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# Looking ahead





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## Looking after YOU

MOTOR VEHICLE INSURANCE  
HOME INSURANCE  
HEALTH INSURANCE  
CTP INSURANCE



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## Looking after YOUR BUSINESS

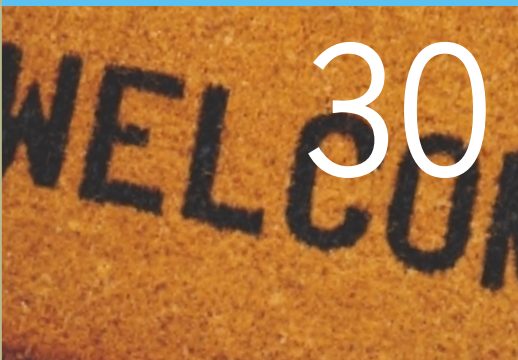
COMMERCIAL INSURANCE  
WORKERS' COMPENSATION INSURANCE



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## Looking after YOUR FUTURE

RETIREMENT SERVICES  
ASSET MANAGEMENT



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## The FINANCIALS

FINANCIAL REPORTS  
BOARD OF DIRECTORS  
CORPORATE GOVERNANCE  
SHAREHOLDER INFORMATION

# NRMA Insurance Group is Australia's largest general insurance group.

We serve more than 3.8 million customers Australia-wide and 700,000 customers in New Zealand.

We are committed to helping our customers build and protect their wealth.

From our origins as a motor vehicle insurer in New South Wales and the Australian Capital Territory, we have expanded into every other Australian state and territory and into New Zealand.

Our product range now includes personal, compulsory third party and commercial insurances, as well as retirement services.

## Strategy for growth

Our growth can be attributed to our history of offering customer-driven products and service. Our staff, customers and shareholders have helped shape our values of respect, integrity, customer and service excellence, and community responsibility.

In July 2000, NRMA Insurance Limited demutualised and became independent of the road and motoring services organisation,

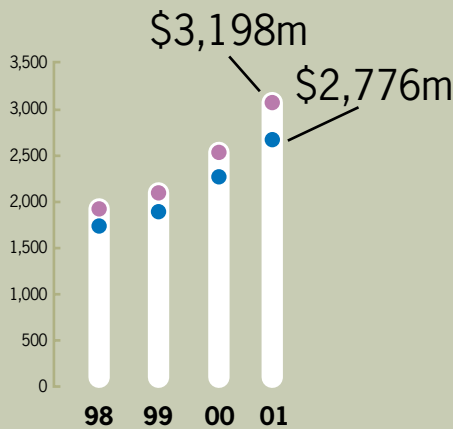
NRMA Member Services. In August 2000, NRMA Insurance Group Limited listed on the Australian Stock Exchange.

In our first year as a publicly listed company, we have continued our leadership of the general insurance sector with 8.5 million policies in force across the Group.

For the first time in our history, we now operate in every Australian state and territory.

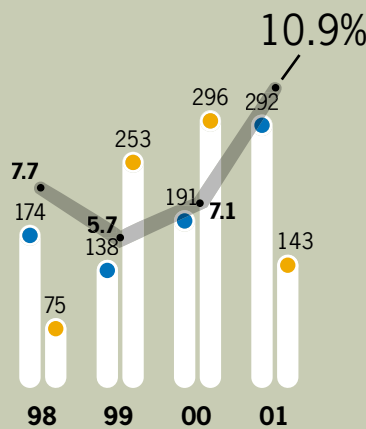
Our insurance operations performed strongly during the year. Overall profitability was adversely affected by the flat performance of equity markets.

**Gross Written Premium and Net Earned Premium**



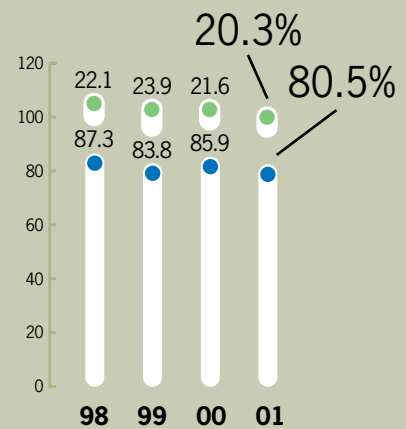
● GWP (\$m)  
● NEP (\$m)

**Earnings**



● Normalised NPAT (\$m)  
● Actual NPAT (\$m)  
● Normalised RoE (%)

**Operating Ratios**



● Expense Ratio (%)  
● Loss Ratio (%)

→ Strong growth in premium from a combination of organic growth and strategic acquisitions.

→ Normalised earnings reflect the improved profitability of the underlying business, excluding fluctuations driven by investment markets.

→ Lower loss and expense ratios underpin the improved profitability of core insurance operations.

**July 2000**

NRMA Insurance Limited demutualised

**August 2000**

NRMA Insurance Group Limited listed on the Australian Stock Exchange

**November 2000**

NRMA Insurance Group Limited Annual General Meeting

**February 2001**

Acquired State Insurance in New Zealand

**March 2001**

Announced half year results, maiden dividend and share buy-back

Acquired the ex-HIH Australian workers' compensation portfolio



## Operational highlights

- Retained position as Australia's leading general insurance group with more than 8.5 million active policies.
- Continued the diversification of operations with revenue outside New South Wales increasing to 42% at September 2001.
- Became the largest personal lines insurer in New Zealand through the acquisition of State Insurance.
- Became a national workers' compensation insurer with the acquisition of HIH's Australian workers' compensation portfolio.

## Financial highlights

- All key operational ratios for Australian operations exceeded prospectus forecasts.
- Short tail and long tail underwriting performance up \$16 million and \$161 million, respectively, on prospectus forecasts.
- Gross written premium up 21% on previous year to \$3,198 million.
- Insurance result up 91% on previous year to \$210 million.
- Annual dividend of 10 cents per share, fully franked.
- Included in the Morgan Stanley Capital Index, effective in two equal instalments on 30 November 2001 and 31 May 2002.

NRMA Insurance Group Limited (Consolidated)	2001 \$m	2001 \$m Prospectus	2000 \$m
Net premium revenue	2,776	2,646	2,384
Net claims expense	(2,234)	(2,243)	(2,048)
Underwriting expenses	(563)	(519)	(515)
Underwriting loss	(21)	(116)	(179)
<b>Profit from ordinary activities before income tax</b>	<b>255</b>	<b>422</b>	474
<b>Net profit</b>	<b>211</b>	<b>331</b>	346
<b>Net profit attributable to members of NRMA Insurance Group Limited</b>	<b>143</b>	<b>272</b>	296

NRMA Insurance Group Limited – Key Ratios (Consolidated)	2001 %	2001 % Prospectus	2000 %
Loss ratio	80.5	84.8	85.9
Expense ratio	20.3	19.6	21.6
Combined ratio	100.8	104.4	107.5

NRMA Insurance Group Limited commenced operations on 22 July 2000 when it acquired NRMA Insurance Limited and its controlled entities upon demutualisation of NRMA Insurance Limited. The figures used above, however, represent a full 12 months of operation including the three weeks prior to acquisition of NRMA Insurance Limited by NRMA Insurance Group Limited. Comparative information has been included for information purposes and relates to the operations of NRMA Insurance Limited for the year ended 30 June 2000, prior to the acquisition by NRMA Insurance Group Limited.

### April 2001

Appointed Rowan Ross as Interim Chairman after Nick Whitlam resigned from the Board

Appointed Ian Brown as Acting CEO following Eric Dodd's departure  
Maiden dividend paid, 4 cents per share, fully franked

### May 2001

Share buy-back completed – over subscribed

### June 2001

Announced business strategy focused on insurance and retirement services

### August 2001

Appointed James Strong as Chairman

### September 2001

Announced appointment of Michael Hawker as CEO and Managing Director-elect



# Chairman's report

This report is written in early September in order to make it available to shareholders in advance of the Annual General Meeting. It is my first opportunity to communicate with shareholders since being appointed as Chairman on 2 August.

I decided to become involved with NRMA Insurance Group Limited for reasons which I think are shared by many shareholders and staff – it is fundamentally a very good quality business and organisation, associated with a marvellous heritage, with a great deal of potential in terms of future growth and continuing improvement.

## Looking forward

After all of the events and publicity associated with the process of demutualisation, we need to focus our attention and efforts on future performance.

This requires a period of sustained hard work to capitalise on the excellent capabilities within our existing core areas of operations.

The people skills and business processes which give us real competitive advantage in particular segments of the insurance industry are our strengths.

We need a period of refining and improving everything we do, expanding within our established fields of activity, and developing all aspects of our products and service delivery.

In everyday terms, the Board and management believe our first priority is to “stick to our knitting” and drive our competitive advantage to achieve uniform high standards of performance.

## Opportunities

This does not mean that we will not be seeking growth or studying new possibilities to enlarge our business. Clearly there is considerable potential, and careful evaluation of possibilities is an important aspect of prudent management.

However, in view of some unsettling events in the insurance (and other) industries in recent times, the Board believes it is important to state our intention to concentrate on areas where we have strengths, and to give priority to growing and improving in those sectors where we have well-established expertise and knowledge.

## Risk assessment and management

Throughout our corporate structure we are continually reviewing every aspect of risk, compliance with statutory and other regulatory requirements, and the adequacy of financial reserves.

We have available high quality advice internally and externally on risk management, with specific arrangements for comprehensive assessment of risk across all operations as well as within separate areas of business and products.

## Name of listed holding company

At the AGM this year, shareholders are being asked to approve a change of the name of the company which is listed on the Australian Stock Exchange. This relates to NRMA Insurance Group Limited, the holding company for all of our operations throughout Australia and overseas. The proposed name is Insurance Australia Group Limited.

Bearing in mind the understandable feelings of heritage and tradition attached to the NRMA, it is important to emphasise that this step will not affect the continuing use of the NRMA Insurance name as a very respected and trusted brand.



I would urge shareholders to read and consider carefully the Explanatory Notes provided with the Notice of Annual General Meeting.

As part of our ambitious plans for the future, the Board believes a new holding company name should represent in very plain terms our group strength, diversity and extent of operations. Using the name of Insurance Australia Group as proposed for the holding company listed on the stock exchange will be evidence of a new and separate identity from NRMA Member Services, but will not affect our close working partnership with that organisation, or our continuing use in everyday business of the valuable NRMA Insurance brand.

We believe the new name is a simple and understandable statement of the nature and extent of our business operations, as well as our aspirations to be the leader in our field.

#### **Partnership with NRMA Member Services**

The Board is very aware of the need to work closely and co-operatively with NRMA Member Services to overcome some issues following the separation of the two organisations.

There are overwhelming reasons for us to remain business partners, and to work towards providing the best possible services and benefits to members and shareholders.

#### **Results for past year**

These are dealt with in the report by the Acting Chief Executive Officer Ian Brown. Whilst there are pleasing

improvements in our core insurance business, there are obvious areas for continuing attention and review in order to achieve further benefits.

I would like to acknowledge the work of management and staff in achieving real progress in a sometimes difficult environment.

#### **Management**

At the time of writing this report, the Board has announced the appointment of Michael Hawker as Chief Executive Officer and Managing Director-elect, to take effect in December.

Michael has had an outstanding career in banking and financial services in Australia and Europe over the last 17 years. He worked with Citibank and Westpac, and since 1997 has been Group Executive in charge of all Australian consumer and business operations, as well as New Zealand and Pacific Islands businesses.

The Board is very pleased to have Michael as the leader to take our Group into the exciting future ahead.

I wish to publicly acknowledge the contribution by Ian Brown as Acting Chief Executive Officer this year. He has guided the organisation through a critical period and shown real character by his performance.

A handwritten signature in black ink that reads "James Strong". The signature is written in a cursive, flowing style.

**James Strong**  
**Chairman**

# Acting CEO report

The past year was one in which we made great progress against our business objectives, in a somewhat tumultuous environment.

Our listing on the Australian Stock Exchange in August 2000 was an historic event and one that generated considerable public interest and scrutiny. The Managing Director and Chief Executive Officer, Mr Eric Dodd, left the Company in April 2001. I was asked to take on the role of Acting Chief Executive Officer upon Mr Dodd's departure. My efforts since then have been directed at ensuring the business continues to deliver on our Board-approved strategy.

## The result

Our net profit of \$143 million\* for the year ended 30 June 2001 was below the prospectus forecast of \$272 million, due to lower than expected returns from equity markets and inwards reinsurance losses.

The result for our core insurance business was excellent. We reported an insurance profit of \$210 million, 91% higher than the result for the previous year, and ahead of the prospectus insurance profit forecast of \$195 million.

The outstanding insurance result shows that initiatives to better manage our core businesses are succeeding. Both the short tail and long tail portfolios exceeded prospectus underwriting forecasts. Our experience-based statistical underwriting approach, claims management initiatives, expense control and expansion through new products and acquisitions all contributed to this result.

While investment returns improved in the second half of the year, the flat performance of equity markets for the full year more than accounted for the shortfall against our profit forecast in the prospectus. We no longer write inwards reinsurance business, and have taken measures aimed at avoiding further disappointing reinsurance results.

By delivering on our strategy, we have nearly doubled our operational result compared to last year.

## Diversification

During the year, we markedly increased our geographic and product diversification by growing the existing business, acquiring State Insurance in New Zealand and taking on the ex-HIH Australian workers' compensation portfolio.

More than 50% of our revenue now comes from products other than motor vehicle insurance. We are now writing 42% of gross premium outside New South Wales and the Australian Capital Territory, up from 34% at the start of the financial year.

## Shareholder returns

It is also pleasing to see that the market rewarded us for our focus on the business, with the share price moving upwards during the year.

A final, fully franked dividend of six cents per share was declared by the Board of Directors. This takes the total dividend for the year to 10 cents per share, fully franked.

\*\$143 million is the relevant comparison for the prospectus, even though the statutory result is \$122 million. See note 5 on page 47.



## Moving ahead

In the year to come, we will continue to grow and improve margins in our core insurance business, and develop our newer businesses as sources of long-term growth. Product and geographical diversification will remain important in our strategy.

In the core business, we will concentrate on integrating recent acquisitions and realising returns from them, growing the size of our short and long tail portfolios, managing expenses and finding new efficiencies. Our efforts in the emerging businesses of health insurance, and small to medium sized business insurance will be directed at establishing greater market share through innovative product features and positioning.

Our competent, professional management team and staff are key elements to help us deliver on our strategy. Growth will come from developing and retaining people who show leadership in delivering excellent service to customers and sustainable, quality earnings to shareholders.

It has been obvious that during a period of such rapid change we need to improve our communication with our customers, staff and shareholders. It is a priority to ensure that all stakeholders appreciate where we are heading and why.

As a leader in the general insurance markets in Australia and New Zealand, we have a clear growth strategy and a continuing focus on the core business. We are well positioned to deliver further growth in the 2001/2002 year.

On a personal note I would like to thank very sincerely the Board, management and staff for the support I have received during my term as Acting CEO.

**Ian Brown**

**Acting Chief Executive Officer**

## Key elements of the full year result (compared with the previous corresponding period) include:

- **Gross written premium** up 21% to \$3,198 million.
- **Net earned premium** up 16% to \$2,776 million.
- Improvement in the **combined ratio** (claims and expenses to net earned premium) from 107.5% to 100.8%.
- Improvement in the **insurance margin** from 4.6% to 7.6%.