

Special General Meeting

Notice of Special General Meeting 2001 and Explanatory Notes



NRMA Insurance Group Limited ABN 60 090 739 923

Notice of Special General Meeting

Shareholders are advised that a Special General Meeting of NRMA Insurance Group Limited will be held on **Friday 2 November 2001 at 4.30pm**, or as soon thereafter as the Annual General Meeting of NRMA Insurance Group Limited has concluded or been adjourned, at the Tumbalong Auditorium, Sydney Convention and Exhibition Centre (South), Darling Harbour, Sydney.

Special Business

This Special General Meeting of NRMA Insurance Group Limited ("the Company") has been convened by the directors of the Company pursuant to section 249D of the *Corporations Act 2001 (Cth)* following a requisition by not less than 100 members to consider and, if thought fit, to pass the following as a special resolution:

"That the Constitution of NRMA Insurance Group Limited be amended by inserting a new Rule 12.15A in the following terms:

12.15A Notwithstanding any other Rule in this Constitution, any payment or other benefit proposed to be made to any Director in connection with that person's retirement from the Board of the company (having regard to the interpretive provisions of Part 2D.2, Division 2 of the *Corporations Law*) shall not be made unless that payment has been approved by ordinary resolution of the company passed at a general meeting of members."

Notes

(a) Proxies

A shareholder who is entitled to attend and cast a vote at the meeting has a right to appoint a proxy to attend and vote instead of the shareholder. The proxy need not be a shareholder. A shareholder who is entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion and number of votes which each proxy is appointed to exercise.

To be valid, all proxy forms must be received by the Company's Share Registrar, ASX Perpetual Registrars

Limited, by 4.30pm on Wednesday 31 October 2001 ("**Proxy Deadline**"). Proxy forms may be submitted in either of the following ways:

- i) by post in the reply paid envelope provided. Please allow sufficient time so that it reaches ASX Perpetual Registrars Limited by the Proxy Deadline; or
- ii) by facsimile to ASX Perpetual Registrars Limited on (02) 8280 7646. Any proxy forms sent by facsimile must be received by the Proxy Deadline.

(b) Corporate Representatives

Any corporate shareholder wishing to appoint a person to act as its representative at the meeting may do so by providing that person with:

- i) a letter or certificate, executed in accordance with the company's constitution, authorising him or her as the company's representative; or
- ii) a copy of the resolution, certified by the secretary or director of the corporate shareholder, appointing the representative.

(c) Shareholders Eligible to Vote

As determined by the Board of Directors, only persons who hold shares in the Company as at 4.30pm on Wednesday 31 October 2001 will be eligible to vote at the meeting.

Dated at Sydney on 7 September 2001

By order of the Board of Directors



Gaye Morstyn
Group Secretary

Explanatory Notes

on the Members' Requisition and Notice of Motion to change the Constitution

This Special General Meeting of the Company has been convened by the directors of the Company pursuant to section 249D of the *Corporations Law* (now known as the *Corporations Act 2001 (Cth)*), following a requisition by not less than 100 members to consider a resolution which is proposed to amend the Constitution by adding a new Rule 12.15A in the following terms:

"12.15A Notwithstanding any other Rule in this Constitution, any payment or other benefit proposed to be made to any Director in connection with that person's retirement from the Board of the company (having regard to the interpretive provisions of Part 2D.2, Division 2 of the *Corporations Law*) shall not be made unless that payment has been approved by ordinary resolution of the company passed at a general meeting of members."

For the amendment to become effective it must be approved by at least 75% of the votes validly cast on the resolution by shareholders eligible to vote.

THE DIRECTORS RECOMMEND THAT YOU VOTE "AGAINST" THE PROPOSED RESOLUTION

The Board of Directors ("Board") recommends unanimously that shareholders of the Company vote AGAINST the proposed resolution set out above for the following reasons.

The Board considers that adoption of the proposed resolution will increase the difficulty of attracting quality board candidates in future.

The Board has adopted a policy to pay retirement benefits to non-executive directors ("the Policy"). The *Corporations Act* regulates the payment of retirement benefits to directors, and the Policy is in line with *Corporations Act* requirements. The practice of paying benefits to retiring directors (without shareholder approval) is common among listed companies in Australia. The terms of the Policy are set out under "Additional Information" below.

The Policy was formulated to apply to all non-executive directors, with a view to attracting and retaining a high calibre of company director. The Board believes that the provision of reasonable retirement benefits to non-executive directors, in line with the Policy, will assist in ensuring that the Company continues to attract the best candidates to serve on the Board. Such a Policy is an appropriate recognition of the contributions of individuals to leadership, within the reasonable bounds and guidelines established by the Policy and the *Corporations Act*.

Apart from restricting the Company's ability to attract non-executive directors, the proposed amendment would also have a significant impact with respect to executive directors. The proposed amendment would apply both to executive directors, such as a managing director, as well as to non-executive directors.

By contrast, the Policy applies only to non-executive directors. If the Company were restricted from agreeing to pay termination payments to executive directors without shareholder approval, it would be extremely difficult for the Company to attract talented executive directors. The quality of a company's executive directors can have a critical impact upon the performance of the company.

The Policy contains a number of safeguards. These include a requirement that a non-executive director has served a period of at least 3 years with the Company (including service with any of its subsidiaries) before any retirement benefit is payable, and at least 5 years before the maximum retirement benefit is payable.

(Additional information both in relation to the development of the Policy and its potential application to Mr Nicholas Whitlam is set out further below.)

Statement of Members Requisitioning the Special General Meeting

The requisition received by the Company also included the following text:

"We the undersigned request further, pursuant to section 249P of the *Corporations Law*, that [the Company] give to members an explanatory statement in favour of this resolution, the terms of which we expressly authorise and direct Mr Richard Talbot, a shareholder of [the Company] and former Director of NRMA Insurance Limited, to formulate and provide to [the Company] in time to send out with the notice of meeting."

The following statement has been prepared by Mr Richard Talbot under the authorisation of the requisitioning members. Mr Talbot's statement, which has been set out below, has not been prepared by, nor does it represent the views of, the Board.

"In recent times, there has been a growing tendency for company directors to receive overly-generous retirement benefits from the companies they have served.

As a shareholder of NRMA Insurance Group Limited ("NIGL"), you are a part-owner of the company. You should therefore have the ultimate say over how much of your money is paid to retiring directors. Presently, directors can approve their own retirement packages, within the limits prescribed by the Corporations Law, without any prior reference to you. This is in no-one's interest but their own. You should have the power to decide how much is paid and to whom.

This new rule will give you that power, and is therefore in the best interests of both small and large shareholders alike. Indeed, a similar rule should be contained in every public company's constitution. Earlier this year, the Chairman of the Australian Securities and Investments Commission, Mr David Knott, when quizzed about directors' retirement benefits, was quoted in the Sydney Morning Herald as saying that he thinks ultimately it is for shareholders to decide whether, even if the payment is within the scope of the law, shareholders believe it's appropriate (4 May 2001).

Directors of your company should be required to justify any proposed payouts to themselves, and to seek your approval prior to receiving that payout.

This will allow you to decide whether the individual director is deserving of any payout, and if so, how much. This should be based on such matters as their length of service and their contribution to the company's performance. Conversely, payments should not be made to directors who have only served for a short period, or who have failed to regularly attend Board meetings, or have otherwise only played a limited role in the company's affairs.

In NIGL's case, the company has been listed for little more than one year, but directors presently have the power to pay themselves the maximum retirement benefit permitted by the law, without seeking your prior approval. Earlier this year, the Board was considering payment of significant retirement benefits without seeking your approval, and this very situation is what triggered the proposed new rule.

Please 'Vote YES' to strengthen shareholder control of your company."



Richard Talbot

Board Comment

The Board has approved a Policy which sets out guidelines for determining directors' retirement benefits. However, no director of the Company, as a matter of practice, has participated or would participate in approval of that director's own retirement benefits granted pursuant to that Policy.

The Board is not aware of a single Australian publicly listed company that has a provision in its constitution of the type proposed by the members requisitioning the Special General Meeting.

Additional Information

Development of the Retirement Policy

On 11 August 2000, soon after listing on the Australian Stock Exchange ("ASX"), the Company's Board Committee resolved to recommend to the Board adoption of a retirement benefit plan for non-executive directors, in line with market practice at similar listed Australian companies. A plan of this type received support at subsequent meetings of the Board Committee and was developed by the Company earlier this year. At meetings of the Board on 1 March and 4 April 2001, the issue was considered further.

At the 4 April Board meeting, the directors passed resolutions adopting the Policy which included the following terms:

- (i) For any non-executive director of the Company who has completed 5 years' continuous service with the Company (including service with any of its subsidiaries) at the date of retirement, a retirement benefit equivalent to the last 3 years' directors' fees, employer contribution to superannuation, committee fees and fees for extra services received from the Company and its subsidiaries.
- (ii) A pro-rated retirement benefit for the Company's non-executive directors who have completed at least 3 years' service but less than 5 years' service at the date of their retirement, based on a specified formula.

- (iii) No retirement benefit payable to a Company non-executive director who has served for a period of less than 3 years.

The Policy applies to non-executive directors, as of and from 4 April 2001, and takes account of their services to the Company both before and after that date.

Application of Policy to Mr Whitlam

Mr Nicholas Whitlam announced his resignation as Chairman on 1 April 2000 with effect on 4 April 2001. Mr Whitlam announced his resignation from the Board on 9 April 2001. On 10 April 2001, the Company announced to ASX that as Mr Whitlam had been a director on 4 April 2001, he would be entitled to participate under the Policy, that the amount of Mr Whitlam's retirement benefit had not yet been determined and that the Board would consider the amount of any payment to him at its May meeting once it had been confirmed by the Company's auditors.

The Company has presently quantified the maximum retirement benefit which may potentially be payable to Mr Whitlam under the Policy as \$637,858. This amount has been calculated based on the total remuneration Mr Whitlam has received from the Company and its related companies during the 3 years up to his retirement.

During his time as Chairman, Mr Whitlam presided over the successful demutualisation of the Company's major subsidiary, NRMA Insurance Limited, which saw that company evolve from a mutual organisation to a publicly listed company.

Mr Whitlam has served on the board of NRMA Insurance Limited since December 1995, served on the boards of many of its subsidiaries such as SGIO Limited and Insurance Manufacturers of Australia Pty Limited (since they became part of the NRMA Insurance Group) and served on the Board of the Company since June 2000. Mr Whitlam has also served on numerous committees during this period.

The Company understands that Mr Whitlam has filed a Summons in the Supreme Court of New South Wales which alleges that he is entitled to a retirement benefit based on the Policy and representations which he alleges were made to him prior to his resignation from the Board. The Company understands that Mr Whitlam presently intends to defer serving that Summons until after the result of this meeting is known.

On 6 September 2001, and following an investigation announced earlier this year, the Australian Securities and Investments Commission announced the commencement of civil penalty proceedings in the Supreme Court of New South Wales against Mr Whitlam in connection with alleged actions in his role as Chairman of the Company and also of National Roads and Motorists' Association Limited (formerly NRMA Limited). The Commission is also seeking that Mr Whitlam be disqualified for a period from managing or being a director of any company.

