

# THE FINANCIALS

## Financial strength

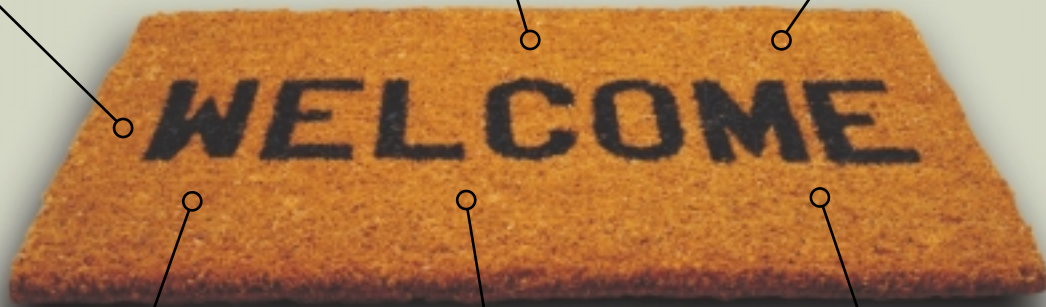
Our continued financial strength is reflected by NRMA Insurance Limited's Standard & Poor's rating of AA+, one of the highest ratings available.

## Diversification

Acquisitions, both domestic and international, have resulted in improved geographic and product diversification.

## Dividends

Maiden fully franked, interim dividend of 4¢ per share paid during the year. Final fully franked dividend of 6¢ per share to be paid on 22 October 2001.



## Core businesses

Our core businesses reported an insurance profit of \$210 million, 91% higher than the result for the previous year.

## Operational efficiencies

Implementation of strategic initiatives such as the Preferred Smash Repairer program contributed to an improved underwriting result. The benefits of these initiatives will be further realised in future years.

## Emerging businesses

We are investing in our emerging businesses of small to medium sized business insurance, health insurance and retirement services to generate further growth.

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NRMA Insurance Group Limited  
ABN 60 090 739 923

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The concise financial report has been derived from the consolidated entity's 2001 full financial report. The concise financial report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the 2001 full financial report.

A copy of the NRMA Insurance Group Limited 2001 full financial report, including the independent auditors' report, is available to all members, and can be accessed on the Internet at [www.nrma.com.au](http://www.nrma.com.au)

# Five year performance

	1997 \$m	1998 \$m	1999 \$m	2000 \$m	2001 <sup>1</sup> \$m
Gross written premium	1,786	2,041	2,208	2,643	<b>3,198</b>
Gross earned premium	1,733	1,900	2,114	2,573	<b>3,036</b>
Reinsurance expense	(58)	(57)	(150)	(189)	<b>(260)</b>
Net earned premium	1,675	1,843	1,964	2,384	<b>2,776</b>
Net claims incurred	(1,540)	(1,609)	(1,645)	(2,048)	<b>(2,234)</b>
Underwriting expenses	(300)	(407)	(470)	(515)	<b>(563)</b>
<b>Underwriting loss</b>	<b>(165)</b>	<b>(173)</b>	<b>(151)</b>	<b>(179)</b>	<b>(21)</b>
Investment income	802	298	669	759	<b>436</b>
Financial services revenue	–	59	78	428	<b>410</b>
Abnormal item <sup>2</sup>	–	–	(56)	80	–
Extraordinary item <sup>2</sup>	–	–	(15)	(61)	–
Other	(6)	(81)	(164)	(553)	<b>(570)</b>
<b>Profit from ordinary activities before income tax</b>	<b>631</b>	<b>103</b>	<b>361</b>	<b>474</b>	<b>255</b>
Income tax expense <sup>3</sup>	(24)	(20)	(99)	(128)	<b>(44)</b>
<b>Net profit</b>	<b>607</b>	<b>83</b>	<b>262</b>	<b>346</b>	<b>211</b>
Net profit attributable to outside equity interests	(1)	(8)	(9)	(50)	<b>(68)</b>
<b>Net profit attributable to members</b>	<b>606</b>	<b>75</b>	<b>253</b>	<b>296</b>	<b>143</b>
Members' equity (\$ million)	2,233	2,308	2,540	2,853	<b>2,523</b>
Total assets (\$ million)	6,129	7,611	9,217	12,130	<b>12,586</b>
No. of general insurance policies in force (million)	4.578	4.694	5.238	6.802	<b>8.619</b>
Premium growth					
– gross written	6.8%	14.3%	8.2%	19.7%	<b>21.0%</b>
– net earned	9.3%	10.0%	6.6%	21.4%	<b>16.4%</b>
<b>Key ratios</b>					
Loss ratio – Group <sup>4</sup>	91.9%	87.3%	83.8%	85.9%	<b>80.5%</b>
Expense ratio – Group <sup>5</sup>	17.9%	22.1%	23.9%	21.6%	<b>20.3%</b>
Expense ratio – Australia	17.9%	22.1%	23.9%	21.6%	<b>19.5%</b>
Combined ratio – Group <sup>6</sup>	109.9%	109.4%	107.7%	107.5%	<b>100.8%</b>
After tax return on equity <sup>7</sup>	31.5%	3.3%	10.4%	11.0%	<b>5.3%</b>
<b>Share information</b>					
Dividends per share – fully franked (cents)	N/A	N/A	N/A	N/A	<b>10.00</b>
Basic earnings per share (cents) <sup>8</sup>	N/A	N/A	N/A	N/A	<b>9.40</b>
Share price at 30 June (\$)	N/A	N/A	N/A	N/A	<b>3.40</b>
Issued capital (million shares)	N/A	N/A	N/A	N/A	<b>1,399</b>
Market capitalisation at 30 June (\$ million)	N/A	N/A	N/A	N/A	<b>4,761</b>
Net tangible assets backing per share (\$)	N/A	N/A	N/A	N/A	<b>1.33</b>

(1) Represents the consolidated result of NRMA Insurance Group Limited for full 12 months, assuming it acquired NRMA Insurance Limited and its controlled entities on 1 July 2000. Comparatives for previous years are based on the consolidated results of NRMA Insurance Limited.

(2) Abnormal and extraordinary items are disclosed separately as reported in the prior years.

(3) 1997 includes an abnormal tax benefit for the recognition of prior year's future income tax benefits not previously recognised – \$144 million.

(4) Net claims incurred to net earned premium (Group figure includes State Insurance Limited).

(5) Underwriting expenses to net earned premium (Group figure includes State Insurance Limited).

(6) Total net claims incurred and underwriting expenses to net earned premium (Group figure includes State Insurance Limited).

(7) Net profit attributable to members to average members' equity.

(8) Figure reflects full year's result assuming demutualisation occurred from 30 June 2000. Statutory figure is 8.62 cents.

N/A – Not applicable

# Directors' report

The Directors present their report together with the concise financial report of the consolidated entity, being NRMA Insurance Group Limited and its controlled entities for the year ended 30 June 2001 and the auditors' report thereon.

The following terminology is used throughout the financial report.

- Parent entity – NRMA Insurance Group Limited (“NIGL”).
- NIGL Group – the economic entity constituted by NRMA Insurance Group Limited and its controlled entities.

## Directors of NRMA Insurance Group Limited

The following persons held office as Directors at any time during or since the financial year:

### Chairman:

Mr J A (James) Strong appointed 2 August 2001

### Other Directors:

Mr J F (John) Astbury	appointed 25 July 2000
Mrs M C (Maree) Callaghan	appointed 19 June 2000
Mr G A (Geoffrey) Cousins	appointed 25 July 2000
Mrs M (Mary) Easson	appointed 19 June 2000
Ms D G (Dominique) Fisher	appointed 19 June 2000
Mr N D (Neil) Hamilton	appointed 19 June 2000
Ms A J (Anne) Keating	appointed 19 June 2000
Mr R A (Rowan) Ross	appointed 25 July 2000
Mr I F (Ian) Stanwell	appointed 25 July 2000

### Former Directors:

Mr N R (Nicholas) Whitlam (resigned 9 April 2001)	appointed 19 June 2000
Mr E R (Eric) Dodd (ceased as Director 10 April 2001)	appointed 30 November 1999

Particulars of the Directors' qualifications and experience are set out under Board of Directors on pages 42 to 43.

## Principal activities

The principal continuing activities of the NRMA Insurance Group are the underwriting of general insurance, investing and financial services.

## Result and review of operations

NRMA Insurance Group Limited was incorporated in November 1999 but did not trade until it acquired NRMA Insurance Limited and its controlled entities on 22 July 2000 upon NRMA Insurance Limited's demutualisation. Certain comparative information has been included in this report for information purposes and refers to the operations of NRMA Insurance Limited prior to its acquisition by the Company.

The shares of NRMA Insurance Group Limited were listed on the Australian Stock Exchange on 8 August 2000. The Company had 1.4 billion shares on issue at 30 June 2001 and a market capitalisation of \$4,761 million.

The NIGL Group profit from ordinary activities after income tax for the financial year, including the results of NRMA Insurance

Limited from the date of acquisition, was \$184 million (2000 – \$nil). Excluding outside equity interests in the consolidated result, the net profit attributable to shareholders was \$122 million (2000 – \$nil).

The general insurance operations of the NIGL Group performed strongly during the financial year.

The short tail combined ratio (claims and expenses to net earned premium) for Australian general insurance operations has shown marked improvement in the financial year, being 98.4% compared to 106% for previous year. Key to this improvement was the performance of the motor insurance business, particularly in New South Wales, where the success of increased focus on targeted pricing and underwriting, together with initiatives to reduce the costs of settling claims, have delivered benefits in both frequency and costs of claims per policy. Ongoing focus on this portfolio will continue to ensure it is set to deliver a sustained acceptable return for the shareholders.

The NIGL Group made an international acquisition in February 2001 when it purchased State Insurance Limited, the largest personal lines insurer in New Zealand for \$325 million.

The combined ratio for the long tail classes was 95.5%, compared to 106% for the previous financial year. The current stability in the New South Wales Compulsory Third Party and Western Australia workers' compensation classes, improved underwriting and proven claims management processes have enabled ongoing reductions in the claims provisions, as determined by our actuaries, for these portfolios. This effect was partially offset by a reduction in the discounting applied to the claims provisions caused by lower interest rates.

In January 2001, the NIGL Group announced that its inwards reinsurance portfolio, which accounted for less than four percent of the NIGL Group's total premium income, was ceasing to write new business. This decision was based on further losses in the portfolio and a review of the future prospects of the NIGL Group's niche position in the global reinsurance market. A combination of late notification of development of past events, particularly for 1999, and strengthening of provisioning levels contributed to an underwriting loss in the financial year. Measures have been taken to limit future catastrophe losses through negotiation to exit existing arrangements and additional reinsurance cover on the portfolio.

In March 2001, the NIGL Group acquired the in-force policies and renewal rights to the HIH Australian workers' compensation businesses, without assuming the liability for outstanding claims at the acquisition date. The acquisition has provided significant market

# Directors' report (continued)

## Result and review of operations (continued)

shares in all states of Australia, both for underwritten and government agency based schemes. Strategically, the acquisition will support the NIGL Group's expansion of its commercial insurance business for the small/medium enterprise segment and enable the NIGL Group to leverage its skills in managing personal injury claims.

The NIGL Group's Financial Services products delivered a net profit before tax of \$20 million in the financial year. Superannuation and life risk insurance premiums grew in the year by 10%. However, the costs of writing and reserving new business and depressed investment returns exerted downwards pressure on this segment's profit. In June 2001, the NIGL Group announced a focus on retirement services and a move away from the lending business. The overall loan portfolio declined during the year notwithstanding growth in personal credit products.

Total investment income for the financial year was \$364 million before tax. This result was lower than that for the previous year due to the depressed local and overseas equity markets.

The NIGL Group has continued to invest in technology throughout the year. Notable achievements include establishing a national IT platform and eCommerce developments.

## Likely developments and expected results of operations

The regulatory environment in which the NIGL Group operates is undergoing significant change. The Australian Prudential Regulation Authority and the industry are near the end of a process which will result in fundamental changes to the prudential supervision of general insurance. Whilst the NIGL Group expects to be well placed to meet the requirements, it will actively continue to participate in the consultation process being undertaken by the regulator. In addition, the proposed changes resulting from the Financial Services Reform Bill and Privacy Act are being planned for and implemented.

The NSW Government has also imposed the Insurance Protection Tax, under which insurers underwriting risks in NSW would, in aggregate, be subject to a tax of \$69 million for the year ending 30 June 2002. The purpose of the tax is to fund the NSW Government's liability under Compulsory Third Party and Builders Warranty following the failure of HIH Insurance. The NIGL Group and other industry participants are in discussion with the NSW Government about the most effective way of funding this liability. At this stage we do not believe this tax will have a material impact on the NIGL Group results.

Insurance and investment operations are, by their nature, volatile due to the exposure to natural disasters and industry cycles and thus profit predictions are difficult. However, the Board agrees with the market perception that the coming few years will be a favourable environment for general insurance in our region and believes that the NIGL Group is well placed to leverage opportunities in this environment.

## Dividends

The NIGL Group declared its maiden dividend of 4 cents per share in March 2001 and has now declared a final dividend of 6 cents per share which will be paid on 22 October 2001. Both dividends are fully franked. The Directors declared these in accordance with the policy to pay 40% – 70% of profits, normalised for fluctuation in investment returns, as dividends.

## Significant changes

(i) On 22 July 2000, the Company acquired NRMA Insurance Limited. On 8 August 2000, the Company's shares were listed on the Australian Stock Exchange.

(ii) On 15 February 2001, the NIGL Group purchased New Zealand's largest general insurer, State Insurance Limited, with annual premium income of \$297 million.

(iii) On 2 March 2001, the Company resolved to make an off-market buy-back of up to 10% of the shares issued on demutualisation. 149 million shares, which represented 9.6% of the shares issued, were bought back during this process.

(iv) During March 2001, the NIGL Group agreed to take on the Australian workers' compensation portfolio of HIH Insurance Limited for a sum of \$120 million. The acquisition did not involve assuming liability for any of the portfolio's outstanding claims provision (for claims occurring on or before 14 March 2001). The business has annual premium income of \$110 million and fee income of \$50 million.

Other than the matters identified above, there was no significant change to the state of affairs of the NIGL Group during the year ended 30 June 2001.

## Matters subsequent to the end of the financial year

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the NIGL Group, the results of those operations, or the state of affairs of the NIGL Group in future financial years.

## Meetings of directors

The number of meetings each Director was eligible to attend and actually attended are summarised as follows:

Directors	Board of Directors		NIGL Audit and Risk Management Committee		NIGL Remuneration Committee		NIGL Compliance Committee		NIGL Share Plan Sub-Committee		NIGL Board Committee	
	A	B	A	B	A	B	A	B	A	B	A	B
Mr J F Astbury	15	14	5	5	–	–	–	–	2	2	4	4
Mrs M C Callaghan	15	15	–	–	–	–	5	4	–	–	–	–
Mr G A Cousins	15	15	5	5	–	–	–	–	–	–	4	4
Mrs M Easson	15	15	5	5	5	5	–	–	–	–	–	–
Ms D G Fisher	15	12	–	–	–	–	5	5	–	–	–	–
Mr N D Hamilton	15	14	–	–	5	5	–	–	–	–	4	4
Ms A J Keating	15	14	–	–	3	3	–	–	–	–	–	–
Mr R A Ross	15	14	4	3	2	2	4	3	3	1	–	–
Mr I F Stanwell	15	14	–	–	5	4	5	5	11	11	–	–
Mr N R Whitlam	10	10	–	–	3	3	–	–	8	8	4	3
Mr E R Dodd	12	12	–	–	–	–	4	1	–	–	4	4

A – Meetings eligible to attend

B – Meetings attended

For the year ended 30 June 2001, the following meetings of Directors were held:

Nature of meetings	Number of meetings held during the year
Board of Directors	15
NIGL Audit and Risk Management Committee	5
NIGL Remuneration Committee	5
NIGL Compliance Committee	5
NIGL Share Plan Sub-Committee	11
NIGL Board Committee	4

## Insurance of directors and officers

During the year, a related body corporate effected a directors' and officers' liability insurance policy. The insurance policy provides cover for the Directors named in this report, the company secretary, officers and former Directors and officers of the Company. The policy also provides cover for present and former Directors and officers of related bodies corporate. The contract prohibits the disclosure of the nature of the liabilities and the amount of the premium.

## Directors' and executive officers' emoluments

### Directors

Non-executive Directors of NRMA Insurance Group Limited, receive a base fee of \$70,000 per annum. The Chairman receives a loading of three times the base fee. 20% of this base fee has been paid in the form of shares through the Non-executive Director Share Plan which commenced in March 2001.

In addition to the base fee, fees are payable for participation in certain committees and some subsidiary boards of NRMA Insurance Group Limited. The setting of all fees is based on advice from external remuneration advisers which takes into account the level of fees paid to directors of other substantial companies operating in the financial services sector and the responsibilities and time commitment of Directors.

# Directors' report (continued)

	Base fee	Other Board committee fees <sup>(1)</sup>	Fees from other Group boards	Superannuation contributions	Non-cash benefits	Non-executive Director Share Plan	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Non-executive Directors							

## Directors' and executive officers' emoluments (continued)

The table set out below shows the fees paid by NIGL Group to non-executive Directors for the year ended 30 June 2001.

Mr J F Astbury	59	21	–	7	–	5	92
Mrs M C Callaghan	59	9	4	8	–	5	85
Mr G A Cousins	59	16	–	8	–	5	88
Mrs M Easson	59	16	3	6	–	5	89
Ms D G Fisher	59	9	–	4	–	5	77
Mr N D Hamilton	62	49	4	15	–	5	135
Ms A J Keating	59	6	3	4	–	5	77
Mr R A Ross	93	16	17	9	–	5	140
Mr I F Stanwell	59	21	7	8	–	5	100
Mr N R Whitlam <sup>(2)</sup>	139	62	85	25	23	5	339

(1) Separate fees are payable for some of the NIGL committees as identified in nature of meetings above.

(2) No amount is included in respect of retirement payments to Mr N R Whitlam which may become payable subject to shareholder approval.

## Executive officers and directors

The NIGL Remuneration Committee is responsible for recommending remuneration policies and packages applicable to the Chief Executive Officer (CEO) and executives who report directly to the CEO of the Company. The broad remuneration policy is to ensure the remuneration package reflects the person's duties and responsibilities; and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Executives may receive performance bonuses based on the achievement of specific goals related to the individual's business unit and the performance of the consolidated entity in the context of the business plan. A long-term incentive plan is also in place, the purpose of which is to promote improvements in areas of financial and strategic performance.

The Managing Director of NRMA Insurance Group Limited does not receive fees for his service on the Board. The responsibilities of board membership are considered in determining remuneration provided as part of his normal employment conditions.

Set out below is the remuneration of the Managing Director and each of the five most highly remunerated officers of the NIGL Group for the year ended 30 June 2001:

Executive officers/director	Base pay <sup>(1)</sup>	Bonuses <sup>(2)</sup>	Shares issued <sup>(3)</sup>	Other compensation <sup>(4)</sup>	Total	PSRs granted during the year	Date first exercisable	Fair value of PSRs granted <sup>(5)</sup>
	\$000	\$000	\$000	\$000	\$000	Number		\$000
<b>Officers</b>								
Ms S Doyle	418	539	22	112	1,091	160,000	21/12/2003	193
Mr G Venardos	519	336	25	65	945	181,820	21/12/2003	220
Mr S Nelson	350	369	17	62	798	123,640	21/12/2003	150
Mr I F Brown	421	237	20	92	770	145,460	21/12/2003	176
Mr D R A Pearce	380	283	19	85	767	140,000	21/12/2003	170
<b>Former Managing Director</b>								
Mr E R Dodd <sup>(6)</sup>	3,144	874	–	97	4,115	275,000	21/12/2003	333

(1) Base pay includes cash salary, annual leave and long service leave and termination payments.

(2) Bonuses reflect payments made during the period in respect of the previous performance period and the further accrual of long-term incentive bonuses.

(3) Represents shares allocated in March 2001 from Staff Allocation Share Plan.

(4) Other compensation includes superannuation contributions and the provision of cars, parking and subsidised loans and related fringe benefits tax.

(5) The fair value of performance share rights ("PSRs") granted during the year has been determined using the industry standard Black-Scholes option pricing model. This is not a market price but an estimate of the fair value as these rights are not traded. This valuation takes into account the price at grant date (which is nil), the exercise price (\$1 per parcel), the expected life of the option, the volatility in price of the underlying shares of NRMA Insurance Group Limited and expected dividends.

(6) This amount includes base salary and all monies paid on termination. Mr E R Dodd has made additional claims in relation to his departure from the NIGL Group.

### Directors' interests

The relevant interest of each Director in the shares issued by the Company, as notified by the Directors to the Australian Stock Exchange in accordance with section 205G of the Corporations Act 2001, at the date of this report is as follows:

Directors	Ordinary shares directly held
Mr J A Strong	–
Mr J F Astbury	12,817
Mrs M C Callaghan	6,141
Mr G A Cousins	154,817
Mrs M Easson	5,802
Ms D G Fisher	7,533
Mr N D Hamilton	4,817
Ms A J Keating	5,526
Mr R A Ross	55,291
Mr I F Stanwell	12,916

### Environmental regulation

The consolidated entity's operations are subject to environmental regulations under either Commonwealth or State legislation. These regulations do not have a significant impact on the consolidated entity's operations. The Board of Directors believes that the consolidated entity has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the consolidated entity.

### Rounding of amounts

Unless otherwise stated, amounts in the financial report and Directors' report have been rounded to the nearest million dollars. The Company is of a kind referred to in the class order 98/100 issued by the Australian Securities & Investments Commission. All rounding has been conducted in accordance with that class order.

Signed at Sydney this 31st day of August 2001 in accordance with a resolution of the Directors.



**Mr J A Strong**  
Director



**Mr J F Astbury**  
Director

# Discussion and analysis

## of the financial statements

NRMA Insurance Group Limited commenced operations on 22 July 2000 when it acquired NRMA Insurance Limited and its controlled entities upon its demutualisation. Comparative information has been included within the discussion and analysis for information purposes and relates to the operation of NRMA Insurance Limited for the previous period, prior to the acquisition by NRMA Insurance Group Limited. It is also important to note that the current year figures do not represent 12 months of operation but only since the date of acquisition of NRMA Insurance Limited on 22 July 2000.

### Discussion and analysis of the consolidated statement of financial performance

The NIGL Group's net profit after tax is \$184 million (2000 – \$346 million) with the profit attributable to members being \$122 million (2000 – \$296 million). The overall decrease in the net profit after tax is attributable to:

- subdued return on investments due to relatively flat investment markets over the year; and
- the first three weeks profit in the period, representing pre-acquisition profit of \$21 million (after outside equity interests), being excluded in the period result – refer to note 4 for details.

General insurance premium revenue was 12.0% higher than the previous year. This increase is a reflection of the contribution of acquisitions during the year including State Insurance Limited in New Zealand and the HIH workers' compensation portfolios, and organic growth in existing portfolios.

The NIGL Group achieved a breakeven underwriting result. This outcome was achieved through a combination of strong underwriting performances and the impact of strategic initiatives that are reflected in reduced claims costs.

The NIGL Group achieved an overall loss ratio of 79.8% over the period which is a substantial improvement on the prior year of 85.9%. The underwriting expense ratio was a management focus during the year and improved from 21.6% in the prior year to 20.2%. This ratio is somewhat distorted by the acquisition of State Insurance where traditionally expense ratios are higher. The Australian operation expense ratio was 19.5%.

Whilst no major catastrophes were reflected in the NIGL Group's results, the claims provisions for the inwards reinsurance book, which is now in run-off, were strengthened significantly. This will help to ensure that further losses within this portfolio are contained.

Investment income decreased substantially to \$364 million for the period (2000 – \$759 million). This is a result of flat investment returns consistent with the investment market for the majority of the year. The impact of this result explains the movement in net profit after tax.

Income tax expense as a proportion of pre tax profit from ordinary activities is 14.4%. This is largely due to the restatement of deferred tax balances for the change in company tax rate attributable to unrealised gains on the NIGL Group's equities portfolio.

## Discussion and analysis of the consolidated statement of financial position

### Assets

The total assets of the NIGL Group are \$12,586 million. Assets are split geographically between Australia and New Zealand as a result of the acquisition of State Insurance Limited with \$558 million now domiciled in New Zealand.

The largest component of the asset balance is cash and investments which, in total, accounts for \$8,679 million (69%). The investment assets are used both to support insurance liabilities (including potential future claims) and to earn returns for shareholders.

These investments comprise fixed interest (\$3,092 million), equities (\$4,130 million), cash and commercial bills (\$986 million) and other investments (\$471 million).

Acquisitions during the year were funded by a combination of liquidating certain investment assets and establishing debt facilities.

Another significant asset balance is receivables (\$2,712 million) which is mainly comprised of premium receivable (\$627 million), claims recoveries (\$497 million) and the lending activities of NRMA Building Society Group (\$1,013 million).

Intangible assets are attributable to acquisitions of SGIO Insurance Limited, State Insurance Limited, the HIH workers' compensation business and Insurance Manufacturers of Australia Pty Limited over the last three years.

### Liabilities

The total liabilities of the NIGL Group are \$9,198 million with the major component being general and life insurance liabilities of \$5,981 million. These liabilities are created through ordinary operation of general and life insurance companies.

Interest-bearing liabilities of \$2,025 million include a debt facility utilised for the purchase of State Insurance Limited of \$286 million, \$599 million of wholesale debt and \$829 million of customer deposits with NRMA Building Society Limited.

### Equity

Equity was impacted by the following activities during the year:

Increases:

- issue of shares on demutualisation (\$2,957 million)
- profit during the period (\$122 million)

Decreases:

- reduction in share capital through the share buy-back conducted in May 2001 (\$410 million)
- payment of dividends (\$146 million)

## Discussion and analysis of the consolidated statement of cash flows

Cash flows from operating activities include the collection of premium, payment of claims and operating expenses, generation of investment income and interest paid and received from the operations of the NRMA Building Society Group.

Other activities affecting the cash flow are:

- acquisitions during the period
- turnover of investment assets
- buy-back of shares
- payment of dividends

# Financial Performance

for the year ended 30 June 2001

	notes	2001 \$m	Consolidated 2000 \$m
Premium revenue	5(a)	2,882	–
Reinsurance expense		(248)	–
<b>Net premium revenue</b>		<b>2,634</b>	–
Claims expense		(2,568)	–
Reinsurance and other recoveries	5(b)	466	–
<b>Net claims expense</b>		<b>(2,102)</b>	–
Acquisition costs		(292)	–
Other underwriting expenses		(169)	–
Fire brigade charges		(71)	–
<b>Underwriting expenses</b>		<b>(532)</b>	–
<b>Profit from underwriting</b>		<b>–</b>	–
Investment income	5(c)	350	–
Realised losses on investments	5(c)	(90)	–
Unrealised gains on investments	5(c)	104	–
Financial services revenue	5(d)	377	–
Other operating revenue	5(e)	157	–
Borrowing costs expense		(84)	–
Life insurance business expenses		(276)	–
Other operating expenses		(323)	–
<b>Profit from ordinary activities before income tax</b>		<b>215</b>	–
Income tax expense		(31)	–
<b>Net profit</b>		<b>184</b>	–
Net profit attributable to outside equity interests		(62)	–
<b>Net profit attributable to members of NRMA Insurance Group Limited</b>		<b>122</b>	–
<b>Non-owner transaction changes in equity:</b>			
<b>Total revenue, expenses and valuation adjustments attributable to members of NRMA Insurance Group Limited recognised directly in equity</b>		<b>–</b>	–
<b>Total changes in equity from non-owner related transactions attributable to the members of the parent entity</b>		<b>122</b>	–

The above consolidated statement of financial performance is to be read in conjunction with the notes to the financial statements and the discussion and analysis.

# Consolidated Statement of Financial Position

as at 30 June 2001

	notes	Consolidated 2001 \$m	2000 \$m
<b>Current assets</b>			
Cash assets		223	–
Receivables		1,439	–
Investments		1,338	–
Current tax assets		13	–
Other		263	–
<b>Total current assets</b>		<b>3,276</b>	–
<b>Non-current assets</b>			
Receivables		1,273	–
Investments		7,118	–
Plant and equipment		104	–
Deferred tax assets		149	–
Intangible assets		658	–
Other		8	–
<b>Total non-current assets</b>		<b>9,310</b>	–
<b>Total assets</b>		<b>12,586</b>	–
<b>Current liabilities</b>			
Payables		592	–
Interest-bearing liabilities		1,970	–
Current tax liabilities		71	–
Provisions		183	–
Outstanding claims		1,068	–
Unearned premium		1,720	–
<b>Total current liabilities</b>		<b>5,604</b>	–
<b>Non-current liabilities</b>			
Interest-bearing liabilities		55	–
Deferred tax liabilities		328	–
Provisions		18	–
Gross life insurance policy liabilities		936	–
Outstanding claims		2,257	–
<b>Total non-current liabilities</b>		<b>3,594</b>	–
<b>Total liabilities</b>		<b>9,198</b>	–
<b>Net assets</b>		<b>3,388</b>	–
<b>Equity</b>			
Contributed equity		2,687	–
Accumulated loss	8	(164)	–
<b>Equity attributable to members of NRMA Insurance Group Limited</b>		<b>2,523</b>	–
Outside equity interests in controlled entities:			
– Contributed equity		167	–
– Shareholder's loan		11	–
– Retained profits		29	–
– Unitholders' funds		658	–
<b>Total equity</b>	9	<b>3,388</b>	–

The above consolidated statement of financial position is to be read in conjunction with the notes to the financial statements and the discussion and analysis.

Consolidated Statement of

# Cash Flows

for the year ended 30 June 2001

	2001	Consolidated 2000
	\$m	\$m
<b>Cash flows from operating activities</b>		
Premium received	3,061	–
Reinsurance and other recoveries received	423	–
Claims costs paid	(2,399)	–
Outwards reinsurance premium paid	(198)	–
Dividends received	125	–
Interest and similar items received	398	–
Interest and other costs of finance paid	(118)	–
Income taxes paid	(52)	–
Other operating receipts	455	–
Other operating payments	(1,349)	–
<b>Net cash provided by operating activities</b>	<b>346</b>	<b>–</b>
<b>Cash flows from investing activities</b>		
Net cash flows on acquisition of controlled entities	423	–
Proceeds from disposal of investments and fixed assets	25,491	–
Outlays for investments and fixed assets acquired	(25,622)	–
Repayment of mortgage loans	641	–
Drawdown of mortgage loans	(855)	–
<b>Net cash provided by investing activities</b>	<b>78</b>	<b>–</b>
<b>Cash flows from financing activities</b>		
Proceeds from issues of shares	152	–
Outlays for buy-back of shares	(410)	–
Proceeds from issues of trust units	1,087	–
Outlays for redemption of trust units	(962)	–
Proceeds from borrowings	839	–
Repayment of borrowings	(1,038)	–
Net increase in depositor funds	118	–
Proceeds from securitisation	291	–
Share issue costs paid	(67)	–
Dividends paid	(90)	–
<b>Net cash used in financing activities</b>	<b>(80)</b>	<b>–</b>
<b>Net increase in cash held</b>	<b>344</b>	<b>–</b>
<b>Cash at the beginning of the financial year</b>	<b>–</b>	<b>–</b>
<b>Cash at the end of the financial year</b>	<b>344</b>	<b>–</b>

The above consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements and the discussion and analysis.

# Notes to the financial statements

for the year ended 30 June 2001

## Note 1. Basis of preparation of concise financial report

(i) The concise financial report has been prepared in accordance with the Corporations Act 2001, Accounting Standard AASB 1039 "Concise Financial Reports" and applicable Urgent Issues Group Consensus Views. The financial statements and specific disclosures required by AASB 1039 have been derived from the consolidated entity's full financial report for the financial year. Other information included in the concise financial report is consistent with the consolidated entity's full financial report. The concise financial report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

(ii) NRMA Insurance Group Limited has obtained an order, dated 14 February 2000, from the Australian Securities & Investments Commission exempting the Company from compliance with certain sections of the Corporations Act 2001. These exemptions allowed the Company to acquire the shares in NRMA Insurance Limited at an amount equal to the sum of the carrying amounts of the assets and liabilities as shown in the consolidated statement of financial position of NRMA Insurance Limited immediately prior to the date of acquisition. This order also allows dividends paid by NRMA Insurance Limited to the Company out of distributable reserves of NRMA Insurance Limited at the time of acquisition of its shares by the Company (pre-acquisition reserves) to be treated as income by the Company. However, the order restricts the amount of such dividends that can be paid by NRMA Insurance Limited to the Company to \$575 million. During the year ended 30 June 2001, the Company received dividends of \$313 million from NRMA Insurance Limited from pre-demutualisation retained profits. This amount has been fully eliminated in the consolidated results.

## Note 2. Principles of consolidation

The consolidated entity was formed on 22 July 2000 when the Company acquired 100% of the share capital of NRMA Insurance Limited upon that company's demutualisation.

The financial statements of controlled entities are included from the date control commences until the date control ceases. Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

Outside interests in the equity and results of entities that are controlled by the Company are shown as a separate item in the consolidated financial statements.

Proforma disclosures of the consolidated statement of financial performance for the full 12 months have been included in this financial report to provide users of this financial report with relevant information for decision making purposes. The proforma disclosures have been included in note 4, and include operating result information for the full financial year rather than from 22 July 2000.

# Notes to the financial statements

for the year ended 30 June 2001 (continued)

## Note 3. Segmental reporting

### (a) Business segments

The consolidated entity operates in the general insurance and financial services industries. Other activities, including corporate services, investment management and investment of the NIGL Group's capital funds form a separate segment.

	General Insurance		Financial Services		Corporate and Investments		Intersegment Elimination		Total	
	2001 \$m	2000 \$m	2001 \$m	2000 \$m	2001 \$m	2000 \$m	2001 \$m	2000 \$m	2001 \$m	2000 \$m
External revenue	3,542	-	384	-	327	-	-	-	4,253	-
Intersegment revenue	-	-	-	-	54	-	(54)	-	-	-
Total revenue	3,542	-	384	-	381	-	(54)	-	4,253	-
Profit/(loss) from ordinary activities before income tax	206	-	20	-	(11)	-	-	-	215	-
Segment assets	3,751	-	2,953	-	6,736	-	(854)	-	12,586	-

### (b) Geographical segments

	Australia		International*		Total	
	2001 \$m	2000 \$m	2001 \$m	2000 \$m	2001 \$m	2000 \$m
External revenue	4,121	-	132	-	4,253	-
Intersegment revenue	-	-	-	-	-	-
Total revenue	4,121	-	132	-	4,253	-
Profit/(loss) from ordinary activities before income tax	230	-	(15)	-	215	-
Segment assets	12,028	-	558	-	12,586	-

\* Virtually all New Zealand as other regions are immaterial.

(A)	Consolidated		(C)
NIGL Group 2001 \$m	Proforma NIGL Group 2001 \$m	Proforma NRMA Insurance Group 2000 \$m	

#### Note 4. Proforma consolidated statement of financial performance

This proforma consolidated statement of financial performance (Column B) represents the statement of financial performance of the NIGL Group assuming NRMA Insurance Group Limited had acquired NRMA Insurance Limited and its controlled entities at 1 July 2000.

Premium revenue	2,882	3,036	2,573
Reinsurance expense	(248)	(260)	(189)
<b>Net premium revenue</b>	<b>2,634</b>	<b>2,776</b>	2,384
Claims expense	(2,568)	(2,734)	(2,574)
Reinsurance and other recoveries	466	500	526
<b>Net claims expense</b>	<b>(2,102)</b>	<b>(2,234)</b>	(2,048)
Acquisition costs	(292)	(310)	(200)
Other underwriting expenses	(169)	(178)	(175)
Fire brigade charges	(71)	(75)	(60)
<b>Underwriting expenses</b>	<b>(532)</b>	<b>(563)</b>	(435)
<b>Profit/(loss) from underwriting</b>	<b>-</b>	<b>(21)</b>	(99)
Investment income	350	363	304
Realised (losses)/gains on investments	(90)	(92)	23
Unrealised gains on investments	104	165	432
Financial services revenue	377	410	428
Other operating revenue	157	164	88
Borrowing costs expense	(84)	(88)	(80)
Life insurance business expenses	(276)	(301)	(304)
Other operating expenses	(323)	(345)	(318)
<b>Profit from ordinary activities before income tax</b>	<b>215</b>	<b>255</b>	474
Income tax expense	(31)	(44)	(128)
<b>Net profit</b>	<b>184</b>	<b>211</b>	346
Net profit attributable to outside equity interests	(62)	(68)	(50)
<b>Net profit attributable to members of NRMA Insurance Group Limited</b>	<b>122</b>	<b>143</b>	296

(A) Represents NRMA Insurance Group Limited's consolidated result in accordance with AASB 1024 and is the same as disclosed in the consolidated statement of financial performance on page 32. This recognises that NIGL acquired NRMA Insurance Limited and its controlled entities on 22 July 2000 and does not include the results of NRMA Insurance Limited and its controlled entities for the period 1 July 2000 to 21 July 2000 (capitalised as equity of NRMA Insurance Group Limited).

(B) Represents the consolidated result of NIGL, assuming it acquired NRMA Insurance Limited and its controlled entities on 1 July 2000. This proforma is provided to allow direct comparison to the prospectus dated 23 June 2000 as this was prepared on the basis that NIGL gained control on 1 July 2000.

(C) Represents the result of NRMA Insurance Limited and its controlled entities for the year ended 30 June 2000.

# Notes to the financial statements

for the year ended 30 June 2001 (continued)

	2001	Consolidated 2000
	\$m	\$m
<b>Note 5. Revenue</b>		
<b>(a) Sales revenue</b>		
Premium revenue	2,882	–
<b>(b) Other general insurance revenue</b>		
Reinsurance and other recoveries	466	–
<b>(c) Investment revenue</b>		
Investment income	350	–
Changes in net market values of investments		
– realised losses	(90)	–
– unrealised gains	104	–
<b>(d) Financial services revenue</b>		
Interest income on loans	81	–
Life insurance business revenue	296	–
<b>(e) Other revenue</b>		
Other operating income	157	–
Proceed from disposal of assets	7	–
<b>Total revenue</b>	<b>4,253</b>	<b>–</b>

## Note 6. Individually significant items

Restructuring costs in relation to redundancy, property and other associated costs	25	–
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## Note 7. Dividends and dividend franking account

Ordinary shares		
Interim dividend of 4 cents (2000 – Nil) per fully paid ordinary share and paid on 30 April 2001		
Fully franked @ 34%	62	–
Final dividend of 6 cents (2000 – Nil) per fully paid ordinary share and to be paid on 22 October 2001		
Fully franked @ 30%	84	–
<b>Total dividends provided for or paid</b>	<b>146</b>	<b>–</b>
<b>Franking credits available for subsequent financial years</b>	<b>524</b>	<b>–</b>

The balance of the franking account arises from:

- (i) franked income received or recognised as a receivable at the reporting date;
- (ii) income tax paid, after adjusting for any franking credits which will arise from the payment of income tax provided for in the financial statements; and
- (iii) franking debits from the payment of dividends recognised as a liability at the reporting date.

As part of the demutualisation of NRMA Insurance Limited, all franking credits of NRMA Insurance Limited and each of its wholly-owned controlled entities were cancelled by operation of taxation laws. All franking credits available for subsequent financial years arise from transactions after demutualisation.

	notes	Consolidated 2001 \$m	2000 \$m
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#### Note 8. Accumulated loss

Accumulated loss		<b>(164)</b>	–
Movements in accumulated loss			
Balance at the beginning of the financial year		–	–
Net profit attributable to members of NRMA Insurance Group Limited		<b>122</b>	–
Utilised in shares bought back off-market		<b>(140)</b>	–
Dividends paid or provided for	7	<b>(146)</b>	–
Balance at the end of the financial year		<b>(164)</b>	–

#### Note 9. Total equity reconciliation

Total equity at the beginning of the financial year		–	–
Total changes in equity recognised in the statement of financial performance		<b>122</b>	–
Transactions with owners as owners:			
– contributions of equity, inclusive of transaction costs		<b>2,957</b>	–
– dividends paid or provided for	7	<b>(146)</b>	–
– share buy-back, inclusive of transaction costs		<b>(410)</b>	–
Total changes in outside equity interest		<b>865</b>	–
Total equity at the end of the financial year		<b>3,388</b>	–
		<b>2001</b>	2000
		<b>cents</b>	cents

#### Note 10. Earnings per share

Basic earnings per share		<b>8.62</b>	–
Diluted earnings per share		<b>8.59</b>	–

		<b>2001</b>	2000
		<b>Number</b>	Number
		<b>of shares</b>	of shares
		<b>million</b>	million
Weighted average number of ordinary shares outstanding during the financial year used in calculation of the basic earnings per share		<b>1,423</b>	–

Classification of securities as potential ordinary shares:

Rights granted to employees under the Performance Share Rights Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The rights have not been included in the determination of basic earnings per share.

# Notes to the financial statements

for the year ended 30 June 2001 (continued)

## Note 11. Contingencies

(a) In the normal course of business operations the NIGL Group is exposed to legal issues, including litigation arising out of insurance policies. Other than those matters referred to below, the Directors do not believe that there are any potential material exposures to the NIGL Group.

(b) In the normal course of business, the NIGL Group enters into various types of investment contracts that can give rise to contingent liabilities. These include forward exchange contracts, financial futures, interest rate swaps, exchange traded options and forward rate agreements. These contracts are generally entered into in the normal management of the investment portfolio. Accordingly, details of the contingent liabilities have not been included in this note.

(c) In the normal course of business, the NIGL Group enters into various types of business contracts that give rise to contingent liabilities. These include guarantees for performance obligations and undertakings for maintenance for net worth and liquidity support to controlled entities in the NIGL Group.

(d) In the normal course of its operations, NRMA Insurance Limited entered a quota share reinsurance contract with a US insurer for one year from 1 July 1997. Subsequent to 30 June 1998, notice of rescission was issued by NRMA Insurance Limited in respect of this contract on the basis that the ceding insurer fraudulently induced NRMA Insurance Limited to enter the contract by, amongst other things, withholding sensitive or critical information as well as providing financial information and explanations which it knew to be false. A statement of claim has been lodged against the ceding insurer and other parties. The dispute with the insurer has been referred to a court Arbitration. The court Arbitration has been deferred to October 2002.

A letter of credit held by the ceding insurer was exercised in July 1999 for US\$35 million. The NIGL Group utilised cash received from the ceding insurer of US\$11 million to make part of this payment and it holds a letter of credit for US\$25 million as security if the NIGL Group is successful in its claim.

Due to the inaccuracy of the financial information received from the ceding insurer, it is not possible to quantify the potential financial exposures. However, whilst the NIGL Group believes its case is strong, it also considers that it is unlikely that the potential amounts in dispute will be material to the NIGL Group's operations. However, no assurances can be given in this regard.

(e) On 4 August 1999, the Supreme Court of New South Wales ordered lawyers, who had acted as advisers to NRMA Insurance Limited and National Roads and Motorists' Association Limited ("the companies") in 1994 and 1995 in relation to the "Share the Future" restructuring proposal, to pay the companies damages plus interest totalling \$32 million together with a 2/3 portion of the companies' costs in taking the legal action against them. The damages and interest were paid in 1999. Of the total amounts received, 90%, being \$29 million, was attributed to NRMA Insurance Limited and the balance of 10% to National Roads and Motorists' Association Limited. The \$29 million was not reflected in the statement of financial performance.

On 21 December 2000, the Court of Appeal of New South Wales upheld the lawyers' appeals against the orders made against them. The orders were set aside, Judgment was entered in favour of the lawyers and the companies were ordered to pay the costs of the lawyers in the Supreme Court and Court of Appeal proceedings. The NIGL Group has repaid the \$29 million received in August 1999 together with interest. Further interest of approximately \$2 million has been claimed by the defendant lawyers. The Judgment of the Court of Appeal on that claim is awaited.

The companies have sought special leave to appeal to the High Court of Australia against the Judgment of the Court of Appeal of 21 December 2000. The application is to be heard on 14 September 2001. If the application is refused, the orders made against the companies will remain. If the application is granted, the High Court of Australia will hear the companies' appeal. The hearing of any such appeal is unlikely to be held before late 2002. The Judgment of the High Court on any such appeal will be final.

No reliable estimate is yet available for the lawyers' costs and the related interest in the Supreme Court and the Court of Appeal but this could be in the order of \$15-\$25 million.

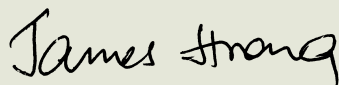
(f) The former Chief Executive Officer has commenced unfair contract proceedings in the NSW Industrial Relations Commission.

# Directors' declaration

The Directors declare that the concise financial report for the consolidated entity, comprising NRMA Insurance Group Limited and its controlled entities, for the year ended 30 June 2001, set out on pages 30 to 40:

- (a) has been derived from or is consistent with the full financial reports for the financial year; and
- (b) complies with Accounting Standard AASB 1039 "Concise Financial Reports".

Signed at Sydney this 31st day of August 2001 in accordance with a resolution of the Directors.



**Mr J A Strong**  
Director



**Mr J F Astbury**  
Director

# Independent auditors' report

To the members of NRMA Insurance Group Limited

## Scope

We have audited the concise financial report of NRMA Insurance Group Limited and its controlled entities for the financial year ended 30 June 2001, consisting of the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes 1 to 11, and the accompanying discussion and analysis on the statement of financial performance, statement of financial position and statement of cash flows, set out on pages 30 to 41 in order to express an opinion on it to the members of the Company. The Company's Directors are responsible for the concise financial report.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the concise financial report is free of material misstatement. We have also performed an independent audit of the full financial report of NRMA Insurance Group Limited for the year ended 30 June 2001. Our audit report on the full financial report was signed on 31 August 2001, and was not subject to any qualification.

Our procedures in respect of the audit of the concise financial report included testing that the information in the concise financial report is consistent with the full financial report and examination, on a test basis, of evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from

the full financial report. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report is presented fairly in accordance with Accounting Standard AASB 1039 "Concise Financial Reports" issued in Australia.

The audit opinion expressed in this report has been formed on the above basis.

## Audit opinion

In our opinion, the concise financial report of NRMA Insurance Group Limited and its controlled entities for the year ended 30 June 2001 complies with AASB 1039 "Concise Financial Reports".



**KPMG**



**Dr Andries B Terblanché**  
Partner  
Sydney, 31 August 2001