribution be via a payment of dividend or any other method of distribution, such as a transfer of MBF's subsidiary businesses.

We note that PHIAC is currently reviewing the Solvency and Capital Adequacy Standards. If these Standards are subsequently strengthened prior to the Implementation Date, MBF's current CMP will oblige it to retain a commensurately higher level of assets within MBF, such that the assets in excess of the prescribed prudential capital requirements remaining in MBF after any transfer of assets (including subsidiaries) will still be sufficient to at least meet 100% of MBF's target surplus (determined in accordance with its current policy) at the dates on which any transfer takes effect.

It should be appreciated that no amount of capital can provide an absolute assurance of security. It should also be noted that the level of assets necessary to provide security for policy benefits in all reasonably foreseeable circumstances is not capable of precise measurement and that the Standards described above do not guarantee security in all circumstances.

Restated Financial Position upon Implementation of the Scheme

As noted earlier, BUPA Australia intends that MBF will release between \$500 million and \$600 million of surplus capital to BUPA Australia Holdings, provided that such a release is consistent with MBF's CMP. BUPA Australia's intention to adopt MBF's current CMP will impose a constraint on the maximum amount to be released.

The Appointed Actuary's report provides a summary of the restated financial position of MBF as at 31 December 2007. As noted earlier, this summary indicates that it would have been possible to transfer between approximately \$585 million and \$630 million of surplus assets from MBF to BUPA Australia Holdings as at 31 December 2007 (depending on whether the current MBF subsidiaries continue as direct subsidiaries of MBF after the Transaction or whether these subsidiaries are transferred to elsewhere within the BUPA Australia Group prior to the transfer of surplus assets taking place).

The Solvency and Capital Adequacy Standards are the minimum prudential capital benchmarks for PHIAC's prudential regulation of the security of policy benefits under the PHI Act. However, in view of the significance of the Transaction, we have assessed the security of benefits against a benchmark which comprises the sum of MBF's prudential capital requirements and target surplus.

As noted above, BUPA Australia's intended adoption of MBF's current CMP implies that sufficient assets will need to be retained in MBF in excess of its prudential capital requirements in order to at least meet 100% of MBF's target surplus (determined in accordance with its current CMP) as at the Implementation Date and any date on which a subsequent transfer of assets takes place.

We have considered MBF's current CMP and have assessed MBF's target surplus for reasonableness in the context of the current characteristics of MBF's PHI business and on the assumption that the Transaction had been implemented. Based on this, we consider that MBF's target surplus, taken in conjunction with the prudential capital requirements under the PHI Act, together form an appropriate benchmark for assessing whether there is adequate security of policy benefits.

Policyholders' Continuing Security after Implementation of the Scheme

While noting that no set of safeguards can provide an absolute assurance of security, we consider that the PHI Act provides a range of important provisions to safeguard policyholders' continuing security of benefits. For example:

- It is an express requirement of the Act that insurers meet the Solvency and Capital Adequacy Standards at all times (unless PHIAC waives this condition). If these Standards are not met, the PHI Act would prevent or restrict a transfer of assets (for example, a dividend payment) from an insurer;
- PHIAC has a wide range of powers under the PHI Act, including powers of direction and/or intervention should PHIAC consider this to be necessary in order to protect the interests of policyholders. (In addition, PHIAC monitors the financial position of each insurer quarterly);

- There are various requirements for, and restrictions on, the conduct of business by an insurer;
- Each insurer is required to retain the services of an Appointed Actuary, from whom the insurer and its directors must seek advice on a range of matters. The insurer and its directors also have a duty to notify the Appointed Actuary in the event that certain circumstances occur or are planned to occur. These circumstances include any changes to the insurer's capital management plan; and
- The Appointed Actuary also has a number of specified duties under the Act (and the rules associated with the Act) which, in broad terms, relate to the continuing, sound management of an insurer's PHI business.

MBF's CMP (in common with other insurers) also stipulates that dividends or capital will not be paid to its parent if the assets of MBF (in excess of prudential capital requirements) fall below a specified percentage of MBF's target surplus.

It should be noted that BUPA Australia might seek at a later date, and/or the Board of MBF might consider at a later date, a change to MBF's CMP and that any such change could have an adverse impact on the security of MBF policyholders' benefits. However, we consider that the features of the PHI Act outlined above, in particular the roles of PHIAC and the Appointed Actuary, should provide reasonable ongoing safeguards for the security of MBF policyholders' benefits in relation to potential future changes to MBF's CMP.

The Transaction will result in MBF becoming part of a larger business in Australia in the form of the BUPA Australia Group, and globally in the form of the BUPA Group as a whole. Section 10.1 of the IM describes the BUPA Group as a private company limited by guarantee (i.e. a "mutual" organisation), with no shareholders. The Transaction may provide MBF with a greater range of options for accessing additional capital, should this be needed at a later date to safeguard the continuing security of policy benefits, than the options available under MBF's current structure. For example, the larger size of the BUPA Group may provide a greater capacity to source debt capital than MBF could achieve under its existing structure.

However, it should be recognised that, as a mutual, the BUPA Group's capacity to source additional capital, while potentially greater than MBF's capacity under its current structure, is likely to be somewhat more limited than a publicly-listed, shareholder-owned organisation. Also, a company's ability to raise capital is not assured in all circumstances.

Taken together, we consider that the matters outlined above should provide reasonable safeguards for the continuing security of policy benefits if the Transaction is implemented.

This conclusion assumes that MBF will be able to achieve future premium increases, in response to future increases in its claim costs, which are at rates sufficient to keep MBF's overall pricing in line with its pricing policy (which is considered in further detail later in this Appendix). Whether this assumption holds in the future will depend, in part, on various features of the PHI industry common to all PHI insurers, including the following:

- Community rating, which (among other things) exposes insurers to the risk that the age/demographic characteristics of their portfolio become inconsistent with overall premiums charged.
- The rate of increase in PHI insurers' claim costs, which has historically exceeded retail/consumer price inflation, for a variety of reasons. This "inflation-plus" rate of increase is very likely to continue in the future irrespective of whether the Transaction proceeds.
- Government actions, which can significantly impact the PHI industry in positive and negative ways.

These common industry features will continue to bear upon MBF irrespective of whether the Transaction proceeds.

We consider that MBF's existing procedures for detailed claims monitoring and premium/claims forecasting provide additional safeguards for the continuing security of policy benefits to the extent that they enhance MBF's ability to identify, and respond to, emerging claims experience in a timely manner. Section 3.3(b) of the IM refers to BUPA Australia's intention to conduct a thorough review of MBF and BUPA Australia Health, which will focus on achieving a reduction in overlapping functions across the two businesses and will seek to combine the best from each business. BUPA Australia has indicated that, in the interim, it anticipates that MBF's existing procedures for detailed claims monitoring and premium/claims forecasting will continue. BUPA Australia's stated intention to subsequently combine the best of each business should mean that the standard of MBF's future claims monitoring and premium/claims forecasting will be maintained (and potentially improved) after the conclusion of BUPA Australia's business review.

Lastly, it should be noted that the continuity of cover feature of the PHI industry means that policyholders of a troubled PHI insurer should be able to change to another insurer with relative ease, although the benefits offered by their new insurer may not match exactly those of their old insurer.

c. Conclusion

Based upon the considerations set out above, having reviewed the Appointed Actuary's report and other relevant material provided by MBF and BUPA Australia, and subject to our earlier comments in relation to Section 3.3(a) of the IM and the reliances and limitations set out earlier, we conclude as follows:

- There will be a large reduction in the asset base of MBF as a result of MBF releasing surplus capital to BUPA Australia Holdings. Consequently, the security of MBF policyholders' benefits will be reduced to some degree as a consequence of the Transaction;
- However, if the Transaction had been implemented on 31 December 2007 and if the maximum transfer of assets possible under MBF's current CMP (as set out in the restated financial position summarised in the Appointed Actuary's report) had been effected on that date, then we consider that the assets remaining in MBF as at 31 December 2007 would have provided adequate security of MBF policyholders' benefits. Accordingly, it is our opinion that the Transaction would not have had a materially adverse impact on the security of MBF policyholders' benefits as at 31 December 2007, if it had been implemented on that date;
- Provided that MBF ensures that the assets in excess of the prescribed prudential capital requirements remaining in MBF as at the Implementation Date (after all steps of the implementation of the Scheme have been completed) are at least equal to 100% of MBF's target surplus (determined in accordance with MBF's current CMP), after expensing all costs associated with the Transaction, it is our opinion that the Transaction should not have a materially adverse impact on the security of MBF policyholders' benefits as at the Implementation Date; and
- It is our opinion that the PHI Act, in conjunction with BUPA Australia's intended adoption of MBF's current CMP (for the management of MBF's business) and BUPA Australia's intentions regarding MBF's procedures for detailed claims monitoring and premium/claims forecasting, should provide reasonable safeguards for the continuing security of MBF policyholders' benefits. However, no set of safeguards can provide an absolute assurance of security. Further, our opinion assumes that MBF will in the future be able to achieve premium increases at rates which are in line with its pricing policy.

The above opinions are based on MBF's current CMP and target surplus policy, and our consideration of the characteristics of MBF's business as at the date of this report. As noted earlier, the PHI market is constantly changing and the risk characteristics of insurers may change over time. Accordingly, the above opinions assume that MBF's CMP and target surplus policy will be kept under review, and that the target surplus will be increased as necessary, should MBF assess that the risk characteristics of its business have deteriorated between 31 December 2007 and the Implementation Date.

4. Outlook for Future Premium Rate Increases

a. Basis for Our Opinion

The Transaction, if it proceeds, will give rise to three significant changes (among others) in MBF's business:

- The requirement to pay tax on profits at the corporate rate (currently 30%);
- A reduction in investment income arising in MBF by virtue of the likely transfer out of assets; and
- The expectation that MBF will pay dividends to its shareholder in the future.

Over time, all other things being equal, each of these either reduces, or puts downward pressure on, the net assets on MBF's balance sheet, compared to how MBF's net asset position might have evolved without these imposts.

In addition, following implementation of the Scheme, BUPA Australia intends that MBF's PHI business will adopt a pricing policy which is similar to BUPA Australia Health's current pricing policy. MBF's revised pricing policy will be centred on targeting a long term gross margin (before tax) for MBF's PHI business. Although the actual gross margin achieved in a year will be likely to differ from the gross margin target, BUPA Australia's intention is that MBF will manage its business year on year such that the overall portfolio is managed with the aim of achieving the gross margin target over time.

The long term gross margin which BUPA Australia currently intends to adopt for MBF is to some extent predicated on the attainment of management expense synergies within MBF at a level sufficient for MBF to meet BUPA's expectations for a return on its investment in MBF.

Earlier in this Appendix, we summarised a range of dynamic forces at work in the PHI industry. The PHI market itself is likely to undergo continuing change, driven by broader factors such as potential conversion to "for profit" status by a number of insurers, possible market consolidation, continuing "inflation-plus" increases in health costs, greater segmentation of the PHI market, the ageing of Australia's population and financial advice intermediaries potentially taking on a more significant role in the industry.

Future premiums for MBF's health policyholders are very likely to increase at rates in excess of price inflation in the future. This is to be expected irrespective of whether or not the Transaction proceeds. As noted earlier, key drivers of this increase will be continuing health cost inflation and any potential deterioration in the risk characteristics of MBF's portfolio.

For the purposes of our opinion, we have considered whether the Transaction and, in particular, the three significant changes outlined above and the change in MBF's pricing policy are expected to cause a higher rate of increase in future premiums than might otherwise have been expected under a continuation of MBF's current structure.

In our view, one cannot predict with absolute certainty what impact the Transaction, in itself, will have on the outlook for future premium rate increases. Accordingly, we cannot provide an absolute assurance as to the impact of the Transaction on the outlook for future premium rate increases.

Also, within a company's overall premium rate increase, the premium rates for a particular product could vary from the average increase, and such variations could be significant. One reason for this is that different pricing targets may be adopted for certain groups of products within the overall pricing target adopted for MBF's portfolio as a whole. Further, a company's premium rate increase could vary significantly (up or down) from one year to the next and from its competitors in that year. Accordingly, our assessment is based on a consideration of the potential impact of the Transaction on MBF's product suite, taken as a whole and over an extended period of years. Our assessment does not purport to relate to any specific product or to any specific year.

b. Summary of Our Assessment

Earlier in this Appendix, we outlined a number of significant features of the PHI industry and how those bear upon premiums charged.

We have considered how these features and BUPA Australia's intended pricing policy for MBF might be expected to impact upon the outlook for future premium rate increases. We have also considered the factors set out in the Appointed Actuary's report (and supporting papers to that report) and have reviewed various internal management documents relating to MBF's historical pricing philosophy and information provided by BUPA Australia relating to its intended pricing policy for MBF.

Ultimately, we consider that there are a number of key factors which should offer MBF policyholders reasonable assurance (but not a guarantee) concerning the impact of the Transaction on the outlook for future premium rate increases. We consider these in (A) and (B) below.

A. External Factors

We consider that the competitive nature of the PHI industry, the increasing availability of product/price comparator information and "continuity of cover" should together impose a significant pricing restraint on MBF in the future. From our review of MBF's internal management reports and discussions with MBF's actuaries, we infer that competitor positioning has historically been an important input to MBF's deliberations over future premium rate increases. Although BUPA Australia may have a different philosophy in this regard, we note that the published statistics for the industry indicate that BUPA Australia Health's overall published rate of premium increase has been at or below both the industry average and MBF's own published rate for each of the last 5 years up to April 2007 (being the most recently available data as at the date of this report).

If MBF were to seek to impose premium increases that MBF policyholders considered uncompetitive, MBF policyholders should be able to change insurer with relative ease. We recognise that the historical propensity for policyholders to change insurers has been relatively low. However, we consider that the combination of structural change in the industry and the greater availability of product/price comparator information will serve as potential catalysts for this to change.

Although there are some potential inhibitors to changing insurers, such as aggregate benefit limits for certain types of benefit, we do not consider that these are likely to be sufficiently material as to immunise MBF from the competitive forces in the industry. MBF has also advised us that, at present, it does not provide its policyholders with any loyalty bonus schemes which might have been considered to be an additional potential inhibitor. In addition, BUPA Australia has indicated that it does not have any current intentions to introduce loyalty bonus schemes for MBF's products.

B. Pricing Factors

MBF has had a Board-endorsed pricing policy for a number of years which has been used for determining the level of premium increases from year to year. This policy defined a target range for (before tax) annual underwriting profit expressed as a percentage of annual premium revenue ("underwriting margin").

BUPA Australia's intended pricing policy for MBF ("the new pricing policy") differs in a number of respects from MBF's historical pricing policy ("the old pricing policy"), including the following:

- a. The new pricing policy centres around a gross margin target (premiums less claims, divided by premiums) whereas the old pricing policy centres around a target underwriting margin (premiums less claims less management expenses, divided by premiums).

This implies that variations in management expense levels may impact future premium rate increases differently under each policy. Taken literally, the old pricing policy implies that the MBF policyholder could potentially benefit (via premiums charged) from improved expense performance but carried

the risk (again via premiums charged) of poor management expense performance, ignoring all other factors that also influence premium rates. The new pricing policy implies that the impact of better/worse management expense performance will fall to MBF's shareholder if there is no subsequent change in the new pricing policy or the gross margin target i.e. taken literally, a gross margin target would imply that premiums would not be affected by variations in management expense levels. This is because, under the new pricing policy, there is a less direct link between variations in management expenses and premiums charged.

In practice, we consider it likely that this difference between the pricing policies would be blurred by the effects of competitive forces and the possibility that either pricing policy could be reviewed in the future in response to a sustained level of improved or worsened management expense performance.

- b. If the Transaction did not proceed and MBF was able to achieve material expense reductions under a continuation of its current structure and MBF had also elected to pass on these expense reductions via premiums charged, then in this set of circumstances the old pricing policy could have produced marginally better premium outcomes for MBF policyholders in the future (all other things being equal) than those arising under the new pricing policy. However, this is a simplified scenario which has been presented here for the purposes of illustrating an aspect of the pricing policies. In practice, a range of other factors would be likely also to have a bearing on actual premium outcomes.

Further, MBF's average management expense ratio (based on PHIAC published statistics) for the most recent five years is approximately two percentage points higher than BUPA Australia Health's ratio. Accordingly, we expect that the combined business is likely to operate at a lower management expense ratio than MBF is likely to achieve for the foreseeable future under a continuation of its current structure. Also, on the basis of PHIAC's published statistics, we observe that BUPA Australia Health has had a track record of operating its business at management expense ratios below the industry average.

- c. On the basis of MBF's recent history of management expense levels, the gross margin target under the new pricing policy is at the top end of the target range of gross margin implied by the old pricing policy.

From this, ignoring variations in management expenses, one might conclude that the pricing policies are sufficiently similar as to not imply a material difference between them. However, the gross margin target under the new pricing policy is marginally higher than the mid-point of the target range of gross margin implied under the old pricing policy (again, on the basis of MBF's recent history of management expense levels). This implies that a level of claims cost synergies will need to be attained in MBF's PHI business, as a result of combining the MBF Group and the BUPA Australia Group, which is sufficient to offset the somewhat higher gross margin target under the new pricing policy.

We have considered the overall level of claim cost synergies that would need to be attained to provide this offset. While it cannot be guaranteed that these will be attained, based on our enquiries, we believe that there is a reasonable basis for considering that the required level of claims cost synergies is reasonably attainable over time. It should be noted, however, that the attainment of these claims cost synergies is likely to depend greatly on the enlarged BUPA Australia Group's success in realising the potential business and market opportunities presented by the merger.

- d. As noted earlier, the new pricing policy is to some extent predicated on the attainment of management expense synergies within MBF at a level which is sufficient for MBF's PHI business to meet BUPA's expectations for a return on its investment in MBF. This suggests to us that BUPA has anticipated that MBF will be able to achieve these synergies at the level required to support the new pricing policy. This introduces a potential risk for MBF policyholders that, if these synergies are not attained, the gross margin target might be increased over time. If this were to eventuate, it might lead to higher rates of premium increase than would otherwise have been expected to occur.

We have considered the overall level of management expense synergies that are implied by the new pricing policy. While it cannot be guaranteed that these will be attained, based on our enquiries, we believe that there is a reasonable basis for considering that the required level of management expense synergies is reasonably attainable over time. It should be noted, however, that the attainment of these management expense synergies is likely to depend greatly on the enlarged BUPA Australia Group's success in realising the potential business and market opportunities presented by the merger. As noted earlier, on the basis of PHIAC's published statistics, we observe that BUPA Australia Health has had a track record of operating its business at management expense ratios below the industry average.

Taking the above points together, we consider that the difference between the old and new pricing policies should not have a materially adverse impact on the outlook for future premium rate increases.

This conclusion presumes that claims cost and management expense synergies are achieved at levels at least sufficient to provide broad equivalence between the old and new pricing policies. As indicated above, we believe that there is a reasonable basis for considering this level of synergies to be reasonably attainable over time. Nevertheless, we have also considered, for completeness, the potential implications (for premiums) if the claims cost and management expense synergies were not attained at the levels contemplated by the new pricing policy. We cannot be certain how BUPA Australia might respond in such circumstances. For example:

- One possibility is that BUPA Australia may respond by maintaining MBF's new pricing policy despite the lower synergies.
- Another possibility is that BUPA Australia may respond by seeking to revise MBF's new pricing policy in order to recover (through premiums charged) the margins lost to the shareholder on account of lower than expected synergies. It should be noted that BUPA Australia has not indicated to us that it would respond in this way. However, for completeness, we have considered the effect such a response might be expected to have on MBF's premiums over time.

On the basis of our assessment of a range of possible responses by BUPA Australia, the external factors that would bear upon each response, the extent of potential opportunities for synergies presented by the merger and the availability of the "continuity of cover" facility for MBF's policyholders, we are of the view that the risk to future premiums associated with not achieving sufficient synergies is unlikely to be material in the context of our opinion.

Accordingly, having considered the scenario of synergies not being attained at the levels contemplated by the new pricing policy, on balance, we remain of the view that the difference between the old and new pricing policies should not have a materially adverse impact on the outlook for future premium rate increases.

The pricing targets under the old and new pricing policies are both expressed as before-tax targets. Accordingly, the requirement for MBF to pay tax on profits in the future should not have an adverse impact on the outlook for future premium rate increases.

C. Other Considerations

In addition to the key factors set out under (A) and (B) above, we also note the following additional considerations.

Given the basis for MBF's old and new pricing policies, the reduction in investment income arising in MBF (by virtue of the transfer of assets to BUPA Australia Holdings) is not expected to adversely impact the outlook for future premium rate increases.

We consider that an insurer with an objective of making a commercial level of return on its capital base should generally adopt a pricing policy a) that is independent of the assets held on its balance sheet in excess of target surplus and, b) that is also commensurate with the risks borne by the insurer.

An alternative would be for an insurer to use its surplus assets to subsidise the premiums it charges. However, this has not been MBF's practice in recent years and would not be MBF's practice under the new pricing policy. Thus the reduction in MBF's assets should not, in itself, adversely impact the outlook for future premium rate increases.

BUPA Australia has indicated that it considers that its current gross margin target for MBF's portfolio should be sufficient, for the reasonably foreseeable future, to meet BUPA's expectations for a return on its investment in MBF and that BUPA Australia does not have any current intentions or plans to amend the intended pricing policy as a consequence of the Transaction.

That said, it should be noted that the Board of MBF could decide at a later date to change its pricing policy or BUPA Australia could decide to seek such a change. Any such change could have an adverse impact on the outlook for future premium rate increases. However, changes in pricing policy could have occurred irrespective of whether the Transaction proceeds and we consider that any such change would be likely to remain subject to competitive forces.

In addition, the Minister's role in the premium setting process should be noted. As described earlier, under the PHI Act, all private health insurers are currently required to apply to the Minister if they wish to increase PHI premiums and the Minister is able to refuse an application for increase if the Minister considers that the application is not in the public interest.

We are not able to predict how the Minister might approach this task. However, it would presumably be open to the Minister to treat "for profit" insurers in the same manner as "not-for-profit" insurers notwithstanding that "for profit" insurers may have chosen to retain less surplus capital in their business.

Accordingly, if the Transaction were not to proceed and MBF retained its "not-for-profit" status and its surplus assets, we consider that it would be simplistic to contend, and we do not contend, that the higher level of capital retained by MBF in these circumstances would have resulted in lower premium rate increases over time, on account of government influence, than might eventuate should the Transaction proceed.

c. Conclusion

Based upon the considerations set out above, having reviewed the Appointed Actuary's report and other relevant material provided by MBF and BUPA Australia, and subject to our earlier comments in relation to Section 3.3(a) of the IM and the reliances and limitations set out earlier, it is our opinion that the implementation of the Scheme, together with the adoption of the intended pricing policy for MBF, in itself, should not have a materially adverse impact on the outlook for future premium rate increases for MBF's policyholders.

Ultimately, we consider that the competitive nature of Australia's PHI market and the ability of policyholders to change health insurers, taken together, should provide significant safeguards for MBF's policyholders in relation to future premium rate increases.

We also note the pricing factors set out above, as important elements underlying our opinion.

We cannot predict how the Minister's role in the premium increase application process will be applied in the future or the extent to which this role may be applied differently for MBF as a "for profit" insurer than it would have been applied had MBF remained a "not-for-profit" insurer. Accordingly, we are not able to express an opinion on what additional bearing the Minister's role may have on the outlook for future premium rate increases should the Transaction proceed.

Lastly, it is important to note that MBF policyholders should expect that premiums will continue to increase, and that such increases are very likely to exceed price inflation, on account of cost and other pressures which are a common feature, currently, of all PHI business in Australia, irrespective of whether or not the Transaction is implemented.

For Towers Perrin,



Duncan Rawlinson
Principal
Fellow of the Institute of Actuaries of Australia



Robert Paton
Consultant
Fellow of the Institute of Actuaries of Australia

APPENDIX B

REPORT ON THE ALLOCATION BASIS UNDERLYING MBF'S PROPOSED ALLOCATION RULES

1. Framework for Our Opinion

a. Windfall Nature of Entitlement Allocation

As part of the Transaction the value of MBF will, in effect, be crystallised for the benefit of Participating Contributors.

In our view, if the Transaction proceeds, the financial benefit that Participating Contributors will receive through the payment of Entitlements will be in the nature of a "windfall". We hold this view for the following principal reasons:

- i. We consider that Contributors, when they became a policyholder or insured person, would not generally have had a reasonable expectation that MBF would demutualise or that the value of the organisation would otherwise crystallise as a financial benefit to them, in the normal course of MBF's business as a not-for-profit health insurer, during their time as a policyholder or insured person. Accordingly, the timing of the Transaction is fortuitous for Participating Contributors. In our view, this is a key consideration in concluding that the allocation of Entitlements will be in the nature of a windfall.
- ii. For the reasons set out in (iii) below, in the normal course of MBF's business as a not-for-profit health insurer, Contributors and Company Members have no ability to crystallise any value which might be considered to relate to the rights afforded to them as Contributors and Company Members. Accordingly, we consider that these rights have little or no realisable, tangible value in their current form in the normal course of MBF's business as a not-for-profit health insurer.
- iii. The view expressed in (ii) above is supported by the following:
 - In the normal course of MBF's business as a not-for-profit health insurer, Contributors and Company Members do not have a right under the Constitution to share in a distribution of the net assets of MBF;
 - Contributors and Company Members do not have a right under the Constitution to share in a distribution of the net assets of MBF in the event that the organisation were to be wound-up; and
 - In the normal course of MBF's business as a not-for-profit health insurer, Contributors and Company Members receive no compensation (for rights relinquished) at the point at which they cease to hold a policy with MBF.
- iv. Lastly, on the basis of MBF's analysis, it is apparent that a substantial portion of the aggregate net asset value of MBF's business today could reasonably be considered to represent a legacy inherited by current Contributors from prior generations of Contributors. The net assets and value of a mutual or not-for-profit organisation will usually have grown progressively over time, and possibly over an extended period of time. Prior generations of members will have contributed to this growth and, on cessation of membership, those prior members will have, effectively, left behind a legacy for future generations of members for nil compensation.

It is possible that some Contributors may have joined in recent months in specific expectation that MBF would demutualise in the near future and, by so joining, have thereby sought to participate in the allocation process. Although we acknowledge this possibility, we consider that the allocation of Entitlements to these persons remains in the nature of a windfall on account of the opportunistic nature of their action.

Our conclusion that the allocation of Entitlements is in the nature of a windfall is made by reference to MBF in its normal course of business as a not-for-profit health insurer i.e. prior to the decision having been made to bring forward the Transaction. We have adopted this as the starting point-of-reference for our opinion because this reflects the position of Contributors and Company Members in the normal course of MBF's business and this is the position Contributors and Company Members would be expected to return to, in due course, if the Scheme did not receive sufficient votes to proceed (and no alternative proposal was forthcoming).

Our conclusion that the allocation of Entitlements would be in the nature of a windfall is in line with the conclusions reached in other demutualisations of friendly societies and insurance companies in Australia.

We note that, once a decision is made to bring forward a Transaction, Contributors might infer certain rights (by virtue of Section 126-42 of the PHI Act) to be allotted Entitlements as part of the Transaction. However, we consider that such an inference does not have a bearing on our conclusions regarding windfall, for the reasons indicated above, although we note that this inference may have a bearing on other matters pertaining to the Transaction.

b. Overall Aim of the Allocation Basis

As a windfall, there is in our view no definitive basis for allocating Entitlements. The selection of an appropriate basis for the allocation of Entitlements is a matter of judgement and different parties may reasonably hold contrasting views regarding this exercise of judgement. Accordingly, there could be a wide range of allocation bases that might be considered appropriate.

In our view, there is no single, correct allocation basis and, further, there is unlikely to be one allocation basis that can be demonstrated to be more appropriate for Participating Contributors as a whole than all other potential allocation bases.

The development of an allocation basis involves striking a balance between potentially diverse interests of different groups of Participating Contributors. These interests cannot necessarily be accommodated within an allocation basis to the extent that each individual Participating Contributor might consider desirable. Each Participating Contributor may also have a different view regarding the weight to be given to various factors.

In our view, the aim of an allocation basis should therefore be to strive for an appropriate outcome for Participating Contributors as a whole, while having regard for potentially diverse interests where practicable and reasonable. It is likely that a range of allocation bases could be considered appropriate in this context.

c. Basis for Our Opinion

As part of the process of formulating the allocation basis underlying the proposed Allocation Rules ("Allocation Basis"), MBF and its Appointed Actuary have:

- Defined a set of principles on which the Allocation Basis should be based;
- Undertaken an examination of MBF's business and history in order to identify factors that may be relevant to the formulation of the Allocation Basis;
- Reviewed the bases for allocating shares that were adopted as part of other demutualisations of friendly society and insurance businesses within Australia;
- Considered the implications of the requirement of the PHI Act that the financial benefits arising from the Scheme must not be distributed inequitably (between relevant persons); and
- Assessed the overall results produced by the Allocation Basis for appropriateness.

In forming our opinion on the Allocation Basis, we have considered whether the principles upon which the proposed allocation is based are fair and reasonable, whether any differences between these principles and those adopted in prior demutualisations of friendly societies and insurance companies in Australia are appropriate, whether the Allocation Basis is consistent with the principles, whether the factors chosen within the Allocation Basis for differentiating between Participating Contributors are appropriate in the context of MBF's specific circumstances and whether the overall results produced by the Allocation Basis are appropriate.

The Appointed Actuary's report in Schedule 7 of the IM also addresses the Allocation Basis. In formulating our opinion, we have considered the Appointed Actuary's report together with the substantive information and analysis that has formed the basis for that report. We have also discussed the Appointed Actuary's report and analysis with the Appointed Actuary and his team. Our consideration of the Allocation Basis and our opinion are based upon these materials and discussions.

It should be noted that we have formed our opinion for Participating Contributors as a whole. In common with the position adopted in prior friendly society and insurance company demutualisations in Australia, it was not practicable to consider the position of any individual Participating Contributor in relation to their personal, social security and tax circumstances, and we have not done so.

As noted earlier, our opinion relates to the allocation of Entitlements among Participating Contributors and we have not considered the criteria which determine whether or not a person is a Participating Contributor.

2. Position of Company Members

MBF has concluded that no preferential allocation of Entitlements should be provided to those persons who were Company Members (including Appointed Contributor Representatives) prior to the creation of the trust (referred to in the IM) which conferred Company Member status on all Eligible Contributors. This means that no additional allocation of Entitlements will be made to those pre-existing Company Members (including Appointed Contributor Representatives) over and above the Entitlements to be allotted to them in their capacity as Participating Contributors.

We consider MBF's conclusions in this regard to be reasonable in view of:

- The relatively limited rights attaching to the status of Company Members, as discussed in the next section of this Appendix;
- The fact that neither Company Members nor MBF Council Members have a right to share in a distribution of the net assets of MBF in the normal course of its business or in the event that the organisation were to be wound-up; and
- The nature of the role of Appointed Contributor Representatives under MBF's Constitution.

3. Rights of Contributors

Section 1.13 of the IM provides a summary of the rights of Contributors beyond the contractual rights afforded by MBF's Fund Rules applicable to the policy held by each Contributor. The vast majority of Contributors have not been Company Members. However, Contributors have had the right to apply to become Company Members.

Further, as part of the Scheme, each Eligible Contributor will be granted, under a trust arrangement, a membership in MBF for the purposes of the Scheme. Accordingly, this section assumes that each Eligible Contributor has, in effect, acquired the same rights as a Company Member, for the purposes of the Scheme, albeit that those rights are held in trust on their behalf. The remainder of this section therefore discusses the rights of Eligible Contributors as, in effect, Company Members for the purposes of the Scheme.

In our view, there are some important differences between the rights/status of MBF's Contributors and the rights/status of persons who have commonly received shares as part of prior demutualisations of friendly societies and insurance companies in Australia.

A key point to note is that the allocation of shares in prior demutualisations was commonly regarded, in part, as compensation for the specific membership rights which were being relinquished by members as part of the demutualisation. The more material rights relinquished were commonly regarded as the right to vote on the appointment/removal of directors, the right to propose/vote on motions and (in some cases) the right to share in a distribution on wind-up.

MBF's Company Members, other than those who are also MBF Council Members, have a limited right to vote at annual general meetings (broadly, only on matters affecting their other rights as a Company Member). Company Members, other than those who are also MBF Council Members, have no right to vote on the appointment/removal of directors and no right to propose/vote on motions. Among Company Members, only those who are on the MBF Council have the right to call a general meeting and the right to appoint/remove directors. Neither Contributors nor Company Members (nor Appointed Contributor Representatives) have a right to share in a distribution of the net assets of MBF in the normal course of MBF's business as a not-for-profit health insurer or in the event that the organisation were to be wound-up.

In our view, these differences in rights (between members of prior mutual friendly societies and insurance companies, and Contributors or Company Members of MBF) are of some relevance when considering the appropriateness of the proposed Allocation Basis. They suggest to us that, in MBF's case, there could be a somewhat wider range of allocation bases that might be considered fair and reasonable, compared to those adopted for prior friendly society and insurance company demutualisations in Australia. This is particularly the case in relation to any component of prior allocation bases which sought to recognise/reflect the voting rights of members in the normal course of business.

4. Commentary on the Allocation Basis

Under the proposed Allocation Basis, Entitlements are to be allocated in the form of a number of components. In summary, the components combine to produce the following overall outcomes:

- Approximately 25% of total Entitlements are to be allocated based on the current Scale and (current) Qualifying Policy ("QP") of each relevant Contributor - the "base component";
- The remainder of total Entitlements are to be allocated based on the history of Scale as determined under the Allocation Rules, the Years of Membership ("Tenure") as determined under the Allocation Rules, and the (current) Qualifying Policy of the relevant Contributor - the "tenure component".

We have considered the Appointed Actuary's analysis underlying the Allocation Basis, including various alternatives considered by the Appointed Actuary in arriving at his conclusions, and we have considered the reasonableness of those conclusions.

As noted earlier, there is no definitive basis for allocating Entitlements and the selection of an appropriate basis for the allocation of Entitlements is a matter of judgement. Different parties may reasonably hold contrasting views regarding both this exercise of judgement and the resultant allocation basis.

The selection of an allocation basis usually requires consideration of a substantial range of factors. We have commented below on certain factors relevant to MBF's formulation of its proposed Allocation Basis. These are not intended to be an exhaustive list of material factors but, rather, are presented to provide further insight in relation to certain matters and their bearing on the Allocation Basis:

- i. We consider the Appointed Actuary's overall conclusions drawn from his analysis of prior friendly society and insurance company demutualisations in Australia to be reasonable. In particular, we note that the more limited voting rights of MBF's Contributors and Company Members in the normal course of MBF's business as a not-for-profit health insurer (compared to members in prior demutualisations) is an important point of difference when considering the Allocation Basis. Although most other demutualisations have allocated a portion of shares in specific recognition of (mainly) voting rights forgone, this has less relevance for MBF and MBF has therefore concluded that the Allocation Basis should not include such a component of allocation. We consider this conclusion to be reasonable.
- ii. The Appointed Actuary has undertaken a high level analysis of the history of MBF (including its financial history) to serve as a guide in the selection of the Allocation Basis and in the exercise of judgement in relation to aspects of the Allocation Basis. We consider the methodology adopted for this analysis to be reasonable for its intended purpose, particularly in view of the framework within which a private health insurance business operates (which includes guaranteed acceptance of policyholders, risk equalisation pools, community rating and the associated cross-subsidies between different groups of policyholders).
- iii. MBF has concluded that its Allocation Basis should not specify an overriding minimum Entitlement amount per Participating Contributor. We consider this conclusion to be reasonable. We note that overriding minimum allocations have (directly or indirectly) been a feature of many demutualisations in Australia. However, we agree with MBF's analysis that it is appropriate to not have such a minimum on account of (among other things) the more limited voting rights of Contributors and Company Members.
- iv. MBF has designed its Allocation Basis such that the components of value representing the estate (as defined in the Appointed Actuary's report), including the legacy from prior generations, are allocated in the same manner as the component of value representing past contributions of Participating Contributors. We consider this approach to be reasonable. In coming to this view we have had particular regard to the windfall nature of the overall allocation and to the legacy element having been inherited by current Contributors from prior generations of Contributors. However, we note that alternative approaches might be considered to be equally reasonable.
- v. MBF has designed its Allocation Basis such that it will recognise historical movements between Scale in determining the tenure component of the allocation. We consider this approach to be reasonable and we agree with MBF's rationale for including this feature within the proposed Allocation Basis.
- vi. MBF has designed its Allocation Basis such that it will not provide differential recognition associated with historical movements between products when determining the tenure component of the allocation. We understand that historical movements between products cannot be determined reliably by MBF's systems over the period required by the tenure component. Accordingly, this systems/data limitation has required MBF to choose between not recognising product at all in the tenure component or recognising product on the basis of the relevant Contributor's current QP only (i.e. not recognising historical movements between products), or some combination of these two options. We note that different approaches may produce materially different allocations for individual Participating Contributors. There are reasonable arguments for and against a variety of approaches in this regard. Ultimately, the proposal not to recognise historical movements between products is a matter of judgement. Having considered the Appointed Actuary's analysis of the potential impacts of not recognising historical movements between products, or of not recognising product at all, on balance, we consider MBF's proposed approach to be reasonable in the circumstances.
- vii. MBF has chosen a Cut-off Date of 8 November 2007. Since this Cut-off Date is some time after the public announcement by MBF of its intention to bring forward a Scheme, this introduces the risk of new Contributors having joined MBF prior to the Cut-off Date with the dominant purpose of obtaining an allocation of Entitlements. An influx of new Eligible Contributors would have the potential to dilute (somewhat) the financial benefit flowing to other Participating Contributors from the allocation

of Entitlements. This might be considered to introduce the potential for inequity in the allocation of Entitlements. However, we consider that the structure of the base and tenure components of MBF's Allocation Basis should serve to mitigate any dilution effects.

5. Opinion

We consider that the information and analysis underlying the Appointed Actuary's report is reasonable, overall, for the purposes of guiding MBF and its Appointed Actuary in their decisions and judgements in relation to the Allocation Basis. We consider that the overall conclusions drawn by the Appointed Actuary on the basis of this analysis are reasonable and are reasonably supported by the analysis performed.


Based upon our consideration of the Appointed Actuary's report and analysis, and the considerations set out earlier in this Appendix, and subject to the reliances and limitations set out earlier in this report, in our view:

- i. The principles chosen by the Appointed Actuary for the purpose of formulating the Allocation Basis are fair and reasonable. These principles are summarised in the Appointed Actuary's report;
- ii. To the extent that these principles differ from the principles adopted in prior demutualisations of friendly societies and insurance companies in Australia, those differences are appropriate in the context of MBF's specific circumstances;
- iii. The Allocation Basis is consistent with the principles and has had reasonable regard to MBF's history;
- iv. Given the limitations imposed by MBF's historical systems/data records, the factors chosen within the Allocation Basis for differentiating between Participating Contributors are appropriate in the context of MBF's specific circumstances. In particular, in our view, MBF's decisions to allocate the components of value representing the estate (including the legacy from prior generations) in the same manner as the component of value representing past contributions of Participating Contributors, and to utilise current QP for allocating the tenure component, are appropriate in the context of MBF's specific circumstances. We note that alternative approaches might also be considered to be appropriate; and
- v. The overall results produced by the Allocation Basis appear appropriate.

As noted earlier, the development of an allocation basis involves striking a balance between potentially diverse interests of different groups of Participating Contributors. These interests cannot necessarily be accommodated within an allocation basis to the extent that each individual Participating Contributor might consider desirable. Also as noted earlier, in our view, there is no definitive basis for allocating Entitlements and the selection of an appropriate basis for the allocation of Entitlements is a matter of judgement.

Based upon the foregoing, and subject to the reliances and limitations set out earlier, it is our opinion that the allocation basis underlying the proposed Allocation Rules is fair and reasonable for Participating Contributors as a whole and should not result in the financial benefit arising from the Scheme, namely the payment of Entitlements, being distributed inequitably between Participating Contributors.

For Towers Perrin,



Duncan Rawlinson

Principal

Fellow of the Institute of Actuaries of Australia

Authorised Representative for Towers, Perrin, Forster & Crosby Inc. (AFS Licence Number 220702)

APPENDIX C

FINANCIAL SERVICES GUIDE

This Financial Services Guide forms part of the Consulting Actuary's Report and has been issued in accordance with ASIC Class Order CO 04/1572.

Issue date: 22 February 2008

This Financial Services Guide ("FSG") provides important information about Towers, Perrin, Forster & Crosby Inc., trading as Towers Perrin, ABN 51 002 551 019, AFSL 220702, hereafter referred to as "we", "us" or "our".

This FSG is designed to provide information about Towers Perrin, the financial services we offer, how we are remunerated and our dispute resolution process. This FSG is also designed to assist you to understand the nature of the general financial product advice provided in the report ("Report") which accompanies this FSG and to assist you in deciding whether to use that advice.

About Towers Perrin

Towers Perrin is a global professional services company. We are incorporated in the USA and are a limited liability company. We have Australian offices in Sydney and Melbourne. Towers Perrin is wholly-owned by its senior employees.

Within our Australian business, we specialise primarily in the areas of actuarial and management consulting to the financial services and insurance industries. We also provide specialist risk management, actuarial and financial software through a subsidiary company. These services are offered predominantly to financial product/service providers.

Towers Perrin has professional indemnity insurance in place. In common with current market practice, this insurance cover is provided on a "claims-made" basis. An employee who ceases to be employed by the firm continues to be covered by Towers Perrin's professional indemnity insurance in respect of work previously undertaken as an employee of the firm, to the extent that Towers Perrin is able to successfully renew its claims-made professional indemnity insurance arrangements from year to year.

About Our Services

We hold an Australian Financial Services Licence ("AFSL") in relation to our actuarial and management consulting practice in Australia. This AFSL authorises us to provide financial product advice (wholesale and retail) in relation to securities, certain derivatives, life risk insurance, managed investments, superannuation, foreign exchange, retirement savings accounts, deposit products and government debentures, stocks and bonds. This FSG relates to the provision of general financial product advice for securities.

General Financial Product Advice

The Report provides general financial product advice only. The Report does not take into account your personal objectives, financial situation or needs. You should consider the appropriateness of the Report having regard to your own objectives, financial situation and needs before you act on the advice provided in the Report. You should also consider obtaining separate professional advice to assist you in assessing the Report in the context of your own personal circumstances. In addition, you should consider the Information Memorandum in its entirety before making any decision about how to proceed.

We have been engaged to prepare the Report in connection with the Transaction. The Report includes a description of the nature of our engagement and identifies MBF as the party who has engaged us. We act for ourselves in providing the Report.

We have consented to persons other than MBF being provided with a copy of the Report because of their connection to the matters set out in the Report.

Remuneration for our Services

We will charge professional fees for preparing the Report. These fees have been agreed with, and will be paid by, MBF. Our fees for the preparation of the Report will be determined on a combination of time-charge and fixed fee bases. We estimate that these fees will amount to between \$390,000 and \$420,000. These fees are not contingent upon the outcome of the Transaction and we will not receive any form of commission payment in relation to the services provided to MBF in connection with the Transaction.

Our professional staff receive an annual salary and a performance bonus. The performance bonus will depend, in part, on fees received by Towers Perrin for the services we provide. In addition, certain employees may have the opportunity to acquire shares in Towers Perrin. Certain of our employees may be MBF policyholders and may therefore stand to receive Entitlements if the Transaction proceeds.

Towers Perrin has provided, and may continue to provide, a range of professional services to MBF. We receive professional fees for such services.

Other than the professional fees, benefits and other matters referred to above, neither Towers Perrin, nor any of its directors, employees or associated entities, will receive any fees or other benefits, directly or indirectly, for or in connection with the provision of the Report.

Associations with Providers of Financial Products

Within Australia, Towers Perrin has no affiliation or association with providers of financial products. Towers Perrin may at any time provide professional services to providers of financial products in the ordinary course of our business and we will receive fees for any such services provided.

Complaints Process

As the holder of an AFSL, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing, addressed to the Compliance Manager and sent to the address below.

We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Industry Complaints Service, whose contact details are set out below.

Compliance Manager
Towers Perrin
Level 13, 135 King Street
Sydney NSW 2000

Telephone: (02) 8198 9000

Financial Industry Complaints Service Limited
PO Box 579
Collins Street West
Melbourne VIC 8007

Telephone: 1300 780 808

S9

Schedule 9 Tax Advice Letter





Deloitte Touche Tohmatsu Ltd
ACN 092 223 240

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The Board of Directors
MBF Australia Limited
50 Bridge Street
Sydney NSW 2000
Australia

20 March 2008

Dear Directors,

DEMUTUALISATION OF MBF AUSTRALIA LIMITED

You have asked us to provide advice in relation to the Australian income taxation consequences for MBF Australia Limited. Company Members and Eligible Contributors in respect of the proposed demutualisation of MBF Australia Limited. This advice is prepared for MBF Australia Limited for inclusion in the Information Memorandum regarding the proposal to demutualise MBF Australia Limited ('the Proposal') and should be read in conjunction with the Information Memorandum.

Given the general nature of this advice, it is important that Participating Contributors seek their own independent taxation advice, specific to their own circumstances, when considering the consequences of the Proposal.

Background

Under the Proposal the following steps will occur:

- Trust Company Fiduciary Services Limited as Trustee of the MBF Contributors' Master Trust apply for and be issued a membership in MBF Australia Limited ('MBF') for each Eligible Contributor;
- BUPA Member will become a Contributor member of MBF after the Scheme Meeting;
- All membership interests in MBF will be cancelled except for those of BUPA Member;
- In consideration, MBF will pay Participating Contributors their Entitlements;

Liability limited by a scheme approved under Professional Standards Legislation.

Tue 18 March 2008 7:40 PM
sbj\1\CORPORATE WORK IN PROGRESS\CLIENTS - IN MBF DEMUTUALISATION\04. SUPPLIED\080319\DEMUTUALISATION OF MBF AUSTRALIA LIMITED 200308.JG.DOC

- Each Participating Contributors Entitlement will be calculated in accordance with the Allocation Rules.
- MBF will change its structure from a company limited by guarantee to a company limited by shares, will amend its constitution to reflect this point and will issue shares to BUPA Australia Holdings for a subscription price equal to \$2.41 billion; and
- Following approval from the Private Health Insurance Administration Council, MBF will convert to being registered as a for profit insurer under the Private Health Insurance Act 2007 (Cth).
- MBF will initially pay \$2.385 billion to Participating Contributors in the form of cash on or before 30 June 2008.
- The Residual Amount of \$25m will be distributed to persons who should have been treated as Participating Contributors within 10 Business Days of 31 December 2008.

Income Tax Framework for Demutualisations

The Proposal does not currently satisfy any of the concessional demutualisation provisions under the income tax law.

However, by way of a press release from the Assistant Treasurer dated 26 February 2008 (the "Press Release"), the Australian Government announced that the income tax law will be amended with effect from 1 July 2007 to ensure that the demutualisation of private health insurers will be afforded similar tax concessions as those granted to mutual organisations that have previously demutualised. The Press Release is included in Appendix A.

We believe that the proposed amendments to the income tax law proposed by the Australian Government should not be contentious and the relevant legislation will be passed by Parliament in due course.

When the legislation is enacted, Class Rulings will be sought from the Australian Taxation Office confirming the tax implications arising under the Proposal for Participating Contributors.

What are the tax consequences to the Company Members and Eligible Contributors?

Taxation on disposal of membership rights

A Company Member or Eligible Contributor may make a capital gain when disposing of their existing membership rights in MBF. The capital gain is calculated based on the Consideration received (i.e. the Entitlement received) less the tax cost base.

Under the current tax law, the tax cost base of the membership rights for a Company Member should be equal to the amount paid for membership, whereas the tax cost base of the membership rights for an

Eligible contributor should be nil. For Company Members who acquired their membership before 20 September 1985, any net capital gain on disposal of the membership rights will not be subject to tax.

However, under the Press Release, the tax cost base for Participating Contributors who acquired their Qualifying Policy on or after 20 September 1985 will be based on the next tangible assets of MBF (i.e. the intention of the Press Release being to provide a tax cost base for policyholders of demutualising private health insurers).

In addition, for Participating Contributors who acquired their Qualifying Policy before 20 September 1985, any net capital gain on disposal will be not be subject to tax.

For Participating Contributors who are subject to tax on the resulting capital gain the amount will be included in their tax return for the year ended 30 June 2008.

Shares of Residual Amount

The Residual Amount will represent part of the Consideration received on disposal of the membership rights. Where the Participating Contributor has already lodged their tax return before the Residual Amount is determined they will, if taxable on the capital gain, be required to amend their tax return for the year ended 30 June 2008 to include the additional capital gain.

Contributors who make a successful application to Review Committee and certain Company Members

The tax consequences that apply to:

- (a) person who have applied to the Review Committee and whom the Review Committee has determined should have been treated as a Participating Contributor; and
- (b) Company Members who cease to be company members before the scheme becomes effective

may be different from that set out above. These Contributors should seek their own tax advice.

Taxation of Benefit Payment

There will be no change to the taxation treatment of health insurance benefit payments received by Contributors under their insurance policies as a result of the Proposal. No income tax will be payable on health benefit payments received.

What are the tax consequences to MBF?

MBF Australia Limited

MBF Australia Limited is presently exempt from tax pursuant to Division 50 of the Income Tax Assessment Act 1997.

MBF will cease to be income tax exempt from the date it loses its non-profit status and will pay income tax from that date on its annual taxable income at the normal corporate tax rate (presently 30%).

Other taxes such as goods and services tax, fringe benefits tax and stamp duty will not be affected by the change to a tax paying entity, or by being part of a tax consolidated group. An election can be made to form a GST group, such that all GST transactions are recorded by the representative member, which does not have to be the head entity of the group.

Existing Tax Consolidation Group

The subsidiary members of MBF currently form a tax consolidated group. Upon MBF ceasing to be tax exempt entity, the existing tax consolidated group will cease to exist. However, together with the BUPA Australia Group, those entities will form part of the BUPA Australia Group tax consolidated group.

It should be noted that although Deloitte Touche Tohmatsu Ltd has given its consent to the inclusion of this letter into the Information Memorandum, we give no assurance or guarantee in respect of the successful operation or performance of MBF Group (and its subsidiaries) or the Proposal and that consent should not be taken as an endorsement or recommendation.

Basis of Taxation Opinion

This advice is based on the Australian income tax laws applicable as at the date of this advice subject to the proposed amendments in the Assistant Treasurer's Press Release.

This advice has been given on the basis that activities will be carried out in the manner described in the Information Memorandum and other associated documents. In providing this advice we have relied on the facts set out in the Information Memorandum and these facts have not been independently verified or reviewed by Deloitte Touch Tohmatsu Ltd (Deloitte). Deloitte does not accept any responsibility if the activities do not take place in accordance with the Information Memorandum.

Deloitte has no responsibility to update this advice for events occurring (or not occurring) after the date of this advice. This advice is not binding on the Australian Taxation Office or the courts.

The representatives of Deloitte involved in preparing this report are not licensed to provide financial product advice. Taxation is only one of the matters that must be considered when making a decision on a financial product. You should consider taking advice from an Australian Financial Services Licence holder before making any decision in relation to a financial product.

Yours faithfully,



John Giannakopoulos
Director, Deloitte Touche Tohmatsu Ltd



Adele Watson
Director, Deloitte Touche Tohmatsu

APPENDIX A
MEDIA RELEASE OF 26 FEBRUARY 2008



The Hon Chris Bowen MP
Assistant Treasurer
Minister for Competition Policy
and Consumer Affairs

<http://assistant.treasurer.gov.au>



NO. 13

26 February 2008

DEMUTUALISATION OF HEALTH INSURERS

The Assistant Treasurer today announced that the Government intends to provide relief from capital gains tax (CGT) for policyholders of health insurers who receive shares when their health insurer demutualises. This will create certainty for policyholders of health insurers that have recently or will shortly demutualise.

The Government will ensure that policyholders who receive shares will not be subject to a CGT taxing point at the time they receive the shares. The Government also intends to provide relief from CGT for transactions that relate to the mechanism that allows policyholders to receive shares.

The Government will also provide a legislative framework for issued shares to be held on trust for 'lost policyholders', who, for example, are unable to receive shares because they reside overseas or have not agreed to receive their shares. Broadly, this framework will facilitate the issue of shares to the trustee and the transfer of shares from the trustee to policyholders without adverse or advantageous CGT consequences to either the trustee or the policyholder.

The Government will also provide policyholders with a cost base for their shares that is based on their share of their health insurer's net tangible assets. Pre-CGT policyholders will receive a market value cost base. A similar 'net tangible assets' based cost base will also be provided for any rights that post-CGT policyholders surrender for a cash payment, rather than shares, as part of their health insurer's demutualisation.

Legislation giving effect to this measure will be introduced as soon as practicable, following consultation on the design and the implementation of the amendments. A discussion paper will be released shortly.

The changes will apply from 1 July 2007.

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