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## **NRMA Insurance Group Limited**

**ABN: 60 090 739 923**

### **Directory**

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#### *Stock Exchange Listing*

Australian Stock Exchange Limited  
ASX code: NRM

#### *Investor Information*

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C/o ASX Perpetual Registrars Limited  
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Sydney South NSW 1232

### **Key Dates for Shareholders**

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<i>Annual Report Release</i>	4 October 2001
<i>Final Dividend</i>	22 October 2001
<i>Annual General Meeting</i>	2 November 2001
<i>Extraordinary Meeting</i>	2 November 2001



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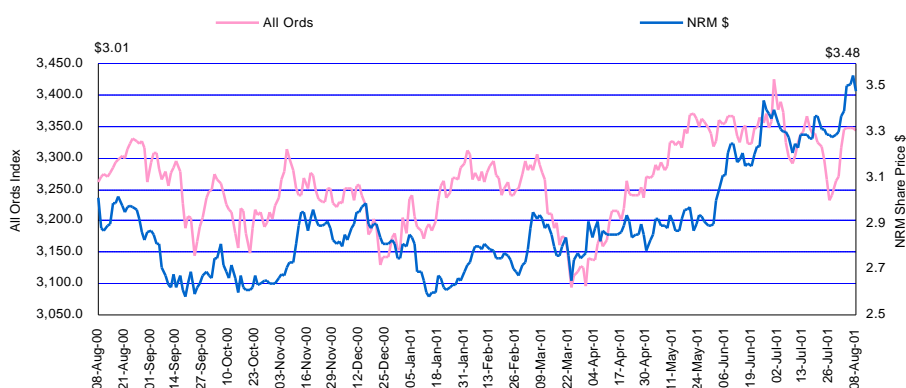


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## NRMA Insurance Group Limited

### NRMA Insurance Group Limited's Share Price Performance Relative to the Australian All Ordinaries to 8 August 2001



### NRMA Insurance Group Limited Top 20 Registered Shareholders as at 30 June 2001

	INVESTOR		% I/C
1	CHASE MANHATTAN NOMINEES LIMITED	40,419,908	2.89%
2	NRMA NOMINEES PTY LIMITED	29,300,000	2.09%
3	NATIONAL NOMINEES LIMITED	27,966,954	2.00%
4	WESTPAC CUSTODIAN NOMINEES LIMITED	25,792,685	1.84%
5	AMP LIFE LIMITED	20,161,672	1.44%
6	JP MORGAN CUSTODIAL SERVICES PTY LIMITED (EQUI A/C)	16,281,502	1.16%
7	CITICORP NOMINEES PTY LIMITED	15,933,539	1.14%
8	PERPETUAL TRUSTEES NOMINEES LIMITED	14,492,598	1.04%
9	QUEENSLAND INVESTMENT INCORPORATION	13,937,373	1.00%
10	PERMANENT TRUSTEE AUSTRALIA LIMITED (FIR 0020 A/C)	10,033,297	0.72%
11	MLC LIMITED	9,639,462	0.69%
12	SUNCORP GENERAL INSURANCE LIMITED	7,874,936	0.56%
13	PERMANENT TRUSTEE AUSTRALIA LIMITED (FIR 0018 A/C)	6,937,077	0.50%
14	PERMANENT TRUSTEE AUSTRALIA LIMITED (FIR 0027 A/C)	6,506,039	0.46%
15	PERPETUAL NOMINESS LIMITED (PMISF A/C)	5,289,966	0.38%
16	COMMONWEALTH CUSTODIAL SERVICES LIMITED	4,941,761	0.35%
17	PERMANENT TRUSTEE AUSTRALIA LIMITED	4,545,173	0.32%
18	NRMA SHARE PLAN NOMINEE PTY LIMITED	4,500,095	0.32%
19	SUNCORP LIFE SUPERANNUATION LIMITED	4,300,276	0.31%
20	COMMONWEALTH CUSTODIAL SERVICES LIMITED	4,198,000	0.30%



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## Reconciliation To Statutory Result

NRMA Insurance Group Limited	1/7/00 to 22/7/00	22/7/00 to 30/6/01	12 months to 30/06/01
	\$M	\$M	\$M
Net premium revenue	141	2,634	2,775
Net claims expense	(131)	(2,102)	(2,233)
Underwriting expenses	(32)	(532)	(564)
Underwriting profit/(loss)	(22)	-	(22)
Investment income	13	350	363
Realised (losses)/gains on investments	(2)	(90)	(92)
Unrealised gains on investments	61	104	165
Other Income	(10)	(149)	(159)
<b>Profit / (loss) &amp; extraordinaries after income tax</b>	<b>40</b>	<b>215</b>	<b>255</b>
Income tax	(13)	(31)	(44)
<b>Operating profit / (loss) after tax</b>	<b>27</b>	<b>184</b>	<b>211</b>
Outside equity interest	(6)	(62)	(68)
<b>Profit / (loss) attributable to shareholders</b>	<b>21</b>	<b>122</b>	<b>143</b>

- NRMA Insurance Group acquired NRMA Insurance Limited (and its controlled entities) with effect from 22 July 2000 upon its demutualisation. Accordingly, the statutory results of NRMA Insurance Group Limited reflect the operational results for a period of less than one year.
- To provide meaningful comparative information, the balance of this report has been prepared using information for the full twelve months to 30 June 2001. Where prior period information is provided, it refers to either the full six months to 31 December 2000 or prior year's results for NRMA Insurance Limited. Reference to shareholders in prior periods should be interpreted as referring to members of the former mutual.
- The prospectus assumed demutualisation occurred with effect from 30 June 2000 and, as such, also reflected a full year's results.



## Financial Year Results

<b>Insurance Group Consolidated Financial Results</b>	<b>Year 2000</b>	<b>Prospectus 2001</b>	<b>Year 2001</b>	<b>Variance to Prospectus</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Net premium revenue	2,384	2,646	2,775	129
Net claims expense	(2,048)	(2,243)	(2,233)	10
Underwriting expense	(514)	(519)	(564)	(45)
<b>Underwriting profit/(loss)</b>	<b>(178)</b>	<b>(116)</b>	<b>(22)</b>	<b>94</b>
Investment income on technical reserves	288	311	232	(79)
<b>Insurance profit/(loss)</b>	<b>110</b>	<b>195</b>	<b>210</b>	<b>15</b>
Financial Services	21	22	20	(2)
Net corporate expenses	(108)	(81)	(106)	(25)
Amortisation and interest	(28)	(16)	(39)	(23)
Investment income on shareholder funds	461	302	170	(132)
Abnormal item	80	-	-	-
Extraordinary items	(61)	-	-	-
<b>Profit / (loss) before income tax</b>	<b>475</b>	<b>422</b>	<b>255</b>	<b>(167)</b>
Income tax (expense) / benefit	(129)	(91)	(44)	47
<b>Profit / (loss) after income tax</b>	<b>346</b>	<b>331</b>	<b>211</b>	<b>(120)</b>
Outside equity interests	(50)	(59)	(68)	(9)
<b>Profit / (loss) attributable to shareholders</b>	<b>296</b>	<b>272</b>	<b>143</b>	<b>(129)</b>
Earnings per share (cents)	19.3	18.4	9.4	(9.0)
<b>Financial Results/Ratios</b>	<b>Year 2000</b>	<b>Prospectus 2001</b>	<b>Year 2001</b>	
<b>GWP (\$m)</b>	<b>2,643</b>	<b>2,954</b>	<b>3,198</b>	
Profit/(loss) attributable to shareholders (\$m)	296	272	143	
ROE % (Average Equity)	10.38	13.50	5.32	
EPS (cents)	19.28 <sup>(1)</sup>	18.40	9.40	
DPS	-	-	10c	
<b>Insurance Ratios</b>				
Loss ratio	85.9%	84.8%	80.5%	
Expense ratio - Group	21.6%	19.6%	20.3% <sup>(2)</sup>	
Expense ratio - Australia	21.6%	19.6%	19.5%	
Combined ratio	107.5%	104.4%	100.8%	
Insurance margin	4.6%	7.4%	7.6%	
Probability of sufficiency of general insurance claims reserves	> 90.0	> 90.0	> 90.0	

(1) Based on 1,537m shares. (2) Includes State Insurance New Zealand.



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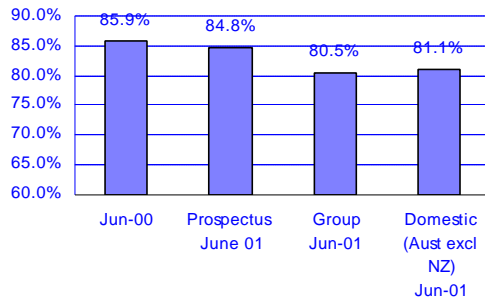
## Overview of Results

- The overall group NPAT is behind the prior year and prospectus due to:
  - Returns on shareholder funds \$132m behind prospectus, largely due to flat equity investments markets for the majority of the year;
  - Restructuring provisions of \$27m (\$19m net of tax) for State Insurance, Financial Services and Sales and Marketing
  - Amortisation and interest of \$23m in excess of prospectus due to State and ex-HIH workers' compensation acquisitions.
- The insurance margin of 7.6%, a key performance measure, outperformed the prospectus by \$15m.
- Ratios have continued to trend in the right direction and have outperformed the prospectus, with the exception of the expense ratio where the variance is wholly due to the New Zealand acquisition. This continues the favourable trend reported for the first half of the financial year.
- This has been the combined result of pricing and cost efficiencies, particularly claims management strategies in both the long and short tail books, and scale advantages from:
  - merger and acquisition activity (including SGIO, RACV, State and the ex-HIH workers' compensation book); and
  - technology advancements including the national product platform and eCommerce.
- These results have been achieved despite:
  - significant losses in the inwards reinsurance portfolio of \$61.9m (\$72.7m behind prospectus); and
  - investment performance on technical reserves being \$79m behind prospectus, albeit ahead of investment market benchmarks.

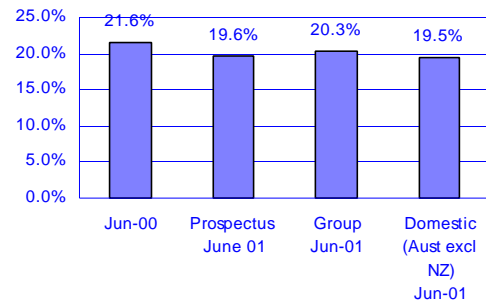


## Overview of Results - Group Ratios

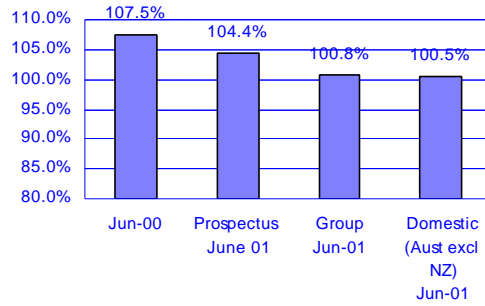
### Loss Ratio



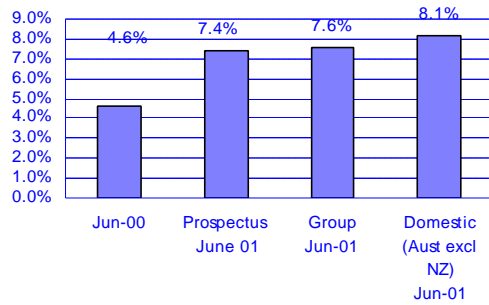
### Expense Ratio



### Combined Ratio



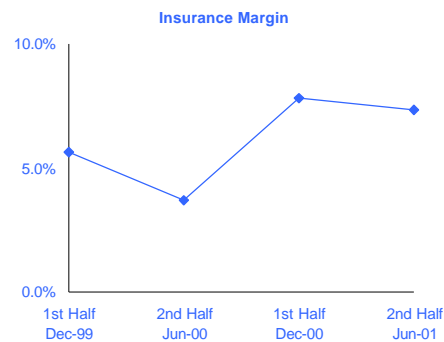
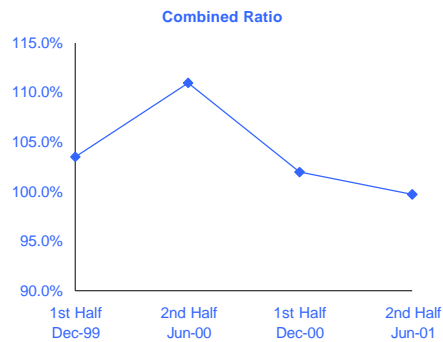
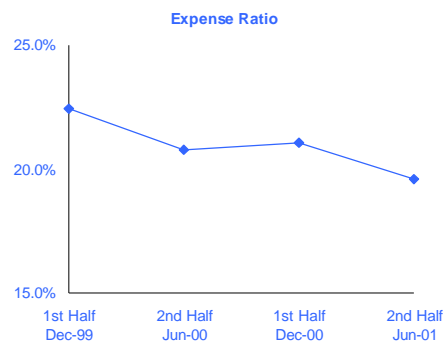
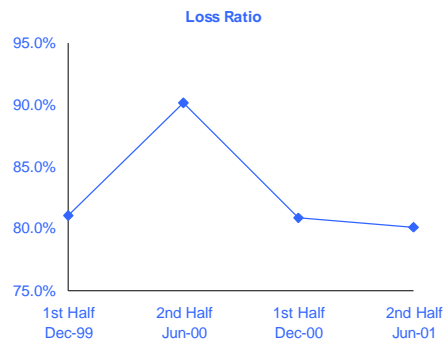
### Insurance Margin



## Analysis of Operational Earnings

Insurance Group Consolidated Financial Results	1st Half Dec 1999	2nd Half Jun 2000	1st Half Dec 2000	2nd Half Jun 2001
	\$m	\$m	\$m	\$m
Net premium revenue	1,113	1,271	1,315	1,460
Net claims expense	(902)	(1,146)	(1,064)	(1,169)
Underwriting expense	(250)	(264)	(277)	(287)
<b>Underwriting profit/(loss)</b>	<b>(39)</b>	<b>(139)</b>	<b>(26)</b>	<b>4</b>
Investment income on technical reserves	102	186	129	103
<b>Insurance profit/(loss)</b>	<b>63</b>	<b>47</b>	<b>103</b>	<b>107</b>
Financial Services	12	9	3	17
Net corporate expenses	(32)	(76)	(52)	(54)
Amortisation and interest	(1)	(27)	(15)	(24)
Investment income on shareholder funds	285	176	(21)	191
Abnormal and extraordinary items	52	(33)	0	0
<b>Profit / (loss) before income tax</b>	<b>379</b>	<b>96</b>	<b>18</b>	<b>237</b>
Income tax (expense) / benefit	(73)	(56)	2	(46)
<b>Profit / (loss) after income tax</b>	<b>306</b>	<b>40</b>	<b>20</b>	<b>191</b>
Outside equity interests	(30)	(20)	(17)	(51)
<b>Profit / (loss) attributable to shareholders</b>	<b>276</b>	<b>20</b>	<b>3</b>	<b>140</b>
<b>Insurance ratios %</b>				
Loss ratio	81.0	90.2	80.9	80.1
Expense ratio	22.5	20.8	21.1	19.7
Combined ratio	103.5	111.0	102.0	99.8
Insurance margin	5.7	3.7	7.8	7.3





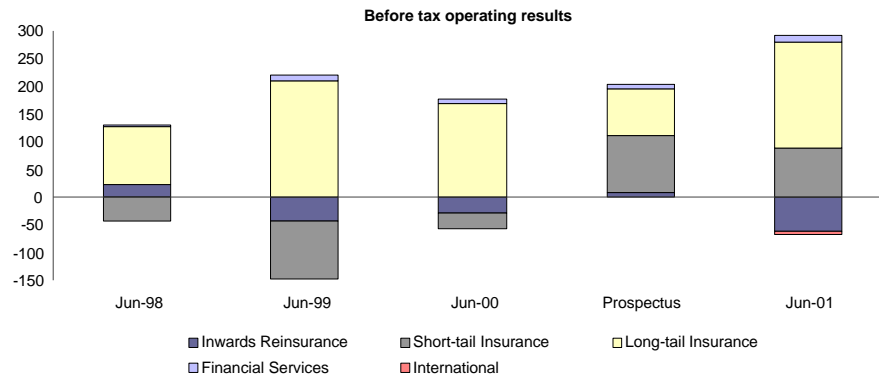
- This analysis shows the effects of the implementation of the strategies and initiatives commenced in early 2000 flowing through to profits with the insurance margin increasing to 7.3% for 2H01 from 3.7% for the previous corresponding period.
- The combined ratio improved from 111% to 99.8%, which is a significant turnaround in 12 months.
- The Group is focused on further margin improvement through on expense reduction and further claims management efficiencies. In considering this outlook, it should be recognised that the Group's ratios are now within its target zones. Customer and competitive pressure limit the extent to which significant improvements in margin can be expected to continue indefinitely.



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## Analysis of Insurance Group Results

### A. SEGMENT RESULTS OF OPERATIONS

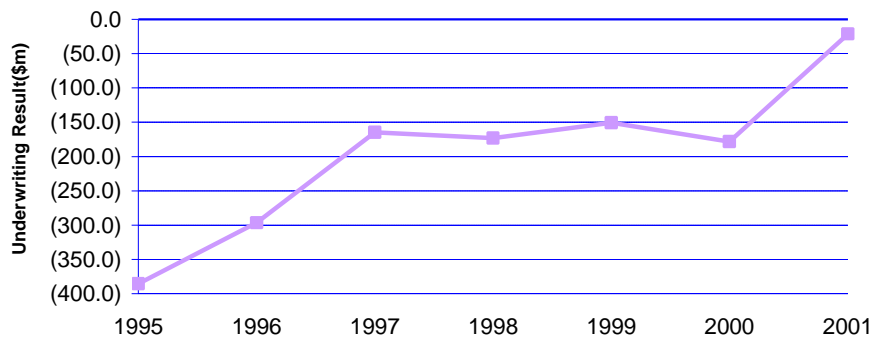


- Whilst the reported result for the year has been adversely impacted by the weakness in investment markets earlier in the year, overall the underlying business has exceeded its prospectus forecasts, and has shown significant improvement from prior years.
- The Group continues to produce strong operational results in both the short tail and long tail classes of business which have exceeded the prospectus forecasts, together with satisfactory contributions from State Insurance (before restructuring provisions) and Financial Services businesses.
- The **short tail** classes continue to achieve strong underwriting results as business initiatives deliver greater claims and cost efficiencies, evident in the reduction in the combined ratio from 106.1% in 2000 to 98.4% in 2001.
- **Long tail** continues its strong performance, outperforming prospectus forecasts as a result of stable schemes, claims management practices and targeting of preferred risk groups.
- The Group's post acquisition experience of State Insurance has confirmed the value creating opportunities that were identified in the due diligence process and the acquisition is on track to be EPS positive within 18 months.
- The **inward reinsurance** business (which was put in run off in January 2001) has had a disappointing result due to ongoing late notification and development of claims from the 1999 year. In view of this unexpected development, reserves have been strengthened to provide a 95% probability of sufficiency.



- The **financial services** operations generated a total result \$2m behind the prospectus. The risk products continued to perform strongly while the Building Society suffered from growth strain on its credit card portfolio. Other costs were contained through postponement of planned initiatives, including systems, pending the outcome of a strategic review of these businesses. The **retirement services** strategy, announced in June 2001, is now the focus for the financial services segment. The sale of the Building Society will reduce costs, improve ROE and the expected capital releases from this business will bolster and provide more flexibility to NIGL's balance sheet. The sale process for the Building Society is under way and an announcement will be made when appropriate.

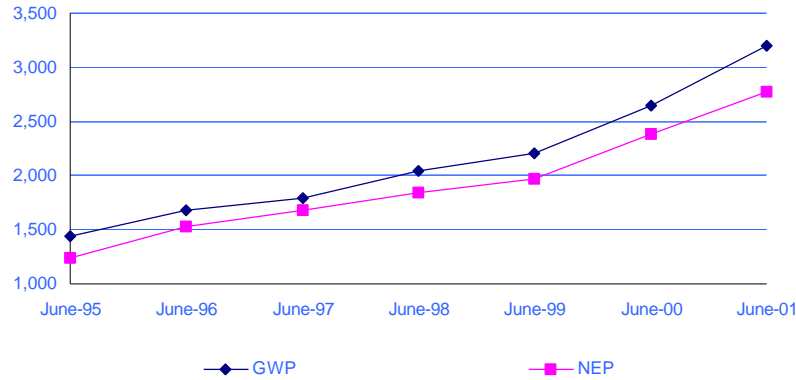
## B. UNDERWRITING RESULT



- Whilst the absence of major insured losses contributed to the improved underwriting result, the key to the solid underwriting result is the success of initiatives which have produced a higher quality portfolio and reductions in claims and expense ratios.
- The underwriting loss of \$22m reflects a combined ratio of just over 100% and is significantly different from the position of the mid to late 1990's when the short tail book was underperforming.
- The implementation of 25 key initiatives for short tail classes, including the Preferred Smash Repairers scheme, reduction in claims and recoveries leakage and increased fraud detection measures, are the main drivers of the improvement in the underwriting result.
- By leveraging its scale efficiencies and its core capabilities in ratings models, the Group has managed to restore the profitability of its underwriting business with success in attracting and keeping customer risk segments across all classes.



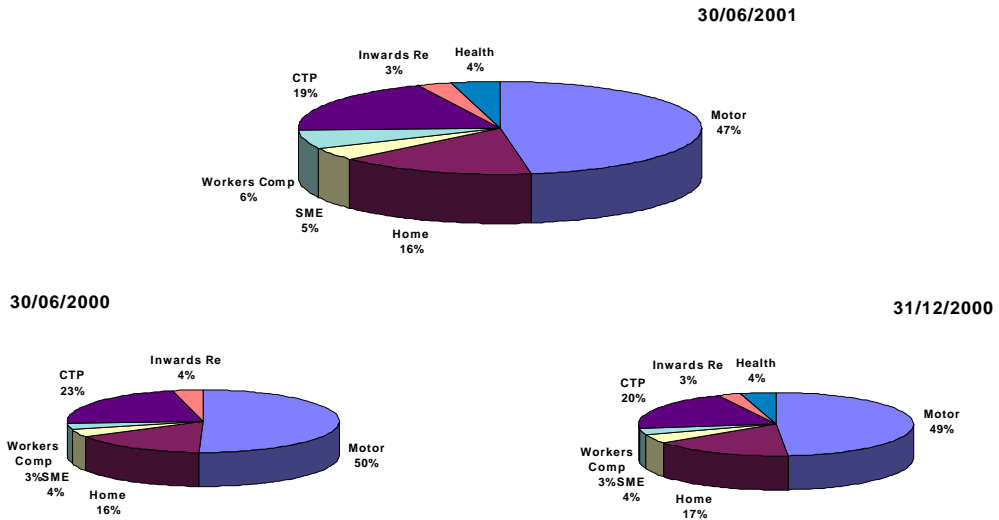
### C. GROSS WRITTEN PREMIUM & NET EARNED PREMIUM



- Following further industry consolidation, NIGL still remains the largest non-life general insurer in Australia.
- The Group has over 7 million policies in force within Australia, up from 6.8 million at June 2000. Growth in the period includes the ex-HIH workers' compensation portfolio as well as organic growth. One of the outcomes of tighter risk selection improving portfolio quality may be a marginal contraction in some portfolios as poorer risks are shed.
- NIGL is also the largest personal lines insurer in New Zealand following the acquisition of State Insurance in February 2001.
- GWP has grown from \$2,643m in June 2000 to \$3,198m in 2001, an increase of 21% which reflects the contribution of recent acquisitions coupled with organic growth.
- Premium rates have increased by 5-12% across short tail product lines as the insurance industry returns to rational pricing fundamentals.
- With a focus on further improving the operational efficiency of the underlying business, the Group is well placed to benefit from continued hardening of premium rates and the potential privatisation of any of the State based statutory injury compensation schemes.
- Growth in gross written premium will be further driven by innovating and developing new products, distribution opportunities in existing businesses and expanding emerging businesses such as small to medium commercial health insurance.

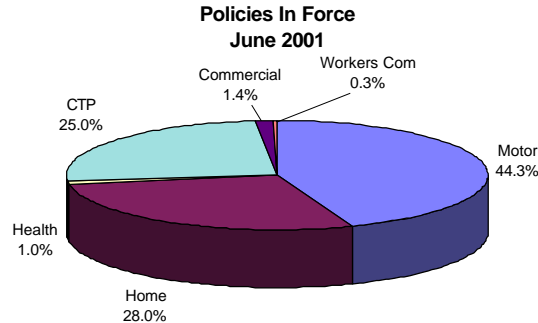


**D. GROSS WRITTEN PREMIUM MIX - Domestic**



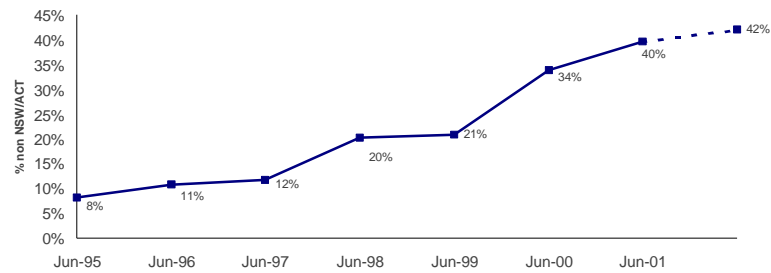
- The increased diversification in NIGL’s mix of business is largely attributable to recent acquisitions and growth in health insurance, SME commercial insurance lines and workers’ compensation.
- Strategically, NIGL is focused on further diversification of the GWP mix through its initiatives in health and SME commercial insurance.

**E. POLICIES IN FORCE - Domestic**



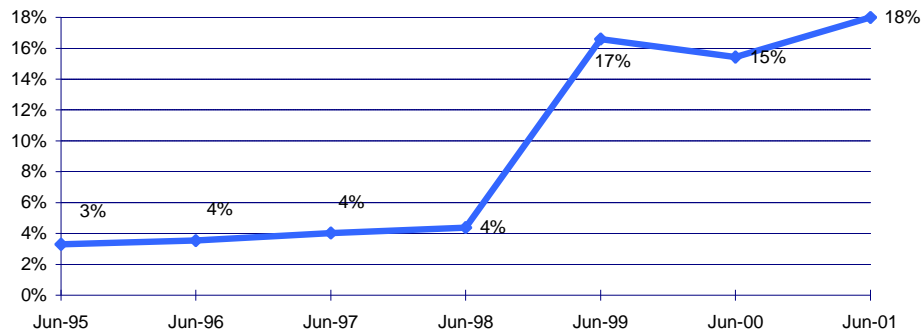
- The Group has grown its domestic portfolio from approximately 6.8 million from June 2000 to over 7 million policies in force for June 2001.

## F. DIVERSIFICATION OF GWP & LIABILITIES - Group



- The Group continues to target 50% of premium revenue outside NSW to provide a more balanced geographical spread of income and risk exposure. The increase in the percentage of business outside NSW/Australian Capital Territory (ACT) from 34% to 40% over the past year is a positive step. The Group is now operating at a run rate of 42% starting the 2002 financial year.
- The increase in diversification has been achieved despite:
  - rate increases in NSW which have skewed premium back in favour of NSW business;
  - growth in health and SME commercial business, in NSW during the year; and
  - the announcement in January 2001 to cease writing of the internationally sourced Inwards Reinsurance business.

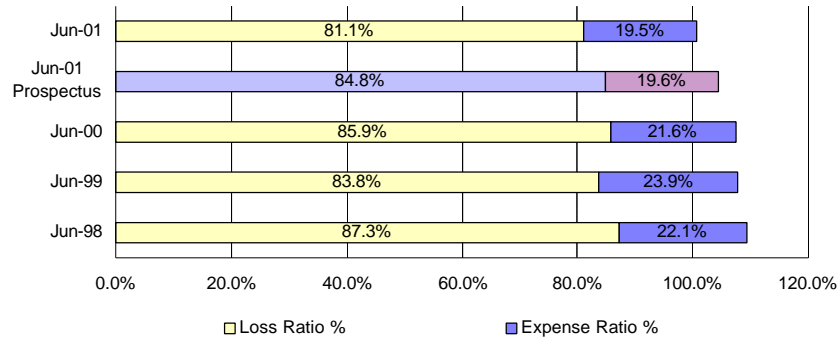
### Outstanding Claims outside NSW / ACT



- Whilst the diversification of liabilities outside NSW/ACT is lagged behind GWP, it is in line with expectations and is expected to continue to improve.
- However, the trend will remain lagged due to the significance of NSW/ACT CTP liabilities to the Group's total claims reserves, these liabilities having a longer duration than most of the Group's other portfolios.



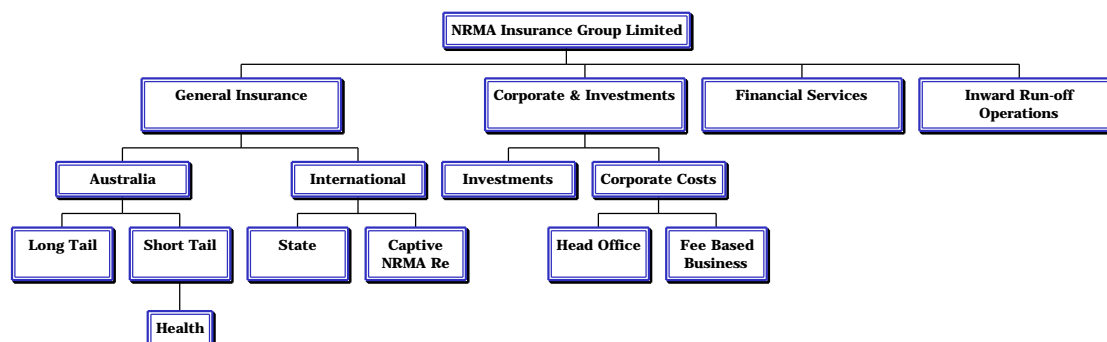
## F. INSURANCE RATIOS - Domestic



- The improving loss and expense ratios reflect the benefits derived from increased scale, the effectiveness of underwriting changes and cost cutting initiatives.
- The expense ratio improvement is a result of system development and enhancements and process improvement over the period since December 1998, including the national underwriting platform for all personal lines products.



## G. RESULTS BY BUSINESS AREA



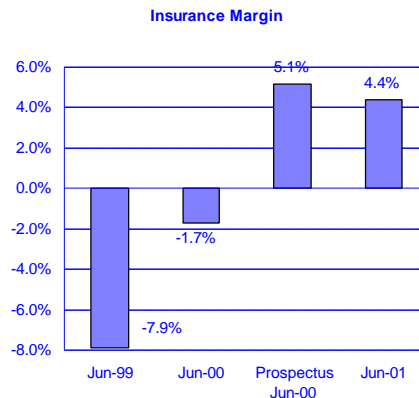
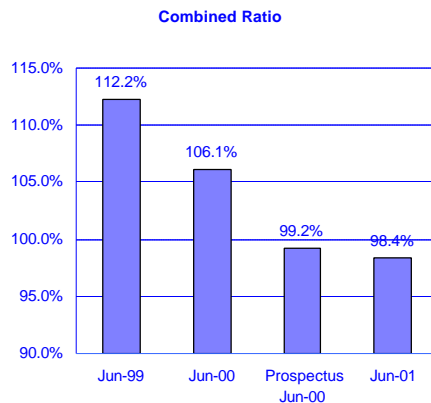
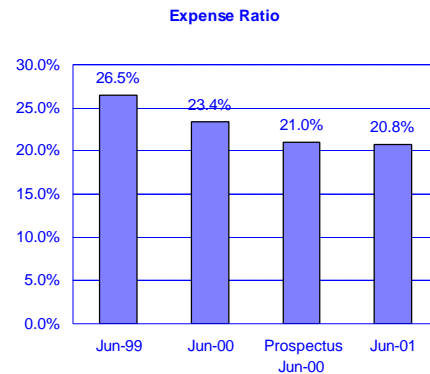
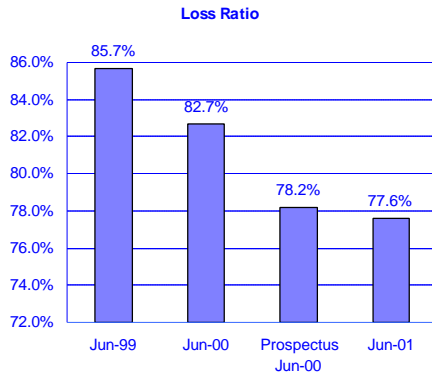
NRMA insurance Group Limited	Short-tail	Long-tail	Financial Services	Corporate & Investments	Inwards Re	State Insurance	Year 30/06/01	Year 30/06/00
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Net premium revenue	1,988	618			59	110	2,775	2,384
Net claims expense	(1,543)	(508)			(110)	(72)	(2,233)	(2,048)
Underwriting expense	(414)	(82)			(23)	(45)	(564)	(514)
<b>Underwriting profit/(loss)</b>	<b>31</b>	<b>28</b>			<b>(74)</b>	<b>(7)</b>	<b>(22)</b>	<b>(178)</b>
Investment income on technical reserves	56	163			12	1	232	288
<b>Insurance profit/(loss)</b>	<b>87</b>	<b>191</b>			<b>(62)</b>	<b>(6)</b>	<b>210</b>	<b>110</b>
Net corporate expenses				(105)		(1)	(106)	(108)
Amortisation & interest				(39)			(39)	(28)
Financial Services result			20				20	21
Investment income on shareholder funds				169		1	170	461
Abnormal and extraordinary items							0	19
<b>Profit / (loss) before income tax</b>	<b>87</b>	<b>191</b>	<b>20</b>	<b>25</b>	<b>(62)</b>	<b>(6)</b>	<b>255</b>	<b>475</b>
Income tax (expense) / benefit							(44)	(129)
<b>Profit / (loss) after income tax</b>							<b>211</b>	<b>346</b>
Outside equity interests							(68)	(50)
<b>Profit / (loss) attributable to shareholders</b>							<b>143</b>	<b>296</b>
<b>Earnings per share</b>							<b>9.4c</b>	<b>19.3c</b>



## Short tail Analysis

	Year 30/06/00	Prospectus <sup>(1)</sup> 30/6/01	Year 30/06/01
<b>GWP</b>	<b>\$M</b> 1,876.2	<b>\$M</b> 2,147.2	<b>\$M</b> 2,183.1
Net premium revenue	1,708.9	1,960.9	1,988.2
Net claims expense	(1,412.6)	(1,533.4)	(1,543.0)
Underwriting expense	(399.4)	(412.1)	(413.8)
<b>Underwriting profit / (loss)</b>	<b>(103.1)</b>	<b>15.4</b>	<b>31.4</b>
Investment income on technical reserves	73.8	85.3	56.2
<b>Insurance Result</b>	<b>(29.3)</b>	<b>100.7</b>	<b>87.6</b>
<b>Insurance ratios</b>			
Loss ratio	82.7%	78.2%	77.6%
Expense ratio	23.4%	21.0%	20.8%
Combined ratio	106.1%	99.2%	98.4%
<b>Insurance margin(before tax)</b>	<b>(1.7)%</b>	<b>5.1%</b>	<b>4.4%</b>

(1) The prospectus numbers have been adjusted to exclude Inwards Reinsurance which has been separately reported.



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## **A. OPERATING RESULTS**

- The short tail underwriting performance has exceeded prospectus forecasts by \$16m (104%), with a combined ratio of 98.4% compared to prospectus forecasts of 99.2%.
- This compares favourably to last year's combined ratio of 106.1%. On net earned premium of \$1,988m, this represents a \$150m improvement in the underlying business performance. This has been due to a concentrated effort to reduce average claims costs throughout the Group, together with premium rating adjustments and underwriting initiatives implemented, commencing in early 2000.
- The long term target operating zone for short tail business is a combined ratio of between 98% to 100%.
- Premium continued to grow in all the personal lines portfolios with in force policies above the same period last year. Whilst renewal rates were lower in the NSW Motor portfolio, new business volumes were higher, reflecting the churn in the portfolio following the pricing and underwriting initiatives implemented throughout the year. Significant price changes always generate some churn. Further churn was also anticipated and realised as policies with higher risk profiles attracted larger increases and those with lower risk profiles received decreases in real or absolute terms. It is this impact that has improved the quality of the portfolio. Rating analyses conducted in WA, SA and QLD highlight that NIGL retained its competitive advantage. During the year, a comprehensive risk rating system was also rolled out nationally.
- Consistent with the hardening premium cycle in the Australian market and the Group's focus on underwriting, average premium rate rises of between 5-12% have been experienced amongst short tail products. Many industry commentators now expect the hard cycle to continue beyond 2002. This, in combination with cost and claims initiatives, provides positive fundamentals for the Group's operational outlook in the medium term.
- The Group is committed to continuing this improving operational trend for the short tail business through initiatives aimed at leveraging core capabilities in ratings models, claims management and staff commitment to customer service and growth in emerging businesses.
- The Group recognises that not all of these improvements will be reflected in increasing margins as some of the benefits will be passed on to policyholders thus containing premium increases in real terms and enhancing the Group's competitive positioning.
- The combination of management initiatives and positive industry fundamentals should provide the business climate necessary to achieve further improvement in combined ratios to deliver stable and predictable returns with emphasis on margin growth during the next 24 months.



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## **B. CLAIMS EXPERIENCE**

- The NSW claims frequency and costs, particularly buildings and contents, were affected by the storm claims over the November 2000 to January 2001 period. The impact of this was offset by a tactical purchase of a storm stop loss reinsurance contract covering the NSW, ACT and Victorian portfolios for home and motor.
- With the exception of NSW building and contents lines of business, all other product lines (in all states) have experienced lower claims frequency and costs from the previous year, attributable to improved underwriting, favourable weather conditions and cost reduction initiatives. These lower frequencies were driven by a number of factors including generally favourable weather, reduced private mileage attributed to the increase in petrol prices and better risk selection.
- Average claims cost was the key focus this year and the average finalised claims size in NSW has reduced significantly. This has been due to the success of the preferred smash repairer scheme, reduction in claims recovery leakage, and recovery and increased fraud detection measures.

## **C. CLAIMS INITIATIVES UPDATE**

- The Preferred Smash Repairers (PSR) scheme is now fully operational in NSW and consistent with a similar pre-existing model in Victoria (VIC). Despite negative reactions from some repairers when first implemented, the positives of the programme have been acknowledged following evidence of an overall operational improvement for participating repairers' businesses.
- From the Group's perspective, this relationship with smash repairers provides greater transparency of cost and improved information flow, which translates into improved claims process and management.
- From the repairers' perspective, there has been strong work flow, with a substantial increase in the volume of work being performed by the PSR repairers. This allows them to invest in apprentices, technology and customer service, thus delivering savings and improved service to the customer.
- Throughout the year, the Group has also continued to pursue further initiatives to reduce claims costs, which encompass the following:
  - reduction in leakage in claims payments;
  - increased focus on fraud detection;
  - central systematic sourcing of contents replacement goods;
  - discounted voucher substitutes for appropriate cash settlements;
  - reducing the cost of collision repairs, including the PSR scheme and the commencement of the roll out of the 'Virtual Claims Pocket' (which includes remote digital imaging of the repair and all the relevant claims data and controls including work flow); and
  - introduction of case management.



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- The prospectus included an assumption of \$31m in benefits from these claims initiatives and that target has been met. The reduction in the combined ratio from 106.1% in June 2000 to 98.4% for the year to June 2001 is testimony to the success of the above initiatives combined with the reduced claim frequencies and increased premium.

#### **D. EMERGING BUSINESS - SME**

- As part of the Group's growth and diversification strategy and to meet customer demand, it has developed a new product, known as 'Eazybiz', to cater for the under serviced small to medium enterprise (SME) market segment. This product complements the Group's range of tailored business package policies which include Business Insurance, Motor Trade and Rural policy.
- The innovative EazyBiz product is designed to be sold over the phone without the need for broker intervention and provides a pre-underwritten "tick the box" form of cover for all the key insurable risks for a range of trades, professions and small businesses. It provides all the key covers needed for businesses including fire, liability, business interruption, burglary, transit, money, glass, motor and personal accident. The Group already has policies specifically tailored for 49 trades & professions and 56 types of small business including retail, hospitality and office premises.
- EazyBiz, combined with the existing products range and skills, provides a growth platform for the SME market and the goal is to treble participation in this market over the medium term. The product is simple and straightforward for the direct distribution network and for third party distributors to sell. For instance, using this product, a bank manager can complete a commercial insurance sale as part of establishing or reviewing a small businesses facility without needing to refer to an underwriter or broker or have a follow up meeting or visit.
- EazyBiz was launched in New South Wales (NSW) in February 2001 and to the direct market in Western Australia (WA) and South Australia (SA) at the end of May. The product had more than doubled the Group's our sales volume in this segment by June 2001.

#### **E. EMERGING BUSINESS - HEALTH**

- The Group acquired its health insurance business as part of the SGIO acquisition. At that time it only traded in WA and SA. Last year it was launched in NSW under the NRMA brand. There are over 70,000 policies in force nationally and this is targeted to grow. The focus will be on the NSW market for retail sales.
- Additional sales thrust is planned through the corporate market and a corporate sales structure has been implemented in health with representation in SA, WA, NSW and Victoria.



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- Several actions were taken during the year to simplify the health product and to improve product benefits. The “Health Extras” product now offers cover at three simple levels. Each level is percentage based resulting in a product that is simpler than the competitors’ options.
  - Benefits have also been increased for maternity by introducing a “New Mums” product to eliminate out-of-pocket costs for new mothers. The initiative has been welcomed by the Federal Health Minister, Dr Wooldridge, and gives a clear market differentiation for NIGL that should attract prospective families to the fund. The product was launched at the end of June 2001 and resulted in a large number of telephone enquires. It is on track to generate an increase in sales.
  - The Group is developing options to package the Group’s products including, medical and health services expenditure for health insurance, CTP and workers’ compensation to leverage the scale benefit of all these portfolios by dealing with key suppliers on a group basis.
  - Given the demographic trend that has driven the growth of the superannuation industry, the health industry is likely to be the next to benefit in the same respect from government initiatives as highlighted by the recent introduction of the Life Fund Health Cover. The Group intends to maintain its participation in this market in preparation for these potential changes which will position the Group to benefit from industry changes that it believes will be required.

#### **F. INSURANCE RATIOS**

- The improved expense and loss ratio in the short tail business reflects the effectiveness of the Group focus on efficiency and cost reduction.
- The overall loss ratio of 77.6% is 0.6% less than prospectus forecast of 78.2% reflecting a combination of improvement in the quality of the portfolio and also the success achieved in reducing collision repair costs.
- The expense ratio is 20.8%, which is 0.2% less than prospectus forecast. The improvement is attributable to a combination of higher net earned premium and tight control over expenses.
- With positive momentum in premium pricing and the ongoing initiatives to enhance the Group’s scale and systems, there is scope to make some further improvement on this result, subject to the usual vicissitudes of weather on the insurance operations.
- The Group also has the capacity to invest further in systems to reduce ongoing short tail operational costs. Development of eCommerce is expected to be critical in maintaining the short tail expense ratio under 20% going forward.

#### **G. INDEPENDENT PANEL ON PREMIUMS**

- As a consequence of the customer concern and publicity surrounding the premium increases in NSW personal lines insurance, it was resolved to take action to alleviate concerns.

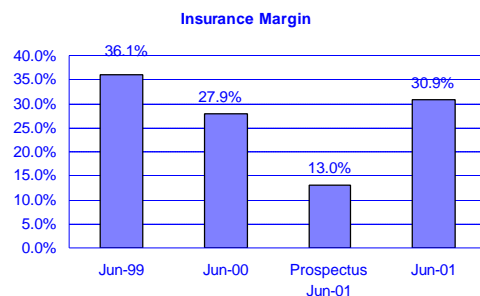
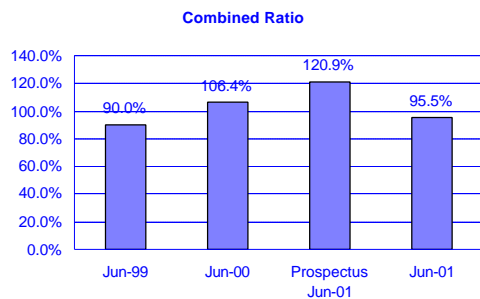
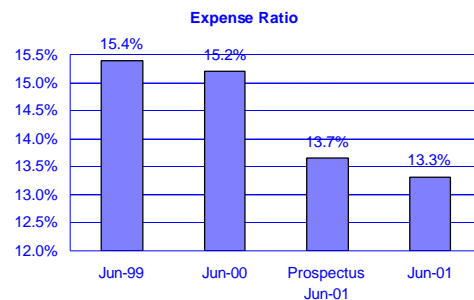
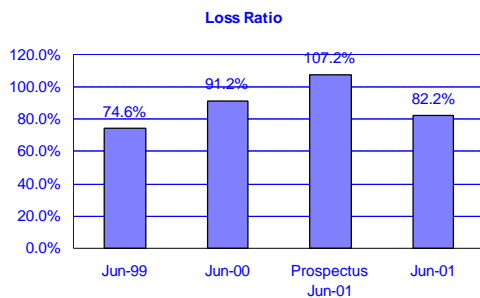


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- The independent review panel was established to improve the communication to customers and correct any anomalies existing.
  - Public sentiment in response to this initiative was generally positive.
  - No instances of errors in the application of the rating models were identified. There was evidence of a need to improve the Group's skills in communicating to the customers through staff and correspondence and work is under way to address this issue.



## Long tail Analysis

	Year 30/06/00	Prospectus 30/6/01	Year 30/06/01
	\$M	\$M	\$M
<b>GWP</b>	<b>674.5</b>	<b>721.4</b>	<b>787.6</b>
Net premium revenue	600.5	636.9	618.1
Net claims expense	(547.6)	(682.7)	(508.0)
Underwriting expense	(91.3)	(87.3)	(82.2)
<b>Underwriting profit/ (loss)</b>	<b>(38.4)</b>	<b>(133.1)</b>	<b>27.9</b>
Investment income on technical reserves	206.1	216.2	163.0
<b>Insurance result (before tax)</b>	<b>167.7</b>	<b>83.1</b>	<b>190.9</b>
<b>Insurance ratios</b>			
Loss ratio	91.2%	107.2%	82.2%
Expense ratio	15.2%	13.7%	13.3%
Combined ratio	106.4%	120.9%	95.5%
Insurance margin (before tax)	27.9%	13.0%	30.9%



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## **A. OPERATING RESULTS**

- The long tail portfolio has delivered another result which exceeds the Group's view of the normal/sustainable performance in such portfolios.
- The Group's traditional conservative reserving combined with the stability of the key statutory compensation schemes within the portfolio (NSW CTP liability and WA workers' compensation) has enabled releases from prior period claims reserves.
- The stability of the claims development for schemes forms part of the assumptions on which pricing for subsequent periods are based.
- The claims expense includes \$24.2m attributable to the effect of decreasing interest rates over the financial year on the estimation of the net present value of reserves.

## **B. INSURANCE RATIOS**

- The combined ratio of 95.5% compares to prospectus forecast of 120.9%, which was prepared based on the expected level of sustainable profitability.
- Although releases from prior period reserves may continue to contribute to the positive long tail results in the near future, the strategy of diversifying and expanding the premium base through quality underwriting in workers' compensation business, pursuit of packaging with the health market and opportunities in other markets and products will be the main drivers of the growth in long tail in the medium term.
- The long term target operating zone for long tail business is a combined ratio of between 110% to 115%.

## **C. COMPULSORY THIRD PARTY (CTP)**

- Market share in NSW rose further this year, increasing from 38.3% of vehicle registrations in July 2000 to 40% in June 2001.
- The increase in market share has been due to a number of factors including:
  - competitive pricing, especially in the key 25 - 54 and over 55 age brackets (NRMA is currently the cheapest in the market for the best risks in these segments);
  - targeted marketing efforts, aimed particularly at existing NRMA motor vehicle insurance customers; and
  - rationalisation in the market that has resulted in a number of CTP licences in NSW falling to eight.

Targeting of preferred risk groups has ensured that there is no deterioration of the risk profile.



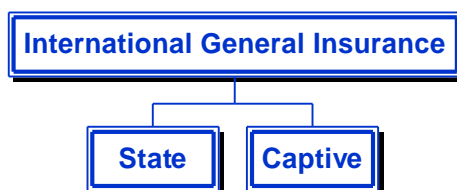
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- The changes to the NSW CTP schemes introduced in October 1999 have led to greater stability, which enables the Group to be comfortable with a 40% market share. This stability and the claims management principles adopted have generated strong results consistently for the past three years, in excess of the Group's long term expectation for the portfolio.
  - In the ACT market, the Group continues to operate as the sole CTP insurer and performance of this business has been satisfactory over the past year. This in part is due to the stability of the scheme in the ACT which is reflected in the fact that claims frequency and average claims costs have held at levels consistent with those assumed at the time of premium filing.
  - In the Queensland (QLD) market, the focus of the operation has been to grow market share without jeopardising the risk profile of the book. At 30 June 2001, a year after entering the market, the Group market share was 1% and strategies have been put in place in recent months to accelerate growth.

### **C. WORKERS' COMPENSATION**

- The Group's workers' compensation portfolios performed well during the year. The Western Australian scheme - which was the Group's only risk exposure until the ex-HIH portfolio was assumed - has continued to stabilise following the amendments made to the scheme in October 1999.
- The Group acquired the renewal rights to the HIH workers' compensation business in March 2001. Under the agreement, the Group took on the existing in force policies for the underwritten schemes in WA, NT ACT and Tasmania, effective from 15 March 2001 (excluding the tails).
- Non Risk States - The Group also purchased the workers' compensation companies in NSW, VIC and SA that contract to the State Government for administration of claims and premiums.
- Following the acquisition, the Group now has market shares of the underwritten states in 25% for WA, 20% for NT, 21% for Tasmania and 19% for the ACT. For the fee based schemes, it has shares of 17%, 24% and 13% in SA, Victoria and NSW respectively.
- The renewal rates for the ex-HIH business in the June 2001 renewal cycle were strong and reinforced the positive outlook for this business.
- Integration of the workers' compensation portfolios acquired from HIH is well under way.
- The proven long tail claims handling philosophy used by the Group is being implemented and standardised across all personal injury portfolios. This process will be further enhanced when the new statutory underwriting and claims system is implemented.



## International General Insurance



### A. STATE INSURANCE NEW ZEALAND

State Insurance Limited 15 February 2001 to 30 June 2001	Year 30/6/01
GWP	A\$M 139.2
Net premium revenue	109.8
Net claims expense	(72.4)
Underwriting expense	(44.8)
<b>Underwriting profit/ (loss)</b>	<b>(7.4)</b>
Investment income on technical reserves	1.5
<b>Insurance result (before tax)</b>	<b>(5.9)</b>
<b>Insurance ratios</b>	
Loss ratio	65.9%
Expense ratio	40.8%
Combined ratio	106.7%
Insurance margin (before tax)	(5.4%)

- State Insurance was acquired from CGNU on 15 February 2001 at a purchase price of NZ\$405m (AUD\$325m). Results to date have proved this a solid business value creating opportunities through business improvements.
- As previously announced, since the acquisition of State Insurance there has been a comprehensive review of operations and a restructure has been announced. This will see staff numbers reduced by 275 or 20%. This restructuring associated with the new business model includes:
  - Rationalisation of the branch network from 63 to 31;
  - Reduction of call centres from 5 to 3; and
  - Establishing a national operating model for claims, sales and distribution management, replacing the former regionalised model.



- 
- The financial results for 2001 includes one-off expense of A\$2m incurred in respect of executive restructuring an accrual of A\$10m for further restructuring costs. Adjusting for these one-off costs, the expense ratio would be 29.9%.
  - Other work under way includes:
    - Changes to ratings capabilities through the implementation of a new ratings engine;
    - Review of IT systems; and
    - Brand rejuvenation programme and restructure/realignment to deliver three channel distribution strategy based on State direct, corporate partnerships and Circle brands.
  - Going forward, net of the cost savings and one-off expenses, the expense ratio should stabilise in the midst of the 20%-30% range.

#### **B. CAPTIVE**

- The Group has established a captive reinsurance company, NRMA Re, to exclusively manage the Group's outwards reinsurance programme. The captive structure enables the Group's exposures to be aggregated and presented to the reinsurance market as a portfolio, providing efficiencies in the buying process. It also provides the Group the ability to smooth out the reinsurance market cycles by choosing to either 'hold' or 'sell' reinsurance exposure depending on market conditions and to achieve greater capital efficiency through a centralised approach.
- With the combination of regulatory and tax considerations, NRMA Re Limited was incorporated in Dublin, Ireland on 1 May 2001, following the approval of the Irish Department of Enterprise, Trade and Employment on 5 April 2001.
- APRA formally granted the approval to NRMA Re Limited to write insurance business in Australia on 2 July 2001.

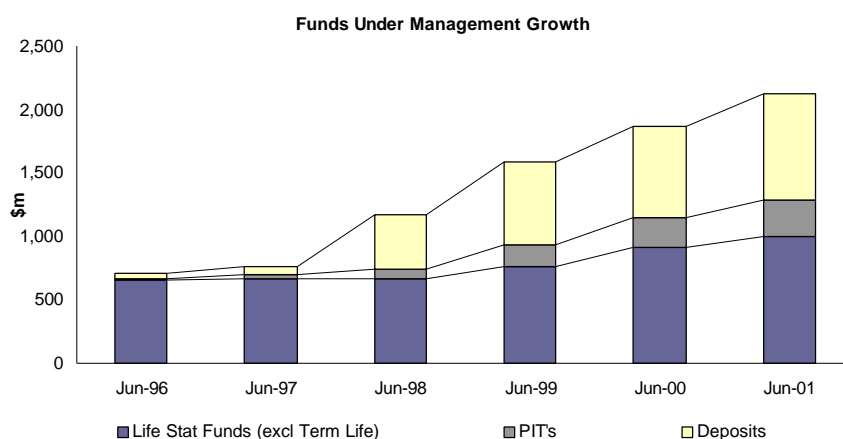


## Financial Services Analysis

	Year 30/06/00	Prospectus 30/6/01	Year 30/6/01
	\$M	\$M	\$M
Building Society	(2.8)	2.6	1.0
Superannuation and retirement	5.6	(0.4)	0.7
Risk products	3.2	3.3	7.0
Managed Investments	(1.2)	(0.5)	(0.9)
Shareholders Fund	3.0	4.1	4.4
<b>Net profit after tax</b>	<b>7.8</b>	<b>9.1</b>	<b>12.2</b>
Life embedded value (\$m) <sup>(1)</sup>	151	-( <sup>2</sup> )	185
Building Society average interest spread (%)	1.59%	-( <sup>2</sup> )	2.19%
Funds Under Management (\$m)	1,869	2,918	2,121
Loan portfolio (\$m)	2,059	-( <sup>2</sup> )	2,079
Penetration rates	13%	26%	21%

(1) The average interest spread differs from previous disclosures as it has been adjusted to include borrowing costs in average interest expense.

(2) Not disclosed in prospectus.



### A. OPERATIONAL RESULTS

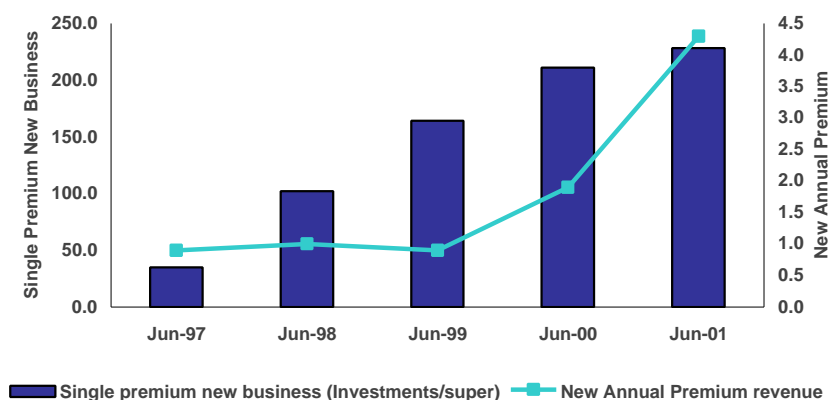
- The year to date profit after statutory funds tax exceeded the prospectus forecasts.
- The Risk business had a net profit after tax in excess of \$7m on \$21m annual premium, over 100% higher than prospectus forecasts. This result continues to reflect strong retention rates and favourable claims experience.
- The Mortgage business has benefited from the shape of the yield curve during the year, but more significantly, lower sales has resulted in a pro-active scaling back on acquisition and maintenance expenses.



## B. REFOCUS ON RETIREMENT

- As announced on 8 June, NIGL will be proceeding with a more focused approach by concentrating on Retirement Services.
- The Group plans to target its retirement services to the “mass” and the “mass affluent” segments of the market (i.e. those with \$80,000-\$200,000 of investable assets at retirement) that have been identified to be under serviced by the current market participants. It intends to offer a proposition of providing simple and trustworthy advice and service which leverages the NRMA brand attributes.
- The key to the refocus from an operational level entails changes to systems, processes, products, and skills and numbers of staff. The operating model is based on a suite of plans and products (both internal and externally sourced) selected to meet the needs of the target segments. The service delivery will be through salaried financial planners supported by a specialist service centre.
- A repercussion of the decision to re-focus the Financial Services business was the decision to sell the Building Society. The sales process is in progress. All projects that are not part of the sale process of the Building Society or building the Retirement Services model have been closed.

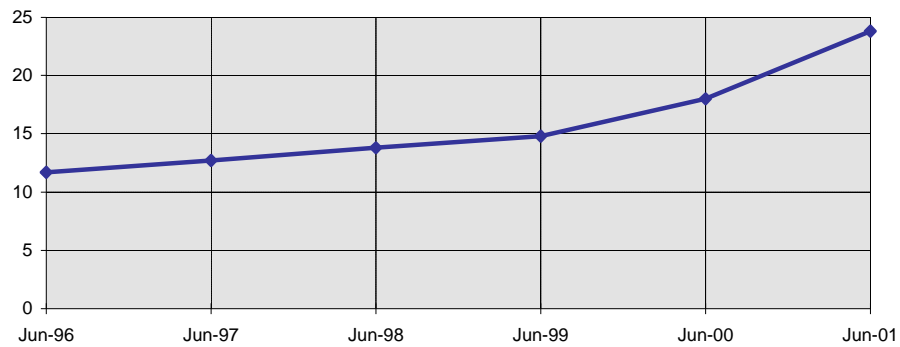
## C. LIFE COMPANY



- The life insurance business performed well during the financial year with record levels of premium income and strong profit results.
- New business premium income grew by 135% from the previous year to \$4.3m, a positive result given that the industry growth rate for new business premium in 2000/01 is estimated to be at 20%.
- Life insurance remains an integral component of the Retirement Services strategy, and its solid growth is expected to continue as part of the overall retirement planning proposition.



### Risk inforce premium A\$m



- The in-force book of business has grown sharply from around 55,000 to around 70,000 customers.
- The Group continues to run retention rates in excess of 90% compared to industry retention rates at around 85%. This reflects the brand loyalty and the direct nature of the Group's customer acquisition which avoids the risk of adviser churning.

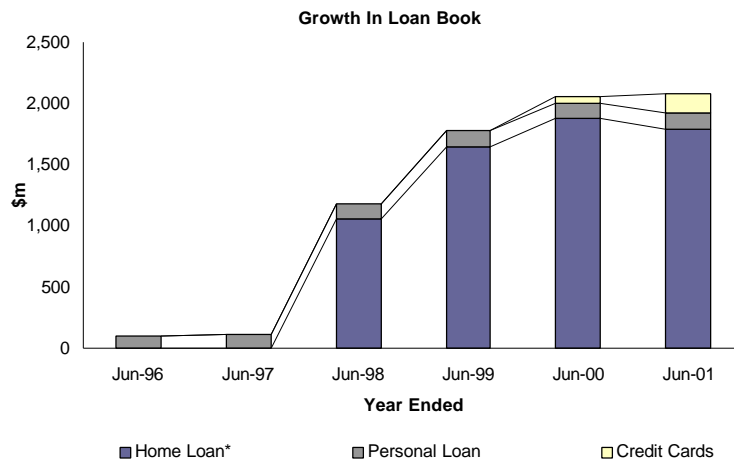
#### D. BUILDING SOCIETY

	30/6/00 <sup>(1)</sup>	30/6/01
Average Interest bearing assets (on Balance Sheet)	1,263.9	1,222.2
Average interest revenue	6.71%	7.87%
Average interest expenses	5.12%	5.68%
Average interest spread	1.59%	2.19%

(1) The average interest spread differs from previous disclosure as it has been adjusted to include borrowing costs in average interest expense

- The increase in the average interest rate spread reflects the impact of increases in both credit card receivables and retail deposit funding.
- The credit card portfolio issued over 35,000 new cards during the year, and outstandings increased by \$98.8m. The new business rates in other loan products were similar to the prior year.





- The total loan book remained relatively stable over the six months at \$2.08bn.
- Credit card loans grew by 16%.
- The size of the mortgage book contracted slightly as a result of reduced marketing efforts.



## Corporate and Investments

### CORPORATE

	30/06/00	Prospectus 30/6/01	30/6/01
	\$M	\$M	\$M
Corporate office	(128)	(99)	(121)
Amortisation	(13)	(16)	(24)
Interest	(15)	-	(15)
Fee based businesses	(41)	18	15
Total corporate expenses	(197)	(97)	(145)

- Corporate office overrun of \$22m was attributable to:
  - 1H01 \$9m: includes share registry overruns, integration expenses and demutualisation expense.
  - 2H01 \$13m: includes \$15 million restructuring and CEO pay out of \$3m.
- The corporate office bore a number of substantial non-recurring expenses during the year. Looking forward, the Group is focused on keeping expenses below the level incurred this year and reducing activities allocated to corporate office, eg eCommerce will now be expensed with the units utilising the investment.
- The prior year figures include \$61m relating to the demutualisation and listing. This expenditure was classified as 'extraordinary' in the Statutory financial reports.
- Amortisation and interest expenses rose following the State Insurance and ex-HIH workers' compensation acquisitions.
- Interest expense includes \$6m incurred in the 1H01 when repayment of \$400m was delayed until September 2000. The remaining \$18m relates to State and ex-HIH workers' compensation acquisition funding.

### eCOMMERCE

- eCommerce is increasingly important as an information and distribution channel.
- Both new business and renewals for personal lines products are available through the website which is fully integrated with the underwriting and policy administration systems.
- More than 72,000 transactions per month are now processed through the internet.
- The Group's eCommerce strategy continues to achieve stated objectives at lower than expected cost. This strategy aims to deliver eCommerce capability to the Group with stages 1 & 2 to be margin focused and stage 3 to be revenue focused.
- The substantial investment made over the last 2 years has delivered the following results:
  - All major core products are online.
  - 1.6 million customers using the NRMA's website (annualised).



- 
- 900,000 customers accessing net transactions (annualised).
  - The frequency of car insurance quotes on the net have increased with a broadly corresponding decrease in quotes in branches. This trend is expected to continue with further eCommerce initiatives.
  - The Group is on track to save 5-7% on B2B transactions due to the successful rollout of strategic sourcing program and the online procurement system.
  - Now that the infrastructure development is largely complete, the operating costs of the eCommerce unit are being borne directly by the businesses from 1 July 2001.



## INVESTMENTS

### A. INVESTMENT RETURNS

Investment Returns	June 2000	2001 Prospectus	June 2001
	\$M	\$M	\$M
Technical provisions	288	311	232
Shareholder funds	447	302	170

Investment Returns	Actual	Benchmark	Actual	Benchmark	Actual Return	Benchmark	Note
	Return	%	Return	%	%	%	
	%		%		FY		
	H1 Dec-00	H1 Dec-00	H2 Jun-01	H2 Jun-01	Jun-01	FY Jun-01	
Australian Equities	(0.3)	(1.4)	10.8	10.7	10.5	9.1	a
Fixed Interest	5.5	5.3	2.0	1.6	7.6	7.0	b
International Equities	(4.2)	(3.7)	(1.5)	(2.4)	(5.7)	(6.0)	c
Cash	3.2	3.2	2.8	2.8	6.1	6.1	d
<b>Total</b>	<b>1.5</b>	<b>1.2</b>	<b>4.9</b>	<b>4.7</b>	<b>6.5</b>	<b>5.9</b>	
Currency hedge <sup>2</sup>	(0.3)		(0.3)		(0.7)		
<b>Total (incl. Hedge)</b>	<b>1.2</b>	<b>1.2</b>	<b>4.6</b>	<b>4.7</b>	<b>5.8</b>	<b>5.9</b>	

Notes:

a All Ords Accumulation Index

b Internal benchmark (1)

c MSCI

d UBSW Bank Bill index

1. Portfolio is now marked to a benchmark of government securities constructed to reflect the target duration of the portfolio (matching insurance technical reserves).

2. Calculated as a contribution to total return.

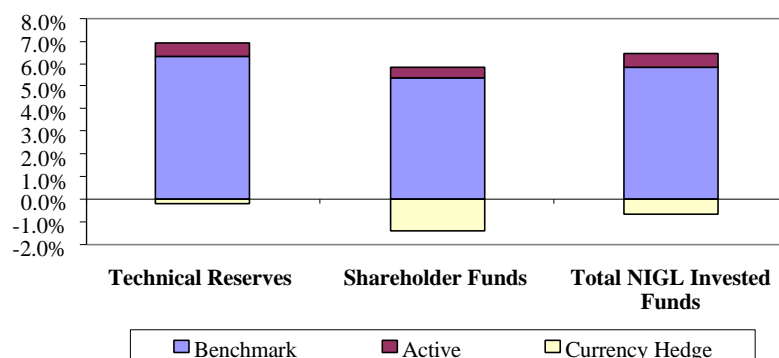
Portfolio Return (Pre-tax) and (incl hedge)	Dec 00 H1	Jun 01 H2	Jun 01 FY
Technical reserves	3.6%	3.1%	6.7%
Shareholder funds	(1.9)%	6.5%	4.5%



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30 June 2001 Investor Report

- As with the first half of the year the investment results have been affected by the weakness in the investment markets, albeit that the impact was less in the 2H01.
- Positive active return was achieved in all of the asset classes which resulted in the positive active performance of the Group.
- An Australian:US dollar hedge was in place for the most of the year. This foreign currency hedge detracted approximately \$35.6m or 0.7% of the return. This hedge was terminated before the end of the financial year.

### Investment Returns



### B. ASSET ALLOCATIONS

Asset Allocation at 30 June 2001	Technical Reserves	Shareholder Funds
Australian Equity	14.2%	67.5%
International Equity	6.7%	24.1%
Fixed Interest	69.7%	5.7%
Cash	9.4%	2.7%
Total	100.0%	100.0%



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### **C. INVESTMENT ASSETS UNDER MANAGEMENT**

	<b>30/06/00</b>	<b>30/6/01</b>
	<b>\$bn</b>	<b>\$bn</b>
Technical reserves	3.5	4.4
Financial Services	1.2	1.1
Outside Equity Interest - Unitholders funds	0.4	0.7
Other - including shareholder funds	3.7	2.4
Total investments - on balance sheet	<b>8.8</b>	<b>8.6</b>
NRMA Personal Investment Trusts	0.3	0.3
External wholesale mandates	0.8	1.0
<b>Total funds under management</b>	<b>9.9</b>	<b>9.9</b>

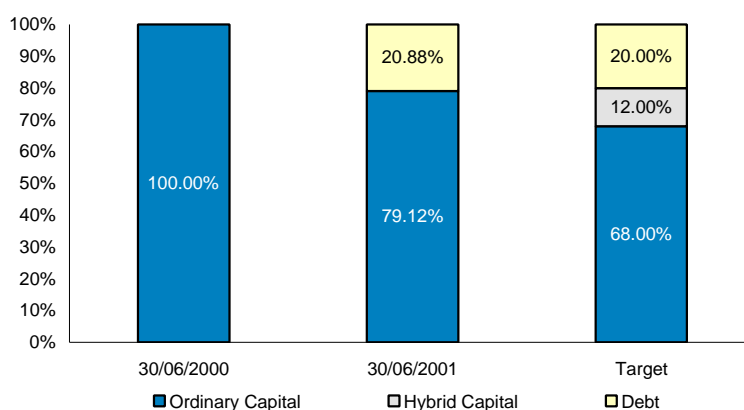
- The unitholder funds classified as outside equity interests reflect the proportion of wholesale asset trusts consolidated by the Group which are held by non-Group entities, primarily the Group's staff superannuation fund.



## Capital and Balance Sheet Management

Insurance Group Balance Sheet	30/06/00	31/12/00	30/06/01
	\$bn	\$bn	\$bn
Investments	8.8	9.3	8.7
Other assets	2.9	2.8	3.2
Intangibles	0.4	0.4	0.7
<b>Total assets</b>	<b>12.1</b>	<b>12.5</b>	<b>12.6</b>
Claims outstanding and unearned premium	4.4	4.6	5.0
Borrowings and other liabilities	4.2	4.3	4.2
<b>Total liabilities</b>	<b>8.6</b>	<b>8.9</b>	<b>9.2</b>
<b>Net assets</b>	<b>3.5</b>	<b>3.6</b>	<b>3.4</b>
Equity attributable to shareholders	2.9	2.9	2.5
Outside equity interest	0.6	0.7	0.9
<b>Total equity</b>	<b>3.5</b>	<b>3.6</b>	<b>3.4</b>

### NIGL Capital Mix



\*note: Capital mix includes adjustments for outside equity, intangibles and dividend to equity on balance sheet.

**A.**



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## **A. CAPITAL MANAGEMENT**

- Capital management is an ongoing focus for the Group in its efforts to achieve an ROE of 1.5 times the Group's WACC.
- In June 2001, the Group completed an off market share buy-back for 148.6 million ordinary shares, representing 9.6% of the Group's then issued capital, at a cost of \$410 million (including \$6 million of transaction costs). This capital management initiative resulted in over 150,000 shareholders exiting the share register and, when combined with the original Sale Facility and ongoing selling by small shareholders, the size of the Group's share register has been brought down to 1.425 million shareholders from over 1.8 million (being the number of members who received shares upon demutualisation). This contraction in the total number of shareholders will result in a reduction in corporate overhead associated with administering the share register.
- The proposed issue of A\$200 million of reset preference shares, announced in March 2001, has been shelved indefinitely. Should the Group have a need for further capital, the issue of reset preference shares will be considered amongst other alternative sources of capital.
- Senior debt was used during the year to fund acquisitions. Since 30 June 2001, a Commercial Paper and a Medium Term Note (MTN) programme (both guaranteed by NRMA Insurance Limited), have been established in New Zealand to provide a cost efficient source of domestic funding to refinance the bank debt used to pay for the acquisition of State Insurance Limited. On 27 August 2001, the Group issued NZ\$50 million of 4 year MTNs and NZ\$50m of 7 year MTNs under the above guaranteed and unsubordinated programme.

## **B. CAPITAL MIX**

- Whilst S&P re-affirmed NRMA Insurance Limited's AA+ insurer financial strength rating on 12 June 2001, the retention of the negative outlook reflects their understanding of the Group's intent to work hard to maximise shareholder value and fund growth.
- In this context, the Group's optimal capital mix is unchanged at 20% of debt, 12% of hybrid capital with the remaining 68% as equity. With the capital management initiatives completed to date, the Group is close to achieving this target.
- The Group is satisfied that it has sufficient capital to meet the standards being implemented by APRA over the coming year.

## **C. FINAL DIVIDEND**

- Normalised earnings for the full year were \$292m.
- The Group will maintain a dividend payout ratio of between 40% and 70% of normalised earnings over time.



- 
- NIGL made its maiden dividend payment at the end of April 2001. In accordance with the Group's dividend policy, the fully franked dividend was declared based on the normalised earnings of the Group.
  - A fully franked final dividend of 6 cents has now been declared giving a full year dividend of 10 cents, fully franked, which represents 50% of normalised earnings for the year.

#### ***D. PROPOSED APRA REQUIREMENTS***

- In March 2001, the Australian Prudential Regulatory Authority (APRA) set out its proposed changes to capital requirements and other matters in a discussion paper entitled 'Prudential Supervision of General Insurance'.
- The key component of the paper, from a capital perspective, was the definition of the Minimum Capital Requirement ('MCR'). The MCR includes adjustments for the nature of the portfolio written by an insurer, its liabilities and its assets. The proposals also provide for insurers to use their own internal capital adequacy models instead of the formula MCR basis, subject to APRA's approval. The Group is planning to move to an internal model basis as soon as practicable for APRA.
- At its current position, the Group should comfortably comply with the proposed guidelines, which are due to come into force by 1 July 2002.



## Inwards Reinsurance

	Year 30/6/00	Prospectus 30/6/01	Year 30/06/01
	\$M	\$M	\$M
<b>GWP</b>	<b>91.9</b>	<b>85</b>	<b>88</b>
Net premium revenue	74.8	47.6	59.3
Net claims expense	(87.6)	(26.4)	(110.0)
Underwriting expense	(24.0)	(20.1)	(22.7)
<b>Underwriting profit/ (loss)</b>	<b>(36.8)</b>	<b>1.1</b>	<b>(73.4)</b>
Investment income on technical reserves	8.5	9.7	11.5
<b>Insurance result (before tax)</b>	<b>(28.3)</b>	<b>10.8</b>	<b>(61.9)</b>
<b>Insurance ratios</b>			
Loss ratio	117.1%	55.5%	185.5%
Expense ratio	32.1%	42.3%	38.3%
Combined ratio	149.2%	97.8%	223.8%
Insurance margin(before tax)	(37.8%)	22.7%	(104.4%)

### A. OPERATIONAL RESULTS

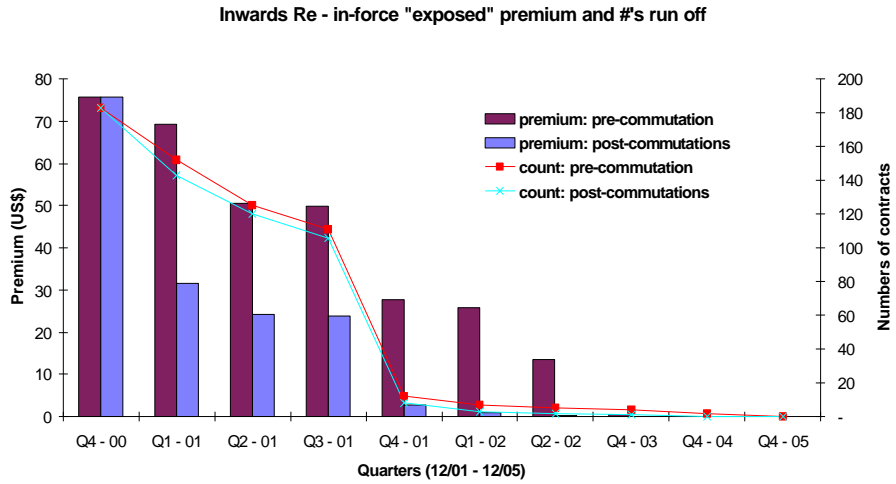
- In a year with little catastrophe activity, the inwards reinsurance result was marked by adjustments to the reserves which has increased underwriting losses to \$73.4m, including \$34.8m in the second half of the year.
- The main factors contributing to this year's result were:
  - Increasing IBNR reserves for the 'mixed property' class by \$20m.
  - Catastrophe losses incurred in the 1999-2000 year have developed further with an additional \$14m in claims incurred. The 1999 year was a very poor year for the industry worldwide and development continued at levels higher than expected.
  - Strengthening reserves by increasing the probability of sufficiency to 95%, which added approximately \$37m to the underwriting loss.

### A. FUTURE PORTFOLIO MANAGEMENT

- The Group has purchased extensive retrocession covers for the inwards reinsurance portfolio for losses occurring during the year ended 30 June 2002. Individual risk retentions are covered above US\$0.5m and aggregate portfolio losses are covered above A\$40m. The upper limit of this cover is believed to provide cover to the one in 500 year event level. The probability of breaching this upper limit reduces as commutations are completed.



- The Group is actively pursuing commutations of existing treaties. The net cost of the commutations completed to date (since June 2001) is less than A\$2m.
- The following graph shows the timing of run-off of the exposed premium and the effect of commutations completed to date.



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## APPENDICIES

### Appendix A - Key ASX Releases

- 16 August 2001**      **NRMA Insurance Group establishes medium term note programme for New Zealand**  
*NRMA Insurance Group has established a NZ\$300 million MTN programme. The Issuer under the MTN programme is NRMA (NZ) Holdings Limited, the New Zealand ultimate holding company of State Insurance Limited.*
- 2 August 2001**      **NIGL announces James Strong as Chairman**
- 13 July 2001**      **NRMA Insurance Group establishes short term note programme in New Zealand**  
*NRMA Insurance Group has established a NZ\$300 million short term note programme. The Issuer under the MTN programme is NRMA (NZ) Holdings Limited, the New Zealand ultimate holding company of State Insurance Limited.*
- 5 July 2001**      **NIGL announces James Strong to join board as Chairman elect**
- 29 June 2001**      **Internal Group restructure**  
*NIGL announces the implementation of an internal reorganisation of corporate entities to create a group structure which has greater reporting and financial efficiencies.*
- 12 June 2001**      **Financial Strength of NRMA Insurance Limited affirmed by ratings agency**  
*Standard & Poors' affirmed its AA+ rating of NRMA Insurance and removed NRMA Insurance from credit watch negative.*



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- 7 June 2001**                      **NRMA Insurance announces major refocus**  
*The Group announces a Financial Services restructure to refocus on Retirement Services as a consequence of which the NRMA Building Society would be sold. The group also announced its intention to consolidate the NSW/ACT branch network from 66 to 45 branches and increase telephone staffing.*
- 21 May 2001**                      **Scale back to apply to NIGL share buy-back**
- 18 May 2001**                      **NRMA Insurance Limited settlement of legal costs claim**  
*NRMA Insurance Limited pays Mr Talbot's solicitors \$450,000 in final settlement of its claims against Mr Talbot for payment of its legal costs.*
- 17 May 2001**                      **Price set for NIGL share buy-back**  
*Buy-back price set at \$2.72, comprising \$1.78 capital component and 94 cents fully franked dividend.*
- 3 May 2001**                        **NRMA Insurance Group Limited defers retirement payment decision for Mr Nicholas Whitlam**
- 10 April 2001**                    **NRMA Insurance terminates Mr Eric Dodd's employment as Chief Executive Officer**
- 9 April 2001**                     **Mr Nicholas Whitlam leaves as director of NRMA Insurance Group Limited**
- 5 April 2001**                     **NRMA Insurance Group Limited Acting CEO announced - Mr Ian Brown**
- 4 April 2001**                     **NRMA Insurance Group Limited appointment of Interim Chairman**  
*Directors announce Rowan Ross as Interim Chairman of the Board.*
- 2 April 2001**                     **Mr Nicholas Whitlam tenders resignation as Chairman of NRMA Insurance Group Limited**



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<b>28 March 2001</b>	<b>NRMA Insurance Group completes HIH workers' compensation transaction</b>
<b>23 March 2001</b>	<b>NRMA Insurance to take on existing HIH workers' compensation business in Australia</b> <i>Under the agreement, NRMA Insurance will take on new and renewal workers' compensation business from HIH effective 15 March 2001.</i>
<b>8 February 2001</b>	<b>NRMA Insurance to buy State Insurance</b> <i>NRMA Insurance to acquire New Zealand insurer, State Insurance Limited, for \$NZ405m (A\$325m).</i>
<b>19 January 2001</b>	<b>Exits Inwards Reinsurance</b> <i>NRMA Insurance decides to put inwards reinsurance portfolio into run-off.</i>
<b>19 January 2001</b>	<b>Appeal to the High Court</b> <i>NRMA Insurance seeks special leave to the High Court against decision of the NSW Court of Appeal regarding the 1994 restructuring proposal.</i>
<b>21 December 2000</b>	<b>NSW Court of Appeal Decision</b> <i>The NSW Court of Appeal has ruled against NRMA Insurance by upholding the appeal by lawyers who had acted as advisers to NRMA in 1994 in relation to the Group's restructuring proposal.</i>
<b>28 November 2000</b>	<b>Annual General Meeting</b>
<b>13 October 2000</b>	<b>Annual Report - June 2000</b>
<b>7 September 2000</b>	<b>Release of 2000 Annual Results</b>
<b>8 August 2000</b>	<b>Shares listed on Australian Stock Exchange</b>



## Appendix B: Financial Statements 30 June 2001 - IMA Pty Limited

Insurance manufacturers of Australia Pty Limited and Controlled Entities Statement of Financial Performance For the Year Ended 30 June 2001	PARENT ENTITY		GROUP	
	Year ended 30 Jun-01 \$000	16 months ended 30 Jun-00 \$000	Year ended 30 Jun-01 \$000	16 months ended 30 Jun-00 \$000
	Premium revenue	1,667,242	1,194,773	1,667,242
Reinsurance expense	(55,130)	(43,328)	(55,130)	(43,328)
<b>Net premium revenue</b>	<b>1,612,112</b>	<b>1,151,445</b>	<b>1,612,112</b>	<b>1,151,445</b>
Claims expense	(1,470,865)	(1,166,213)	(1,470,865)	(1,166,213)
Reinsurance and other recoveries	222,693	196,771	222,693	196,771
<b>Net claims expense</b>	<b>(1,248,172)</b>	<b>(969,442)</b>	<b>(1,248,172)</b>	<b>(969,442)</b>
Acquisition costs	(190,742)	(161,178)	(190,742)	(161,178)
Other underwriting expenses	(70,759)	(60,580)	(70,759)	(60,580)
Fire brigade charges	(68,768)	(41,174)	(68,768)	(41,174)
<b>Underwriting expenses</b>	<b>(330,269)</b>	<b>(262,932)</b>	<b>(330,269)</b>	<b>(262,932)</b>
<b>Profit / (loss) from underwriting</b>	<b>33,671</b>	<b>(80,929)</b>	<b>33,671</b>	<b>(80,929)</b>
Investment income	61,441	105,742	61,441	73,758
Realised gains / (losses) on investments	14,041	(4,067)	14,041	(2,443)
Unrealised gains on investments	2,839	6,483	2,839	37,823
Other revenue	500	150	500	150
Investment and other expenses	(1,054)	(5,993)	(1,054)	(6,023)
<b>Profit from ordinary activities before income tax</b>	<b>111,438</b>	<b>21,386</b>	<b>111,438</b>	<b>22,336</b>
Income tax (expense) / benefit	(31,732)	14,790	(31,122)	2,546
Net profit attributable to members of Insurance Manufacturers of Australia Pty Limited	79,706	36,176	80,316	24,882
Non-owner transaction changes in equity: Total revenues, expense and valuation adjustments attributable to members of Insurance Manufacturers of Australia Pty Limited recognised directly in equity	-	-	-	-
Total changes in equity from non-owner related transactions attributable to the members of the parent entity	79,706	36,176	80,316	24,882



<b>Insurance manufacturers of Australia Pty Limited and Controlled Entities Statement of Financial Position as at 30 June 2001</b>	<b>PARENT ENTITY</b>		<b>GROUP</b>	
	<b>2001 \$000</b>	<b>2000 \$000</b>	<b>2001 \$000</b>	<b>2000 \$000</b>
<b>Current assets</b>				
Cash assets	26,826	3,746	26,826	3,746
Receivables	591,768	428,484	591,771	428,490
Investments	553,971	573,336	553,971	573,336
Current tax assets	-	2,439	-	2,439
Other	158,354	145,097	158,354	145,097
<b>Total current assets</b>	<b>1,330,919</b>	<b>1,153,102</b>	<b>1,330,922</b>	<b>1,153,108</b>
<b>Non-current assets</b>				
Receivables	2,708	-	2,708	-
Investments	764,410	846,342	764,410	846,342
Plant and equipment	16,727	16,010	16,727	16,010
Deferred tax assets	17,544	20,462	17,544	20,462
Intangible assets	-	3,226	-	3,226
<b>Total non-current assets</b>	<b>801,389</b>	<b>886,040</b>	<b>801,389</b>	<b>886,040</b>
<b>Total assets</b>	<b>2,132,308</b>	<b>2,039,142</b>	<b>2,132,311</b>	<b>2,039,148</b>
<b>Current liabilities</b>				
Payables	83,895	197,320	83,284	193,493
Current tax liabilities	10,997	-	10,997	3,829
Provision for employee entitlements	18,105	16,056	18,105	16,056
Outstanding claims	356,943	277,154	356,943	277,154
Unearned premium	927,101	862,829	927,101	862,829
<b>Total current liabilities</b>	<b>1,397,041</b>	<b>1,353,359</b>	<b>1,396,430</b>	<b>1,353,361</b>
<b>Non-current liabilities</b>				
Deferred tax liabilities	2,833	7,340	2,833	7,340
Provisions for employee entitlements	4,999	4,096	4,999	4,096
Outstanding claims	39,464	12,074	39,464	12,074
<b>Total non-current liabilities</b>	<b>47,296</b>	<b>23,510</b>	<b>47,296</b>	<b>23,510</b>
<b>Total liabilities</b>	<b>1,444,337</b>	<b>1,376,869</b>	<b>1,443,726</b>	<b>1,376,871</b>
<b>Net assets</b>	<b>687,971</b>	<b>662,273</b>	<b>688,585</b>	<b>662,277</b>
<b>Equity</b>				
Contributed equity	581,771	569,459	581,771	569,459
Shareholder's loan	10,670	10,670	10,670	10,670
Retained profits	95,530	82,144	96,144	82,148
<b>Total equity</b>	<b>687,971</b>	<b>662,273</b>	<b>688,585</b>	<b>662,277</b>



## Appendix C: Financial Statements 30 June 2001 - NRMA Life Limited

NRMA Life Limited and Controlled Entities Statement of Financial Performance for the Year Ended 30 June 2001	COMPANY		CONSOLIDATED	
	2001 \$000	2000 \$000	2001 \$000	2000 \$000
Insurance premium revenue for Life business	289,061	279,262	289,061	279,262
Outward reinsurance expense for Life business	(2,060)	(953)	(2,060)	(953)
	287,001	278,309	287,001	278,309
Investment revenue	81,021	111,072	103,111	150,596
Other revenue	-	-	18,532	47,076
<b>Total revenue</b>	<b>368,022</b>	<b>389,381</b>	<b>408,644</b>	<b>475,981</b>
Claims expense	(226,790)	(200,487)	(226,790)	(200,487)
Reinsurance recoveries revenue	817	657	817	657
	(225,973)	(199,830)	(225,973)	(199,830)
Administration expenses	(35,472)	(25,986)	(52,249)	(58,462)
Increase in net policy liabilities	(88,257)	(131,747)	(88,257)	(131,747)
Underwriting result from general insurance	-	-	789	(9,199)
<b>Total operating expense</b>	<b>(349,702)</b>	<b>(357,563)</b>	<b>(365,690)</b>	<b>(399,238)</b>
<b>Profit from ordinary activities before income tax</b>	<b>18,320</b>	<b>31,818</b>	<b>42,954</b>	<b>76,743</b>
Income tax expense attributable to operating profit	(6,736)	(13,081)	(16,154)	(22,713)
<b>Profit from ordinary activities after income tax</b>	<b>11,584</b>	<b>18,737</b>	<b>26,800</b>	<b>54,030</b>
Retained profits at the beginning of the financial year	66,841	48,104	90,896	36,866
<b>Retained profits at the end of the financial year</b>	<b>78,425</b>	<b>66,841</b>	<b>117,696</b>	<b>90,896</b>



<b>NRMA Life Limited and Controlled Entities</b>	<b>COMPANY</b>		<b>CONSOLIDATED</b>	
<b>Statement of Financial Position as at 30 June 2001</b>	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Assets</b>				
Cash assets	6,889	7,410	17,307	32,708
Outstanding premiums	679	591	34,733	32,544
Receivables	25,360	43,635	78,194	96,608
<b>Investment assets</b>				
Equity securities	987,113	932,063	686,060	622,174
Debt securities	474,120	460,391	613,639	551,275
Property	64,627	43,703	72,312	44,737
<b>Total investment assets</b>	<b>1,525,860</b>	<b>1,436,157</b>	<b>1,372,011</b>	<b>1,218,186</b>
Gross policy liabilities ceded under reinsurance	-12,545	-5,592	-12,545	-5,592
Excess of net market value of interests in a controlled entity	-	-	295,449	295,449
Deferred tax assets	1,162	163	7,107	9,146
Other	-	-	29,514	33,138
<b>Total assets</b>	<b>1,547,405</b>	<b>1,482,364</b>	<b>1,821,770</b>	<b>1,712,187</b>
<b>Liabilities</b>				
Payables	14,282	38,441	46,037	69,642
Premiums in advance	297	357	297	357
Unearned premiums for general insurance business	-	-	92,671	91,936
Tax liabilities	15,923	21,551	25,383	29,969
Provisions	2,000	-	2,904	353
Borrowings	450,000	450,000	450,000	450,000
Gross policy liabilities	923,053	841,749	923,053	841,749
Outstanding general insurance claims	-	-	100,304	73,860
<b>Total liabilities</b>	<b>1,405,555</b>	<b>1,352,098</b>	<b>1,640,649</b>	<b>1,557,866</b>
<b>Net assets</b>	<b>141,850</b>	<b>130,266</b>	<b>181,121</b>	<b>154,321</b>
Shareholders' equity				
Contributed equity	63,425	63,425	63,425	63,425
Retained profits	78,425	66,841	117,696	90,896
<b>Total shareholders' equity</b>	<b>141,850</b>	<b>130,266</b>	<b>181,121</b>	<b>154,321</b>

