



NRMA Limited

ACN 000 010 506

INFORMATION  
MEMORANDUM

THE FUTURE IS IN YOUR HANDS.



NRMA Insurance Limited

ACN 000 016 722

# What you need to do

## 1. Check that you have received everything

You should have received with this document a separate envelope containing:

- a letter from the President of NRMA Limited ('Association') and Chairman of NRMA Insurance Limited ('Insurance')
- your Share Allocation Form
- your Proxy Form(s) to lodge if you cannot or choose not to attend the meetings in person
- a reply paid envelope for returning the Proxy Form(s)

If you did not receive any of these, please contact the Members' Information Line as soon as possible.

## 2. Read this document carefully

## 3. Check the details on your Share Allocation Form enclosed with this document

This Form sets out the number of Shares you will be allocated if the Proposal goes ahead.

## 4. Decide whether to vote for or against the Proposal

## 5. Vote

Meetings of Association and Insurance will be held at Sydney Convention and Exhibition Centre – North, Darling Harbour, Sydney on Wednesday 19 April 2000 at which Members will have an opportunity to vote for or against the Proposal. To vote at the meetings relevant to you either:

- Complete the Proxy Form(s) for the resolutions you are eligible to vote on if you will not be attending the meetings in person. Return them using the envelope provided (see instructions on the Proxy Form(s)).
- OR
- Attend the meetings you are eligible to attend and vote in person. Please bring your Share Allocation Form with you to assist in registration.

**If you wish to vote by proxy, make sure the Returning Officer receives your completed Proxy Form(s) by 5.30pm on Monday 17 April 2000.**

## 6. Keep your membership current

It is important to keep your membership current up to the Register Date (which is expected to be 19 April 2000), so that you can vote on the Proposal and receive any Shares allocated to you if the Proposal goes ahead (see page 48).

## 7. If you need further information

If you have any questions, please contact the Members' Information Line.

**Members' Information Line**  
**1300 361 646**

# Key information

## The purpose of this document

This document will help you, as a Member, to decide whether to vote for or against the Proposal.

The Proposal relates to changes in the corporate and membership structure of the NRMA Group, which include the demutualisation of Insurance. This document also gives you notice of meetings of Association and Insurance to consider the Proposal.

This document has been sent to you as a Member. Depending on whether you are recorded as:

- an Association Only Member – a person who is a member of Association, but not of Insurance;
- a Dual Member – a person who is a member of both Association and Insurance; or
- an Insurance Only Member – a person who is a member of Insurance, but not of Association,

you will be eligible to vote on different aspects of the Proposal.

The Proxy Form(s) enclosed with this document indicates whether you are recorded as an Association Only Member, Dual Member or Insurance Only Member. The Proxy Form(s) also indicates those resolutions on which you are eligible to vote at the meetings of Association and Insurance.

## It is important that you vote

The Boards believe that this is a major decision for you as a Member and for the NRMA Group and, therefore, urge you to vote.

You will receive your Shares if the Proposal goes ahead and you keep your membership current up to the Register Date, even if you do not vote or you vote against the Proposal.

Please ensure that you participate fully in this process by reading this document, voting and keeping your membership current up to the Register Date (see page 48).

## When and where the meetings will be held

The meetings of Association and Insurance will be held at Sydney Convention and Exhibition Centre - North, Darling Harbour, Sydney on Wednesday 19 April 2000 commencing at 9.30am (Sydney time). There are six meetings to be held on that day and they will be held consecutively.

**The Proposal cannot proceed unless all resolutions are passed by the required majorities (see pages 34 to 37). Some resolutions are required to be passed by at least 75% of votes validly cast, others by more than 50% of votes validly cast. Part of this process involves three Schemes of Arrangement for Association and two for Insurance. As a result, Court approval will also need to be obtained (see pages 34 to 37).**

If all of these things occur (that is, both Members and the Court approve the Proposal), a further meeting of Insurance will be needed to implement its demutualisation ('Insurance Demutualisation Meeting'). Notice of the Insurance Demutualisation Meeting will be given by newspaper advertisement. If all resolutions at the meetings scheduled for 19 April 2000 are passed, each Member, regardless of whether they vote or which way they vote on those resolutions, will be deemed to have appointed a proxy to vote on behalf of the Member in favour of the demutualisation of Insurance at the Insurance Demutualisation Meeting. However, a Member may ask the NRMA in writing to revoke the proxy and may appoint their own proxy if they wish. The proxy will also be revoked if a Member attends the Insurance Demutualisation Meeting and votes in person. Members wishing to revoke the proxy should call the Members' Information Line on 1300 361 646 or attend the Insurance Demutualisation Meeting and vote in person (see page 37 for further details).

## Results of the vote

The results of the vote on each resolution will be available at, or soon after, each meeting. Results will also be published in major Australian newspapers.

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## A few important words

A few important words are used frequently throughout this document. Here is their meaning:

<b>Association:</b>	NRMA Limited (ACN 000 010 506).
<b>IMA:</b>	Insurance Manufacturers of Australia Pty Limited (ACN 004 208 084), a joint venture company owned by the Insurance Group and RACV which now operates their short tail personal insurance manufacturing operations in New South Wales, the Australian Capital Territory and Victoria.
<b>Insurance:</b>	NRMA Insurance Limited (ACN 000 016 722).
<b>Member:</b>	you can be a member only of Association (an Association Only Member), or only of Insurance (an Insurance Only Member), or of both Association and Insurance (a Dual Member). When we refer to a member of only one company, we use Association Member or Insurance Member.
<b>NIGL:</b>	NRMA Insurance Group Limited (ACN 090 739 923), which will be the immediate holding company of Insurance and NRMA Building Society Limited if the Proposal goes ahead.
<b>Register Date:</b>	the date on which the Scheme Meetings and the Special General Meetings are held and the resolutions put to those meetings passed.
<b>Share:</b>	an ordinary share in the capital of NIGL.

See the **GLOSSARY** (page 155) for the meaning of other expressions and abbreviations used in this document. Also included is an **INDEX** of key matters (see pages 156 to 157). References to pages are to pages in this document.

## References to reports in this document

Throughout this document there are references to, and extracts from, the report prepared by the consulting actuary, PricewaterhouseCoopers, and the Independent Financial Experts' reports prepared by Deloitte Corporate Finance and Ernst & Young Corporate Finance. These references and extracts are included subject to the assumptions, qualifications and context in which they appear in the reports which are set out in full in this document. Members should refer to and carefully consider the content of each of the reports contained in this document.

# 1. An outline of the Proposal

## What is the Proposal about?

The Proposal is a change to the corporate and membership structure of the NRMA Group.

Under the Proposal:

### Association will:

- remain a mutual;
- continue to provide road and related motoring services;
- be in a strong financial position, even after allowing for the impact of the Business Relationship Agreements, through an allocation of 146.5 million Shares in NIGL;
- give up its special rights as a member of Insurance, including its practical control over the management of Insurance's businesses and its right to any surplus assets on a winding-up of Insurance;
- retain ownership of those NRMA Trade Marks used for its road and related motoring services businesses;
- assign to the Insurance Group those NRMA Trade Marks which are now exclusively used for the Insurance Group's insurance and financial services businesses, even though they are currently owned by Association;
- grant the Insurance Group a licence to use those NRMA Trade Marks which both Association and the Insurance Group intend to use concurrently;
- maintain a close relationship with the Insurance Group during the term of the Business Relationship Agreements; and
- have its own separate board and senior management team.

### Association Members will:

- retain their membership of Association, including the right to access road and related motoring services provided membership fees are paid as they fall due; and
- as Insurance Members (all Association Members are, or will become, Insurance Members under the Proposal) become Shareholders in NIGL provided they keep their membership current up to the Register Date.

### Insurance will:

- demutualise (that is, change from a mutual company to a shareholder-owned company);
- become a wholly-owned subsidiary of NIGL;
- maintain a close relationship with Association during the term of the Business Relationship Agreements; and
- have its own separate board and senior management team.

### Insurance Members will:

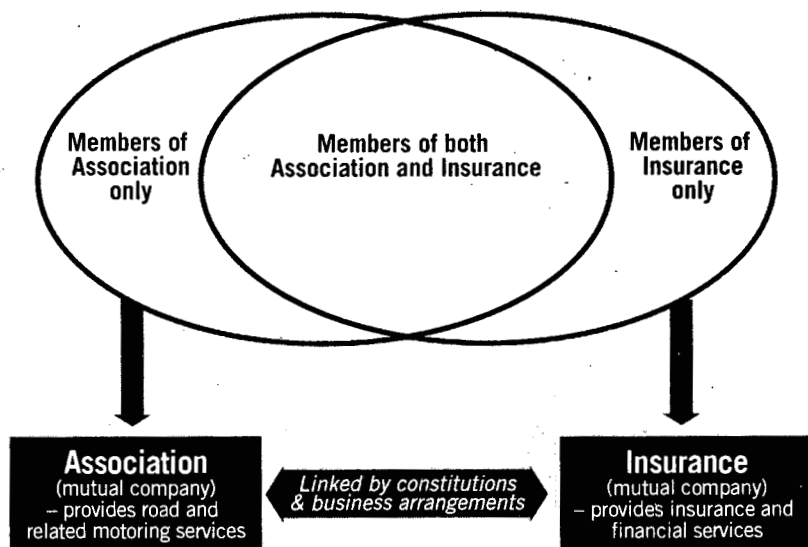
- keep their existing policies and their rights as policyholders. Insurance policy features and benefits will not change as a result of the Proposal;
- give up their membership rights in Insurance; and
- become Shareholders in NIGL provided they keep their membership current up to the Register Date.

In addition, if the Proposal goes ahead:

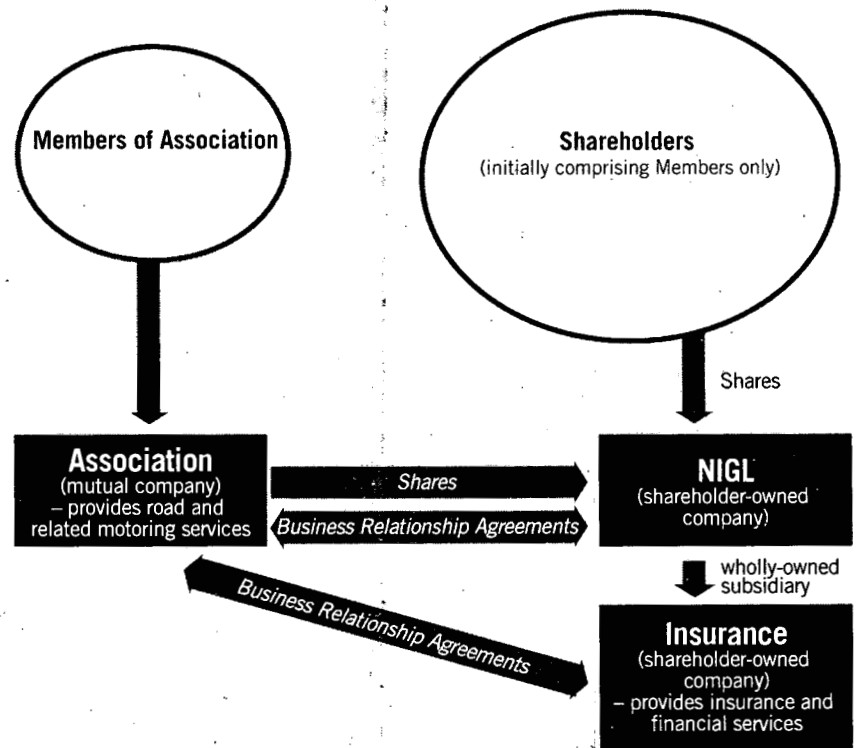
- Association membership fees will not increase until 30 June 2001 (other than for the effect of the introduction of GST). Thereafter, it is expected that membership fees will be increased using the Consumer Price Index as a guide;
- current road and related motoring services and service levels will be maintained, if not improved;
- insurance premium rates will not increase as a consequence of the Proposal. However, a number of market and other industry factors unrelated to the Proposal, such as GST, may lead to premium rate increases in the future; and
- NRMA products and services will continue to be distributed in much the same way as they are today.

Set out below are diagrams showing the current dual mutual structure and the proposed structure of the NRMA Group.

CURRENT STRUCTURE



PROPOSED STRUCTURE



If the Proposal is approved by Members and the Court, the Proposal will be implemented (subject to approval by the Federal Treasurer of Insurance becoming a wholly owned subsidiary of NIGL under the Financial Sector (Shareholdings) Act – see page 147). If not, then the current dual mutual structure of the NRMA Group will continue and no Shares will be issued (see page 16).

NIGL intends to list on the Australian Stock Exchange in the second half of 2000. Listing is the process by which a company is admitted to the official list of the Australian Stock Exchange and has its shares quoted on the Exchange's stock market. Once NIGL lists and its Shares are quoted, the Shares may be bought or sold on the Australian Stock Exchange.

As part of the Proposal, a number of important amendments will also be made to the constitutions of Association and Insurance (see pages 34 to 35).

## What will the Proposal mean for Association and its Members?

### Who is an Association Member?

Generally, a person is an Association Member if they purchased road service from Association before midnight on 25 February 1999 and, at the time of purchasing road service, they agreed to become a member of Association, and they have kept their membership current.

No new Association Members have been admitted since midnight on 25 February 1999, except as provided in the Membership Principles.

See page 47 for further details.

### Will Association membership be affected?

Association will remain a mutual company whose objects include the ongoing provision of road and related motoring services to its Members.

Association Members will keep their Association membership rights (see page 38) provided membership fees are paid as they fall due, including the right to access road and related motoring services and to vote at general meetings and on the election of Association directors.

### Will Association's financial position be affected?

The Proposal has been designed to keep Association financially viable for the foreseeable future through an allocation of Shares in NIGL and an ongoing business relationship between Association and the Insurance Group during the term of the Business Relationship Agreements.

Under the Proposal, Association will receive an allocation of 146.5 million Shares in NIGL (representing 10% of NIGL's Shares) with an estimated value of \$381 million to \$440 million (based on Ernst & Young Corporate Finance's estimate of the market price of a Share had the Proposal been implemented and the Shares traded on the Australian Stock Exchange at 14 February 2000 of between \$2.60 and \$3.00). The basis and limitations of that estimate are discussed on pages 91 to 94. PricewaterhouseCoopers estimated the value of the proposed Association shareholding in NIGL to be between \$320 million and \$400 million for the purposes of developing the Share Allocation Rules and preparing capital adequacy models (see page 128).

Association must sell down its shareholding in NIGL through the Facility so that it holds 29.3 million Shares (initially representing 2% of NIGL's Shares) following listing of NIGL. When Association sells down that shareholding, there can be no assurance that Association (or Members who wish to sell their Shares in the Facility) will receive the estimated amounts per Share referred to above. This will depend on a number of factors including the general level of the sharemarket and insurance and financial services sectors at or around listing of NIGL, the number of Members who elect to sell their Shares in the Facility and the level of demand for Shares at that time. For a certain time, Association must maintain a shareholding of at least 29.3 million Shares (see page 145).

PricewaterhouseCoopers concluded that 'the Proposal will have a beneficial effect on Association Members' interests in Association. The Proposal provides for additional capital to be injected into Association in the form of an allocation of shares in NIGL in excess of that required to maintain its current level of capital adequacy' (see page 126).

PricewaterhouseCoopers also reviewed financial viability in the context of Association's capacity to continue to provide benefits and services at their current levels whilst holding membership fees fixed until 30 June 2001 (other than for the effect of the introduction of GST) (see page 124). PricewaterhouseCoopers concluded that 'if the Proposal is implemented, allowing for the effects of the Business Relationship Agreements and the allocation of 10% of NIGL's shares, there is a higher degree of confidence in the ongoing financial viability of Association and its ability to fulfil the above objective than under the existing budgets and structure' (see page 121).

Deloitte Corporate Finance considered the value of Shares allocated to Association in forming its opinion to Association Members on the Proposal and concluded that the 'Shares allocated to Association are sufficient to enable it to carry out its stated objectives for the foreseeable future' (see page 62).



## What will Association and Association Members give up?

If the Proposal goes ahead, Association will give up its special rights as a member of Insurance, including:

- the Association Board's power to appoint and remove Insurance directors. Currently, a majority of Insurance directors must be Association directors; and
- its right to any surplus assets on a winding-up of Insurance.

The Association Board's power to appoint and remove Insurance directors gives it practical control over the management of Insurance's businesses. However, Association does not have complete control over Insurance. Directors of Insurance, even if appointed by Association, must still act in the best interests of all Insurance Members and may not necessarily act in accordance with Association's wishes.

In addition, certain NRMA Trade Marks, which are owned by Association, are currently used by both Association and Insurance, or by Insurance alone. Under the Proposal, Association will retain ownership of the NRMA Trade Marks used for its road and related motoring services businesses and will assign to the Insurance Group the Insurance and Financial Services Trade Marks which are exclusively used for Insurance's insurance and financial services businesses. Association will grant the Insurance Group a licence to use those NRMA Trade Marks that both Association and the Insurance Group intend to use concurrently. PricewaterhouseCoopers has concluded that the Insurance and Financial Services Trade Marks would be valued at not more than \$30 million to \$40 million (see page 133). This valuation is limited to those trade marks. It is not a valuation of all the NRMA Trade Marks.

Association also has agreed, under the Business Relationship Agreements, that, if the Proposal goes ahead, it will not conduct insurance and financial services activities in the future.

The constitution of:

- Association will be amended to remove the object that Association provide and arrange insurance and to provide that certain provisions will not apply to Insurance if it demutualises; and
- Insurance will be amended to remove the object to generally assist and co-operate with Association in the attainment and promotion of Association's objects.

Association Members will allow Association to give up its special rights as a member of Insurance.

See pages 38 and 50 for further details on the above matters.

## What will happen to Association membership fees and road service rights and benefits?

The Proposal is designed to allow membership fees to be maintained without increase until 30 June 2001 (other than for the effect of the introduction of GST). Thereafter, it is expected that fees will be increased using the Consumer Price Index as a guide.

The Proposal is also designed to allow current road and related motoring services and service levels to be maintained, if not improved. This will be due primarily to the strong financial position of Association if the Proposal goes ahead.

## What will the Proposal mean for Insurance and its Members?

### Who is an Insurance Member?

Generally, a person is an Insurance Member if they take out an eligible policy issued by Insurance and, at the time they take out that policy and at each renewal of that policy, they are an Association Member, a member of the Royal Automobile Club of Australia or an employee of an NRMA Group company. A person will cease to be an Insurance Member if they let all their eligible policies lapse or all their policies are cancelled.

All policies issued by Insurance are eligible policies except compulsory third party (CTP) policies and travel policies (there are limited exceptions to this rule), policies taken out after midnight on 25 February 1999 by a person who was not an Insurance Member at midnight on 25 February 1999, policies issued subject to the condition that the person taking it out will not become nor seek to become an Insurance Member and policies of inwards reinsurance. In addition, life insurance policies are not eligible policies because they are issued by NRMA Life Limited (and not Insurance).

Association and the directors of Insurance (so long as they hold that position) are also Insurance Members.

No new Insurance Members have been admitted since midnight on 25 February 1999, except as provided in the Membership Principles.

See pages 47 to 48 for further details.

## Will the Insurance Group's financial position and policyholder security be affected?

The Insurance Board believes that the Insurance Group's financial position and policyholder security will be adequately protected if the Proposal goes ahead.

Pro forma financial information for the Insurance Group is set out on pages 110 to 117. This information is provided in order to illustrate the anticipated effect of the Proposal on the financial position and results of the Insurance Group for the 1998 and 1999 financial years, based on certain assumptions set out on page 118.

PricewaterhouseCoopers concluded that 'irrespective of whether the Proposal is implemented or not, there is a high degree of confidence that the Insurance Group's capital will be adequate to meet its obligations and continue normal business operations, taking into account the Insurance Group's near term business plans. As a result of the Proposal, the Insurance Group via NIGL would have greater access to external capital through the Australian Stock Exchange which would improve its future financial flexibility' (see page 121).

PricewaterhouseCoopers examined the likely effect of the Proposal on the security of policyholder benefits and concluded that 'In our view, Policyholders' security and reasonable expectations will not be prejudiced and will be adequately protected if the Proposal is approved and implemented' (see page 121).

## What will Insurance and Insurance Members give up?

Insurance Members will give up their membership rights in Insurance. Insurance Members (other than Association) have a number of membership rights, including the right to vote to:

- remove Insurance directors (Insurance Members do not have the right to appoint them); and
- change the constitution of Insurance, subject to Association's special rights as an Insurance Member.

Insurance has agreed, under the Business Relationship Agreements, that, if the Proposal goes ahead, it will not conduct roadside assistance services, motoring product or transportation and travel services (other than travel insurance) activities in Australia or New Zealand in the future.

The rights of Insurance Members (other than Association) are explained in more detail on pages 38 to 39.

Association's special rights as an Insurance Member are explained in detail on pages 39 and 50.

## What will happen to insurance premium rates and policy features and benefits?

Insurance premium rates will not increase as a consequence of the Proposal. Premium rates are charged on a commercial basis, having regard to a number of factors, including the appropriate rating of different risks and the desired return on capital as determined by the Insurance Board. This approach is not expected to change (see page 31). However, a number of market and other industry factors, unrelated to the Proposal (such as GST) may lead to premium rate increases in the future.

Existing policy features and benefits will not change as a result of the Proposal. Your policies will continue to be protected by the insurance regulatory safeguards supervised by APRA and ASIC. These are designed to protect the financial strength and integrity of general insurance companies and the rights of their customers.

Insurance has recently entered into an alliance with RACV, the major road service association in Victoria (see page 146). The parties will pursue that alliance through a joint venture company, IMA. As part of that alliance, personal lines insurance policies to be sold by Insurance in New South Wales and the Australian Capital Territory, and distributed by RACV in Victoria, will, in all likelihood, be standardised at some time in the future. Any changes to policy features and benefits resulting from that standardisation have not yet been determined. However, it is not expected that policyholders will be disadvantaged in an overall sense by that standardisation. This change will take place regardless of whether the Proposal goes ahead.

## Will Insurance's claims management principles change?

Insurance's current approach to claims management will not change as a consequence of the Proposal. The success of Insurance can be partly attributed to its claims management principles. All claims (excluding CTP and third party liability personal injury claims) in New South Wales, Victoria and the Australian Capital Territory will continue to be managed by IMA. Claims in other places will continue to be managed by Insurance (or its subsidiaries). It is expected that this will not involve a change to Insurance's claims management principles. See page 31 for details of Insurance's claims management principles.

## Who will control the Insurance Group?

No single person or entity will be able to control the Insurance Group in the five year period after the Listing Date, because under NIGL's constitution, no person will be permitted to become entitled to more than 5% of the Shares during that period. These provisions may limit the potential for a takeover of NIGL in the short to medium term. Important exceptions to this limit are that Shareholders may approve a larger entitlement by special resolution (that is, a resolution approved by at least 75% of votes validly cast) and that, if authorised by ordinary resolution of Shareholders, the NIGL Board may approve an entitlement of up to 15% of the total number of Shares. See page 138 for further details.

During the five year period after the Listing Date, when the 5% limit referred to above applies, the Shares are likely to be widely held. For that reason, a person who becomes entitled to more than 5% of the Shares (eg because Shareholders in general meeting approve an entitlement of up to 15%) may be in a position to exercise substantial influence over matters determined by Shareholders (such as appointment and removal of directors and directors' remuneration).

## What will Members receive?

### Will Members get Shares?

You will receive Shares in NIGL if the Proposal goes ahead provided you keep your membership current up to the Register Date (see page 48).

The number of Shares to be allocated to you is set out on the Share Allocation Form enclosed with this document. Association and Insurance jointly reserve the right to correct the allocation of Shares shown on your Share Allocation Form if it is found to be incorrect (see page 47).

NIGL will send you a statement to confirm your shareholding.

If you live outside Australia, the Shares allocated to you will be issued to the trustee of the Entitlements Trust who will sell them and pay the net proceeds to you in cash (see page 42).

If you keep your Shares, you may receive dividend payments from time to time. The NIGL Board intends that no dividend will be paid by NIGL before the time NIGL lists on the Australian Stock Exchange.

For further information about receiving Shares see pages 41 to 49.

## Are the Share Allocation Rules fair and reasonable?

The Boards have approved the Share Allocation Rules, which were based on a recommendation of PricewaterhouseCoopers as the consulting actuary. PricewaterhouseCoopers formed the view that the Share Allocation Rules provide a fair and reasonable basis for allocating Shares to Members (see page 121). In particular, the Share Allocation Rules recognise that:

- Association will give up its special rights as a member of Insurance;
- Association will assign or licence its rights over certain NRMA Trade Marks to the Insurance Group under the Business Relationship Agreements;
- Association and all Association Members should receive Shares on account of Association giving up its special rights as an Insurance Member and entering into the Business Relationship Agreements;
- Insurance Members will give up membership rights in Insurance; and
- the Share Allocation Rules should be practical.

After considering these issues, PricewaterhouseCoopers recommended that 50% of all the Shares in NIGL to be issued under the Proposal be allocated to Association (10%) and to Members based on Association membership (40%) and that 50% be allocated to Insurance Members (excluding Association) (see page 129). More than 60% of Members are Dual Members and as such will be allocated Shares based on membership of both Association and Insurance.

In allocating Shares based on Association membership, PricewaterhouseCoopers recommended that half of the Shares be allocated on a per member basis and that the balance be allocated on a per year of membership basis (see page 129).

The basis for PricewaterhouseCoopers' recommendation that part of the allocation of Shares to Association Members be based on years of Association membership is that years of membership are, in its opinion, the simplest and most practical way to reflect an Association Member's contribution to the wealth of the NRMA Group (see page 129).

In allocating Shares between Insurance Members (excluding Association), PricewaterhouseCoopers recommended that half of the Shares be allocated on a per member basis and that the balance be allocated on a per policy basis (see page 129). All policies held by an Insurance Member at midnight on 25 February 1999, except policies of interim insurance (that is, cover notes and temporary cover) which did not subsequently become policies of permanent insurance before the expiry of their term and policies of inwards reinsurance, will be considered for the purposes of Share Allocation in accordance with the Share Allocation Rules (see rule 2.4 on page 45).

The basis for PricewaterhouseCoopers' recommendation that part of the allocation of Shares to Insurance Members be based on the number of policies held with Insurance is that the number of policies held is, in its opinion, the most practical way to reflect an Insurance Member's contribution to the value of Insurance (see page 129).

The Share Allocation Rules were reviewed by both Deloitte Corporate Finance and Ernst & Young Corporate Finance in forming their respective opinions on whether the Proposal is in the best interests of Association Members and Insurance Members.

Deloitte Corporate Finance concluded that 'in the overall context of the Proposal, the Share Allocation Rules are fair and reasonable and the Shares allocated to Association Members are a fair exchange for Association Members' rights foregone' (see page 62).

Ernst & Young Corporate Finance is in agreement with the opinion of PricewaterhouseCoopers, as consulting actuary, subject to the limitations set out in Sections 6.3.4 and 7.3.3 of Ernst & Young Corporate Finance's report (see pages 81 to 82 and 87).

### What will the Shares be worth?

The value of the Shares will reflect:

- the value of the Insurance Group, including Insurance's capital and anticipated future profits; and
- any premium or discount which the stock market may place on the value of the Insurance Group's businesses after NIGL is listed.

Ernst & Young Corporate Finance estimates that the market price of a Share, had the Proposal been implemented and the Shares traded on the Australian Stock Exchange at 14 February 2000, would have been between \$2.60 and \$3.00 per Share (based on the issue of 1.465 billion Shares).

The estimation of the market price of a Share provides an indication of the value that could be accessed by Members under the Proposal. The basis of this estimate is discussed on pages 91 to 94.

Members should be aware that the estimate referred to above is based on the financial position of Insurance, the conditions of the insurance industry, Australian economy and financial markets as at 14 February 2000 (the date of Ernst & Young Corporate Finance's report). The estimate is subject to changes in the market assessment of NIGL and the overall state of the market at the Listing Date and beyond and may vary significantly from the prices estimated. The market price will also be affected by the contents of the offer document issued prior to the Listing Date and other information disclosed about NIGL and the Insurance Group if the Proposal goes ahead.

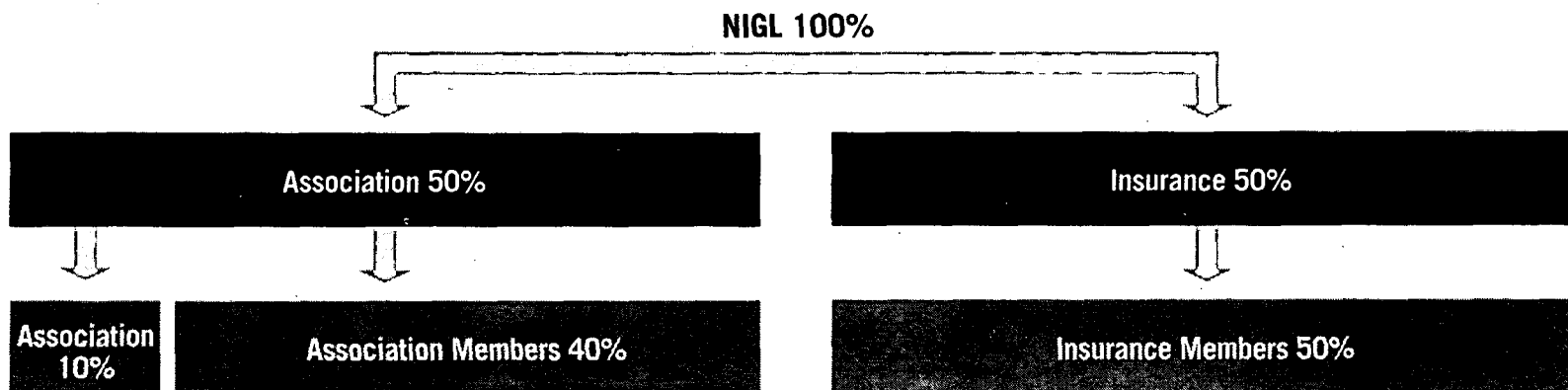
Deloitte Corporate Finance conducted a review of the estimate of the market price of a Share prepared by Ernst & Young Corporate Finance and concluded that the valuation conclusions reached by Ernst & Young Corporate Finance were reasonable (see page 60).

PricewaterhouseCoopers, in its role as consulting actuary, made its own estimate of the value of the Shares for the purpose of developing its recommendations on the allocation of Shares under the Proposal and for preparing capital adequacy models in relation to Association. Based on the number of Shares to be issued to Association under the Proposal, PricewaterhouseCoopers estimated that each Share as at 14 February 2000 would be worth between \$2.18 and \$2.73 (see page 130).

### How and when can you sell the Shares?

You will be able to sell your Shares on or after the Listing Date. NIGL intends to list on the Australian Stock Exchange in the second half of 2000.

The Share Allocation Rules are set out on pages 43 to 47. The allocation of Shares as between Members is set out below:





The NIGL Board intends to issue an offer document, before the Listing Date, setting out detailed financial and other information about the Insurance Group. The NIGL Board also intends to establish a Facility to enable Members to buy or sell Shares on or near the Listing Date. You will receive more information about the Facility closer to the Listing Date (see page 36).

You will not be able to sell your Shares (or dispose of any interest in them) before the Listing Date except in very limited circumstances (see page 138). This restriction, which is consistent with other Australian demutualisations, will help ensure that Members are not disadvantaged by selling their Shares in an unofficial market at a lower price than may be available on or near the Listing Date.

Although the NIGL Board intends that NIGL will list during the second half of 2000, it is not possible to be certain when, or if, NIGL will list.

### What other rights will you have?

Association Members will retain their membership rights which include the right to access road and related motoring services provided membership fees are paid as they fall due.

Members (including Association) will become Shareholders in NIGL. As Shareholders, they will have certain rights in relation to NIGL. They include the right to vote (on the basis of one vote per Share on a poll) on the election of directors of NIGL and changes to NIGL's constitution. Those rights are conferred by the constitution of NIGL and at law, and are set out on pages 39 to 40 and 138 to 139.

A comparison of the rights of Insurance Members and the rights of Shareholders appears on pages 39 to 40.

The rights of policyholders will not change as a result of the Proposal.

### What if you are the legal personal representative of a Deceased Member?

If a Member died after 25 February 1999 and you are the legal personal representative (or beneficiary) of that Member, you are entitled to be allocated the Shares which would have been allocated to the Deceased Member had he or she lived (and remained a current Member). To receive such an allocation (which is separate from and in addition to any allocation you may receive in your own right), you must:

- have provided the NRMA with appropriate evidence of your authority to act in respect of the Deceased Member's estate or, if you are a beneficiary, the Deceased Member's legal personal representative must have provided to the NRMA appropriate evidence of their authority to act and duly nominated you as the Share recipient; and

- where necessary, become an Association Member or an Insurance Member and, in all cases, agree to become a member of NIGL.

If you have not provided the NRMA with such evidence (or not become an Association Member or an Insurance Member) by the date of the Insurance Demutualisation, then:

- if you are the legal personal representative of a deceased Association Only Member, your entitlement to Shares in respect of the Deceased Member will cease; or
- if you are the legal personal representative of a deceased Insurance Member, NIGL will issue you the Shares when you provide the evidence of your authority to act and agree to become a member of NIGL.

### What are the potential tax, pension and allowance consequences of receiving Shares?

Members will not be liable to pay tax on receipt of the Shares issued to them under the Proposal.

Depending on your personal circumstances, there may be some tax, pension or allowance consequences of owning Shares. For example:

- receiving dividend payments may cause you to pay more tax, and tax is likely to be payable on any gain you make on disposal of Shares (see pages 42 to 43);
- receiving Shares may reduce your pension or allowances (or those of your dependants) because you have greater income and assets. The Australian Council of Social Service (ACOSS) analysed the likely effect of the proposed demutualisation of Insurance and resulting allocation of Shares on those Members in receipt of pensions or allowances. Its report was based on certain assumptions (see page 43). The report's key findings were that:
  - about 240,000 Members (or 23% of the estimated number of Members in receipt of pensions or allowances) will experience a reduction of \$1 to \$2 per fortnight to their payment; and
  - approximately 1,200 Members (or 0.12% of the estimated number of Members in receipt of pensions or allowances) will lose their entitlements, including their entitlement to the Pensioner Concession Card. The Members affected are those who are in receipt of a reduced rate of pension or allowance.

Members who believe the Proposal may affect their pension or allowance entitlement or require more information on these consequences can contact the **Pensions and Retirement Information Hotline** on **1300 138 837** for further information. Further information about these consequences of the Proposal is set out on page 43.

## Will NRMA directors, executives and employees get Shares?

Association, Insurance and NIGL directors and NRMA executives and employees will not receive any Shares under the Proposal except as Members.

All directors of Association, Insurance and NIGL are Association Members and, except in the case of Mr M A Coyne, Mr A R Sanchez, Ms F J Singleton and Mr I F Yates, Insurance Members and as Members, along with the NRMA executives and employees who are also Members, will receive Shares in respect of their membership in accordance with the Share Allocation Rules. Mr N D Hamilton was admitted as an Association Member so that he could join the Insurance Board. Mr Hamilton has indicated that he will donate to charity the net proceeds from the sale of Shares he will receive if the Proposal goes ahead (see page 48).

The NIGL Board will not introduce any share or share option plans for directors, senior management or other employees prior to the Listing Date. It is likely that the Shareholders of NIGL will be asked to consider the introduction of share or option plans for directors, senior management and other employees some time after listing. However, no plans of this type have yet been developed.

The Share Allocation Rules set out special provisions for calculating the number of years of Association membership of certain NRMA Group employees. These special rules have the potential to lengthen their years of Association membership to include their continuous years of service (if greater than their years of honorary Association membership) and any Association membership years held by the employee on commencing employment. As a result, these employees may receive an allocation under the Share Allocation Rules which is greater than that received by other Members in the same circumstances. The Boards believe that this is an appropriate reward for their years of service and their loyalty to the NRMA.

## Will Association and Insurance still have links?

A close relationship between Association and the Insurance Group will continue through a series of contracts between Association, Insurance and NIGL. These contracts are referred to as the Business Relationship Agreements.

The Business Relationship Agreements will clarify the scope of activities that the Association Group and the Insurance Group may undertake in the future, establish the basis for use of the NRMA Brands by both the Association Group and the Insurance Group, and

formalise the business arrangements between the Association Group and the Insurance Group in the distribution of products and services, marketing, information technology and other shared services. The Business Relationship Agreements are intended to enable the Association Group and the Insurance Group to continue to enjoy the benefits of co-operation.

Further details of the Business Relationship Agreements, including the complexities and risks involved and details of the circumstances in which the Business Relationship Agreements may be terminated, are set out on pages 31 to 33. Summaries of the Business Relationship Agreements are set out on pages 139 to 145.

The NIGL Board will initially comprise a number of directors who are also Association directors (see page 33).

## How was the Proposal developed?

An ongoing review of the structure of the NRMA Group culminated in the commissioning of a report from Credit Suisse First Boston on practical alternative corporate and membership structures for the NRMA Group. As a consequence of that report, on 25 February 1999, the Boards resolved to develop and evaluate a proposal involving the continuation of a financially strong road service mutual and the demutualisation and listing of the Insurance Group.

The Proposal has been developed by the Boards with the assistance of management and a number of external experts. The reports of KPMG (as investigating accountant) and PricewaterhouseCoopers (as consulting actuary) are contained in Sections 11 and 12 of this document respectively. Mallesons Stephen Jaques and Counsel provided legal advice to the Boards on the Proposal. In addition, the Association Board and the Insurance Board each received separate legal advice in relation to key aspects of the Proposal.

For further details see pages 18 to 19 and pages 136 to 138.

## Why now?

A majority of Association directors and all Insurance directors believe it is time to address a number of issues affecting either or both of Association and Insurance. These include changes in the markets in which Insurance currently operates, the increasing number of non-member customers of Insurance, the manner in which Members should benefit from wealth which has been accumulated by Insurance over time, the potential for an unsolicited restructuring proposal which may allow Members to access less value than under the Proposal, the business strategy being pursued by Insurance, the current corporate governance arrangements of Association and Insurance and the

debate in the last decade over the best corporate and membership structure for the NRMA Group (see pages 18 to 19 for a discussion on these and other points).

However, four Association directors do not believe that demutualisation of Insurance is necessary for the continuing growth and success of the NRMA Group for the reasons set out on pages 51 to 53.

### Have the Boards considered other options?

The Boards considered a range of other options for the future corporate and membership structure of the NRMA Group. A discussion of these options is set out on pages 26 to 27.

In addition, a members' version of the Credit Suisse First Boston Report, which deals with other options at length, can be reviewed by Members on request (see page 138). A majority of Association directors and all Insurance directors believe that the Proposal is the best option of those considered and is in the best interests of their respective Members as a whole. However, four Association directors do not believe that this is necessarily the case and believe that Insurance should remain a mutual and be strengthened.

### Has the Proposal been independently reviewed?

The Proposal has also been reviewed by independent financial experts from corporate advisory units of major accounting firms with relevant experience in the preparation of reports of this nature. As Association Members and Insurance Members have different interests, separate independent financial experts were appointed for Association and Insurance.

For Association Members, the Proposal has been independently reviewed by Deloitte Corporate Finance which concluded that 'the Proposal is in the best interest of Association Members as a whole' (see page 55). Its full report is set out on pages 55 to 63.

For Insurance Members, the Proposal has been independently reviewed by Ernst & Young Corporate Finance whose report is set out on pages 71 to 95. In conducting its review, Ernst & Young Corporate Finance considered separately the interests of Association as an Insurance Member with special rights, and the interests of all other Insurance Members.

Ernst & Young Corporate Finance's report concludes that 'the Proposal is in the best interests of Insurance Members as a whole' (see page 71). In arriving at this overall opinion, Ernst & Young Corporate Finance is of the view that the Proposal is in the best interest of Insurance Members (excluding Association) and also is in the best interest of Association in its capacity as an Insurance Member.

## How does the Proposal compare with premium rebates?

The Boards considered how the accumulated value of the NRMA Group could be accessed by Members under its current structure. Without changes in the corporate and membership structure of the NRMA Group, the only way Members can access the value of the NRMA Group in a material way is through discounts, rebates or, less directly, enhanced benefits or service levels.

A majority of the Association directors and all Insurance directors believe that the Proposal is more beneficial for their respective Members as a whole than a regime of providing insurance premium rebates for the following reasons:

- the value which could be accessed by Members as a whole through premium rebates would be significantly less than the value of the Shares allocated to Members under the Proposal;
- rebates would provide little or no benefit to Association or to Association members who are not also Insurance members, yet would release value to persons who are not currently Members (in particular, future members and, if rebates were given to all policyholders, current and future non-member policyholders);
- Insurance's capital would be eroded by rebates to the extent that such rebates were not financed by ongoing profitability (note, however, that shareholder dividends can erode the net worth of a company in much the same way). As a mutual, Insurance would be unable to replenish this capital by raising share capital;
- the extent to which rebates could be paid would depend on the capital needs of Insurance's businesses on an ongoing basis;
- based on previous experience the Insurance Board believes that the introduction of rebates may result in a distortion of insurance product pricing in the market;
- rebates create policyholder expectations as to future levels of insurance premium rates and a reduction or withdrawal of rebates may result in higher lapse rates and general policyholder confusion and dissatisfaction;
- Insurance does not currently have significant surplus capital from which rebates can be paid. This is partly due to its acquisition strategy and activities and also due to the types of business that it conducts. This means that rebates would have to be financed primarily from Insurance's future profits;
- as rebates are likely to be paid out over time, policyholders would need to renew their policies on an ongoing basis in order to receive the benefits of future rebates; and

- if rebates were paid to Insurance Members only (and not to all policyholders), there is a significant risk that the amount of rebates paid by Insurance would not be tax deductible to Insurance and that the amount of rebates received by Insurance members would be treated as assessable income of Insurance members.

These views are not unanimously held by Association directors. See pages 51 to 54 in relation to the views of individual Association directors and pages 26 to 27 for a detailed discussion of delivering financial benefits to members.

PricewaterhouseCoopers has estimated that the maximum net present pre-tax value of insurance premium rebates which could be paid to current Insurance Members *only* over time is approximately \$900 million. It has also estimated that the maximum net present pre-tax value of insurance premium rebates which could be paid to current Insurance policyholders over time is approximately \$1.4 billion, although it should be noted that a significant portion of this figure would not be paid to current Members. The above estimates assume normal trading conditions for Insurance and the maintenance of current levels of capital adequacy. See page 27 for a description of PricewaterhouseCoopers' valuation methodology. Accordingly, all directors of Insurance and a majority of Association directors believe that the Proposal is expected to release more value to Insurance Members as a whole than either of these estimated amounts.

## The decision – for or against

### What do the directors think?

A majority of Association directors (comprising 12 of 16) believe that the reasons to vote for the Proposal are more compelling than the reasons to vote against it, that the Proposal is the best option of those considered and is in the best interests of Association Members as a whole. However, four Association directors disagree with this view.

The recommendations of individual Association directors are set out on pages 51 to 54.

All of the Insurance directors believe that the reasons to vote for the Proposal are more compelling than the reasons to vote against it, that the Proposal is the best option of those considered and is in the best interests of Insurance Members as a whole.

The recommendations of individual Insurance directors are set out on page 69.

The composition of both the Association Board and the Insurance Board has changed significantly since the Boards first resolved to develop the Proposal. In the 1999 Association Board elections, three new directors were elected to the Association Board (Mr M A Coyne, Mr A R Sanchez and Mr T P Shaw). Each of them support the Proposal. These new directors replaced directors who did not support the Proposal, thereby changing the ratio of Association directors who support/oppose the Proposal from a majority of 9 to 7 to a majority of 12 to 4.

The reconstituted Association Board met for the first time on 7 December 1999. As is customary, the Association Board considered the composition of the Insurance Board at that meeting. In the period immediately before that date, a number of changes to the Insurance Board had occurred, including the removal of Mr I F Yates on 19 August 1999, the appointment of Mr N D Hamilton on 25 November 1999 and the cessation as a director of Ms G Rankin on 3 December 1999 (the date on which she ceased to be an Association director). The term of all remaining directors on the Insurance Board (other than the Chairman and the Managing Director) was due to expire on 9 December 1999. The Association Board decided on 7 December 1999 to re-appoint each of those directors for a period of approximately two years, with the exception of Ms S M Ryan AO (who supports the Proposal), and Ms F J Singleton and Mr R J Talbot (who do not). The Insurance Board now comprises seven directors, all of whom support the Proposal.

### Why vote for or against the Proposal?

The Proposal:

- has a number of features that Members might consider to be advantages or disadvantages; and
- raises other considerations which some Members may consider to be important.

Members may wish to consider them before deciding how to vote.

The following is a summary of the reasons why Members may decide to vote for or against the Proposal. Each of those reasons is set out in more detail on pages 23 to 26.

The Proposal has been designed so that important features of the current structure or operation of the NRMA Group will not change if the Proposal goes ahead. A number of these features appear as reasons why Members may wish to vote for the Proposal on the facing page.

Members may have other considerations which they think are important in deciding how to vote.



## Reasons why Members may decide to vote for the Proposal

- Association remains a mutual.
- There is no change to the existing membership rights of Association Members.
- Shares are allocated to Members, allowing them to access the wealth of the Insurance Group.
- Members as a whole are able to access more value than can be obtained through insurance premium rebates.
- Association will be in a strong financial position after the Proposal is implemented.
- Road service membership fees will not increase as a consequence of the Proposal.
- Existing road service benefits can be maintained.
- The existing capital strength of Insurance is maintained because the allocation of Shares to Members will not materially reduce the Insurance Group's capital base.
- Insurance premium rates will not increase as a consequence of the Proposal.
- Claims management principles will not change as a consequence of the Proposal.
- The rights of Insurance Members as policyholders (including policy features and benefits) will not change.
- Policyholders' security and reasonable expectations will be adequately protected.
- A close relationship between Association and the Insurance Group will be maintained during the term of the Business Relationship Agreements.
- The close relationship between Association, the Insurance Group and their members and customers will be maintained.
- The Proposal provides an opportunity for Members to realise value from membership rights (including Association's special rights as a member of Insurance) and from certain NRMA Trade Marks.
- Insurance Members obtain ownership rights as Shareholders which are more clearly defined than the rights of Insurance Members under the Insurance constitution.
- Insurance Members' interests as policyholders and owners are separated.
- The Insurance Group will have an enhanced ability to raise equity capital to fund its growth.
- A belief that board and management accountability and focus will increase.
- The Insurance Group and Association will have separate boards and senior management teams.
- There is potential for an unsolicited restructure proposal for Insurance which may release less value for Members than the Proposal.

## Reasons why Members may decide to vote against the Proposal

- Insurance does not remain as a mutual.
- A belief that Insurance should not be demutualised because it is contrary to the founding objectives under which Insurance was established.
- The NRMA Group has performed well under its current structure.
- A disagreement with the way in which the Shares are proposed to be allocated to Members.
- Association will give up its special rights as a member of Insurance.
- Insurance Members will give up their membership rights in Insurance.
- Insurance will have no future constitutional obligation to assist and co-operate with Association in the attainment and promotion of Association's objects.
- There are further implementation costs, including listing on the Australian Stock Exchange and the ongoing costs of maintaining a share register.
- There is no guarantee of when NIGL will be listed, if at all, or how much the Shares will be worth.
- NIGL, as a shareholder-owned company, will have an increased exposure to takeover.
- A belief that it is unfair to distribute the wealth accumulated over time in Insurance to current Members only.
- The business relationship between Association and the Insurance Group will involve the assignment or licensing of certain NRMA Trade Marks to the Insurance Group and involves some risks relating to those trade marks.
- The business relationship between Association and the Insurance Group may be more complex, involve some risks in addition to risks relating to the trade marks and may be terminated in limited circumstances by either Association or the Insurance Group.
- The business relationship between Association and the Insurance Group will be on a more commercial basis and Association will pay more for services provided by Insurance than under current arrangements.
- The future business scope of Association and, to a lesser extent, the Insurance Group will be limited by the Business Relationship Agreements.
- Depending on a Member's personal circumstances, there may be some tax, pension or allowance consequences of receiving Shares.
- Another restructuring option may be preferred to the Proposal.

## What if the Proposal does not go ahead?

If the Proposal does not go ahead for any reason:

- Association will keep its special rights as a member of Insurance;
- Insurance will remain a mutual;
- Insurance Members will keep their membership rights in Insurance;
- Members (including Association) will not receive Shares;
- even though the current dual mutual structure is a significant deterrent, the potential for an unsolicited restructure proposal is likely to increase due to the significant public debate about the Proposal and the release of this document to Members;
- the issues which have led to the development of this Proposal will remain unresolved and another proposal may need to be developed; and
- the Business Relationship Agreements may still be entered into, although consideration would need to be given to appropriate amendments, for example which NRMA Trade Marks should be assigned to the Insurance Group.

When the NRMA's attempted demutualisation of both Association and Insurance failed in 1994, it resulted in significant disruption to the activities of the Boards, management and staff. Both the Association and Insurance businesses were adversely affected through public perception that the NRMA Group had lost focus on serving its members and customers. This perception was also contributed to by the NRMA Group's financial performance in the 1995 financial year, which was adversely affected by, amongst other things, the weak investment market in 1995, discontinuance of rebates and a substantial increase in CTP claims costs and provisioning.

If the Proposal does not proceed, there is potential for disruption to the NRMA Group's businesses. However, a key factor which may minimise this potential disruption and thereby prevent a repeat of the disruption in 1994 is that the NRMA Group's business strategies have been developed such that they are not dependent upon the Proposal going ahead.

# 2. Why the Proposal is being put to Members

In deciding whether to put the Proposal to Members, the Boards considered, amongst other things:

- the place of mutual organisations today;
- the changes in the markets in which Insurance operates;
- the increasing number of non-member customers of Insurance;
- the ability to deliver benefits to Members through rebates;
- the potential for an unsolicited restructure proposal;
- the business strategy being pursued by Insurance;
- the current corporate governance arrangements;
- the current relationship between Association and Insurance; and
- the continuing debate over the best corporate and membership structure for the NRMA Group.

## Mutual organisations today

Mutual organisations grew out of a belief that a group of people can act more efficiently through co-operation for their mutual benefit than if they act alone. In the insurance industry, the key driver for the establishment of mutuals was that certain private insurers would either not provide services or would only provide them at premiums which were significantly higher than warranted by the risks insured.

Mutuals are owned by their members and provide a variety of services to those members for their benefit. Additionally, mutuals often provide indirect benefits to the wider community.

Mutual organisations are, generally, most successful where:

- members have the same product and service needs (for example, as defined by geographic boundaries or special interests); and
- the business of the mutual does not require substantial amounts of initial capital.

Internationally, mutual and shareholder-owned companies co-exist in the general insurance market. In Australia, there are no significant general insurance mutual companies other than Insurance. Until recently, a number of the larger life insurance companies in Australia were mutuals. However, in recent years a number of them (National Mutual, Colonial Mutual and the AMP Society) have demutualised.

There are other successful mutual companies operating in the financial markets around the world. In recent times, however, a number of these companies have been opting to demutualise for a range of reasons, including to address and respond to competitive forces in the market place.

The mutual form of ownership offers advantages that are especially pertinent to the insurance industry. In particular, mutuals can better manage the conflict between owners and customers because members are customers who own the organisation. This means that mutuals may take a longer term view, price their policies more attractively or provide wide community benefits in the absence of stock market and investor pressures. This natural advantage can, however, be eroded to the extent the organisation has non-member customers.

Insurance is not accorded any special tax benefits or concessions compared to shareholder-owned companies. However, both members and non-member policyholders can enjoy the economic benefit of surpluses accumulated by Insurance through discounted services or services provided without charge. Members and policyholders are not generally subject to tax in respect of these services, as distinct from shareholders who are taxed on profits distributed to them as dividends. However, the current Review of Business Taxation by the Commonwealth Government may result in the removal of this tax advantage. These comments apply equally to Association, except that it is not subject to tax in respect of its mutual activities (being those services provided solely to Association members).

Based on the features of successful mutuals, the Boards believe that for a mutual to operate successfully:

- members, board and management need to be committed to the principles of mutuality. These principles need to be clearly understood, articulated and adopted by all stakeholders;
- it needs to be clear about its objectives;
- it needs to seek to maximise benefits for its members alone;
- products and services should be provided exclusively to members (see below);
- there needs to be accountability to the members that is equivalent to that of a listed company; and
- there needs to be maximum transparency to ensure that the correct balance is achieved between member, board and management controls.

Most importantly, however, the mutual structure must be highly valued by its members.

## Changes in insurance markets

The markets in which Insurance operates are significantly different from those which existed when it was formed in 1925 and are continuing to undergo fundamental change as a consequence of:

- consolidation and globalisation of the industry;
- increased competition with other financial institutions (for example, many banks now cross-sell a wide range of products, including general insurance);
- standardisation of key products in the general insurance market; and
- the development and increased importance of technology and alternative distribution networks.

The markets in which Insurance operates, particularly the general insurance markets, are now highly competitive both in terms of product offerings and pricing.

## Increasing number of non-member customers

Association has only a small number of non-member customers, while Insurance has a large and growing number of non-member customers.

The number of non-member customers in Insurance has grown significantly in recent years as Insurance has implemented its Board-approved strategy of growth and diversification outside of New South Wales and the Australian Capital Territory (see page 30). Recent transactions involving SGIO and RACV are examples of this expansion and the number of non-member Insurance customers is expected to grow as Insurance continues to implement its strategy.

In addition, the NRMA Group has expanded into financial services markets outside of general insurance. This has further increased the number of non-member customers of Insurance.

Non-member customers present a major problem for mutuals. This is because:

- non-member customers' interests may not be aligned with those of members; and
- it is more difficult for the mutual to maximise benefits for members only.

## Ability to deliver financial benefits to Members

Both Association and Insurance are currently limited in the manner and extent to which they can deliver financial benefits to Members.

While demutualisation would not, of itself, create additional value in Insurance, the effect of the Proposal results in Members directly accessing the accumulated wealth of Insurance, while still allowing Members to access subsidised services provided by Association.

See pages 26 to 27 for a detailed discussion on delivering financial benefits to Members.

## Potential for unsolicited restructure proposal

The insurance and financial services industry is undergoing rapid and significant consolidation. In this environment, Association and Insurance may be viewed as attractive acquisition targets by potential acquirers. While the current dual mutual structure is a significant barrier, it does not completely shield either Association or Insurance from an unsolicited restructure proposal.

The potential for an unsolicited restructure proposal that could prejudice members' interests under the current NRMA Group structure exists because:

- members may not be able to access, through rebates or other distributions, the same amount of value that an offer, even at less than full value, would provide; and
- potential acquirers may perceive that substantial value can be derived from adopting a more commercial management approach to the businesses of Association and Insurance.

However, the likelihood of members accepting an unsolicited restructure proposal at less than full value is reduced to the extent that mutual benefits are understood by, and delivered to, the members, or procedures are adopted by either or both Association and Insurance that make restructures more difficult (for example, entrenching in their respective constitutions higher voting thresholds for demutualisation). The dual mutual structure may also act as a deterrent to a bidder wishing to acquire either Association or Insurance only.

## Insurance's business strategy

Insurance plans to develop a national position in insurance and financial services through a combination of organic growth, joint ventures and acquisitions (see page 30). This strategy will remain the same – whether Insurance is a mutual or a shareholder-owned company. However, the Insurance Board believes that execution of the strategy

would be enhanced if it was a shareholder-owned company due to the ability to fund acquisitions by the issue of equity and an increased ability to attract, motivate and retain high calibre executives.

### Corporate governance

Corporate governance is the way in which a company is run or governed.

The basic aim of good corporate governance is to organise a company in a way that produces the best possible return for the relevant stakeholders, whilst ensuring proper protections and procedures for all stakeholders in the company.

Corporate governance problems arise in both mutual and non-mutual companies. The corporate and membership structure of the NRMA Group gives rise to a number of particular corporate governance issues. These include:

- the dual mutual structure – the NRMA Group includes two mutual companies, Association and Insurance, with overlapping, but not identical, membership bases and significantly different businesses. As at 25 February 1999, when the decision was made by the NRMA Boards to develop the Proposal, over 60% of all Association members were Insurance members or had an interest in an Insurance membership. More than 95% of all Insurance members were members of Association or had an interest in an Association membership. The dual mutual structure is unique to the NRMA Group;
- Member participation – Member participation in Association Board elections was, until 1987, rarely above 5%. However, the participation rate has increased significantly in recent years, being above 10% in 1995 and 1997 and reaching 26% in the 1999 election;
- 'ownership' of Insurance – understanding the 'ownership' of Insurance is complicated by the different rights of Association members and Insurance members. Association has special rights as a member of Insurance, including the right to appoint and remove the directors of Insurance and the right to any surplus assets on a winding-up of Insurance. As a result, Association has practical control over the management of Insurance's businesses (see page 50). However, Association does not have complete control over Insurance. Directors of Insurance, even if appointed by Association, must still act in the best interests of all Insurance members and will not necessarily act in accordance with Association's wishes. Association has no right to any asset from Insurance unless Insurance is wound up and, in any general meeting of Insurance (including one for a voluntary winding-up), Association only has one vote. Nor has Association any right to be paid a dividend by Insurance. Indeed, any major restructuring which enables members to access the value from Insurance would generally require the approval of Insurance members;
- accountability to members – compared with a listed company, there is no requirement for either Association or Insurance to provide continuous disclosure of material information to members. There is also limited public analysis and review of information which is disclosed; and
- Insurance's size and complexity – Insurance has grown significantly over time such that it is now a major Australian company with business activities much broader than the mere provision of motor vehicle insurance.

A majority of Association directors and all Insurance directors believe that these issues have created a number of corporate governance problems, including:

- limited owner disciplines on performance;
- an inappropriate director selection process for a business of the size and complexity of Insurance;
- the absence of a significant number of Insurance directors who are independent of Association;
- different claims over the 'ownership' of Insurance by both Association members and Insurance members; and
- the inability of Insurance members to elect directors to the Insurance Board.

Another matter that has created difficulties for governance of the NRMA Group is that in the period since 1994, there have been a number of legal proceedings involving directors or former directors of Association and Insurance. This litigation has included claims in relation to the 1994 demutualisation proposal, alleged defamation, access to company documents, the management of Insurance's investment portfolio, alleged breach of confidence, statements made as part of the 1999 Association Board elections, the proposed removal of a director from the Association Board and the holding of a special general meeting in 1999. Actions of this type have the potential to distract the Boards and management from their core roles.

### Relationship between Association and Insurance

While there has always been a close relationship between Association and Insurance, Insurance was managed as a separate company from Association, with separate board and management reporting structures, until the 1980s.

A McKinsey & Company report in 1987 recommended the integration of Association and Insurance under one chief executive officer and a new management structure. It was believed, at that time, that this structure would enable the NRMA and its people to focus on providing integrated membership and insurance services and de-emphasise the differences between the two mutuals. Longer term, it was also believed that this structure would help the NRMA Group to expand interstate and acquire new businesses.

While the change in management structure has assisted the NRMA Group to develop an integrated approach to customer relationship management, a majority of directors of Association and all Insurance directors believe that it has not solved the corporate and membership structure issues between Association and Insurance.

### Corporate and membership structure debate

The structure of the NRMA Group became a prominent issue in the last decade, largely as a consequence of the deregulation of financial markets and acceleration in the NRMA Group's growth between the late 1980s and early 1990s.

The altered profile of the organisation led to a number of reports being commissioned from 1992 to 1998 to examine the NRMA's corporate and membership structure. Reports were commissioned from Macquarie Corporate Finance Limited, BT Corporate Finance Limited, Grant Samuel & Associates Pty Limited, Sir Laurence Street, McKinsey & Company and Credit Suisse First Boston. Each of these reports was prepared at the dates indicated below and none of them have since been updated. A more detailed description of these reports and their recommendations are set out on pages 134 to 135.

While, generally, the reports acknowledged the NRMA Group's considerable success under its present structure, a number of recommendations were made as to the best corporate and membership structure for the NRMA Group.

Four main issues were considered by these reports:

- whether the dual mutual structure was the most appropriate structure for an organisation of the size of the NRMA Group;
- how the accumulated wealth of the organisation could be most effectively released or accessed by members;
- how to improve the NRMA Group's capacity and flexibility to respond effectively to changing market conditions; and
- how to most effectively bring about fundamental change in existing corporate governance arrangements.

The recommendation of a draft report by Macquarie Corporate Finance Limited in February 1992 was, in summary, demutualisation of Insurance on the basis that:

- its mutual structure was no longer appropriate to its business and financial position;
- members could access the accumulated wealth of Insurance and the company would have a more capital efficient structure with improved governance and market imposed disciplines; and
- Insurance would be able to take advantage of commercial expansion opportunities, while maintaining business synergies with Association.

While aspects of the report were presented to the Boards, it was never formally considered at Board level. The Proposal currently being put to Members is similar to the one contained in the Macquarie Corporate Finance Limited draft report, with further development of the relationship between Association and Insurance through the Business Relationship Agreements, including the treatment of the NRMA Trade Marks.

A report by BT Corporate Finance Limited in October 1993 led to the development of a proposal in 1994, under which:

- Association and Insurance would become wholly-owned subsidiaries of a listed holding company called NRMA Holdings Limited;
- members of Association and Insurance would each give up their membership rights; and
- members would become shareholders of NRMA Holdings Limited or elect to receive a cash alternative (funded by selling the share entitlements of all Members who nominated to take cash).

The proposal was suspended as a result of legal action in the Federal Court of Australia in October 1994. The decision of the Federal Court was subsequently confirmed on appeal to the Full Federal Court in January 1995.

In March 1995, an independent expert's report by Grant Samuel & Associates Pty Limited found that the 1994 demutualisation proposal was in the best interests of both Association and Insurance. Further information on this report is on pages 134 to 135. However, the NRMA Boards decided to abandon the 1994 proposal in May 1995 because of legal advice that the proposed method of implementation was, as a result of a then recent High Court decision, invalid and because it was believed that there was no longer the required level of support from members for the 1994 proposal, given the adverse publicity arising from the Federal Court proceedings.

The period which followed was a difficult one for the NRMA Group. In addition to the effect of these events on staff morale and the NRMA Group's reputation, the NRMA Group's financial performance for the 1995 financial year was adversely affected by, amongst other things, CTP claim payments and increased provisioning for outstanding claims.

The Boards set up a Corporate Governance Committee in February 1996 to review the NRMA's corporate governance practices. Subsequently the Association Board appointed Sir Laurence Street to prepare a report on improving governance practices.

Sir Laurence Street's 22 May 1997 report to the Corporate Governance Committee of Association made a number of recommendations to improve governance, but these were implemented in part only. In the report, Sir Laurence Street indicated that he thought it preferable to refrain from recommending reform of management and subsidiary boards until a decision regarding the restructuring of the whole NRMA Group had been made.

McKinsey & Company was briefed to develop a report specifically on the benefits of consolidating the two mutuals into one mutual – it was not asked to examine demutualisation as an alternative structure (the 'One Mutual' proposal). McKinsey & Company concluded in its report of 19 February 1998 that Association should retain its mutual status and that Insurance should be converted to a shareholder-owned company wholly owned by Association. However, in May 1998, the Boards received legal advice that they had an obligation to examine all structures.



As a result of this advice, in June 1998 the Boards unanimously agreed to commission a report from Credit Suisse First Boston to evaluate alternative potential corporate and membership structures for the NRMA Group.

The commissioning of this report marked an important stage in the evolution of the formulation of the Proposal. That evolution dates back at least to the aftermath of the 1994 demutualisation attempt, and arose largely from the NRMA Group's own focus on structural inefficiencies.

The draft Credit Suisse First Boston report was provided to the Boards in November 1998 with a final report on 22 December 1998 and set out a number of restructuring options, each of which was assessed against a set of commercial and member benefit criteria. One option was recommended by Credit Suisse First Boston as the preferred option – this involved the retention of a road service mutual strengthened by additional capital to ensure its ongoing viability and the demutualisation of Insurance.

Credit Suisse First Boston noted the following factors in making its recommendation:

- the current provision of road service and related Association membership benefits is of unique and considerable importance to members and to Insurance;
- maintaining the current structure presents significant and increasing financial and business risks, especially to Insurance's operations and less directly to Association; and
- a more traditional commercial structure for the insurance and financial service operations, including a share market listing, would reduce these risks and improve Insurance's capabilities and operating position, with resulting benefits for members.

This assessment was supported by a number of earlier reports to the NRMA concerning organisational restructuring, as well as by trends among other insurance mutuals seeking to respond to increasing competitive challenges.

On 25 February 1999, approval was given by the Boards of Association and Insurance to develop a proposal on the terms of the preferred option. This required the closure of the Association and Insurance membership registers with effect from midnight on 25 February 1999 and has resulted in the development of the Proposal.

Approval to develop the Proposal was not unanimous. The Association Board was evenly divided on the subject, with the President, Mr N R Whitlam, exercising his casting vote in favour. The Insurance Board voted in favour of developing the Proposal by a narrow majority.

While the separation of Association and Insurance was not favoured by the Boards in 1994, or by Grant Samuel & Associates Pty Limited in its report of March 1995, a majority of Association directors and all Insurance directors believe that elements of the Proposal, such as the Business Relationship Agreements and the allocation of Shares to Association, address the issues arising from the separation of the two companies, albeit with some complexity and risk.

Also on 25 February 1999, the Association Board established the Two Mutuals Committee, being a sub-committee of that Board, whose purpose was to work with consultants to provide a written report focusing on and developing a full case for retaining and strengthening the NRMA Group's existing two mutual structure. It was not the purpose of the Committee to attempt to establish or argue the case against demutualisation.

On 30 May 1999, a preliminary report on the case for retaining and strengthening of the existing dual mutual structure by Marsden Jacob Associates Pty Ltd and Copernican Securities Pty Limited, the consultants engaged by the Two Mutuals Committee, was delivered to Association. Subsequently, an abridged version of that preliminary report was delivered to the Association Board.

The authors of the Two Mutuals Committee report have not consented to the inclusion of any of the findings from that report in this document. The report, however, challenged the recommendations and methodology of the Credit Suisse First Boston report. Management was requested to prepare a report commenting on the findings of the Two Mutuals Committee report.

Having considered a report from management on the issues raised in the Two Mutuals Committee report, on 19 August 1999, the Association Board resolved to disband the Two Mutuals Committee. Although no further work was undertaken on the enhanced two mutual structure model, the Boards and management have considered the various issues raised in the Two Mutuals Committee report and the management report as part of the development of the Proposal and this Information Memorandum includes a discussion of relevant issues arising from that consideration.

Other developments relating to the structure of the NRMA Group, but which were developed and implemented independently of this Proposal, are that since 30 June 1998, four NRMA Group companies previously jointly owned by Association and Insurance – NRMA Sales & Service Pty Limited, NRMA Information Services Pty Limited, NRMA Finance Limited and NRMA Life Limited – have become wholly owned subsidiaries of Insurance. In summary, those transactions were as follows:

- Dormant companies – NRMA Sales & Service Pty Limited, which previously operated the NRMA branch offices where much of Association and Insurance's retail business is conducted, bought back shares held in it by Association for approximately \$5.5 million. NRMA Information Services Pty Limited, which provided computer and other information technology services to other companies in the NRMA Group, bought back shares held in it by Association for approximately \$1.3 million. The amounts Association received for its shares represented its proportion of those companies' net assets. The transactions, completed in March 1999, left Insurance as the sole shareholder of those companies. The companies had ceased to trade with effect from 1 July 1997, and their functions were already being undertaken by Insurance at the time of the transactions;
- Financial services company – in June 1999, Association and Insurance each sold their shares in NRMA Finance Limited to NRMA Building Society Limited, a wholly owned subsidiary of Insurance. Each of Association and Insurance received approximately \$6.9 million. The transactions were supported by an independent valuation of NRMA Finance Limited prepared by KPMG. Insurance funded NRMA Building Society Limited's acquisition of those shares. As part of the transactions, the constitution of NRMA Finance Limited was amended to give Insurance, rather than Association, the power to appoint its board. NRMA management wanted only one deposit taking entity within the NRMA Group, an objective consistent with applicable draft APRA guidelines. Because it is considerably larger than NRMA Finance Limited, NRMA Building Society Limited was thought the appropriate entity to implement that objective. It was thought the management expertise of the NRMA Building Society Limited board might improve NRMA Finance Limited's trading performance.
- Favourable accounting treatment on acquisition – in January 1999, NRMA Life Limited bought back all shares held in the company by entities other than Insurance. The vast majority of shares were bought back from Association. Negligible parcels were also bought back from NRMA Smash Repairs Pty Limited, NRMA Investments Pty Limited and NRMA Finance Limited. The result of the transaction was that NRMA Life Limited became a wholly owned subsidiary of Insurance. As part of the transaction, NRMA Life Limited's constitution was amended to give Insurance, rather than Association, the power to appoint its board. Association received approximately \$85 million for the sale of its shares. The transactions were supported by an independent valuation of NRMA Life Limited prepared by KPMG. Following the transaction, Insurance funded the sale to NRMA Life Limited of NRMA (Western Australia) Pty Limited, the vehicle Insurance used to fund the acquisition of SGIO. Making NRMA Life Limited the holding company of NRMA (Western Australia) Pty Limited enabled the Insurance Group to carry in its accounts, rather than have to amortise (or write off) over 20 years, the goodwill associated with the acquisition of SGIO.

See also pages 112 and 120.

# 3. The directors' recommendations

This Section sets out a summary of the recommendations and views of the directors of Association and Insurance as to whether those directors believe Members should vote for or against the Proposal and how those directors themselves intend to vote.

Members should consider the recommendations and views of the directors of Association and Insurance, together with the outline of reasons why Members may decide to vote for or against the Proposal set out on pages 23 to 26, before deciding how to vote. Members should, however, be aware that the recommendations and views are those of the individual directors, rather than of either Association or Insurance.

## 3.1 Recommendations and views of Association directors

While the majority of the Association Board (comprising 12 of 16 directors) recommend that Association Members vote for the Proposal, three Association directors recommend that Association Members vote against the Proposal and one Association director does not desire to make a recommendation.

The following is a brief summary of the recommendations and views of the Association directors. The directors' recommendations and views are set out in full on pages 51 to 54.

### The Association directors who recommend voting for the Proposal

**Mr N R Whittam, Mrs M C Callaghan, Mrs D G Collins, Mr M A Coyne, Mrs M Easson, Mr B T Gavin, Mr S J Geeson, Ms A J Keating, Mr G F Lawson, Ms S M Ryan AO, Mr A R Sanchez and Mr T P Shaw**

The above directors, who together form a majority of the Association Board, each recommend that you vote in favour of the Association Schemes (and interdependent resolutions) and intend to vote in favour of those Schemes and resolutions on which they are eligible to vote.

In summary, the primary reasons for that recommendation are a belief that the Proposal:

- keeps Association as a mutual;
- strengthens Association and allows it to continue to provide the current level of services to Association Members;
- allows Association and Association Members to share in the wealth of Insurance in a fair and reasonable way;
- facilitates the ongoing business relationship with Insurance; and
- is superior to other options considered.

Each of the directors referred to above also believes that the reasons to vote for the Proposal are more compelling than the reasons to vote against the Proposal.

### The Association directors who recommend voting against the Proposal

**Dr J D Campbell**

Dr Campbell is opposed to the Proposal and recommends that you vote against the Association Schemes (and interdependent resolutions). Dr Campbell intends to vote against those Schemes and resolutions on which he is eligible to vote.

In summary, Dr Campbell is opposed to the Proposal because he believes that:

- the current organisational form has served Association Members effectively over many decades and that to disturb or fragment the current relationship in the manner proposed may create tensions and unnecessary difficulties;
- insufficient emphasis has been placed under the Proposal on the long-term strategic plans for Association;
- current management have demonstrated an ability to manage the businesses of the two mutuals in combination and grow and mature Insurance;
- the Insurance Group under the Proposal may have an increasingly different ownership structure than Association and a greater focus on shareholder returns; and
- the Proposal is not in the long-term interests of Association Members.

### **Ms F J Singleton**

Ms Singleton is opposed to the Proposal and recommends that you vote against the Association Schemes (and interdependent resolutions). Ms Singleton intends to vote against those Schemes and resolutions on which she is eligible to vote.

In summary, Ms Singleton is opposed to the Proposal because she believes that:

- the business of the NRMA does not require demutualisation of Insurance and there is no factually supported valid business reason for demutualising Insurance;
- the stated benefits of demutualisation are not worth a change in culture away from care and generosity to the community;
- the NRMA has not learned from lessons of the past, in particular warnings as to the difficulties of maintaining long-term agreements between Association and Insurance such as the Business Relationship Agreements;
- there is nothing wrong with a mutual insurance company;
- the Proposal was not developed as a result of a groundswell of member opinion;
- members do not have all the information they need to make a decision on the Proposal because they do not have the views of former directors who were present during the development of the Proposal and the media publicity and advertising has been one-sided;
- members are not being told whether the directors of NIGL are in favour of a directors' benefit scheme;
- the assets of NRMA are not being fairly divided between Association and NIGL and its subsidiaries; and
- the use of the NRMA Brands by both Association and the Insurance Group (as separate organisations) is likely to benefit the Insurance Group more than it will Association.

### **Mr I F Yates**

Mr Yates is opposed to the Proposal and recommends that you vote against the Association Schemes (and interdependent resolutions). Mr Yates intends to vote against those Schemes and resolutions on which he is eligible to vote.

In summary, Mr Yates makes this recommendation because he believes that:

- the Proposal will destroy the special character of the NRMA Group;
- if the Proposal goes ahead, Insurance will exist to maximise its profits rather than to serve its members and that as a consequence members will suffer through higher premiums, slower claims processing and more rejected claims;
- the Proposal will leave Association critically weakened because it will:
  - give up its practical control over and right to the assistance and co-operation of Insurance in attaining its objectives and its full ownership of the NRMA Brands; and
  - split in two an organisation which is stronger as a single business entity;
- Insurance and Association can be maintained as a strong, combined mutual organisation with all members to benefit now and in the longer term;
- premium rebates are extremely unlikely to be introduced in the future if the Proposal goes ahead; and
- the experts are divided.

### The Association directors who do not desire to make a recommendation on the Proposal

**Mr R J Talbot**

Mr Talbot has made the following statement:

I do not desire to make a recommendation for the following reasons.

I received advice from my lawyers that the statement I intended to publish might lead to litigation against me personally.

I therefore have decided not to provide a statement of my reasons and recommendations in respect of the Proposal.

As indicated above, Mr Talbot has not made a recommendation in relation to the Proposal. However on many occasions Mr Talbot has publicly voiced his opposition to the Proposal. During the Court hearing to convene the Scheme Meetings he was represented by counsel and opposed the Proposal.

### 3.2 Recommendations and views of Insurance directors

The Insurance Board recommends that Insurance Members vote for the Proposal. The following is a brief summary of the recommendations of the Insurance directors. The directors' recommendations are set out in full on page 69.

**Mr N R Whitlam, Mrs M C Callaghan, Mrs D G Collins, Mrs M Easson, Mr N D Hamilton and Ms A J Keating**

The above directors each recommend that you vote in favour of the Insurance Schemes (and interdependent resolutions) and intend to vote in favour of those Schemes and resolutions on which they are eligible to vote.

In summary, the primary reasons for that recommendation are a belief that the Proposal:

- recognises that the mutual structure is no longer appropriate for Insurance;
- creates potential for expansion of the Insurance businesses and consequent diversification of risk;
- allows Insurance Members to share in the wealth of Insurance in a fair and reasonable way;
- recognises the impact of the increasing number of non-member customers in Insurance;
- facilitates the ongoing business relationship with Association; and
- is superior to other options considered.

Each of the directors referred to above also believes that the reasons to vote for the Proposal are more compelling than the reasons to vote against the Proposal.

**Mr E Dodd**

Mr Eric Dodd, the Chief Executive Officer of the NRMA Group and a director of Insurance, recommends that you vote in favour of the Insurance Schemes (and interdependent resolutions) and intends to vote in favour of those Schemes and resolutions on which he is eligible to vote.

In summary, Mr Dodd recommends the Proposal for the following reasons:

- the listing of Insurance and the issue of Shares is the best mechanism for Insurance Members to access the wealth of the company without weakening its capital position;
- the Proposal will, through the Business Relationship Agreements, provide a continuing close relationship between Association and the Insurance Group. This, together with the strengthened financial position of Association, will allow services to be improved and maintained, and enhance the NRMA's relationship with its Members and customers;
- Association and Insurance have fundamentally different businesses. In order to reach their full potential, they require different boards and management teams, improved corporate governance arrangements and flexibility in funding of plans for growth; and
- the Proposal will focus management and staff on achieving the best possible results for Members as owners and customers.

Mr Dodd also believes that the reasons to vote for the Proposal are more compelling than the reasons to vote against the Proposal.

**Related party benefits recommendation**

Each of the Insurance directors also recommend that Insurance Members vote in favour of resolution 2 ('Approval of the Business Relationship Agreements under section 243R of the Corporations Law') to be considered at the Special General Meeting of Insurance. In summary, this recommendation is based on the inseparable part which the Business Relationship Agreements have in the Proposal as a whole. Note that only two Insurance directors, Mr N D Hamilton and Mr E Dodd, will be eligible to vote on that resolution as the other directors are also Association directors.

### 3.3 Profile of directors

Mrs M C Callaghan, CMC, FAICD **Association Insurance**  
**Director Director**

Maree Callaghan, aged 53, was elected to the board of Association in 1991. She also serves on the boards of Insurance and SGIO Insurance Limited and is a member of the Remuneration Committee. Mrs Callaghan held the office of Mayor of Cessnock from 1987 to 1995 and currently works for the NSW Cancer Council as a Community Liaison and Development Officer. She is also a member of the NSW Coal Compensation Board and is a Civil Marriage Celebrant.

Dr J D Campbell, MB, BS, DTM&H, MHA, LLB, LLM, FAIM, FAICD, FRACMA **Association**  
**Director**

John Campbell, aged 59, was elected to the board of Association in 1997. He also serves on the board of NRMA Open Road Pty Limited and is a member of the Corporate Governance and Group Audit & Risk Management Committees and the Implementation and Due Diligence Committees for the Proposal. Dr Campbell has worked for many years in the public health sector, is a former Managing Director of Aus Health International and is a director of Mercy Family Life Centre and MA International as well as being a part-time member of the Administrative Appeals Tribunal.

Mrs D G Collins, BA (Hons) **Association Insurance**  
**Director Director**

Dominique Collins, aged 43, was elected to the board of NRMA Limited in 1995 and is Deputy Chair of Insurance. She is also a member of the Remuneration Committee and is a former Deputy President of Association. Mrs Collins is an Executive Director of EC Strategies Pty Ltd, an electronic commerce consulting company. She is a former consumer representative and Chairman of the Management Committee, Royal Hospital for Women, a former Director of AIDS Fundraising Management Limited, and a former Trustee of the Sydney Opera House Trust.

Mr M A Coyne, BBus **Association**  
**Director**

Mark Coyne, aged 32, was elected to the Association Board in 1999. He also serves on the board of NRMA Life Limited and is a member of the Group Audit & Risk Management and Corporate Governance Committees. He has 12 years' experience in marketing in the financial industry. Mr Coyne is benefactor of the Children's Cancer Institute of Australia and Patron of National Kindness Week. He played rugby league for the St George Football Club (now the St George Illawarra Dragons) from 1988 to 1999, playing 222 First Grade games, 19 State of Origin games for Queensland and nine Test matches for Australia. Mr Coyne is currently a Director of Verve Business Management, a marketing consultancy company.

Mr E Dodd, BEc, FCA, MAICD **Insurance**  
**Director**

Eric Dodd, aged 48, was appointed Chief Executive Officer of Association and Managing Director of Insurance on 25 June 1998, having previously held the position of Acting CEO. He joined the NRMA in December 1996 as Chief Financial Officer and General Manager of Corporate Services. He has previously held the positions of Group Finance Director at NatWest Markets and Executive Director at Legal & General. He has a broad range of experience in finance and banking where he was a General Manager at both the Bank of New Zealand and Australian Bank. He has a Bachelor of Economics, with Statistics and Accounting majors. He is a Fellow of The Institute of Chartered Accountants in Australia and is a Trustee of the Committee for Economic Development of Australia (CEDA) and a Member of the Australian Institute of Company Directors.

Mrs M Easson, MAICD **Association Insurance**  
**Director Director**

Mary Easson, aged 44, was elected to the board of Association in 1997. She also serves on the boards of Insurance and NRMA Building Society Limited. Mrs Easson is also a member of the NRMA Group Audit & Risk Management, Remuneration, Corporate Governance and Public Policy Review Committees and the Implementation and Due Diligence Committees for the Proposal. A former member of Federal Parliament, Mrs Easson is the Managing Director of Probity International and serves on the board of Opportunity International.

Mr B T Gavin **Association**  
**Director**

Elected to the board of Association in 1997, Tim Gavin, aged 36, also serves on the Public Policy Review Committee. He was a member of the Australian Wallabies Rugby Union Team from 1988 to 1996 and of the NSW Waratahs Rugby Union Team from 1988 to 1997. Mr Gavin is the Managing Director of Ramsay Agribusiness and a former board member of the NSW Rugby Union.

Mr S J Geeson, AMIAME **Association**  
**Director**

Stewart Geeson, aged 46, is the principal of a company which owns and operates the Kurri Kurri NRMA Country Service Centre. He is a former President of the Association of Country Service Centres. He was elected to the Association Board in 1995, is Deputy Chairman of NRMA Life Limited and serves on the board of SGIO Insurance Limited. He is also Chairman of the Life Audit and Life Compliance Committees.

Mr N D Hamilton, LLB **Insurance**  
**Director**

Neil Hamilton, aged 47, was appointed to the Insurance Board in 1999 and is a member of the Remuneration Committee. Mr Hamilton is also Deputy Chairman of SGIO Insurance Limited. Mr Hamilton is a director of Westcorp Holdings Limited, managing director of Chieftain Securities Limited, Chairman of D'Orsogna Limited, Chairman of Orestest Pty Limited, Chairman of the Australian Football League Players Association Advisory Board, Chairman of Integrated Workforce Limited. Mr Hamilton is a former Chief Executive of Pacific Mutual Australia Limited, former Chairman of Challenge Bank Limited and former director of Manufacturers Mutual Insurance Limited.

Ms A J Keating

**Association  
Director Insurance  
Director**

Anne Keating, aged 46, was elected to the Association Board in 1995 and also serves on the board of Insurance. She is also a member of the Remuneration Committee and a member of the Implementation and Due Diligence Committees for the Proposal. Ms Keating is a former Deputy President of Association. She is the General Manager, Australia for United Airlines and is a board member of Singleton Group Limited, Macquarie Leisure Property Trust, EASY FM CHINA and Ausflag. Ms Keating is an inaugural board member of The Victor Chang Cardiac Research Institute and is a Governor of the American Chamber of Commerce.

Mr G F Lawson, OAM BOptom

**Association  
Director**

Geoff Lawson, aged 42, was elected to the Association Board in 1990. He is a columnist for The Sun Herald and a commentator for ABC Radio. Mr Lawson is a member of the Australian Advertising Standards board, Chairman of the UNSW Optometry Appeal Committee, a member of the board of the Sydney Cricket Ground and Sports Ground Trust and a Vice President of the UNSW Sports Association.

The Hon S M Ryan, AO, BA, MA, FAICD

**Association  
Director**

Susan Ryan, aged 57, was elected to the Association Board in 1997. In 1999, Ms Ryan was elected Deputy President of Association. She also serves on the Corporate Governance Committee, the Remuneration Committee and the board of SGIO Insurance Limited. She is a member of the Implementation and Due Diligence Committees for the Proposal. Ms Ryan is a former Executive Director of the Association of Superannuation Funds of Australia. From 1975 to 1988, she was Senator representing the ACT and from 1983 to 1988 held various senior Cabinet posts in the Hawke Government. She was awarded the Order of Australia in 1990 for services to the Australian Parliament. She is Pro Chancellor of The University of New South Wales, and holds Honorary degrees from Canberra and Macquarie Universities. She is an Honorary Professional Fellow of Macquarie University's Graduate School of Management.

Mr A R Sanchez, BEc, MEc

**Association  
Director**

Alex Sanchez, aged 35, was elected to the Association Board in 1999. He also serves on the board of NRMA Life Limited and is a member of the Group Audit & Risk Management and Public Policy Review Committees. Mr Sanchez is a director of the NSW Waste Service and South Western Sydney Area Health Service, a member of the University of Western Sydney Macarthur's Governing Council and the Chairman of the NSW Public Transport Advisory Council. Mr Sanchez is a former councillor (and Deputy Mayor) of Liverpool City and is a former Chairman of the Western Sydney Regional Organisation of Council.

Mr T P Shaw, MAICD

**Association  
Director**

Tim Shaw, aged 38, was elected to the Association Board in 1999. He serves on the board of NRMA Life Limited and is a member of the Group Audit & Risk Management Committee. He is an auto electrician by trade. He has 17 years' experience as a sales and marketing director and then as a general manager in sales and marketing in the telecommunications and electronics industries both in Australia and internationally. He is managing director of Best Direct, a communications and marketing consultancy. Mr Shaw is an author, public speaker, television presenter and radio broadcaster on Sydney Radio 2GB. He is involved in major fundraising activities with The Victor Chang Cardiac Research Institute, Autism Association of NSW, St Vincent's Hospital, The Exodus Foundation and The Variety Club of Australia Children's Charity. Mr Shaw has been an Australia Day Council Ambassador since 1995 and a member of the NRMA since 1988.

Ms F J Singleton, BA, MAICD, MPRIA

**Association  
Director**

Jane Singleton, aged 53, was elected to the Association Board in 1990. Ms Singleton served as Deputy President of Association from 1998 to 1999 and was a director of Insurance from 1992 to 1999. She is also a member of the Public Policy Review Committee. Ms Singleton is the managing director of Jane Singleton Pty Limited, a public affairs consultancy company. She has served as chair of the Australian Consumers Council, Federal President of the Media Entertainment and Arts Alliance and as a director of the State Library of NSW Foundation. Ms Singleton is the current chair of the Christian Children's Fund and is Patron of the National Association for the Prevention of Child Abuse and Neglect.

Mr R J Talbot

**Association  
Director**

Richard Talbot, aged 46, was elected to the Association Board in 1990. He also serves on the boards of NRMA Life Limited and is a member of the Life Audit, Public Policy Review and Life Compliance Committees. Mr Talbot was a director of Insurance from 1996 to 1999. Mr Talbot also served on the Two Mutuals Committee. Mr Talbot is a Roads and Engineering Surveyor and President, Motorists Action Group (MAG) Incorporated.

Mr N R Whitlam, AB, MSc, Hon DUniv

**Association  
Director Insurance  
Director**

Nicholas Whitlam, elected to the Association Board in 1995, is President of Association and Chairman of Insurance, NRMA Building Society Limited, SGIO Insurance Limited and Insurance Manufacturers of Australia Pty Limited. He is chairman of the Corporate Governance, Public Policy Review and Remuneration Committees and the Implementation and Due Diligence Committees for the Proposal. He is also a member of the Group Audit & Risk Management Committee. Aged 54, Mr Whitlam is a banker and company director, Chairman of Whitlam & Co, Chairman of LibertyOne Limited and an Adviser to Deutsche Bank AG.

Mr I F Yates, BA (Accounting), FCPA, FAICD

**Association  
Director**

Ian Yates, aged 48, was elected to the Association Board in 1997. He has previously served on the boards of Insurance, NRMA Life Limited, NRMA Finance Limited and NRMA Investment Management Pty Limited and was a member of the Remuneration, Two Mutuals and Group Audit & Risk Management Committees. Mr Yates is the Chairman and Chief Executive of Yates Security Limited, a company having its genesis in 1900. Mr Yates is currently on leave of absence from the Association Board due to ill health.

### 3.4 Resolution to remove President

In September 1999, Association received notice of a resolution proposed to be moved at the next general meeting of Association. The resolution proposed was 'That Mr Nicholas Whitlam be removed as a director of NRMA Limited'.

The reason given for the members' resolution was that the Association Board, chaired by Mr Whitlam, had proposed a resolution to be put at the 1999 annual general meeting of Association to remove Mr I F Yates as a director of Association, that this action was unwarranted and that members should be given the option at that meeting of considering the removal of Mr Whitlam. The resolution to remove Mr Yates as a director was not put to the 1999 annual general meeting. However, Association is still required under the Corporations Law to put the resolution to remove Mr Whitlam to its next general meeting.

Accordingly, a special general meeting of Association will be convened for a date before 19 April 2000. Notice of the special general meeting and accompanying information will be sent to all Association members.

The results of the meeting will be published in major Australian newspapers. If the resolution is passed, Mr Whitlam will cease to be a director of Association but not of Insurance. If Mr Whitlam is removed, the Association directors do not currently intend to fill the casual vacancy on the Association Board but one of their number will be elected to the office of President at the first board meeting following the special general meeting. Members should note that under the constitution of Association the Association Board has power to fill a casual vacancy if the Association directors resolve that there are exceptional circumstances and that it is in the best interests of Association that the casual vacancy be filled.

The outcome of the resolution has no bearing on the Proposal. All members of the Association Board have indicated their opposition to the resolution.

# 4. Reasons for and against

## 4.1 Why vote for or against the Proposal?

The Proposal has a number of features that Members might consider to be advantages or disadvantages and raises other considerations which Members should carefully consider before deciding how to vote.

It is important to note that in developing and deciding whether or not to put the Proposal to Members, the Boards of both Association and Insurance took account of these advantages, disadvantages and considerations.

These advantages, disadvantages and other considerations of the Proposal are set out below under the reasons why Members may decide to vote either for or against the Proposal. Some apply only to Association Members or Insurance Members (or particular Members of those companies). Members may have other considerations which they think are important in deciding how to vote.

The Proposal has been designed so that important features of the current structure or operation of the NRMA Group will not change if the Proposal goes ahead. A number of these features appear as reasons why Members may wish to vote for the Proposal in this Section 4.

## 4.2 Reasons why Members may decide to vote for the Proposal

- **Association remains a mutual.** The NRMA's road and related motoring services (including its community service advocacy functions) have a unique heritage and membership base in New South Wales and the Australian Capital Territory. The Proposal recognises this by retaining these operations under Association's current mutual structure. This will preserve Association's objective to provide services for the benefit of Association Members. This is a feature of the current structure of the NRMA Group which will not change as a consequence of the Proposal.
- **There is no change to the existing membership rights of Association Members.** Association Members will keep their existing membership rights (provided membership fees are paid as they fall due), including the right to access road and related motoring services and vote at meetings and on the election of Association directors. This is a feature of the current structure of the NRMA Group which will not change as a consequence of the Proposal.
- **Shares are allocated to Members, allowing them to access the wealth of the Insurance Group.** Under the current dual mutual structure, Members (including Association) cannot sell their membership rights in Insurance and can only transfer their Association membership with the approval of the Association Board. As a result, Members cannot directly access the wealth which has been accumulated by Insurance. In addition, membership rights in Insurance exist only for as long as a person remains an Insurance Member, which, generally speaking, requires both Association membership and an eligible policy to be maintained and renewed (see pages 47 to 48).

Under the Proposal, Members will have a valuable asset in the form of Shares which, once NIGL is listed, can be kept or sold at any time. The allocation and subsequent sale of Shares has no impact on the capital base of the Insurance Group (except for the impact of transaction costs). Rights attaching to Shares will continue for as long as those Shares are held and NIGL continues to exist and be financially viable.

PricewaterhouseCoopers has stated that 'It is our opinion that the issue of shares in NIGL to Association, Association Members and Insurance Members is an appropriate means of conveying the value of the interests relinquished to the recipients' (see page 121).

Under the Proposal, Members (other than Association) will be allocated Shares with an estimated value of \$3,428 million to \$3,956 million based on the estimate of the market price of a share prepared by Ernst & Young Corporate Finance (see page 10 for the basis of this estimate).

- **Members as a whole are able to access more value than is available through insurance premium rebates.** The Proposal allows Members to access more value (in the form of Shares) than could be released under the current dual mutual structure through insurance premium rebates.

In addition, Association and Association Only Members would not materially benefit from the payment of insurance premium rebates as they would only be payable to either all Insurance Members or all Insurance policyholders. See pages 26 to 27 for further details.

- **Association will be in a strong financial position after the Proposal is implemented.** Under the Proposal, Association will receive an allocation of 10% of the Shares in NIGL with an estimated value of \$381 million to \$440 million based on the estimate prepared by Ernst & Young Corporate Finance (see pages 89 to 95 for the basis of this valuation). This will enable the Association Board and management to conduct Association's business with a strong financial position, even after allowing for the financial impact of the Business Relationship Agreements. Association currently cannot directly access the value of Insurance except in the event of a winding-up. PricewaterhouseCoopers has analysed the effect of the Proposal on Association's capital adequacy and has concluded that the ongoing financial viability of Association will be higher if the Proposal is adopted than it would be if the Proposal is not adopted. See pages 124 to 125 for a discussion of PricewaterhouseCoopers' methodology and conclusions. Deloitte Corporate Finance examined the sufficiency of Association's capital injection and concluded that the Share Allocation to Association is sufficient to enable it to carry out its stated objectives for the foreseeable future (see page 62). Ernst & Young Corporate Finance is of the opinion that following implementation of the Proposal, Association will be in a strong financial position (see page 87).
- **Road service membership fees will not increase as a consequence of the Proposal.** The Association Board has resolved that Association membership fees will be maintained without increase until 30 June 2001 (other than for the effect of GST). Thereafter, it is expected that membership fees will be increased using the Consumer Price Index as a guide.
- **Existing road service benefits can be maintained.** The Proposal is designed to allow current road and related motoring services and service levels to be maintained, if not improved. This will be due primarily to the strong financial position of Association if the Proposal goes ahead.
- **The existing capital strength of Insurance is maintained because the allocation of Shares to Members will not materially reduce the Insurance Group's capital base.** Under the Proposal the capital base of Insurance will largely be retained, other than for the transaction costs of an estimated \$46 million incurred in the process of listing of the Shares (see page 146). Even though Members will receive Shares, this will not materially reduce the capital of Insurance. This is because when NIGL issues Shares, it is not distributing any of its assets to Shareholders.
- **Insurance premium rates will not increase as a consequence of the Proposal.** Insurance currently charges premium rates on a commercial basis, having regard to a number of factors, including the appropriate rating of different risks and the desired return on capital as determined by the Insurance Board. Insurance is committed to maintaining its current approach to setting premium rates, irrespective of whether or not the Proposal goes ahead. However, a number of market and other industry factors unrelated to the Proposal, such as GST, may lead to premium rate increases in the future. See also pages 26 to 27 for a discussion on rebates.
- **Claims management principles will not change as a consequence of the Proposal.** The success of Insurance can be partly attributed to its claims management principles. The current approach to claims management will not change as a consequence of the Proposal. All claims (excluding CTP and third party liability personal injury claims) in New South Wales, Victoria and the Australian Capital Territory will be managed by IMA. Claims in other places will continue to be managed by Insurance (or its subsidiaries). It is expected that this will not involve a change to Insurance's claims management principles. See page 30 for details of Insurance's claims management principles.
- **The rights of Insurance Members as policyholders (including policy features and benefits) will not change.** The Proposal makes no change to the rights of Insurance Members in their capacity as policyholders. Existing policy features and benefits will not change as a result of the Proposal. This is a feature of the Proposal that maintains one of the existing rights of Insurance Members in their capacity as policyholders. Insurance has recently entered into an alliance with RACV, the major road service association in Victoria, through a joint venture company – IMA (see page 146). As part of that alliance, personal lines insurance policies to be sold by Insurance in New South Wales and the Australian Capital Territory, and distributed by RACV in Victoria, will, in all likelihood, be standardised at some time in the future. Any changes to policy features and benefits resulting from that standardisation have not yet been determined. However, it is not expected that policyholders will be disadvantaged in an overall sense by that standardisation. This change will take place regardless of whether the Proposal goes ahead.
- **Policyholders' security and reasonable expectations will be adequately protected.** The Boards believe that policyholder security will continue to be adequately protected if the Proposal goes ahead. This is a feature of the Proposal that maintains one of the



existing rights of Insurance Members in their capacity as policyholders. PricewaterhouseCoopers has concluded that 'In our view, Policyholders' security and reasonable expectations will not be prejudiced and will be adequately protected if the Proposal is approved and implemented' (see page 121).

Ernst & Young Corporate Finance had regard to the likely impact on the financial position and operations of Insurance including the security of future benefits and services to policyholders in arriving at its opinion on whether the Proposal is in the best interest of Insurance Members (see page 71).

- **A close relationship between Association and the Insurance Group will be maintained during the term of the Business Relationship Agreements.** The Proposal maintains a close relationship between Association and Insurance during the currency of the Business Relationship Agreements. The business success of Insurance is partly attributable to the reputation generated by the road service and advocacy functions performed by Association, which, in turn, have been supported by Insurance both financially and operationally.

Under the Proposal, the relationship between Association and the Insurance Group will be governed by a series of contracts in a range of key areas. The Business Relationship Agreements deal with continued use of the NRMA Brands by both Association and the Insurance Group and cross-access to membership and customer lists to assist in marketing efforts. In many respects, the Business Relationship Agreements will formalise the existing arrangements for distribution and support functions provided by Insurance to the Association Group. The agreements will also put in place mechanisms to enable the cost of distribution and support services to be appropriately distributed between Association and the Insurance Group. The pricing of services provided between the organisations is more transparent than under existing arrangements and more consistent with usual commercial practices between arm's length businesses.

A strategy has been formulated in developing the Proposal and the Business Relationship Agreements, which is intended to reduce risks relating to the separation of Association and Insurance (see Section 5.5 on pages 31 to 33).

- **The close relationship between Association, the Insurance Group and their members and customers will be maintained.** The Business Relationship Agreements to be entered into by Association, Insurance and NIGL will allow the synergy benefits flowing from the co-ordinated marketing and delivery of motoring, insurance and financial services to continue. Products and services from both Association and the Insurance Group will continue to be distributed in much the same way as they are today.
- **The Proposal provides an opportunity for Members to realise value from membership rights (including Association's special rights as a member of Insurance) and from certain NRMA Trade Marks.** Insurance Members (including Association Only Members who become Insurance Members as a result of the Proposal) will give up their membership rights in Insurance in exchange for Shares. Association will also give up its special rights as a member of Insurance and will assign or license certain NRMA Trade Marks to the Insurance Group. While Insurance has used most of these trade marks as part of its business operations for a significant time, these trade marks are owned by Association. Under the Proposal, Association will receive Shares and regard has been had to membership of Association (if applicable) in determining the number of Shares to which Members are entitled.

PricewaterhouseCoopers considers that the Share Allocation Rules provide a fair and reasonable basis for allocating Shares to Members (including Association) (see page 121).

Deloitte Corporate Finance has concluded that in the overall context of the Proposal, the Share Allocation Rules are fair and reasonable and the Shares allocated to Association Members are a fair exchange for the rights Association Members give up (see page 62).

Ernst & Young Corporate Finance is in agreement with the opinion of PricewaterhouseCoopers, as consulting actuary, subject to the limitations set out in Sections 6.3.4 and 7.3.3 of Ernst & Young Corporate Finance's report (see pages 81 to 82 and 87).

- **Insurance Members obtain ownership rights as Shareholders which are more clearly defined than the rights of Insurance Members under the Insurance constitution.** Insurance Members have certain membership rights under the constitution of Insurance (see Section 7.3 on pages 38 to 39). However, Insurance Members cannot vote on the election of Insurance directors, nor do they have the power to confer on themselves any direct financial benefit by way of dividends or return of capital on winding-up of Insurance.
- Under the Proposal, Members will become Shareholders in NIGL. As Shareholders, they will have voting rights (based on one vote per Share on a poll) and the ability to access direct financial benefits from the conduct of NIGL's businesses by way of dividends, other capital distributions or growth in the value of their Shares.
- **Insurance Members' interests as policyholders and owners are separated.** Insurance Members will be able to keep their Shares regardless of whether they continue to hold an eligible insurance policy. Currently, Insurance Members only keep their membership rights for as long as they continue to renew their Association membership and remain policyholders. In addition, Insurance Members cannot sell their membership rights.
- **The Insurance Group will have an enhanced ability to raise equity capital to fund its growth.** Although Insurance has sufficient capital to meet its current needs, it could, in the future, require significant additional capital to fund strategic initiatives and growth. While Insurance remains a mutual company, its options for raising capital are more limited. For example, while Insurance has the ability to raise debt and some

forms of quasi-equity, it cannot raise share capital. As a listed public company, NIGL will gain broader access to the equity markets. This will assist the execution of the Insurance Group's business strategies (see page 30).

PricewaterhouseCoopers concluded that: 'As a result of the Proposal, the Insurance Group via NIGL would have greater access to external capital through the Australian Stock Exchange which would improve its future financial flexibility' (see page 121).

Ernst & Young Corporate Finance concluded that under the Proposal, Insurance will have greater flexibility to raise capital which may be required to fund future expansion of the business by accessing external equity (see page 80).

- **A belief that board and management accountability and focus will increase.** After the demutualisation of Insurance and listing, Shareholders will have a direct financial interest in the performance of NIGL and the level of dividends and the Share price. Members may believe that this, together with greater market scrutiny, will lead to increased board and management accountability and focus for the Insurance Group. Members may also believe that Association will be better able to focus on provision of mutual benefits.
- Ernst & Young Corporate Finance notes that the Proposal will assist in improving the governance and control of both Association and Insurance (see pages 80 and 86).
- **The Insurance Group and Association will have separate boards and senior management teams.** Under the Proposal, subject to the Business Relationship Agreements, many of the current ties between Association and the Insurance Group will no longer exist. This will enable the boards and management of Association and NIGL to focus on the core businesses of their respective groups, reducing the potential for conflict between the interests of Association and the Insurance Group (however, see page 33 in relation to the proposed composition of the NIGL Board). NIGL will also adopt corporate governance practices consistent with those of a publicly listed company. This is expected to lead to better corporate governance.
- **There is potential for an unsolicited restructure proposal for Insurance which may release less value for Members than the Proposal.** While the dual mutual structure is a significant barrier, there is the potential that Insurance Members may accept an unsolicited restructure proposal in a manner which could release less value to Members than the Proposal. This potential has been increased because of the significant public debate about the Proposal, the release of this document to the Members and because Members have a restricted ability under the current dual mutual structure to access the wealth of Insurance. If arrangements between Association and the Insurance Group remain undocumented or inadequately specified, the acceptance by members of an unsolicited restructure proposal could lead to substantial problems and disputes over the NRMA Brands and other shared assets and services. The Business Relationship Agreements seek to remedy this problem. If the Proposal does not go ahead, it is likely that other formal arrangements will be put in place between Association and the Insurance Group.

#### 4.3 Reasons why Members may decide to vote against the Proposal

- **Insurance does not remain as a mutual.** A mutual is an enterprise owned by its members, providing a variety of services to the members for their benefit. Under the Proposal, only Association will continue to be a mutual company. The current dual mutual structure of the NRMA Group will cease. The NRMA Group's history as two mutual companies dates back to the 1920s, although Insurance was originally incorporated as a subsidiary of Association. A mutual structure has a number of advantages including the flexibility to focus on the interests of members and generosity to the community without a requirement to maximise profit for distribution to members. Members may believe these advantages are significant and outweigh the disadvantages of Insurance's current mutual structure (and the dual mutual structure of the NRMA Group). See page 17 for a discussion on mutual organisations today.
- In addition, a change to the dual mutual structure may cause a change in an individual's perception of the NRMA Group. Some people may currently choose to do business with Insurance because it is a mutual with a particular public and community image. If it ceases to be a mutual, those people may withdraw their business from Insurance. The new relationship between Association and a demutualised Insurance may diminish Insurance's standing within the community which has been built on the work and reputation of Association over many years.
- **A belief that Insurance should not be demutualised because it is contrary to the founding objectives under which Insurance was established.** Even though the proposed demutualisation of Insurance contemplated by the Proposal can be implemented under the Corporations Law, some Members may believe that the demutualisation of Insurance should not occur as it is contrary to the objectives under which Insurance was established. For example, some Members may believe that Insurance should pursue the objectives of acting for the benefit of its Members, employees and the wider community and that the goal of maximising profit for shareholders is contrary to these objectives.
- **The NRMA Group has performed well under its current structure.** The NRMA Group and, in particular, its insurance arm, has continued to improve its operating and financial results in recent years. In addition, it has achieved significant diversification through its insurance activities in Victoria and Queensland, its acquisitions of MLC Building Society and SGIO, and the RACV alliance (see page 30). All of these achievements have occurred under the current dual mutual structure.



- **A disagreement with the way in which the Shares are proposed to be allocated to Members.** Members may believe that the Share Allocation Rules do not provide a fair and/or reasonable basis for allocating Shares either in general or in their own situation. For example, Association Members may believe that they should receive a larger allocation of the Shares because Association has practical control over the management of Insurance's business or because Association and its Members are not adequately treated under the Proposal, given that Association is giving up its special rights as a member of Insurance and assigning or licensing certain NRMA Trade Marks to the Insurance Group. Insurance Members may believe that they should receive a larger allocation of Shares because the wealth of Insurance has been contributed by Insurance policyholders and the substantial wealth of the NRMA Group has been generated by Insurance. Alternatively, Members may believe that policies issued by subsidiaries of Insurance (such as NRMA Life Limited and SGIO) should count under the Share Allocation Rules.

In addition, Members may believe that non-member customers should be given an allocation of Shares or that other factors should be taken into account in the Share Allocation Rules. For example, those joint Association Members who consolidated their previously separate memberships may consider that they are entitled to a larger Share allocation.

- **Association will give up its special rights as a member of Insurance.** Under the Proposal, Association will give up its special rights as a member of Insurance. These rights include its practical control over the management of Insurance's business (through, among other things, the Association Board's power to appoint and remove Insurance directors) and its right to any surplus assets on a winding-up of Insurance.
- **Insurance Members will give up their membership rights in Insurance.** Insurance Members (including Association) will give up their membership rights in Insurance in exchange for Shares. A summary of those rights appears in Section 7.3 on pages 38 to 39.
- **Insurance will have no future constitutional obligation to assist and co-operate with Association in the attainment and promotion of Association's objects.** Under the current Insurance constitution, Insurance is obliged to assist and co-operate with Association in the attainment and promotion of Association's objects. Under the Proposal, this requirement is removed from the Insurance constitution. In future, Insurance will only be obliged to assist Association as required under the Business Relationship Agreements (see pages 31 to 33 and 139 to 145).
- **There are further implementation costs, including listing on the Australian Stock Exchange and the ongoing costs of maintaining a share register.** Implementing the Proposal will involve costs additional to the \$62 million which is the estimated cost of presenting this Proposal to Members. These additional costs are estimated to be \$46 million and are in line with disclosed expenses in recent comparable Australian demutualisation listings. See page 146 for further details. There will also be ongoing costs consistent with maintaining a listing in Australia. These are estimated to be approximately \$6.5 million per annum. These costs will be paid by NIGL and will, therefore, affect its value.
- **There is no guarantee of when NIGL will be listed, if at all, or how much the Shares will be worth.** Although NIGL intends to list in the second half of 2000, there can be no guarantee when NIGL will be listed, if at all, or how much the Shares will be worth after listing. This may be higher or lower than the Ernst & Young Corporate Finance estimate of the market price of a Share, on the basis that the Proposal had been implemented and the Shares traded on the Australian Stock Exchange on 14 February 2000. The basis and limitations of that estimate are discussed on pages 91 to 94.

Before the Listing Date, Members will not be able to sell their Shares (or dispose of any interest in them) except in very limited circumstances (see page 138). The NIGL Board intends that no dividends will be paid by NIGL before the Listing Date (see page 41).

If NIGL does not list on the Australian Stock Exchange within two years after the Demutualisation Resolution Date, Members may lose special tax treatment in relation to the Insurance Demutualisation. However, the Federal Commissioner of Taxation has the power to extend that two year period (see page 42). If NIGL is not listed during the 21 months following the Demutualisation Resolution Date, the NIGL Board is obliged to put forward a proposal to Shareholders (see page 139).

- **NIGL, as a shareholder-owned company, will have an increased exposure to takeover.** If NIGL lists, there is the possibility of a takeover as a shareholder-owned company. There are rules under Australian corporate law governing the way in which widely-held listed companies may be acquired. Although there are transitional shareholding limitations which will apply under the constitution of NIGL for a period of five years from the Listing Date, it is possible during that period for the shareholding limitation in the constitution to be waived by special resolution of the Shareholders (see page 138).
- **A belief that it is unfair to distribute the wealth accumulated over time in Insurance to current Members only.** Members may be concerned that the Proposal unfairly benefits current Members by allocating Shares to them when the wealth of the NRMA Group has been built up by several generations of former members. However, legal constraints (including taxation) mean that it is not practical to issue Shares to former members.
- **The business relationship between Association and the Insurance Group will involve the assignment or licensing of certain NRMA Trade Marks to Insurance and involves some risks relating to those NRMA Trade Marks.** Under the Proposal, Association assigns the Insurance and Financial Services Trade Marks to the Insurance Group. These trade marks have been used by Insurance as part of its business operations, but are legally owned by Association. Association will also grant the Insurance Group a licence

to use those NRMA Trade Marks that both Association and Insurance Group intend to use concurrently. PricewaterhouseCoopers has concluded that the Insurance and Financial Services Trade Marks would be valued at not more than \$30 million to \$40 million (see page 136). This valuation is limited to those trade marks. It is not a valuation of all the NRMA Trade Marks. There are a number of risks relating to the concurrent use of the NRMA Brands as proposed under the Business Relationship Agreements. However, a strategy has been developed which is intended to reduce these risks (see pages 32 to 33).

- **The business relationship between Association and the Insurance Group may be more complex, involve some risks in addition to risks relating to the trade marks and may be terminated in limited circumstances by either Association or the Insurance Group.** It is possible that implementing the Business Relationship Agreements may result in increased operating complexity, which, in turn, may reduce operational efficiency and interaction between Association and Insurance. It may take some time to determine whether the Business Relationship Agreements provide a suitable framework for the ongoing relationship between Association and Insurance in the long term. There are costs and risks connected with entry into the Business Relationship Agreements and ongoing costs and risks in relation to their practical operation and they may be terminated in limited circumstances (see pages 32 to 33). In addition, the new relationship may in future detract from the ability of Association to 'deliver' customers to Insurance.
  - **The business relationship between Association and the Insurance Group will be on a more commercial basis and Association will pay more for services provided by Insurance than under current arrangements.** The Business Relationship Agreements put in place mechanisms which will make services provided between the organisations more transparent and more consistent with usual commercial practices between arm's length businesses. As a result, Association will pay more for services provided by the Insurance Group than under current arrangements.
  - **The future business scope of Association and, to a lesser extent, the Insurance Group will be limited by the Business Relationship Agreements.** The Business Relationship Agreements will limit the future business scope of Association and the Insurance Group in order to prevent duplication and overlap of products and services (see pages 31 to 32). An important example is that under the Business Relationship Agreements, Association agrees that it will not conduct insurance and financial services. As a result, Association Members will not have the opportunity to take out insurance with a mutual organisation controlled by Association during the term of the Business Relationship Agreements.
  - **Depending on a Member's personal circumstances, there may be some tax, pension or allowance consequences of receiving Shares.** For example:
    - receiving dividend payments may cause Members to pay more tax, and tax is likely to be payable on any gain you make on disposal of Shares (see pages 42 to 43);
    - receiving Shares may reduce your pension or allowances (or those of your dependants) because you have greater income and assets. The Australian Council of Social Service (ACOSS) analysed the likely effect of the proposed demutualisation of Insurance and resulting allocation of Shares on those Members in receipt of pensions or allowances. Its report was based on certain assumptions (see page 43). The report's key findings were that:
      - about 240,000 Members (or 23% of the estimated number of Members in receipt of pensions or allowances) will experience a reduction of \$1 to \$2 per fortnight to their payment; and
      - approximately 1,200 Members (or 0.12% of the estimated number of Members in receipt of pensions or allowances) will lose their entitlements, including their entitlement to the Pensioner Concession Card. The Members affected are those who are in receipt of a reduced rate of pension or allowance.
- Members who believe the Proposal may affect their pension or allowance entitlement or require more information on these consequences can contact the **Pensions and Retirement Information Hotline on 1300 138 837** for further information. Further information about these consequences of the Proposal is set out on page 43.
- **Another restructuring option may be preferred to the Proposal.** Members may believe that another restructuring option, whether or not that option was considered by the Boards (see pages 26 to 27), is better than the Proposal. For example, if the Proposal goes ahead it is extremely unlikely that premium rebates would be introduced in the future because any profits available for distribution would be likely to be paid by way of dividend to Shareholders in NIGL.

#### 4.4 Other considerations for Association Only Members and Insurance Only Members

Most Members are Dual Members, that is members of both Association and Insurance. However, there are a number of Association Only Members and a smaller number of Insurance Only Members. The Boards do not believe that the considerations for Association Only Members and Insurance Only Members differ in any material respect from the considerations of other Association Members or Insurance Members respectively except as set out below.

### Association Only Members

Under the Share Allocation Rules, Association Only Members will, generally speaking, receive a lesser allocation of Shares than Dual Members. This is because membership of Insurance confers an allocation additional to the allocation the Member receives on the basis of their Association membership (see pages 43 to 47).

If the Schemes of Arrangement are approved, Association Only Members on becoming Insurance Members under the Proposal (in common with all other Insurance Members) may be liable during the time they are members or within one year afterwards to contribute \$1.00 to the assets of Insurance in the event Insurance is wound up. It is not expected that those Association Only Members who become Insurance Members will be members of Insurance for more than a few months. In any event that membership ceases on the issue of Shares pursuant to the Proposal or on its earlier termination (see Step 3 on page 35).

Deloitte Corporate Finance has concluded that Association Members as a whole will be better off under the Proposal than with other alternatives (see page 59).

### Insurance Only Members

Under the Share Allocation Rules, Insurance Only Members (other than Association) will, generally speaking, receive a lesser allocation of Shares than Dual Members. This is because Insurance Only Members will not receive an allocation of Shares on the basis of Association membership, unless they are part of a joint Association membership.

In addition, Insurance Only Members may believe that allocation of Shares to Association Only Members is unfair or unreasonable and that Association Only Members should not become Insurance Members under the Proposal (see page 25).

Association itself is an Insurance Only Member, but has a number of special rights as a member of Insurance (see pages 39 and 50) which other Insurance Members do not share. Association will give up those rights if the Proposal goes ahead and will receive Shares (see page 50).

Insurance Only Members fall primarily into four categories:

- Association;
- Royal Automobile Club of Australia ('RACA') members and certain NRMA employees (who are not Association Members);
- former Association members; and
- those Insurance Members who have an Association membership in joint names.

All Insurance Only Members, other than Association, must hold eligible policies to be Members (see pages 47 to 48).

Where a person is an Insurance Only Member because they are a former Association member (that is, they were an Association member when they took out the policy which made them an Insurance member but they subsequently allowed their Association membership to lapse), their membership of Insurance will terminate on either the renewal, lapse or cancellation of the last remaining eligible insurance policy they took out while still an Association Member. This termination of membership occurs automatically under Insurance's constitution, because, since 25 February 1999, these Insurance Only Members have not been permitted to reapply for Association membership, unless they fell within one of the Association membership amnesties set out in the Membership Principles.

## 4.5 Options considered

The Boards considered a number of different options before a majority of the Association directors and all Insurance directors decided to put the Proposal to Members. Four Association directors believe that retaining and strengthening the present dual mutual structure is the best option.

The options considered by the Boards include those discussed below.

### Retaining the current dual mutual structure

The NRMA Group could continue with its current dual mutual structure. For the reasons set out on page 20, a majority of Association directors and all Insurance directors believe that the current dual mutual structure has a number of limitations, including:

- the current corporate governance arrangements;
- members have a limited ability to access value in a timely and efficient manner;
- an increasing number of non-member customers (particularly within the Insurance businesses);
- a potential for an unsolicited restructure proposal for either Association or Insurance that may be accepted by Members in a manner which could release less value to Members than the Proposal; and
- reduced flexibility in raising equity capital to fund growth.

It is possible that a number of improvements could be made under the current dual mutual structure to alleviate some of the problems identified. Indeed, the four Association directors who recommend Members vote against the Proposal believe this to be the case. However, a majority of Association directors and all Insurance directors believe that retaining the current dual mutual structure would not be in the best interests of their respective Members as a whole because:

- the value which could be provided to members, through rebates or other wealth distribution options, is significantly less than the value of Shares allocated under the Proposal;
- improvements in corporate governance are less likely to be effectively introduced in a timely manner under the current structure;
- there are no practical alternatives to address the non-member customer issues in

- Insurance other than by altering the membership criteria of Association and Insurance and thereby significantly diluting the membership interests of Members;
- Insurance's mutual structure makes it more difficult for the NRMA Group to implement its current business strategies; and
- there is potential for an unsolicited restructure proposal which, if accepted, could release less value to Members than the Proposal.

Four Association directors believe that retaining the current dual mutual structure would be in the best interests of Members as a whole. The views of each of these directors can be found on pages 51 to 53.

### Creating a single mutual

The Boards have considered a number of options involving the merger of Association and Insurance, as well as other structures, resulting in a single mutual. Under such a structure current Association Members and Insurance Members would continue as members of the surviving mutual. A single board would control the NRMA Group.

While this option might result in improved corporate governance arrangements and some cost efficiencies compared with the current dual mutual structure, a majority of Association directors and all Insurance directors believe that there are a number of risks and disadvantages associated with this option which collectively outweigh these benefits. For example:

- there would be little or no value released to members;
- compared to the current dual mutual structure, while this option involves significant implementation costs, it results in limited benefits for the NRMA Group and members. The NRMA Group would continue to be restricted from issuing share capital, the potential for conflict between members and non-member customers would remain and the NRMA Group would not benefit from the disciplines imposed on listed companies;
- there would be an increased potential for the NRMA to be subject to an unsolicited restructure proposal which could undervalue membership rights and interests; and
- the differing rights and benefits attributable to Association and Insurance membership might necessitate the creation of a system of membership classes in the single mutual, which may significantly complicate its operations.

### Distributing wealth to members as a mutual

This option involves retaining the current dual mutual structure (or, indeed, a single mutual structure) and distributing a portion of Association's and/or Insurance's capital to members. The Boards have considered how the accumulated value of the NRMA Group could be accessed by members under its current structure.

The constitutions of Association and Insurance currently do not allow for the payment of cash dividends. Furthermore, it is uncertain whether the constitutions of Association and Insurance could be altered to allow for the payment of cash dividends without a major structural reorganisation of the NRMA Group. Therefore, members can only access the value of the NRMA Group in a material way through discounts, rebates or, less directly, enhanced benefits or service levels.

#### **Wealth distribution from Association**

While Association has the legal ability to pay rebates to members, it has never done so in its 80-year history. Instead, Association subsidises membership fee levels. Currently, membership fees are set at a level which is less than Association's cost of providing services to Association members.

Because membership fees are already subsidised, a majority of the Association Board does not believe that it is appropriate to either further discount Association membership fees or introduce rebates because:

- membership fees are already significantly lower than those available through other motoring clubs outside New South Wales and internationally; and
- at current fee levels, Association continues to make small operating losses which are unsustainable in the long term in the absence of additional funding.

One way of providing additional benefits to Association Members is for Association to charge a licence or similar fee to the Insurance Group for use of certain NRMA Trade Marks and to use the proceeds to further subsidise Association membership fee levels. The amount of such subsidy would depend on what the Insurance Group was prepared to pay for those NRMA Trade Marks. See page 32 for a discussion of the ability of Association to commercialise the NRMA Trade Marks. Under the Proposal, the Insurance and Financial Services Trade Marks are assigned to the Insurance Group, rather than licensed (and this is taken into account in the Share Allocation). This reduces the risk to Association that at some time in the future the Insurance Group may no longer wish to use those trade marks and therefore continue to pay the licence fee.

#### **Wealth distribution from Insurance**

While Insurance has the legal ability to pay rebates, it has only done so for two periods in its history. Policyholder rebates were provided in some years prior to the 1970s and from 1 August 1992 until 31 July 1995. All the Insurance directors and a majority of Association directors believe that there are a number of significant disadvantages associated with rebates compared to the Proposal. These disadvantages can be summarised as follows:

- the value which could be accessed by members as a whole through premium rebates would be significantly less than the value of Shares allocated to Members under the Proposal (see discussion below);
- rebates would provide little or no benefits for Association or for Association members who are not also Insurance members, yet would release value to persons who are not currently members (in particular, future members, and, if rebates were given to all policyholders, current and future non-member policyholders);

- Insurance's capital would be eroded by rebates (note, however, that shareholder dividends can erode the net worth of a company in much the same way). As a mutual, Insurance would be unable to replenish this capital by raising share capital;
- the extent to which rebates could be paid would be dependent on the capital needs of Insurance's businesses on an ongoing basis;
- based on previous experience, the Insurance Board believes that the introduction of rebates may result in a distortion of insurance product pricing in the market;
- rebates create policyholder expectations as to future levels of insurance premium rates and a reduction or withdrawal of rebates would result in higher lapse rates and general policyholder confusion and dissatisfaction;
- Insurance does not currently have significant surplus capital from which rebates can be paid. This is partly due to its acquisition strategy and activities and also due to the types of business that it conducts; and
- as rebates would be likely to be paid out over time, policyholders would need to renew their policies on an ongoing basis in order to receive the benefits of future rebates.

Many of the above disadvantages would apply equally if Insurance priced in accordance with 'mutual pricing principles' and provided policy discounts.

Rebates could be paid either to Insurance members only or to all Insurance policyholders. Both alternatives have additional implications. If rebates were paid only to Insurance members:

- there is a significant risk that the amount of the rebates paid by Insurance would not be tax deductible to Insurance; and
- there is a significant risk that the amount of rebates received by Insurance members would be assessable income of Insurance members and, therefore, taxable.

If rebates were paid only to Insurance policyholders:

- if structured as a discount and not based on membership, the amount of rebates paid by Insurance should be tax deductible to Insurance;
- the receipt of rebates will be assessable to policyholders except in circumstances where the policyholder did not claim a tax deduction for the premiums paid on the policy and the rebate represents a refund of premiums paid on the policy; and
- the benefit of rebates would be shared with a significant number of non-member policyholders.

PricewaterhouseCoopers has estimated that the maximum net present pre-tax value of insurance premium rebates which could be paid to current Insurance Members only over time is approximately \$900 million. It has also estimated that the maximum net present pre-tax value of insurance premium rebates which could be paid to current Insurance policyholders over time is approximately \$1.4 billion, although it should be noted that a significant portion of this figure would not be paid to current Members. The above estimates assume normal trading conditions for Insurance and the maintenance of current levels of capital adequacy. Accordingly, all directors of Insurance and a majority of Association directors believe that the Proposal is expected to release more value to Insurance Members as a whole than either of these estimated amounts. The above maximum net present pre-tax value of rebates are based on discounting the expected cashflows arising from rebates using estimates of the maximum maintainable level of rebates, the policy durations of Insurance Members and policyholders and policy renewal rates that are likely to occur if rebates of the levels assumed are implemented.

While the Proposal allows Members as a whole to access more value than rebates, some Members may prefer rebates in their own particular situation. For example, a limited number of Members who receive pensions or allowances may lose some or all of their entitlements as a consequence of having received Shares (see page 43), whereas rebates to policyholders would not have that effect.

The Insurance Board has no current plans to pay rebates. A special resolution was put to Insurance Members at a general meeting of Insurance held on 16 November 1999 which proposed that the Insurance Board be required to annually prepare and provide to Insurance Members a report on the profit surplus, if any, available for distribution as rebates or other benefits to Insurance members. The resolution was not passed. If the Proposal goes ahead, it is unlikely that rebates would be introduced in the future.

#### Extending membership to non-member customers

There has been a significant increase in the number of policyholders and other customers of Insurance who are not Insurance members (see page 17), due to expansion by Insurance outside New South Wales and the Australian Capital Territory and into broader financial services markets. This expansion is highlighted by recent initiatives such as the acquisitions of MLC Building Society and SGIO, and the RACV alliance. The divergence between the different interests of Insurance members and policyholders and other customers who are not Insurance members is expected to increase in the future as Insurance implements its strategy of growth and diversification outside New South Wales and the Australian Capital Territory and increases its range of financial services.

As part of the development of the Proposal, consideration was given to the possibility of extending Insurance membership to non-member customers. This was considered impractical as it would require current Insurance Members to approve changes to the constitution which would effectively dilute their existing ownership interests in Insurance.

#### Partial listing of Insurance

Under this option, Insurance would be demutualised and listed. Association would be required to retain a majority of the shares in Insurance with the remaining shares distributed to members. The board of the listed company would comprise representatives of the Association Board as well as independent directors. Association would remain a mutual and would continue to provide road and related motoring services.

A majority of Association directors and all Insurance directors do not believe that this option is in the best interests of their respective Members as a whole for the following reasons:

- compared with the Proposal the value accessed by members would be significantly reduced through Association retaining a majority shareholding;
- this structure would create a number of conflicts of interest between Association and the outside minority shareholders which could result in a reduction of the listed company's profitability and the value accessed by members; and
- the value retained by Association through a majority interest in Insurance would be far in excess of its current business needs.

#### Full demutualisation and listing

This option involves the full demutualisation and listing of the operations of both Association and Insurance. This option provides additional benefits such as a limited increase in the value distributed to Members and a simplification of the future relationship between Association and Insurance (because they would both be part of the same group) relative to the Proposal.

A full demutualisation and listing proposal was presented to members in 1994. The proposal was suspended as a result of legal action (see pages 135 to 136). In March 1995, an independent expert's report by Grant Samuel & Associates Pty Limited (see pages 134 to 135) found that the 1994 demutualisation proposal was in the best interests of both Association and Insurance. However, despite the findings of the Grant Samuel & Associates Pty Limited report, market research of members commissioned by the Boards in 1995 indicated that member support for the 1994 proposal continued to fall after the issue of that report.

A majority of Association directors and all Insurance directors believe that the full demutualisation and listing option does not address important issues which are covered by the Proposal. For example:

- Association has a unique heritage in New South Wales as a road service mutual. Association is an advocate for better roads and the rights of motorists, operates a number of charitable and community service programs and has maintained subsidised fees for Association Members. The Boards believe these attributes are highly valued by Association Members. As a commercially oriented and shareholder-owned company, Association could be pressured to reduce or eliminate some of the programs or to increase membership fees at a faster rate than under the current dual mutual structure or the Proposal;
- the value that could be released by demutualising Association is small relative to that which would be released on a demutualisation of Insurance; and
- the member and community service activities of Association contribute to the value of the NRMA Brands, which benefits both Association and Insurance. Some of this benefit could be lost if Association was forced to operate on a commercial basis focused on shareholder returns.

In addition, a majority of Association directors and all Insurance directors believe that the advantages of the current Proposal (including the maintenance of Association as a mutual) outweigh the disadvantages of the Proposal (including the risks associated with the Business Relationship Agreements).

Although Ernst & Young Corporate Finance is of the opinion that the Proposal is preferred to the present dual mutual structure and is the preferred practical alternative for Insurance Members, it is of the view that, strictly from the perspective of Insurance Members (excluding Association in its capacity as an Insurance Member), full demutualisation and listing is likely to be a superior alternative from a commercial perspective to the Proposal. This is because, from the perspective of Insurance Members (excluding Association), the potential commercial risks and complexities associated with the Business Relationship Agreements are likely to outweigh the commercial benefits to Insurance Members (excluding Association) of Association remaining as a mutual. See pages 85 to 86 for further information on Ernst & Young Corporate Finance's views.

#### Sale or merger of the NRMA Group

A sale or merger of the NRMA Group might address some or all of the constraints of the current dual mutual structure. However, the Boards did not pursue a trade sale or merger because:

- it could have a significant adverse effect on the business due to the uncertainty and instability within the organisation during the process but without any assurance that it would deliver more value to members than the Proposal;
- Insurance is one of Australia's largest financial institutions and the largest general insurer. The Insurance Board has a clear strategy which it believes will produce significant benefits for its owners and customers. The Insurance Board believes the Insurance Group has a strong future as an independent group;
- it is likely that a sale or merger of the NRMA Group would involve the termination of the direct ownership interests of members and the ability to share in the future of the NRMA Group. By contrast, the Proposal allows most Members to retain an ownership interest and the ability to share in the future profits of NIGL. Each Member who receives Shares under the Proposal can choose between holding the Shares or selling them at their discretion; and
- it does not provide members with a mechanism which they can use to compare an offer price to a value which has been determined on a transparent basis, such as in the case of a listed company.

Also, the Proposal does not preclude the NIGL Board or Shareholders from considering a sale or merger proposal following the listing. However, in most circumstances, Shareholder approval would be required to allow a sale or merger.

# 5. The NRMA Group

## 5.1 An overview

The NRMA Group today reflects its unique heritage as a motoring, insurance and financial services organisation and the evolving markets in which it operates. From its origins in 1920 as a New South Wales motoring organisation lobbying for better roads, the NRMA Group is now a substantial commercial enterprise operating nationally and ranking, in revenue terms, as one of the top 30 enterprises in Australia.

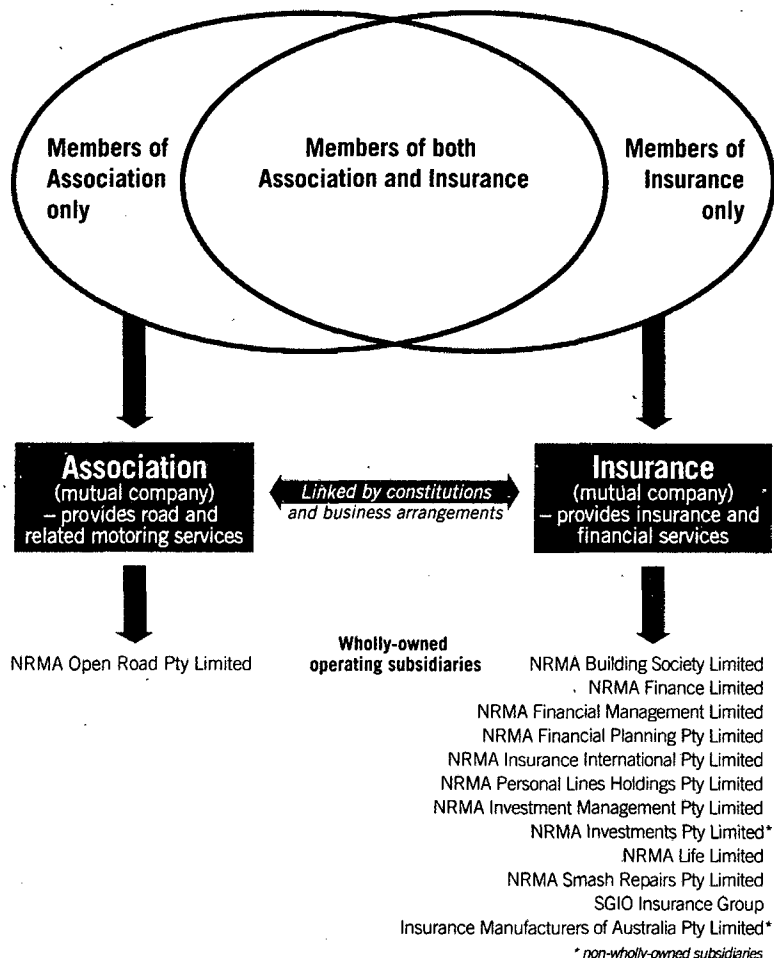
In 1999, the NRMA Group has the same dual mutual structure as it had in the 1920s.

Today, the NRMA Group is:

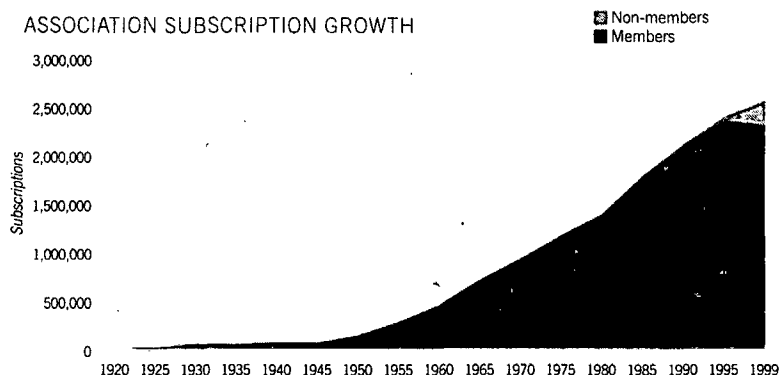
- Australia's largest motoring organisation;
- Australia's largest general insurer;
- a growing financial services business offering financial advisory products and services; and
- an investment manager managing \$7.4 billion in funds.

The NRMA Group comprises two mutual companies, Association and Insurance, and their respective wholly-owned subsidiary companies. The relationship between Association and Insurance, and the NRMA Group ownership structure, is illustrated below:

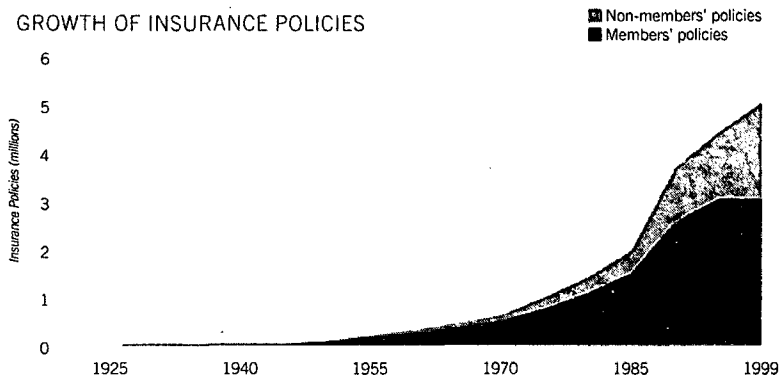
### CURRENT STRUCTURE



Association has approximately 1.75 million Members who between them account for 2.26 million subscriptions. In addition, there are approximately 149,000 subscriptions by road service customers who joined after 25 February 1999 and approximately 180,000 non-member subscriptions resulting from arrangements between certain motor vehicle manufacturers and the motoring associations in Australia. The membership growth of Association over its 80-year history, including the emergence of non-member customers since 1992, is shown below.



Insurance has approximately 1.19 million Members, most of whom are also Members of Association. This is because, generally speaking, membership of Association is a prerequisite for Insurance membership. Insurance has approximately five million general insurance policies in force, with about 1.8 million of those policies held by non-member policyholders. In addition, there are also approximately 140,000 customers of financial services products (such as life insurance, investment trusts and cash management accounts). The growth of total general insurance policies in force and the growth in non-member policies (which has been most dramatic since 1989) is shown below. The purchase of SGIO in 1998 has further increased the growth in non-member policies by approximately 340,000.



There are approximately 7,000 people working for the NRMA Group throughout 93 offices located within Australia. In addition, an agency network of 223 Country Service Centres and 21 road service only contractors ensures that the NRMA's products and services are available to residents in New South Wales and the Australian Capital Territory country regions.

## 5.2 The NRMA's history

Although Association and Insurance have, at times in the NRMA Group's history, operated separately, they have always shared the NRMA brand and distribution network. Since 1987 they have operated, in practical terms, as a single organisation.

While the NRMA has expanded into the financial services market, road service and general insurance services remain a core component of its business.

The Proposal recognises this heritage, particularly in road service, as being of continuing importance to Members. It is for this reason that road and related motoring services will continue to be provided by Association as a mutual. Association will be in a strong financial position after the Proposal is implemented.

### History of Association

The National Roads Association was formed in 1920 to lobby government for better roads, and was renamed the National Roads & Motorists' Association in 1923. Road service began in 1924 and became a 24-hour service during the 1930s.

Membership subscriptions grew to 250,000 by 1954, mainly as a result of increasing car ownership. Patrol vans were radio equipped and a number of related motoring services were introduced, such as touring information, legal and technical advice.

Membership reached one million subscriptions by 1971. Association continued to expand its range of products and services and continued its advocacy role in lobbying governments for improved road funding.

The 1990s have seen total Association subscriptions reach 2.59 million including approximately 329,000 non-member subscriptions. Non-member subscriptions comprise almost 13% of total subscriptions.

### History of Insurance

Insurance was established in 1925 as a subsidiary of Association, selling car insurance to members. In 1926, the company was reconstituted as a separate mutual, although the Association Board was given the power to appoint the Insurance Board. In 1933, Car Credits Limited (now called NRMA Finance Limited) was established to offer car finance to members at low interest rates. When Insurance offered CTP insurance in 1942, policies were issued to non-members for the first time.

Statistical research was introduced during the early 1970s to improve insurance underwriting methods. In the 1970s, Insurance began to diversify, first into home insurance around 1970, and then into personal finance in 1973 and life insurance in 1977.

By 1981, Insurance was Australia's largest motor vehicle insurer, with one million car policies in force. Following legislative changes in CTP insurance, which resulted in Insurance withdrawing from the New South Wales market in 1984, Insurance successfully re-entered the privatised New South Wales CTP market in 1989 and currently has a market share of approximately 34%. Insurance has also been the sole CTP insurer in the Australian Capital Territory since 1980 through the withdrawal of all other CTP underwriters.

Insurance has continued to be successful in the 1990s, consolidating its market leadership in the general insurance portfolios of car, CTP and home insurance. Expansion into financial services has continued, with NRMA Financial Planning Pty Limited starting in 1990. Interstate expansion also commenced, with insurance and financial services being offered in Victoria by 1994 and in Queensland by 1995.

Since the mid 1990s, Insurance has built on its core businesses and continued to expand through a number of acquisitions and alliances. The acquisition of the MLC Building Society (now the NRMA Building Society) in 1997 broadened the range of NRMA financial services on offer. The purchase of SGIO in 1998 has enabled the NRMA Group to widen its geographic base to Western Australia and South Australia, while adding health, commercial and workers' compensation insurance to its motor vehicle and home insurance businesses.

Expansion of Insurance's business has been necessary as a result of changes in the insurance and financial services markets. Excess capacity and strong competition has forced the industry to rationalise and reduce costs by operating at increased economies of scale. Deregulation has also brought about convergence between the insurance and financial services markets, to the extent that newer and stronger competition is emerging from more non-traditional entrants to the market.

The number of non-member insurance customers has increased significantly over the 75-year history of Insurance. This growth commenced with Insurance's diversification into non-motor lines of insurance business in or around 1970, and has continued with further diversification into the broader financial services markets and, later, with interstate expansion in the 1990s. Growth in the proportion of non-member customers is likely to increase as Insurance continues to expand its businesses outside its traditional markets.

## 5.3 How the NRMA operates today

### Association – HELP in the new era

Association is renowned for its road service operation, which in 1999 responded to 2.3 million calls for road service across New South Wales and the Australian Capital Territory. In 93% of cases, motorists were attended to within 60 minutes of their call and Association had a 92.5% success rate in getting them going again.

In response to demand for better services, NRMA Plus was introduced in 1989 to provide Members with enhanced benefits for breakdowns occurring on long distance trips for a higher fee. Other new services include CarCom which uses satellite tracking to locate broken-down and stolen vehicles and provide 'online' emergency assistance.

Closer co-operation between the motoring organisations in Australia has provided, and will continue to provide, more benefits to members. For example, Association was instrumental in negotiating and implementing a national strategy for Drive Travel products and services, culminating with the formation of AAA Tourism Pty Limited.

Association has also continued its focus on providing Members with a wide range of services such as touring maps and accommodation advice, the battery delivery service, technical advice, vehicle inspections and other services.

Association and other motoring organisations in Australia have entered into arrangements with certain vehicle manufacturers to provide roadside assistance as part of their vehicle warranty programs. These arrangements commenced in 1992 and led to Assist Australia Pty Limited being formed in 1996 to manage all national assistance programs on behalf of motoring organisations in Australia. There are approximately 180,000 subscriptions to these programs comprising about 7% of total subscriptions for Association.

Association's focus on lobbying governments for better roads and conditions for motorists is as strong as ever, with Association taking part in major government programs and having major successes such as the current Pacific Highway upgrade and campaigns to improve driver education.

### Association's financial performance

Association's financial performance for the 1998 and 1999 financial years has previously been provided to members in the published financial statements. Additional financial information in respect of Association is set out on pages 100 to 109, which is designed to illustrate the anticipated effect of the Proposal for these financial years, based on certain assumptions set out on page 118.

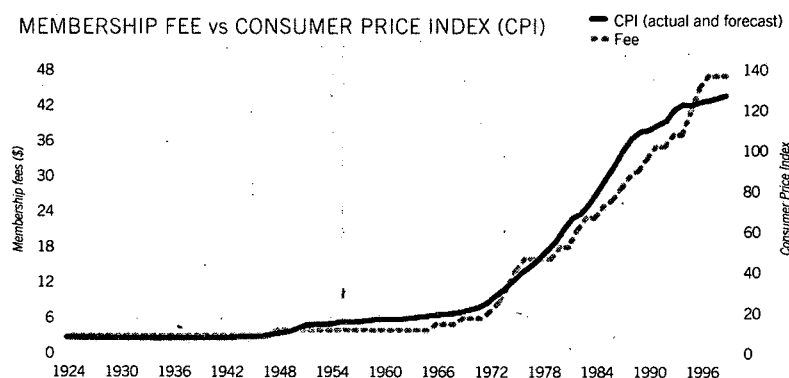
### Association's strategy

**Association's mission is to be the trusted organisation that our members turn to for help with their motoring needs.**

As a mutual, Association's primary focus is to be responsive to members' needs. Road service standards are monitored regularly, to ensure that service quality and delivery standards meet, if not exceed, member expectations. Member loyalty is valued very highly, as recognised by the Gold Member program for those members with at least 25 years of Association membership. Approximately 680,000 or 30% of Association's 2.26 million member subscriptions are held by Gold Members.

In 1999, Association also launched the NRMA Card, which recognises member loyalty of less than 25 years and provides a broader range of member benefits.

Recognition and reward for loyalty has been a key feature of Association's strategy and has helped improve retention rates, maintaining membership fees at an affordable level. Renewal rates over the last 10 years have remained around 87 to 90%, while membership fees were, until the 1990s, allowed to lag increases in road service costs and movements in major price indices such as the Consumer Price Index. Fee increases in six out of the last 10 years have not, however, prevented Association from incurring a small operating loss in recent years, as costs and the ratio of road service jobs per Member have increased at a faster rate. A comparison between fee increases since 1924 and CPI movements over this period is shown below.



It is planned that in 2000, Association will develop new products and participate in the implementation of the new national strategy for Drive Travel.



## Insurance – staying in front through innovation

Insurance has been a pioneer in bringing a service-oriented approach to the general insurance industry. For example, it was:

- among the first direct sellers of general insurance in the 1920s;
- the first to simplify personal lines insurance (for example, car and home) by introducing plain English insurance policies starting in 1976; and
- among the first insurers to manage vehicle repairs through a partnership arrangement with vehicle repair firms, which benefits policyholders by reducing repair costs and time.

The competitive strengths of the Insurance business rely largely on non-price factors such as its efficient claims service. The principles adopted by Insurance in managing claims are to:

- strive to balance its obligations to the insured and other parties with its obligations to all policyholders to manage the claims portfolio effectively;
- welcome claims as an opportunity to provide superior service to individual customers;
- process claims efficiently, having regard to the facts of each claim;
- make all decisions on claims in line with the wording and intent of the relevant insurance policy; and
- comply with the requirements of the General Insurance Code of Practice, Insurance's claims manuals and instructions, its fraud policy and the law.

Other factors include loyalty initiatives like Gold membership, which rewards long-term Insurance member policyholders.

On 30 September 1999, the Insurance Board resolved that the current insurance premium pricing principles of Insurance be 'confirmed as follows:

- Insurance premium pricing is inherently driven by the Board-approved Rate of Return ('ROC'), after taking into account the level of expected claims costs, administration expenses and investment income.
- ROC is reviewed annually by the Board as part of the annual budgeting process and is based on the commercial returns required for equity capital.
- Using the current pricing structure and subject to Board approval, changes in the underlying risk trends (and economic and regulatory environments in the investment and reinsurance markets) will drive premium rates.

Accordingly, the Board notes that in relation to motor vehicle and home insurance, premiums will not change as a result of the Proposal, but premiums will be subject to change in the ordinary course, depending on factors referred to above.

Insurance rebates were introduced in 1992 as a reward for loyal policyholders. This resulted in premiums totalling \$296 million being rebated to insurance policyholders between 1 August 1992 and 31 July 1995. Rebates were eventually abandoned in 1995 as it became apparent that they had weakened the financial position of Insurance and were unsustainable in the long term.

Competition and excess capacity has exerted pressure on the general insurance industry to rationalise, both locally and abroad. Scale and strategic fit have been key drivers behind many mergers in the domestic market. In addition, the rapid development of new customer service technology has provided opportunities for other insurers to establish a profitable market niche and potentially threaten Insurance's role as market leader.

In response to these changes, Insurance has undertaken a number of initiatives to diversify its product range and expand its businesses. It has achieved this by:

- **Growth and diversification through acquisitions and joint ventures.** Insurance has traditionally been focused in New South Wales and the Australian Capital Territory, and in products such as motor vehicle and home insurance. To achieve greater geographic and product diversity, Insurance has recently undertaken a number of major initiatives. In 1998, Insurance purchased the SGIO Group, a major Western Australia and South Australia insurer which has extended the range of product lines for Insurance to include commercial, health and workers' compensation insurance. Insurance also recently entered into an alliance with the RACV (the major road service association in Victoria) to combine the personal lines insurance operations of both companies in New South Wales, the Australian Capital Territory and Victoria to form Australia's largest personal lines insurance wholesaler. The alliance involves Insurance and RACV retaining branding and distribution in their home markets. The joint venture company, IMA (70% owned by Insurance and 30% owned by RACV), will undertake the tasks of product design, underwriting (directly in Victoria and through Insurance in New South Wales and the Australian Capital Territory) and claims management (see page 146).
- **Providing 'one-stop' insurance and financial services.** In 1997 Insurance acquired MLC Building Society (now called NRMA Building Society) and, through the Building Society, offers home loans, cash management accounts, term deposits and personal lending to its members and customers. NRMA Financial Services offers personal investment trusts, superannuation, savings bonds, allocated pensions, and life insurance. These services complement traditional insurance services and allow members and customers to access their financial services needs from one provider.
- **New investment in information technology.** Insurance has recently invested over \$100 million in upgrading its information technology systems, which are aimed at providing products and services tailored to meet individual member and customer needs. This has facilitated the cross-selling of products between different customer streams and enabled multi-policy discounts and monthly payment facilities to be introduced.

- **Expansion into selected offshore markets.** To increase the level of diversification and meet its growth aspirations, Insurance established NRMA Insurance International Pty Limited in 1998 and embarked on developing an international business strategy, the focus of which is to investigate opportunities in selected insurance markets offshore. The first transaction in offshore markets was completed in October 1998 with the acquisition of a 20% interest in Safety Insurance Public Company Limited, a listed general insurer in Thailand. The Insurance Board recently approved a second transaction, which will involve the acquisition of an 80% interest in a joint venture with the Continental Automobile Association in China.
- **Top quartile performance as an investment manager.** NRMA Investment Management Pty Limited currently has nearly \$7.4 billion of assets under management and its investment performance has recently placed it in the top quartile of fund managers.

## Insurance's financial performance

Insurance's financial performance for the 1998 and 1999 financial years has previously been provided to members in the published financial statements. Additional financial information in respect of Insurance is set out on pages 110 to 117 which is designed to illustrate the anticipated effect of the Proposal for these financial years, based on certain assumptions set out on page 118.

## Insurance's strategy

**Insurance's mission is to be the trusted organisation that people turn to for help with their insurance and financial services needs.**

The strategy for Insurance is to create a national position in its insurance and financial services businesses. It intends to achieve this by expanding its:

- personal insurance portfolio outside New South Wales and the Australian Capital Territory through acquisitions, alliances and organic growth;
- penetration into the financial services and home insurance markets in New South Wales;
- financial services business to other States through its own subsidiaries and alliance partners;
- commercial business nationally, by focusing on the small and medium business market; and
- health insurance business.

Elements of this strategy are already in place, with the purchase of SGIO in 1998 and the recently announced alliance of the personal insurance businesses of Insurance and RACV in New South Wales, the Australian Capital Territory and Victoria through a joint venture company, IMA (see page 146).

In addition to the purchase of SGIO and formation of the RACV alliance, the NRMA Group has in the last 18 months implemented significant management structure changes, implemented major information technology upgrades (including Y2K readiness) and developed the Proposal. Each of these projects has involved changes to management and integration strategies and has required substantial management time and resources.

Leaving aside the Proposal, the Insurance Board believes that each of these projects is vital for the pursuit of Insurance's strategies. The benefits of the strategies may not be fully realised until integration issues are resolved and the implementation of technology-based changes and management restructures are complete.

These strategic initiatives have reduced the available 'surplus' capital within Insurance (see the report of PricewaterhouseCoopers on pages 120 to 133). In the absence of the Proposal, Insurance's ability to fund future strategic initiatives and growth will be restricted by its inability to raise share capital – that is, it will be dependent upon its ability to generate capital internally and to increase its level of borrowings and issue non-share instruments.

Insurance will continue to pursue its acquisition and merger strategy. In doing so, it may need to raise additional sources of equity or debt capital. If any developments were to occur prior to the Insurance Demutualisation which would be material for Members in deciding whether to approve the Proposal, appropriate steps would be taken to provide that information to Members. If the Proposal goes ahead, further information on the acquisition and merger strategy will be included as appropriate in the offer document to be issued prior to listing.

## 5.4 How the NRMA will operate if the Proposal goes ahead

### Association

If the Proposal goes ahead, Association will remain as a mutual. As a result of receiving the Shares allocated to it under the Proposal, Association's capital base will be strengthened and will enable it to maintain, if not improve, current road and related motoring services and service levels. The Proposal is designed to allow membership fees to be maintained without increase until 30 June 2001 (other than for the effect of the introduction of GST). Thereafter, it is expected that fees will be increased using the Consumer Price Index as a guide. Association will continue its advocacy role for Members on issues such as road safety, infrastructure development and transport policy.



The existing Association Board election process will not change as a result of the Proposal. Association will have a dedicated chief executive officer and management team. No major changes are to be made to the business of Association as a consequence of the Proposal other than under the Business Relationship Agreements (see pages 31 to 33 for details of the Business Relationship Agreements and pages 139 to 145 for summaries of these agreements). The Association directors believe that the Proposal will not adversely affect the future employment of the present employees of Association. It is intended that all employees of Association will maintain their employment on terms which are comparable to their current employment terms. It is anticipated that approximately 13 employees will transfer from Insurance to Association. Those employees currently work in the road and related motoring services areas, but have historically been employed by Insurance.

Pro Forma financial information for the 1998 and 1999 financial years which has been prepared for Association, set out on pages 100 to 109, illustrates the anticipated change in Association's financial position as a result of implementing the Proposal. In order to prepare this financial information, it was necessary to make certain assumptions, including the investment return that Association would obtain, the impact of the Business Relationship Agreements and an opening value for Association's shareholding in NIGL. These assumptions are set out on page 118.

In addition, PricewaterhouseCoopers has concluded that, if the Proposal is implemented, allowing for the effects of the Business Relationship Agreements and the allocation of 10% of the Shares to Association, there is a high degree of confidence in the ongoing financial viability of Association (see page 121). This conclusion assumes that:

- Association continues to provide road and related motoring services at current levels; and
- membership fees are maintained without increase until 30 June 2001 (other than for the effect of the introduction of GST) and only increasing thereafter in line with the Consumer Price Index.

Deloitte Corporate Finance examined the sufficiency of Association's capital injection and concluded that the Share Allocation to Association is sufficient to enable it to carry out its stated objectives for the foreseeable future (see page 62).

Ernst & Young Corporate Finance is of the opinion that following the implementation of the Proposal, Association will be in a strong financial position (see page 87).

The strategy in place for Association (see page 29) is not dependent on the outcome of the Proposal. However, a majority of the Association directors believe that implementation of the strategy for Association may be hindered if the Proposal does not go ahead. For example:

- Association currently has a strategy of keeping membership fees affordable. If the Proposal does not go ahead, financial pressures may require Association to raise membership fees at a faster rate than if the Proposal went ahead; and
- the Association Board and management team will need to continue managing the potential for conflict between the interests of Association and Insurance.

Under the Proposal, a close relationship between Association and the Insurance Group will continue during the term of the Business Relationship Agreements and through an ongoing Association shareholding in NIGL.

## Insurance

If the Proposal goes ahead, Members will receive Shares in NIGL for giving up membership of Insurance. This will, in the future, entitle Members who continue to hold Shares to receive dividends that NIGL may pay from time to time and to benefit from any growth in the value of the Insurance Group.

Existing policy features and benefits will not change as a result of the Proposal. However, Insurance has recently entered into an alliance with RACV, the major road service association in Victoria (see page 146). The parties will pursue that alliance through a joint venture company, IMA. As part of that alliance, short tail personal lines insurance policies to be sold by Insurance in New South Wales and the Australian Capital Territory, and distributed by RACV in Victoria, will, in all likelihood, be standardised at some time in the future. Any changes to policy features and benefits resulting from that standardisation have not yet been determined. However, it is not expected that policyholders will be disadvantaged in an overall sense by that standardisation. This change will take place, regardless of whether the Proposal goes ahead.

Premium rates will not increase as a consequence of the Proposal. However, a number of market and other industry factors unrelated to the Proposal, such as GST, may lead to premium increases in the future.

Insurance's current approach to claims management will not change as a consequence of the Proposal. All claims (excluding CTP and third party liability personal injury claims) in New South Wales, Victoria and the Australian Capital Territory will be managed by IMA. Claims in other places will be managed by Insurance (or its subsidiaries). It is expected that this will not involve a change to the current approach to claims management.

If the Proposal goes ahead, the NIGL Board will be reconstituted (see page 33).

The Insurance Group will have a dedicated chief executive officer and management team. No major changes are proposed to be made to the business of Insurance as a consequence of the Proposal other than as detailed under the Business Relationship Agreements (see pages 31 to 33 for details of the Business Relationship Agreements and pages 139 to 145 for summaries of these agreements). The Insurance directors believe that the Proposal will not adversely affect the future employment of the present employees of Insurance. It is intended that all employees of Insurance will maintain their

employment on terms which are comparable to their current employment terms. It is anticipated that approximately 250 employees will transfer from Association to Insurance.

The demutualisation of the Insurance business of itself is not expected to adversely impact on its current insurer financial strength rating.

Pro Forma financial information for the 1998 and 1999 financial years which has been prepared for the Insurance Group, set out on pages 110 to 117, illustrates that Insurance's anticipated financial position would not be significantly affected by the Proposal, if the Proposal had been implemented in full in those financial years. In order to prepare this financial information, it was necessary to make certain assumptions, including the costs of the Proposal, ongoing listing costs, the impact of the Business Relationship Agreements and the quantum of expected dividends. These assumptions are set out on page 118.

In addition, PricewaterhouseCoopers has formed the view that the Share Allocation Rules enable 'the value of NIGL to be distributed without materially reducing the net assets or capital strength of Insurance' (see page 127).

The strategy in place for Insurance (see page 30) is not dependent on the outcome of the Proposal. However, the Insurance Board believes that implementation of the strategy for Insurance may be hindered if the Proposal does not proceed. For example:

- if the Insurance Group is not listed, its ability to fund an acquisition or investment through an issue of shares will be restricted;
- the Insurance Board and management will need to continue managing the potential for conflict between the interests of Association (as an Insurance Member) and other Insurance Members; and
- the ability of Insurance to attract, motivate and retain high-calibre executives is likely to be affected.

A close relationship between the Insurance Group and Association will continue during the term of the Business Relationship Agreements and through an ongoing Association shareholding in NIGL.

## 5.5 Details of the Business Relationship Agreements

### Background

In recent years, the Association and Insurance Boards have adopted a strategy of integrating the activities of both organisations. Association and Insurance have also integrated certain of their support functions.

The Proposal seeks to continue the synergistic benefits that have accrued from the integration of certain Association and Insurance functions in a way which does not impede Association's and Insurance's commercial objectives. To this end, Association and the Insurance Group will enter into a series of contracts governing their ongoing relationship in a range of key areas, including:

- continued use of the NRMA Brands by both Association and the Insurance Group;
- provision of distribution, technology and certain 'back office' functions by Insurance to Association; and
- cross-access to membership and customer lists to assist in marketing efforts.

These contracts are a fundamental part of the Proposal and, in the view of the majority of Association directors and all of the Insurance directors, they give Association, on the one hand, and the Insurance Group on the other, the ability to benefit from continued co-ordination of shared activities while being separated as contemplated under the Proposal. To this end, in many respects, these Business Relationship Agreements formalise arrangements which already exist between the organisations.

The Business Relationship Agreements will only take operational effect if the Proposal is approved and implemented and are intended to be long-term arrangements. However, they may be terminated in a number of circumstances and some of them are subject to periodic termination rights.

In general, the services to be provided to Association by Insurance under the Services Outsourcing Agreements (which form part of the Business Relationship Agreements) are to be provided on an exclusive basis during the term of the agreement or for an initial part of that term. This exclusivity obligation does not apply to the provision of investment management services under the Shared Services Outsourcing Agreement or to the provision of marketing services under the Marketing Agreement.

Certain key aspects of the Business Relationship Agreements are summarised below. Further details of the Business Relationship Agreements, including details of the basis of determining the fees payable by Association for services to be provided by Insurance under the Business Relationship Agreements, the nature and duration of the exclusivity obligations imposed on Association in relation to the provision of those services and the circumstances in which the Business Relationship Agreements can be terminated are found on pages 139 to 145.

### Scope

The Business Relationship Agreements define the future business activities in respect of which each of Association and the Insurance Group may operate and use the NRMA Brands. The future business scope of both Association and the Insurance Group will be limited in order to prevent duplication and overlap of products within Australian and New Zealand markets. Association will continue to use the NRMA Brands in relation to roadside assistance services and other motoring services (other than those reserved

exclusively for the Insurance Group, such as motoring insurance). The Insurance Group will continue to use the NRMA Brands to provide insurance and financial services. Association will also be permitted to use the NRMA Brands in relation to motoring products, transportation and travel services (other than travel insurance) and Association will be permitted to pursue other types of activities under another brand unless those activities are of a type undertaken by Insurance prior to the commencement of the Business Relationship Agreements. The Insurance Group will be entitled, using the NRMA Brands, to pursue any activity not in the exclusive domain of Association. The Insurance Group may also pursue activities within the exclusive domain of Association under another brand unless those activities are of a type undertaken by Association prior to the commencement of the Business Relationship Agreements.

### Trade marks and marketing

The NRMA Brands are some of the best known in New South Wales and the Australian Capital Territory. Since their formation, Association and Insurance have used the word 'NRMA' and the related logos, as modified over time, in relation to their respective businesses. The NRMA Brands are protected by a series of NRMA trade mark registrations (and in some cases applications for registration), for example the wing and tyre logo that appears on the cover of this document. Although both Association and Insurance use the NRMA Trade Marks, Association is the registered owner of the NRMA Trade Marks.

Insurance has used the NRMA Trade Marks exclusively for core insurance products for a significant period and has used those marks on a non-exclusive basis for goods and services which are common to the businesses of Association and Insurance. More recently, Insurance has also used the NRMA Trade Marks in relation to financial services.

Insurance uses the NRMA Trade Marks under a licence granted by Association that arises, in most cases, from a course of conduct (that is, there is very little formal documentation of the arrangements). Therefore, even though Insurance may have contributed significantly to the value and reputation of the NRMA Trade Marks and even though Association is and will continue to be reliant on Insurance to provide certain shared services, Association currently has the ability to terminate Insurance's licence to use those marks on reasonable notice. If the Proposal goes ahead, Association will only have limited rights of termination under the Trade Mark Licence Agreements and no right to terminate the Trade Mark Relationship Agreement – see pages 141 to 142.

Notwithstanding this, it would be difficult for Association to commercialise the value of the NRMA Trade Marks relating to insurance and financial services ('Insurance and Financial Services Trade Marks') by licensing them to a party other than a company related to Association or the Insurance Group, unless strict protocols for the use of the NRMA Trade Marks and control mechanisms were put in place. The need for stringent protocols and controls is likely to make such a licence less commercially attractive to potential licensees. In view of these matters and the limitations on use of the NRMA Brand in Victoria and limited use of the NRMA Brand in Western Australia and South Australia (where the NRMA Group use the SGIO and SGIC brands), together with the use that Insurance could continue to make of the other elements of the goodwill of its businesses (eg customer records, information technology and physical distribution systems), PricewaterhouseCoopers believes that the Insurance and Financial Services Trade Marks would be valued at not more than \$30 million to \$40 million (see page 133). This valuation is limited to those trade marks. It is not a valuation of all the NRMA Trade Marks.

Under the trade mark agreements, the Insurance and Financial Services Trade Marks will be assigned to the Insurance Group. For example, Insurance uses many of those trade marks on communications with policyholders and in advertising of its insurance products. In addition, a range of agreements enable concurrent use of the NRMA Trade Marks in product classes where the trade marks are used by both Association and Insurance (for example, on vehicle valuation and inspection services). Other agreements deal with situations where the assignment of trade marks may be ineffective or challenged. As a result of the agreements, both Association and Insurance will continue to use the NRMA Brands. In order to facilitate marketing, the agreements provide for cross-access to customer and member databases, to the extent legally possible, and encourage co-operation in product development and corporate advertising.

As registered trade marks, the NRMA Trade Marks are subject to various legal requirements in order to remain validly registered. As a result of these requirements, the use of the NRMA Trade Marks by both Association and Insurance in the manner described above gives rise to risks in relation to those registrations. These risks are further described below under the heading 'Risks arising from the Business Relationship Agreements'.

Under the Marketing Agreement, Insurance agrees to provide marketing services for an initial 12 month period (should Association require it), provide services relating to the NRMA Card and subscribe for advertising in the 'Open Road Magazine'.

### Distribution and shared services

Under the Business Relationship Agreements, Insurance will provide a range of distribution services to Association including the branch network, call centres, the Internet, Country Service Centres and Assistance Services.

In addition, Insurance will provide a number of shared support or 'back office' services to Association, including human resources, finance, purchasing and property, marketing, business document production and statistical research. These services are provided to enable Association to bring its products to market.

NRMA Investment Management Pty Limited ('NIM'), a member of the Insurance Group, will provide investment services to Association.

The basis of charging for these services is set out in relation to each of the relevant Agreements on pages 139 to 145. While there are differences in each Agreement, in general, the services are charged at cost plus 5% except for investment management where services are charged on a percentage of portfolio value.

In providing investment management services to Association, NIM will be contributing its significant expertise to the management of Association's investment portfolio, which will be substantially increased as a result of the Proposal.

### IT services

Insurance currently provides information technology infrastructure to other members of the NRMA Group from internal sources and through its agreements with IBM Global Services Australia. Insurance is entitled to continue to provide those services to Association and its subsidiaries, even if they cease to be related. In addition, Insurance will provide software maintenance, support and development services to Association.

The Business Relationship Agreements relating to distribution, shared services and IT services cover quality and performance levels, service fees, contract administration, exclusivity obligations and termination events and consequences.

### Risks arising from the Business Relationship Agreements

The Business Relationship Agreements give rise to certain risks in relation to the NRMA Trade Marks. First, risks arise from the use of a 'Motorists' Association' trade mark in relation to insurance and financial services. Secondly, further risks arise from the concurrent use of the trade marks by two entities that will no longer be related companies. If either of these factors results in a situation where members of the public find the use of any of the NRMA Trade Marks confusing, misleading or deceptive, it is possible that the relevant trade mark registrations could be cancelled and that Association or Insurance, or both of them, could be prohibited from using the NRMA Trade Marks. Thirdly, where NRMA Trade Marks are licensed to Insurance, there is an additional legal requirement that the quality of the goods and services in relation to which the trade marks are used be subject to the control of the licensing party, namely Association. If it was found that Association did not exercise sufficient control over the goods and services in respect of which the licensed trade marks are used, the trade mark registrations in question could be cancelled and Association, Insurance or both of them could be prohibited from using the relevant NRMA Trade Marks.

A series of business protocols and standards have been substantially developed to reduce these risks as contemplated in the Trade Mark Relationship Agreement and the various trade mark licences from Association to Insurance. These protocols and standards are essential to the operability of the trade mark arrangements and are designed to address both the need to distinguish the businesses of the Association and Insurance Groups and to put in place sufficient control mechanisms in respect of any licensed NRMA Trade Marks. The effectiveness of these measures in addressing the risks will depend on the way in which the protocols and standards are implemented and enforced. In order to be effective in distinguishing the businesses of Association and the Insurance Group, Association and the Insurance Group may need to modify the way in which they interact with their respective customers and/or members and the public at large. A detailed review of business processes has been undertaken by both Association and the Insurance Group to identify changes required in order to implement the protocols. Further, in order to exercise sufficient control under the trade mark licences, Association will need to take active steps to ensure that the Insurance Group complies with the standards. Given the traditional use of the trade marks by Insurance and the level of public awareness of the Proposal, and provided there is development of and adherence to the protocols and enforcement of the standards, the risks can be reduced. The companies have received legal advice that the Business Protocols as currently formulated, and if implemented and observed, represent an appropriate mechanism for reducing legal risks attendant on the trade mark arrangements. A description of the draft Business Protocols developed to date is set out on page 141.

In addition to the trade marks risks, there are certain risks relating to the complexity and workability of the Business Relationship Agreements. Currently, a single management team under one chief executive officer controls both companies, facilitating the resolution of inter-company issues. Under the Proposal, inter-company issues will be resolved through arm's-length interactions between independent management teams acting in the interests of their respective companies. Although this approach will ensure that the interests of Association and Insurance are independently represented, it may result in more friction than the current co-operative arrangements. Because the Business Relationship Agreements are intended to govern a commercial relationship over a long period of time, there is also a risk that the contractual arrangements become inappropriate, difficult to interpret and/or unworkable in their practical operation as the businesses develop.

The Boards believe that the risks described above relating to the operation of the Business Relationship Agreements are minimised by the following factors:

- given the strategic and operational importance of the business relationship, there are commercial imperatives for both Association and Insurance to ensure that the Business Relationship Agreements remain workable despite future changes in their businesses. From Association's perspective, the Business Relationship Agreements enable it to obtain certain distribution and support services at a commercially competitive cost. From Insurance's perspective, the Business Relationship Agreements provide marketing opportunities through the joint distribution of road service, insurance and financial services products. Both organisations benefit from continued co-ordinated use of the NRMA brand and cross-marketing opportunities;

- Association will maintain a shareholding in NIGL of 29.3 million Shares representing approximately 2% of NIGL's initial share capital for the duration of the Trade Mark Relationship Agreement, resulting in some alignment of its interests with those of NIGL;
- the Business Relationship Agreements are a consequence of a structure which seeks to retain Association as a mutual, demutualise Insurance and maintain a close relationship between Association and Insurance;
- the Business Relationship Agreements call for alliance managers at Association and Insurance who will work to manage the day-to-day operation of those agreements;
- working groups will be established to facilitate communication between the companies; and
- as a final measure, the parties agree to implement a prescribed dispute resolution process, whereby disagreements are decided by an escalating series of methods, culminating in mediation. A party may, however, seek urgent assistance from a court on a temporary or preliminary basis.

There are also some risks which arise from the possibility that the Business Relationship Agreements may be terminated.

The Trade Mark licences may only be terminated in strictly limited circumstances, generally involving a serious breach by one of the parties. If a Trade Mark licence is terminated, either Association or the Insurance Group (depending on which party terminates) would lose the right to use the NRMA Trade Marks covered by that licence. The Trade Mark Relationship Agreement will automatically terminate if Association is wound up. There are no other termination rights under the agreement. If this occurs, the Insurance Group is entitled to require Association to assign to the Insurance Group all of the NRMA Trade Marks owned by Association. The Insurance Group is not required to pay for the assignment of the NRMA Trade Marks which are licensed to it, but is required to pay fair market value for the assignment of the remaining NRMA Trade Marks.

The other Business Relationship Agreements contain various termination provisions, including some scope for a party to terminate 'for convenience', that is, without the need for a breach of contract. If an agreement under which Insurance provides services to Association is terminated, Association may be without infrastructure support and Insurance may have excess infrastructure capacity. The agreements provide for transition arrangements to help reduce this potential risk.

A majority of Association directors and all Insurance directors believe that the advantages of the Business Relationship Agreements outweigh the complexities and risks inherent in them.

### Related party benefits

As outlined above, both Association and Insurance will each receive a number of benefits under the Business Relationship Agreements:

For the purposes of the related party benefit provisions of the Corporations Law, the financial benefits which the Insurance Group will give to Association under the Business Relationship Agreements can be categorised as follows:

- **provision of services** – the Insurance Group agrees to provide services to Association. Although the pricing terms may vary by contract, prices are generally charged at cost plus a 5% margin. In addition, the distribution costs charged to Association are capped for the first three years. These terms may be more favourable to Association than the rates which would be charged by an unrelated third party provider. In relation to IT services, fees are generally based on a negotiated unit rate times actual usage of the services. The unit rates are generally based on cost plus a margin of 5%;
- **customer database** – database access will be provided to Association at no charge; and
- **ancillary obligations** – service support and other miscellaneous obligations.

Because Association is a related party of Insurance for purposes of the Corporations Law, the terms of these Business Relationship Agreements need to be approved by Insurance Members. Specifically, Insurance Members are being asked to consider whether to permit Insurance (and one of its subsidiaries) to make with Association the Business Relationship Agreements to which they are to be parties and under which financial benefits will be given. The Proposal will not proceed unless the terms of the Business Relationship Agreements are approved by Insurance Members.

The terms of the Business Relationship Agreements are summarised on pages 139 to 145 and the related party benefits are discussed more fully on page 68. In addition, the Business Relationship Agreements themselves, excluding certain schedules containing commercially sensitive information, are available for inspection by Members (see page 138).

It is important to understand that the Business Relationship Agreements have been established in the context of the development of the Proposal. The Business Relationship Agreements reflect the terms of the Proposal. The terms of the Business Relationship Agreements have been considered by PricewaterhouseCoopers in determining its Share Allocation recommendation (see page 128), and Deloitte Corporate Finance and Ernst & Young Corporate Finance in preparing their reports as independent financial experts (pages 56 to 58 and 83 to 84 respectively).

### Significant changes

The directors of Association and Insurance do not intend that significant changes will arise as a result of the Business Relationship Agreements or the Proposal, except as described elsewhere in this document. In particular, the businesses of both Association and Insurance are expected to continue in much the same way as they have in the past and it is not expected that there will be any redeployment of the fixed assets of either company (other than where one of the companies or their respective subsidiaries hold assets which properly belong to and form part of the operations of the other or where asset transfers are required to facilitate the Business Relationship Agreements). In those circumstances, unless specifically dealt with under the Business Relationship Agreements, it is expected that if the Proposal goes ahead between the Insurance Demutualisation and the Listing Date, those assets will be transferred at book value. It is also intended that all employees of the NRMA Group maintain their employment on terms which are comparable to their current employment terms. It is anticipated that approximately 13 employees will transfer from the Insurance Group to the Association Group and that approximately 250 employees will transfer from the Association Group to the Insurance Group. Those employees currently perform services for one of those groups, but have historically been employed by the other.

Independently of the Proposal, Insurance has recently entered into an alliance with RACV (the major road service association in Victoria) to merge the personal lines insurance operations of both companies in New South Wales, the Australian Capital Territory and Victoria to form Australia's largest personal lines insurance wholesaler. The alliance will be operated through a joint venture company, IMA (70% owned by the Insurance Group and 30% owned by RACV). Insurance has transferred prudential and operational assets (mainly comprising cash, marketable securities, fixed assets and office equipment) appropriate for those operations and risks to IMA. In addition, approximately 1,200 employees of the Insurance Group have transferred to IMA.

### Status if the Proposal does not go ahead

If the Proposal does not go ahead, the Boards of Association and Insurance intend to develop a series of new contracts based on the Business Relationship Agreements with appropriate amendments to reflect a continuing dual mutual structure for the NRMA Group. In this regard, the key terms of the contracts to be developed if the Proposal is not implemented may differ significantly from the Business Relationship Agreements. The key changes are likely to relate to the quantum of payments. In addition, the structure of the trade mark agreements are likely to change. It is expected that the payment structures under the Business Relationship Agreements would be reviewed such that Association would be placed in approximately the same financial position that it is in today.

## 5.6 Composition of the NIGL Board

The Board of NIGL currently comprises Eric Dodd (Association's Chief Executive Officer and Insurance's Managing Director), George Venardos (NRMA's Chief Financial Officer) and Gaye Morstyn (NRMA's Group Secretary and General Counsel).

It is intended that the Insurance Board will form the basis of the NIGL Board if the Proposal goes ahead. Under the constitution of Insurance, the Insurance Board is appointed by the Association Board. In addition, the president of Association is by virtue of that office a director and the chairman of Insurance.

Accordingly, if the Proposal goes ahead, the NIGL Board will be reconstituted by:

- the appointment of the directors on the Insurance Board to the NIGL Board (see pages 21 to 22 for the current composition of the Insurance Board);
- the appointment of Mr Eric Dodd, if at the time he remains the Managing Director of Insurance, as Managing Director and Chief Executive Officer of NIGL; and
- the resignation of all the initial directors other than Mr Eric Dodd in the event that he is appointed as the Managing Director and Chief Executive Officer of NIGL.

Prior to the issue of the offer document in connection with the proposed listing of NIGL on the Australian Stock Exchange, it is intended that the then current NIGL Board will appoint up to five persons as additional non-executive directors of NIGL, such that a majority of the NIGL directors are not also directors of Association.

If the Proposal goes ahead, it is likely that for at least the first few years a number of the directors of NIGL will also be directors of Association (currently five of the seven insurance directors are also Association directors). While this may assist in the transition involved in separating Association and the Insurance Group, those directors of NIGL who are also directors of Association will need to absent themselves from voting on aspects of the Insurance Group's ongoing relationship with Association (such as some matters under the Business Relationship Agreements) and vice versa in accordance with ordinary corporate practice.

Intentions or beliefs attributed to NIGL or the NIGL Board in this Information Memorandum are supported by the Insurance Board.

# 6. Implementing the Proposal

## 6.1 Overview

This Section 6 explains the steps involved in implementing the Proposal. It also contains important information about the transitional shareholder arrangements between the date the Proposal becomes effective and the Listing Date.

Because the Proposal involves changes to both the corporate and membership structure of the NRMA Group, there is no single mechanism which would allow the Proposal to be implemented. Instead, a number of different mechanisms must be utilised. They are: ordinary and special resolutions of Members, Court-approved Schemes of Arrangement and a statutory demutualisation. The use of these mechanisms is required by the Corporations Law.

The explanation of the steps involved in implementing the Proposal in this Section 6 assumes that all steps are completed and that the fulfilment of any conditions to one or more steps are satisfied. Those conditions and the requirements of each step are set out in this Section 6 or elsewhere in this document. However, they are not reiterated on each occasion.

The Proposal must be fully approved before it becomes effective. This means the Proposal must be approved by both the Members and the Court as set out below and ASIC must act under Part 2B.7 of the Corporations Law to change the details of Insurance's registration from a company limited by guarantee to a company limited by shares. Approval by the Federal Treasurer is also needed.

In summary, the Proposal involves the following steps:

**Step 1 Association alters its constitution:** Association Members will resolve to alter Association's constitution to:

- impose a qualified duty on the Association directors to cause to be done everything which it is necessary for Association and the Association directors to do in order to implement the Proposal;
- provide that the object of providing or arranging insurance for Association Members will cease to be effective upon completion of the Insurance Demutualisation; and
- remove certain connections with Insurance in the event that the Proposal goes ahead.

**Step 2 Association Schemes:** Three separate Schemes of Arrangement will be entered into by Association Members (together and as separate classes):

- Association Members will enter into a Scheme of Arrangement with Association which confirms the surrender by Association of its special rights (see Section 7.4 on page 39), as a member of Insurance under the constitution of Insurance;
- Association Only Members (as a class of Association Members) will enter into a Scheme of Arrangement with Association under which Association Only Members agree to be made Insurance Members and Association is appointed as their agent to give effect to the Insurance Demutualisation and the repeal of Insurance's constitution; and
- Dual Members (as a class of Association Members) will enter into a Scheme of Arrangement with Association under which the Dual Members consent to the Association Only Members becoming Insurance Members – this will allow them to participate in the Proposal.

**Step 3 Insurance alters its constitution:** Insurance Members will resolve to alter Insurance's constitution to:

- impose a qualified duty on the Insurance directors to cause to be done everything which is necessary for Insurance and the Insurance directors to do in order to implement the Proposal;
- provide that any Association Only Member may become an Insurance Member; and
- provide that if the Insurance Demutualisation occurs, any surplus on a winding-up of Insurance is distributable to an institution having similar objects to Insurance, rather than being distributed to Association.

**Step 4 Insurance Members approve the financial benefits given to Association under the Business Relationship Agreements:** Insurance Members will approve the giving of financial benefits by Insurance (and one of its subsidiaries) to Association under the Business Relationship Agreements in favour of Association (see page 68) for the purpose of the related party provisions in Chapter 2E of the Corporations Law.

**Step 5 Insurance Schemes:** Insurance Members will enter into Schemes of Arrangement under which Insurance Members (which includes Association as a separate class of member due to its special rights) will consent to the Association Only Members participating in the Proposal by virtue of their becoming Insurance Members, agree to become Shareholders of NIGL and appoint Insurance as their agent to give effect to the Insurance Demutualisation and the repeal of Insurance's constitution.

**Step 6 Insurance demutualises:** Insurance will change from a company limited by guarantee to a company limited by shares. As part of the demutualisation, Insurance will become a wholly-owned subsidiary of NIGL and Insurance Members (including

Association) will receive a Share Allocation based on the Share Allocation Rules (see pages 43 to 47). At the same time NIGL will adopt a new constitution (see pages 138 to 139 for a summary of NIGL's constitution).

**Step 7 Insurance repeals its constitution:** Insurance Members will resolve to repeal Insurance's constitution with the effect that the replaceable rules in the Corporations Law will apply to Insurance. As a result, Association will no longer have special rights as a member of Insurance and Insurance will be permitted to pay dividends and return capital to members.

**Step 8 Transfer of NRMA Building Society Limited:** NRMA Building Society Limited is intended to be transferred from Insurance to NIGL at book value.

**Step 9 Road Service Customers invited to become Association members:** Road Service Customers are expected to be invited to become Association members. This will occur irrespective of whether the Proposal goes ahead (although the precise timing is not known). However, people who became Road Service Customers after 25 February 1999 will not be eligible to participate in the Proposal or to receive an allocation of Shares.

**Step 10 Listing:** NIGL will apply to list on the Australian Stock Exchange.

If the Proposal goes ahead, the Boards anticipate that Steps 1 to 9 inclusive will occur, in order, in the first half of 2000. The NIGL Board anticipates that Step 10 will occur during the second half of 2000.

The Proposal will only proceed if:

- Steps 1 to 5 are approved by requisite majorities of the Association Members, the Association Only Members, the Dual Members and the Insurance Members.

The Schemes of Arrangement must be approved by a majority (that is, more than 50%) of the votes validly cast by Members eligible to vote. This is because Association and Insurance are mutual companies. If the companies had a share capital, the Schemes of Arrangement would need to be agreed to by a majority in number of members, or the relevant class of members, present and voting (either in person or by proxy) and also by 75% of the votes validly cast on the resolutions. However, as the Schemes of Arrangement are conditional on the constitutional amendments in Steps 1 and 3 which themselves require approval by a majority of at least 75% of the votes validly cast by members eligible to vote on those resolutions, the Proposal will not proceed unless these majorities are achieved at those steps. The resolution in Step 4 to approve the financial benefits given to Association under the Business Relationship Agreements must be approved by a majority of votes validly cast by Insurance Members. Association and any Insurance directors who are also Association directors are not eligible to vote on that resolution unless they are acting as a proxy for another member who has directed them how to vote;

- the Schemes of Arrangement are approved by the Court and become effective; and
- ASIC changes the details of Insurance's registration after its demutualisation.

Any conditions to which the Schemes of Arrangement are subject cannot be waived. If the Schemes of Arrangement are terminated, Members will be restored to their former positions subject to a possible liability to \$1.00 for Association Only Members who became Insurance Members before termination (see 'Association Only Members' on page 26).

## 6.2 Step 1 Association alters its constitution

As an initial step in separating the links between Association and Insurance, the Association Board has proposed to Association Members important alterations to the Association constitution.

The constitution of Association will be altered to impose a qualified duty on the Association directors, once the Association Schemes become effective, to cause to be done everything which it is necessary for Association and the Association directors to do in order to implement the Proposal.

In particular, this will require Association to give its consent under common seal to the removal of its special rights as a member of Insurance from the constitution of Insurance. The Insurance constitution provides that those rights may only be altered or removed by a resolution of Association directors, where 75% or more of the votes validly cast on the resolution are in favour of it. The alteration to Association's constitution will require the Association directors to vote in favour of such a resolution unless to do so would be in breach of a duty owed by that director or would be unlawful.

Association's special rights as a member of Insurance are described in Section 7.4 on page 39.



The Association constitution will also be altered by providing that, if the Insurance Demutualisation occurs, the object of providing or arranging for insurance for Association Members will cease to be effective.

The alterations to Association's constitution will be made by a special resolution of Association Members in general meeting. The resolution must be approved by at least 75% of the votes validly cast by Association Members.

### 6.3 Step 2 Association Schemes

The Association Board has proposed to Association Members, and certain classes of them, three Schemes of Arrangement under which:

- Association Members confirm the surrender by Association of its special rights as a member of Insurance conferred by the constitution of Insurance;
- Association Only Members agree to be made Insurance Members and Association is appointed as their agent to give effect to the Insurance Demutualisation; and
- Dual Members consent to the Association Only Members participating in the Proposal by virtue of their becoming Insurance Members.

The purpose of allowing Association Only Members to become Insurance Members under the second Association Scheme is to ensure that they will be entitled to participate fully in the Proposal and qualify for concessional tax treatment relating to demutualisations.

The second Association Scheme will have the effect of appointing Association as the agent of each Association Only Member. The agent will appoint a proxy to vote on behalf of Association Only Members on the Insurance Demutualisation and repeal of Insurance's constitution, and do the other things on their behalf (these things are summarised below).

The purpose of having an agent is to allow Step 6 to proceed on the basis of Members' intentions (as expressed by the required majority of Members at the Association Scheme Meetings) without the need for Members to attend a further meeting and/or vote again on the issue of demutualising Insurance. The agent will appoint a proxy on behalf of all Association Members. Any member can revoke the agency and withdraw the proxy – see page 37 for details.

Importantly, after the Association Schemes, Association will remain as a mutual organisation and Association Members will keep their membership of Association and their right to access road and related motoring services provided membership fees are paid as they fall due.

Each Association Scheme must be approved by the Court. The Court will consider the fairness of each Association Scheme in approving the scheme.

#### Legal process for the Association Schemes

The following steps have been taken to implement the Association Schemes:

- on 4 February 2000 ASIC completed its review of this document including, within it, the Association Schemes;
- on 14 February 2000 the Association Board approved the Association Schemes (see pages 64 to 67); and
- on 14 February 2000 the Court ordered that meetings of Association Members, and certain classes of them, be convened to consider the Association Schemes.

The following meetings will be held on 19 April 2000:

- a meeting of Association Members to consider, and if thought fit, pass a resolution approving the first Association Scheme confirming the surrender by Association of its special rights as a member of Insurance conferred by the constitution of Insurance.  
The first Association Scheme must be approved by a majority of votes validly cast by Association Members;
- a meeting of Association Only Members to consider, and if thought fit, pass a resolution approving the second Association Scheme under which Association Only Members agree to be made Insurance Members and Association is appointed as their agent to give effect to the Insurance Demutualisation and the repeal of Insurance's constitution.  
The second Association Scheme must be approved by a majority of votes validly cast by Association Only Members eligible to vote; and
- a meeting of Dual Members to consider, and if thought fit, pass a resolution approving the third Association Scheme under which they consent to the Association Only Members participating in the Proposal by virtue of their becoming Insurance Members.  
The third Association Scheme must be approved by a majority of votes validly cast by Dual Members.

Association is invested under the second Association Scheme with the authority of each Association Only Member to:

- agree on their behalf that they will become Insurance Members;
- agree on their behalf that they will become Shareholders of NIGL;
- nominate as their alternative address for receipt of notices the address of Association;
- receive notices of meeting sent by Insurance to its Members with no obligation to pass the notices on to them; and
- appoint a proxy to attend and vote in favour of the resolutions to be considered at the general meetings of Insurance for the purposes of Steps 6 and 7. Any Association Member can revoke the proxy – see page 37 for details.

A further application is made to the Court and, if it is satisfied that it should do so, the Court approves the Association Schemes.

The Association Schemes become effective subject to:

- Association Members passing the special resolution under Step 1;
- a majority of:
  - the Association Members approving the first Association Scheme;
  - the Association Only Members (voting as a separate class) approving the second Association Scheme; and
  - Dual Members (voting as a separate class) approving the third Association Scheme;
- the Court approving each of the Association Schemes;
- Insurance Members passing the special resolution under Step 3 to alter Insurance's constitution to allow Association Only Members to become Insurance Members;
- Insurance Members passing the resolution under Step 4;
- a majority of Insurance Members present (personally or by proxy, attorney or representative) and entitled to vote on the resolutions approving the Insurance Schemes under Step 5; and
- Financial Sector (Shareholdings) Act approval by the Federal Treasurer (see page 147).

In addition, if the Insurance Schemes in Step 5 are not approved by the Court, the Insurance Demutualisation under Step 6 does not go ahead or the special resolution (under Step 7) to repeal Insurance's constitution is not passed, the Association Schemes will be terminated.

### 6.4 Step 3 Insurance alters its constitution

To give effect to the Proposal and to enable all Members to participate in the Insurance Demutualisation, the Insurance Board has proposed to Insurance Members alterations to the Insurance constitution. The alterations proposed include the following:

- the constitution of Insurance will be altered to impose a qualified duty on the Insurance directors, once the Association Schemes become effective, to cause to be done everything which it is necessary for Insurance and the Insurance directors to do in order to implement the Proposal;
- the constitution of Insurance will also be altered to allow Association Only Members to become Insurance Members (and to provide for cessation of these Memberships if, for any reason, the Insurance Demutualisation has not occurred by 31 December 2000 or there is an earlier termination of the Schemes); and
- the constitution of Insurance will also be altered to provide that any surplus on a winding-up of Insurance is distributable to an institution having similar objects to Insurance, rather than being distributed to Association. This amendment will take effect as soon as the special resolution is passed. However, it will cease to operate if, for any reason, the Insurance Demutualisation has not occurred by 31 December 2000 or there is an earlier termination of the Schemes.

The proposed alterations to Insurance's constitution can only be made if both a special resolution of Insurance members and a resolution of the Association Board are passed. Each of these resolutions must be approved by at least 75% of the votes validly cast.

### 6.5 Step 4 Insurance Members approve the financial benefits given to Association under the Business Relationship Agreements

The related party provisions in Chapter 2E of the Corporations Law generally prohibit Insurance, as a public company and its controlled entities, from giving a financial benefit (broadly defined) to a related party of Insurance without the approval of its Members (except where one of a number of limited exceptions apply which is not the case here).

Under the Corporations Law, Association is a related party of Insurance (being its parent entity) as a result of the practical control over Insurance which Association enjoys through its special rights as a member of Insurance. Under the Business Relationship Agreements, Insurance (and one of its subsidiaries) will give financial benefits to Association (see page 68).

Accordingly, Insurance Members must approve the making of the contracts under which the financial benefits will be given by Insurance and its subsidiary to Association for the purpose of those related party provisions of the Corporations Law.

The resolution to approve the material contracts must be approved by a majority of the votes validly cast by the Insurance Members eligible to vote on the resolution. Association and any Insurance directors who are also Association directors are not eligible to vote on that resolution unless they are merely acting as a proxy for another Insurance Member who has directed them as to how to vote.

### 6.6 Step 5 Insurance Schemes

The Insurance Board has proposed to Insurance Members two Schemes of Arrangement under which Insurance Members (including Association as a separate class of Insurance Member)

- consent to Association Only Members participating in the Proposal by virtue of their becoming Insurance Members;

- agree to become Shareholders of NIGL; and
- agree to appoint Insurance as the agent of each Insurance Member. The agent will vote on behalf of Insurance Members on the Insurance Demutualisation contemplated by Step 6 and the repeal of Insurance's constitution contemplated by Step 7 and will do the other things summarised below on their behalf. The purpose of having an agent is to allow Step 6 to proceed on the basis of Members' intentions (as expressed by the required majority of members at the Insurance Scheme Meetings) without the need for Members to attend a further meeting and/or vote again on the issue of demutualising Insurance. The agent will appoint a proxy on behalf of all Association Members. Any Insurance Member can revoke the proxy – see page 37 for details.

To be effective, the Insurance Schemes must be approved by the Court. The Court will consider the fairness of the Insurance Schemes in giving its approval.

### Legal process for the Insurance Schemes

The following steps have been taken to implement the Insurance Schemes:

- on 4 February 2000 ASIC completed its review of this document including, within it, the Insurance Schemes;
- on 14 February 2000 the Insurance Board approved the Insurance Schemes (see pages 96 to 99);
- on 14 February 2000 the Court ordered that a meeting of Insurance Members be convened to consider the First Insurance Scheme; and
- on 14 February 2000 the Court ordered that a meeting of Association in its capacity as a separate class of Insurance Member be convened to consider the Second Insurance Scheme.

The following meetings will be held on 19 April 2000:

- a meeting of Insurance Members to consider, and if thought fit, pass a resolution approving the First Insurance Scheme; and
- a meeting of Association in its capacity as a separate class of Insurance Member to consider, and if thought fit, pass a resolution approving the Second Insurance Scheme.

The First Insurance Scheme must be passed by a majority of votes validly cast by Insurance Members.

Insurance is invested under the Insurance Schemes with the authority of each Insurance Member to:

- agree on their behalf to become Shareholders of NIGL;
- nominate as their alternative address for receipt of notices the address of Insurance;
- receive notices of meeting sent by Insurance to its Members with no obligation to pass the notices on to them; and
- appoint a proxy to attend and vote at a general meeting of Insurance to consider the Insurance Demutualisation and the repeal of Insurance's constitution as contemplated by Steps 6 and 7.

Any Insurance Member can revoke the proxy – see page 37 for details.

The Insurance Schemes become effective subject to:

- the Association Schemes becoming effective in accordance with their terms;
- the Insurance Members passing the resolution under Step 4;
- the Insurance Members passing the special resolution under Step 3;
- the Court approving the Insurance Schemes; and
- Financial Sector (Shareholdings) Act approval by the Federal Treasurer (see page 147).

In addition, if the Insurance Demutualisation under Step 6 does not go ahead or the special resolution repealing Insurance's constitution under Step 7 is not passed, the Insurance Schemes will be terminated.

## 6.7 Step 6 Insurance demutualises

Demutualisation involves Insurance changing from a company limited by guarantee to a shareholder-owned company under the Corporations Law.

As part of the Insurance Demutualisation:

- NIGL will become the sole shareholder of Insurance and thus the holding company of the insurance and financial services businesses of the NRMA Group; and
- Insurance Members will receive an allocation of Shares in NIGL.

A separate meeting of Insurance needs to be convened after Step 5 to approve the Insurance Demutualisation. This meeting cannot take place until after the Association Only Members become Insurance Members (see Section 6.3 on page 35).

Under Steps 2 and 5, each Member (regardless of whether they vote or which way they vote on the Association and Insurance Schemes) will be deemed to have authorised the appointment of a proxy to vote on behalf of the Member in favour of the Insurance Demutualisation at the meeting to approve the demutualisation. However, any Member can revoke that proxy – see page 37 for details.

The Insurance Demutualisation needs to be approved by a special resolution of Insurance Members in general meeting. The proxy appointed by Insurance acting as agent for Insurance Members and the proxy appointed by Association acting as agent for Association Only Members who have become Insurance Members will vote on behalf of all Insurance Members (unless the Member revokes the proxy – see page 37).

The Insurance Demutualisation will not take effect until ASIC changes the details of Insurance's registration. ASIC must first publish a notice of its intention to change the registration. The change may be made one month after publication of that notice unless

ASIC is prevented from so doing by a court order or an order of the Administrative Appeals Tribunal.

At or about the Insurance Demutualisation but before NIGL issues Shares to Members, it will adopt a new constitution (see pages 138 to 139 for a summary of NIGL's proposed constitution).

## 6.8 Step 7 Insurance repeals its constitution

At the meeting to approve the Insurance Demutualisation (referred to in Step 6), a special resolution will be proposed to repeal Insurance's constitution with the effect that the replaceable rules in the Corporations Law will apply to Insurance. The repeal of Insurance's constitution will not take effect until ASIC changes the details of Insurance's registration as referred to in Step 6.

As a result, Association's remaining special rights as a member of Insurance will be removed and other matters previously governed by the constitution will be governed by the replaceable rules in the Corporations Law, which allow for the payment of dividends and return of capital to members.

Under Steps 2 and 5, each Member (regardless of whether they vote on the Association and Insurance Schemes) will be deemed to have appointed a proxy to vote on behalf of the Member in favour of repealing Insurance's constitution. However, any Member can revoke that proxy – see page 37 for details.

## 6.9 Step 8 Transfer of NRMA Building Society Limited

NRMA Building Society Limited is intended to be transferred from Insurance to NIGL at book value. The transfer of NRMA Building Society Limited is designed to ensure that the Insurance Group complies with draft APRA guidelines. Financial Sector (Shareholdings) Act approval has been sought for this transfer (see page 147).

## 6.10 Step 9 Road Service Customers invited to become Association members

From 25 February 1999, people who became Road Service Customers generally were not invited to become Association Members. This is because that date was determined to be the 'cut-off' date for determining which members would be eligible to participate in the Proposal, subject to the Membership Principles (see page 48). Irrespective of whether the Proposal goes ahead, it is expected that Road Service Customers will be invited to become Association members, but, if the Proposal goes ahead, they will not be eligible to participate in the Proposal or to receive Shares.

The timing of this Step is difficult to accurately predict. If the Proposal goes ahead, the Association Board intends to take all necessary steps to invite Road Service Customers to become Association members as soon as possible after the Insurance Demutualisation. Otherwise, it is intended that it occur as soon as possible after it is certain that the Proposal will not go ahead.

## 6.11 Step 10 Listing

The NIGL Board intends to issue an offer document and to apply to list on the Australian Stock Exchange during 2000.

On or after the Listing Date, Shareholders may sell their Shares privately or through stockbrokers and other firms licensed to deal in shares.

The NIGL Board will set up the Facility to assist Members who wish to sell some or all of their Shares on or near the Listing Date. Association will also sell down 80% of the Shares to be issued to it, if the Proposal goes ahead (see page 6). This will occur exclusively under the Facility. The NIGL Board currently intends (depending on the availability of Shares) that the Shares to be sold through the Facility will be offered to Members and institutional investors. For the purposes of establishing the Facility and obtaining listing, an offer document will need to be prepared. The offer document will set out detailed financial and other information about the Insurance Group. It is envisaged that the Facility will allow persons wishing to buy or sell Shares to indicate whether they wish to do so prior to the Listing Date. On or near the Listing Date, the Facility will operate to enable demand to buy Shares to be matched so far as reasonably possible with the supply of Shares from Association and those Members who wish to sell some or all of their Shares. It is not envisaged that the Facility will be underwritten. The Facility will be managed by one or more stockbroking firms.

It is not possible to state with certainty when, or if, NIGL will list. Some uncertainty is inevitable given the volatility of share markets and economic conditions as well as the need to obtain Australian Stock Exchange approval to the listing. However, the NIGL Board anticipates that listing will occur during the second half of 2000.

If NIGL has not listed within two years after the Demutualisation Resolution Date, Members may lose special tax treatment in relation to the Insurance Demutualisation



(see pages 42 to 43). However, the Federal Commissioner of Taxation has the power to extend that two-year period. Also, if NIGL does not list within 21 months after the Demutualisation Resolution Date, the NIGL Board is required by NIGL's constitution to present a proposal to the Shareholders in response to the circumstances that exist at the time (such as a proposed resolution to wind up NIGL) (see page 139).

### Capital raising on or before listing

The constitution of NIGL contains provisions regulating the circumstances in which NIGL may raise additional share capital before it lists. Although the NIGL Board does not currently intend that NIGL will raise share capital before or at the time of listing, the NIGL Board wishes to retain the flexibility for it to do so. If NIGL does seek to raise share capital (for example, in connection with a major acquisition) that capital raising will be subject to NIGL's constitution. The constitution requires that, before the Listing Date, NIGL must not issue securities which are or may be converted into Shares without the approval of Shareholders in general meeting unless:

- the issue does not exceed 15% of the Shares of NIGL on issue within any 12-month period; or
- the issue falls within one of the exceptions contained in Listing Rule 7.2, which include pro rata rights issues and issues to fund the consideration under a takeover offer.

### Restrictions before listing

NIGL's constitution contains a number of temporary provisions which will apply from the time the Proposal is implemented until the Listing Date. Among other things, the provisions prohibit (except in very limited circumstances) the transfer of any interest in Shares.

These provisions are designed to help ensure:

- that Shareholders are not disadvantaged by selling their Shares in an unofficial market at a price that may be lower than may be available on or near the Listing Date; and
- stability during the period before the Listing Date.

These provisions end on the Listing Date. Further details of these provisions are set out on pages 138 to 139.

### Shareholding restriction

The NIGL Board has carefully considered the question of the control of the Insurance Group after the Proposal is implemented. It is committed to the principle that market forces should take effect in the ways allowed under Australian law dealing with takeovers. However, the NIGL Board believes that, in line with other major demutualisations around the world:

- it will take some time for the Insurance Group to make the transition to a listed company structure; and
- it may take some time for the Share price to reflect accurately the value of the Insurance Group.

The initial Shareholders of NIGL will be Members.

NIGL's constitution includes a limitation on any Shareholder owning (or otherwise being entitled to) 5% or more of the Shares in NIGL which applies for five years after the Listing Date. Limits of this type are consistent with other major demutualisations in Australia.

The shareholding limitations are explained more fully on pages 138 to 139.

## 6.12 Further information about the agency and related proxies under the Schemes

One element of some of the Association Schemes and the Insurance Schemes is the appointment of agents who can appoint proxies to vote on behalf of all Members in order to complete the implementation of the Proposal. That appointment only occurs if Steps 1 to 5 are approved.

The reason that agents are appointed on behalf of Members is administrative. In other words, if Steps 1 to 5 are approved by Members then the actual implementation of the remaining technical steps can be attended to by agents for Members rather than by the Members themselves. The technical process of making Association Only Members Insurance Members, the actual demutualisation of Insurance and the repeal of Insurance's constitution, requires further action and meetings that involve all Members. Given that the full details of the Proposal and its implementation will have been disclosed to Members and voted on in Steps 1 to 5, requiring Members to attend further meetings and take further action is both a substantial expense and an inconvenience.

However, some Members may either not approve of the Proposal or wish to vote on the later stages of the implementation of the Proposal directly, and therefore not want the agent to act on their behalf, or to appoint a proxy for them.

In the event that Steps 1 to 5 are approved and the agents appointed, members will be able to call the **Members' Information Line** on **1300 361 646** to obtain the documents required to revoke the agency and the appointment of a proxy. Alternatively, members may revoke the agency and proxy simply by attending the meetings for Steps 6 and 7 and voting in person. Notices will be published in major Australian newspapers closer to the time of the meetings contemplated in Steps 6 and 7 reminding Members of their capacity to revoke the agency and how to do so.

## 6.13 Tax matters arising from features of the Proposal

Division 9AA of the Tax Act contains special provisions dealing with the demutualisation of mutual insurance companies which satisfy certain criteria. The taxation consequences of the Proposal for Members produced by the application of Division 9AA to the demutualisation of Insurance, set out on pages 42 to 43, include:

- no taxation consequences arise for Members because of the extinguishment of their membership in Insurance; and
- Members will receive a statutory cost base for their Shares.

For Division 9AA's special tax treatment to apply to the demutualisation of Insurance, it is necessary that the Shares be issued to certain classes of people. In general terms, the classes are limited to members and former members of Insurance. To enable Association Only Members to receive Shares and at the same time ensure that the special tax treatment applies to the demutualisation of Insurance, it is necessary for Association Only Members to become Insurance Members prior to its demutualisation (see Step 6). One of the purposes of the Association Schemes in Step 2 is to enable the Association Only Members to become Insurance Members within that time.

The Australian Taxation Office has provided a non-binding opinion that no tax consequences arise for Association Only Members by reason of the acquisition of their Insurance membership.

### Association Only Members

The membership of Insurance which Association Only Members obtain as a result of the Association Schemes will immediately expire if the demutualisation of Insurance does not proceed (see page 34). No tax consequences should arise for Association Only Members from the expiry of their membership in Insurance.

### Insurance

Division 9AA will operate to cancel the franking credit surplus of Insurance and its wholly owned subsidiaries. The amount of that surplus is currently estimated to be \$571 million as at 30 June 1999. However, franking credits cannot be passed on to Insurance members while it is a mutual.

If the Proposal is implemented, the ability of entities in the Insurance Group to recoup tax losses which arise prior to the listing of NIGL will require careful tax management. In general, tax losses arising to a company can be deducted from assessable income derived by that company in later years where the company maintains the same majority owners. If the company does not maintain the same majority owners, tax losses can be deducted in later years only if the company satisfies the same business test (as that term is defined in the Tax Act). The tax loss provisions are difficult to apply to a mutual insurance company. Although the position is not clear, based on Australian Taxation Office administrative practice, it is expected that Insurance Group companies with unrecovered tax losses will be able to demonstrate that they have maintained the same majority owners in the period prior to listing. If any tax losses remain unrecovered at listing, it is likely to be more difficult for the relevant Insurance Group company to demonstrate that it has maintained the same majority owners after listing. This will largely depend upon the level of turnover of shares in NIGL. If the Insurance Group cannot demonstrate that it has maintained the same majority owners, the relevant Insurance Group company will need to satisfy the same business test. The same business test is strictly applied to each loss company within the Insurance Group and it is unlikely to be satisfied if the relevant company acquires a new business, enters into a new joint venture or divests itself of an existing business.

The Insurance Group had significant carried forward tax losses as at 30 June 1999. Due to a recent court decision (10 December 1999), and the fact that, at this stage, the response of the Commonwealth Government to that decision is unknown, it is difficult accurately to estimate the magnitude of those carried forward losses. The recent decision of the court overturned a public ruling of the Commissioner of Taxation. The Commonwealth Government has not indicated how the law should apply to general insurance companies (like Insurance) which calculated their deductions for claims in accordance with the Commissioner's public ruling. Prior to the decision of the court, the carried forward losses of the Insurance Group were approximately \$105 million (the tax effect of which is \$35.7 million). Should no amending legislation be introduced in response to the decision of the court (and the Australian Taxation Office does not ordinarily seek the introduction of such legislation on a retrospective basis), those carried forward losses may reach approximately \$537 million (the tax effect of which is \$183 million). Management expect that following listing these carried forward tax losses will remain available to be recouped by the Insurance Group.

### NIGL

The Commonwealth Treasury and the Australian Taxation Office are yet to confirm whether a distribution from the initial balance of the shareholder funds recorded in NIGL's accounts will be recognised for tax purposes as a distribution of share capital or as a distribution from an unrealised profits reserve. In the event that the distribution is properly regarded for tax purposes as a distribution from unrealised profits reserve, distributions from the account will constitute taxable dividends to shareholders, making it less likely that such distributions will be made in the future.

# 7. A comparison of member and Shareholder rights

## 7.1 About this Section

This Section provides information about the membership rights of Association Members and Insurance Members and the special rights Association has as a member of Insurance. This Section also provides information about the rights that you would have as a Shareholder in NIGL, if the Proposal is implemented in accordance with Section 6 (pages 34 to 37).

The table below sets out the general rights of Association Members and Insurance Members (which includes Association) as they are at the date of this document, and as they will be if the Proposal goes ahead.

	<i>Association</i>	<i>Association Members</i>	<i>Insurance Members</i>
Before the Proposal	Special rights as a member of Insurance. See Section 7.4	General membership rights and the right to access road and related motoring services provided membership fees are paid as they fall due.  As a condition of membership, Association Members have each given a guarantee of \$2.10 that may be payable in the event of a winding-up. See Section 7.2	Limited rights as Insurance Members to influence Insurance.  Policyholder rights.  As a condition of membership, Insurance Members have each given a guarantee of \$1.00 that may be payable in the event of a winding-up. See Section 7.3
If the Proposal goes ahead	Receives Shares in NIGL.  Will give up its special rights as a member of Insurance.  Will assign or license a number of NRMA Trade Marks to the Insurance Group. These trade marks have been used by the Insurance Group in its businesses but are currently owned by Association.  See Section 7.4	Remain Association Members provided membership fees are paid as they fall due. Association continues as a mutual.  Right to access road and related motoring services continues.  Receive Shares in NIGL. See Sections 7.5 and 7.6	Give up membership rights in Insurance.  Receive Shares in NIGL as part of Insurance Demutualisation.  Policyholder rights remain unchanged. See Sections 7.5 and 7.6

## 7.2 Association Members' rights

Association Members currently have two sets of rights.

### Road service rights

Association Members have the right to access road and related motoring services provided membership fees are paid as they fall due.

### General membership rights

Association Members have the right to:

- vote on the election (or any removal) of Association directors. Each member has one vote;
- receive notices of general meetings of Association;
- attend, participate and vote at general meetings of Association (including the right to vote on any changes to Association's constitution). Each member has one vote;
- nominate a candidate for election or be nominated for election as an Association director;
- transfer (with the approval of the Association Board or its delegate) membership to another person who would be entitled to apply for membership;
- request a general meeting of members (with the support of at least 99 other members); and
- propose a resolution to be considered at a general meeting requested by members.

Association Members do not have any right to participate in any surplus assets on a winding-up of Association. On a winding-up, any surplus is to be transferred to another institution or institutions having objects similar to those of Association as determined by the Association members at or before the time of dissolution or, in default of such determination, by the Chief Judge in Equity of the Court, or otherwise to some charitable object.

If the Proposal goes ahead:

- the road service and general membership rights of members will remain unchanged; and

- Association Only Members:
  - will become Insurance Members. A summary of the rights of Insurance Members is set out in the left hand column of the table on pages 39 to 40; and
  - as Insurance Members, will receive shares in NIGL in return for giving up their membership in Insurance. A summary of the rights of NIGL Shareholders is set out in the right hand column of the tables on pages 39 to 40.

If the Proposal goes ahead, Association Only Members who become Insurance Members will (in common with all other Insurance Members) be liable during the time they are members or within one year afterwards to contribute \$1.00 to the assets of Insurance in the unlikely event Insurance is wound up. It is not expected that those Association Only Members who become Insurance Members will be members of Insurance for more than a few months. In any event that membership ceases on the issue of NIGL Shares.

Association Members have given a similar guarantee to contribute \$2.10 to the assets of Association in the event Association is wound up.

As part of the Proposal, Association's constitution will be altered to:

- impose a duty on the Association directors, once the Association Schemes become effective, to cause to be done everything which is necessary for Association and the Association directors to do in order to implement the Proposal; and
- remove the object in Association's constitution of providing or arranging insurance for Association Members.

## 7.3 Insurance Members' rights

If the Proposal goes ahead, Insurance Members (including Association and Association Only Members who become Insurance Members by reason of the Proposal) will receive Shares. It is important for members to understand what membership rights in Insurance are being given up and how they compare with the rights members will have as Shareholders in NIGL.

Although Insurance Members will give up their membership rights in Insurance, the rights of Insurance Members as policyholders (including policy features and benefits) will not change as a result of the Proposal.

Insurance Members presently have only limited rights to influence Insurance. Insurance Members have the right to receive notices of and vote at general meetings, including the right to vote on changes to Insurance's constitution or on the removal of Insurance's directors. Insurance Members also have the right to request a meeting of members (with the support of 99 other members) and to propose a resolution to be considered at such a meeting.

Insurance Members' rights to influence Insurance are limited because they are subject to the special rights held by Association as a member of Insurance. However, if the Proposal goes ahead, Association will give up its special rights in Insurance.

A comparison of the present rights of Insurance Members and those of NIGL Shareholders is set out in the table on pages 39 to 40.

## 7.4 Association's special rights in Insurance

Association has the following special rights as a member of Insurance:

- the Association Board has the power to appoint and remove Insurance directors. A majority of Insurance directors must be Association directors;
- the president of Association is by virtue of that office a director and the chairman of Insurance, and has a casting vote at general meetings and at Insurance Board meetings;
- while the Insurance Members have no power to appoint Insurance directors, Insurance Members may by ordinary resolution remove any Insurance director (including the chairman). However, as Association may reappoint a person as a

- director, to remove a director permanently against the wishes of Association, the constitution of Insurance would also need to be altered;
- on a winding-up, Association is entitled to any surplus assets of Insurance;
  - the objects of Insurance include generally to assist and co-operate with Association in the attainment and promotion of Association's objects;
  - extra remuneration provided to Insurance directors who perform additional duties must be approved by Association directors; and
  - Association's special rights as a member of Insurance (including the above rights) may only be changed with Association's consent, which must be by a resolution of the Association Board approved by 75% or more of the votes validly cast.

If the Proposal goes ahead, Association will receive Shares and will give up its special rights as a member of Insurance.

## 7.5 NIGL Shareholders' rights

By exercising their Shareholders' rights (as set out on pages 39 to 40), Shareholders will be able to influence NIGL by voting to elect or remove directors of NIGL and to amend NIGL's constitution. The Shareholders' economic interest is reflected in their right to receive dividends and in their opportunity to participate in any growth in the value of NIGL as reflected in the Share price. There is no certainty that dividends will be paid or that the value of NIGL or its Shares will increase. When NIGL is listed, Shareholders will have additional protections under the Listing Rules, which are not described in the comparisons set out below. For example, the Listing Rules require Shareholder approval for significant transactions including certain major capital raisings and certain related party transactions.

Insurance Members, Association Members and Shareholders are also protected by statutory and general company law.

## 7.6 Comparison of present rights of Insurance Members and rights of NIGL Shareholders

The following table provides a comparison of the present rights of Insurance Members with the rights of Shareholders in NIGL if the Proposal goes ahead:

### Source of rights

#### **Membership rights in Insurance**

Your eligibility for membership derives from your eligible policies (and your original membership of Association) and your membership rights are conferred primarily under:

- Insurance's constitution; and
- company law.

These rights are in addition to the rights members have as policyholders. Policyholders' rights are unaffected by the Proposal.

#### **Shareholders' rights in NIGL**

Your rights will derive from your shareholding in NIGL and:

- NIGL's constitution;
- company law; and
- the Listing Rules.

### Permanency of rights

#### **Membership rights in Insurance**

Your right to membership derives from your policies (and your original membership of Association). This means that unless you keep your Association membership current and policies renewed, you will eventually lose your membership rights for no compensation when your last eligible policy ends for any reason, including expiry, non-renewal, cancellation or forfeiture.

If you are an Association Only Member who becomes an Insurance Member as a result of the Proposal, your membership of Insurance will cease if the Proposal does not go ahead.

#### **Shareholders' rights in NIGL**

Shares are a form of property. Your Shares remain regardless of whether your policies continue or whether you remain a member of Association. You lose the rights attaching to your Shares once you are no longer the registered owner of those Shares, for example where you sell the Shares to another person.

### Right to receive notice of general meetings

#### **Membership rights in Insurance**

In general terms, membership in Insurance carries the right to receive notice of general meetings. Notice is given by:

- delivering it to the Insurance Member personally;
- sending it by post, contractor, agent, electronic means or otherwise to the Insurance Member;
- publication in a newspaper circulating generally in New South Wales; or
- publication in or accompanying the 'Open Road' Magazine.

Under company law, notice may also be given by sending it to the fax number nominated by the Insurance Member.

#### **Shareholders' rights in NIGL**

In general terms, every Share carries the right to receive notice of general meetings. Notice is given by:

- serving it on the Shareholder;
- sending it by post, facsimile or electronically to the Shareholder.

### Right to attend, speak at and demand a poll at general meetings

#### **Membership rights in Insurance**

Insurance Members and their proxies, attorneys and representatives (for Members which are corporations) have the right to attend and speak at general meetings.

A poll can be demanded by the chairman of the meeting, by at least five Insurance Members present in person or by proxy entitled to vote on the resolution or by any Insurance Member(s) present in person or by proxy and representing at least 5% of the votes that may be cast on the resolution on a poll.

#### **Shareholders' rights in NIGL**

Shareholders and their proxies, attorneys and representatives (for Shareholders which are corporations) have the right to attend and speak at general meetings.

Similarly to Insurance, a poll can be demanded by the chairman of the meeting, by at least five Shareholders present in person or by proxy entitled to vote on the resolution or by any Shareholder(s) present in person or by proxy and representing at least 5% of the votes that may be cast on the resolution on a poll.

## Right to elect and remove directors

### **Membership rights in Insurance**

Insurance Members have no rights to appoint directors.

The Association Board has the power to appoint and remove directors of Insurance. A majority of the Insurance Board must comprise Association directors.

The president from time to time of Association is by virtue of that office a director and the chairman of directors of Insurance.

Insurance Members may by ordinary resolution remove a director (including the chairman). However, as Association may reappoint a person as a director, to remove a director permanently against the wishes of Association, the constitution of Insurance would also need to be altered.

### **Shareholders' rights in NIGL**

The Shareholders can vote to elect and to remove a director.

Each year, one-third of the NIGL directors (other than a sole managing director) must retire. The NIGL directors who retire are eligible to be re-elected, subject to the Corporations Law.

## Voting rights

### **Membership rights in Insurance**

Generally, all Insurance Members are entitled to vote (in person or by proxy, attorney or representative).

Under Insurance's constitution, each Insurance Member who is entitled to vote:

- has one vote on a show of hands; and
- has one vote on a poll.

In the case of an equality of votes, whether on a poll or a show of hands, the chairman of the meeting is entitled to a casting vote.

Insurance Members currently enjoy equal voting rights (that is, each Insurance Member has one vote).

### **Shareholders' rights in NIGL**

Generally, all Shareholders are entitled to vote (in person or by proxy).

Under NIGL's constitution, each Shareholder who is entitled to vote:

- has one vote on a show of hands;
- on a poll has:
  - one vote for each fully paid Share they hold; or
  - a fraction of a vote for each partly paid Share they hold.

Shareholders of NIGL have proportional voting rights (that is, one vote per Share on a poll).

## Rights to requisition general meetings (and related rights)

### **Membership rights in Insurance**

Under Insurance's constitution and company law, certain rights may be exercised by Insurance Members who are together entitled to at least 5% of the votes or 100 Insurance Members who are entitled to vote at a general meeting.

These are the right to:

- request the Insurance Board to convene a general meeting;
- require Insurance to:
  - give to Insurance Members entitled to receive notice of a general meeting sent to them, notice of any resolution that may be properly moved at that meeting which must be considered at the next general meeting that occurs more than two months after the notice is given; and
  - circulate to Insurance Members entitled to receive notice of any general meeting sent to them, a statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

Unless Insurance receives the notice or statement in time for it to be sent with the notice of meeting or the Insurance Members resolve in general meeting that Insurance meets the expense, the Insurance Members making the request are jointly and individually liable for the expenses of doing the above things.

Under company law, a general meeting of Insurance may be called by Insurance Members themselves if they are together entitled to at least 5% of the votes that may be cast at the general meeting (but if they call it themselves, they must pay the expenses of calling and holding the meeting).

### **Shareholders' rights in NIGL**

Shareholders have the same rights under NIGL's constitution and company law as Insurance Members have in relation to Insurance to requisition general meetings of NIGL, to propose resolutions and have statements circulated.

## Right to transfer membership or Shares

### **Membership rights in Insurance**

Membership rights in Insurance cannot be transferred. If you no longer hold an eligible policy, you immediately cease to be an Insurance Member.

### **Shareholders' rights in NIGL**

You can sell your Shares on or after the Listing Date (and in very limited circumstances before the Listing Date).

After listing, there will be a limitation on any Shareholder owning (or otherwise being entitled to) 5% or more of the Shares in NIGL. This limitation applies for five years after the Listing Date (see pages 42 and 138 to 139).

## Winding-up rights

### **Membership rights in Insurance**

Any surplus assets remaining on the winding-up or dissolution of Insurance (other than for purposes of reconstruction) after the payment of Insurance's liabilities and the expenses of winding-up or dissolution must be applied or given or transferred to:

- Association;
- or, if Association has ceased to exist, then to:
  - such other association having objects similar to Association; or
  - such other company having objects similar to those of Insurance as determined by the Insurance Members at or before the time of the winding-up or dissolution; or
  - in default of the above by any judge of the Court in its equitable jurisdiction.

As part of the Proposal, Insurance Members will be asked to consider a resolution to amend Insurance's constitution so that any surplus on a winding-up is distributable to an institution having similar objects to Insurance, rather than being distributed to Association.

### **Shareholders' rights in NIGL**

In general terms, every Share carries the right in a winding-up or reduction of capital of NIGL (subject to the provisions of the Corporations Law relating to the payment of creditors):

- to be repaid the capital paid up on the Share; and
- to receive a share of any surplus assets of NIGL.

## Rights in relation to distribution of profits

### **Membership rights in Insurance**

Insurance is not able to distribute its profits to Insurance Members. It may only deal with any surplus on a winding-up or dissolution in the manner described above.

As part of the Proposal, Insurance Members will be asked to consider a resolution to amend Insurance's constitution so that Insurance may pay dividends and make returns of capital to NIGL.

### **Shareholders' rights in NIGL**

In general terms, Shareholders of NIGL are entitled to receive any dividend payments that the NIGL Board decides will be paid from time to time, out of current profits and profit reserves.

# 8. Receiving Shares

The information about Shares in this Section 8 assumes that the Proposal goes ahead.

## 8.1 Who will receive Shares?

On the demutualisation of Insurance you will receive Shares if you were:

- an Insurance Member at the Register Date;
- an Association Only Member at the Register Date; or
- a legal personal representative of a Deceased Member in the circumstances set out on page 42.

Most Members will receive their Shares directly. However, if you live outside Australia, you need to read Section 8.14 on page 42.

Membership of Association and Insurance arises under the constitutions of Association and Insurance. An explanation of these membership rules is set out on pages 47 to 49.

## 8.2 How many Shares will you receive?

The number of Shares which will be allocated to you if you remain a Member until the Register Date is set out on the Share Allocation Form enclosed with this document.

Details of how your Share Allocation has been calculated are set out in the Share Allocation Rules on pages 43 to 47.

The Share Allocation Rules take account of the following factors in determining your Share Allocation:

- membership of Association;
- length of Association membership;
- membership of Insurance; and
- number of Insurance policies.

The Boards have approved the Share Allocation Rules, which were based on a recommendation by PricewaterhouseCoopers, who considers that they provide a fair and reasonable basis for allocating Shares (see page 121).

Deloitte Corporate Finance has concluded that 'in the overall context of the Proposal, the Share Allocation Rules are fair and reasonable' (see page 62).

Ernst & Young Corporate Finance has reviewed the Share Allocation Rules and is in agreement with the opinion of PricewaterhouseCoopers, as consulting actuary, subject to the limitations set out in Sections 6.3.4 and 7.3.3 of Ernst & Young Corporate Finance's report (see pages 81 to 82 and 87).

If you have any questions about the number of Shares allocated to you see page 49 for details on how to resolve queries or disputes.

Association and Insurance jointly reserve the right to correct the allocation of Shares shown on your Share Allocation Form if it is found to be incorrect (see page 47).

In total, Insurance Members (including Association Only Members who become Insurance Members under the Proposal but excluding Association) and the legal personal representatives (or their nominee) of certain former Insurance Members will receive 90% of the Shares issued under the Proposal.

Association will receive 146.5 million Shares (10% of the Shares issued under the Proposal).

## 8.3 When will you receive your Shares?

The Shares will be issued by NIGL provided you remain a Member until the Register Date and the Proposal goes ahead. Shares are expected to be issued around the middle of 2000. NIGL will send you a statement confirming your shareholding instead of issuing share certificates.

## 8.4 Will you have to pay for your Shares?

You will not have to pay any money for your Shares. You will receive an allocation of Shares in exchange for certain rights that are given up under the Proposal. For details of the rights given up by Association Members, see page 50. For details of the rights given up by Insurance Members, see page 68.

## 8.5 How much will your Shares be worth?

The value of your Shares will reflect:

- the value of the Insurance Group, including Insurance's capital and anticipated future profits; and
- any premium or discount which the share market may place on the value of the Insurance Group's businesses after the Shares are listed.

Ernst & Young Corporate Finance estimates the market price of a Share, had the Proposal been implemented and the Shares traded on Australian Stock Exchange as at 14 February 2000 (the date of its report), would have been between \$2.60 and \$3.00 per Share based on the issue of 1,465 million Shares. The estimation of the market price of a Share provides an indication of the value that could be accessed by Members under the Proposal. The basis of this estimate is discussed on pages 91 to 94.

Members should be aware that the estimate referred to above is based on the financial position of Insurance, the conditions of the insurance industry, Australian economy and financial markets as at 14 February 2000. The estimate is subject to changes in the market assessment of NIGL and the overall state of the market at the Listing Date and beyond and may vary significantly from the prices estimated. The estimate will also be affected by the contents of the offer document issued prior to the Listing Date and other information disclosed about NIGL and Insurance.

Deloitte Corporate Finance conducted a review of the estimate of the market price of a Share prepared by Ernst & Young Corporate Finance and concluded that the valuation conclusions reached by Ernst & Young Corporate Finance are reasonable (see page 60).

PricewaterhouseCoopers, in its role as consulting actuary, made its own estimate of the value of the Shares for the purpose of developing its recommendations on the allocation of Shares under the Proposal and for preparing capital adequacy models in relation to Association, based on the Shares to be issued to Association under the Proposal. PricewaterhouseCoopers estimated that each Share would be worth between \$2.18 and \$2.73 as at 14 February 2000 (see page 130).

Based on the estimates of market price referred to above, NIGL will be capitalised at between \$3,200 million and \$4,395 million were the Proposal to go ahead and the Shares traded on the Australian Stock Exchange on 14 February 2000. This value excludes any takeover or control premium or any impact from the extent to which Members elect to retain or sell their Shares.

These are only estimates. The actual market price on and after the Listing Date may be higher or lower. It will vary to the extent that there is a material change in any of the following factors before or at the Listing Date:

- the financial position, performance, trading and operating conditions and prospects and mix of the Insurance Group's businesses;
- the general insurance industry and the competitive environment facing the Insurance Group;
- investment market conditions, including the nature and extent of other equity capital market raisings;
- the economic, monetary, regulatory or tax regimes affecting the Insurance Group's businesses;
- the share market's rating of the general insurance sector; and
- the timing and extent of stock exchange index weighting.

The market price will also be affected by the extent to which Members elect to retain or sell their Shares on or after the Listing Date.

## 8.6 Will you receive dividend payments?

If you keep your Shares, you will receive any dividends that NIGL may pay from time to time. However, the NIGL Board intends that no dividends will be paid by NIGL before the Listing Date. The NIGL Board anticipates that following the Listing Date NIGL will pay dividends twice yearly.

The amount of dividends (if any) paid to Shareholders will depend on the Insurance Group's performance. On the Insurance Demutualisation, all franking credits held by Insurance and its wholly-owned subsidiaries will be extinguished. The extent to which dividends paid to Shareholders can be franked for tax purposes will depend on tax paid by entities in the Insurance Group, particularly following the Insurance Demutualisation. At this stage it is not possible to predict with any level of certainty the likely level of franking, if any, of dividends.

The NIGL Board will consider presenting a dividend reinvestment plan for the Shareholders of NIGL to approve after the Listing Date.

## 8.7 How and when can you sell your Shares?

You will be able to sell your Shares on or after the Listing Date. NIGL intends to list on the Australian Stock Exchange in the second half of 2000.

NIGL intends to issue an offer document, before the Listing Date, setting out detailed financial and other information about the Insurance Group. The NIGL Board also intends to establish the Facility to enable Members to buy or sell Shares on or near the Listing Date. You will receive more information about the Facility closer to the Listing Date (see page 36 for further details).

You will not be able to sell your Shares (or dispose of any interest in them) before the Listing Date except in very limited circumstances – see page 138. This restriction, which is consistent with other Australian demutualisations, will help ensure that Members are not disadvantaged by selling their Shares in an unofficial market at a lower price than may be available on or near the Listing Date. If listing is significantly delayed the proposed NIGL constitution will require the NIGL Board to put forward a proposal for consideration at a general meeting of NIGL which may include amendment of this restriction (see page 139).

After listing, there will be a limitation on any Shareholder owning (or otherwise being entitled to) 5% or more of the Shares in NIGL. This limitation applies for the five years after the Listing Date. There are conditions and exceptions to this limitation (see pages 138 to 139).

Although the NIGL Board intends that NIGL will list during 2000, it is not possible to be certain when, or if, NIGL will list.

## 8.8 Will selling your Shares affect your road service rights?

Your right to access road and related motoring services will not be affected in any way if you sell your Shares.

## 8.9 Will selling your Shares affect your policies?

Your rights as a policyholder will not be affected in any way if you sell your Shares.

## 8.10 Will you be able to buy more Shares?

You may wish to participate in the Facility (see Section 8.7 above and page 36). On and after the Listing Date, you will be able to buy more Shares in NIGL. You can do that through stockbrokers or other firms licensed to deal in shares. The market price of Shares will change from time to time.

## 8.11 What rights will you have as an NIGL Shareholder?

The rights of Shareholders in NIGL are described on pages 39 to 40.

## 8.12 How will Association sell down its shareholding?

Association must sell down its shareholding in NIGL through the Facility so that it holds 29.3 million Shares (initially representing approximately 2% of the Shares) following the listing of NIGL. For a certain time, Association must maintain that shareholding (see page 145).

## 8.13 What if you are the legal personal representative of a Deceased Member?

Where a Member died after 25 February 1999, Share Allocation Rule 4.2 applies (see pages 46 to 47). This provides that, as a general rule, the Deceased Member's legal personal representative (or a beneficiary nominated by them) will be entitled to the Share Allocation which would have been allocated to the Deceased Member had they lived (and remained a current Member). This allocation is separate from and in addition to any allocation the legal personal representative (or the nominated beneficiary) may receive in their own right.

However, a special rule applies for the legal personal representatives of Deceased Association Only Members. Shares can only be issued to Members or former Members of Insurance. Where the Deceased Member was an Association Only Member at midnight on 25 February 1999 and died before the Register Date, their legal personal representative (or a beneficiary nominated by their legal personal representative) must

become an Association Member by the Register Date or an Insurance Member by the date on which Insurance demutualises to be entitled to any Shares in respect of the Deceased Member.

For all other legal personal representatives (or a beneficiary nominated by them) to be issued Shares on demutualisation:

- the legal personal representative must have provided Association or Insurance with appropriate proof of their authority to act in respect of the Deceased Member's estate and, if applicable, nominated a recipient for the Shares (being a beneficiary of the Deceased Member); and
- the legal personal representative (or a beneficiary nominated by them) must have agreed to become a member of NIGL if they have not already done so.

If either condition is not met by the time Insurance demutualises, then the Shares will not be issued until both conditions have been satisfied. Therefore, where a legal personal representative is not issued Shares on demutualisation because of this rule, they must provide appropriate proof of their authority to act and agreement to become a member of NIGL before the Shares allocated in respect of the Deceased Member will be issued to them.

## 8.14 What if you live outside Australia?

If your membership address recorded on the Association and/or Insurance members' registers indicates that you live outside Australia, you are an Overseas Member and you will not directly receive the Shares allocated to you if the Proposal goes ahead. Instead, those Shares will be issued to the trustee of the Entitlements Trust. Any references in this document (or the other documents sent to you with this document) to Members receiving Shares or exchanging membership rights in Insurance for Shares should be read on this basis.

The trustee of the Entitlements Trust will be obliged to:

- hold the Shares allocated to you on trust for you;
- use its best endeavours to sell the Shares and the Shares allocated to other Overseas Members through the Facility or, if that is not possible, at the first reasonable opportunity (and in any case within 12 months) after the Listing Date; and
- pay to you the net proceeds of sale of your Shares (on an averaged basis so that all Overseas Members receive the same price) and any dividends or other income referable to those Shares (less any tax and expenses).

This approach has been adopted to minimise the need to comply with a multiplicity of overseas securities laws and regulatory requirements.

If you require further information, please ring (61 2) 9292 9115 and if necessary leave a message with your contact details so that we may phone you. When returning your proxy forms, you will need to affix the necessary postage stamps, as reply paid postage only applies within Australia.

## 8.15 What are the tax consequences for Members of the Proposal?

The following is a general summary of the income tax implications of the Proposal for Members (including those Association Only Members who become Insurance Members under the Proposal).

As the tax consequences may vary depending upon the specific circumstances of each Member, Members should seek their own independent advice. That is especially so for Members who trade in Shares or who acquire Shares for resale at a profit. In particular, non-resident Members are advised to seek advice concerning any tax liability they may have in their place of residence.

The tax consequences discussed below are based on the existing law or formal announcements of the Australian Treasurer. Except as discussed below, changes to the law which may arise following the 1999 Review of Business Taxation (the Ralph Committee Report) are not discussed. Changes of that type cannot be ascertained with any certainty.

### Australian residents

#### Preliminary steps

The Australian Taxation Office has given a non-binding opinion confirming that no income tax consequences accrue to Members as a result of those steps of the Proposal carried out before the Demutualisation Resolution Date. These steps include the amendments made to the constitutions of Insurance and Association and the acquisition of membership in Insurance by the Association Only Members.

#### Division 9AA

Division 9AA of the Tax Act contains special provisions dealing with the demutualisation of insurance companies.

Insurance has received a non-binding opinion from the Australian Taxation Office that the provisions of Division 9AA of the Tax Act will apply to the Insurance Demutualisation as long as NIGL is listed within two years of the Demutualisation Resolution Date or such later time as the Federal Commissioner of Taxation may allow.

Accordingly, the Insurance directors have been advised that the income tax consequences of the Insurance Demutualisation for Insurance Members (including those



Association Only Members who become Members of Insurance under the Proposal) can be summarised as follows:

- Insurance Members will not have to pay tax when they give up their membership rights in Insurance;
- Insurance Members will not have to pay tax when they receive Shares in NIGL;
- if an Insurance Member disposes of some or all of their Shares after the listing of NIGL; for the purposes of calculating any capital gain or loss, the Insurance Member will be treated as having acquired each Share on the Demutualisation Resolution Date for a cost base calculated by reference to the lower of:
  - a statutory value of Insurance as determined under Division 9AA of the Tax Act (which is based upon the 'net tangible asset value' of Insurance as defined in that Division); or
  - the closing price at which Shares in NIGL are traded on the Australian Stock Exchange on the Listing Date.

The statutory value is not currently determinable. As an indication, the statutory value, had the Proposal been implemented on 30 June 1999, would have been \$2.226 billion (approximately \$1.52 per Share). This estimate is an indicative figure only and the statutory value may be higher or lower than this amount. The exact figure will need to be confirmed by the Australian Taxation Office and will be set out in any offer document issued by NIGL prior to listing, if the Proposal goes ahead.

As a result of recently enacted amendments to the Tax Act, Insurance Members who are individuals or trusts and who hold their Shares for at least 12 months after the Demutualisation Resolution Date may have their capital gain taxed on half the difference between the disposal price and the cost base. Insurance Members who are complying superannuation funds, complying approved deposit funds or pooled superannuation trusts and who hold their Shares for at least 12 months after the Demutualisation Resolution Date may have their capital gain taxed on two-thirds of the difference between the disposal price and the cost base;

- if an Insurance Member disposes of some or all of their Shares before the listing of NIGL (which they may only do in very limited circumstances – see page 138):
  - any capital loss on the sale will be disregarded; and
  - for the purpose of calculating any capital gain you will be treated as having acquired each Share on the Demutualisation Resolution Date for a cost base based on a statutory value (see above); and
- where an Insurance Member is a superannuation fund trustee who is issued or distributed Shares in NIGL to hold on behalf of a member of the fund and if within 30 days after receiving the Shares the trustee allocates an amount representing the Member's contribution in respect of the Shares to the member in the records of the fund, then:
  - when the trustee pays an eligible termination payment to the fund member, the undeducted contributions in relation to the eligible termination payment is increased by an amount calculated by reference to the total cost base of the Shares allocated to the fund member; and/or
  - when the trustee pays a superannuation pension or an annuity to the fund member, the undeducted purchase price in relation to the superannuation pension or annuity is increased by an amount calculated by reference to the total cost base of the Shares allocated to the fund member.

### Overseas residents

The tax consequences of the Proposal (including the receipt of Shares) may be different for an Insurance Member (including an Association Only Member who becomes an Insurance Member under the Proposal) who is not a resident of Australia. Non-resident Insurance Members will need to seek their own advice on the Australian and foreign taxation consequences of the Proposal to them.

## 8.16 What are the pension or allowance consequences of receiving Shares?

If you or your dependants receive a pension or allowance you need to consider whether as a result of receiving Shares your (or their) entitlements will be reduced or lost.

ACOSS was engaged to analyse and report on the likely effect of the proposed demutualisation of Insurance and resulting allocation of Shares on those Members in receipt of pensions or allowances. The report was based on an average Share Allocation with a value of \$3,000 to each Member and assumed that 65% for the 1.7 million persons in receipt of pensions and allowances in New South Wales and the Australian Capital Territory were Members. Based on these assumptions, the key findings were:

- about 240,000 Members (or 23% of the estimated number of Members in receipt of pensions or allowances) will have their pension or allowances reduced by \$1 to \$2 per fortnight; and
- approximately 1,200 Members (or 0.12% of the estimated number of Members in receipt of pensions or allowances) will lose their entitlement. Those persons who lose their pension entitlement will also lose entitlement to the Pensioner Concession Card, which entitles pensioners to the full range of concessions provided by State and local governments. Those Members affected are those in receipt of a reduced rate of pension or allowance.

Members who believe the Proposal may affect their pension or allowance entitlement or who wish to find out more information about these consequences of the Proposal can call the **Pensions and Retirement Information Hotline** on **1300 138 837**.

The Department of Family and Community Services ('FaCS') and Centrelink are aware of the Proposal. FaCS has advised that the Shares will not be assessed under the social security

income and assets tests before NIGL lists on the Australian Stock Exchange. Also, the value of the Shares issued will not be treated as income under the social security income test at the time they are issued.

From the Listing Date, the Shares will be taken into account under the income and assets tests in the same way as liquid assets, that is:

- under the assets test, the market value of the Shares will be counted as an asset; and
- under the income test, the Shares will be included with other financial investments, and the deeming rates will apply to determine the income you will be taken to have received from these investments.

Whether this will reduce your pensions or allowances (or those of your dependants) will depend on the value of the Shares you receive, and on the level of your other income and assets. Your pension or allowance payments may not be affected at all because the social security income and assets tests allow customers to have income and assets up to certain amounts without any reduction in payment. You should obtain your own financial advice specific to your circumstances.

If you would like more information about any effects of your Share Allocation on your pension, allowance, or other payments; you should contact Centrelink or the Department of Veterans' Affairs directly. Check your local telephone directory for numbers.

You can obtain information on social security matters by ringing Centrelink.

If you receive a veterans' affairs payment, contact your nearest Department of Veterans' Affairs office.

Remember that you must advise Centrelink or the Department of Veterans' Affairs of your Share Allocation.

## 8.17 Will NRMA directors, executives and employees receive Shares?

Association, Insurance and NIGL directors and NRMA executives and employees will not receive any Shares under the Proposal except as Members.

All directors of Association, Insurance and NIGL are Association Members and, except in the case of Mr M A Coyne, Mr A R Sanchez, Ms F J Singleton and Mr I F Yates, Insurance Members and as Members, along with the NRMA executives and employees who are also Members, will receive Shares in respect of their membership in accordance with the Share Allocation Rules.

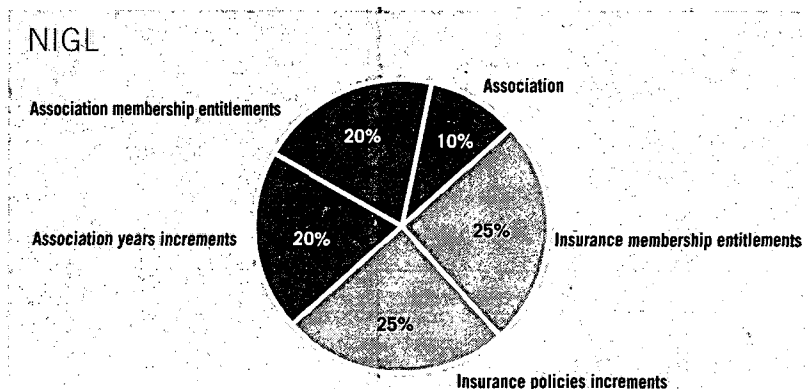
The NIGL Board will not introduce any share or share option plans for directors, senior management or other employees prior to the Listing Date. It is likely that Shareholders of NIGL will be asked to consider the introduction of share or option plans for directors, senior management and other employees some time after listing. No plans of this type have yet been developed.

The Share Allocation Rules set out special provisions for calculating the number of years of Association membership of certain NRMA Group employees. These special rules have the potential to lengthen their years of Association membership to include their continuous years of service (if greater than their years of honorary Association membership) and any Association membership years held by the employee on commencing employment. As a result, employees may receive a benefit under the Share Allocation Rules which is greater than those received by other Members. The Boards believe that this is an appropriate reward for their years of service and their loyalty to the organisation.

## 8.18 Share Allocation Rules

### Rule 1 How are Shares to be allocated?

Approximately 1,465 million Shares are to be issued when Insurance is demutualised. These Shares are to be allocated to Insurance Members (including persons who become Insurance Members through the Proposal) and the legal personal representatives (or their nominee) of certain former Insurance Members in approximately the proportions shown below:



Association is to receive 146.5 million Shares. This represents approximately 10% of the shares to be issued by NIGL. Association is not entitled to any other Shares.

The remaining Shares (approximately 90%) are to be allocated in the following way:

<b>Allocation</b>	<b>Number of Shares</b>
1 Association membership entitlement	174 Shares
Plus	
2 Association years increment*	10 Shares for each year of membership recorded in Association's computer systems for that membership at midnight on 25 February 1999.
3 Insurance membership entitlement	314 Shares
Plus	
4 Insurance policies increment**	113 Shares for each insurance policy issued by Insurance in force at midnight on 25 February 1999 (with two exceptions, see rule 2.4 on page 45).

\* Association years increments are available only to persons who have an Association membership entitlement.

\*\* Insurance policies increments are available only to persons who have an Insurance membership entitlement.

## Rule 2 How many Shares will a Member be entitled to?

The number of Shares that a person is entitled to depends on whether they are a Member or treated as being a Member (including as a result of a determination of the Review Panel – see rule 5 on page 47) of either or both Association and Insurance at both midnight on 25 February 1999 and the Register Date.

There are special rules for:

- Members whose membership address is outside Australia (see rule 4.1 on page 46); and
- legal personal representatives (or their nominee) of persons who were Members at midnight on 25 February 1999 but who have since died (see rule 4.2 on pages 46 to 47).

The table below sets out the allocation possibilities (other than for the legal personal representatives (or their nominee) of Deceased Members to whom special rules apply). A tick means that a person who has the membership status indicated is entitled to that Share Allocation.

<b>Member or treated as a Member* at BOTH</b>			<b>Share Allocation</b>			
<b>Midnight on 25.2.1999</b>	<b>and</b>	<b>Register Date</b>	<b>Association membership entitlement</b>	<b>Association years increment</b> <i>See explanatory notes for more detail</i>	<b>Insurance membership entitlement</b>	<b>Insurance policies increment</b>
Both Association and Insurance	and	Both Association and Insurance	✓	✓	✓	✓
Both Association and Insurance	and	Association only	✓	✓	–	–
Both Association and Insurance	and	Insurance only	–	–	✓	✓
Association only	and	Association only	✓	✓	–	–
Insurance only	and	Insurance only	–	–	✓	✓

\* To determine whether a person is treated as being a Member at midnight on 25 February 1999 or the Register Date see rule 3 on pages 45 to 46.

## Explanatory notes

All references to Members in these notes include those treated as Members of the relevant company (see rule 3 on pages 45 to 46).

### 2.1 Association membership entitlement

#### **Joint Association Members**

If a membership is held jointly by two or more persons, then they receive between them jointly only one Association membership entitlement. (They do not get an entitlement each and Shares will be issued in their joint names.)

#### **More than one subscription or membership identification number**

Any particular Association Member (including two or more persons admitted jointly as a single Member) can receive only one Association membership entitlement irrespective of the number of subscriptions or membership identification numbers they hold. (This is subject to the special rules for Deceased Members.)

Examples

- 1 If Tom and Mary in their joint names have two membership identification numbers, one for a business vehicle and one for a personal vehicle, they are entitled to only one Association membership entitlement.  
Similarly, if Franco had two subscriptions, one for his business vehicle and one for his personal vehicle, he is entitled to only one Association membership entitlement.
- 2 If Sally and Harry in their joint names have a membership for a business vehicle and Sally also has another membership in her name alone for her personal vehicle, then Sally is entitled to:
  - one Association membership entitlement jointly with Harry; and
  - another Association membership entitlement in her own name.

### 2.2 Association years increment

#### **Years as at midnight on 25 February 1999**

The number of Association membership years used to calculate a person's Association years increment is the number of membership years recorded in Association's computer systems for that membership at midnight on 25 February 1999.

There is one exception to this: prepaid years of membership which had not yet commenced at midnight on 25 February 1999 have not been included.

#### **What is a year of membership?**

At the time a person becomes an Association Member and on each anniversary of that date they are credited with one membership year.

#### **Maximum number of membership years**

The maximum number of membership years that can be attributed to any Association Member per membership is 80 years. This is because Association has only existed for 80 years.

**Joint Association Members**

If a membership is held jointly by two or more persons, they receive between them jointly only one increment for each year of membership. (They do not get one increment each and Shares will be issued in their joint names.)

**More than one membership identification number**

Any particular Association Member (including two or more persons admitted jointly as a single Member) holding more than one membership identification number receives increments only for the number of years applicable to the membership identification number which has the greatest number of membership years.

So, Tom and Mary, in the example in rule 2.1 above, would receive an Association years increment equal to the greater of the number of membership years recorded against either their business or personal membership identification number. The same would apply to Franco. However, Sally and Harry's joint membership would be treated separately to the membership in Sally's name alone.

**Membership transferred from an Association Member who died before midnight on 25 February 1999**

An Association Member who became an Association Member because they are a legal personal representative (or their nominee) of an Association Member who died before midnight on 25 February 1999 is entitled to an Association years increment equal to the number of years of Association membership that would have been recorded in Association's computer systems for the legal personal representative (or their nominee) if the transfer had taken place by midnight on 25 February 1999.

**Employees\***

Association Members who were employees at midnight on 25 February 1999 are entitled to an Association years increment based on the greatest of:

- the years of continuous service as an employee at midnight on 25 February 1999; or
- the number of years of membership recorded in Association's computer systems for them at midnight on 25 February 1999; or
- the total of:
  - Association membership years recorded for them at the time of their commencing as an employee; plus
  - their years of continuous service as an employee at midnight on 25 February 1999.

\* Who is an employee for these rules is explained on page 49.

**2.3 Insurance membership entitlement****More than one policy**

A person can receive only one Insurance membership entitlement irrespective of the number of policies they hold (this is subject to the special rules for legal personal representatives (or their nominee) of Deceased Members).

**Jointly held policies**

If a policy is held jointly by two or more persons, then each of those persons who is an Insurance Member receives one membership entitlement of their own.

**2.4 Insurance policies increments****Policies as at midnight on 25 February 1999**

The number of policies used to calculate a person's Insurance policies increment is the number of policies issued by Insurance held by that person which were in force at midnight on 25 February 1999.

There are two exceptions to this:

- policies of interim insurance (that is, cover notes and temporary cover) issued by Insurance and in force at midnight on 25 February 1999 will only be counted if they subsequently became policies of permanent insurance before the expiry of their term; and
- policies of inwards reinsurance.

Life policies are not issued by Insurance but by a separate company, NRMA Life Limited. They are not included in calculating a person's Insurance policies increment.

**Personal effects and home contents policies combined**

If an Insurance Member held simultaneously both a personal effects policy and a home contents policy and they were combined after 25 February 1998 and before midnight on 25 February 1999, then the Insurance Member is entitled to two increments in respect of that policy.

**Jointly held policies**

If a policy is held jointly by two or more persons, each of those persons that is an Insurance Member is entitled to one increment of their own.

**Rule 3 Who is a Member or treated as a Member?****3.1 Association****Association Member**

Association Members are those persons who are Association Members in accordance with its constitution.

**Treated as an Association Member at midnight on 25 February 1999**

Persons in the following categories will be treated as having been Association Members at midnight on 25 February 1999 if they satisfy the corresponding condition set out in the following table:

<b>Reasons why not an Association Member at midnight on 25 February 1999</b>	<b>Condition to be met</b>
Lodged application (together with payment) for Association membership and application received before midnight on 25 February 1999 but not processed	Processed by Association after 25 February 1999 and became an Association Member
Association membership renewal due on or after 1 December 1998 and before midnight on 25 February 1999	Renewed membership by 30 June 1999 OR Became a Road Service Customer by 30 June 1999 and became an Association Member by the Register Date
Where an Association Member died before midnight on 25 February 1999 but their unexpired membership was not transferred until after that date	Membership transferred before membership expiry date to legal personal representative (or their nominee), who became an Association Member by the Register Date
An employee* at midnight on 25 February 1999 who was not an Association Member	Became an Association Member by 30 June 1999
Former Association Member at midnight on 25 February 1999 whose membership was not renewed: <ul style="list-style-type: none"> <li>• because of administrative error or delay by Association; or</li> <li>• because the Review Panel decides that there were unavoidable circumstances which prevented them from renewing</li> </ul>	The Review Panel determines that one or more of the reasons for non-membership at midnight on 25 February 1999 have been established and the person has either: <ul style="list-style-type: none"> <li>• become an Association Member before the Register Date; or</li> <li>• become an Insurance Member and has agreed to become a member of NIGL after the Register Date and before the date on which Insurance demutualises</li> </ul>
Former Association Member at midnight on 25 February 1999 whose membership was not renewed for any other reason.	The Review Panel determines that circumstances exist where not to treat the person as an Association Member at midnight on 25 February 1999 would be grossly unfair and the person has either: <ul style="list-style-type: none"> <li>• become an Association Member before the Register Date; or</li> <li>• become an Insurance Member and has agreed to become a member of NIGL after the Register Date and before the date on which Insurance demutualises</li> </ul>

\* Who is an employee for these rules is explained on page 49.

Mr N D Hamilton, who was admitted to Association membership by resolution of the Association Board on 25 November 1999 in order that he may be appointed a director of Insurance, is also to be treated as if he were an Association Member at midnight on 25 February 1999, for the calculation of his Share Allocation (see page 48).

**Treated as an Association Member at the Register Date\***

Persons in the following categories will be treated as being Association Members at the Register Date if they satisfy the corresponding condition set out in the following table:

<b>Reasons why not an Association Member at the Register Date</b>	<b>Condition to be met</b>
Former Association member at the Register Date whose membership was not renewed: <ul style="list-style-type: none"> <li>because of administrative error or delay by Association; or</li> <li>because the Review Panel decides that there were unavoidable circumstances which prevented them from renewing</li> </ul>	The Review Panel determines that one or more of the reasons for non-membership at the Register Date have been established and the person has become an Insurance Member and has agreed to become a member of NIGL after the Register Date and before the date on which Insurance demutualises
Former Association member at the Register Date whose membership was not renewed for any other reason	The Review Panel determines that circumstances exist where not to treat the person as an Association Member at the Register Date would be grossly unfair and the person has become an Insurance Member and has agreed to become a member of NIGL after the Register Date and before the date on which Insurance demutualises

\* Persons treated as Association Members at the Register Date are not entitled to vote at the meetings to approve the Proposal in relation to Association.

**3.2 Insurance****Insurance Member**

Insurance Members are those persons who are Insurance Members in accordance with its constitution. Although there are exceptions, most people who are Association Members, have agreed to become Insurance Members and who also hold a policy issued by Insurance are Insurance Members.

**Treated as an Insurance Member at midnight on 25 February 1999**

Persons in the following category will be treated as having been Insurance Members at midnight on 25 February 1999 if they satisfy the condition set out in the following table:

<b>Reason why not an Insurance Member at midnight on 25 February 1999</b>	<b>Condition to be met</b>
Insurance policy held by an Insurance Member fell due up to 89 days before midnight on 25 February 1999 and not renewed by midnight on 25 February 1999	Payment of premium received within 90 days of policy falling due

**Treated as an Insurance Member at the Register Date\***

Persons in the following category will be treated as being Insurance Members at the Register Date if they satisfy the corresponding condition set out in the following table:

<b>Reason why not an Insurance Member at the Register Date</b>	<b>Condition to be met</b>
All policies held at midnight on 25 February 1999 terminated before the Register Date	Remain an Association Member, Royal Automobile Club of Australia member or an NRMA Group employee at the Register Date and either: <ul style="list-style-type: none"> <li>hold a policy (other than a policy of interim insurance which does not become a policy of permanent insurance before the expiry of its term) on 9 December 1999 and the Register Date; or</li> <li>the Review Panel is satisfied that, although the person did not hold a policy at either 9 December 1999 and/or the Register Date, it would be grossly unfair not to treat that person as if they were an Insurance Member at the Register Date.</li> </ul>

\* Persons treated as Insurance Members at the Register Date are not entitled to vote at the meetings to approve the Proposal in relation to Insurance.

**Rule 4 Special rules****4.1 Members overseas**

The allocation of Members whose membership address is outside Australia is calculated in accordance with rule 2 on pages 44 to 45. However, these Overseas Members cannot receive their Share Allocations directly. Rather, their Shares will be issued to the trustee of the Entitlements Trust. The trustee will:

- sell the Shares in the Facility on listing; and
- pay the net proceeds of sale (on an averaged basis so that all Overseas Members receive the same price) and any income earned by the Shares while they are held on trust to the Members entitled to them.

**4.2 Legal Personal Representatives (or their nominee) of Deceased Members**

This section applies only to LPRs of persons who were Members of Association or Insurance at midnight on 25 February 1999 but who have since died. In this rule 4.2 'LPR' means a Deceased Member's legal personal representative or the representative's nominee.

The LPR is entitled to an allocation with respect to the Deceased Member. There is one exception and one qualification to this rule.

The exception to this rule is that where the Deceased Member was an Association Only Member at midnight on 25 February 1999 and died before the Register Date, the LPR must become an Association Member by the Register Date or an Insurance Member by the date on which Insurance demutualises to be entitled to any Shares in respect of the Deceased Member.

The qualification to this rule is that where the Deceased Member was a joint Association Member when they died, the surviving joint Association Member(s) will take over the Association membership (by operation of law) and the LPR of the Deceased Member will not be entitled to any Shares in respect of the Deceased Member's Association membership. However, if the Deceased Member was also an Insurance Member, the Deceased Member's LPR will be entitled to Shares in respect of the Deceased Member's Insurance membership.

The allocation to the LPR will depend on the Deceased Member's membership status at midnight on 25 February 1999. The table sets out the allocation possibilities for the LPR. A tick means that the LPR is entitled to the Share Allocation applicable to the Deceased Member's membership status.

<b>Deceased Member's membership status</b>	<b>Allocation</b>			
	<b>Association membership entitlement</b>	<b>Association years increment</b>	<b>Insurance membership entitlement</b>	<b>Insurance policies increment</b>
<b>At midnight on 25.2.1999</b>				
Both Association and Insurance	✓	✓	✓	✓
Association only	✓	✓	-	-
Insurance only	-	-	✓	✓

The explanatory notes set out in rule 2 on pages 44 to 45 also apply to entitlements of LPRs, except as provided below.

#### **Joint LPRs**

Where there are two or more LPRs acting jointly in respect of a Deceased Member, those LPRs are considered a single person for entitlement purposes and Shares will be issued in their joint names.

#### **Calculating an LPR's Association years increment**

In calculating the Association years increment, the LPR is entitled to the number of years of Association membership recorded in Association's computer systems for the Deceased Member at midnight on 25 February 1999.

#### **Calculating an LPR's Insurance policies increment**

In calculating the Insurance policies increment, the LPR is entitled to the number of policies issued by Insurance the Deceased Member had in force at midnight on 25 February 1999.

#### **LPR's allocation distinct from any other allocation**

A person can receive Share Allocations in other capacities in addition to the Share Allocation they receive as the LPR.

#### **Conditions for issue of Shares to LPRs**

To be issued the Shares on demutualisation:

- the legal personal representative must have provided appropriate proof of authority to act and, if applicable, to nominate a recipient for the Shares; and
- the LPR must have agreed to become a member of NIGL if they have not already done so.

If either condition is not met by demutualisation, then the Shares will not be issued until both conditions have been satisfied.

#### **LPRs overseas**

If the LPR has an address outside Australia when Insurance demutualises, they will be treated as an Overseas Member: see rule 4.1 on page 47.

## 8.19 Membership rules

### 1 Who is an Association Member?

A person is an Association Member if they agree to become an Association Member, they satisfy any conditions which the Association Board has from time to time determined and their name is entered on the register of Members of Association. These requirements are set out in rule 3 of Association's constitution.

A person can only be an Association Member once in their own right. An Association Member has only one vote, irrespective of the number of subscriptions they purchase or membership identification numbers they hold in their name (rule 37 of Association's constitution). However, a person who has a membership in their own right can also be a joint Association Member with another person, and this joint membership is a separate membership.

Before midnight on 25 February 1999, as a general rule, a person became an Association Member by purchasing road service. However, as it was also necessary to agree to become an Association Member when road service was purchased and have your name entered in Association's register, certain people who received road service from Association before midnight on 25 February 1999 were not Association Members in their own right. These people include individuals covered by fleet memberships (where the fleet owner is the Association Member) and national assistance programs (where there is no Association Member but rather road service is provided to the car owner pursuant to a contract between Assist Australia Pty Limited and, for example, the car manufacturer. Assist Australia Pty Limited is a company owned by all the road service organisations in Australia for the purpose of arranging the provision of wholesale road and related motoring services).

On 25 February 1999, the Association Board imposed a membership cut-off, so that no new Association Members could be admitted, except in limited circumstances. These circumstances are set out in Share Allocation Rule 3: 'Who is a Member or treated as a Member?' and Section 5 of these membership rules. The Association Board has the power to impose such a cut-off and to make rules for admission of new Association Members under rules 3 and 7 of Association's constitution.

### 2 Who is an Insurance Member?

Rule 3 of Insurance's constitution sets out who is an Insurance Member. A person can be a Member in one of three ways:

- 1 A person is an Insurance Member if they agree to become an Insurance Member and become the holder of an eligible policy issued by Insurance, provided that when they take out the policy and at each renewal of that policy, they are:
  - an Association Member;
  - a member of the Royal Automobile Club of Australia ('RACA');
  - an employee of Insurance, Association or any related body corporate of either of Insurance or Association;
  - a body corporate related to either Insurance or Association, provided that the related body corporate does not breach the Corporations Law prohibitions on subsidiaries being members of their holding companies.
- 2 Association is an Insurance Member; or
- 3 Each director of Insurance is an Insurance Member while they hold that office.

If the Proposal is approved, a new rule 3(a)(iv) will be inserted into Insurance's constitution which will permit the Association Only Members at the Register Date to become Insurance Members. Rule 3(a)(iv) will also enable legal personal representatives (or their nominee) of Deceased Members and persons adjudicated by the Review Panel to be entitled to be admitted as Insurance Members, to be so admitted.

#### **What are eligible policies, that is what kind of policies gave Insurance membership?**

As a matter of practice, until midnight on 25 February 1999, all policies issued by Insurance except CTP policies and travel policies contained in the proposal form an agreement to become a member of Insurance. Life policies are issued by a different company, NRMA Life Limited, and so do not count towards establishing membership of Insurance (nor towards the Insurance policies increment under the Share Allocation Rules).

The amendment of the Insurance constitution at the Annual General Meeting on 16 November 1999 introduced the concept of eligible policies. This was intended to regularise Insurance's past practice. To ensure that the Insurance membership rules remain constant while the Proposal is being developed, the Insurance Board resolved that, all policies issued by Insurance are eligible policies except:

- CTP and travel policies;
- policies issued after 25 February 1999 to a person who was not an Insurance Member at midnight on 25 February 1999;
- policies issued subject to the condition that, where the applicant was not already an Insurance Member, they would not become nor seek to become an Insurance Member as a result of purchasing that policy; and
- policies of inwards reinsurance.

However, the Insurance Board also resolved that any CTP or travel policies held or taken out by a person who was an Insurance Member at midnight on 25 February 1999 are eligible policies.

## Rule 5 Review Panel

5.1 The Review Panel, established in accordance with the resolutions of the Boards of Association and Insurance on 25 February 1999, 27 May 1999 and 9 December 1999, is authorised to:

- decide on particular cases and on disputes relating to the allocation of Shares in accordance with these rules;
- correct a Member's Share Allocation as shown on that Member's Share Allocation Form where the Share Allocation shown is found to be incorrect;
- evaluate reports from Association and/or Insurance of any anomalies or other undesirable features of entitlement of persons or classes of persons arising from the strict application of these rules and make determinations to ensure that these rules are applied fairly, equitably and in the spirit in which they were drafted;
- admit persons as Association Members before the Register Date; and
- admit persons as Insurance Members after the Register Date and before the date on which Insurance demutualises in accordance with proposed new rule 3(a)(iv) of Insurance's constitution.

5.2 If there is a dispute about the number of Association membership years due to an Association Member, the Review Panel can:

- in the case of an Association Member who is not also an employee\*, only increase the number if it is satisfied that there has been an administrative error by Association which resulted in the number of years recorded against the Member's membership in Association's computer systems at midnight on 25 February 1999 being less than the number of years since the relevant membership number was issued; and
- in the case of an Association Member who is also an employee\*, only increase the number if it is satisfied that:
  - in respect of the years of membership recorded in Association's computer systems for them at midnight on 25 February 1999, there has been an administrative error by Association which resulted in the number of years so recorded against the employee Member's membership being less than the number of years since the relevant membership number was issued;
  - in respect of the number of years of continuous service as an employee at midnight on 25 February 1999 and/or in respect of the number of membership years recorded for the employee Member at the time of commencement of their employment, Association has incorrectly recorded this number for the employee Member; and
- not decrease the number of years recorded against the Member's membership in Association's computer systems at midnight on 25 February 1999, except where the number recorded was the result of an administrative error by Association.

5.3 The authority of the Review Panel ceases on the date on which Insurance demutualises. After that date, disputes will be resolved by an authorised delegate of NIGL.

\* Who is an employee for these rules is explained on page 49.

**How could a CTP policy continue Insurance membership?**

While it was not possible to establish membership of Insurance by purchasing a CTP policy, even if you were an Association Member, it has been possible to remain an Insurance Member by means of a CTP policy. This is because it is only necessary to agree to become an Insurance Member once, so that if you purchased both a comprehensive car and CTP policy at the same time so that the comprehensive car policy made you an Insurance Member, so long as you did not let the CTP policy lapse and remained an Association Member at each renewal of the CTP policy, you would remain an Insurance Member.

**What happens if you let all your policies lapse or they are all cancelled?**

If you let all your policies lapse or they are all cancelled, then you must satisfy the conditions of rule 3 of Insurance's constitution, including agreeing to become an Insurance Member, before you can become an Insurance Member again.

Since midnight on 25 February 1999, however, new policies issued by Insurance contain the condition in the proposal form that the applicant, if not already an Insurance Member, agrees that by taking out the policy they do not become Insurance Members nor seek to become Insurance Members and will not participate in the Share Allocation under the Proposal. By inserting this clause in new proposal forms, appropriate steps have been taken to ensure that no new Members have been admitted to Insurance since midnight on 25 February 1999.

**What happens if you cease to be an Association Member?**

Another consequence of the cut-off in Association membership is that if you are an Insurance Member but allow your Association membership to lapse, as no new Members are being admitted to Association, you will not be able to satisfy rule 3 of Insurance's constitution on the renewal of your policy (unless you have fallen under one of the provisions in the Association Membership Principles). As a result, your Insurance membership will cease automatically when the last remaining eligible policy you took out while still an Association Member is due for renewal or lapses or is cancelled.

**3 What is the membership cut-off?**

When the Association and Insurance Boards took the decision on 25 February 1999 to develop the Proposal, they decided it was necessary to impose a membership cut-off of both companies in order to protect the rights of the then current Members. This approach is in keeping with the life company demutualisations.

**Association membership cut-off**

As explained in Section 1 of these membership rules, the Association Board implemented the membership cut-off by no longer admitting people to membership. Since midnight on 25 February 1999, where a person has purchased road service, they have become a Road Service Customer. Road Service Customers are entitled to the same services from Association as Association Members, but as they are not Association Members, they are not entitled to vote at Association meetings or in elections for directors, nor are they entitled to participate in the Proposal.

**Insurance membership cut-off**

As explained in Section 2 of these membership rules, new policies issued by Insurance since midnight on 25 February 1999 contain a term (set out in the proposal form) that the applicant, if not already an Insurance Member, agrees that by taking out the policy they do not become an Insurance Member nor seek to become an Insurance Member and will not receive a Share Allocation under the Proposal.

**4 The Membership Principles**

Both the Association and Insurance Boards revisited the imposition of the membership cut-off during 1999, as a result of Member concerns. The Membership Principles which each Board adopted form the basic membership and eligibility criteria which have been adopted in the Share Allocation Rules.

**Association Membership Principles**

The Association Board determined that the imposition of the membership cut-off may have affected some former Association Members unfairly, so a series of Membership Principles were developed. These Membership Principles were adopted by the Association Board on 27 May 1999 and were subsequently amended on 28 October 1999, 25 November 1999, 9 December 1999 and 20 January 2000. The Association Membership Principles set out when:

- a former Association Member at midnight on 25 February 1999 may be readmitted to membership after that time;
- a person who was not an Association Member at midnight on 25 February 1999 may be admitted to membership after that time; and
- an Association Member at midnight on 25 February 1999 who allows their membership to lapse before the Register Date may be readmitted to membership.

Those of the Association Membership Principles which dealt with when a person will be treated as an Association Member at either midnight on 25 February 1999 or the Register Date are now incorporated into Share Allocation Rule 3: 'Who is a Member or

treated as a Member?'. The remaining provisions of the Association Membership Principles, dealing with readmissions to membership between midnight on 25 February 1999 and the Register Date are set out in Section 5 of these membership rules.

**Insurance Membership Principles**

The Insurance Board also adopted a series of Membership Principles on 27 May 1999 which were subsequently amended on 9 December 1999. However, unlike the Association Membership Principles, the Insurance Membership Principles did not enable new Members to be entered onto Insurance's register. Rather, the Insurance Membership Principles dealt with when a person would be treated as a Member at either or both midnight on 25 February 1999 and the Register Date. As such, these have been incorporated into Share Allocation Rule 3: 'Who is a Member or treated as a Member?'

**5 Circumstances in which people could become Association Members after midnight on 25 February 1999**

A limited number of Association Members at midnight on 25 February 1999 who subsequently allowed their Association membership to lapse or cancelled it have been readmitted to Association membership under the Association Membership Principles. These people are:

- those Association Members at midnight on 25 February 1999 who subsequently cancelled their membership or whose membership renewal was due on or before 30 April 1999 and who rejoined by 30 June 1999 or who became Road Service Customers by 30 June 1999 and who rejoin by the Register Date;
- those Association Members at midnight on 25 February 1999 whose membership renewal was due on or after 1 June 1999 and before 31 August 1999 and who rejoined by 30 November 1999;
- those Association Members at midnight on 25 February 1999 whose membership renewal was due on or after 1 June 1999 and on or before 31 August 1999 who became Road Service Customers by 31 October 1999 and who rejoin by the Register Date; and
- those Association Members at midnight on 25 February 1999 who subsequently fail to renew their membership within one month of their membership anniversary but who renew their membership by the first Friday of the second month after the month in which their membership anniversary occurs.

New Association Members have also been admitted after midnight on 25 February 1999 where they are the legal personal representative (or their nominee) of an Association Member at midnight on 25 February 1999 who has since died.

Finally, Mr N D Hamilton has been admitted to Association membership by the Association Board. This was done to enable Mr Hamilton to be appointed to the Insurance Board. Mr Hamilton is a non-executive director of SGIO. The Association Board considered that Mr Hamilton would be a valuable addition to the Insurance Board, given Mr Hamilton's experience and Insurance's ownership of the SGIO business. For this reason, the Association Board resolved to admit Mr Hamilton to Association membership. As Mr Hamilton did not fall within any of the then existing exceptions to the membership cut-off set out in the Association Membership Principles, the Association Board amended the Association Membership Principles in order that he could become an Association Member. Mr Hamilton has indicated that he will donate to charity the net proceeds of sale of Shares he receives in the demutualisation of Insurance.

**6 How do you keep your membership current?**

In order to vote on the Proposal and receive any Shares allocated to you if the Proposal goes ahead you must keep current your membership of either or both Association and/or Insurance up to the Register Date. If you are recorded on the Share Allocation Form as being:

- an Association Only Member – then, to keep your membership of Association current up to the Register Date, you must pay your membership fees as they fall due;
- a Dual Member – then, to keep your membership of Association current up to the Register Date, you must pay your subscriptions as they fall due. In addition, to keep your membership of Insurance current up to the Register Date, you must ensure that you remain an Association Member and continue to hold up to the Register Date at least one insurance policy with Insurance which was current at midnight on 25 February 1999 or an eligible policy which overlapped with a policy current at midnight on 25 February 1999; or
- an Insurance Only Member by virtue of being an RACA member or an NRMA Group employee, then, to keep your membership of Insurance current up to the Register Date, you must ensure that you remain a member of the RACA or an NRMA Group employee and continue to hold to the Register Date at least one insurance policy with Insurance which was current at midnight on 25 February 1999 or an eligible policy which overlapped with a policy current at midnight on 25 February 1999.



## 7 Who is an employee in the Share Allocation Rules?

The Association Membership Principles also established who would be treated as an employee for the purposes of the Share Allocation Rules. The relevant time for determining status as an employee is midnight on 25 February 1999. For this purpose, an employee:

### Includes

- a part-time employee
- an employee on any kind of leave (including annual leave, leave without pay, parental leave, long service leave)
- an employee of a person that, at midnight on 25 February 1999, was an NRMA Country Service Centre owner
- a 'permanent casual' employee such as occurs at road service headquarters

### Excludes

- a casual employee (other than a 'permanent casual' employee)
- a person that was an NRMA Country Service Centre owner or an employee of Battery Assist Pty Ltd
- an independent contractor (whether full-time, part-time or casual)
- an employee of the SGIO group of companies

If you would like a copy of the Association or Insurance Membership Principles, call the **Members' Information Line** on **1300 361 646**.

## 8.20 Disputes and the Review Panel

### 1 Establishment of the Review Panel and its role to 9 December 1999

On 25 February 1999, the Association and Insurance Boards formed the view that it would be necessary for an independent 'appeals' body to be established. This body would consider and evaluate grievances which arose out of the membership cut-off and, where empowered, settle membership disputes on behalf of the Boards.

The Review Panel was formally established by Board resolutions on 27 May 1999. At that time, the Review Panel was invested with delegated authority of the Association Board to make determinations consistent with the Association Membership Principles and where necessary to admit persons as Association Members. The Review Panel was also authorised to make recommendations to the Insurance Board consistent with the Insurance Membership Principles.

The Review Panel dealt with disputes and grievances arising from the Members' Referral Unit's interpretation or application of the Membership Principles. The Members' Referral Unit (MRU) has initial responsibility for applying the Membership Principles and the membership rules generally.

The Review Panel was, until 9 December 1999, comprised of Ms Jennifer Walton (Manager – NRMA Customer Relations), Mr Richard Grellman (Partner – KPMG) and Mr Brian Cohen (a former New South Wales Supreme Court judge). Each had an alternate. The Review Panel could only act when all three members (or their alternates) were present. The Manager of the MRU acted as secretary to the Review Panel.

During this period, the Review Panel was accountable to, and subject to the direction of, the Steering Committee for the Proposal except in relation to determinations made by the Review Panel under its delegated authority by the Association Board.

The Review Panel met at least weekly and reported to the Steering Committee for the Proposal on the results of the Review Panel's activities. Review Panel determinations and recommendations were made on a majority basis.

### 2 Review Panel's role expanded

On 9 December 1999, the Boards of Association and Insurance expanded the Review Panel's area of operations to allow it to:

- decide on particular cases and on disputes relating to and arising out of the allocation of Shares to Members under the Share Allocation Rules;
- correct the Share Allocation shown on a Member's Share Allocation Form where that allocation is found to be incorrect; and
- evaluate reports from Association and/or Insurance of any anomalies or other undesirable features of entitlement of persons or classes of persons arising from the strict application of the Share Allocation Rules and make determinations to ensure that the Share Allocation Rules are applied fairly, equitably and in the spirit in which they were drafted.

The Review Panel continues to be authorised to make determinations consistent with the Association Membership Principles and where necessary admit persons to membership of Association, as well as making recommendations consistent with the Insurance Membership Principles to the Insurance Board.

Also on 9 December, the Review Panel was expanded to five members, with Mr Cohen (or his alternate) as chairman and Mr Grellman (or his alternate) as deputy chairman. The other members of the Review Panel are Mr Graham Howard (Manager, Members' Referral Unit), Ms Walton and Mr Joe Davidson (Regional Manager South Western Sydney). The Review Panel can only act when at least three members are present, including either Mr Cohen or Mr Grellman (or their alternates). A member of the Members' Referral Unit acts as secretary to the Review Panel.

The Review Panel is no longer subject to the direction of the Steering Committee for the Proposal, although it continues to report the results of its activities to the Boards.

After the Register Date, the Review Panel's role will expand further. If the resolution to alter Insurance's constitution is approved at the Insurance Special General Meeting, the Review Panel will be authorised (from that time until Insurance demutualises) to:

- admit persons directly to membership of Insurance, where the Review Panel determines that the person should have been a Member or treated as a Member of either Association or Insurance at midnight on 25 February 1999 and/or the Register Date in accordance with the relevant constitution or Membership Principles;
- increase or decrease a person's Share Allocation in accordance with the Share Allocation Rules;
- continue to evaluate reports from Association and/or Insurance of any anomalies or other undesirable features of entitlement of persons or classes of persons arising from the strict application of the Share Allocation Rules and make determinations to ensure that the Share Allocation Rules are applied fairly, equitably and in the spirit in which they were drafted; and
- otherwise make determinations and adjudicate on disputes arising under the Membership Principles and the Share Allocation Rules.

### 3 If you have a query or a dispute?

If you have:

- a query in relation to this document; or
- a query or dispute in relation to your Share Allocation (shown on your Share Allocation Form),

Call the **Members' Information Line** on **1300 361 646**.

Depending on the nature of your query or dispute you may be asked to apply in writing to the Members' Referral Unit and provide supporting documentation. Please assist us in resolving your queries or disputes by contacting the Members' Information Line before the Register Date.

### 4 Important note for Association Only Members

If you are claiming membership as an Association Only Member, you must ensure that the Review Panel receives your application for consideration in sufficient time to permit it to review your claim and, if appropriate, admit you as an Association Member before the Register Date or as an Insurance Member after the Register Date and before the date on which Insurance demutualises. Any entitlement you may have to Shares is conditional on your admission to membership of either Association before the Register Date or Insurance after the Register Date and before the date on which Insurance demutualises. If you do not satisfy these conditions, you will not be entitled to any Shares.

### 5 After Insurance demutualises

The Review Panel as currently constituted, as a delegate of Association and Insurance, is only empowered to operate until Insurance demutualises. NIGL, however, has undertaken to establish its own review panel, adopting the structure and charter of the current Review Panel, and to issue Shares on the recommendations of that review panel. It is currently proposed that the NIGL review panel will operate for one year after Insurance demutualises. All disputes or issues should be notified to NIGL within nine months of Insurance demutualising, in order to allow the NIGL review panel three months to finalise all claims and make recommendations as necessary to NIGL for the issue of Shares.

# 9. Association Explanatory Statement

## 9.1 Introduction

This Section sets out information for Association Members (including Association Only Members and Dual Members), including certain prescribed information concerning the Proposal required to be given to Association Members under section 411 of the Corporations Law. Some of the information prescribed by section 411 is set out in other Sections of this document. This explanatory statement of Association is to be taken as incorporating all other Sections of this document other than Section 10 ('Insurance Explanatory Statement') and the 'Notices of meetings' (pages 148 to 154).

## 9.2 What are Association Members giving up and receiving?

### What will Association Members be giving up?

Association Members and Insurance Members have certain rights conferred by the respective constitution of each entity. Association Members will retain their membership of Association. Association membership rights are set out in Section 7.2 on page 38. Association Members will also allow Association to give up Association's special rights as a member of Insurance. Those rights are set out in Section 7.4 on page 39. Association Members who are Insurance Members will give up their membership rights in Insurance. Those rights are set out in Section 7.3 on pages 38 and 39.

### What will Association Members be receiving?

In recognition of Association giving up its special rights as a member of Insurance and in recognition of the impact of the Business Relationship Agreements on Association (see page 128), Shares in NIGL will be allocated to Members based on, among other things, Association membership. As part of the Proposal, Association Only Members will become Members of Insurance. As Insurance is a company limited by guarantee, Association Only Members who become Insurance Members under one of the Association Schemes will become liable to pay an amount of up to \$1 on a winding-up of Insurance. The liability under that guarantee is under the Insurance constitution and is the same for all Insurance Members. Association Only Members will only bear this liability during the period commencing soon after the Association Schemes become effective and ending when the Insurance Demutualisation becomes effective (it is not expected that this period will be more than three months). In addition, it is extremely unlikely that Insurance would be wound up during that period.

### Do Association Members control Insurance?

Insurance Members, in a strict legal sense, enjoy the right of ultimate control over Insurance's constitution through their voting rights as Insurance Members (see Section 7.3 on pages 38 and 39). This right is valuable as it entitles Insurance Members to participate in any restructuring of Insurance.

Association, however, has special rights as a member of Insurance (see Section 7.4 on page 39). In particular, Association has the right to appoint and remove Insurance directors. A majority of Insurance directors must be Association directors.

Many of the special rights that Association has in Insurance give Association practical control over the management of Insurance's business. This must be contrasted with the type of control that arises from share ownership. However, Association does not have complete control over Insurance. Directors of Insurance, even if appointed by Association, must still act in the best interests of all Insurance Members and may not necessarily act in accordance with Association's wishes. Association has no right to any asset from Insurance unless Insurance is wound up and, in any general meeting (including one for a voluntary winding-up), Association, in common with all Insurance Members, only has one vote. Nor has Association any right to be paid a dividend by Insurance. Indeed, any major restructuring which would allow Members to access the value of Insurance would generally require the approval of Insurance Members.

The control over Insurance's constitution exercised by Insurance Members is subject to the rights of Association to continue to enjoy the right to control the composition of the Insurance Board and, therefore, also practical control over the management of Insurance's businesses. The Association Members, who together elect the Association Board, therefore have a degree of indirect practical control or, at least, a significant influence over the management of Insurance's business through their membership of Association.

## 9.3 What is Association giving up and receiving?

### What will Association be giving up?

Under the Proposal, Association will give up its Insurance membership and assign or license certain NRMA Trade Marks to the Insurance Group. In particular, Association will:

- give up its special rights as a member of Insurance, including:
  - its practical control over the management of Insurance's business;
  - the right to any surplus in the event of a winding-up of Insurance; and
  - the benefit under the Insurance constitution that requires Insurance generally to assist and co-operate with Association in the attainment and promotion of Association's objects; and
- assign the Insurance and Financial Services Trade Marks which are exclusively used for Insurance's insurance and financial services businesses to the Insurance Group, and grant the Insurance Group a licence to use those NRMA Trade Marks that both Association and the Insurance Group intend to use concurrently.

These rights are set out in more detail on pages 38 and 39.

### What will Association be receiving?

In exchange for Association giving up its special rights as a member of Insurance and in recognition of the impact of the Business Relationship Agreements on Association (see pages 39 and 128) Association will receive 146.5 million Shares representing 10% of the Shares in NIGL.

The majority of the Association Board believes that Association and Association Members are equitably treated by the allocation of 10% of the Shares in NIGL to Association and 40% of the Shares in NIGL to Members based on Association membership. This view is supported by PricewaterhouseCoopers, who consider that:

- the Shares allocated to Association will enable it to operate as a stand-alone business with a significantly strengthened capital base; and
- the Share Allocation Rules adequately reward Association and Association Members in the context of the Proposal, taken as a whole, including the rights that Insurance obtains over the relevant NRMA Trade Marks.

## 9.4 Intentions

The information contained in this document sets out, in full, particulars of the intentions of the Association directors about:

- the continuation of the business of Association or, if the undertaking, or any part of the undertaking of Association is to be transferred, how that undertaking or part is to be conducted in the future;
- any major changes to be made to the business of Association, including any redeployment of the fixed assets of Association; and
- the future employment of the present employees of Association.

Association Members are primarily referred to page 33 for information on the above matters.

## 9.5 Recommendations and views of Association directors

While the majority of the Association Board (comprising 12 of 16 directors) recommend that Association Members vote for the Proposal, three Association directors recommend that Association Members vote against the Proposal and one Association director does not desire to make a recommendation. The recommendations and views of the Association directors are set out below. Members should, however, be aware that the recommendations and views are those of the individual directors, rather than of Association.

### Association directors who recommend voting for the Proposal

**Mr N R Whittlam, Mrs M C Callaghan, Mrs D G Collins, Mr M A Coyne, Mrs M Easson, Mr B T Gavin, Mr S J Geeson, Ms A J Keating, Mr G F Lawson, Ms S M Ryan AO, Mr A R Sanchez and Mr T P Shaw**

The above directors, who together form a majority of the Association Board, each recommend that you vote in favour of the Association Schemes (and interdependent resolutions) and intend to vote in favour of those Schemes and resolutions on which they are eligible to vote.

The primary reasons for that recommendation are a belief that the Proposal:

#### *Keeps Association as a mutual*

- Association will remain as a mutual in recognition of the unique heritage of NRMA's road and related motoring services (including community service advocacy functions); and
- Association's Board will be able to focus on the provision of road and related motoring services to Association Members.

#### *Strengthens Association*

- Association will be financially strengthened under the Proposal; and
- this will allow Association to continue to provide its current services at current service levels into the future.

#### *Allows Members to share in the wealth of Insurance*

- all Association Members will be able to share in the wealth of Insurance;
- other methods of distributing wealth to Members, such as insurance rebates, would not be available to Association Only Members and in that sense are not equitable; and
- each of the directors listed above believes that the Share Allocation Rules are fair and reasonable among all classes of Members, and in particular each class of Association Members because of:
  - the relative contributions of Association and Insurance to development of the NRMA brand and businesses;
  - the rights of Members under the constitutions of each company; and
  - the rights being given up by Association and by Insurance Members in Insurance.

#### *Facilitates the ongoing business relationship with Insurance*

- under the Business Relationship Agreements the synergies between the road and related motoring services provided by Association and the insurance and financial services provided by Insurance can be maintained, formalised and, where opportunities exist, enhanced; and
- in particular, the common use of the NRMA brand and unique distribution network is provided for. Association is given contractual rights to receive those services which it requires effectively to provide at the very least its current level of member services.

#### *Is superior to other options considered*

- none of the other options considered by the Association Board as recommended by advisers to the Association Board is as beneficial to Association Members, whether they are Association Only Members or Dual Members, as the Proposal (see the discussion on those options on pages 26 to 27).

Finally, each of the directors listed above believes that the advantages of the Proposal outweigh the disadvantages (see pages 23 to 25).

### Association directors who recommend voting against the Proposal

#### **Dr J D Campbell**

Dr Campbell is opposed to the Proposal and recommends that you vote against all of the Association Schemes (and interdependent resolutions). Dr Campbell intends to vote against those Schemes and resolutions on which he is eligible to vote.

Dr Campbell is opposed to the Proposal for the following reasons:

- the current organisational form of two separate but related mutuals has served the members of both effectively over many decades in times of changing and challenging circumstances;
- the current organisational form of two related mutuals has entrenched a culture which has seen both mutuals mature and prosper. Innovative and creative working interactions between the two mutuals has served the mutuals, their members, customers and communities, to advantage and satisfaction. To disturb or fragment the current relationship in the manner proposed may create tensions and unnecessary difficulties for the proposed parties, as each attempts to deal with the changing corporate status of the current insurance mutual;

- in view of the proposed changes, he believes insufficient emphasis has been placed on the long-term strategic plans for Association;
- current management have clearly demonstrated an ability:
  - to manage and reorganise the business content and activity of each mutual;
  - to document the business arrangements that do and should exist between the two related mutuals; and
  - to significantly grow and mature the insurance mutual.
 He believes that all the above achievements of current management have been achieved under the current two related mutuals structure and those achievements have been of clear benefit to Association;
- the surrender of Association's special rights to appoint the directors of Insurance and the subsequent demutualisation and listing of a public company carrying on the current business of Insurance would, in his view, replace the synergies that arise from the co-operative working relationship between the two mutuals with a relationship that is, essentially, contractual. Further, this new publicly listed company, which would take over the current business of Insurance, may have an increasingly differing ownership from the Members of Association and a greater focus on shareholder returns;
- it is not in the strategic long-term interests of the Association's Members, with or without Insurance membership, to:
  - alienate the special rights Association currently has over Insurance; or
  - transfer the NRMA brand names, logos, trade marks, etc., to an interdependent, commercially orientated, publicly listed corporation.

#### **Ms F J Singleton**

Ms Singleton is opposed to the Proposal and recommends that you vote against all of the Association Schemes (and interdependent resolutions). Ms Singleton intends to vote against those Schemes and resolutions on which she is eligible to vote.

Ms Singleton makes this recommendation for the following reasons:

There are many reasons for recommending to Association Members that they vote against the Proposal. The reasons that have influenced Jane Singleton most in making her recommendation and which are sufficient on their own as the basis for her recommendation are:

#### *Does the business of NRMA require demutualisation of Insurance? – NO*

- Since their inception in the 1920s, Association and Insurance, as mutuals, have increased the net assets and total equity of the NRMA Group to more than \$3 billion, as stated in this Information Memorandum with some of the media estimating a sharemarket value for NIGL on its own of up to \$8 billion.
- Even since 1994, there has been a substantial increase in the net assets and total equity of the NRMA Group which was then stated in the prospectus as just over \$2 billion, with the press estimating a sharemarket value for the whole group at about \$3 billion.
- With that performance highlighted, the business reasons for the change stated in this Information Memorandum are at best lame with no factual support apparent.
- There is no reason why the NRMA Group would be impeded in achieving its business ambitions if it stayed with the mutual structure that has provided its success over the last 70 years.
- *There is no factually supported valid business reason for demutualising Insurance.*

#### *Are the stated benefits of demutualisation worth a change in culture? – NO*

- The current Constitution of Association states the objectives of Association as:
  - '(a) To promote the interests of motorists and other road users, throughout Australia, in good roads, safety and consumer protection...
  - '(b) To provide motorists and others with a range of services...
  - '(c) To provide present and former employees of and contractors to the Association and the families of such persons with conditions, facilities and benefits conducive to good working of the Association...
  - '(d) To aid and support, whether financially or otherwise, charities and institutions of a public character.'
- The current Constitution of Insurance has as its first object:
  - '(1) To carry out any object referred to in this rule A so as to provide insurance as well for the members of the National Roads and Motorists' Association (NRMA) as for any other persons or companies and generally assist and co-operate with the said National Roads and Motorists' Association (NRMA) in the attainment and promotion of its objects.'
- Clearly, the Constitutions do not suggest that the NRMA Group should be built up so that the built up wealth should be unlocked to the people who happened to be members or staff at some arbitrary date in the future.
- The Constitutions of Association and Insurance set up a culture of care for and generosity to members, employees and the community.
- This is the unselfish driving force behind the NRMA Group under its mutual structure which has enabled it to attract an ever increasing membership, now over 2.3 million, to achieve extraordinary financial success and a well recognised positive contribution to the community in which we live.
- It is this culture which will be changed, if not destroyed, if the Proposal goes ahead.
- There is no room in a dividend/rewards-to-management motivated company for the level of care, generosity and contribution to the community that has been the hallmark of the NRMA Group and its membership for over 70 years.

- With the financial arrangement proposed between Association and NIGL, Association may not have sufficient funds or income to maintain the community contribution at the same level.
- Our community will be the big loser if the Proposal goes ahead.
- *The stated benefits of demutualisation are not worth the change in culture away from care and generosity to our community.*

#### *Has NRMA learned lessons from the past? – NO*

- In 1994, a prospectus was sent to members proposing demutualisation of the NRMA Group as a whole.
- In the prospectus, under the heading 'Other Options – What other options were considered', paragraph 5 stated:  
'5. Sell off NRMA Insurance: Selling off NRMA Insurance would effectively split the NRMA apart. The NRMA's strength lies in the value of both road service and insurance, with each benefiting the other. If they were to be separated, each would be weakened. The value of the combination is greater than its parts. Separating the two would mean splitting the staff of the NRMA, thereby destroying the very culture which has made the NRMA a success.'
- These words are just as true and applicable in 1999/2000 as they were in 1994. However, whilst those words were considered important enough in 1994 to explain the dismissal of the option of demutualising and listing Insurance, there is no mention of them in this Information Memorandum.
- In 1994, NRMA was happy to put those words before its members in the prospectus.
- Now they are brushed aside because they are inconvenient in relation to the current Proposal.
- The proposed Business Relationship Agreements which I comment on in a following paragraph are no answer to this about-face by NRMA.
- 'Without the Association, NRMA Insurance would be just another insurance company.' – according to Grant Samuel and Associates in their 1995 report.
- They also went on to state in the same report:  
'Management has stressed the critical importance of the road service and the NRMA Group's image to the marketing of NRMA Insurance products. This is considered to be NRMA's main competitive advantage in New South Wales. The road service provides the organisation with a unique branding and image as an assistance provider.'
- How can it be sensible to propose destroying what has been recognised as 'NRMA's main competitive advantage...?'
- *No – NRMA has not heeded the lessons from the past.*

#### *Is there anything really wrong with a mutual insurance company? – NO*

- The authors of the US National Bureau of Economic Research Working Paper 'Organisational Form and Insurance Company Performance: Stocks versus Mutuals', published in 1995, state:  
'In the early nineteenth century, the [American] property-casualty insurance industry was dominated by stock companies that were reluctant to negotiate rates for individual policyholders. In response to what they felt were unfair prices, regional industry groups, such as textile mills, started mutual insurance companies, the first appeared beginning in 1843. These mutuals were able to offer lower premiums than stock companies....'
- In addition to lower premiums mutual insurance companies can insure risks which other insurers may consider yield too little profit for them to be bothered.
- A move from a benefit-focused mutual insurer to a profit-focused insurance company requires a change in management style if ever increasing profits are to be generated.
- To motivate management to achieve the desired profits, it is likely to be necessary to pay management a performance-based incentive in addition to salary.
- Where does the money come from to pay for the required profit and the incentive payments? – Clearly it could come from an increase in premiums, a decrease in payouts or a decrease in service.
- Can a policyholder escape a premium increase by going to a different insurer? – No.
- With a large mutual insurer like NRMA operating in a marketplace, other insurers must moderate their desire for profit to be able to compete.
- Without the NRMA as a large mutual insurer in the marketplace, other insurers may seize the opportunity to increase their premiums, which will have a flow-on effect to other consumer prices in the economy.
- The increase in premiums and other prices will outweigh the dividends that may be paid to shareholders by NIGL.
- *No – There is nothing really wrong with Insurance remaining a mutual.*

#### *Was the proposal developed as a result of a groundswell of member opinion? – NO*

- Before embarking on development of the Proposal, NRMA did not seek the opinion of its members.
- Considering the expense involved in developing the Proposal and the fact that it was embarked on only with the second or casting vote of the President to break an even vote by the NRMA Board, it would have been prudent to find out whether members supported development of any demutualisation proposal.
- Did the proponents of the Proposal know by some other method that they had member support or did they feel that gauging member opinion at an early stage might prevent them doing what they wanted to do?
- In 1994, that proposal was developed in secret and presented to the boards of NRMA minutes before being made public at a press conference.
- Clearly NRMA is not interested in its members' opinion until it has been able to generate favourable public opinion by extensive use of the media.

- In relation to the current Proposal, since 28 January 1999, the directors of Association and Insurance have been gagged to varying degrees over the period from making public comment on the Proposal under threat of being removed from board positions and sued in Court.
- From the time it was imposed, the President and Chief Executive Officer were excluded from the gag and were specifically authorised to make public statements on behalf of Association and Insurance.
- In 1999, an NRMA election year, this created a situation where the President could brief his team about the Proposal (whether in fact he did), with those of his team who were not current directors not caught by the gag able to make public comment about the Proposal while other directors, including those seeking re-election, forbidden from commenting on the Proposal.
- A newly elected board member on national television stated that: 'There was no competition ... those that ... disagree on certain issues regarding the future of the NRMA didn't very ... didn't put up a no case'. Of course there was no 'No' case, the gag prevented it.
- With over six months of almost entirely one-sided media coverage, many members will have made up their minds already about the proposal and will not worry about the contents of this Information Memorandum.
- *No – There was no groundswell of member opinion pushing for a proposal to be developed.*

#### *Do Members have all the information they should to enable them to decide? – NO*

- As a result of the Proposal being developed during an election year, coupled with the effects of the gag described above, a number of directors who were against the proposal were not re-elected.
- NRMA has been advised that the requirement of the Corporations Law is that the Information Memorandum must include, in the directors' recommendations and reasons section, only recommendations from persons who are directors at the time of publication of the Information Memorandum.
- So the Information Memorandum contains the recommendations and reasons of directors who have sat on the boards for only a few months but excludes the views of former directors who were present during the development of the Proposal.
- Combined with the almost entirely one-sided media coverage, it continues to be difficult for members to gain a balanced view of the Proposal before voting if they cannot get the views of all those involved during the development of the Proposal.
- *No – There is more information which should be made available to members to enable them to decide on their vote.*

#### *Are Members being told whether the directors of NIGL are in favour of a directors' benefits scheme? – NO*

- A motion proposed by Ms G Rankin, a former director of both Association and Insurance, and seconded by me, to limit the benefits made available to directors of NIGL for at least the first five years after listing was defeated.
- Members deserve to know whether a directors' benefits scheme will be proposed during the five years after listing.
- It is important for members to know when considering the recommendation of a particular director whether that director will as a director of NIGL vote in favour of benefits under some directors' benefits scheme.
- *No – Members are not being told but they should be told.*

#### *Are the assets of NRMA being divided fairly? – NO*

- Under the Business Relationship Agreements, the key tangible and intangible assets of NRMA are being transferred to or put under the control of NIGL.
- At the tangible level, assets such as the call centre and computer facilities, for example, will be owned or controlled by NIGL and made available to Association at a price.
- The employees who operate those facilities will also be transferred to NIGL's control.
- So, through the Business Relationship Agreements, Association becomes dependent on and at the mercy of NIGL in respect of the key elements of its operation and NIGL will even have a say in how Association delivers its products.
- When this is coupled to the fact that Association will be financially dependent to an extent on the payment of dividends by NIGL on its investment in NIGL, it is clear that Association will no longer be the proud independent organisation that it is today.
- Worst of all, Association will lose its outright ownership of the key trademarks used by NRMA and will only get a restricted right to use those trade marks for limited activities as agreed or to be agreed with NIGL.
- In addition, Association will give up the right to conduct insurance and financial services for its members.
- To compensate Association for all of these sacrifices, Association will receive some \$300 million dollars which seems like a lot of money until it is realised that the amount has been calculated on what capital Association will need for its continued existence rather than the true value of the assets transferred which is much greater.
- I believe that the underlying value of Association to Insurance is vastly more than the compensation Association is receiving for what it is giving up.
- *No – The division of assets is not fair.*

#### *Will the real NRMA please stand up? – NO*

- With the proposed transfer and the shared use of key NRMA trade marks there will be two independent organisations both using the same trade marks and logos.

- Under the Business Relationships Agreements, Association and NIGL will be involved in different activities; Association seeking to benefit its members and the community by providing road and other services and NIGL seeking to maximise the return for its shareholders through providing insurance and financial services.
- Even the current constitutional requirement for Insurance to assist and co-operate with Association in attaining its objectives will be removed.
- Somehow, when a member of our community rings NRMA for HELP, he or she is supposed to be able to recognise immediately which of the two different organisations he or she is dealing with.
- This potential confusion will exist subject to any disapproval by IP Australia, the government's trade mark regulating body, or by the Australian Competition and Consumer Commission, the trade practices watchdog.
- What happens if Association or NIGL or some other company that has taken over NIGL brings the trade marks into disrepute? The other will automatically suffer.
- Whatever Association does in the future to build-up the goodwill behind the key shared trade marks is likely to financially benefit NIGL more than Association.
- *No – The real NRMA will not be able to stand up.*

#### Mr I F Yates

Mr Yates is opposed to the Proposal and recommends that you vote AGAINST all of the Association Schemes (and interdependent resolutions). Mr Yates intends to vote against those Schemes and resolutions on which he is eligible to vote.

Mr Yates makes this recommendation for the following reasons:

- *Don't Destroy The Successful NRMA*
- *The Proposal Will Leave Road Service Critically Weakened*
- *There Is An Alternative – Better Management*
- *The Experts Are Divided*
- *Rebates Will Be Lost Forever*
- *Insurance Premiums Will Rise*

#### Don't destroy the NRMA

Association and Insurance are very *special* organisations. We all know the NRMA as a caring, helpful and trustworthy organisation that we can rely on in times of need. How many large, profit-driven companies can one say that about? Do we really want to destroy the special character of the NRMA for a short-term gain of a fistful of dollars? Will Australia be a better place when the NRMA is simply another brand name in a profit-driven market? I believe that this is what the Proposal will lead to and I oppose it for that reason.

*If the Proposal goes ahead, NRMA Insurance will exist to maximise its profits, rather than to serve its members.*

Today, Association and Insurance are owned by the members and exist to *serve them*.

If the Proposal goes ahead, Insurance will exist in the future to *maximise* its profits. How might this change things? Well, ask yourself how you would maximise profits if you were an insurance company – wouldn't you try to raise premiums, pay as few claims as possible and minimise pay outs on those claims that you couldn't avoid?

This sort of attitude doesn't prevail at Insurance today because it is motivated primarily by a desire to do the best for its members. In my view, this means that Insurance today strives to keep its premiums at the lowest and 'fairest' levels it can, to maintain a high level of service and to pay its claims promptly and without unnecessary 'quibbling'. Overall, it sets its standards at the *maximum* level perceived to be in the best interests of members, not merely at the *minimum* the market requires. In doing these things, it sets standards which the rest of the Insurance market is forced to follow.

I strongly believe that with Insurance as a shareholder-owned, profit-driven company like its competitors, this leadership will disappear and those standards will fall. If that happens then I believe that we will all suffer through *higher premiums, slower claims processing and more rejected claims*.

The statements elsewhere in this Information Memorandum that these things will not happen 'as a consequence of the Proposal' or are not 'expected', do not give Members any clear or binding assurance that these things will definitely not happen; they are no more than expressions of an opinion which I believe to be wrong.

*The Proposal will leave Association critically weakened.*

Where will the Proposal leave the road service organisation (Association)?

In my view, the Proposal will fundamentally *weaken* the Association by effectively:

1. Stripping it of two of its most important assets – that is, (a) its practical control over and right to the assistance and co-operation of Insurance in attaining its objectives and, (b) its full ownership of the NRMA Brand name. Instead of effectively controlling 100% of Insurance and the use of the NRMA Brand as it does now, the Association will be left with a small minority shareholding in the insurance group and strict restrictions on how it can use the NRMA name in the future; and
2. Splitting in two an organisation which is stronger as a single business entity to the disadvantage of each of the parties. As was stated in the prospectus for the 1994 demutualisation proposal for the combined NRMA Group: *'The NRMA's strength lies in the value of both road service and insurance, with each benefiting the other. If they were to be separated, each would be weakened ... Separating the two would mean separating the staff of the NRMA, thereby destroying the very culture which has made the NRMA a success.'*

I believe that, by weakening the Association, this Proposal may lead to the road service

organisation eventually dying off or being forced to increase road service charges to a level which many of us could no longer afford. I say that risk is not worth taking.

*There is an alternative.*

This radical restructuring of the NRMA does not have to happen. Instead, we can maintain Association and Insurance as a strong, combined mutual organisation with all members to benefit now and in the longer term.

This whole debate about restructuring the NRMA has been a massive distraction for management. I believe that, with proper focus on the core business, the combined NRMA can be made more efficient, stronger and better at what it really exists to do – serve its members. If the Proposal is defeated, management and the Boards will be able to get their minds back on the job and concentrate on producing benefits for members' from a focused, stronger and better-run NRMA.

This whole exercise has cost NRMA over \$31 million in fees to date and it is estimated that it will cost a further \$76.4 million at least to implement if it is approved. Ongoing costs of implementing the Proposal are estimated at \$6.5 million per annum.

I believe that this staggering amount of money and the profits from NRMA Group operations would be better spent in providing more and better services for members than fees to 'the big end of town'. The sorts of things I have in mind are:

- the enhancement of existing membership benefits and the provision of additional benefits to members at or below cost;
- an extension of such community-oriented activities as NRMA Care Flight, NRMA CrimeSafe and NRMA Community Service initiatives; and
- the provision to members of periodic rebates of premiums.

*Rebates.*

In my view, if you approve demutualisation, you can say goodbye to rebates forever.

*The Experts*

Contrary to the expert views of CSFB in this Information Memorandum, I engaged an independent expert to assess the proposed demutualisation. That independent expert concluded there is a prima facie case that the retention of the structure, including better management of the NRMA, would deliver greater total benefit to Members.

When I asked for the essential information on which the CSFB expert opinion was modelled, I was informed that the model had been destroyed as part of CSFB's normal practices. Whilst I do not doubt the wisdom of destroying copies of such vital information for confidentiality reasons, I am extremely concerned that the result for NRMA members is that CSFB's expert opinions cannot now be sensibly tested nor scrutinised. You should therefore be extra careful before making your decision if you are hoping to receive the projected benefits set out in the directors' statements which recommend this Proposal.

Another matter that I have found strange and confusing is that the NRMA management decided to use various different expert consultants over the last several years to advise it (and therefore you) about the best NRMA structure. Each has come up with different ideas. This tells me that there is no one right answer, only opinions. Don't risk the fortunes of a very profitable organisation like the NRMA when experts can't even agree.

Also, you may not know this, but CSFB were also the experts retained by AMP in its demutualisation (NRMA's biggest competitor) and I am not at all comfortable with that circumstance.

*The Campaign*

Regrettably, I have likened this Proposal to the Constitutional vote Australia held recently. There, as with the Proposal, all the advertising and promotional has been spent either directly or indirectly in support of a yes vote. Nowhere have I seen newspaper, magazine or television advertising which presents some of the well known arguments against splitting the NRMA in two. Similarly, whilst the NRMA has spent or is in the process of spending tens of millions of dollars pursuing the Proposal, a measly \$400,000 in total was given towards funding the NRMA's two mutuals committee. That disparity was unfair and unAustralian and against your interests as a Member.

The NRMA Group recently announced an after-tax profit for the year ending 30 June 1999 of about \$255 million. Over the last three years, that figure is almost \$1 billion, all of which has not been given to members in the form of rebates, but could have been given.

*Don't destroy the NRMA!*

I urge you not to 'sell out' for a one-off, short-term gain – vote NO, save the NRMA and we will benefit in the future.

Association directors who do not desire to make a recommendation on the Proposal

#### Mr R J Talbot

Mr Talbot has made the following statement:

I do not desire to make a recommendation for the following reasons.

I received advice from my lawyers that the statement I intended to publish might lead to litigation against me personally.

I therefore have decided not to provide a statement of my reasons and recommendations in respect of the Proposal.

As indicated above, Mr Talbot has not made a recommendation in relation to the Proposal. However on many occasions Mr Talbot has publicly voiced his opposition to the Proposal. During the Court hearing to convene the Scheme Meetings he was represented by counsel and opposed the Proposal.

**Important note**

Members should note that the above reasons reflect the opinions and beliefs of those directors listed above. In forming these opinions and beliefs, each director has separately had regard to the interests of both Association Only Members and Dual Members.

Dr J D Campbell, Mr M A Coyne, Mr B T Gavin, Mr S J Geeson, Mr G F Lawson, Ms S M Ryan, Mr A R Sanchez, Mr T P Shaw, Ms F J Singleton, Mr R J Talbot and Mr I F Yates are directors of Association only. Each of the other directors listed above is a director of both Association and Insurance. In addition, while each director is also a Member of the entity in which they hold the directorship, Dr J D Campbell, Mr B T Gavin, Mr S J Geeson, Mr G F Lawson, Ms S M Ryan AO and Mr R J Talbot are also Insurance Members in their own right.

**9.6 Directors' interests**

The Proposal will not have an effect on any material interests of the Association directors, whether as directors, members or creditors of Association or otherwise, which would be different from the effect of the Proposal on the like interests of other persons.

All Association directors are Association Members and, except in the case of Mr M A Coyne, Mr A R Sanchez, Ms F J Singleton and Mr I F Yates, Insurance Members and as Members will receive Shares in respect of their membership in the same way as other Members, if the Proposal goes ahead. As a result, Association directors (including companies controlled by them) will receive the following Shares if the Proposal goes ahead:

<i>Director</i>	<i>Share Allocation taking into account Association membership</i>	<i>Share Allocation as an Insurance Member</i>	<i>Total Share Allocation</i>
M C Callaghan	264	879	1,143
J D Campbell	194	427	621
D G Collins	364	653	1,017
M A Coyne	314	0	314
M Easson	264	540	804
B T Gavin	224	540	764
S J Geeson	364	879	1,243
A J Keating	214	314	528
G F Lawson	364	766	1,130
S M Ryan	234	540	774
A R Sanchez	324	0	324
T P Shaw	284	992	1,276
F J Singleton	274	0	274
R J Talbot	424	879	1,303
N R Whittlam	508	1,532	2,040
I F Yates	484	0	484

There are no agreements or arrangements made between an Association director and any other person in connection with or conditional on the outcome of the Association Schemes.

It is not proposed that any payment or other benefit will be made or given to any director, secretary or executive officer of Association or of any related body corporate as compensation for loss of, or as consideration for or in connection with, their retirement from such office.





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## 9.7 Report of Deloitte Corporate Finance

The report of Deloitte Corporate Finance is set out below:

### NRMA Limited

Independent Financial Expert's Report for  
Members of NRMA Limited

14 February 2000  
The Directors  
NRMA Limited  
388 George Street  
Sydney NSW 2000

Dear Sirs,

### Report to Members of NRMA Limited

#### 1. Introduction

The Board of Directors of Association and Insurance have prepared a Proposal to change the corporate and membership structure of the NRMA Group.

The Proposal, if approved by Association Members, Insurance Members and the Supreme Court of New South Wales, will result in the demutualisation of Insurance. NIGL, which will own Insurance, will issue Shares to Members at the time of demutualisation. Association will retain its status as a mutual company.

#### 2. Purpose of Report

Deloitte Corporate Finance have been appointed by Association as an independent financial expert to express an opinion as to whether or not the Proposal is in the best interest of Association Members as a whole. Trowbridge Consulting has provided actuarial advice to Deloitte Corporate Finance on various aspects of this report.

This report is to be included in the Information Memorandum to be sent to Members of Association and Insurance and has been prepared for the exclusive purpose of assisting Association Members in their consideration of the Proposal. This report can not be used for any other purpose.

#### 3. Executive Summary

In forming our opinion on whether or not the Proposal is in the best interest of Association Members as a whole we have considered whether or not:

- the Business Relationship Agreements are fair and reasonable as a whole in the context of the Proposal (refer Section 3 of this report);
- the Association Members as a whole will be better off with this Proposal than with alternative proposals (refer Section 4);
- the Share Allocation Rules applying to Association Members are fair and reasonable and the Shares allocated to Association Members are a fair exchange for Association Members' rights forgone (refer Section 5); and
- the Shares allocated to Association are sufficient to enable it to carry out its stated objectives for the foreseeable future (refer Section 6).

We have then examined the Proposal as a whole in the context of our findings on the above considerations in order to form our opinion.

#### 4. Opinion

In our opinion, the Proposal is in the best interest of Association Members as a whole. This opinion should be read in conjunction with the full text of this report which sets out our findings and scope.

Yours faithfully

**DELOITTE CORPORATE FINANCE PTY LIMITED**

R H Wylie

J S Duivenvoorde

M J Pittorino

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## 1. Introduction

The Boards of Association and Insurance have prepared a Proposal to change the corporate and membership structure of the NRMA Group. This Proposal is to be sent to Members of Insurance and Association for approval and is outlined in detail in the Information Memorandum.

Pursuant to the Proposal, Insurance will demutualise by changing from a mutual company to a shareholder-owned company. Insurance Members, Association Members and Association itself will receive Shares in a new holding company, NIGL, which will own Insurance. It is intended that NIGL will be listed on the Australian Stock Exchange during 2000, although there is no guarantee that listing will occur.

As part of the Proposal, Insurance Members will relinquish their membership rights in Insurance in exchange for Shares in NIGL. Association Members will retain their existing membership rights in Association. Association will remain a mutual company, give up its special rights as a Member of Insurance and will receive an allocation of Shares in NIGL.

The Proposal, if approved by Association Members, Insurance Members and the Supreme Court of New South Wales, is intended to be effected by five schemes of arrangement, three between Association and Association Members (or classes of them) and two between Insurance and Insurance Members. Details of the Schemes are set out in Sections 9 and 10 of the Information Memorandum.

Deloitte Corporate Finance have been appointed as the independent financial expert to consider the Proposal and to express an opinion as to whether the Proposal is in the best interest of Association Members as a whole. This report can not be used for any other purpose. We have been assisted by Trowbridge Consulting who have provided actuarial advice on various aspects of this report.

The appointment of Deloitte Corporate Finance has been made by Association to meet the requirements of Regulation 8303 of Part 3 of Schedule 8 of the Corporations Regulations which relates to schemes of arrangement covered by the Corporations Law. This requires an expert to prepare a report which states 'whether or not, in his or her opinion, the proposed Scheme is in the best interest of the Members of the company the subject of the Scheme...'

The full terms of the Proposal and the resolutions to be considered by Members are set out in the Information Memorandum.



The Information Memorandum contains considerable detail in respect of the Proposal. Where appropriate we have sought not to repeat those details, but rather, to refer to appropriate Sections in the Information Memorandum in which the relevant particulars are contained. All expressions defined in the Information Memorandum have the same meaning in this report.

## 2. Scope of this Report

### 2.1 Purpose of the Report

Deloitte Corporate Finance has been appointed by Association to consider the terms of the Proposal and prepare a report expressing its opinion as to whether or not the Proposal is in the best interest of Association Members as a whole.

### 2.2 Basis of Assessment

#### 2.2.1 Approach

There is no statute or regulation that specifies the criteria by which 'best interest' is to be evaluated. The overall criteria adopted by Deloitte Corporate Finance to evaluate the Proposal are discussed below.

In determining whether the Proposal is in the best interest of the Association Members as a whole we have had regard to the guidance provided by ASIC policy statements and practice notes which deal with independent expert reports required under the Corporations Law. In particular we have considered Policy Statements 74 and 75 and common market practice.

The nature of the Proposal and its impact upon the interests of Association Members including the retention of Association as a mutual makes it necessary for us to consider a range of both financial and non-financial implications in forming our opinion. The non-financial implications of the Proposal cannot be assessed on a monetary basis. Accordingly, our report does not include a specific financial assessment of the impact of the Proposal on the value of Association Members' interests.

In light of the above, we have concluded that the Proposal will be in the best interest of Association Members as a whole if:

- the Business Relationship Agreements are fair and reasonable as a whole in the context of the Proposal (refer Section 3 of this report);
- the Association Members as a whole will be better off with this Proposal than with alternative proposals (refer Section 4);
- the Share Allocation Rules applying to Association Members are fair and reasonable and the Shares allocated to Association Members are a fair exchange for Association Members' rights forgone (refer Section 5); and
- the Shares allocated to Association are sufficient to enable it to carry out its stated objectives for the foreseeable future (refer Section 6).

We have then examined the Proposal as a whole in the context of our findings on the above considerations in order to form our opinion.

#### 2.2.2 Definition of Members

The definition of an Association Member is set out in the constitution as '*any person entered in the register as a Member for the time being of the Association*'. The Association Board has developed Membership Principles which set out circumstances by which membership of the Association for the purpose of the Proposal is determined. In referring to Association Members, we have adopted the same definition as that which is set out in the Information Memorandum.

#### 2.2.3 Association Members as a Whole

In forming our opinion about Association Members as a whole we have had regard to the impact of the Proposal on the interests of the different classes of Association Members, that is Association Members Only, Dual Members and Association Members generally.

Although the majority of Association Members are Dual Members, our role as an independent financial expert to Association does not require us to consider or express an opinion in relation to the separate interests of Insurance Members. Insurance has appointed Ernst & Young Corporate Finance to consider the terms of the Proposal and prepare a separate independent financial expert's report expressing its opinion as to whether or not the Proposal is in the best interest of Insurance Members as a whole. Association Members who are also Insurance Members should therefore refer to the Ernst & Young Corporate Finance Report contained in the Information Memorandum in relation to their rights as Insurance Members.

We have not considered the effect of the Proposal on the particular circumstances of individual Association Members. Some individual Members may place a different emphasis on various aspects of the Proposal from that which we have adopted in this report. Accordingly, individual Members may reach different conclusions on whether or not the Proposal is in their best interest.

### 2.3 Qualifications, Limitations and Indemnities

This report should be read in the context of the qualifications, limitations and indemnities set out in Section 8 of this report.

## 3. Business Relationship Agreements

### 3.1 Introduction

The Business Relationship Agreements document the future commercial arrangements between Association, Insurance and NIGL including the use of, and cost of access to, assets such as the NRMA brand, customer databases and the distribution network. They also set out the arrangements in respect of their ongoing relationship for other shared services including information technology.

If the Proposal does not proceed the Business Relationship Agreements will not be implemented in their current form. In this event, new agreements based on the Business Relationship Agreements will be entered into with appropriate amendments to reflect a continuing two mutual structure for the NRMA Group. It is intended that these new agreements would place Association in approximately the same financial position as it is in today.

We have considered the Business Relationship Agreements in order to form an opinion as to whether they are fair and reasonable as a whole in the context of the Proposal. We have conducted our analysis from the perspective of Association and its Members.

### 3.2 Methodology

We have considered the key terms of the Business Relationship Agreements. A summary of these agreements is contained in Section 13.5 of the Information Memorandum.

We have considered the process undertaken in formulating the Business Relationship Agreements including the development workshops, negotiation processes and the composition of the negotiating teams to ascertain whether the interests of Association were appropriately represented in the process. We also discussed the proposed agreements with senior management of both Association and Insurance in the context of the strategic business plans of the NRMA Group. We also considered the existing business relationships between Association and Insurance.

After reviewing the agreements we identified key issues relating to limitations on scope of business and the use of the brand name. The value associated with the assignment and licensing of the NRMA Trade Marks from Association to Insurance is considered as part of our review of the Share Allocation Rules in Section 5 of this report. In analysing the agreements we reviewed the terms and conditions of each agreement together with the pricing and cost allocation methodology. To consider whether the pricing and cost allocation methodology was reasonable, we:

- reviewed the underlying cost base for both the existing and the proposed arrangements in the areas of distribution, information technology and shared services;
- benchmarked, where costs were material, the cost base against industry practice in Australia and overseas using our own research and publicly available information; and
- reviewed the proposed service delivery levels under the agreements for distribution, information technology and shared services and where possible compared those service delivery levels with external benchmarks.

#### 3.2.1 Key Considerations

The governing objective of the Business Relationship Agreements is contained in the Business Alliance Umbrella Agreement. The Business Alliance Umbrella Agreement is intended to define the nature of the relationship between the parties. It states that the aim of the relationship between Association and Insurance is to continue to derive the synergistic benefits which they have enjoyed historically, in a manner which does not adversely affect the pursuit of the commercial objectives of the parties. We have considered the fairness and reasonableness of the Business Relationship Agreements from the perspective of Association in the context of the Proposal and mutual commitment of the parties to preserve their relationship.

The development of the agreements was accomplished through an extensive series of workshops and negotiation sessions with independent teams of employees from within the NRMA Group representing the interests of Association and Insurance respectively. The stated goal of each team was for the agreements to be commercially reasonable and beneficial to the parties. The teams were supported by consultants and separate legal advisers throughout the negotiation and drafting process.

We discussed the development of the agreements with participants involved in every stage of the process to gain an understanding of the dynamics and conduct of the development sessions. Based on our discussions, we are of the view that the preparation of the agreements was carried out by teams having balanced expertise and that the participants properly represented their assigned interests.

Certain costs, cost allocation methods, performance measures and terms further defining the commercial aspects of the relationship between the parties are yet to be finalised. However, these details are not critical to the formation of our conclusion.

Our analysis was guided by the materiality of the specific issues that we identified. Only material cost items were benchmarked. For non-material costs our analysis was limited to reviewing the formulae used in the allocation of costs.

### 3.3 Assessment

#### 3.3.1 Limitations of Business Activities

The Business Alliance Umbrella Agreement restricts the business activities which Association can undertake using the NRMA brand. Association's use of the NRMA brand is limited to the provision of products and services related to motoring and transportation



in Australia and New Zealand. Insurance may use the NRMA brand in all other areas of business and geography except for road and related motoring services.

Association's membership and brand strength are predominantly located in New South Wales and management has indicated that there are no current plans to expand the membership base geographically outside New South Wales. The initiatives proposed in Association's 1999-2000 corporate plan are consistent with its stated objectives and exclusive scope of business as set out in the Business Relationship Agreements. During our review we were not made aware of any other new services that Association intends to provide which would fall outside the exclusive scope of business.

We have considered whether the Business Relationship Agreements might exclude Association from competing in any area in which it has competencies and which is consistent with its strategic objectives. The core competencies of Association relate to its knowledge of motoring issues and its ability to deliver services to motorists. It is the intention of Association to pursue a strategy that is aligned with these core competencies. As a result the business and branding scopes as defined by the Business Alliance Umbrella Agreement, Trade Mark Relationship Agreement and Marketing Agreements allow Association to compete using the NRMA brand in all areas of business where it has competencies and intends to provide services in the foreseeable future.

The Marketing Agreement also restricts the freedom of Association to offer new NRMA branded products through joint ventures or alliances with third parties. However, it would be contrary to the spirit and intent of the governing objective contained in the Business Alliance Umbrella Agreement for Association to pursue product strategies with a direct competitor of Insurance or in circumstances in which Insurance could suffer adverse consequences. In cases in which Association can justify a business case for pursuing a product strategy with an entity other than Insurance in a way that does not compromise the interests of Insurance, the agreements appear to contain satisfactory provisions to enable the parties to resolve the situation by mutual agreement.

Accordingly, in the overall context of the Proposal which includes Shares to be allocated to Association and its Members, the agreements do not appear to restrict unreasonably Association's use of the NRMA brand and ability to pursue new business initiatives with third parties.

### 3.3.2 Brand Issues

One of the most valuable intangible assets of Association is its brand. It is possible that Insurance's future actions may harm the brand even if it can demonstrate that it is behaving in line with the brand integrity principles contained in the Trade Mark Relationship Agreement.

Association presently benefits from the advertising expenditure of Insurance as it undertakes the great majority of expenditure on maintaining NRMA brand awareness. Accordingly there may be a risk to Association of a decline in the future value of the brand should Insurance either reduce its spending or change its brand strategy.

Senior management of Insurance consider that one of its most important competitive advantages, compared to other financial institutions, is its ability to leverage the distinct brand associations generated by the motoring related services provided by Association. It is difficult to envisage Insurance acting in a way that would diminish these valuable brand associations in the current circumstances. Association may also be insulated from any activities of Insurance that may reduce brand value by the distinction drawn in the market place between the provider of motoring services and the provider of financial services.

A risk to the future value of the Association brand could arise if Insurance decided not to support the NRMA brand. The relationship of Insurance with motoring associations outside New South Wales coupled with its potential to adopt a national brand image, highlights this risk. However, the current NRMA brand position is aligned with Insurance's stated strategy of differentiation based primarily on brand and customer service attributes. The NRMA brand in New South Wales is generally regarded to be stronger in this respect than the brands of motoring associations in other Australian states. It is therefore unlikely that Insurance would discontinue the use of the NRMA brand in New South Wales.

If Insurance were to reduce its support of the NRMA brand Association might be required to engage in marketing activity to support its brand. It is possible that Association's current brand position may be sustained through public relations, advertising on a lesser scale and through maintaining quality of service. Further, Association currently has few direct competitors and therefore may not need to ward off competition through marketing efforts.

Accordingly, in the overall context of the Proposal, the agreements appear to provide a reasonable degree of protection for the brand and control over the conduct of the parties.

### 3.3.3 General Terms and Conditions

#### General Considerations

##### Exclusivity

Association must give Insurance the first right of refusal to distribute its present and future products and to provide information technology and shared services.

##### Termination

There are restrictions on Association's ability to terminate these agreements for convenience, ranging from no automatic right to terminate any single distribution channel, other than roadside assistance services, to an inability to terminate either the IT Services Outsourcing Agreement or the Distribution and Shared Services Outsourcing Agreement for at least three years.

#### Control over Distribution Channels

There is a risk that Insurance may decide to change the future structure of its distribution channels and this may impact Association and its Members. Insurance undertakes 'to maintain customer preferred access and availability to the Association Group's products'. The most likely change to current distribution channels would be a future reduction in the number of branches. In assessing the likelihood of this change we took account of the following factors:

- the branch network is important to Insurance as a significant amount of both new business and renewals comes through the branch network;
- Association Members are already increasingly using other distribution channels such as call centres and the postal system; and
- Association management believes there may be viable alternatives to the current physical distribution network e.g. allowing Members to pay for membership and obtain services through service providers such as Australia Post.

#### Dispute Resolution Procedures

Alliance managers have been appointed to manage the day to day operational co-ordination of the provision of services between the parties. The agreements also provide for a dispute resolution mechanism for issues that cannot be agreed between the alliance managers. In addition, the Distribution and Shared Services Outsourcing Agreement allow for regular third party performance audits to ensure that Insurance is reporting its performance accurately and that invoicing for the services provided to Association is accurate.

#### IT Services Outsourcing Agreement

This agreement is comprehensive and is similar to standard information technology outsourcing contracts in terms of scope and detail.

However, certain terms regarding Association's ability to allow other external service providers to supply any of the services in the future appear to favour Insurance. These clauses are as follows:

- New Services. Association is not permitted to acquire new services from a third party unless Insurance rejects the opportunity. It would be preferable if Association included Insurance in every new opportunity as a bidder and retained the right to select the best value service provider. This is common industry practice which allows clients to obtain best of breed service providers and to minimise the risks associated with a sole supplier.
- Termination. Insurance can terminate the agreement if it changes its information technology platform to the extent it is no longer commercially viable for Insurance to provide services. This could require Association to obtain these services from another supplier upon receipt of nine months notice. Association is unable to terminate this agreement for convenience for at least three years and upon termination a fee is payable.

We have assessed the financial impact of any potential adverse consequences arising from these two clauses to be immaterial.

In the overall context of the Proposal, the general terms and conditions of the Business Relationship Agreements appear reasonable to Association.

### 3.3.4 Pricing, Cost Allocation and Service Delivery Levels

#### Distribution and Shared Services Outsourcing Agreement

Fees payable by Association for each distribution channel are calculated to enable Insurance to recover the full cost of providing the services plus a margin of 5%. The fee is capped based on a percentage of Association's revenues (excluding investment income) in the first three years and afterwards cannot increase by more than a weighted index based on the Consumer Price Index and Average Weekly Earnings. An activity based costing review is scheduled to be undertaken by the NRMA Group and the results of this review should allow distribution costs to be allocated more accurately.

The fees payable by Association in the first three years will be capped at 10%, 12% and 15% respectively of relevant revenues. This fee is substantially below the full allocated costs budgeted in 1999/2000 and is likely to remain below full allocated costs. The agreement states that fees will be the lower of the capped amount or full costs plus 5%.

We have compared the capped costs, as a percentage of revenue, to the commission paid to distribution channels in a range of service industries. The total cost of distribution appears reasonable compared to external benchmarks. The basis for allocating costs specified in the agreements were reviewed and appear reasonable.

Distribution service delivery levels specified in the agreements were reviewed and appear reasonable. Where service delivery levels could be compared to external benchmarks they are in general satisfactory. In many cases service delivery levels have been based on those currently achieved.

#### IT Services Outsourcing Agreement

The pricing of the services to be provided under this agreement has been compared with current similar arrangements using standard benchmarking techniques. While the pricing of these services would appear generally to be higher than the average market prices, it is our opinion that this is due to the nature of the services being provided rather than non-competitive pricing. Association may find it more difficult to negotiate lower prices if separated from Insurance due to its lower volume of information technology usage.

In this agreement Insurance charges Association a 5% margin on all information technology costs incurred on behalf of Association. This differs from the other agreements as the margin is charged on all information technology costs including those passed on from third party suppliers. However, failure to deliver at defined service

delivery levels gives Association service level credits. It is typical for suppliers to charge a margin in order to cover their risk of incurring service level credits.

The information technology service delivery levels were reviewed. It is our opinion that some of these service delivery levels are not significantly below those which may be achieved externally. However, the service delivery levels appear to match those which Insurance has negotiated with its external providers.

#### *Shared Services Outsourcing Agreement*

Insurance will charge a service fee in respect of each activity it conducts on behalf of Association (other than investment services), with the fee structured to cover the full cost of providing the service plus a margin of 5%. The margin will not be charged on third party costs which are incurred by Insurance as part of providing these services. For investment services, Association will pay a fee of 0.5% per annum of the value of its portfolio of funds under management.

The cost allocation principles appear to be reasonable and are in line with those developed by the NRMA Group over time.

Accordingly, in the overall context of the Proposal, the Distribution Services, IT Services and Shared Services Outsourcing Agreements appear reasonable.

### 3.4 Conclusion

Based upon our review and the information obtained during the course of our review, the Business Relationship Agreements are fair and reasonable as a whole in the context of the Proposal which includes Shares to be allocated to Association and its Members.

## 4. Alternative Proposals

### 4.1 Introduction

In this Section we have considered whether Association Members as a whole will be better off with the Proposal than with alternative proposals. In order to conduct this analysis we have compared the Proposal with other options available to change the financial and corporate governance structure of the NRMA Group and also with retention of the existing structure.

### 4.2 Methodology

In order to compare the Proposal against other alternatives including the existing structure, we have:

(i) considered Members' interests.

We have explored the nature of Members' interests in Association;

(ii) derived a short list of alternatives.

We have reduced the list of alternative proposals to a short list comprising three alternatives, satisfying ourselves in the process that other alternatives are inferior to one or more of these three alternatives;

(iii) considered the points of difference between the short listed alternatives.

We have identified the attributes or characteristics of each of the three short listed alternatives which represent the main points of difference between them; and

(iv) compared the short listed alternatives against each other.

We have compared each alternative against the interests of Members as we understand them, concentrating on the main points of difference. This comparison was undertaken to arrive at a conclusion as to whether or not Association Members will be better off with the Proposal than with alternative proposals considered.

This process has required consideration of a range of structural and Member issues, both financial and non-financial. Understanding and evaluating the issues associated with either or both of Association and Insurance remaining mutuals or demutualising is a significant task. A review of the various consultants' reports prepared for the NRMA Group, all of which are well reasoned, shows many of the available alternatives. The key reports and their major recommendations are summarised in Section 13 of the Information Memorandum.

We have considered these reports and the various arguments put for and against each of the alternatives considered in these reports.

We have also held discussions with some Association Directors as well as the management and advisers to the NRMA Group and have undertaken further research that we considered necessary. This research has been conducted to satisfy ourselves that all realistic alternative structures have been considered and to assist us in identifying significant issues that are likely to be relevant to Association Members.

We have not attempted to reproduce in this report all of the arguments for and against each alternative considered by us. We have considered the overall balance of advantages identified against disadvantages identified and formed our conclusion accordingly. We have summarised our analysis and explained the conclusions we have made in terms of the methodology described above.

### 4.3 Assessment

#### **4.3.1 Members' Interests**

To establish our view of the issues of relevance to Association Members, we have examined the constitution of Association and considered the objectives contained therein. We have also examined statistical and anecdotal evidence obtained by the NRMA Group in the form of market research, historical information, analysis of correspondence from Members and survey results. We have also held discussions with the management of Association and Insurance.

Our consideration indicates that Members are interested in Association:

- providing good quality competitively priced motoring services; and
- delivering those services in a manner consistent with its past reputation for trust, fairness and good value in serving its Members.

Members of Association have additional interests over and above access to the benefits and services provided by their membership subscriptions including:

- their right to vote (which may be forgone or altered in a restructure); and
- their equitable interest in any distribution of wealth or release of value which may arise as a result of a restructure.

Our review also identified the following aspects of Association Members' attitudes to and expectations of Association as being relevant to an understanding of their interests. They include:

- the predominant reason motorists obtain Association membership is to gain access to roadside breakdown assistance;
- Members place some value on being part of a membership organisation (as opposed to simply being customers). Phrases such as 'trust', 'value for money' and 'for Members' were mentioned in some of the market research; and
- there is a lower level of knowledge and recognition by Members of community service activities (relative to core membership services) suggesting that, while these activities may be an important ingredient in what Association does in meeting its objectives, they are not prime considerations of Association Members.

These aspects suggest that:

- Members place some value on the mutual status of Association but not to the degree that it should override consideration of any alternatives which contemplate a change in the structure of the NRMA Group; and
- Members' interests are predominantly served by Association being a viable and effective provider of motoring and other related services.

In considering the interests of Association Members, we also considered the position of Association itself. A necessary condition for the interests of Association Members to be best served in any restructure of the NRMA Group is that the values, services and financial strength of Association itself should be preserved or enhanced.

#### **4.3.2 Short List of Alternatives**

There are many possible alternative structures considered in the various reports commissioned by the NRMA Group. We consider that the following alternatives are worthy of comment:

- the Proposal being considered
  - demutualisation and listing of Insurance, with Association remaining a mutual company
- the existing structure
  - two mutual companies, Association and Insurance
- full demutualisation and listing
  - the 1994 proposal, where both Insurance and Association would be demutualised and would become a single listed company
- controlled listed subsidiary
  - similar to the Proposal being considered but Association would own 51% of Insurance which has been demutualised and listed
- a single mutual company
  - the two existing mutual companies are restructured as one mutual company
- two demutualisations
  - Insurance and Association are each demutualised and separately listed
- wealth distribution
  - retention of the existing structure with distribution of any surplus capital in the NRMA Group through rebates, price reductions or similar mechanisms.

We have considered and eliminated each of the following alternatives for reasons which include:

- controlled listed subsidiary
 

This alternative contemplates Association maintaining control over a demutualised Insurance by being allocated and then retaining 51% of the shares in the listed insurance company. The advantage of this alternative is that the practical control that Association currently has over Insurance would be retained after demutualisation. However, there would be no significant allocation of shares to Members of Association on demutualisation because most of the value of Insurance attributable to Association Members is retained in Association. We consider this alternative to be inferior because of the significantly lower release of value to Association Members compared to the value released under the Proposal.



- one mutual company  
In the absence of any apparent economic benefits, the complexities and costs associated with designing and implementing a single mutual structure which replicates or enhances the existing operating arrangements and the practical difficulty of implementing such a change makes this alternative inferior to the existing structure.
- two demutualisations  
If neither entity has a controlling interest in, or can influence the other, the different commercial requirements of each and their independence would almost certainly create greater business risks for both entities than would be the case for a single demutualisation or the Proposal.  
Under the Proposal, the Business Relationship Agreements ensure that the future scope of business of Insurance is largely unrestricted. Implementation of the Business Relationship Agreements or similar arrangements would, however, be a hindrance to a successful listing of Association because of the limitations they place on its future scope of services.
- wealth transfer  
This alternative requires the transfer of wealth from the NRMA Group to Members. It therefore limits the ability of the NRMA Group to accumulate capital. This alternative is really the existing structure but with lower effective prices and reduced or declining capital. This approach would limit the NRMA Group's ability to expand and require a change to the strategy to which the NRMA Group, as a whole, is currently committed.

Having eliminated these alternatives, we considered whether there are any other alternatives that might be superior to our short list. On the basis of our review, we are satisfied that all other realistic possible alternatives are either sub-optimal variations to one of our three short listed alternatives or else are inferior to one or more of these alternatives.

Our three preferred alternatives for further discussion are:

- the Proposal;
- the existing structure; and
- full demutualisation and listing ('full demutualisation').

Two of these alternatives, the existing structure and full demutualisation, would largely retain the NRMA Group as a single integrated organisation, at least from an operational perspective. In the case of the existing structure, integration is not complete whereas full demutualisation would integrate the ownership and the corporate structure of Insurance and Association.

Under the Proposal, the two entities continue to co-exist with Association as a mutual company and Insurance as a listed company.

#### 4.3.3 Points of Difference

We have identified four main points of actual or potential difference between the three alternatives on our short list. They are:

(i) the relationship between Association and Insurance.

Under the Proposal, the nature of the relationship between Association and Insurance is different from the existing structure, as summarised below:

- the two entities representing Association and Insurance will become independent entities with Association having no entitlement to appoint directors to the Board of Insurance;
- the approach to management and operations requires a more extensive series of agreements (the Business Relationship Agreements) which put in place contractual arrangements between Insurance and Association. The details of these arrangements and comments on their implications for Association are covered elsewhere in this report and in the Information Memorandum.

Under the Proposal, Association's influence over Insurance is significantly reduced. Its only formal relationship with Insurance will be through the powers it has under the Business Relationship Agreements to enforce agreed standards for service delivery, brand integrity and scope of business. Association will no longer have any influence over the delivery of the products and services offered by Insurance.

In the case of a full demutualisation, the relationship between Insurance and Association is clear as they will be one organisation.

(ii) the financial viability of Association.

Under the existing structure and also under full demutualisation, it would appear that Association's financial viability is assured because it is an integral part of a much larger group. Under the Proposal, Association's financial viability is assured, for the foreseeable future, by a capital injection through an allocation of 10% of the Shares in NIGL and by the terms of the Business Relationship Agreements with Insurance.

(iii) motoring and community services.

As discussed previously, there are some characteristics of Association which are attractive to Members, including:

- the value placed on the mutual status of Association and some of the membership attributes that accompany this status; and
- Association's role as a sponsor of motorists' interests and through its participation in a range of related community services.

These characteristics indicate that the future structure of the NRMA Group needs to facilitate or encourage the continuation of the range of community service activities which Association has undertaken in the past.

These services have been delivered under the existing structure. It is a clear intention of the Proposal that the Business Relationship Agreements and other aspects of the Proposal, including retaining Association as a mutual company, are aimed at ensuring the services Association has delivered in the past suffer no adverse consequences as a result of implementation of the Proposal.

In the case of a full demutualisation, it is likely that there would not be the same commitment to the delivery of these motoring and community services over time.

(iv) delivery of insurance services.

Demutualisation of Insurance, which occurs under the Proposal and under full demutualisation, may change some aspects of the operations of Insurance. It has the potential to affect prices, underwriting approach, service levels, capital management and management accountability which may be different from the existing structure.

(v) the level of value release.

Under demutualisation and listing, a mutual company issues shares which subsequently become tradeable. There is no transfer of assets out of the mutual company. All of its wealth is retained inside the company yet, at the same time, there is a 'value release' to members. Each member's allocated shares can be held or sold and therefore the member gains access to his or her share of the accumulated wealth of the mutual company.

Under demutualisation of Insurance the wealth distribution would be significant, whether Association is included or excluded from the entity or entities to be demutualised.

Without demutualisation of Insurance, any value release would be a direct transfer of wealth from Insurance to Members and is limited to price reductions, rebates and similar mechanisms that might be offered to Members.

#### 4.3.4 Evaluation

Our evaluation of the shortlisted alternatives is summarised below. This evaluation takes account of our understanding of Members' interests as discussed previously.

##### *The Proposal compared to the existing structure*

The Proposal separates Insurance from Association. This separation entails:

- some commercial risks to Association which may also put at risk, over time, the quality of services available to Members;
- Insurance offering its products and services to Association Members as a non-mutual company with Association no longer having any practical control over the management of Insurance; and
- some restrictions on the future business activities of Association.

On the other hand, the Proposal has three key advantages over the existing structure:

- there is to be a substantial release of value to Members;
- there is to be a major capital injection to Association designed to ensure the financial viability of Association; and
- the continuation of Association as a mutual company should ensure a continuing focus on motoring and related services.

We believe that, on balance, these advantages considered in conjunction with the value of Shares to be allocated to Association Members, outweigh the potential risks of the Proposal to Association and its Members.

Accordingly, we consider that Association Members as a whole will be better off with the Proposal than with the existing structure.

##### *The Proposal compared to full demutualisation*

The conversion of Association from a mutual company to an integral part of a listed company has implications for the future delivery of Association's services. It is possible that these services will become, over time, of a lesser standard due to a reduced focus on motoring services. In addition, greater financial accountability may affect the price of motoring services and may reduce the willingness to undertake community services.

If a full demutualisation occurred the aggregate value release would be greater than under the Proposal. It is not clear whether that increase would translate into a greater value release to Association Members because the principles underlying the Share Allocation Rules would need to be re-examined. Further, even if there was an increase in the value release on full demutualisation it may not adequately compensate Association Members for the risks associated with the future pricing and quality of motoring services. In addition, the benefits to Members of continuing to belong to a mutual company would be lost.

Accordingly, we consider that Association Members as a whole will be better off with the Proposal than with full demutualisation.

#### 4.4 Conclusion

Overall, having regard to the interests of Association Members, we consider that Association Members as a whole will be better off with the Proposal than with other alternatives.





## 5. Share Allocation Rules

### 5.1 Introduction

This Section deals with our assessment of whether the Share Allocation Rules applying to Association Members are fair and reasonable and the Shares allocated to Association Members are a fair exchange for Association Members' rights forgone under the Proposal.

The Consulting Actuary's Report in Section 12 of the Information Memorandum sets out the proposed allocation of Shares to Members. In addition, the Consulting Actuary's Report discusses the basis on which the Share Allocation Rules were developed and summarises the proposed allocations to Members and Association itself. The key features of the Share Allocation Rules are:

- an allocation of Shares to Association itself;
- an allocation of Shares to Association Members at the cut-off date, in two parts:
  - one part to recognise Member voting entitlements (equal for every Association Member); and
  - one part to recognise the number of years of Association membership.
- an allocation of Shares to Insurance Members at the cut-off date, in two parts:
  - one part to recognise Member voting entitlements (equal for every Insurance Member); and
  - one part to recognise the number of insurance policies held by each Insurance Member.

In addition to these key features, there are also a number of detailed principles and rules discussed in the Consulting Actuary's Report.

The overall Share allocations proposed are:

- Association itself – 10%
- Association Members – 40%, with 20% based on Member votes and 20% based on the number of years of Association membership
- Insurance Members – 50%, with 25% based on Member votes and 25% based on the number of policies held.

There were approximately 1.8 million Association Members and 1.3 million Insurance Members at the cut-off date. As almost all Insurance Members are also Association Members, this means that there are approximately 500,000 Members of Association who are not also Members of Insurance.

### 5.2 Methodology

#### 5.2.1 A Framework for Assessment

In assessing whether the Share Allocation Rules are fair and reasonable to Association Members, we have considered whether the proposed share allocation represents a fair reflection of Association Members' 'equitable' interests in the Shares to be allocated by NIGL.

We regard 'equitable' as meaning even-handed amongst Members, in a manner which does not unreasonably favour any one of them or group of them over other Members or other groups of Members. Any assessment of equity necessarily involves a subjective element. There are no established formulae or sets of rules for determining the relative equity of different share allocations.

In identifying the principles and rules that might be applied, we have considered whether the quantum and likely value of Shares to be allocated to Association and its Members, both in the aggregate and for individual Association Members, is a fair exchange for:

- the voting entitlements and other rights to be forgone by Association and its Members as a consequence of the proposed changes to the constitution of Insurance;
- the implementation of the Business Relationship Agreements, including any business restrictions placed on Association and any potential risks to which Association may be exposed; and
- the historical contributions to the NRMA Group that can reasonably be attributed to the Association and its Members, to be assessed by reference to the sources of value of the Shares in NIGL that are to be issued under the Proposal.

In applying this concept of equity in respect of Association Members, it has been necessary for us to examine the proposed Share Allocation Rules for each of Association Members, Association itself and also Insurance Members. To do so we have needed not only to assess the treatment of Members of Association in their own right but also to consider their treatment relative to the treatment of Members of Insurance.

The scope of our report limits our opinion to the allocation of Shares to Association and to Association Members in respect of their membership of Association. Accordingly we offer no view on the fairness of the allocations to individual Association Members relative to the allocations to individual Insurance Members. Nor do we offer any view on the allocations to individual Members of Insurance including Dual Members (i.e. those who are Members of both Association and Insurance) in respect of their membership of Insurance.

In forming our conclusion we have:

- examined the Consulting Actuary's Report;
- had discussions with the Consulting Actuary's staff regarding their approach and recommendations;
- evaluated the Proposal within the framework and principles of equity that we have developed; and

- taken into account the NRMA Group's circumstances together with precedents elsewhere.

For the purpose of estimating the value of Shares to be issued we have relied on the Ernst & Young Corporate Finance estimate of the market price of a NIGL Share on listing included in their report to Insurance Members.

### 5.3 Assessment

#### 5.3.1 The Value of Shares to be Issued

We have conducted a review of the estimate of the market price of a Share in NIGL prepared by Ernst & Young Corporate Finance. The basis and limitations of their estimate are discussed in Section 9.5 of their report. We consider that the valuation conclusions reached are reasonable. Our review of the estimated market price of a Share in NIGL was limited to the following procedures:

- consideration of appropriateness of valuation methodology adopted;
- consideration of the reasonableness of assumptions underlying the estimate of market price;
- discussion with Ernst & Young Corporate Finance staff of issues associated with deriving the estimate of market price; and
- review of calculations underlying the estimated market price of a Share in NIGL.

#### 5.3.2 Characteristics of the Proposed Share Allocation Rules

The existing Association Members' rights originate from Association's constitution. Association itself also has certain special rights which are contained in the constitution of Insurance. The Proposal will require, amongst other things, that the constitution of Insurance be changed. In essence, Association will forego its special rights as a Member of Insurance which give Association 'practical control' over the management of Insurance due to its rights to appoint directors of Insurance.

The current commercial relationship between Association and Insurance will also be changed by the Business Relationship Agreements.

Relevant aspects of the Business Relationship Agreements, which are also considered in Section 3 of this report, are:

- restrictions on the future scope of Association's business activities;
- the assignment of relevant NRMA trademarks from Association to NIGL;
- restrictions which effectively preclude Association from marketing insurance and financial services which compete with Insurance; and
- various commercial risks, for example that the working relationship between the two parties will not always be as close as it is today and that their commercial interests may diverge over time.

Accordingly, Association Members' rights may be forgone because of either constitutional or contractual changes. These are discussed below.

#### 5.3.3 Constitutional Relationships

The Members' rights as set out in Association's constitution will remain unchanged. The special rights of Association included in Insurance's constitution, however, will be removed. These special rights forgone are explained in the Information Memorandum.

Nearly all Insurance Members are Members of Association and over 60% of Association Members are Insurance Members.

The practical effect of the special rights and cross-membership is that a special relationship is created between the two entities where both entities are likely to seek opportunities to act in their common benefit and neither is likely to act to disadvantage the other. This relationship is strengthened and supported by the following:

- Insurance's constitution states that it is to generally assist and co-operate with Association;
- while Association has the ability to control the management of Insurance's business because it can appoint the directors of Insurance, they have a legal responsibility to act for the benefit of Insurance. Accordingly Association and its Members cannot be the exclusive beneficiaries of the exercise of that control;
- while Association would receive any surplus if Insurance were to be wound up, Association Members cannot enforce the winding up of Insurance without the approval of Insurance Members; and
- the consent of both Insurance Members and Association's directors is required to change Association's special rights. To change the constitution of Insurance requires the consent of 75% or more of Insurance Members. To vary or abrogate the special rights of Association requires the consent of 75% or more of Association directors.

These rights are notably different from those of public companies or other mutual organisations. They result in an unusual situation where:

- Association has certain rights over the management of Insurance despite having no direct ownership of Insurance; and
- Insurance Members have no practical ability to appoint the directors of Insurance and therefore have no capacity to control the management of Insurance's business.

#### 5.3.4 Effect on Association of the Proposal

In summary, if the proposed constitutional changes and Business Relationship Agreements are implemented, the effect of these changes would be as follows:

- elimination of Insurance's constitutional obligation generally to assist and co-operate with Association in certain circumstances;





- elimination of Association's special rights over Insurance; and
- restriction of the constitutional right or freedom of Association to provide some services as a consequence of the proposed scope of business clauses in the Business Relationship Agreements.

Association's special rights comprise:

- the capacity to control the management of Insurance. Through its ability to appoint directors to the board of Insurance, Association has the capacity to influence Insurance management to seek opportunities to act for the benefit of both Association and Insurance and to discourage actions that are likely to disadvantage Association;
- the right to receive any surplus upon winding up of Insurance; and
- the ability to obstruct almost any restructure that includes changes to the constitutional relationship between the two entities.

Each of these rights is examined in more detail below.

#### *The capacity to influence Insurance to benefit Association*

The constitutional relationship allows Association to influence Insurance's operations so that the interests of both Insurance and Association are served. In addition, Association is likely to have the ability to stop actions that would be harmful to Association. The removal of this influence increases the risk that Insurance will not co-operate with, or will act in a manner that is disadvantageous to, Association.

The Proposal includes certain features that reduce the risks to Association arising from the removal of this capacity to influence Insurance including:

- an allocation of Shares to enable Association to carry out its stated objectives for the foreseeable future; and
- the introduction of Business Relationship Agreements to govern the ongoing business relationship between the two entities.

Nevertheless, upon implementation of the Proposal, the ability of Association to influence Insurance will be changed from a constitutional relationship to a contractual relationship between the two entities.

#### *The right to receive any surplus upon winding up of Insurance*

Association has the right to receive the surplus assets of Insurance if it is wound up. The winding up of Insurance is governed by the procedural requirements of the Corporations Law. Insurance can be wound up only by creditors or Insurance Members. None of Association, Association Members, Association directors or Insurance directors can effect a winding up of Insurance.

Based on the current financial position of Insurance, it is difficult to envisage Insurance being in a position to be wound up by creditors. If Insurance Members sought to wind up Insurance, it is likely that there would be a substantial surplus to distribute to Association. The likelihood of Insurance Members voluntarily seeking the winding up of Insurance to distribute the surplus to Association is remote.

#### *The ability to obstruct a restructure of Insurance*

Association currently has the power to obstruct any changes that vary or abrogate the special rights conveyed to it by Insurance's constitution. While this special right provides the capacity directly to influence the management of Insurance, if it wishes to restructure the relationship between the two entities, this right becomes valuable.

The proportion of the value of Insurance being offered to Association and its Members can be regarded as the compensation to Association and its Members for approving the Proposal.

#### **5.3.5 Sources of Value**

The Consulting Actuary's proposed allocation primarily derives from an assessment that the interwoven and co-operative nature of the historic relationship between Insurance and Association has broadly resulted in a balanced contribution by the two sets of Members. Accordingly, the Consulting Actuary recommends that 50% of the Shares be allocated to Insurance Members and 50% be allocated to Association and its Members.

Since the transaction will result in the interests of Association Members and Association in Insurance being crystallised, we believe it is necessary to make an assessment which goes beyond identifying the interwoven and co-operative nature of the existing relationship. In particular, we consider that it is important to assess whether an allocation of 50% of the Shares to Association and its Members is a fair exchange for what they are giving up.

To make this assessment, we have identified and examined the sources of value within Insurance which should reasonably be regarded as attributable to Association and its Members. Such sources of value arise on account of Association's historical contributions to Insurance and from the commercial considerations the Proposal has for Association and its future operations.

The nature of these sources of value means that it is not possible to quantify them individually with any precision. However, based on our knowledge of commercial transactions in the financial and insurance sector, we have derived some broadly based estimates of value solely to test whether the allocation to Association and its Members is sufficient compensation for the changes being proposed. Our objective in undertaking this analysis was not to derive a precise value for Association's interests and its contribution to Insurance but to assess the appropriateness or otherwise of the proposed allocation of Shares to Association and its Members.

The individual sources of value together with the broad range within which we have judged the value to be (expressed as a percentage of the total value of Insurance) are listed below:

- *Association's 'pulling power' for insurance customers:* It is relevant to consider what the value of Association would be if it were to be freed from Insurance and sold on the open market. Association's membership database could deliver substantial value to an acquiring party, in addition to Association's stand alone value. The access to Association's membership database by Insurance warrants compensation to Association and its Members. Estimated value: 16% to 20%
- *Association's special rights regarding Insurance:* Under the Proposal, Association and its Members forego their practical control of Insurance, as explained above. The forfeiture of control warrants compensation to Association and its Members. Estimated value: 5% to 15%
- *Association's future restricted scope of services:* The Business Relationship Agreements place significant restrictions on the scope of services that Association can pursue in the future. The terms of the agreements indicate that most of the opportunities arising from innovation and changing markets are to Insurance's benefit as opposed to Association's. The forfeiture of Association's opportunities to expand into new and related potentially profitable markets warrants compensation to Association and its Members. Estimated value: 5% to 10%
- *Commercial risks:* As a result of the proposed separation between Association and Insurance, Association is exposed to a number of risks. The most significant of these risks is that the interests of Association and Insurance will diverge over time in a manner which may affect the ability of Association to carry out its stated objectives. Whilst the Business Relationship Agreements have been designed to minimise these risks, there are still risks to Association under the Proposal for which Association and its Members ought to be compensated. Estimated value: 1% to 5%
- *Operating synergies:* Without the Business Relationship Agreements between Association and Insurance, there would be some reduction in the value of Insurance as a result of operating synergies that would be forgone. The operating synergies that currently exist therefore represent some value to Insurance for which Association should be compensated. Estimated value: 3% to 5%
- *Additional benefits to Insurance from the NRMA brand:* Under the terms of the Business Relationship Agreements, Association cedes many rights over use of the NRMA brand and trademarks to Insurance. There is a value for the use of the NRMA brand over and above the matters already covered above, through the ability of the brand to attract credibility independently of the operating relationship with Association. The rights over the brand granted to Insurance warrants compensation to Association and its Members. Estimated value: 5% to 10%

It must be emphasised that there is a large subjective element in the estimates we have placed on each of the sources of value.

Adding together the lower and upper estimates for each item gives a range from 35% to 65%. Making allowances, however, for the fact that it is highly unlikely that the aggregate value is near the extremities of this range and also recognising the imprecise nature of these estimates, in our judgement, the fair value of Association's interests and its contribution to Insurance lies somewhere in the range 40% to 55% of the value of Insurance.

Accordingly, we have concluded that the proposed allocation of 50% of the Shares to Association and its Members is a fair exchange for the rights and the interests in Insurance that they would be giving up in accepting the Proposal.

#### **5.3.6 The Interests of Association**

We have considered whether, for the 50% of Shares to be allocated to Association and its Members, there is any particular basis in equity for determining the allocation between Association itself and Association Members. The Consulting Actuary's Report does not cover this question directly as it concentrates on the economic needs not the entitlements or rights of Association.

It is relevant that Association is giving up practical control of Insurance and that it and its Members are being compensated for so doing. It is proposed that Association will receive 10% of the Shares in NIGL, which are to be sold down to a 2% shareholding in accordance with an agreed timetable. This shareholding will not give Association the right to appoint any directors of Insurance and will not otherwise give Association any special influence over the affairs of Insurance or NIGL.

Accordingly, we have concluded that, from an equity viewpoint, it is immaterial how much of the total allocation should go to Association and how much should go to Members. Therefore Association's own share of NIGL, as distinct from its Members' Shares, can be treated entirely as a financial matter, as proposed by the Consulting Actuary. Consequently, it is reasonable for the quantum of Shares that is attributable to Association to be the minimum consistent with ensuring its future financial viability and for Association Members to be allocated all remaining Shares.

We have reviewed the sufficiency of the capital injection in Section 6 of our report and are satisfied with the Consulting Actuary's recommendation that 10% of NIGL's Shares is sufficient for Association to carry out its stated objectives for the foreseeable future. Correspondingly, it is in the interests of Members that anything above that percentage be distributed to Members individually.



Accordingly, we are satisfied with the Consulting Actuary's opinion that, of the total of 50% of Shares in NIGL proposed to be allocated to Association and its Members, the component to go to Association should be 10% and the remaining 40% should be allocated to individual Members of Association.

### 5.3.7 Individual Members of Association

It is proposed that, of the Shares allocated to Association Members, 50% be allocated on the basis of number of votes and 50% according to number of years as an Association Member. Since Association itself will be allocated 10% of the value of Insurance this results in an allocation of 20% of the total value of Insurance according to number of votes and 20% according to years of membership of Association.

In assessing this allocation, we have considered the appropriateness of:

- votes as a relative measure of entitlements;
- years of Association membership as a relative measure of entitlements; and
- the 20%/20% allocation proposed in respect of these two criteria.

Regarding votes, of which each Member has one, we are satisfied that compensation for the voting entitlements and other rights to be forgone by Association and its Members, under the Proposal, can reasonably be allocated in proportion to number of votes. It can be argued that, although voting rights do not of themselves confer direct economic benefits on Members, Association giving up its practical control of the management of Insurance is related to the voting entitlements of Association Members because Association Members have the power, through their votes, to alter or not alter this position. It can also be argued that the risks to Association of this ceding of control are evenly spread amongst all Members.

We also regard years of membership as the appropriate method for allocating all of the Shares not allocated in proportion to votes. Years of membership is a suitable measure in respect of entitlements that can be seen to have arisen in respect of that portion of the value of Insurance generated in past years that is attributable to Association and its Members. It is also a suitable measure in respect of diminution of value to Association arising from the future restrictions on and risks to Association arising from the terms of the Business Relationship Agreements. Years of membership are readily recognised intuitively as equitable and they also can be seen to represent a reward or entitlement for loyalty to Association.

Accordingly, we are satisfied with the two allocation methods applied, namely number of votes and number of years of membership.

Regarding the balance of the allocation between votes and years of membership, our analysis indicates that something less than half of the 40% should be allocated on the basis of votes and more than half on the basis of years of membership. We have tested the proposed 20%/20% allocation against this view and have concluded that the resulting differences in entitlements, whereby the Proposal tends to favour newer Members over longer standing Members, is not material to our opinion, all things considered. Accordingly, we regard the 20%/20% allocation as reasonable.

## 5.4 Conclusion

Our conclusion is limited to consideration of the allocation of Shares to Association and to Association Members in respect of their entitlements as Association Members. Our conclusion does not extend to the fairness of the allocation to Association Members in respect of Shares arising from their Insurance membership nor does it extend to the fairness of the allocations to individual Association Members relative to the allocations to individual Insurance Members.

On the basis of the following conclusions:

- the proposed allocation of 50% of the total value of Insurance to Association itself and its Members is reasonable;
- the allocation of 10% of the total value of Insurance to Association itself is sufficient for Association to carry out its stated objectives for the foreseeable future; and
- it is in the interests of Association Members that the remaining 40% be allocated among individual Members of Association as proposed,

we have concluded that in the overall context of the Proposal, the Share Allocation Rules are fair and reasonable and the Shares allocated to Association Members are a fair exchange for Association Members' rights forgone.

## 6. Sufficiency of Capital Injection

### 6.1 Introduction

In this Section we have examined whether the Shares allocated to Association are sufficient to enable it to carry out its stated objectives for the foreseeable future.

If the Proposal is approved Association will receive a capital injection equal to 10% of the Shares in NIGL.

The basis for determining the size of the capital injection to Association is outlined in the Consulting Actuary's Report (included at Section 12 of the Information Memorandum). In summary, the Consulting Actuary has recommended the number of Shares to be allocated to Association having regard to:

- the allocation of NIGL Shares between Insurance Members, Association Members and Association itself; and

- the ongoing financial viability of Association after the Proposal is completed and the Business Relationship Agreements are implemented.

### 6.2 Methodology

In order to conduct our analysis we have performed the following:

- considered the objectives of Association as outlined in its constitution;
- held discussions with management of Association regarding its business operations and strategic direction;
- considered the historical pro forma financial performance of Association as included in the Information Memorandum which takes into account the impact of the Business Relationship Agreements and the capital injection;
- considered the key assumptions adopted in Association's strategic financial model. This financial model has been prepared by Association to forecast the financial performance of Association for the two years ending 30 June 2001;
- performed a sensitivity analysis upon the key assumptions included in the financial model; and
- reviewed the Consulting Actuary's Report.

### 6.3 Assessment

The pro forma historical financial information and budgets have been prepared under a number of assumptions. The key assumptions adopted in the pro forma historical financial statements are disclosed in Section 11.4 of the Information Memorandum. This information shows that Association incurred an operating loss before investment income. This historical performance is similar to the projected performance incorporated in the financial model.

At 30 June 1999, Association had an investment portfolio with a market value of approximately \$380 million. Under the Proposal it will receive a 10% shareholding in NIGL with a market value of between \$381 million to \$440 million based on the estimate of the market price of a Share in NIGL prepared by Ernst & Young Corporate Finance. The basis and limitations of their estimate are discussed in Section 9.5 of their report. These Shares will increase the total value of Association's investment portfolio to more than \$700 million.

It is expected that the income derived from this investment portfolio will be sufficient to offset any future operating losses incurred by Association in meeting its stated objectives.

In arriving at our conclusion, we have reviewed the assumptions underlying the financial model and have undertaken a sensitivity analysis. The key sensitivities considered were:

- income from the investment portfolio;
- membership levels; and
- operating costs.

In forming our conclusion we have analysed the projected results included in the financial model in light of the range of probable investment returns for Association's investment portfolio after implementation of the Proposal.

### 6.4 Conclusion

The Shares allocated to Association are sufficient to enable it to carry out its stated objectives for the foreseeable future.

## 7. Sources of Information

In preparing this report Deloitte Corporate Finance have had access to, and relied upon, the following principal sources of information:

- discussions with management of NRMA Group;
- annual reports for the NRMA Group for the four years ended 30 June 1999;
- NRMA Group's budgets for the years ending 30 June 2000 and 30 June 2001;
- NRMA Group's Corporate Plan for the year ending 30 June 2000;
- constitutions of Association and Insurance;
- Board papers of both Association and Insurance Boards;
- reports prepared for the NRMA Group by Macquarie Corporate Finance Limited (draft), BT Corporate Finance Limited, Grant Samuel & Associates Pty Limited, Sir Laurence Street, McKinsey & Company, Credit Suisse First Boston Limited and Marsden Jacob Associates Pty Limited and Copernican Securities Pty Limited;
- minutes of internal management meetings in relation to the Proposal;
- various market research reports and findings commissioned by the NRMA Group;
- Investigating Accountant's Report prepared by KPMG;
- Consulting Actuary's Report prepared by PricewaterhouseCoopers;
- reports, correspondence and discussions with representatives of NRMA's Consulting Actuary, investigating Accountant, legal advisers, tax advisers and financial advisers to the NRMA Group;
- internal NRMA Group reports, documents and/or correspondence in relation to the Proposal; and
- successive drafts of the Information Memorandum.

An invitation was extended to all directors of NRMA Limited to meet with Deloitte Corporate Finance. Discussions were held with Dr J Campbell and Mr I Yates.



## 8. Qualifications, Limitations and Indemnities

### 8.1 Qualifications

Deloitte Corporate Finance is the licensed corporate advisory division of Deloitte Touche Tohmatsu ('DTT') and is wholly-owned by the partners of that firm. DTT is a national firm of chartered accountants and forms part of the international professional accounting firm operating under that name. DTT in Australia and internationally provides a full range of accounting and advisory services.

The persons principally responsible for the preparation of this report are Mr Rob Wylie FCA, Mr Johan Duivenvoorde B.Com CA and Mr Mark Pittorino B.Com M.App.Fin CA. Mr Wylie is an Authorised Representative of Deloitte Corporate Finance and a partner of DTT. Messrs Duivenvoorde and Pittorino are Directors and Authorised Representatives of Deloitte Corporate Finance and partners of DTT. They have many years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

The persons from Trowbridge Consulting principally responsible for assisting Deloitte Corporate Finance are Mr John Trowbridge BSc BE BA FIA FIAA and Mr Colin Brigstock BA FIAA AIA. Messrs Trowbridge and Brigstock are Directors of Trowbridge Consulting who have many years of experience providing actuarial consulting services predominantly in the insurance sector.

### 8.2 Declarations

Deloitte Corporate Finance does not have, at the date of this report, and has not had within the previous two years, any relationship with NRMA Limited that could reasonably be regarded as capable of affecting its ability to provide an independent and unbiased opinion in relation to the Proposal. Deloitte Corporate Finance has considered its independence with respect to NRMA with reference to Practice Note 42 issued by ASIC and considers itself to be independent of NRMA.

Individual partners and employees of Deloitte Touche Tohmatsu, or their families, and directors and employees of Deloitte Corporate Finance, or their families, may, as a result of membership of NRMA Limited and/or NRMA Insurance Limited, vote on the Proposal, and should it proceed, may have an entitlement to Shares in NIGL.

Deloitte Corporate Finance is entitled to receive a fee of approximately \$1.2 million relating to the preparation of this report. This fee is payable regardless of the outcome of the votes by Association Members and Insurance Members and the Court approval process. Except for this fee, Deloitte Corporate Finance has not received and will not receive any pecuniary or other benefit, whether directly or indirectly or in connection with the preparation of this report.

### 8.3 Limitations and Reliance on Information

The statements and opinions contained in this report are given in good faith and in the belief that such statements and opinions are not false or misleading. In the preparation of this report, Deloitte Corporate Finance and Trowbridge Consulting have relied upon the information provided by Association, Insurance, the directors and management of both Association and Insurance and their advisers. Deloitte Corporate Finance believes, on reasonable grounds, this information to be reliable, complete and not misleading and has no reason to believe that any material information has been withheld.

Deloitte Corporate Finance do not imply, nor should it be construed, that they have carried out any form of audit or verification on the information and records supplied. The information provided was evaluated through analysis, enquiry and review for the purpose of forming an opinion on the Proposal. Therefore, we do not express any opinion on any financial data or other information referred to in this report.

In so far as our opinion relies upon financial projections, we have reviewed their compilation to satisfy ourselves that they have been prepared on the basis of the underlying assumptions. However, those projections and assumptions are the sole responsibility of the directors of Association. The projections are based upon assumptions about events and circumstances which have not yet transpired. It is likely that events and circumstances will not occur as expected or others may occur which have not been anticipated. Therefore actual results may differ from the projections and such differences may be material.

An important component of the information used in forming an opinion of the kind expressed in this report comprises the judgement and views of senior management of Association and their advisers. This information was also evaluated through analysis, enquiry and review to the extent practical. However, such information is often incapable of external verification or validation.

In no event shall Deloitte Touche Tohmatsu, Deloitte Corporate Finance or any of their partners, directors, employees, consultants, agents or associates including Trowbridge Consulting (together 'Deloitte Person/s') be liable for any losses, damages, costs, expenses or claims whatsoever arising out of, or connected with, errors in our report which are caused by, or in any way connected with or related to, the provision to us of false, misleading, deceptive or incomplete information or documentation, or the acts or omissions of any other person.

Drafts of our report were issued to the Board and management of Association for confirmation of factual accuracy. Changes made to this report as a result of this review by the Board and management of Association have not changed the methodology or conclusions reached by Deloitte Corporate Finance.

The opinion of Deloitte Corporate Finance is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

The scope of our work has been limited to the matters set out in this report. The scope of our review does not deal with the potential impact of systems problems that may arise because of compliance with year 2000 issues. Our report has been prepared solely for the purpose outlined in Section 2.1 of this report. It cannot be quoted or referred to or used for any other purpose without our written consent.

### 8.4 Indemnities

Deloitte Corporate Finance has been provided with an indemnity from NRMA Limited in the following form:

'NRMA agrees to indemnify the Deloitte Persons (as defined above) in respect of all costs, expenses, fees of separate legal counsel or any other experts and all reasonable time charges made by Deloitte Persons in connection with investigating, preparing or defending any action or claim made against a Deloitte Person related to or in connection with this engagement.

NRMA agrees to pay all such charges as and when they arise. If it is ultimately determined by a Court or by admission of a Deloitte Person that the professional negligence of a Deloitte Person has resulted in the said action or claim, Deloitte Corporate Finance shall refund to NRMA all such amounts as have been paid by NRMA under this paragraph.

Furthermore, recognising that Deloitte Corporate Finance may rely on information provided by NRMA and its officers and/or associates, NRMA has agreed to make no claim by it or its officers and/or associates against Deloitte Corporate Finance to recover any loss or damage which NRMA or its associates may suffer as a result of that reliance and also has agreed to indemnify Deloitte Corporate Finance against any claim arising out of the assignments to give this report, except where the claim has arisen as a result of any proven wilful misconduct or negligence by Deloitte Corporate Finance.

NRMA Limited agrees to indemnify and hold harmless the Deloitte Persons against and from all actions, claims, proceedings, losses, damages, costs and expenses, whatsoever and howsoever caused, incurred, sustained or arising which the Deloitte Persons may suffer in arising from or in connection with the provision of services, except to the extent finally determined to have resulted from the negligence or wilful misconduct of personnel.

Liability is limited by, and to the extent of, the Accountants' Scheme under the Professional Standards Act 1994 (NSW).

Furthermore, none of the Deloitte Persons shall be liable for any losses, damages, costs, expenses or claims arising out of this engagement save in so far as they have been finally and judicially determined to have been directly and wholly caused by the wilful default or negligence of a Deloitte Person.

The aggregate liability of all Deloitte Persons in respect of all loss, damage, costs, expenses or claims arising out of this engagement howsoever caused, including without limitation, liability for negligence, shall be limited to an amount of not more than 10 times the amount of the fees rendered by Deloitte Corporate Finance in respect of this engagement'.

### 8.5 Consents

The report has been prepared at the request of the directors of Association and is to accompany the Information Memorandum to be given to Association Members to explain the Proposal in accordance with Regulation 8303 of Part 3 of Schedule 8 of the Corporations Regulations. Accordingly, it has been prepared only for the benefit of Association Members in their assessment of the Proposal and can not be used for any other purpose.

The report represents the expression by Deloitte Corporate Finance of its opinion as to whether or not the Proposal is in the best interest of the Association Members as a whole. Deloitte Corporate Finance consents to the issue of this report in the form and context in which it is included, as part of accompanying the Information Memorandum. We do not take responsibility for other parts of the Information Memorandum. Neither the whole nor any part of this report or any reference thereto may be included in or with or attached to any document without the prior written consent of Deloitte Corporate Finance to the form and context in which it appears.

Deloitte Corporate Finance has relied upon the estimated market price of a NIGL Share prepared by Ernst & Young Corporate Finance and included in their Independent Financial Expert's Report for Insurance. The basis and limitations of their estimate are discussed in Section 9.5 of their report. Deloitte Corporate Finance has received consent from Ernst & Young Corporate Finance for this reliance.

## 9.8 Other material information

Other than as contained in this document, there is no information material to the making of a decision in relation to the Association Schemes (being information that is within the knowledge of any Association director or a related company of Association) which has not previously been disclosed to Association Members.

## 9.9 Schemes of Arrangement

Set out below are the Schemes of Arrangement proposed to Association Members, Association Only Members and Dual Members under section 411 of the Corporations Law.

A scheme of arrangement is a plan which, by law, binds a company and its members (or a class of those members) to a restructuring or rearrangement of their positions. The scheme of arrangement must be approved by the Court to become effective.

Members should note that it is a formal legal document and that the definitions and other interpretative items in the Scheme are not used elsewhere in this document.

See also the Insurance Schemes which are set out on pages 96 to 99.

## Schemes of Arrangement

pursuant to section 411 of the Corporations Law  
between

### NRMA LIMITED

(ACN 000 010 506)

and

### its members and certain classes of them

#### Part I – Scope and Content of this Document

This document consists of Parts I, II, III, IV, V and VI and contains the terms of three schemes of arrangement, namely:

- the 'First Association Scheme', being a scheme of arrangement between NRMA Limited and all members of NRMA Limited;
- the 'Second Association Scheme', being a scheme of arrangement between NRMA Limited and that class of the members of NRMA Limited which consists of such of the members as are not also members of NRMA Insurance Limited (defined in Part II as 'Association Only Members'); and
- the 'Third Association Scheme', being a scheme of arrangement between NRMA Limited and that class of the members of NRMA Limited which consists of such of the members as are also members of NRMA Insurance Limited (defined in Part II as 'Dual Members').

The provisions in Part II and Part III form part of each of the First Association Scheme, the Second Association Scheme and the Third Association Scheme.

The provisions in Part IV form part of the First Association Scheme only.

The provisions in Part V form part of the Second Association Scheme only.

The provisions in Part VI form part of the Third Association Scheme only.

#### Part II – Definitions and Interpretation

*(Part II forms part of each of the First Association Scheme, the Second Association Scheme and the Third Association Scheme)*

##### 1 Definitions

In this Part II and in each of Parts III, IV, V and VI of this document, unless the context otherwise requires:

**ASIC** means the Australian Securities and Investments Commission.

**Association** means NRMA Limited (ACN 000 010 506).

**Association Constitution Amendment Resolution** means a special resolution of Association in the terms set out in the Notices of Meetings to modify the constitution of Association by:

- (a) inserting a new rule 52A imposing a qualified duty on the Association directors to cause to be done everything which it is necessary for Association and the directors of Association to do in order to implement and conclude the Proposal; and
- (b) inserting provisions to the effect that, upon the change of type of Insurance to a public company limited by shares, rule A(b)(iv) of the constitution will cease to be effective.

**Association Members** means members of Association registered as such in accordance with the constitution of Association, with several persons who, in accordance with the constitution of Association, are admitted and recorded as a single member being regarded for these purposes as together constituting a single Association Member.

**Association Only Members** means Association Members who are not also Insurance Members at the Register Date (and, for these purposes, the fact that any of several persons who together constitute a single Association Member is an Insurance Member shall be disregarded).

**Association Schemes** means the First Association Scheme, the Second Association Scheme and the Third Association Scheme.

**Association Secretary** means the secretary for the time being of Association or the person for the time being appointed by the directors of Association to perform the duties of a secretary of Association.

**Association's Control Rights in Insurance** means the class rights of Association as a member of Insurance referred to in rule 6A of Insurance's constitution.

**Business Relationship Agreements** means the agreements summarised on pages 139 to 145 of the Information Memorandum, including those referred to as Association and Insurance Intra-Group Compliance Deeds.

**Conditions Precedent** means the following conditions:

- (a) passing of the Association Constitution Amendment Resolution as a special resolution of Association;
- (b) passing of a special resolution of Insurance in the terms set out in the Notices of Meeting modifying the constitution of Insurance by:
  - (i) inserting a provision allowing Association Only Members to become Insurance Members (and causing memberships so arising to cease automatically if the Second Association Scheme is terminated for any reason or ASIC does not alter the details of Insurance's registration to reflect a change in its type to a public company limited by shares on or before 31 December 2000);
  - (ii) altering rule C;
  - (iii) imposing a requirement that notice of any general meeting to consider a proposed special resolution to change Insurance's type be published in a daily newspaper circulating generally throughout Australia; and
  - (iv) inserting a new rule 38A imposing a qualified duty on the Insurance directors to cause to be done everything which it is necessary for Insurance and the Insurance directors to do in order to implement and conclude the Proposal;
- (c) execution of the Business Relationship Agreements;
- (d) passing of a resolution for approval of each of the Insurance Schemes by the requisite majority under section 411(4)(a) of the Corporations Law;
- (e) approval of each of the Association Schemes, with or without modification, by the Court making an order under section 411(4)(b) of the Corporations Law; and
- (f) grant by the Treasurer of the Commonwealth of Australia, under section 14 of the Financial Sector (Shareholdings) Act 1998, of approval for NIGL to hold a stake of 100% in Insurance.

**Conditions Subsequent** means the following conditions:

- (a) approval of each of the Insurance Schemes, with or without modification, by the Court making an order under section 411(4)(b) of the Corporations Law;
- (b) the due giving of consent referred to in clause 1.4(a) of Part IV;
- (c) passing the Insurance Demutualisation Resolutions as special resolutions of Insurance; and
- (d) alteration by the ASIC of the details of Insurance's registration to reflect its new type as a public company limited by shares.

**Court** means the Supreme Court of New South Wales.

**Dual Members** means Association Members who are also Insurance Members at the Register Date (and, for these purposes, the fact that any of several persons who together constitute a single Association Member is an Insurance Member shall be disregarded).

**Effective Date** means the later of:

- (a) the date on which office copies of the orders under section 411(4)(b) of the Corporations Law approving the First Association Scheme, the Second Association Scheme and the Third Association Scheme are lodged with ASIC; and
- (b) the first date on which all of the Conditions Precedent are satisfied.

**End Date** means 31 December 2000.

**First Association Scheme** means a scheme of arrangement between Association and all the Association Members in the terms set out in Parts II, III and IV of this document, subject to any alterations or conditions made or required by the Court pursuant to section 411(6) of the Corporations Law.

**Implementation Deed** means the deed dated 21 January 2000 between Association, Insurance, NIGL and the directors of NIGL described on page 145 of the Information Memorandum.

**Information Memorandum** means the Information Memorandum dated 14 February 2000 issued in relation to the Proposal.

**Insurance** means NRMA Insurance Limited (ACN 000 016 722).

**Insurance Change of Status** means the process by which:

- (a) Insurance changes its type from a company limited by guarantee to a public company limited by shares, pursuant to Part 2B.7 of the Corporations Law; and
- (b) Insurance becomes a wholly owned subsidiary of NIGL by virtue of NIGL being the only person included by Insurance in the list of persons to whom shares in Insurance will be issued upon its change of type (being the list prepared by Insurance pursuant to paragraph 163(3)(a) of the Corporations Law); and
- (c) Insurance Members are issued shares in NIGL in accordance with the Share Allocation Rules and pursuant to the Implementation Deed.

**Insurance Demutualisation Meeting** means a general meeting of the members of Insurance to consider and, if thought fit, pass the Insurance Demutualisation Resolutions.

**Insurance Demutualisation Resolutions** means special resolutions of Insurance in the following terms:

'That NRMA Insurance Limited change its type from a company limited by guarantee to a public company limited by shares.'

'That the constitution of NRMA Insurance Limited be repealed, with this resolution taking effect on the date on which the change of the type of NRMA Insurance Limited from a company limited by guarantee to a public company limited by shares takes effect under subsection 164(5) of the Corporations Law.'

**Insurance Members** means members of Insurance registered as such in accordance with the constitution of Insurance.

**Insurance Register** means the register of members of Insurance.

**Insurance Schemes** means the schemes of arrangement pursuant to section 411 of the Corporations Law between Insurance and classes of its members as set out on pages 96 to 99 of the Information Memorandum, as those schemes may be modified or amended in accordance with their terms.

**NIGL** means NRMA Insurance Group Limited (ACN 090 739 923).

**Notices of Meetings** means the notices of meeting of Association and Insurance set out on pages 148 to 154 of the Information Memorandum.

**Proposal** means the proposal outlined in clause 3.1 of Part III.

**Register Date** means the date of the meetings at which the Association Schemes and the Insurance Schemes are agreed to.

**Second Association Scheme** means a scheme of arrangement between Association and the Association Only Members in the terms set out in Parts II, III and V of this document, subject to any alterations or conditions made or required by the Court pursuant to section 411(6) of the Corporations Law.

**Share Allocation Rules** means the rules for determining the allocation of shares in NIGL to be issued to Insurance Members as set out on pages 43 to 47 of the Information Memorandum.

**special resolution and resolution** means, in relation to Association or Insurance, respectively a resolution of the members of Association or Insurance (as the case may be) which is a special resolution as defined by the Corporations Law and a resolution of those members which is not a special resolution as so defined.

**Third Association Scheme** means a scheme of arrangement between Association and the Dual Members in the terms set out in Parts II, III and VI of this document, subject to any alterations or conditions made or required by the Court pursuant to section 411(6) of the Corporations Law.

## 2 Interpretation

In this Part II and in each of Parts III, IV, V and VI of this document, unless the context otherwise requires:

- (a) the singular includes the plural and vice versa;
- (b) each gender includes each other gender;
- (c) a reference to a Part, paragraph or clause is a reference to a Part, paragraph or clause of this document;
- (d) a reference to a statute, regulation or agreement is to such a statute, regulation or agreement as from time to time amended;
- (e) the word person includes a firm, a body corporate, a partnership, a joint venture, an unincorporated body or association, or any government agency;
- (f) a reference to a person includes a reference to the person's executors, administrators, successors, substitutes (including, without limitation, persons taking by novation) and assigns;
- (g) if a period of time is specified and dates from a given day or the day of an act or event, it is to be calculated exclusive of that day;
- (h) a reference to a day is to be interpreted as the period of time commencing at midnight and ending 24 hours later; and
- (i) the interpretation of a substantive provision is not affected by any heading.

## 3 Governing law

Each of the Association Schemes is governed by the law in force in New South Wales.

## Part III – Context and Purpose Of The Association Schemes

*(Part III forms part of the First Association Scheme, the Second Association Scheme and the Third Association Scheme)*

### 1 Parties

- 1.1 Association is a public company limited by guarantee and incorporated in New South Wales which provides to its members emergency and roadside breakdown services, vehicle inspections, maps and other related products and services.
- 1.2 Insurance is a public company limited by guarantee and incorporated in New South Wales which provides general insurance and other financial services.
- 1.3 NIGL is a public company limited by shares and incorporated in the Australian Capital Territory which has not commenced business.

### 2 Relationships

- 2.1 Association is a member of Insurance and in that capacity enjoys certain rights, including Association's Control Rights in Insurance.
- 2.2 The one share which has been issued by NIGL is presently held by Stuart John Nelson.

### 3 The Proposal and the Role of the Association Schemes

- 3.1 The Association Schemes, with the Insurance Schemes, embrace a series of steps together constituting a proposal under which:
  - (a) the Association Only Members will become Insurance Members;
  - (b) Insurance will, through the Insurance Change of Status, convert from a public company limited by guarantee to a public company limited by shares;
  - (c) all of the shares in Insurance issued under the Insurance Change of Status will be issued to NIGL;
  - (d) each Insurance Member (including Association and an Association Only Member who becomes an Insurance Member):
    - (i) will receive an allocation of shares in NIGL in accordance with the Share Allocation Rules; and
    - (ii) through the Insurance Change of Status, will cease to be a member of Insurance so that the liability of the Insurance Member as a guarantor on the winding up of Insurance is extinguished;
  - (e) by virtue of the Insurance Demutualisation Resolutions and its ceasing to be an Insurance Member, Association will cease to enjoy Association's Control Rights in Insurance;
  - (f) commercial and other relationships among Insurance, Association and NIGL become regulated by the Business Relationship Agreements; and
  - (g) ownership of certain trade marks related to insurance and financial services activities will be assigned by Association to NIGL, Association will grant to NIGL licences to use and sub-licence the NRMA trade marks which Association and Insurance are to use concurrently after the Insurance Change of Status and use of all such trade marks will become regulated by certain of the Business Relationship Agreements, all as more particularly described in the Information Memorandum.
- 3.2 If the Association Schemes become effective:
  - (a) Association Only Members will become members of Insurance;
  - (b) Association will be appointed as the agent of each Association Only Member to do the things specified in clause 2.1 of Part V on behalf of each Association Only Member, including:
    - (i) agreeing to become a member of Insurance and, on and subject to the Insurance Change of Status, to become a shareholder of NIGL; and
    - (ii) appointing the Association Secretary to attend the Insurance Demutualisation Meeting and to vote in favour of the Insurance Demutualisation Resolutions; and
  - (c) the Association Members, the Association Only Members and the Dual Members will, as classes, be entitled and bound otherwise to become participants in the results of the Proposal.

### 4 Implementation Deed

- 4.1 Association, Insurance, NIGL and the directors of NIGL have agreed by executing and delivering the Implementation Deed to carry into effect the Association Schemes, the Insurance Schemes and the Insurance Change of Status.



## Part IV – Provisions of the First Association Scheme

*(Part IV forms part of the First Association Scheme only)***1 Central provisions – respective rights and obligations**

- 1.1 The Association Members are, as against Association and among themselves, bound to suffer such detriments and entitled to derive such advantages and enjoy such benefits as arise from the due implementation of the Proposal.
- 1.2 Without limiting the generality of clause 1.1 of this Part IV, each Association Member is entitled and bound, as against Association and each other Association Member:
  - (a) to suffer such detriment as shall arise from:
    - (i) Association's ceasing, by virtue of the Proposal, to possess and enjoy Association's Control Rights in Insurance;
    - (ii) the due performance of the Implementation Deed;
    - (iii) the operation of the Share Allocation Rules; and
    - (iv) the making of the Business Relationship Agreements; and
  - (b) to receive such benefit as shall accrue to the Association Member by reason of:
    - (i) Association becoming a shareholder in NIGL;
    - (ii) Insurance becoming a wholly-owned subsidiary of NIGL;
    - (iii) the due performance of the Implementation Deed;
    - (iv) the operation of the Share Allocation Rules; and
    - (v) the making of the Business Relationship Agreements.
- 1.3 Association is bound, as against the Association Members, to take all action necessary on its part to implement the Proposal, including action that can only be taken by Association's board of directors.
- 1.4 Without limiting the generality of clause 1.3 of this Part IV, Association is bound, as against the Association Members:
  - (a) to consent, in the manner specified in rule 6A of the constitution of Insurance, to the abrogation and repeal of Association's Control Rights in Insurance through repeal of Insurance's constitution pursuant to the Insurance Demutualisation Resolutions, with the board of directors of Association being accordingly required to take the following steps to effect such consent:
    - (i) passing, with 75% or more of the votes cast on it being in favour, a resolution which gives consent to such abrogation and repeal and directs that there be executed under the common seal of Association an instrument which embodies that consent and certifies that such a resolution with that level of support has been passed by the board of directors of Association; and
    - (ii) causing that instrument to be executed under the common seal of Association and to be delivered to Insurance; and
  - (b) to exercise its voting power as an Insurance Member in favour of the Insurance Demutualisation Resolutions.
- 1.5 Association and the Association Members acknowledge that the Proposal is the scheme or plan referred to in the definition of 'NRMA Insurance Restructure' in the new rule 52A which is specified in the Association Constitution Amendment Resolution.

**2 Conditions – First Association Scheme**

- 2.1 The satisfaction of each of the Conditions Precedent is a condition precedent to the operation of clause 1 of this Part IV.
- 2.2 The First Association Scheme will become effective on the Effective Date but only if the Effective Date occurs on or before the End Date.
- 2.3 If any of the Conditions Subsequent is not satisfied by the End Date, the First Association Scheme will terminate at the conclusion of the End Date and all entitlements and obligations arising under it will be extinguished so that the position of each Association Member with respect to the subject matter of the First Association Scheme is then as it would have been had the First Association Scheme not become effective pursuant to clause 2.2 of this Part IV.
- 2.4 None of the Conditions Precedent or Conditions Subsequent, as they affect provisions of the First Association Scheme, may be waived or otherwise dispensed with by Association, the Association Members or any of them.

**3 Authority and variation – First Association Scheme**

- 3.1 The Association Members consent to Association doing all things necessary or incidental to the implementation of the First Association Scheme and the First Association Scheme binds Association and all Association Members including those not voting on the resolution to approve the First Association Scheme.
- 3.2 Association may by its counsel or solicitor consent on behalf of all persons concerned (including the Association Members) to any modifications of, or amendments to, the First Association Scheme which the Court thinks fit to impose.

## Part V – Provisions of the Second Association Scheme

*(Part V forms part of the Second Association Scheme only)***1 Central provisions – respective rights and obligations**

- 1.1 The Association Only Members are, as against Association and among themselves, bound to suffer such detriments and entitled to derive such advantages and enjoy such benefits as arise from the due implementation of the Proposal.
- 1.2 Each Association Only Member is entitled and bound, as against Association:
  - (a) to become a member of Insurance by exercise of the authority created by clause 2.1 of this Part V and accordingly to be bound by the constitution of Insurance and to accept the liability during the time they are a member of Insurance and within one year afterwards (or until the liability sooner terminates upon and by virtue of the change of type of Insurance to a public company limited by shares) to contribute \$1.00 to the assets of Insurance in the event Insurance is wound up; and
  - (b) having first become a member of Insurance, to become a shareholder of NIGL through the Insurance Change of Status by exercise of the authority created by clause 2.1 of this Part V and accordingly to be bound by the constitution of NIGL.

**2 Central provisions – agency**

- 2.1 On and from the Effective Date and without the need for any further act, Association is invested with the authority of each Association Only Member to do each of the following things on behalf of the Association Only Member:
  - (a) agree to become a member of Insurance and accordingly to be bound by the constitution of Insurance, including acceptance of the liability during the time they are members of Insurance or within one year afterwards (or until the liability sooner terminates upon and by virtue of the change of type of Insurance to a public company limited by shares) to contribute \$1.00 to the assets of Insurance in the event Insurance is wound up;
  - (b) agree, on and subject to the Insurance Change of Status, to become a shareholder of NIGL and accordingly to be bound by the constitution of NIGL and to consent to the entry of their name and address in NIGL's register of members in respect of the shares in NIGL allocated to them;
  - (c) nominate for the purposes of section 249J(3)(b) of the Corporations Law the address of Association as their alternative address for receipt of notices of meetings of the members of Insurance;
  - (d) empower the Association Secretary to receive for the Association Only Member notice of the Insurance Demutualisation Meeting, with no obligation to pass that notice on to the Association Only Member;
  - (e) appoint the Association Secretary as their proxy to attend and vote for the member at the Insurance Demutualisation Meeting in the capacity of an Insurance Member; and
  - (f) specify in the proxy appointment that the Association Secretary is to vote in favour of the Insurance Demutualisation Resolutions.
- 2.2 Subject to clause 2.4 of this Part V, Association is bound, as against each Association Only Member, to appoint the Association Secretary as the proxy of the Association Only Member to attend the Insurance Demutualisation Meeting and vote in favour of each of the Insurance Resolutions and to specify in the proxy appointment that the Association Secretary is to vote in favour of the Insurance Demutualisation Resolutions.
- 2.3 The authority conferred upon Association by an Association Only Member pursuant to clause 2.1 (e) and (f) of this Part V and the appointment of the Association Secretary as the proxy of the Association Only Member may be withdrawn in relation to an Insurance Demutualisation Resolution to be passed at the Insurance Demutualisation Meeting by that Association Only Member:
  - (a) attending the Insurance Demutualisation Meeting and voting in person on that Insurance Demutualisation Resolution; or
  - (b) appointing another person as the proxy (or, if the Association Only Member is a corporation, the representative) of the Association Only Member for the purposes of the Insurance Demutualisation Meeting,
 but otherwise the authority conferred upon Association by an Association Only Member pursuant to a provision of clause 2.1 of this Part V cannot be withdrawn or revoked.
- 2.4 Association must not exercise the power vested in Association under clause 2.1 (e) and (f) of this Part V to appoint the Association Secretary in relation to an Association Only Member where that Association Only Member has notified Association in writing that they do not wish that power to be exercised in relation to them.

**3 Conditions – Second Association Scheme**

- 3.1 The satisfaction of each of the Conditions Precedent is a condition precedent to the operation of clauses 1 and 2 of this Part V.
- 3.2 The Second Association Scheme will become effective on the Effective Date but only if the Effective Date occurs on or before the End Date.



Part V – Provisions of the Second Association Scheme – continued  
(Part V forms part of the Second Association Scheme only)

- 3.3 If any of the Conditions Subsequent is not satisfied by the End Date, the Second Association Scheme will terminate at the conclusion of the End Date and all entitlements and obligations arising under it will be extinguished (but without prejudice to anything previously done in exercise of an authority conferred upon Association by the Second Association Scheme) so that the position of each Association Only Member with respect to the subject matter of the Second Association Scheme is then as it would have been had the Second Association Scheme not become effective pursuant to clause 3.2 of this Part V, save that if the Association Only Member became, through exercise of the authority conferred by clause 2.1(a) of this Part V, an Insurance Member and, by virtue of termination of the Second Association Scheme, the membership of Insurance ceased automatically by operation of the provision of the constitution referred to in paragraph (b)(i) of the definition of 'Conditions Precedent' in clause 1 of Part 1, the liability of the Association Only Member referred to in clause 1.2(a) of this Part V will continue after the cessation of membership for the limited period mentioned in that clause 1.2(a).
- 3.4 None of the Conditions Precedent or Conditions Subsequent, as they affect provisions of the Second Association Scheme, may be waived or otherwise dispensed with by Association, the Association Only Members or any of them.

**4 Authority and variation – Second Association Scheme**

- 4.1 The Association Only Members consent to Association doing all things necessary or incidental to the implementation of the Second Association Scheme and acknowledge that that scheme binds all Association Only Members whether or not they voted in favour of the resolution to approve it.
- 4.2 Association may by its counsel or solicitor consent on behalf of all persons concerned (including the Association Only Members) to any modifications of, or amendments to, the Second Association Scheme which the Court thinks fit to impose.

Part VI – Provisions of the Third Association Scheme  
(Part VI forms part of the Third Association Scheme only)

**1 Central provisions – respective rights and obligations**

- 1.1 The Dual Members are, as against Association and among themselves, bound to suffer such detriments and entitled to derive such advantages and enjoy such benefits as arise from the due implementation of the Proposal.
- 1.2 Without limiting the generality of clause 1.1 of this Part VI, each Dual Member is entitled and bound, as against Association and each other Dual Member:
- (a) to suffer such detriment as shall arise from each Association Only Member being admitted as an Insurance Member and thereby becoming entitled, as an Insurance Member, to participate in the benefits of the implementation of the Proposal along with other Insurance Members, including the Dual Members; and
- (b) to enjoy the advantage of implementation of the Proposal which would not be available without admission of the Association Only Members as Insurance Members.

**2 Conditions – Third Association Scheme**

- 2.1 The satisfaction of each of the Conditions Precedent is a condition precedent to the operation of clause 1 of this Part VI.
- 2.2 The Third Association Scheme will become effective on the Effective Date but only if the Effective Date occurs on or before the End Date.
- 2.3 If any of the Conditions Subsequent is not satisfied by the End Date, the Third Association Scheme will terminate at the conclusion of the End Date and all entitlements and obligations arising under it will be extinguished so that the position of each Dual Member with respect to the subject matter of the Third Association Scheme is then as it would have been had the Third Association Scheme not become effective pursuant to clause 2.2 of this Part VI.
- 2.4 None of the Conditions Precedent or Conditions Subsequent, as they affect provisions of the Third Association Scheme, may be waived or otherwise dispensed with by Association, the Dual Members or any of them.

**3 Authority and variation – Third Association Scheme**

- 3.1 The Dual Members consent to Association doing all things necessary and incidental to the implementation of the Third Association Scheme and acknowledge that that scheme binds all Dual Members whether or not they voted in favour of the resolution to approve it.
- 3.2 Association may by its counsel or solicitor consent on behalf of all persons concerned (including the Dual Members) to any modifications or amendments to the Third Association Scheme which the Court thinks fit to impose.

# 10. Insurance Explanatory Statement

## 10.1 Introduction

This Section sets out information for Insurance Members, including certain prescribed information concerning the Proposal which is required to be given to Insurance Members under sections 243V and 411 of the Corporations Law. Some of the information prescribed by sections 243V and 411 is set out in other Sections of this document. This explanatory statement of Insurance is to be taken as incorporating all other Sections of this document other than Section 9 ('Association Explanatory Statement') and the notices of meetings (pages 148 to 154).

## 10.2 What are Insurance Members giving up and receiving?

What will Insurance Members be giving up?

Insurance Members will be giving up their membership rights in Insurance. Association will give up its special rights as a member of Insurance. These rights are set out on page 39.

Description of existing Insurance membership rights

Insurance Members (other than Association) currently have the following membership rights (see page 39):

- the right to vote at meetings, including the right to vote to change the constitution of Insurance (subject to Association's special rights as a member of Insurance) and to remove, but not elect, Insurance directors;
- the right to request a general meeting of Insurance Members (with the support of at least 99 other Members);
- the right to propose a resolution to be considered at such a meeting; and
- the right to have the surplus of Insurance applied solely for the objective specified in Insurance's constitution.

Do Insurance Members control Insurance?

Insurance Members, in a strict legal sense, enjoy the right of ultimate control over Insurance's constitution through their voting rights as Insurance Members (see pages 38 to 39). This right is valuable as it entitles Insurance Members to participate in any restructuring of Insurance.

Association, however, has special rights as a member of Insurance (see page 39). In particular, Association has the right to appoint and remove the Insurance directors. A majority of Insurance directors must be Association directors.

Many of the special rights that Association has in Insurance give Association practical control over the management of Insurance's business. This must be contrasted with the type of control that arises from share ownership. However, Association does not have complete control over Insurance. Directors of Insurance, even if appointed by Association, must still act in the best interests of all Insurance Members and may not necessarily act in accordance with Association's wishes. Association has no right to any asset from Insurance unless Insurance is wound up and, in any general meeting (including one for a voluntary winding-up), Association, in common with all Insurance Members, only has one vote. Nor has Association any right to be paid a dividend by Insurance. Indeed, any major restructuring which would allow Members to access the value of Insurance would generally require the approval of Insurance Members.

The control over Insurance's constitution exercised by Insurance Members is subject to the rights of Association to continue to enjoy the right to control the composition of the Insurance Board and, therefore, also practical control over the management of Insurance's business.

What will Insurance Members be receiving?

Insurance Members (including Association Only Members who become Insurance Members as a result of the Proposal) will receive Shares in NIGL in exchange for giving up their membership rights in Insurance.

## 10.3 Related party benefits

What are the related party benefits?

Under the Corporations Law, Association is a related party of Insurance. Because some of the terms of particular Business Relationship Agreements result in financial benefits being provided by Insurance (and in the case of the Shared Services Outsourcing Agreement, also by one of its subsidiaries NRMA Investment Management Pty Limited) to Association, these are classified as related party benefits. As such, they must be considered by Insurance Members in general meeting and approved by a resolution passed by more than 50% of the votes validly cast by Insurance Members eligible to vote at that meeting.

What is the nature of the financial benefits given to Association?

The proposed benefits arise under the terms of the individual Business Relationship Agreements to which Association and Insurance will be parties and which were developed within the context of the Proposal. The benefits do not accrue to any individual or director. The nature of the financial benefits can be characterised generally as follows:

- Provision of services: Insurance and its subsidiary, NIM, agree to provide services to Association. Although the pricing terms may vary by contract, prices are generally set at cost plus 5% and are capped for three years from the date of the Business Relationship Agreements coming into effect. These terms may be more favourable than the terms Association could obtain from an unrelated third party service provider.
- Customer database: Insurance will provide Association with access to its customer database for no charge.
- Ancillary obligations: In connection with the services to be provided, Insurance and NIM take on additional obligations such as maintenance of technology systems, indemnities for loss caused by breach on their part, maintenance of insurance cover and obligations on termination.

The individual Business Relationship Agreements are summarised on pages 139 to 145, and members can inspect copies of the agreements censored to exclude schedules containing commercially sensitive information (see page 138). In addition, the financial benefits provided by Insurance and NIM are summarised on page 33.

The Pro forma financial information on pages 110 to 117 seeks to illustrate, among other things, the effect of the Business Relationship Agreements, were they to have been in place during the financial years ended 30 June 1998 and 1999.

Why are the financial benefits being given?

The financial benefits are necessary to ensure that the terms of the relevant Business Relationship Agreements as a whole are acceptable to both Association and Insurance and their respective members. Because of this, the financial benefits should be viewed in the context of the give and take of the Proposal as a whole.

The report of Ernst & Young Corporate Finance considered the impact of the Business Relationship Agreements in reaching their conclusion that the Proposal was in the best interest of Insurance Members as a whole (see page 71).

All other information likely to be material to Insurance Members' decision as to whether to approve the financial benefits to Association is provided in this document. In particular, members should consult:

- the text of the resolution approving the making of the contracts under which the financial benefits will be given (page 153);
- the outline of the Proposal (pages 4 to 16);
- the taxation consequences of the Proposal (pages 42 to 43);
- the report of Ernst & Young Corporate Finance to Insurance Members (pages 71 to 94); and
- the Consulting Actuary's report of PricewaterhouseCoopers (pages 120 to 133).

What are the directors' recommendations on giving the financial benefits to Association?

None of the Insurance directors have a material personal interest in the giving of the financial benefits to Association. See page 70 for their recommendations on the resolution.

Can the directors vote on this resolution?

Association directors and any Insurance directors who are also Association directors may not vote on this resolution, unless they have been appointed as a proxy by another member and instructed how to vote.

## 10.4 Intentions

The information contained in this document sets out, in full, particulars of the intentions of the Insurance directors about:

- the continuation of the business of Insurance or, if the undertaking, or any part of the undertaking of Insurance is to be transferred, how that undertaking or part is to be conducted in the future;
- any major changes to be made to the business of Insurance, including any redeployment of the fixed assets of Insurance; and
- the future employment of the present employees of Insurance.

Insurance Members are referred primarily to page 33 for information on the above matters.

## 10.5 Recommendations and views of Insurance directors on the Insurance Schemes

Each of the Insurance directors recommends that you vote in favour of the Insurance Schemes (and interdependent resolutions) and intend to vote in favour of the Schemes and resolutions on which they are eligible to vote.

The views of individual Insurance directors are provided below. Members should, however, be aware that the recommendations and views are those of the individual directors, rather than of Insurance.

### **Mr N R Whittam, Mrs M C Callaghan, Mrs D G Collins, Mrs M Easson, Mr N D Hamilton and Ms A J Keating**

The primary reasons for the recommendation of the above directors that you vote in favour of the Insurance Schemes (and interdependent resolutions) are a belief that the Proposal:

#### *Recognises that the mutual structure is no longer appropriate for Insurance*

- each of the directors listed above believes that a mutual structure is no longer a suitable structure for the insurance and financial services business of Insurance because of the matters discussed below; and
- the Proposal also enables management of the insurance and financial services arm of the NRMA Group to focus on those services alone.

#### *Creates potential for expansion and diversification of risk*

- the Proposal is well timed to ensure Insurance remains competitive in an environment of increasing consolidation and globalisation of the insurance and financial services industry; and
- in this environment, the Proposal creates potential for Insurance to expand and further diversify its risk profile by facilitating through listing the raising of equity capital to fund growth.

#### *Allows Members to share in the wealth of Insurance*

- notwithstanding Association's level of control of Insurance (as entrenched in the Insurance constitution), the Proposal allows Insurance Members to share in the wealth of Insurance;
- other methods of distributing wealth to Members, such as insurance rebates, would benefit non-members and in that sense are not equitable; and
- each of the directors listed above believes that the Share Allocation Rules are fair and reasonable among all classes of Members, and in particular Insurance Members because:
  - in view of the relative contributions of Association and Insurance to development of the NRMA brand and businesses;
  - the rights of Members under the constitutions of each company; and
  - the rights being given up by Association and by Insurance Members in Insurance.

#### *Recognises the impact of the increasing number of non-member customers*

- the number of non-member customers of Insurance has grown significantly in recent times. Non-member customers' interests may not necessarily be aligned with those of Members;
- changing technologies (such as e-commerce) will increase pressure on Insurance to expand its customer base beyond traditional boundaries; and
- it is difficult in these circumstances to maximise benefits for Members only, as is dictated by a mutual structure.

#### *Facilitates the ongoing business relationship*

- under the Business Relationship Agreements the synergies between the road and related motoring services provided by Association and the insurance and financial services provided by Insurance can be maintained, formalised and, where opportunities exist, enhanced; and
- in particular, the common use of the NRMA Brands and unique distribution network is provided for. The Proposal also secures Insurance's right to use the NRMA Brands for insurance and financial services, operations in common with Association and new areas of operation; and

#### *Is superior to other options*

- none of the other options considered by the Insurance Board is as beneficial to Insurance Members, whether they are also Association Members or not, as the Proposal (see the discussion on pages 26 to 27).

Finally, each of the directors listed above believes that the advantages of the Proposal outweigh its disadvantages (see pages 23 to 25).

#### **Mr E Dodd**

Mr Dodd is the Chief Executive Officer of Association and Managing Director and Chief Executive Officer of Insurance. Mr Dodd has provided the following recommendation for inclusion in this Information Memorandum:

'As a Director of Insurance, I am required to express my view on how I intend to vote and the reasons for my decision. Indeed, Insurance Members may feel that given my position that my views are an important consideration in determining how they may wish to vote.

I strongly support the Proposal and recommend that Members vote for the Proposal as I intend to.

My view is based on four fundamentally important reasons:

#### *The issue of Shares is the best way for Members to access their wealth of Insurance*

I hold this view because:

- Members can access more value than insurance premium rebates allow;
- Members are provided with a direct ownership interest which they control (hold or sell) rather than their current rights which are less tangible and illiquid;
- Shares provide an equitable distribution of the wealth to all Members (including Insurance Members and Association Members); and
- issuing Shares does not weaken the capital position of Insurance.

#### *Higher standards of corporate governance*

As a listed company, NRMA Insurance will benefit from a commercially focused Board of directors that is dedicated to accounting to the owners of the company. Advantages of this include:

- full and continuous disclosure to Shareholders and the investing market;
- appointment of a dedicated and experienced management team that is aligned to the interests of the Board and the Shareholders; and

Association will benefit from a separate and dedicated Board committed to member requirements.

#### *The financial and operational strength of both organisations is enhanced*

Both the Insurance business and Association will benefit from the surety of the agreements that will bind and align the interests of the two organisations. As well, the Proposal will result in:

#### *Association*

- an injection of approximately \$300 million to strengthen the Association business;
- higher levels of capital investment and therefore improved services to Members;
- substantial and continuous investment earnings for Association which will allow membership fees to remain affordable.

#### *Insurance*

- a share equity capital base and greater balance sheet flexibility; and
- a dedicated Board and management team that will more effectively implement national expansion and financial services strategies.

#### *The benefits of a close relationship between Association and Insurance are maintained*

I believe that the close relationship between Association and Insurance and the pricing and quality of road services to Members have been important factors in the development of the NRMA brand and the success of the Insurance business.

The Proposal has been developed to preserve those benefits as it:

- maintains and contractually details the close relationship between Insurance and Association;
- maintains operational synergies between the businesses;
- improves the ongoing financial viability of Association;
- ensures that Association can maintain, if not improve, current road and related services to Association Members; and
- improves Association's capacity to provide attractive pricing of membership fees in the future.

Finally, I believe that the reasons for voting in favour of the Proposal outweigh the reasons for voting against the Proposal.'

## 10.6 Recommendations and views of Insurance directors on related party transactions

Each of the Insurance directors recommend that Insurance Members vote for the resolution approving the related party benefits that flow from Insurance to Association under the Business Relationship Agreements. Each Insurance director who is not also an Association director intends to vote in favour of that resolution. The Insurance directors believe that the proposed benefits should be considered as part of the Proposal as a whole, as they are integral to the Business Relationship Agreements which would underpin the relationship between Association and the Insurance Group if the Proposal goes ahead. The Insurance directors are of the opinion that when the giving of the related party benefits is evaluated in light of the Proposal as a whole, particularly the other benefits that would in return accrue both to Insurance Members and Insurance itself, that voting for the resolution is in the best interests of Insurance Members.

### Important note

Members should note that the above reasons reflect the opinions and beliefs of those directors listed above. In forming those opinions and beliefs, each director named above has separately had regard to the interests of those Insurance Members who are also Association Members and those who are not.

Mr E Dodd and Mr N D Hamilton are directors of Insurance only. Each of the other directors listed above is a director of both Insurance and Association and is not eligible to vote on the resolution unless merely acting as a proxy for another Insurance Member who has given directions as to how to vote.

## 10.7 Directors' interests

The Proposal will not have an effect on any material interests of the Insurance directors, whether as directors, members or creditors of Insurance or otherwise, which would be different from the effect of the Proposal on the like interests of other persons.

All Insurance directors are Association Members and Insurance Members and as Members will receive Shares in respect of their membership in the same way as other Members, if the Proposal goes ahead. As a result, Insurance directors (including companies controlled by them) will receive the following Shares if the Proposal goes ahead:

<i>Director</i>	<i>Share Allocation taking into account Association membership</i>	<i>Share Allocation as an Insurance Member</i>	<i>Total Share Allocation</i>
M C Callaghan	264	879	1,143
D G Collins	364	653	1,017
E Dodd	324	653	977
M Easson	264	540	804
N D Hamilton	184	–	184
A J Keating	214	314	528
N R Whitlam	508	1,532	2,040

There are no agreements or arrangements made between an Insurance director and any other person in connection with or conditional on the outcome of the Insurance Schemes, except that:

- under the Implementation Deed, Mr Dodd, together with the other initial directors of NIGL, must cause the NIGL Board to be reconstituted so that immediately after the issue of Shares the composition of the NIGL Board is the same as that of the Insurance Board at that time (see page 33);
- the Managing Director of Insurance is intended to become the Chief Executive Officer and Managing Director of NIGL.

It is not proposed that any payment or other benefit will be made or given to any director, secretary or executive officer of Insurance or of any related body corporate as compensation for loss of, or as consideration for or in connection with, their retirement from such office.

## 10.8 Report of Ernst & Young Corporate Finance

The report of Ernst & Young Corporate Finance is set out below:

### ERNST & YOUNG CORPORATE FINANCE PTY LIMITED

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14 February 2000

The Directors  
NRMA Insurance Limited  
388 George Street  
Sydney NSW 2000

Dear Directors

## Independent Financial Expert's Report

### 1. Introduction

The directors of NRMA Limited ('Association') and NRMA Insurance Limited ('Insurance') have resolved to put to their members a proposal for the future structure of their organisations ('the Proposal'). Ernst & Young Corporate Finance Pty Limited ('Ernst & Young Corporate Finance') has been engaged to prepare an independent financial expert's report for Insurance Members with respect to the Proposal.

Our report is set out as follows:

<b>Section 2</b>	<b>Summary of Opinion.</b>
<b>Section 3</b>	<b>Purpose and Scope of this Report.</b>
<b>Section 4</b>	<b>Current Structure.</b>
<b>Section 5</b>	<b>Proposal.</b>
<b>Section 6</b>	<b>Assessment of the Proposal for Insurance Members other than Association.</b>
<b>Section 7</b>	<b>Assessment of the Proposal for Association as an Insurance Member.</b>
<b>Section 8</b>	<b>The Insurance Industry.</b>
<b>Section 9</b>	<b>Estimation of Share Price.</b>
<b>Section 10</b>	<b>Statement of Qualifications and Declarations.</b>
<b>Appendices</b>	
<b>A</b>	<b>Sources of Information.</b>
<b>B</b>	<b>Comparable Company Analysis.</b>

In summary, if the Proposal is approved and implemented it will involve the following:

- a new holding company limited by shares ('NIGL'), which has been incorporated, will wholly own Insurance;
- the constitutions of Association and Insurance are modified to, among other things, separate the two entities and permit Association Only Members to become Insurance Members and Association Members will confirm the surrender of Association's special rights as an Insurance Member;
- Insurance Members (excluding Association) approve the financial benefit given to Association under the Business Relationship Agreements established between Association and NIGL;
- Association Only Members are made Insurance Members pursuant to a Scheme of Arrangement under the Corporations Law;
- Insurance is demutualised and will become a wholly-owned subsidiary of NIGL by issue of shares to NIGL;
- Insurance Members (now including Association Only Members) will receive an allocation of shares in NIGL based on the Share Allocation Rules in exchange for giving up their membership rights in Insurance;
- Association will retain ownership of NRMA Trade Marks used for road and related motoring services businesses and assign or license to the Insurance Group certain NRMA Trade Marks used by Insurance in its businesses; and
- NIGL applies for listing on the Australian Stock Exchange.

Except where expressly noted, the defined terms used in this report are consistent with the glossary set out on page 155 of the Information Memorandum.

### 2. Summary of Opinion

In the opinion of Ernst & Young Corporate Finance, the Proposal is in the best interests of Insurance Members as a whole. In arriving at this overall opinion Ernst & Young Corporate Finance is of the view that the Proposal is in the best interests of Insurance Members as a whole (excluding Association) and also is in the best interest of Association as an Insurance Member.

In forming these opinions Ernst & Young Corporate Finance has had regard to:

- the rights of Insurance Members and the legal relationship between Association and Insurance;
- the Share Allocation Rules among Insurance Members (excluding Association) and between Association and Insurance Members;
- the likely financial impact on Insurance Members (excluding Association);
- the likely impact on the current financial position and operations of Association including the ability of Association to meet the objectives under its constitution;
- the likely impact on the current financial position and operations of Insurance including the security of future benefits and services to policyholders;
- the Business Relationship Agreements in the context of the Proposal and the adequacy of the protection of the interests of both Insurance and Association;
- the impact on corporate governance of both Insurance and Association;
- other likely advantages or disadvantages of the Proposal as they relate to Insurance Members; and
- the process and findings of the organisations and their advisers in the evaluation of other alternatives.

### 3. Purpose and Scope of this Report

#### 3.1 Basis of Opinion

Pursuant to Part 3 Clause 3 of Schedule 8 to the Corporations Regulations Ernst & Young Corporate Finance is required to report to Insurance Members 'whether or not, in his or her opinion, the proposed scheme is in the best interests of members of the company the subject of the scheme and setting out his or her reasons for that opinion'.

Neither the Corporations Law nor the Corporations Regulations provide a definition as to the meaning of 'in the best interests of members'. Therefore, in preparing its report Ernst & Young Corporate Finance has had regard to relevant policy statements issued by the Australian Securities & Investments Commission ('ASIC'), with particular reference to Policy Statements 74 and 75 and Practice Note 42. In the context of a scheme of arrangement ASIC Policy Statement 75 implies that 'fair and reasonable' should be taken as a reference to 'in the best interests of members'.

The term 'fair and reasonable' has no legal definition although over time a commonly accepted meaning has evolved. 'Fairness' relates to price whereas 'reasonableness' involves consideration of factors other than price. 'Fairness' is said to involve a comparison of the consideration with the value that may be attributed to the securities which are the subject of the transaction, based on the value of the underlying business and assets. The concept of 'reasonableness' involves an analysis of factors other than fairness (value) that members might consider prior to voting on the proposed scheme.

In the context of this report Ernst & Young Corporate Finance has interpreted 'best interests of members as a whole' to mean 'to the overall advantage of Insurance Members as a whole.'

Ernst & Young Corporate Finance has assessed whether the advantages of the Proposal to the Insurance Members entitled to vote on the Proposal outweigh the disadvantages and whether or not the Insurance Members as a whole would be better off if the Proposal was implemented.

In arriving at its overall opinion Ernst & Young Corporate Finance has considered and assessed the best interests of each of two classes of Insurance Members entitled to vote on the Proposal. For the purpose of this report the term Insurance Members is used to refer to the two classes of Insurance Members, being all Insurance Members other than Association, and Association. Specifically, it does not include Association Only Members who become Insurance Members by reason of the Proposal.

The advantages and disadvantages of the Proposal for Insurance Members (excluding Association) and for Association are set out in Sections 6 and 7 of this report respectively to assist Insurance Members understand the basis of our opinion and provide them with an opportunity to assess the balance of the advantages and disadvantages from their own perspective.

Individual Insurance Members or groups of Insurance Members will have different financial and taxation circumstances and should consider obtaining their own advice with respect to the impact of the Proposal on their financial and taxation position.

#### 3.2 Reliance on Information and Scope of Review

Ernst & Young Corporate Finance has received information from the NRMA and relied upon reports prepared by the Consulting Actuary, PricewaterhouseCoopers and the Investigating Accountant, KPMG. The Consulting Actuary's reports contained opinions on the allocation of Shares to Members, the extent to which policyholders' reasonable benefits expectations will be met and the ongoing maintenance of policyholder security. The Investigating Accountant's report, which is included in Section 11 of the Information Memorandum, contains an opinion as to the Restated Financial Information of Association and Insurance, and the Pro Forma Financial Information of NIGL. These reports are detailed in Appendix A of this report.

Throughout this report there are summaries of various opinions and conclusions by the Consulting Actuary. Readers of this report should read the whole of the Consulting Actuary's Report contained in Section 12 of the Information Memorandum and should not rely solely upon the summaries and conclusions of the Consulting Actuary set out in this report.

In forming its opinion, Ernst & Young Corporate Finance has also relied upon information provided to it by NRMA which includes reports by other advisers to the Project including the lead adviser, legal, counsel and tax advices, discussions with management and documents referred to in the Information Memorandum. This information is detailed in Appendix A of this report. Ernst & Young Corporate Finance has accepted those reports as correct and specifically relied upon them.

In the preparation of this report, Ernst & Young Corporate Finance has relied upon and considered information provided by Insurance, Association and their advisers. Ernst & Young Corporate Finance has evaluated the information through inquiry, analysis and review and nothing has come to its attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base its report. Ernst & Young Corporate Finance does not imply and it should not be construed that it has audited or in any way verified any of the information provided to it, or that its inquiries could have verified any matter which a more extensive examination might have disclosed.

### 4. Current Structure

#### 4.1 Corporate Structure

The NRMA Group currently comprises two mutual companies namely, Association and Insurance, and their respective wholly-owned subsidiary companies. An overview of the history of Insurance and a summary of the current business of Insurance is provided in Sections 8 and 9 of this report. Additional detail with respect to the history of Insurance and Association is provided in Section 5.2 of the Information Memorandum. Both Association and Insurance have a separate board of directors. The Association Board is elected by its members and the Insurance Board is appointed by the Association Board. A majority of Insurance directors must also be directors of Association. The relationship between Association and Insurance, and the NRMA Group ownership structure is illustrated in Section 5.1 of the Information Memorandum.

#### 4.2 The Concept of Mutuality

##### 4.2.1 Insurance as a mutual company

Insurance is a company limited by guarantee, which is referred to as a 'mutual company'. Mutual companies were typically established in the past to bring together community groups with a common interest. In the case of Insurance, the common interest was to provide general insurance protection to Association Members. It is also acknowledged that mutual companies often provide indirect benefits to the wider community.

Memberships of mutual companies are normally personal, non-transferable and non-saleable rights. The ownership structure of a mutual company distinguishes it from a conventional company (a company limited by shares). A mutual company does not have share capital and ownership comes from membership which is based on acquiring a product or service rather than by contributing capital. Consequently, members of a mutual company normally do not have an opportunity to realise the underlying value of the organisation because, unlike shareholders of a listed company, they do not have the option of selling their interest.

For a mutual company, financial benefits can be delivered to members in a number of forms, for example, by way of policyholder rebates or application of surpluses to new or improved services. It is often the case with profitable mutual companies for capital reserves to be built up over time from retained surpluses. Mutuals can also provide 'benefits' to members in other forms which include reduced costs for services provided or additional services can be added at no extra charge.

Mutual companies are owned by their members and provide a variety of services to those members for their sole benefit. Non-member customers may introduce additional complexities for mutual companies because non-member customers represent another stakeholder group whose interests may not be aligned with those of members. It may also be more difficult for the mutual company to maximise benefits for the sole benefit of members. In recent years, the number of non-member customers in Insurance has grown. This is illustrated diagrammatically in Section 5.1 of the Information Memorandum. Insurance has approximately 5 million general insurance policies in force, with approximately 1.8 million of those policies held by non-member policyholders. The number of non-member customers of Insurance is expected to grow in the future as Insurance implements its board approved national growth strategy and Insurance expands outside of New South Wales and the Australian Capital Territory and increases its range of financial services.

The concept of mutuality and mutual organisations is discussed in further detail in Section 2 of this Information Memorandum.

##### 4.2.2 Demutualisations

In recent years, a number of mutual organisations both in Australia and overseas have demutualised. Until recently, a number of life insurance entities in Australia were mutuals, however, a number of these have now demutualised.

Reasons which have been cited for the trend towards demutualisation both in Australia and overseas include:

- mutual organisations are generally, although not always, seen as an inappropriate structure for large complex international financial institutions;
- the original reasons for the establishment of many mutuals may no longer apply;
- mutuals have less flexibility in raising external capital, although mutual companies can raise debt they do not have the ability to raise share capital;
- decreasing commonality of members and customers or policyholders of insurance companies;
- less flexibility in raising capital may make it more difficult to participate in mergers and acquisitions because a mutual company does not have the option of using shares as acquisition currency;
- the perception that member 'supervision' and 'oversight' of directors and management is less rigorous than in a conventional public company because of less external market scrutiny; and
- the difficulty of members being able to access the underlying value created by the mutual organisation, other than as policyholders.

Some mutually owned companies have decided against demutualising for a variety of reasons including:

- placing member benefits above other commercial benefits;
- preservation of the mutual character and culture of the organisation;
- concern that members might lose control of the organisation;



- a belief that a mutual structure can reduce conflicting objectives of customers (seeking to maximise benefits from services of the company) and shareholders (seeking to maximise profits); and
- a decision to focus on a particular niche in a geographic client segment or line of business rather than growth via diversification.

## 4.3 Insurance Members

### 4.3.1 Membership

Membership of Insurance arises from the membership rules contained in the constitution of Insurance. The Insurance Board adopted Membership Principles on 27 May 1999 which were subsequently amended on 9 December 1999. These formed the basic membership and eligibility criteria which have been adopted in the Share Allocation Rules. The Membership Principles are discussed in Section 5.5.1 of this report and are described in further detail in Section 8.19(4) of the Information Memorandum and in the Consulting Actuary's Report included in Section 12 of the Information Memorandum.

### 4.3.2 Entitlements of Members

The entitlements of the Insurance Members may be categorised into the entitlements they enjoy as policyholders and the rights they enjoy as Insurance Members.

#### Policyholder entitlements

The rights as policyholders are derived from the contractual terms under the insurance policy, including a reasonable expectation of anticipated payment of benefits. The impact of the Proposal on policyholders' reasonable benefit expectations and security is discussed in Section 6.5.1 of this report.

#### Rights of Members

Insurance Members will forego certain rights and benefits if the Proposal is implemented.

The rights currently enjoyed by Insurance Members are described in Section 7 of the Information Memorandum.

Insurance Members currently have no right to receive dividends and their membership is not transferable.

In recent years, the majority of Members have not generally exercised their rights with respect to attending and voting at members' meetings. Member participation in Association Board elections until 1987 was rarely above 5%. However, the participation rate has increased significantly in recent years, being above 10% in 1995 and 1997 and reaching 26% in 1999.

The potential consequences of the low level of Members' voting in the past are that, on a theoretical analysis, the will of Members in any significant number is not communicated to the Board at general meetings.

Association's membership in Insurance carries powers and rights in addition to those enjoyed by other Insurance Members.

Association's special rights as an Insurance Member are described in Section 7.4 of the Information Memorandum and Section 5.6 of the Consulting Actuary's Report which is included in Section 12 of the Information Memorandum. These powers and rights include:

- power to appoint and remove the directors of Insurance (a majority of Insurance directors must be Association directors);
- the president of Association is ex-officio a director and is also the chairman of Insurance and has a casting vote;
- the right to any surplus assets in the event of the winding up of Insurance; and
- the objects of Insurance include a requirement to generally assist and co-operate with Association in the attainment and promotion of Association's objects.

The constitution of Insurance can be changed by Insurance Members by special resolution, which requires a 75% majority of those voting. However, any change to the constitution of Insurance which would impact upon Association's special rights as an Insurance Member would only be effective if 75% or more (of those voting) of Association directors are in favour of any change and by special resolution of Insurance Members approving the change.

While Association's special rights as an Insurance Member imply that Association effectively has management control of Insurance, its powers and rights over Insurance are not absolute. Directors of Insurance, even if appointed by Association, must still act in the best interests of all Insurance Members.

## 5. Proposal

### 5.1 Background

#### 5.1.1 Overview

The Association Board and Insurance Board have been considering changes to the corporate and membership structure of the NRMA Group for a number of years. The growth of the NRMA Group, the changing profile of its operations and deregulation of the financial services industry in Australia over the past decade have resulted in the Boards examining various alternative corporate and membership structures. An overview of the industry in which Insurance operates and the business of Insurance is provided in Section 8 and Section 9.1 of this report, respectively.

A number of factors, both external and internal to the NRMA Group, were considered by the Boards in the context of the development of the Proposal. These included:

- the place of mutual organisations in the current environment;
- the changes in the markets in which Insurance operates;
- the increasing number of non-member customers of Insurance;
- the ability to deliver benefits to Members through rebates;
- the potential for an unsolicited restructure proposal (or takeover offer);
- the business strategy being pursued by Insurance;
- the current corporate governance arrangements;
- the current relationship between Association and Insurance; and
- the continuing debate over the best corporate and membership structure for the NRMA Group.

These issues are discussed in further detail in Section 6 and other appropriate sections of this report and Section 2 of the Information Memorandum.

#### 5.1.2 Corporate and membership structure reviews

Over the past eight years, the Boards have commissioned a number of reports from external advisers to identify and examine alternative corporate and membership structures for the NRMA Group. Whilst the reports have generally acknowledged the NRMA Group's considerable success under its present structure, various recommendations have been made with respect to the corporate and membership structure of the NRMA Group.

Four main issues were considered by these reports:

- whether the dual mutual structure is the most appropriate corporate structure for an organisation the size of the NRMA Group;
- how the accumulated wealth of the organisation could be most effectively released or accessed by Members;
- how to improve the NRMA Group's capacity and flexibility to respond effectively to changing market conditions; and
- how to most effectively bring about fundamental change to existing corporate governance arrangements.

A more detailed description of these reports and their recommendations is set out in Sections 2 and 13.2 of the Information Memorandum.

On 25 February 1999, approval was given by the Association Board and the Insurance Board to develop a proposal based on the terms of the Credit Suisse First Boston recommendation for the retention of Association as a mutual and for Insurance to be converted from a mutual to a shareholder-owned company. Approval to develop the Proposal was not unanimous. The Association Board of that time was evenly divided on the subject and the President, Mr Nicholas Whitlam, exercised his casting vote in favour of the Proposal. The then current Insurance Board voted in favour of the Proposal by a narrow majority. On 25 February 1999, the Association Board also established a sub-committee of the Board referred to as the 'Two Mutuals Committee' which is referred to in Section 13.2 of the Information Memorandum. The purpose of this committee was to work with external consultants to consider a specific alternative to the Proposal being the retention and strengthening of the current dual mutual structure.

The Proposal development process and the recommendations of the Two Mutuals Committee are discussed in further detail in Section 5.2 of this report.

## 5.2 Proposal Development Process

### 5.2.1 Overview

The December 1998 Credit Suisse First Boston report, which recommended the current Proposal, described a number of restructure options each of which were assessed against a set of commercial and member benefit criteria:

In February 1999, the Boards resolved to further develop the proposal recommended by Credit Suisse First Boston. A Steering Committee was established to oversee the further development and evaluation of the proposal. The Steering Committee established six working groups and a Project Office to undertake the detailed work necessary to further develop the preferred structure. The Boards also established a Due Diligence Committee to oversee the due diligence investigations in connection with the Information Memorandum. The various committees, working groups and external advisers appointed to the project are described in further detail in Section 13.4 of the Information Memorandum.

The directors of the NRMA Group were invited to provide any comments or views on any aspect of the Proposal at various times during the development of the Proposal. The process undertaken to obtain the comments and views of the directors is discussed in Section 13.4 of the Information Memorandum. The views of the Insurance directors together with a profile of the directors are detailed in Section 3 of the Information Memorandum.

### 5.2.2 Two Mutuals Committee

The Two Mutuals Committee engaged external consultants to prepare a report. In May 1999, an abridged preliminary report was delivered to the Association Board. The report was limited in scope to developing a full case for retaining and strengthening the existing two mutual structure, with no additional review of the day to day operations of the business to be conducted. The report challenged the recommendations and methodology of the Credit Suisse First Boston report. Management of NRMA was requested to prepare a response to the report commenting on its findings. The authors of the Two Mutuals Committee report have not consented to the inclusion of any of their preliminary findings in the Information Memorandum.

On 19 August 1999, the Association Board resolved to disband the Two Mutuals Committee and no further work was undertaken by the Committee. The Boards and NRMA management have considered the various issues raised in the Two Mutuals Committee report and the response prepared by NRMA management as part of the development of the Proposal, in particular, the provision of rebates as discussed in Section 5.6.3 and the financial impact of the Proposal on both Insurance, referred to in Section 5.8, and Association discussed in Section 5.7 of this report.

### 5.3 Current Proposal

#### 5.3.1 Recommendations and views of Insurance directors

The Insurance Board have resolved to recommend that Insurance Members vote for the Proposal. The underlying reasons for the recommendations of the Insurance Board are set out in Section 3.2 of the Information Memorandum.

Mr Eric Dodd, the Chief Executive Officer of the NRMA Group and a director of Insurance, also recommends that Insurance Members vote in favour of the Insurance Schemes (and interdependent resolutions) and intends to vote in favour of those Schemes and resolutions on which he is eligible. The reasons for his recommendation are set out in Section 3.2 of the Information Memorandum.

The Insurance directors also recommend that Insurance Members vote in favour of Resolution 2 to approve the Business Relationship Agreements as set out in Section 3.2 of the Information Memorandum.

#### 5.3.2 Key steps in the Proposal

Section 6 of the Information Memorandum describes in detail the steps involved in implementing the Proposal. This section of the Information Memorandum also contains important information about the transitional shareholder arrangements between the date the Proposal becomes effective and the Listing Date. Various restrictions will be in place from the time the Proposal is implemented until the Listing Date. In particular, these restrictions prohibit the sale or transfer of any interest in Shares, except in very limited circumstances, by a Shareholder before the Listing Date. Once the Shares are listed on the Australian Stock Exchange, Shareholders will generally be able to sell or transfer them without restriction. The above restrictions are described in Section 6.11 and Section 13.5(A) of the Information Memorandum.

Insurance Members should be aware that NIGL can issue equity securities without the approval of Shareholders if the issue does not exceed 15% of the shares of NIGL on issue within any 12 month period or if the issue falls within the exceptions contained in Listing Rule 7.2.

Members should note that the Proposal will only proceed if the requisite majorities of Association Members, Association Only Members and Insurance Members are in favour of the Proposal, the Schemes of Arrangement are approved by the Court and ASIC changes the details of Insurance's registration after its demutualisation. The various features of the Proposal are described in further detail in the Information Memorandum in particular in Section 1.

#### 5.3.3 If the Proposal does not proceed

If one or more of the required resolutions is not passed, Court approval is not given, or the Proposal does not go ahead for any other reason, the current corporate and membership structure will remain in place and among other things:

- Association will keep its special rights as an Insurance Member;
- Insurance will remain a mutual company and Insurance Members will keep their membership rights in Insurance;
- Members (including Association) will not receive Shares;
- the relevant changes to the constitutions of Association and Insurance will not be put into effect unless the Proposal is implemented;
- the proposed Business Relationship Agreements will not take effect, however, new contracts may be developed, the terms of which may differ significantly from the Business Relationship Agreements; and
- Association will not necessarily assign the Insurance and Financial Services Trade Marks to the Insurance Group (although the parties may enter into another agreement in relation to those trade marks).

The directors of Insurance believe there are a number of factors to consider if the Proposal does not proceed. These factors are set out in Section 3 of the Information Memorandum. Other factors to consider if the Proposal does not proceed are set out in Section 1 of the Information Memorandum.

### 5.4 Shareholder Rights

As part of the Proposal, Insurance Members (including Association Only Members who become Insurance Members by reason of the Proposal) will exchange membership rights in Insurance for Shares.

The existing rights of Insurance Members are discussed in Section 7 of the Information Memorandum. Shareholder rights will be conferred primarily under NIGL's constitution and the Corporations Law. The rights of Shareholders are also described in Section 7 of the Information Memorandum.

The constitution of NIGL restricts the maximum voting Shareholding that any one party may own between the Listing Date and five years later to 5%.

The share entitlement prohibition does not apply to a party in respect of whom:

- the NIGL Board has passed a resolution, exempting that party from the prohibition; and

- the Board's resolution has in turn been passed by an ordinary resolution of Shareholders entitled to vote.

This restriction is described in further detail in Section 13.5(A) of the Information Memorandum.

### 5.5 Share Allocation Rules

#### 5.5.1 Membership Principles

The Board has adopted Membership Principles which form the basic membership and eligibility criteria which have been adopted in the Share Allocation Rules for determining membership in Insurance and the eligibility for Shares. The Membership Principles determine eligibility to receive Shares should the Proposal go ahead. The Share Allocation Rules determine the number of Shares to which each Member will be entitled to in that event. The Membership Principles are described in Section 8.19(4) of the Information Memorandum.

The Consulting Actuary has reviewed the Membership Principles and considers that they provide an equitable basis for establishing membership eligibility for the purposes of the allocation of benefits under the Proposal. Further details are provided in the Consulting Actuary's report included in Section 12 of the Information Memorandum.

A Membership and Logistics Working Group was established, the role of which, was to review the Association and Insurance Members' registers to ensure that the benefit entitlement that may result from any proposal will be properly calculated. A Review Panel was established in accordance with Board resolutions made on 25 February 1999 and 27 May 1999. The purpose of the Review Panel is to provide recommendations to the Insurance Board with respect to Member eligibility where interpretation is required or grievances arise from the application of Membership Principles. The Review Panel is described in further detail in Section 8.20 of the Information Memorandum.

#### 5.5.2 Share Allocation

The Share Allocation Rules have been approved by the Boards of Association and Insurance on the recommendation of the Consulting Actuary as set out in its report in Section 12 of the Information Memorandum. A majority of the directors of Association and all of the directors of Insurance believe that the Share Allocation Rules are fair and reasonable among all classes of Members, and in particular each class of Association Members because of:

- the relative contributions of Association and Insurance to the development of the NRMA brand and businesses;
- the rights of Members under the constitution of each company; and
- the rights being given up by Association and by Insurance Members in Insurance.

The Consulting Actuary's report outlines the reasoning behind the allocation method chosen.

Under the Proposal, Association and Association Members (by reason of their membership in Association only) will in total, be allocated 50% of the shares in NIGL. The remaining 50% of shares in NIGL will be allocated to Insurance Members (excluding Association).

Of the 50% of Shares allocated to Insurance Members (excluding Association) half will be allocated on a per member basis. The other half will be allocated on a per policy basis. Insurance Members (excluding Association) will receive:

314 Shares per Insurance membership entitlement; and  
113 Shares per Insurance policy increment.

The detailed Share Allocation Rules are set out in Sections 8.18 and 12 of the Information Memorandum.

### 5.6 Financial Position of Insurance Members excluding Association

#### 5.6.1 Overview

As discussed in Section 4.3.2 of this report, Insurance Members currently have a limited capacity to access the Members' Reserves and Retained Profits ('Capital') in Insurance as Insurance Members have no right to receive dividends or other capital distributions. Under the Proposal, value is released to Insurance Members by the issue of Shares in NIGL and to the extent the Share price reflects this value, Insurance Members can access this value through the sale of all or part of their Shares. Insurance Members (excluding Association) will retain their entitlements as policyholders and will be able to access the underlying wealth of Insurance without impacting Insurance's Capital. Capital is retained within Insurance rather than being distributed (refer to Section 5.8 of this report).

We understand the current Insurance Board has stated that the approach to setting premium rates is not expected to change and premium rates are not expected to increase as a direct consequence of the Proposal. The NIGL Board may however take a different approach in the future (refer to Section 6.4.4 of this report) as could a future Insurance Board under the current structure.

The financial position of Insurance as a mutual company and the impact of the Proposal on the financial position of Insurance Members (excluding Association) is described in further detail below. Any impacts of the Proposal which specifically relate to the financial position of Association are discussed in Section 5.7 of this report.

**Table 1 Principal Alternative Forms of Wealth Distribution**

ALTERNATIVE	COMMENT
1. Mutual Structure	<p>Wealth distribution to Insurance Members would most likely take the form of rebates. We note that the constitution of Insurance does not currently allow for the payment of cash dividends, and uncertainty exists as to whether the constitution can be legally varied to allow for the payment of cash dividends in the absence of major structural reorganisation.</p> <p>A majority of directors of Association and all the Insurance directors believe there are a number of disadvantages associated with rebates, these are discussed in Section 1 and 4.5 of the Information Memorandum. A number of directors of Association do however, support the distribution of capital through rebates.</p>
2. Demutualisation and List	In this instance the Members exchange their membership rights for shares which become listed and can therefore be traded allowing access to value.
3. Demutualisation and Trade Sale	In this instance, Members would also exchange their membership rights for shares but instead of listing or after listing the shares would be sold to a third party.

### 5.6.2 Alternative forms of wealth distribution

As discussed in Section 5.1 of this report, the Boards have been considering changes in the corporate and membership structure of the NRMA Group for a number of years. A summary of the alternatives considered by the Boards, some of which represent structural change, is contained in Section 5.11 of this report. At a high level the wealth distribution alternatives potentially available to Insurance Members fall into three broad categories of alternatives, these are described in Table 1.

### 5.6.3 Benefits available under a mutual structure

The financial interest of Insurance Members in Insurance, as a mutual company, is not readily quantifiable. The financial statements of Insurance show Members' Reserves and Members' Retained Profits of approximately \$2.8 billion at 30 June 1999 inclusive of outside equity interests of \$0.3 billion. This amount however, is only of direct financial value to Insurance Members to the extent it can be accessed by them.

A primary argument for demutualisation and listing is that it gives Insurance Members the opportunity to access the wealth of Insurance because they exchange their membership rights for Shares which can be traded to realise value. However, Insurance Members (excluding Association) should be aware that the wealth of Insurance may be accessible to Insurance Members (excluding Association), although to a more limited extent, without demutualising in the following ways:

- provision of rebates;
- payment of dividends (if legally valid);
- winding up of Insurance (although Association's current special rights entitle it to the surplus assets); or
- additional services at no or a reduced charge.

#### Rebates

There are a number of factors which would need to be considered in any decision to provide rebates, these include:

- a decision would be required by the Insurance Board that providing rebates is appropriate;
- the Insurance Board would be obliged in making any decision to provide rebates to ensure that sufficient funds to meet the capital needs of Insurance's businesses on an ongoing basis are retained;
- rebates could be provided to either all policyholders or only to Insurance Members. The ability to pay rebates to CTP policyholders is not legally clear;
- the period of time over which rebates could be provided would need to be determined; and
- consideration would be required of the tax implications for both Insurance and policyholders or Insurance Members.

The factors which need to be considered in providing rebates are described in further detail in Sections 1 and 4.5 of the Information Memorandum.

A program of policyholder rebates was in place from 1 August 1992 until 31 July 1995. As discussed in Section 4.5 of the Information Memorandum, a majority of directors of Association and all of the directors of Insurance believe that the Proposal is preferable to providing rebates. A number of directors of Association do however, support the distribution of Capital through rebates. On 16 November 1999 a special resolution to amend the constitution of Insurance was put to Insurance Members, the resolution sought to require directors to report to Insurance Members the amount of profit surplus, if any, available for distribution as rebates or other benefits to Insurance Members and how directors intended to use such surpluses. The resolution did not achieve the 75% majority of votes required and was not passed by Insurance Members.

Section 1 of the Information Memorandum sets out why the majority of Association directors and all Insurance directors believe the Proposal is preferable to providing rebates. Additional considerations for Insurance Members include:

- rebates unlike shares are not marketable and cannot be sold to access value. In order to receive rebates and access value into the future Insurance Members (excluding Association) would need to remain policyholders; and
- from Insurance's perspective rebates are likely to result in increased business volume which would result in a need for additional capital to finance the increase in premiums written.

It is understood that, if a decision was made to provide rebates to policyholders the rebates would be in the form of a refund on premiums that would otherwise be payable. Under the current tax system we understand that such rebates should in effect be treated as tax deductible for Insurance if referable to policy or premium history and the receipt of the rebate would be assessable to policyholders except in circumstances where the policyholder does not claim a tax deduction for premiums paid.

If rebates were provided only to Insurance Members based on legal and taxation advice provided to Insurance we understand that it is likely that such rebates would be treated as non-tax deductible for Insurance and, whilst not totally clear, there is a significant risk that such rebates received may be taxable to Insurance Members. The introduction of the new tax system, the Review of Business Taxation (A Tax System Redesigned), may increase the likelihood of such rebates being treated as taxable to Insurance Members.

#### Cash dividends

The constitution of Insurance does not currently allow for the payment of cash dividends. It is uncertain whether the constitution of Insurance could be legally varied to allow for the payment of cash dividends to Insurance Members in the absence of major structural reorganisation. Allowing mutuals to pay cash dividends has a number of the same considerations as providing rebates which were discussed above.

As the dividend payable to members would be a distribution of profit (presumably charged against retained earnings) this may represent a frankable dividend for taxation purposes. Members who are individuals would be assessable on the gross dividend but might be entitled to an imputation credit to the extent the dividend is franked. Members which are corporates would be assessable on the dividend but are currently subject to a dividend rebate. Corporate Members would credit their franking account to the extent that the dividend is franked. The distribution of dividends would not give rise to a deduction to Insurance for tax purposes as it does not constitute an expense incurred in carrying on business.

#### Winding up of Insurance

As discussed in Section 4.3.2 of this report, Insurance Members (excluding Association) do not have access to the surplus of Insurance, as a mutual company. Under the constitution of Insurance, Association has the right to any residual surplus assets in the event of winding up.

#### Additional services

As a result of Insurance being a mutual, Insurance Members together with the wider community may potentially be in receipt of or benefit from certain services or broader activities which are undertaken by Insurance as a mutual. These services or activities potentially include the following:

- community initiatives, projects or services which may benefit general insurance consumers as a whole;
- making of decisions regarding the payment of claims which take account of wider community issues, for example, the decision to pay claims in respect of the Wollongong floods;
- provision of policies to groups within the community which may otherwise not have been able to obtain insurance coverage;
- better level of customer service; and
- lower premiums.

The above are examples of activities or services which Insurance as a mutual may be more likely to undertake compared to a shareholder-owned company. Insurance Members should, however, be aware that the extent to which Insurance would, if it remained a mutual, undertake some or all of the activities or services described above would depend upon any decision made by the Insurance Board to do so. We are not aware of any decision by the Insurance Board to undertake, either now or in the future, some or all of the activities outlined above.

From a taxation perspective, Insurance Members and policyholders are not generally subject to tax in respect of these services as distinct from shareholders who are taxed on profits distributed to them as dividends. However, the current review of Business Taxation by the Commonwealth Government may result in the removal of this tax advantage.

### 5.6.4 Financial position of Shareholders assuming Insurance is demutualised and the Shares are listed

#### Overview

Under the Proposal, Insurance Members (including Association Only Members who become Insurance Members by reason of the Proposal) will exchange membership rights in Insurance for Shares. Listed Shares represent a realisable claim on the underlying wealth of the company. The value of those Shares will be linked to the value of the underlying business and its performance (refer Section 9.3 and 9.5.2 of this report). After the proposed listing, Insurance Members will receive a direct financial benefit from their Shares, from any proceeds from the sale of the Shares, or in the form of dividends and potential increases in Share values if the Shares are retained. Insurance Members should also be aware that their financial position will be impacted by any depreciation in the value of the Shares.

In particular, we note that under the Proposal:

- a Shareholder (excluding Association) will be able to sell their Shares on or after the Listing Date, which we understand is anticipated to occur during 2000, although it is not possible to be certain when listing on the Australian Stock Exchange will occur (refer to Section 6.11 of the Information Memorandum);
- an individual Shareholder can sell his or her Shares at any time on or after the Listing Date to obtain cash without impacting the capital base of Insurance;
- the Shares can be retained or sold on or after the Listing Date whether or not a shareholder's insurance policies are maintained;
- there is a restriction which prohibits the sale of Shares before the Listing Date (refer to Section 5.3.1 of this report and Section 6.11 of the Information Memorandum);
- after the Listing Date there will be a limitation for five years on any Shareholder owning 5% or more of the shares in NIGL although exceptions to this rule do exist (refer to Section 6.11 of the Information Memorandum); and
- the NIGL Board can stipulate a maximum shareholding limit which is greater than 5% but less than 15% with respect to a particular party subject to Shareholders approval and certain limitations described in Section 5.4 of this report.

Sections 6 and 13.5(A) of the Information Memorandum provides further information in regard to the above.

The NIGL Board intend to establish a clearing facility to enable Members to buy or sell shares at or around the Listing Date. The Facility is discussed in Section 6.11 of the Information Memorandum.

The tax impact on shareholders of NIGL (excluding Association) is discussed in Section 5.6.6 of this report and the implications of an issue of Shares for Insurance Members who live outside Australia is discussed in Section 8.14 of the Information Memorandum.

#### **Market value estimate**

Ernst & Young Corporate Finance estimate the market price of a Share in NIGL, on the basis that the Proposal had been implemented and the Shares traded on the Australian Stock Exchange as at the date of this report, would have been between \$2.60 and \$3.00 per Share based on the issue of 1,465 million Shares. The estimation of the market price of a Share provides an indication of the value that could be accessed by Insurance Members under the Proposal. The basis of this estimate is discussed in Section 9.5 of this report.

Members should be aware that the estimate referred to above is based on the financial position of Insurance and the conditions in the insurance industry, Australian economy and financial markets as at the date of this report. The estimate is subject to changes in the market assessment of NIGL and the overall state of the market at the time of listing and beyond and may vary significantly from the prices estimated. The estimate may also be affected by the contents of the prospectus issued prior to listing and other information disclosed about NIGL and Insurance.

#### **Declaration of dividends**

The power to declare dividends is vested in the directors of NIGL. Holders of shares in NIGL will have the right to receive dividends based upon the number of Shares owned. The amount of any prospective dividend is dependent upon the achievement by NIGL of appropriate earnings levels and available cash flows. The proposed dividend policy under the Proposal is described in Section 8.6 of the Information Memorandum.

#### **5.6.5 Financial position assuming Insurance is demutualised and the subject of a trade sale**

We are not aware of any offer having been made by a third party and we understand that the boards do not intend to pursue a trade sale or a merger as an alternative to the Proposal. In the absence of specific sale or merger terms, it is not possible to assess the benefits Insurance Members might receive and how Insurance Members might access entitlements in Insurance. Insurance Members should however, be aware that a trade sale may result in greater value being realised than under the Proposal if a third party were prepared to pay a premium for control or for strategic reasons. This is discussed in Section 9 of this report. In any event, the directors of Insurance believe the ability to pursue a trade sale or merger is still available after demutualisation.

Insurance Members should be aware that in most circumstances, a special resolution (being 75% of shareholders voting) would be required to allow a sale or merger.

#### **5.6.6 Tax issues for Insurance Members**

The Australian taxation implications of the Proposal for Insurance Members are described in Section 8.15 of the Information Memorandum. The tax consequences may vary depending upon the specific circumstances of each Insurance Member and therefore each Insurance Member should seek their own independent advice. In particular, non-Australian tax resident Insurance Members should seek advice concerning any tax liability in their country of residence.

The tax implications have been assessed by Mallesons Stephen Jaques and include:

- there will be no liability for payment of tax by Insurance Members when they give up their membership rights in Insurance;
- Insurance Members will have no liability to tax when they receive shares in NIGL however, Insurance Members may have a tax liability in relation to a subsequent disposal of the Shares;
- dividends (franked and unfranked) received by Insurance Members who are individuals will be assessable and subject to taxation however they will be entitled to an imputation credit to the extent the dividend is franked;

- dividends (franked and unfranked) received up to 30 June 2000 by Insurance Members which are public companies will be assessable and subject to taxation but may obtain a dividend rebate;
- dividends (franked and unfranked) received after 30 June 2000 but on or before 30 June 2001 by Insurance Members which are public companies will be assessable and subject to taxation but may obtain a dividend rebate to the extent the dividend is franked;
- dividends (franked and unfranked) received up to 30 June 2001 by Insurance Members which are private companies will be assessable and subject to taxation but may obtain a dividend rebate to the extent the dividend is franked;
- the tax treatment of dividends received after 30 June 2001 (including the availability of the intercorporate dividend rebate) will depend upon the legislation introducing the government's proposed changes which includes the introduction of a unified entity regime. At the date of this report all the relevant legislation has not been introduced;
- franking surplus of Insurance and its wholly owned subsidiaries at the beginning of the Demutualisation Resolution Date will be cancelled and not available to shareholders of NIGL;
- any franking credits generated within NIGL on or after the Demutualisation Resolution Date will be available to Shareholders. To the extent that there are insufficient franking credits generated after that date, dividends paid by NIGL will be only partially franked;
- any Shares disposed of by an Insurance Member after the listing of NIGL will generally be subject to the capital gains tax provisions of the Tax Act. Any gain or loss to the Shareholder at the date of disposal of the Shares will be the difference between the cost base of the Shares and the sale price of the Shares less disposal costs and in the case of shares held more than 12 months by taxpayers that are individuals or complying superannuation funds, the taxable capital gain will be reduced to 50% or 66 2/3% of the gain, respectively;
- the cost base of Shares to be given to Insurance Members will be calculated as the lower of a statutory value of Insurance as determined under Division 9AA of the Tax Act and the closing price at which shares in NIGL traded on the Australian Stock Exchange on the Listing Date; and
- where a Shareholder disposes of their Shares prior to listing of NIGL any capital loss on the sale will not be available to the Shareholder to offset against other capital gains of the Shareholder. Any capital gain on the sale of these Shares will be calculated as the difference between the cost base based on the statutory value under Division 9AA of the Tax Act less disposal costs and in the case of shares held more than 12 months by taxpayers that are individuals or complying superannuation funds, the taxable capital gain will be reduced to 50% or 66 2/3% of the gain, respectively.

These taxation implications are generally applicable to all Insurance Members including Association.

#### **5.6.7 Financial position as a policyholder**

Members' policies are contractual agreements which continue if the Proposal is implemented. The impact of the Proposal on policyholders' security and reasonable benefit expectations is discussed in Section 6.5.1 of this report.

### **5.7 Financial Position of Association as a Member of Insurance**

#### **5.7.1 Overview**

As stated in Section 4.3.2 of this report, Insurance Members including Association currently have a limited capacity to access the Capital of Insurance. Under the Proposal, value is released to Association by the issue of Shares in NIGL and to the extent the Share price reflects this value, Association can access this value through the sale of all or part of its Shares subject to certain limitations discussed below. Association will be able to access the underlying wealth of Insurance without impacting Insurance's Capital, as Capital is retained within Insurance rather than being distributed (Section 5.8 of this report). This access to wealth will be gained in return for Association giving up its special rights in Association as described in Section 4.3.2 of this report.

The financial position of Association as member of a mutual company and the impact of the Proposal on the financial position of Association is described in further detail below.

#### **5.7.2 Alternative forms of wealth distribution**

As discussed in Section 5.1 of this report, the Boards have been considering changes in the corporate and membership structure of the NRMA Group for a number of years. A summary of the alternatives considered by the Boards, some of which represent structural change, is contained in Section 5.11 of this report. At a high level the wealth distribution alternatives potentially available to Association fall into the same three broad categories of alternatives as for Insurance Members (excluding Association) which are described in Section 5.6.2 and Table 1 of this report and are:

- benefits available under a mutual structure;
- demutualisation and list; and
- demutualisation and trade sale.

#### **5.7.3 Benefits available under a mutual structure**

The financial interest of Association in Insurance, as a mutual company, is not readily quantifiable. The financial statements of Insurance show Capital of approximately \$2.8 billion at 30 June 1999 including outside equity interest of \$0.3 billion. This amount however, is only of direct financial value to Association to the extent it can be accessed by it.

A primary argument for demutualisation and listing is that it gives Insurance Members the opportunity to access the wealth of Insurance because Insurance Members exchange their membership rights for Shares which can be traded to realise value. However, Association should be aware that the wealth of Insurance may be accessible to Association, although to a more limited extent, without demutualising in the following ways:

- provision of rebates (although not of material benefit);
- payment of dividends (if legally valid);
- winding up of Insurance;
- additional services at no or a reduced charge; or
- charges to Insurance.

#### **Rebates**

A general overview of the provision of rebates to Insurance Members is discussed in Section 5.6.3 of this report. The factors which need to be considered in providing rebates are described in further detail in Sections 1 and 4.5 of the Information Memorandum.

As Association is only one Insurance Member, it would not benefit from the provision of rebates to any greater extent than any other Insurance Member.

#### **Cash dividends**

The constitution of Insurance does not currently allow for the payment of cash dividends. It is uncertain whether the constitution of Insurance could be legally varied to allow for the payment of cash dividends to Insurance Members in the absence of major structural reorganisation. Allowing mutuals to pay cash dividends has a number of the same considerations as providing rebates which were discussed in Section 5.6.3, and in particular, Association as only one Insurance Member would not benefit to any greater extent than any other Insurance Member.

#### **Winding up of Insurance**

As discussed in Section 4.3.2 of this report, Association has the right to any residual surplus assets in the event of the winding up of Insurance. However, the voluntary winding up of Insurance also requires the consent of 75% of Insurance Members.

#### **Services**

As a result of Insurance being a mutual, Association, Insurance Members (excluding Association) together with the wider community may potentially be in receipt of, or benefit from certain services or broader activities which are undertaken by Insurance as a mutual. The potential services that may be provided by Insurance are described in Section 5.6.3 above.

Currently, the operations of Association and Insurance are highly integrated. Under existing arrangements Association is provided with various support functions from Insurance at a lower cost than would be available to a third party. This has been done in accordance with the constitution of Insurance which requires it to generally assist and co-operate with Association in the attainment and promotion of Association's objectives and in the context of Insurance using Association owned brands and trade marks. Association may potentially be able to access the wealth of Insurance by lowering the costs allocated to it under these arrangements. The ability to do this is limited by the Corporations Law obligations imposed upon the directors of Insurance which require them to act in the best interests of Insurance.

#### **Charges to Insurance**

Association could also seek to negotiate a formal licensing agreement and fee in relation to the use of the NRMA Trade Marks and logos by Insurance.

### **5.7.4 Financial position of Association as a Shareholder assuming the Proposal is implemented**

#### **Overview**

Under the Proposal, Insurance Members (including Association Only Members who become Insurance Members by reason of the Proposal) will exchange membership rights in Insurance for Shares. Listed shares represent a realisable claim on the underlying wealth of the company. The value of those Shares will be linked to the value of the underlying business and its performance (refer to Section 9.5 of this report). After the proposed Listing, Insurance Members will receive a direct financial benefit from their Shares from any sale proceeds, or in the form of dividends and potential long-term increases in Share values, if the Shares are retained. Association should also be aware that its financial position will be impacted by any reduction in the value of the Shares. A more detailed overview of the financial position of Insurance Members is set out in Section 5.6 of this report.

In particular, and in addition to the factors considered in Section 5.6 of this report, Association should note that under the Proposal:

- Association will initially be issued 146,500,000 shares in NIGL. This represents approximately 10% of the Shares to be issued;
- Association must sell down its Shareholding so that it holds no more than 29,300,000 Shares. This will be approximately 2% of the issued shares of NIGL. Association must continue to hold that number of Shares for the term of the Business Relationship Agreements; and
- Association will enter into Business Relationship Agreements which will govern the conduct of certain of Association's operations. An overview of the Business Relationship Agreements is set out in Section 5.9 of this report.

Sections 8 and 13.5(D) of the Information Memorandum provides further information in regard to the above.

The tax impact on Association as a shareholder of NIGL is discussed in Section 5.7.7 of this report.

#### **Market value estimate**

Ernst & Young Corporate Finance estimate the market price of a Share in NIGL, on the basis that the Proposal had been implemented and the Shares traded on the Australian Stock Exchange as at the date of this report, would have been between \$2.60 and \$3.00 per Share based on the issue of 1,465 million Shares. The estimation of the market price of a Share provides an indication of the value that could be accessed by Insurance Members under the Proposal. The basis of this estimate is discussed in Section 9.5 of this report.

Members should be aware that the estimate referred to above is based on the financial position of Insurance and the conditions in the insurance industry, Australian economy and financial markets as at the date of this report. The estimate is subject to changes in the market assessment of NIGL and the overall state of the market at the time of listing and beyond and may vary significantly from the prices estimated. The estimate may also be affected by the contents of the prospectus issued prior to listing and other information disclosed about NIGL and Insurance.

#### **Declaration of dividends**

The power to declare dividends is vested in the directors of NIGL. Holders of shares in NIGL will have the right to receive dividends based upon the number of Shares owned. The amount of any prospective dividend is dependent upon the achievement by NIGL of appropriate earnings levels and available cash flows. Association will not be in a position to influence the decisions of the NIGL Board. The proposed dividend policy under the Proposal is described in Section 8.6 of the Information Memorandum.

### **5.7.5 Financial position of Association as a Shareholder assuming Insurance is demutualised and the subject of a trade sale**

We are not aware of any offer for Insurance having been made by a third party and we understand that the Boards do not intend to pursue a trade sale or a merger as an alternative. In the absence of specific sale or merger terms, it is not possible to assess the benefits Association might receive and how Association might access entitlements in Insurance. Association should however, be aware that a trade sale may result in greater value being realised than that under the Proposal if a third party were prepared to pay a premium for control or for strategic reasons. This is discussed in Section 9.5.1 of this report. In any event, the directors of Insurance believe the ability to pursue a trade sale or merger is still available after demutualisation.

Association should be aware that in most circumstances, a special resolution of shareholders would be required to allow a sale or merger.

### **5.7.6 Financial position of Association**

#### **Impact on operating results**

The main impacts of the Proposal on the operating results of Association will flow from the following:

- a significant increase in capital reserves and hence investment income;
- Association may receive dividends from NIGL; and
- the conduct of the Business Relationship Agreements.

Association will receive additional investment income from investment assets held following the sell down of its allocation of shares in NIGL along with any dividends paid by NIGL.

Expenses within the NRMA Group are presently allocated between the different legal entities based upon various financial and management statistics. As a result of the implementation of the Business Relationship Agreements there will be a change in the way costs are allocated and recovered. It is expected that this will lead to an overall increase in the costs borne by Association.

The projected combined effect of these changes on the financial performance of Association are contained in the Consulting Actuary's report in Section 12 of the Information Memorandum. This analysis projects that the earnings after tax of Association will increase as a result of implementation of the Proposal. The positive impact of the Proposal on Association's financial performance is projected by the Consulting Actuary to increase by up to \$25 million in the year 2000.

The Pro Forma Financial Information in Section 11 of the Information Memorandum demonstrates the effect on the financial position and performance of Association had the Proposal been implemented with effect from 1 July 1997. This Pro Forma Financial Information has been prepared based on the assumptions set out in Section 11.4 of the Information Memorandum which includes an assumption that the cap on distribution costs applicable under the Business Relationship Agreements is introduced gradually from 1 July 1997. As a result the Pro Forma Financial Information, which is only provided for the two years ended 30 June 1999, does not show the full effect on the financial performance of Association of the implementation of the Proposal once the transition period for the caps has expired.

#### **Capital flexibility**

Association will initially retain 146,500,000 shares of NIGL under the Proposal. The subsequent sell down of these shares to a holding of approximately 2% of NIGL's share capital will provide significant capital for future operations and business plans. The Consulting Actuary has concluded that these arrangements will result in a higher degree of confidence on the ongoing viability of Association.

#### **Implementation costs**

In addition to the effect of implementing the Business Relationship Agreements, Association will incur additional costs in respect of services previously provided by Insurance. The estimated effect of these costs had the Proposal been implemented on 1 July 1997 are contained in Section 11 of the Information Memorandum. The estimated



additional costs for the year ended 30 June 1999 were \$9.4 million (\$8.5 million in 1998). These costs have been taken into consideration in the work performed by the Consulting Actuary referred to above.

#### 5.7.7 Taxation position of Association

The Australian taxation implications of the Proposal specific to Association as an Insurance Member have been assessed by Mallesons Stephen Jaques. In addition to the taxation impacts of the Proposal on Association discussed in Section 5.6.6 of this report Association will have no liability for tax when Association gives up its special rights as an Insurance Member.

### 5.8 Financial Position of Insurance

The strategy for Insurance is set out in Section 5.3 of the Information Memorandum. The directors of the Insurance Board have stated that this strategy will not change if the Proposal proceeds. Key areas for consideration in relation to the financial position of Insurance are set out below.

#### 5.8.1 Impact on operating results and financial position

Section 11 of the Information Memorandum contains Financial Information in respect of the NRMA Group for the year ended 30 June 1998 and 30 June 1999. This information is provided in order to illustrate the expected effect of the Proposal on the financial position and results of the NRMA Group.

This section shows that had the Proposal been implemented on 1 July 1997 the operating profit after income tax attributable to Insurance Members (consolidated) would have increased.

#### 5.8.2 Capital flexibility

Capital flexibility is the ability to access capital as and when required without the need to retain significant amounts of capital internally. Insurance companies require capital to enable them to operate effectively, in particular:

- insurance companies earn profits by accepting risks and managing those risks; and
- to allow companies to continue operating they must have sufficient capital to insure that they maintain a solvent position over periods of adverse experience.

The advantages of capital flexibility include:

- the insurer is not compelled to incur costs of capital on under utilised capital;
- daily and strategic decisions are not constrained by capital limitations; and
- the insurer does not incur unnecessary costs of reinsurance to manage capital limitations.

The constraints on capital flexibility vary considerably for a mutual versus a listed Insurance company. The implications of being a mutual include:

- to raise capital internally for a major project, premium rates may need to be increased well in advance. As a result, sufficient time may not be available to build capital for certain opportunities or initiatives to be undertaken;
- it is possible to use debt/equity hybrids to raise capital however there may be solvency implications as not all such facilities are fully recognised for solvency purposes;
- the inability to raise share capital. As a result, a mutual must finance future opportunities by building up capital from past profits. This is a slow process and requires favourable experience. Adverse experience will impact the level of available capital; and
- reinsurance can be used to manage capital constraints however this involves the sharing of profits with the reinsurer.

As a listed company the Insurance group could go to the market and raise funds if an opportunity arises which required increased capital. However, in circumstances where poor results are absorbing the available capital of an existing business it may be difficult to obtain additional capital from any source.

#### 5.8.3 Prudential regulation

The Australian Prudential Regulation Authority ('APRA') is responsible for the regulation of financial institutions including Insurance and its subsidiaries. APRA has recently released various discussion papers setting out proposed changes to the regulation of financial conglomerates (groups that include an Authorised Deposit-taking Institution ('ADI') such as NRMA Building Society) generally and general insurance companies specifically. If adopted, these new regulations will have the effect of:

- changing the prudential supervision requirements for general insurers;
- introducing new solvency standards for general insurers;
- introducing new liability valuation standards for insurers;
- changing the regulation of financial conglomerates with respect to:
  - board composition, including the introduction of a 'fit & proper person' test;
  - ownership structure of ADIs;
  - related party transactions;
  - group badging policies;
  - capital adequacy requirements; and
  - risk concentrations.

These proposed changes will apply to companies in the same way whether they are a mutual company or a listed company.

#### 5.8.4 Implementation costs

It is expected that Insurance will incur one off expenses of \$45.8 million (after tax) to implement the Proposal. Management have estimated the additional costs of operating as a listed company will not be materially different from the costs incurred under the present structure.

#### 5.8.5 Impact of Business Relationship Agreements

The projected effect of the implementation of the Business Relationship Agreements on the financial performance of Insurance is contained in the Consulting Actuaries report contained in Section 12 of the Information Memorandum. This analysis projects that implementing the Business Relationship Agreements will reduce the costs borne by Insurance by \$100,000 in the year 2000 rising to \$10.9 million in the year 2004.

#### 5.8.6 Impact on ratings

An assessment of the impact of the Proposal on the ratings of Insurance is contained in Section 4.10 of the Consulting Actuary's report continued in Section 12 of the Information Memorandum.

#### 5.8.7 Taxation position of Insurance

The Australian taxation implications of the Proposal have been assessed by Mallesons Stephen Jaques.

The taxation impacts of the Proposal on Insurance include the following:

- the franking surplus of Insurance and its wholly owned subsidiaries at the beginning of the Demutualisation Resolution Date will be cancelled;
- Insurance will be able to generate franking credits after the Demutualisation Resolution Date;
- there is increased uncertainty concerning the recoupment of prior period losses as a consequence of the Proposal because of the need to satisfy the same ownership test under the Tax Act. Prior period losses of Insurance and its subsidiaries will however be available to offset profits after the Demutualisation Resolution Date provided the same business test under the Tax Act is met (refer to Section 6.13 of the Information Memorandum).

The implementation of the Proposal will incur stamp duty costs in the order of \$0.537 million as estimated by PricewaterhouseCoopers.

### 5.9 Business Relationship Agreements

#### 5.9.1 Background

In recent years, the Association Board and Insurance Board have adopted a strategy involving a significant degree of co-ordination of activities between the two organisations. While there has always been a relationship between Association and Insurance, Insurance is managed as a separate organisation from Association. This is described in further detail in Section 5 of the Information Memorandum.

Grant Samuel & Associates Pty Limited in its report in May 1995 perceived that difficulties for each of Association and Insurance would arise through complexities and risks associated with the relationship between them if Insurance was listed and Association remained a mutual. These are discussed in Section 6.6.4 of this report.

Credit Suisse First Boston recognised the concerns raised by Grant Samuel & Associates Pty Limited in their May 1995 report and recommended the development of contractual arrangements between Association and Insurance to address these concerns. This resulted in the development of the Business Relationship Agreements as part of the Proposal.

#### 5.9.2 The Agreements

The Proposal seeks to maintain the current co-operation of Association and Insurance through a series of contracts between Association, Insurance and NIGL referred to as the Business Relationship Agreements. The Business Relationship Agreements consider among other things:

- the transfer of ownership and use of the NRMA trade marks and logos to NIGL and the areas of business in which Association and Insurance Group have exclusive rights to the use of the NRMA brand;
- distribution of products to Members and customers through joint distribution channels and co-ordinated presentation of products to customers;
- cross access to customer and membership lists;
- certain common 'back office' operations, marketing, sharing of information and expertise;
- management of the ongoing relationship; and
- basis of determining the fees payable between the organisations.

The Business Relationship Agreements are in principle intended to be long term agreements, although each agreement does have specific termination events, some of which are subject to periodic termination rights. Certain key aspects of the Business Relationship Agreements are summarised in Section 5.5 of the Information Memorandum and a detailed outline of the Business Relationship Agreements is provided in Section 13.5(B) of the Information Memorandum.

#### 5.9.3 Agreements development process

Section 13.4(F) of the Information Memorandum describes the process undertaken in the development of the Business Relationship Agreements.

#### 5.9.4 If the Proposal does not proceed

The Business Relationship Agreements will only take operational effect if the Proposal is approved and implemented. If the Proposal does not proceed, the Board of Association and Board of Insurance intend to develop a series of new contracts in order to formalise the current arrangements. These new contracts would be based on the Business Relationship Agreements however, their terms could differ significantly, in particular those relating to the quantum of payments between the organisations. It is also likely that the structure of the Trade Mark Agreements would change. Section 5.5 of the Information Memorandum provides further detail in this regard.

### 5.10 Corporate Governance

Corporate governance refers to the way a company is run or governed. Insurance is now a major business enterprise and needs to be managed as such. Insurance has grown significantly over time and is a complex general insurance business operating in highly competitive markets. Effective corporate governance will be fundamental to the future performance and success of Insurance. The skills and experience of directors will be critical.

The current corporate governance rules of Insurance are contained in the constitution of Insurance. The current position leaves Insurance open to among other things, the risk of a minority or sectional interest group of Association Members seeking to exercise undue influence over the affairs of Insurance by achieving board representation or control. This risk is exacerbated as historically there has been low participation of Members in board elections and annual general meetings and the inability of Insurance Members (excluding Association) to elect directors to the Board of Insurance. The NRMA Group currently has a dual mutual structure. Association and Insurance have an overlapping but not identical membership base and significantly different businesses.

Approximately 76% of Association Members are also Insurance Members, whereas more than 89% of Insurance Members are also Association Members.

This dual mutual structure is unusual and adds to the corporate governance complexity for the NRMA Group.

In addition, under a mutual structure, members generally have less effective corporate control over management than may be provided by a corporate environment. The financial disclosure that regulators require is less detailed and informative than disclosure required of listed companies. Therefore, it may be more difficult for members to assess how well their mutual is being run. In a listed company, management have an incentive to ensure the company performs well to maximise the share price. If the company or the share price do not perform as expected then the board and management are likely to come under increasing scrutiny.

It is probable that under the current structure, most Insurance Members (excluding Association) neither think nor act as 'owners'. Their interest is probably confined to the quality and cost of insurance services. Under the Proposal, Shareholders will have a direct financial interest in the performance, dividends and Share price of NIGL. Financial analysts and large institutional investors will closely monitor NIGL. If an insurer is a

member of a publicly listed group, its management must therefore concern itself with the performance of its stock. As a result, Shareholders, together with greater market scrutiny, are likely to encourage a more disciplined environment for the management and direction of NIGL's affairs.

As discussed in Section 4.3 of this report, the Association Board is elected by its Members and the Insurance Board is appointed by the Association Board, with a majority of Insurance directors being also directors of Association. In the past, Association Members have not demonstrated a significant interest in the vote to elect directors. The potential consequences is an electoral process that may result in the election of candidates who are known because of their public profile rather than candidates who have the experience and expertise appropriate to governing a complex business enterprise. In the period since 1994, there have also been a number of court actions involving directors or former directors of Association and Insurance. This has added to the corporate governance issues which currently exist for the NRMA Group.

The initial composition of the NIGL Board is discussed in Sections 5.6 and 13.5(A) of the Information Memorandum.

Ernst & Young Corporate Finance acknowledges that Institutional shareholdings are absent in a mutual structure and therefore arguably a mutual voting process is more democratic to the extent that there is a reasonable degree of member participation and should reflect the wishes of the majority of members. Insurance Members should also be aware that governance issues and problems can occur in all corporate structures and a number of alternative proposals other than structural reform have been developed to address the current corporate governance concerns within Insurance.

Corporate governance is discussed in Section 2 of the Information Memorandum.

### 5.11 Proposal Alternatives

As described in Section 5.1.2 of this report, the Boards considered a number of different alternatives, some of which involve structural change, to address the issues currently faced by the NRMA Group before a majority of directors of Association and all Insurance directors recommended and decided to seek Member approval of the Proposal.

The alternatives which we have been advised were considered by the Boards are set out in Table 2.

**Table 2 Alternatives Considered by the Board**

ALTERNATIVES	SUMMARY DETAILS
1. Status Quo (Retaining a Dual Mutual Structure)	The current dual mutual structure is retained. It is recognised it may be possible that a number of improvements could be made under the existing structure to address some of the issues currently facing the NRMA Group. The majority of the directors of Association and all of the directors of Insurance believe retaining the current structure would not be in the best interests of Members as a whole however, four directors of Association believe retaining the current structure would be in the best interests of members as a whole. The reasons put forward by these directors are described in Sections 3 and 4 of the Information Memorandum.
2. Merger of Association and Insurance (Creating a Single Mutual)	Association and Insurance are merged into one mutual with a single board controlling the NRMA Group. Current Association Members and Insurance Members would continue as members of the one mutual. This structure would assist in addressing some but not all of the issues currently faced by the NRMA Group. It may assist in improving corporate governance because there would no longer be two mutuals, one of which, being Insurance, having its board appointed by the other, namely, Association. However, it would potentially introduce additional complexities if a number of membership classes need to be created to deal with the varying rights and benefits of current Members.
3. Distributing Wealth to Members through Rebates or Cash Dividends	The current dual mutual structure would be retained, while a portion of Insurance's capital would be distributed to Members through rebates on an ongoing basis. A majority of directors of Association and all of the directors of Insurance believe there are a number of disadvantages associated with rebates. These are described in Section 4.5 of the Information Memorandum. A number of directors do however, support the distribution of capital through rebates. Refer to Section 5.6.3 of this report for further discussion of rebates. In regard to the payment of cash dividends, it is uncertain whether the constitutions of Association and Insurance can be legally varied to allow for the payment of dividends.
4. Extending Membership to Non-Members	As discussed in Section 4.2.1 of this report, the number of non-member customers in Insurance has grown in recent years and, based on Insurance's current strategy, is expected to continue to grow in the future. This contributes to corporate governance issues currently faced by the NRMA Group (refer Section 5.10 of this report). Extending membership to non-member customers would assist in addressing corporate governance issues. This is because a stakeholder group will be removed resulting in the existence of only one stakeholder group being Members. However, this would dilute the ownership interests of pre-existing Insurance Members.
5. Partial Listing of Insurance	Insurance would be demutualised and listed. Association would remain a mutual and hold the majority of the shares in the listed entity, with the remaining shares issued to Members. This structure would assist in addressing some of the issues currently faced by the NRMA Group. However, it would not resolve corporate governance issues, would introduce potential conflicts of interest between Association and outside minority shareholders and the total value distributed to Insurance Members (excluding Association) who are also Association Members would be reduced.
6. Full Demutualisation and Listing	Both Association and Insurance would be demutualised and listed. This proposal was put to Members in 1994 but was suspended as a result of legal action. This proposal would not result in the introduction of additional complexities and potential risks created by the Business Relationship Agreements. The majority of directors of Association and all of the directors of Insurance believe that this proposal is not in the best interests of Members for, among other reasons, Association Members value the mutual heritage and attributes of Association.
7. Trade Sale or Merger of the NRMA Group	The sale or merger of the NRMA Group as a whole. This proposal may address some or all of the issues currently faced by the NRMA Group and as discussed in Section 9 of this report a premium for control may be received as a result of the sale. The majority of directors of Association and all of the directors of Insurance believe this is unattractive when compared to the current Proposal for a number of reasons which are discussed in Section 4.5 of the Information Memorandum.

The alternatives considered by the Boards are described in further detail in Section 4.5 of the Information Memorandum.

## 6. Assessment of the Proposal for Insurance Members other than Association

### 6.1 Summary of Opinion

In arriving at its overall opinion, Ernst & Young Corporate Finance is of the view that the Proposal is in the best interests of Insurance Members as a whole (excluding Association). Set out in Section 2 of this report are the criteria Ernst & Young Corporate Finance has had regard to in forming its opinion and with respect to Insurance Members (excluding Association).

Set out below are the key advantages and key disadvantages and other factors which Ernst & Young Corporate Finance considered in forming its opinion and which are discussed in further detail in Sections 6.2 to 6.9 of this report.

The key advantages of the Proposal for Insurance Members (excluding Association) may be summarised as follows:

- the rights of Insurance Members (excluding Association) are enhanced under the Proposal in respect of their rights to appoint and remove directors, access to surplus assets on winding up and rights in relation to distribution of surplus profits (Section 6.2 of this report);
- under the Proposal, Insurance will have greater flexibility to raise capital which may be required to fund future expansion of the business by accessing external equity (Section 6.5.3 of this report);
- the Proposal will crystallise the value of membership rights in Insurance through the issue of Shares to Insurance Members (excluding Association). The overall financial position of Insurance Members (excluding Association) will be enhanced under the Proposal (Section 6.4.1 of this report);
- the Proposal addresses the issues arising from the decreasing commonality of Insurance's customer and member base (Section 6.4 of this report);
- the implementation of the Business Relationship Agreements are expected to lead to an overall decrease in the costs borne by Insurance and an increase in the costs borne by Association (Section 6.6.3 of this report);
- the Proposal will assist in improving governance and control of Insurance (Section 6.7 of this report);
- the assignment of the NRMA Trade Marks and logos by Association to Insurance for financial services and insurance which can only be terminated in limited circumstances compares favourably to the current informal arrangements under which Insurance uses the NRMA Trade Marks and logos which are subject to termination by Association at reasonable notice; and
- the Proposal is preferred to the present dual mutual structure and is the preferred practical alternative for Insurance Members (excluding Association) (Section 6.9 of this report).

The key disadvantages of the Proposal may be summarised as follows:

- one off costs of implementing the Proposal of approximately \$45.8 million (after tax) (Section 5.8.4 of this report);
- Insurance Members (excluding Association) could be provided with financial benefits, although potentially to a more limited extent, through rebates or additional services at no or a reduced charge (Section 6.4.3 of this report);
- it is anticipated that NIGL will list during 2000. However, there is no guarantee of when NIGL will be listed, if at all. There is also an element of uncertainty attaching to the market price of the Shares in NIGL, as for all listed companies (Section 6.4.1 of this report);
- the market price at which NIGL shares will trade is likely to be less than that at which they may have traded if the potential risks and complexities surrounding the Business Relationship Agreements did not exist. In particular, the risks surrounding the assignment from Association to Insurance of the NRMA Trade Marks and logos in relation to insurance and financial services (Section 6.6.4 of this report);
- the implementation of the Business Relationship Agreements introduces added complexity and potential risks which do not currently exist, the potential commercial and financial impact of which is difficult to assess (Section 6.6 of this report);
- there is potential, over time, for the interests and objectives of NIGL and Association to diverge and conflict which may result in an erosion of the close relationship between Association and Insurance. This may result in difficulty in maintaining the co-operation between the two entities which could negatively impact Insurance's competitive advantage and the effective operation of the Business Relationship Agreements (Section 6.6.4 of this report);
- the culture of Insurance may change (Section 6.8 of this report);
- potential for the interests of NIGL shareholders to increasingly conflict with interests of policyholders (Section 6.4 of this report) which may adversely impact premium rates, capital strength, quality of service and claims payment philosophy;
- increased possibility of takeover (Section 6.8 of this report); and
- implementation of the current Proposal may make it more difficult for Insurance Members (excluding Association) to pursue an alternative proposal which, although not currently available to Insurance Members (excluding Association), may be better than the current Proposal (Section 6.9 of this report).

There are a number of other factors which should be considered by Insurance Members (excluding Association). These are detailed below:

- the NRMA Group is currently a successful organisation. To date Insurance has been able to expand into new product areas as a result of acquisitions such as SGIO and enter into alliances such as that with RACV with the aim of achieving economies of scale;

- under the Proposal control will be vested in the owners of Insurance in proportion to ownership. Large shareholders, such as institutional investors may therefore be in a position to exercise a greater degree of control. This contrasts to the current equal voting of one vote per Insurance Member;
- the Consulting Actuary has concluded that policyholder security and reasonable expectations will not be prejudiced and will be adequately protected if the Proposal is approved and implemented (Section 6.5.1 of this report);
- the Consulting Actuary has concluded that the basis of the allocation of Shares under the Share Allocation Rules is fair and reasonable. Subject to the limitations described in Section 6.3 of this report, Ernst & Young Corporate Finance is in agreement with this opinion;
- the estimated market price of a Share in NIGL were the Proposal to go ahead and the Shares traded on the Stock Exchange as at the date of this report, would be between \$2.60 and \$3.00 per Share based on the issue of 1,465 million Shares. The estimation of the market price of a Share provides an indication of the value that could be accessed by Insurance Members under the Proposal. The basis of this estimate and the limitations are discussed in Section 9.5 of this report;
- there will be no liability for payment of tax by Insurance Members when they give up their membership rights in Insurance and no liability to tax when they receive Shares in NIGL (refer Section 6.4.2 of this report). The cost base for capital gains tax purposes of the Shares will be calculated as the lower of the statutory value of Insurance as determined under Division 9AA of the Tax Act and the closing price at which a Share traded on the Australian Stock Exchange on the Listing Date;
- any Shares disposed of by an Insurance Member on or after the Listing Date will be subject to the capital gains tax provisions of the Tax Act. Any gain or loss to the Shareholder at the date of disposal of the Shares will be the difference between the cost base of the Shares and the sale price of the Shares less disposal costs and in the case of shares held more than 12 months by taxpayers that are individuals or complying superannuation funds, the taxable capital gain will be reduced to 50% or 66 2/3% of the gain, respectively (refer to Section 6.4.2 of this report);
- the franking surplus of Insurance and its wholly owned subsidiaries at the beginning of the Demutualisation Resolution Date will be cancelled. Insurance will be able to generate franking credits after the Demutualisation Resolution Date (Section 6.5.2 of this report);
- Insurance as a mutual company may be more likely to undertake certain activities or provide additional services at no or a reduced cost to Insurance Members compared to a shareholder owned company (Section 6.4.4 of this report); and
- potential negative pension or welfare consequences for certain Insurance Members (Section 6.8 of this report).

## 6.2 Insurance Members and Shareholders other than Association

### 6.2.1 Overview

In the opinion of Ernst & Young Corporate Finance, the rights accruing to shareholders of NIGL after the Proposal is implemented adequately compensate for the rights foregone as Insurance Members (excluding Association). In respect of the right to appoint and remove directors, access to surplus assets on winding up and rights in relation to distribution of surplus profits, the rights of Insurance Members (excluding Association) are enhanced under the Proposal.

A comparison of the current rights of Insurance Members (excluding Association) and the rights of NIGL Shareholders is contained in Section 7.6 of the Information Memorandum and described in further detail in Sections 4.3 and 5.4 of this report.

### 6.2.2 Comparison of Members and Shareholders Rights other than Association

Table 3 provides a summary of the comparison of Insurance Members (excluding Association) rights in Insurance to the rights of shareholders in NIGL under the Proposal.

## 6.3 Share Allocation Rules

### 6.3.1 Overview

With respect to the proposed basis of the Share Allocation Rules, which are set out in Sections 1 and 8.18 of the Information Memorandum, the Consulting Actuary has stated that 'In our opinion, this basis is fair and reasonable'.

The Consulting Actuary's Report contained in Section 12 of the Information Memorandum outlines the reasoning behind the approach adopted. Ernst & Young Corporate Finance has reviewed the report of the Consulting Actuary and the supporting documents and held discussions with the Consulting Actuary.

In assessing the Share Allocation Rules from the perspective of Insurance Members (excluding Association), we have taken into consideration whether:

- the process used in arriving at the Share Allocation Rules was appropriate and makes use of objective measures where possible;
- the method is capable of practical implementation;
- the allocation gives a reasonable weighting to each of the rights being exchanged for Shares; and
- the allocation gives a reasonable weighting to the relative contribution to the value of Insurance by Insurance Members (excluding Association).

Additionally, in assessing the Share Allocation Rules from the perspective of Insurance Members (excluding Association) it has been necessary for Ernst & Young Corporate Finance to consider:

**Table 3 Comparison of Members' Rights in Insurance (excluding Association) to Shareholders Rights in NIGL**

EXISTING RIGHTS	FUTURE RIGHTS
<p><b>Policyholder</b></p> <ul style="list-style-type: none"> <li>Contractual rights under policies.</li> <li>Policyholder reasonable benefit expectations.</li> <li>Security of policyholder benefits.</li> <li>Insurance is managed for the benefit of policyholders and Insurance Members.</li> </ul> <p><b>Insurance Member (excluding Association)</b></p> <ul style="list-style-type: none"> <li>Requisition, attend, speak and vote at general meetings.</li> <li>Cannot vote on the appointment of directors.</li> <li>One vote per Insurance Member (equal voting).</li> <li>Do not participate in any surplus assets on winding up.</li> <li>Do not directly share in profits/(losses) of Insurance although Insurance does have the ability to provide rebates and additional services at no or a reduced cost.</li> <li>Cannot transfer membership rights in Insurance.</li> <li>Cease to be an Insurance Member and relinquish membership if you no longer hold a qualifying policy.</li> </ul>	<p><b>Policyholder</b></p> <ul style="list-style-type: none"> <li>No change.</li> <li>No material adverse change (refer to Section 6.5 of this report).</li> <li>No material adverse change (refer to Section 6.5 of this report).</li> <li>NIGL will be managed for the benefit of Shareholders, subject to the obligations owed by the company to policyholders.</li> </ul> <p><b>Shareholder</b></p> <ul style="list-style-type: none"> <li>Exchanged for similar rights in NIGL.</li> <li>Shareholders can vote to elect and remove a director.</li> <li>One vote per fully paid Share (proportional voting).</li> <li>Shareholders can participate in any surplus assets if NIGL is wound up or in a reduction of capital.</li> <li>Shareholders share in profits of NIGL by any dividends that the NIGL Board decides to pay and in any growth (or decline) in the value of Shares.</li> <li>Shareholders can sell their Shares at any time on or after Listing Date (but not before).</li> <li>Keep your Shares even if you no longer hold a qualifying policy.</li> </ul>

- the allocation of Shares as between Association, Association Members and Insurance Members (excluding Association); and
- the allocation of Shares as between Insurance Members (excluding Association).

The Consulting Actuary has noted the significant difficulties encountered in establishing appropriate Share Allocation Rules, these difficulties include:

- the constitutions of Association and Insurance do not provide clear or concise guidance;
- the value of key rights surrendered are not readily quantifiable;
- a significant portion of the current wealth was probably contributed by former Insurance Members; and
- the limitations of reliability and availability of historical data with respect to the policy holdings of Insurance Members.

Given these difficulties the Consulting Actuary concluded that there is no single theoretically correct method of allocating the Shares between Members.

### 6.3.2 Allocation between Association, Association Members and Insurance Members (excluding Association)

The allocation of 50% of the Shares in NIGL to Association and Association Members has been determined by the Consulting Actuary, having regard to:

- the special rights of Association as an Insurance Member that are to be relinquished under the Proposal;
- the NRMA Trade Marks and logos for insurance and financial services assigned by Association to Insurance under the Business Relationship Agreements; and
- the need to compensate Association for the financial impact of the implementation of the Business Relationship Agreements.

### 6.3.3 The allocation of Shares between Insurance Members (excluding Association)

The Share Allocation Rules as between Insurance Members are set out in Section 5 of the Consulting Actuary's Report included in Section 12 of the Information Memorandum. This methodology has been recommended by the Consulting Actuary to:

- achieve a minimum allocation of Shares;
- reflect the membership rights given up; and
- reward the relative contribution to the value of the NRMA Group.

The lack of reliable historical insurance policyholder details has led the Consulting Actuary to conclude that it is not possible to reward loyalty based on a detailed calculation of policy history. This method may include taking into account policy profitability and the number of years the policy has been held. As a result the number of policies currently held has been used. The allocation of Shares between Association Members, based in part on the number of membership years, serves to provide partial compensation for long term policyholders although this mechanism is less than perfect.

### 6.3.4 Our views

Any proposed allocation basis is inevitably arbitrary. There is no doubt that alternative methods for allocating the Shares could be devised. Some of these methods might constitute equally acceptable, albeit equally arbitrary, bases for allocating the Share entitlements. There is no clear legal basis for determining members' entitlements and any method of allocating entitlements will reflect judgemental and arbitrary compromises between competing criteria. As a result, it is not possible to objectively demonstrate that one set of criteria is superior or inferior to another set of criteria.

Subject to the limitations described above, Ernst & Young Corporate Finance is in agreement with the opinion of the Consulting Actuary for the reasons that follow.

### Allocation between Association/Association Members and Insurance Members

The Share Allocation Rules compensate Association and Association Members for the rights given up with respect to:

- special rights as an Insurance Member in particular with respect to the practical control over the management of Insurance's businesses;
- the assignment by Association to Insurance of the NRMA Trade Marks and logos for insurance and financial services under the Business Relationship Agreements; and
- interest in the surplus assets of Insurance on winding up.

While each of these individual components are not capable of precise calculation, after consideration of the respective rights of the two sets of members, the Consulting Actuary is led to the view that in aggregate the values of the respective rights of Association and its members and Insurance Members (excluding Association) are broadly equal.

Ernst & Young Corporate Finance notes that while the value of Insurance has come from the profitable operations of the Insurance business, and hence from Insurance policyholders, Association has also made a significant contribution to that value. This contribution has been made by way of:

- Association initially establishing Insurance;
- Association providing access to its membership base to Insurance;
- the use of the NRMA Trade Marks and logos for insurance and financial services; and
- the close co-operation between the two organisations over many years.

The Share Allocation Rules recognise the need for Association, Association Members and Insurance Members to all agree to the Proposal. Given the significant difficulties encountered by the Consulting Actuary the allocation of Shares evenly between Association/Association Members and Insurance may not be unreasonable as each need to agree for the Proposal to proceed.

The vast majority of Insurance Members (excluding Association) are also Association Members. Therefore an increase in the percentage of shares allocated to Association/Association Members will mean that Insurance Members (excluding Association) will receive:

- more shares as an Association Member; and
- less shares as an Insurance Member.

As a result, the total Share Allocation to individual Insurance Members (excluding Association) is not significantly affected by the percentage allocated to Association/Association Members.

### Allocation between Insurance Members (excluding Association)

The Share Allocation Rules recognise the rights given up under the Proposal by Insurance Members (excluding Association) and rewards the present loyalty of Insurance Members (excluding Association).

The proposed approach is considered superior to the identified alternative methods in that:

- allocation between Insurance Members (excluding Association) based on length of Insurance membership would over-exaggerate the benefits given to long standing Members through the allocation to Association Members based on the number of membership years. Such an allocation method would result in long standing Dual Members receiving a significantly greater multiple of shares compared with short term Members. This approach would not adequately compensate Insurance Members with a small number of years membership for the membership rights given up;
- Insurance membership duration is not readily available in a reliable form;
- allocation based on future membership or policyholder status would be administratively difficult to implement. Such an approach would allocate shares based

upon the number of policies held in future periods. This would serve to reward Insurance Members (excluding Association) for their future loyalty and aid in the retention of policyholders by Insurance. To do this would require significant additional administration by Insurance and mean that the final allocation of shares would not be resolved for a number of years.

- allocation based on size of premiums paid would disadvantage certain Insurance Members; and
- allocation based on product profitability would be difficult to determine given fluctuations in product profitability over time.

## 6.4 Financial Position of Insurance Members

### 6.4.1 Exchange of Insurance Members' rights for Shareholder rights

Under the Proposal, Insurance Members will receive Shares in NIGL in exchange for their rights as Insurance Members. The Shares will crystallise the value of membership rights. The impact of the Proposal on the financial position of Insurance Members will depend upon a number of factors and would vary from member to member. On balance, Ernst & Young Corporate Finance is of the opinion that under the Proposal the financial position of Insurance Members (excluding Association) is enhanced.

In forming the above opinion, Ernst & Young Corporate Finance has considered the estimated market price of a Share in NIGL which has been determined on the basis that the Proposal had been implemented and the Shares traded on the Australian Stock Exchange at the date of this report, and which it considers would have been between \$2.60 and \$3.00 per Share based on the issue of 1,465 million Shares. The estimation of the market price of a Share provides an indication of the value that could be accessed by Insurance Members under the Proposal. The basis of this estimate and the limitations are discussed in Section 9.5 of this report.

The financial position of Insurance Members (excluding Association) is described in Section 5.6 of this report. The financial interest of Insurance Members in Insurance as a mutual company is not readily quantifiable. Under the current constitution of Insurance, Insurance Members (excluding Association):

- do not have the right to transfer their membership;
- cannot access any surplus assets on winding up; and
- principally, can be delivered financial benefits in the form of rebates or reduced or no cost services.

Under the Proposal, Insurance Members (excluding Association) rights, represented by their Shares are separated from their interests in their policies. On or after Listing Date, Insurance Members (excluding Association) can choose to retain or sell their Shares. As Shareholders their entitlements will include the ability to:

- realise their investment in Insurance at any time on or after Listing Date (but not before) by selling their Shares;
- receive dividends in the future from NIGL to the extent that NIGL has appropriate earnings levels and available cash flows and the directors decide to pay dividends;
- acquire additional Shares and participate in future issues made by NIGL; and
- participate in any capital appreciation or depreciation resulting from the growth or decline in the value of the Shares.

### 6.4.2 Taxation position of Insurance Members (excluding Association)

The taxation advisers to the Project, Mallesons Stephen Jaques have assessed the Australian taxation consequences for Insurance Members as a direct consequence of the Proposal. The Australian tax implications are described in Section 8.15 of the Information Memorandum and discussed in Section 5.6.6 of this report. The tax consequences may vary depending upon specific circumstances of each Insurance Member and therefore each Insurance Member should seek their own independent advice. The key taxation considerations include:

- there will be no liability for payment of tax by Insurance Members (excluding Association) when they give up their membership rights in Insurance and no liability to tax when they receive Shares in NIGL;
- the cost base for capital gains tax purposes of the Shares will be calculated as the lower of the statutory value of Insurance as determined under Division 9AA of the Tax Act and the closing price at which a Share traded on the Australian Stock Exchange on the Listing Date;
- any Shares disposed of by an Insurance Member on or after the Listing Date will be subject to the capital gains tax provisions of the Tax Act. Any gain or loss to the Shareholder at the date of disposal of the Shares will be the difference between the cost base of the Shares and the sale price of the Shares less disposal costs and in the case of shares held more than 12 months by taxpayers that are individuals or complying superannuation funds, the taxable capital gain will be reduced to 50% or 66 2/3% of the gain, respectively; and
- dividends (franked and unfranked) received by Insurance Members who are individuals will be assessable and subject to taxation. However, they will be entitled to an imputation credit to the extent the dividend is franked.

### 6.4.3 Alternative forms of wealth distribution

#### Provision of rebates

The value of Shares to be allocated to Insurance Members (excluding Association) is greater than the amount currently available to Insurance to provide rebates. This is because rebates are limited by the need for Insurance to retain capital to meet solvency and capital adequacy requirements and other working capital needs.

The majority of the directors of Insurance believe that, from a financial point of view, payment of large-scale benefits to Insurance Members would not give meaningful access

to the wealth of the organisation and would not be appropriate on an ongoing basis. Large-scale benefits could not be maintained without dissipating Insurance's capital base. A mutual company does not have the same flexibility to raise capital compared to a listed company if the capital base is run down. Nevertheless, we believe that a limited reduction in the cost of services or limited provision of rebates could be considered on an ongoing basis without materially prejudicing Insurance's solvency. However, Insurance Members (excluding Association) should be aware that this alternative would only give limited access to the wealth of Insurance and would be dependent on maintaining Insurance membership. This alternative would not give Insurance Members the ability to convert their memberships to cash if they required cash. In addition, reduced cost services and rebates could potentially divert wealth to non-member policyholders. This is discussed in further detail in Section 5.6.3 of this report.

#### Cash dividends

It is uncertain whether the constitution of Insurance could be modified to allow for the payment of dividends in the absence of major structural reorganisation. If this could be achieved, the extent to which dividends could be paid would be limited for the reasons described above with respect to the provision of rebates. As a result the payment of cash dividends, if possible, would only give Insurance Members limited access to the wealth of Insurance.

#### Winding up of Insurance

The winding up of Insurance would not benefit Insurance Members (excluding Association) as Association has the right to any residual assets in the event of winding up.

#### Additional services

Insurance as a mutual company may be more likely to undertake certain activities or provide additional services at no or a reduced cost to Insurance Members compared to a shareholder owned company.

### 6.4.4 Pricing and claims philosophy

#### Pricing

While the approach to the setting of premiums rates is not intended to change under the Proposal, premium rates and service levels could change in the future either as a result of the Proposal or for reasons unrelated to the Proposal. The Board of NIGL will need to balance the interests of Shareholders and policyholders to manage the potential conflict of interest between the parties which could adversely impact the premium rates, quality of service and capital strength. This is balanced by the fact that in practice, listed companies must focus on customer satisfaction to attract new customers and achieve required growth in profits.

We have been advised that premium rates are currently charged on a commercial basis, having regard to a number of factors, including:

- rates charged by competitors;
- rating of different risk profiles; and
- desired rate of return on capital as determined by the Insurance Board.

Section 1 of the Information Memorandum states that the approach to setting premium rates will not change and premium rates will not increase as a direct consequence of the Proposal.

It is however, important for Insurance Members to be aware that as a mutual, Insurance's focus is on maximising returns for its Members. Under the Proposal, the board of NIGL will need to balance the interests of Shareholders and policyholders. Policyholders and shareholders have separate interests in relation to the financial performance of an insurance company. Shareholders are mainly interested in increased profits and dividends which may adversely impact the premium rates, quality of service and capital strength. This potential conflict between Shareholders and policyholders may be exacerbated to the extent that Insurance Members who become Shareholders under the Proposal choose to sell their Shares on or after the Listing Date. The number of shareholders in demutualised companies tends to decline after the initial listing, as individuals realise their capital gains by selling their shares. These holdings are often acquired by institutions seeking to duplicate standard market investment indices. This may result in institutional investors, who are generally focused on profit maximisation, gaining a substantial shareholding in NIGL.

The above concerns are balanced by the fact that in practice, listed companies must focus on customer satisfaction to attract new customers and achieve required growth in profits.

For the vast majority of Insurance Members the value of the Shares they will receive is expected to be in excess of the potential increase, if any, in insurance premiums that might result from the Proposal. Those Insurance Members with large insurance premiums would benefit less if premiums do increase. In any event, an increase in insurance premiums would enhance the earnings, the capacity to pay dividends and the market value of NIGL. Accordingly, Insurance Members who retain their Shares would indirectly benefit from an increase in premium income.

#### Claims paying philosophy

The potential for a conflict of interest between Shareholders and policyholders described above also exists with respect to claims paying philosophy. The directors of NIGL will need to manage these conflicting interests in setting claims payment philosophies. These conflicts presently exist within all listed insurance companies. As a listed company, claims paying decisions will become a commercial decision balancing the interests of shareholders against the policyholder perception of the benefits available under an insurance policy.



Section 1 of the Information Memorandum states that the current approach to claims handling will not change as a consequence of the Proposal. Insurance Members (excluding Association) should be aware that the claims payment policy is a matter for future boards of NIGL and setting this policy will be made on a commercial basis. As a result the most important factor affecting future claims payment policy is likely to be competitive pressure in the general insurance market which may vary from that currently experienced.

## 6.5 Financial Position of Insurance

### 6.5.1 Financial security of policyholders and capital adequacy

The Consulting Actuary has concluded that policyholders' security and reasonable expectations will not be prejudiced and will be adequately protected if the Proposal is approved and implemented.

Insurance policies are contractual agreements which continue after the Proposal. We have considered the effect of the Proposal on policyholder benefits and the security of those benefits.

The financial security of Insurance policyholders' benefits is dependent on the level of capital available to Insurance and the size and nature of the risks undertaken. The Consulting Actuary has assessed the capital requirements of the NRMA Group by examining and quantifying the risks undertaken and the level of capital required to support those risks. This assessment is set out in Section 12 of the Information Memorandum.

The Consulting Actuary concluded that:

- the outstanding claims provisions of the NRMA Group at 30 June 1999 are reasonable and provide a high probability that these provisions will ultimately prove sufficient to meet claim payments for claims incurred prior to 30 June 1999; and
- there is sufficient capital at 30 June 1999 within the NRMA Group to provide a reasonably high probability that the NRMA Group's capital will be greater than the statutory minimum over the next three year period.

The Consulting Actuary has also examined the impact of the Proposal on the financial security of Insurance policyholders and concluded that:

- the Proposal does not diminish the capital base of Insurance;
- the Proposal provides Insurance with greater access to markets for new capital; and
- the Proposal, in itself, does not diminish the security of Insurance policyholders' benefits.

### 6.5.2 Tax position of Insurance

The taxation advisers to the Project Office, Mallesons Stephen Jaques have assessed the Australian taxation consequences for Insurance as a direct consequence of the Proposal. Australian tax implications are discussed in Section 5.8.7 of this report. The key taxation considerations include:

- the franking surplus of Insurance and its wholly owned subsidiaries at the beginning of the Demutualisation Resolution Date will be cancelled;
- Insurance will be able to generate franking credits on or after the Demutualisation Resolution Date; and
- there is increased uncertainty concerning the recoupment of prior period losses as a consequence of the Proposal because of the need to satisfy the same ownership test under the Tax Act. Prior period losses of Insurance and its subsidiaries will, however, be available to offset profits after the date at which Insurance Members become Shareholders provided the same business test under the Tax Act is met (refer to Section 6.13 of the Information Memorandum).

The Goods and Services Tax legislation and the recently released Review of Business Taxation (A Tax System Redesigned) will broadly apply to the Insurance Group equally as either a mutual or non mutual organisation.

The implementation of the Proposal will incur stamp duty costs in the order of \$0.537 million as estimated by PricewaterhouseCoopers.

### 6.5.3 Capital flexibility

One of the reasons why the Insurance Board recommends a vote for the Proposal, is the Proposal will improve the capital flexibility of Insurance. Given the number of mergers, acquisitions and alliances that have occurred recently in the general insurance industry it is likely that capital flexibility will be of key importance to Insurance in future years. The Proposal will enhance the ability for Insurance to undertake further expansion.

A number of Australian financial institutions have recently issued income securities. These 'hybrid' instruments are subordinated to the creditors of the issuer and pay a predetermined coupon interest rather than dividends. These instruments can potentially count towards capital of the issuer and could therefore be used by Insurance to fund future acquisitions. We have not explored the legal ability of Insurance to issue these type of instruments. If Insurance were able to issue such instruments it would improve Insurance's capital flexibility. However, it is likely that Insurance would only be able to issue a finite amount of these instruments into the market at an acceptable yield. Therefore, there is still an improvement in the capital flexibility of Insurance to be gained by implementing the Proposal.

## 6.6 Business Relationship Agreements

### 6.6.1 Overview

Ernst & Young Corporate Finance has considered the Business Relationship Agreements which will be put in place between Association, Insurance and NIGL under the Proposal. It is acknowledged that, from a legal perspective, the Business Relationship Agreements

are to a significant degree, a formalisation of arrangements which currently exist between Association and Insurance. Currently, Insurance uses the NRMA Trade Marks under a licence granted by Association that arises, in most cases, from course of conduct (that is, little formal documentation of the arrangements exists) and Association has the ability to terminate this arrangement on reasonable notice. Under the Proposal there will be an assignment of the NRMA Trade Marks for insurance and financial services by Association to NIGL and Association will have limited rights of termination. However, it should be recognised that the separation of the entities and listing of the Insurance Group does represent a fundamental change to the current relationship.

Ernst & Young Corporate Finance is of the view that the Business Relationship Agreements will introduce added complexity and potential risks which currently do not exist which may, in the future, reduce the operational efficiency and interaction between Association and Insurance. The impact on Insurance, from both a financial and commercial perspective, of these additional complexities and risks is difficult to assess and quantify. This is because a key factor in the success of the Business Relationship Agreements is the extent of the co-operation between Insurance and Association and whether Association will act in good faith and abide by the principles which underpin the Business Relationship Agreements.

It may take some time to determine whether, in the long term, the Business Relationship Agreements provide a suitable framework for the ongoing relationship between Association and Insurance. To the extent that the Business Relationship Agreements do not provide a suitable framework for the ongoing relationship, it will require both Association and Insurance to act in good faith and co-operate in order to arrive at a suitable framework for the ongoing relationship.

### 6.6.2 Practical operation and protocols

The business relationship between Association and Insurance may be more complex if the Proposal is implemented. As a result of a recommendation in a McKinsey & Co report in 1987, the two organisations were integrated under one Chief Executive Officer to facilitate the resolution of inter-company issues and de-emphasise the differences between the two mutuals. This approach did assist the NRMA Group to provide an integrated approach to customer relationship management. However, as discussed in Section 6.7 of this report corporate governance and control issues persisted under this integrated structure.

If the Proposal is implemented each entity will have a separate management team, each with its own Chief Executive Officer. Inter-company issues will therefore be resolved through arms-length interactions between these independent management teams acting in the interests of their respective companies. It will be fundamental for the continued success of the Business Relationship Agreements that these independent management teams co-operate and abide by the underlying principles of the Business Relationship Agreements.

Under the Business Relationship Agreements, Association and Insurance will appoint Alliance Managers whose roles will include liaising between the entities in relation to the day to day operation of the business relationship. There are a number of technical and practical details relating to the implementation and future operation of the Business Relationship Agreements which remain to be finalised. These include the Brand Integrity Principles and the Business Protocols. These are to be negotiated by the parties in good faith between signing and commencement of the Business Relationship Agreements however there is no enforceable mechanism to ensure these are finalised.

The Business Protocols are intended to mitigate the potential risks associated with the transfer of the NRMA Trade Marks (discussed below) and it is therefore critical that these protocols are finalised and put in place. Although the Business Protocols and Minimum Standards have been substantially developed, some of the technical and practical details remain to be finalised.

### 6.6.3 Cost sharing

As discussed in Section 5.7.6 of this report, as a result of the Business Relationship Agreements there will be a change in the way costs are allocated and recovered. The Business Relationship Agreements will put in place mechanisms which enable the cost of support services to be allocated between the Insurance Group and Association on a more commercial basis than is currently the case. It is expected this will lead to an overall decrease in the costs borne by the Insurance Group and an increase in the costs borne by Association.

### 6.6.4 Risks associated with the Business Relationship Agreements

It is difficult to assess the potential impact on Insurance of the added complexity and potential risks introduced by the Business Relationship Agreements. At a high level these potential risks fall into three broad areas of concern which are:

#### *Relationship between Insurance and Association*

The Proposal results in the separation of the two entities. A key factor in the success of the Business Relationship Agreements will be the degree of co-operation between the NIGL Board and the Association Board and the management teams of each entity. The degree of co-operation is difficult to predict with any certainty because Insurance will have no control over either the appointment of the Association management team or the Association Board.

The Insurance Group has traditionally been focused in New South Wales and the Australian Capital Territory. In future the Insurance Group intends to focus on growth and diversification through acquisitions and joint ventures and as a listed company is likely to become more focused on profit maximisation. Association is likely to continue to focus mainly in New South Wales with its primary focus continuing to be responsive to

Members' needs. Over time, there is therefore the potential for the interests and objectives of NIGL and Association to diverge and conflict. This may result in an erosion of the close relationship between Association and Insurance. As the Insurance Group grows and diversifies this is likely to result in less correlation between Insurance customers and Association Members. This may also erode the close relationship between the entities. The erosion of the relationship over time may make it difficult to maintain co-operation between the two entities, this in turn could negatively impact the effective operation of the Business Relationship Agreements.

The business success of Insurance is partly attributable to the goodwill generated by the road service and advocacy functions of Association and the ability to cross-sell to Association Members. An erosion of the close relationship between the entities may therefore negatively impact the competitive advantage Insurance has historically enjoyed as a result of its relationship with Association.

#### *Operational efficiency*

The additional risks and complexities introduced by the Business Relationship Agreements will potentially have an impact on Insurance's operational efficiency. The Business Relationship Agreements will require day to day management and it is critical the management teams of both Association and Insurance are committed to and have sufficient resources to ensure that the day to day management of the agreements is effective. The Business Relationship Agreements will also limit Insurance's business scope to insurance and financial services which are the areas in which it operates today.

#### *NRMA Trade Marks*

Under the Proposal, there will be an assignment of the NRMA Trade Marks and logos in relation to insurance and financial services from Association to NIGL. The initial registration of the NRMA Trade Marks must, in the first instance, be legally effective, and then, going forward, the NRMA Trade Marks are subject to a number of legal requirements in order to remain validly registered. These legal requirements are intended to ensure that concurrent use of the NRMA Trade Marks by two entities is not misleading or deceptive to the public. Under certain circumstances the Insurance Group could be prohibited from using the NRMA Trade Mark in the future. If the registration of the NRMA Trade Marks is not considered to be legally effective the ownership of the NRMA Trade Marks will revert to Association and Association will license the NRMA Trade Marks to the Insurance Group.

It is difficult to assess the potential impact on the Insurance Group should it at some time in the future be prohibited from using the NRMA Trade Marks. It is, however, likely that such a prohibition would have a material impact on Insurance from both a commercial and financial perspective.

For NRMA Trade Marks which are licensed by Association to the Insurance Group, or in circumstances where the assignment of certain NRMA Trade Marks to the Insurance Group is not legally effective and are therefore licensed, the Trade Marks could be cancelled if Association does not exercise sufficient control over the goods and services bearing the NRMA Trade Mark. There is no clear legal precedent as to the meaning or the extent of the control that Association would need to exercise over the goods and services provided by Insurance. It is therefore difficult to assess the commercial and financial impact on the Insurance Group of the exercise of such control.

Business Protocols and Minimum Standards have been substantially developed and agreed between the entities. The Business Protocols are intended to mitigate the potential risks associated with the assignment of the NRMA Trade Marks however, they will not eliminate all potential risks which may exist. The Minimum Standards are intended to mitigate the potential risks associated with the license arrangement. These are the standards by which Association will exercise quality control over the goods and services which are the subject of the licensed NRMA Trade Marks. These protocols and standards are fundamental to the success of the use of the NRMA Trade Marks. Although the Business Protocols and Minimum Standards have been substantially developed, some of the technical and practical details remain to be finalised. We do not express an opinion about any legal ramifications of the Business Protocols. On the assumption that they are legally effective, implemented and observed in accordance with their terms, in our opinion they are reasonable means of reducing the business risks posed by the Business Relationship Agreements as they affect the use of the NRMA Trade Marks.

#### **6.6.5 Risk mitigating factors**

The Boards believe the risks described above relating to the operation of the Business Relationship Agreements are reduced by a number of factors, these are summarised below:

- commercial imperatives exist for both Association and the Insurance Group to ensure the agreements remain workable:
  - from Association's perspective, the agreements enable it to obtain certain distribution and support services at a commercially competitive cost;
  - from the Insurance Group's perspective, the agreements provide marketing opportunities through joint distribution of road service, insurance and financial service products; and
  - both organisations benefit from the continued co-ordinated use of the NRMA brand and cross-marketing opportunities.
- Association will maintain a shareholding in NIGL representing approximately 2% of its pro forma restated capital base at 30 June 1999, resulting in some alignment of its interests with those of NIGL;
- the Business Relationship Agreements are a consequence of a structure which seeks to retain Association as a mutual, demutualise Insurance and maintain a close relationship between Association and Insurance;
- the contracts call for alliance managers at Association and within the Insurance Group who will work to manage the day-to-day operation of the agreements;

- working groups will be established to facilitate communication between the entities; and
- as a final measure the parties agree to implement a prescribed dispute resolution process.

Ernst & Young Corporate Finance acknowledge that certain factors do exist which mitigate some of the potential risks and complexities under the Business Relationship Agreements, however these factors are not sufficient to remove all risks and complexities and therefore it will be fundamental that both parties co-operate to ensure the success of the Business Relationship Agreements.

The Business Relationship Agreements are described in further detail in Section 5.9 of this report and Section 5.5 of the Information Memorandum describes in further detail potential risks and mitigating factors.

## 6.7 Corporate Governance and Control

### **6.7.1 Overview**

Ernst & Young Corporate Finance is of the opinion the Proposal will assist in improving corporate governance and control of the Insurance Group. Board and management accountability is expected to increase because under the Proposal Shareholders will have a direct financial interest in NIGL and there will be greater market scrutiny. NIGL will adopt corporate governance practices consistent with a public company.

Ernst & Young Corporate Finance do however acknowledge that corporate governance issues can occur in all corporate structures and that a number of alternative proposals other than structural reform have and could be developed to assist in addressing the current corporate governance concerns within Insurance.

### **6.7.2 Current corporate governance issues**

There are a number of issues that contribute to corporate governance concerns which currently exist in Insurance, these include:

- the current dual mutual corporate and membership structure of the NRMA Group;
- the overlapping but not identical membership between Association and Insurance;
- the special rights of Association as an Insurance Member (Section 4.3 of this report); and
- the current size and complexity of Insurance.

The current corporate governance arrangements are described in further detail in Section 2 of the Information Memorandum and in Section 5.10 of this report. A majority of directors on the Association Board and all of the directors on the Insurance Board believe that the current issues surrounding corporate governance have created a number of corporate governance problems, including:

- limited owner disciplines on performance;
- an inappropriate director selection process for a business the size and complexity of Insurance;
- the absence of a significant number of Insurance directors who are independent of Association;
- different claims over the 'ownership' of Insurance by both Association Members and Insurance Members; and
- the inability of Insurance Members (excluding Association) to elect directors to the Insurance Board.

Ernst & Young Corporate Finance would also like to draw Insurance Members' attention to the fact that in recent times, Board conflict has existed within the NRMA Group. Implementation of the Proposal may achieve a resolution of this conflict at least from Insurance's perspective. Listed companies do not generally experience this level of conflict at least on an ongoing basis and have procedures for calling general meetings and voting practices that normally lead to resolution of conflict.

## 6.8 Other Advantages and Disadvantages

In forming its opinion on whether the Proposal is or is not in the best interests of Insurance Members (excluding Association) Ernst & Young Corporate Finance has considered, in addition to the specific areas discussed in this Section 6 of this report, other likely advantages, disadvantages and other factors of the Proposal as they relate to Insurance Members (excluding Association).

### **In Ernst & Young Corporate Finance's view, other likely advantages of the Proposal to Insurance Members (excluding Association) include:**

- the current dual mutual structure does not shield Insurance Members from a takeover offer. This may result in Insurance Members accepting a takeover offer which overall would place Insurance Members in a worse financial position compared to the Proposal (refer to Section 2 of the Information Memorandum);
- it may be argued that increased industry competition and consolidation (refer to Section 8 of this report) requires a cultural change within mutual companies to promote greater efficiency and general market sophistication. This is more likely to be the case if the mutual company's strategy is to expand into new markets and geographic locations. Changing the fundamental orientation of an organisation can be difficult and time consuming. Converting to a listed company can often facilitate such a change in orientation;
- converting to a listed company may also facilitate the recruitment of quality executives and staff as a result of a more efficient working environment and the ability to remunerate management and staff using publicly traded shares and options. This also allows the interests of Shareholders and employees to be aligned;
- currently, Insurance has franking credit balances which cannot be utilised and although these will be cancelled as a result of the Proposal, future franking credits will be available to be utilised; and

- the success of Insurance is likely to involve continued expansion, particularly interstate. Geographic expansion is regarded as important to diversify insurance risk and ultimately to be able to compete effectively with a stronger group of national insurers that are likely to evolve as a result of rationalisation in the industry. This expansion will undoubtedly involve examination of major acquisitions which may require substantial amounts of capital. The mutual structure provides less flexibility in relation to the raising of additional capital.

**In Ernst & Young Corporate Finance's view, other likely disadvantages of the Proposal to Insurance Members (excluding Association) include:**

- the corporate structure under the Proposal will provide less protection against a hostile takeover compared to the current mutual structure. This is mitigated to a degree by certain restrictions which are in place for five years, unless Shareholders' approval is obtained to remove these restrictions (Section 5.6.4 of this report). The Treasurer's approval would also be required to acquire a shareholding of 15% or more. Under a mutual structure it is not practically possible for another entity to acquire Insurance by way of takeover although members' voting rights can be acquired in other ways including through a court approved scheme. In a takeover of a public company it is the shareholders who will determine whether the takeover will be successful. Shareholders must be offered an acceptable price for their shares. A premium for control may be realised by a sale in conjunction with a takeover;
- conversion to a listed company has the potential to lead to an erosion of the tradition and culture of Insurance as a result of increased focus on profitability. In particular, we draw Insurance Members' attention the following potential impacts:
  - mutual companies can engender a community spirit that offers a potential competitive advantage. A policyholder who is aware of the distinction between listed companies and mutuals may prefer doing business with a mutual. Some employees may also prefer working for a mutual company, if it offers stability and a clear community minded mission. Members should however be aware that these factors are less relevant where the mutual company is of the size of Insurance and therefore in many respects operates in the same way as a listed company;
  - some projects, services, community initiatives may not be investigated or pursued which may have been in the interests of Insurance Members and the community as a whole but are not necessarily profitable or in the interests of Shareholders; and
  - a mutual company arguably has greater flexibility to undertake initiatives in the long term interests of policyholders that may not result in benefits in the short term. Listed companies often lack this flexibility because they are under pressure to report positive financial results. These issues are however, potentially balanced to some degree by the fact that the public image of Insurance will continue to be important to marketing Insurance's products and services under the Proposal. The benefits of maintaining community services and the role of industry spokesperson may outweigh the costs. A large number of profit maximising companies engage in community oriented services. The future level and nature of community services would be determined by management of the day.
- the conflict and governance issues which currently exist in Association may have a negative impact on the ongoing relationship between Insurance and Association which is a critical factor in the success of the Business Relationship Agreements (Section 6.7 of this report).

**In Ernst & Young Corporate Finance's view, other factors which should be considered by Insurance Members (excluding Association) in relation to the Proposal include:**

- past and current members of a mutual company create wealth which benefits future generations of members. Under the Proposal current Insurance Members will benefit from the wealth built up by past generations of members rather than pass this benefit on to future members;
- depending upon an Insurance Member's particular circumstances there may be some pension or welfare consequences as a result of the Proposal. The Australian Council of Social Services ('ACOSS') was engaged to analyse and report on the likely effect of the Proposal on those Members who are pension or allowance recipients. The report concluded that, for approximately 1,200 or 0.12% of the estimated number of Members who are in receipt of pensions or allowances, the receipt of Shares is likely to result in a loss of their pension or allowance (more details with respect to the impact of the Proposal on pensions and allowances is set out in Section 8.16 of the Information Memorandum);
- the Department of Family and Community Services ('FaCS') and Centrelink are aware of the Proposal. FaCS has advised the Shares will not be assessed under the social security income and assets test before NIGL lists on the Australian Stock Exchange and the value of Shares issued will not be treated as income under the social security income test. From Listing Date, the Shares will be assessed under the income and assets tests, in the same way as other types of listed shares. Insurance Members should seek their own independent advice specific to their circumstances (refer to Section 8.16 of the Information Memorandum);
- the Proposal provides a means to address the issues facing Insurance from changing membership dynamics and increasing numbers of non-member customers;
- there are examples internationally of efficient well run mutuals;
- management of mutuals involved in protracted restructure activity can become distracted from many important day to day strategic decisions;
- some mutuals choose to remain a mutual and choose to focus on a particular niche in a geographic location, client segment or line of business;
- the NRMA Group is currently a successful organisation. To date Insurance has been able to expand into new product areas as a result of acquisitions such as SGIO and enter into alliances such as that with RACV with the aim of achieving economies of scale. However, it would be argued that the Proposal is intended to produce a

corporate structure that will maximise the likelihood that Insurance will continue to be successful in the long term;

- under the Proposal control will be vested in the ultimate owners of the Insurance Group in proportion to ownership. Large Shareholders, such as institutional investors, therefore, may be in a position to exercise a greater degree of control. This contrasts to the current equal voting of one vote per Insurance Member; and
- Insurance Members should be aware that it is common for listed public companies to attract and retain staff by offering such employees share schemes. While such schemes seek to align the interests of employees and shareholder they also have the result of diluting the existing shareholders interests. In the Information Memorandum (Section 8.17), it is stated that no such employee share scheme will be introduced prior to Listing Date. However, such a scheme could be introduced post Listing Date.

## 6.9 Evaluation of Alternatives

### 6.9.1 Overview

Ernst & Young Corporate Finance has reviewed, strictly from the perspective of Insurance Members (excluding Association), the alternatives which it has been advised have been considered by the Boards as described in Section 4.5 of the Information Memorandum and set out in Section 5.11 of this report. In forming its opinion in relation to these alternatives, Ernst & Young Corporate Finance has had regard to the criteria set out in Section 2 of this report.

### 6.9.2 Alternative corporate and membership structures

Over a period of eight years the Boards have considered a wide range of alternative corporate and membership structures for the NRMA Group. Ernst & Young Corporate Finance acknowledges that no single corporate and membership structure can be described as being optimal; universally and perpetually. The Proposal is therefore one of a number of alternative corporate and membership structures for the NRMA Group. We consider that the process undertaken which culminated in the Proposal, as described in Section 13.4 of the Information Memorandum, was appropriate in relation to the identification of alternatives.

Details of the corporate and membership structure reviews commissioned by the Boards are discussed in Section 5.1.2 of this report and the alternatives considered by the Boards are discussed in Section 5.11 of this report and include:

- the Proposal;
- retaining the current dual mutual structure of Association and Insurance;
- creating one mutual by merging Association and Insurance;
- demutualisation and listing of Insurance with Association, retained as a mutual, and holding the majority interest in Insurance;
- demutualise both Association and Insurance (full demutualisation) and list; and
- the sale or merger of the Group as a whole.

### 6.9.3 Our views

In the opinion of Ernst & Young Corporate Finance, the alternatives are a reasonable list of realistic alternatives, although there can be numerous potential alternatives. Ernst & Young Corporate Finance is of the opinion that the Proposal is preferred to the present dual mutual structure and is the preferred practical alternative for Insurance Members (excluding Association).

The basis for this opinion is that, on balance, the Proposal more effectively than the other alternatives addresses the following central issues for Insurance Members (excluding Association):

- improving governance and control of Insurance;
- addressing the issues arising from the decreasing commonality of Insurance's customer and member base;
- enabling Insurance Members (excluding Association) to share in the wealth and underlying value of Insurance;
- adopting a corporate structure which best promotes the achievement of Insurance's objectives and strategies in light of the changes in the markets in which Insurance operates;
- facilitating an ongoing business relationship between Association and Insurance; and
- addressing the different interests of Association as an Insurance Member.

The implications of the Proposal with respect to the above issues are discussed throughout Sections 6 and 7 of this report. Improvements in corporate governance are more likely on a timely basis under the alternatives that include Association giving up its special rights and having a limited ability to control or influence Insurance. Alternatives which involve the demutualisation of Insurance provide a more effective release of value without impairing the financial strength of Insurance. The sale or merger of the NRMA Group would not enable Members the choice of retaining an ownership interest in NIGL and the Proposal does not preclude a sale of NIGL at a later date. As a result, the preferred alternatives from the perspective of Insurance Members (excluding Association) are the Proposal and full demutualisation and listing.

Ernst & Young Corporate Finance is of the view that, strictly from the perspective of Insurance Members (excluding Association), full demutualisation and listing is likely to be a superior alternative from a commercial perspective to the Proposal. This is because, from the perspective of Insurance Members (excluding Association), the potential commercial risks and complexities associated with the Business Relationship Agreements (refer Section 6.6 of this report) are likely to outweigh the commercial benefits to Insurance Members (excluding Association) from Association remaining as a mutual.

Ernst & Young Corporate Finance do however recognise that some Insurance Members (excluding Association) may value the retention of mutuality for Association and on this basis may consider the current Proposal preferable to full demutualisation and listing.

We also note that the majority of directors of Association and all of the directors of Insurance believe that the option of full demutualisation and listing does not address important issues which are covered by the Proposal (refer Section 4.5 of the Information Memorandum) for example:

- Association's unique heritage in New South Wales as a road service mutual. The Boards believe these attributes are highly valued by Association Members;
- the value that could be released by demutualising Association is small relative to that of Insurance; and
- the Members and public service activities of Association contribute to the value of the NRMA Brands, which benefits both Association and Insurance. Some of this benefit could be lost if Association was forced to operate on a commercial basis focused on shareholder returns.

Ernst & Young Corporate Finance is of the opinion that the Proposal is the preferred practical alternative for Insurance Members (excluding Association). In forming its opinion Ernst & Young Corporate Finance has had regard to the fact that there are two classes of Insurance Members entitled to vote on the Proposal being all Insurance Members other than Association, and Association. The commercial and other interests of each of these two classes differ to a significant degree as a result of Association's special rights as an Insurance Member. Association's commercial and other interests are discussed in further detail in Section 7 of this report. This discussion has led Ernst & Young Corporate Finance to conclude in Section 7.7.3 that there is a benefit to Association from retention of its mutual structure. Accordingly, it is the opinion of Ernst & Young Corporate Finance, that the other alternatives (including full demutualisation and listing) do not address the differing commercial and other interests of Insurance Members (excluding Association) and Association to the same degree as the Proposal. On this basis the Proposal is the preferred practical alternative for Insurance Members (excluding Association).

## 7. Assessment of the Proposal for Association as an Insurance Member

### 7.1 Summary of Opinion

In arriving at its overall opinion, Ernst & Young Corporate Finance is of the view that the Proposal is in the best interest of Association as an Insurance Member. The criteria which Ernst & Young Corporate Finance has had regard to in forming this opinion is set out in Section 2 of this report.

Set out below are the advantages and disadvantages and other factors which Ernst & Young Corporate Finance considered in forming its opinion with respect to Association as an Insurance Member and which are discussed in further detail in Sections 7.2 to 7.7 of this report.

The key advantages of the Proposal for Association as an Insurance Member may be summarised as follows:

- the Proposal will enable Association to retain its mutual status while providing autonomy to the management of Association;
- under the Proposal Association will increase its net assets. This is estimated to be an increase of over \$300 million, which will also enhance the ability of Association to pursue its objectives under its constitution;
- the Proposal will assist in improving governance and control of Association, as the Proposal provides greater clarity to the operation and interaction of Association and Insurance as part of the pursuit of the differing objectives of the entities;
- the Business Relationship Agreements introduced under the Proposal will formalise the shared services arrangements currently in place between Association and Insurance. The basis for charging for these services will be less than full commercial cost; and
- the Proposal is preferred to the present dual mutual structure and is the preferred practical alternative for Association as an Insurance Member (Section 7.7 of this report).

**Table 4 Comparison of Association Special Member Rights to Shareholders Rights in NIGL**

EXISTING RIGHTS	FUTURE RIGHTS
<i>Member</i>	<i>Shareholder</i>
– One vote as a member.	– One vote per share.
– Power to appoint and remove the directors of Insurance.	– Vote to elect and remove a director based on one vote per share.
– President of Association is ex-officio a director and chairman of Insurance with a casting vote.	– No equivalent right.
– Only members of Association can be directors of Insurance and a majority of directors of Insurance must be directors of Association.	– No equivalent right.
– Power to alter Insurance's Articles of Association rests with a special majority of 75% of Insurance members in a general meeting but is subject to the special class rights of Association.	– All shareholders of NIGL vote to amend Articles of Association. Vote based on one vote per share.
– Right to all surplus assets in the event of the winding up or dissolution of Insurance other than for the purpose of reconstruction.	– Shareholders can participate in any surplus if NIGL is wound-up on a per share basis.
– Do not directly share in profits/(losses) of Insurance.	– Shareholders share in profits of NIGL by dividends and any growth (or decline) in value of shares.

The key disadvantages of the Proposal for Association as an Insurance Member may be summarised as follows:

- the rights of Association as an Insurance Member are diminished under the Proposal in respect of the giving up of Association's special rights to appoint and remove the directors of Insurance, to appoint the President of Association as ex-officio chairman of Insurance and the right to any surplus assets on the winding up of Insurance as set out in Section 7.2.2 of this report. These special rights are given up in exchange for Shares;
- the Proposal will result in Association giving up practical management control of Insurance although Association does not currently have ultimate control of Insurance as set out in Section 7.2.2 of this report;
- the implementation of the Business Relationship Agreements will introduce additional operating costs to Association in that, as a result of the Proposal, Association will pay more for services provided by Insurance than was previously the case. Implementing the Business Relationship Agreements is estimated to increase the costs of Association by \$10.1 million in year 2000 rising to \$22.6 million in year 2004;
- the Business Relationship Agreements introduce added complexity and potential risks which do not currently exist, in particular, with respect to the NRMA Trade Marks as set out in Section 7.4 of this report; and
- the Business Relationship Agreements result in Association being unable to pursue banking and financial services activities in the future as discussed in Section 7.4 of this report.

There are a number of other factors which should be considered by Association as an Insurance Member, these include:

- the Consulting Actuary has concluded that the basis of the allocation of Shares under the Share Allocation Rules is fair and reasonable. Subject to the limitations described in Section 7.3.3 of this report, Ernst & Young Corporate Finance is in agreement with this opinion;
- the Consulting Actuary has concluded that the Proposal provides for additional capital to be injected into Association in the form of an allocation of shares in NIGL so that the probability of ruin of Association will be materially lower than if the Proposal is not adopted;
- the Proposal is consistent with Association wishing to concentrate on providing road services to members and being prepared to dispose of its special rights in Insurance for valuable consideration;
- it is anticipated that NIGL will list during 2000, however, there is no guarantee of when NIGL will be listed, if at all. There is also an element of uncertainty attaching to the market price of the Shares in NIGL, as for all listed companies as discussed in Section 6.4.1 of this report;
- Association will have no liability for tax when Association gives up its special rights as an Insurance Member, as discussed in Section 5.7.7 of this report;
- any Shares disposed of by Association on or after the Listing Date will be subject to the capital gains tax provisions of the Tax Act. The cost base for capital gains tax purposes of the Shares will be calculated as the lower of the statutory value of Insurance as determined under Division 9AA of the Tax Act and the closing price at which a Share traded on the Australian Stock Exchange on the Listing Date;
- the NRMA Group is currently a successful organisation; and
- the Proposal, if adopted would prevent Association's ability to pursue an alternative proposal with respect to its current rights in Insurance.

### 7.2 Member and Shareholder Rights of Association

#### 7.2.1 Overview

A comparison of the current special rights of Association as an Insurance Member and the rights of NIGL Shareholders is contained in Section 7.4 of the Information Memorandum and in Sections 4.3 and 5.4 of this report.

#### 7.2.2 Comparison of rights of Association as an Insurance Member and Shareholders rights in NIGL

The following table provides a summary of the comparison of the rights and special rights of Association as an Insurance Member to the rights Association will have as a shareholder in NIGL under the Proposal.



A significant issue for the assessment of whether the Proposal is or is not in the best interest of Association as an Insurance Member is the level of control it will give up under the Proposal. Association currently has practical control over the management and affairs of Insurance by virtue of its ability to appoint and remove the directors of Insurance.

The counter-balance is that the rights conferred on Association are legal powers of appointment and termination of directors with management authority, not legal rights to manage the affairs of Insurance. Furthermore, the directors of Insurance have fiduciary obligations in respect of the interests and activities of Insurance and its members as a discreet entity. Failure of the directors to act in the interests of Insurance would be a breach of duty under Corporations Law and the directors of Insurance could not plead that they were simply following the directions of the directors of Association.

While Association effectively controls management of the business of Insurance through its directors, the members of Insurance have the power to amend its Articles provided the amendment would not vary any of the class rights of Association and the amendment would not amount to a repeal of the director's authority to manage Insurance's business.

The Insurance constitution requires Insurance to generally assist and co-operate with Association in the promotion of its objectives. If the Proposal is implemented this requirement of the directors of Insurance will cease. Ongoing co-operation with Association in the promotion of its objectives has been reflected as part of the Business Relationship Agreements which will be entered into under the Proposal. The Agreements are discussed in Section 7.4 of this report. The financial impact of the Business Relationship Agreements on Association is discussed in Section 5.7 of this report.

### 7.3 Financial Position of Association

#### 7.3.1 Exchange of Association special rights for shares

The effect of the Proposal on the financial position of Association is set out in Section 5.7 of this report. Under the Proposal Association is giving up its special rights in Insurance in exchange for Shares and entering into the Business Relationship Agreements as discussed in Section 7.4 of this report.

The Consulting Actuary has concluded that the Proposal will result in a higher degree of confidence in the ongoing viability of Association. In reaching this conclusion the Consulting Actuary assumed that Association would not increase Membership fees until 30 June 2001 and increases thereafter would be in line with CPI. Ernst & Young Corporate Finance is of the opinion that following the implementation of the Proposal, Association is in a strong financial position.

#### 7.3.2 Taxation position of Association

The taxation advisers to the Project Office, Mallesons Stephen Jaques have assessed the taxation consequences for Association as a direct consequence of the Proposal. The Australian tax implications are described in Section 8.15 of the Information Memorandum and discussed in Section 5.7 of this report. The key taxation considerations include:

- there will be no liability for payment of tax by Association when it gives up its special membership rights in Insurance and no liability for tax when it receives Shares in NIGL;
- the cost base for capital gains purposes of the Shares will be calculated as the lower of the statutory value of Insurance as determined under Division 9AA of the Tax Act and the closing price at which a Share trades on the Australian Stock Exchange on the Listing Date;
- any Shares disposed of by Association on or after the Listing Date will be subject to the capital gains tax provisions of the Tax Act. Any gain or loss to the Shareholder at the date of disposal of the Shares will be the difference between the cost base of the Shares and the sale price of the Shares less disposal costs;
- Association will be entitled to receive dividends as a shareholder of NIGL. These dividends will be assessable and subject to taxation although up to 30 June 2000 they will be entitled to a dividend rebate. Dividends received after 30 June 2000 but on or before 30 June 2001 will only obtain a dividend rebate to the extent the dividend is franked; and
- the tax treatment of dividends received after 30 June 2001 (including the availability of the intercorporate dividend rebate) will depend upon the legislation introducing the government's proposed changes which includes the introduction of a unified entity regime. At the date of this report all the relevant legislation has not been introduced.

#### 7.3.3 Share Allocation Rules

With respect to the Share Allocation Rules, the Consulting Actuary, has stated that 'In our opinion, the basis is fair and reasonable'.

In assessing the Share Allocation Rules from the perspective of Association as an Insurance Member, Ernst & Young Corporate Finance has taken into consideration whether:

- the process used in arriving at the Share Allocation Rules was appropriate and makes use of objective measures where possible;
- the method is capable of practical implementation;
- the allocation gives a reasonable weighting to each of the rights being exchanged for Shares; and
- the allocation gives a reasonable weighting to Association of its relative contribution to the value of Insurance by Insurance.

The Consulting Actuary has noted the significant difficulties encountered in establishing appropriate Share Allocation Rules in Section 5.8 of their report. Section 6.3 of this report also sets out the reasons for the allocation of 50% of the Shares in NIGL to Association and Association Members.

#### Our views

Any proposed allocation basis is inevitably arbitrary. There is no doubt that alternative methods for allocating the shares could be devised. Some of these methods might constitute equally acceptable, albeit equally arbitrary, bases for allocating share entitlements. There is no clear legal basis for determining members' entitlements. Any method of allocating entitlements will reflect judgemental and arbitrary compromises between competing criteria. As a result it will not be possible to objectively demonstrate that one set of compromises is superior or inferior to another set of criteria.

Subject to the limitations described above Ernst & Young Corporate Finance is in agreement with the opinion of the Consulting Actuary for the reasons that follow.

#### Allocation between Association/Association Members and Insurance Members

The Share Allocation Rules compensate Association and Association Members for the rights given up with respect to:

- special rights as an Insurance Member in particular with respect to the practical control over the management of Insurance's businesses;
- the assignment by Association to Insurance of the NRMA Trade Marks; and
- interest in the surplus assets of Insurance on winding up.

While each of these individual components are not capable of precise calculation after consideration of the respective rights of the two sets of members, the Consulting Actuary is led to the view that in aggregate the values of the respective rights of Association and its members and Insurance Members (excluding Association) are broadly equal.

Ernst & Young Corporate Finance notes that while the value of Insurance has come from the profitable operations of the Insurance business, and hence from Insurance policyholders, Association has also made a significant contribution to that value. This contribution has been made by way of:

- Association initially establishing Insurance;
- Association providing access to its membership base to Insurance;
- the use of the NRMA Trade Marks and logos for insurance and financial services; and
- the close co-operation between the two organisations over many years.

The Share Allocation Rules recognise the need for Association, Association Members and Insurance Members to all agree to the Proposal. Given the significant difficulties encountered by the Consulting Actuary the allocation of Shares evenly between Association/Association Members and Insurance may not be unreasonable as each need to agree for the Proposal to proceed.

#### 7.3.4 Alternative forms of wealth distribution

Section 5.7 of this report discusses various other mechanisms by which Association could access the wealth of Insurance. These are not preferable to the arrangements under the proposal for the following reasons:

- *Rebates* – Association would only receive rebates on the insurance policies it has in place with Insurance or by virtue of its membership in Insurance. In either instance, a rebate received by Association would not be material.
- *Cash dividends* – Association would only receive dividends as a single Insurance Member and therefore any dividend would not be material.
- *Winding up of Insurance* – Under this scenario Association would receive all of the surplus assets of Insurance. However, to access this amount it would be necessary for 75% of Insurance Members to agree to the winding up of Insurance. It is highly unlikely that Insurance Members (excluding Association) would agree to such a proposal.
- *Reduced cost of services* – Under the current structure the method of cost allocation and recovery is on a less than full cost basis in the context of Insurance using Association owned brands and trade marks. The ability to obtain any further reductions in the cost of support services is likely limited by the Corporations Law requirement for the directors of Insurance to act in the best interests of Insurance, even though they are appointed by Association.

#### Charges to Insurance

Insurance has made a significant contribution to the development of the brands and trade marks that it uses. As a result it is uncertain what the net effect of adopting a full cost allocation basis for all services, including brands and trade marks, might be.

### 7.4 Business Relationship Agreements

The implications of the Business Relationship Agreements for both Association and Insurance are set out in Sections 5.9 and 6.6 of this report. The key implications for Association are set out below:

- introduction of added complexity and risks which do not currently exist, the impact of which is difficult to assess and quantify from both a commercial and financial perspective;
- it is expected that the Business Relationship Agreements will result in an overall increase in the costs borne by Association with respect to support services;
- there is a potential over time for the interests and objectives of NIGL and Association to diverge and conflict which may result in an erosion of the close relationship between Association and Insurance. This may make it difficult to maintain the co-operation required between the two entities to ensure the effective operation of the Business Relationship Agreements;
- the Business Relationship Agreements will limit Association's business scope to road and motoring areas; and
- under certain circumstances, in respect of both an assignment or a licence of the NRMA Trade Marks, Association could be prohibited from using the NRMA Trade



Marks in the future. Business Protocols and Minimum Standards have been substantially developed and agreed by both parties and are intended to mitigate the potential risks. Refer Section 6.6.5 of this report for further discussion of these risk mitigation strategies.

## 7.5 Corporate Governance and Control

Recently, there has existed conflict in both the Association and Insurance Boards. This conflict has emerged in part due to the decreasing commonality between the objectives and size of operations of Association and Insurance and partly due to the decreasing commonality in the customer and member base of Insurance. The latter issue is discussed in Section 5.10 of this report. Two of the key features of successful mutuals cited by the Association Board are clarity of objectives and a need to seek to maximise benefits for its Members alone. The Proposal may achieve a resolution of the conflict on the Association Board as it will enhance management focus and autonomy in the promotion of its objectives.

Ernst & Young Corporate Finance is of the opinion that the Proposal will assist in improving corporate governance and control of Association as the Proposal will assist in eliminating the tension between the differing objectives of Association and Insurance.

After the Proposal is implemented Association will have a separate board and senior management team. Association's management will be able to focus on the provision of mutual benefits to its members, the promotion of Association's objectives and management of its relationship with Insurance under the Business Relationship Agreements.

## 7.6 Other Advantages and Disadvantages

In forming its opinion on whether the Proposal is or is not in the best interest of Association as an Insurance Member, Ernst & Young Corporate Finance has considered, in addition to the specific areas discussed above, other likely advantages, disadvantages and other factors of the Proposal as they relate to Association as an Insurance Member.

**Other than as stated above, in Ernst & Young Corporate Finance's view, there are no other likely advantages of the Proposal for Association as an Insurance Member.**

**In Ernst & Young Corporate Finance's view, other likely disadvantages of the Proposal for Association as an Insurance Member include:**

- the corporate structure under the Proposal will provide less protection against a hostile takeover of Insurance compared to the previous mutual structure. If Insurance was to be taken over, it may add additional risks to Association continuing to achieve its objectives and the protection afforded by the Business Relationship Agreements may be diminished; and
- Section 6.9 of this report discusses a number of issues with respect to the possibility that the culture and tradition of Insurance may be eroded as a result of increased focus on profitability. These points are relevant to Association in as much as they may add additional risks to Association and the protection afforded it under the Business Relationship Agreements. There is also a risk that the market perception of the Brand may change.

**In Ernst & Young Corporate Finance's view, the other factors which should be considered by Association as an Insurance Member in relation to the Proposal include:**

- significant changes are taking place in the financial services industry which increasingly will mean a divergence of Association and Insurance objectives;
- there are examples internationally of efficient well run mutuals;
- management of mutuals involved in protracted demutualisation activity can become distracted from many important day to day activities; and
- the NRMA Group is currently a successful organisation.

## 7.7 Evaluation of Alternatives

### 7.7.1 Overview

Ernst & Young Corporate Finance has reviewed, strictly from the perspective of Association as an Insurance Member, the alternatives which it has been advised have been considered by the Boards as described in Section 4.5 of the Information Memorandum and set out in Section 5.11 of this report. In forming its opinion in relation to these alternatives, Ernst & Young Corporate Finance has had regard to the criteria set out in Section 2 of this report.

### 7.7.2 Alternative corporate and membership structures

Over a period of eight years the Boards have considered a wide range of alternative corporate and membership structures for the NRMA Group. Ernst & Young Corporate Finance acknowledges that no single corporate and membership structure can be described as being optimal; universally and perpetually. The Proposal is therefore one of a number of alternative corporate and membership structures for the NRMA Group. We consider that the process undertaken which culminated in the Proposal was appropriate in relation to the identification of alternatives.

Details of the corporate and membership structure reviews commissioned by the Boards are discussed in Section 2 of this report and the alternatives considered by the Boards are discussed in Section 5.11 of this report and include:

- the Proposal;
- retaining the current dual mutual structure of Association and Insurance;
- creating one mutual by merging Association and Insurance;
- demutualisation and listing of Insurance with Association, retained as a mutual, and holding the majority interest in Insurance;
- demutualise both Association and Insurance (full demutualisation) and list; and
- the sale or merger of the Group as a whole.

### 7.7.3 Our views

In the opinion of Ernst & Young Corporate Finance, the alternatives are a reasonable list of realistic alternatives, although there can be numerous potential alternatives. Ernst & Young Corporate Finance is of the opinion that the Proposal is preferred to the present dual mutual structure and is the preferred practical alternative for Association as an Insurance Member. The basis for this opinion is that, on balance, the Proposal more effectively than the other alternatives addresses the following central issues for Association as an Insurance Member:

- improving governance of Association which has emerged in part due to the tension created by decreasing commonality between the objectives and size of operations of Association and Insurance and partly due to the tension created by decreasing commonality in the member base of Association and Insurance and the customer base of Insurance;
- enabling Association and Association Members to share in the wealth and underlying value of Insurance;
- adopting a corporate structure which best promotes the achievement of Association's objectives under its constitution;
- facilitating an ongoing business relationship between Association and Insurance; and
- addressing the different interests of Insurance Members (excluding Association).

The implications of the Proposal with respect to the above issues are discussed throughout Sections 6 and 7 of this report. Improvements in corporate governance are more likely on a timely basis under the alternatives that include Association giving up its special rights and having a limited ability to control or influence Insurance. Alternatives which involve the demutualisation of Insurance provide a more effective release of value without impairing the financial strength of Insurance. The Proposal involves Association and Association Members receiving an allocation of 50% of the shares in NIGL and Association being placed in a strong financial position. Unlike Insurance, Association has a high degree of alignment between its members and customers, and provides services that are not widely available on a competitive basis to a defined geographical market. Accordingly, the interests of Association are more aligned with the retention of a mutual structure. The sale or merger of the NRMA Group would not enable Association to maintain its mutual status. The Proposal, through the Business Relationship Agreements facilitates an ongoing business relationship between Association and Insurance.

We note that in Section 6.9 of this report it is stated that Ernst & Young Corporate Finance is of the view that, strictly from the perspective of Insurance Members (excluding Association), full demutualisation and listing is likely to be a superior alternative from a commercial perspective to the Proposal. However, as set out above, Ernst & Young Corporate Finance is of the view that, strictly from the perspective of Association as an Insurance Member, full demutualisation and listing is an inferior alternative to the Proposal. This is because full demutualisation and listing would not enable Association to retain both its mutual status and a corporate structure independent of Insurance.

## 8. The Insurance Industry

### 8.1 Overview

The insurance industry has three principal sectors: general insurance, life insurance and health benefits insurance. NRMA Insurance is one of Australia's largest general insurers.

The Australian general insurance industry is comprised of a large number of insurers competing in a relatively mature market with the top five companies accounting for approximately 52% of market share. The industry has been subject to ongoing rationalisation as companies seek to build critical mass and achieve cost efficiencies. Strong competition to build market share and excess underwriting capacity in the industry has placed premium rates under pressure.

This excess of capacity is primarily due to:

- the large number of existing players in the market, and
- the establishment of new companies by overseas insurers bringing additional capital into Australia.

The industry has recently experienced significant reinsurance losses following a series of major loss events around the world.

### 8.2 Key Performance Drivers

The financial performance of a general insurance company is widely recognised as being determined by its ability to:

- sell insurance products, attract new customers and retain existing customers;
- select and price risks accurately through effective underwriting;
- manage claims effectively;
- manage expenses effectively;
- maximise investment returns on funds held in technical provisions and capital; and
- effectively manage risks and make efficient use of existing capital.

To excel in these key areas a general insurance company will typically seek to achieve the following:

- strong brand name;
- strong customer management and, in particular, the ability to cross sell to make best use of brand name and customer contact;
- management excellence and focus;
- continual investment in technology;

- value for money product; and
- size or 'critical mass' which will:
  - bring more data to more accurately select and price risks;
  - bring scale to spread fixed costs (for example, investment in technology, advertising to build brand name, corporate management overhead) across a larger customer base;
  - reduce the impact of random fluctuations on the experience of the company (and hence reduce the capital required) especially if size also comes with diversification; and
  - provide bargaining power to get the best deals from suppliers.

### 8.3 Industry Trends

The general insurance industry continues to rely heavily on investment returns to offset underwriting losses. Short term profitability of the industry is expected to be constrained by intense competition for business. Future privatisation of the NSW workers compensation scheme, however, may present significant opportunities. Recent changes made to the Compulsory Third Party scheme in NSW are yet to provide a demonstrable effect on profitability – this will take time.

The medium term outlook for the industry is expected to reflect ongoing restructuring with cost reduction and distribution channel management strategies. Rationalisation among general insurers is expected to lead to economies of scale, lower distribution costs, and greater diversification of underwriting risk. Additionally, greater participation by trading banks in the general insurance market is anticipated as part of the banks business development strategies. This participation may involve writing the business themselves or distributing the products of established participants.

Another aspect of industry consolidation is the emergence of co-operation between insurers through affiliations, alliances and full-fledged mergers. These types of alliances offer insurers an alternative structure to realise economies of scales, in areas such as administration, product development and information technology and to achieve diversification.

Insurers have generally enjoyed strong investment returns over recent years reflecting the performance of equity markets worldwide. Going forward, the potential for volatile investment markets to adversely impact upon investment returns exists. Accordingly, underwriting results are more prominent as a component of company performance in times of investment market decline.

The international general insurance market is expected to reflect trends similar to the Australian market, being a rationalisation of participants, use of alternative product distribution channels, convergence with the financial services sector and volatile investment returns.

## 9. Estimation of Share Price

### 9.1 The Business

Insurance was established in 1925 as a wholly owned subsidiary of Association, selling car insurance to Members in New South Wales. By 1981, Insurance was Australia's largest motor vehicle insurer with one million car policies in force. The services of Insurance have grown rapidly over recent times with expansion into financial services and interstate via a number of acquisitions and alliances. The organisational structure remains consistent with that in 1926, when Insurance was reconstituted as a separate company limited by guarantee with the Association Board being given the power to appoint the Insurance Board.

Expansion of Insurance's business has been necessary as a result of changes in the insurance industry. Excess capacity and strong competition has forced the industry to rationalise and reduce costs by operating at higher economies of scale. The initial price advantage which Insurance obtained as a direct seller of insurance products has declined as more insurers have adopted direct selling and distribution strategies.

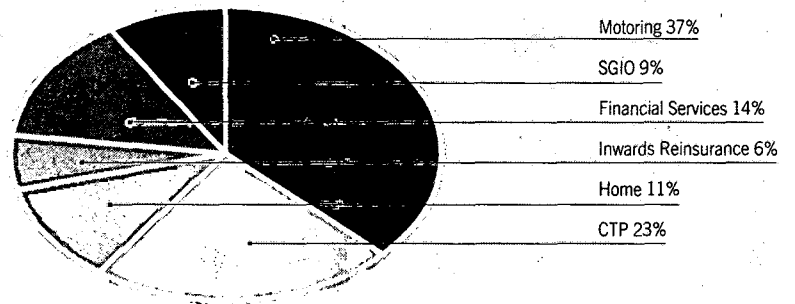
The competitive strengths of the Insurance business are largely unrelated to price with factors such as efficient claims service and loyalty initiatives featuring prominently. The rapid development of customer service technology has provided opportunities for other insurers to secure a profitable market niche and potentially threaten Insurance's role as a market leader.

Insurance has continued to be successful in the 1990's, consolidating its market leadership in the general insurance portfolios of motor, CTP and home insurance. Expansion into financial services commenced in 1990.

The Insurance business has grown strongly over the five years to 1999. This growth is reflected in premium revenues. Profitability has been impacted by relatively high claims loss ratios. The charts included in this Section depict Insurance's spread of revenue from each of its business units in 1999 and growth in net earned premiums and underwriting expenses for the five years ended 30 June 1999.

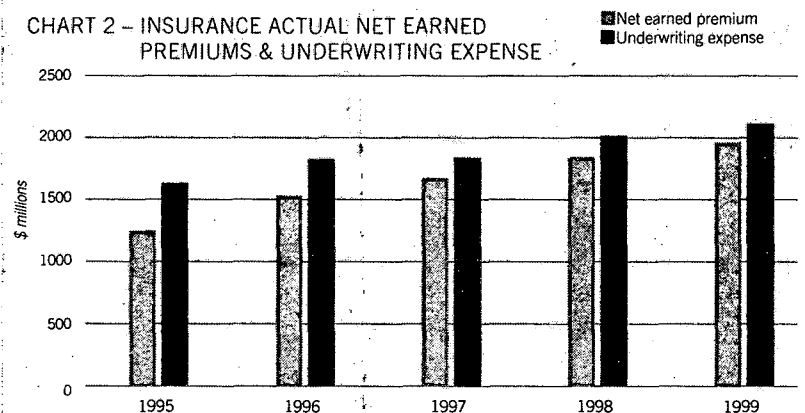
The concentration of risk borne by Insurance as a result of its dominant positioning in New South Wales is illustrated in Chart 3 which details premium earned by Australian State and Territory in 1999. New South Wales is understandably the State providing the greatest contribution to Insurance's result.

CHART 1 – INSURANCE 1999 ACTUAL REVENUE BY BUSINESS UNIT



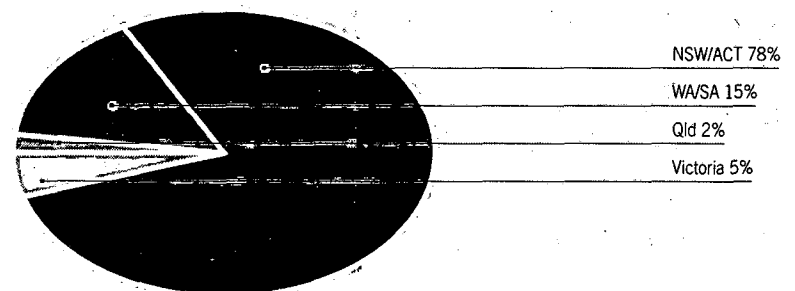
Source: Management Accounts

CHART 2 – INSURANCE ACTUAL NET EARNED PREMIUMS & UNDERWRITING EXPENSE



Source: Management Accounts

CHART 3 – INSURANCE 1999 ACTUAL REVENUE BY STATE



Source: Management Accounts

Insurance has approximately 1.2 million Insurance Members and approximately five million policies in force. Approximately 36 percent of the policies are held by non-member policyholders. In addition there are approximately 140,000 customers of financial service products as at 30 June 1999. The number of non Insurance Member customers has continued to increase in the 1990's. This is attributed to diversification into non-motor lines of insurance, financial services, and interstate and overseas expansion. The growth in the proportion of non Insurance members is likely to increase as Insurance continues to expand its business outside New South Wales.

### 9.2 Strategic Initiatives

In response to the changing insurance environment Insurance has undertaken a number of initiatives to diversify its product range and expand its business as follows:

- a better geographic and product spread has been achieved via the acquisition of the SGIO and SGIC; major Western Australian and South Australian insurers respectively. The extended range of products now includes commercial, health and workers compensation insurance;
- the personal insurance operations of Insurance and RACV Insurance in New South Wales and Victoria have been allied to form Australia's largest motor vehicle and home insurance wholesaler;
- following the acquisition of MLC Building Society in 1997, the NRMA Building Society now offers home loans, cash management accounts, term deposits and personal lending to its members and customers. These services complement traditional insurance services and allow members and customers to access their financial services needs from one provider; and

- insurance has recently completed a \$100 million upgrade of its IT system. This has facilitated the cross-selling of products between different customer streams and enabled multi-policy discounts to be introduced.

Insurance's 18 percent share of the Australian domestic general insurance market is significant. To spread its concentration of geographic risk, Insurance has embarked on a strategy to investigate opportunities in selected insurance markets offshore. In October 1998 Insurance acquired a 20 percent stake in Safety Insurance Public Company Limited, a listed general insurer in Thailand. Insurance is also planning to expand its financial services business to capitalise on the extensive customer base which it services.

### 9.3 Earnings Performance

Ernst & Young Corporate Finance has reviewed Insurance's and NIGL's financial performance based on information included in Section 11.3 of the Information Memorandum.

Set out in Table 5 are abridged Restated profit and loss accounts of Insurance for the years ended 30 June 1998 and 1999, which have been drawn from Restated Financial Information prepared by KPMG and included in Section 11 of the Information Memorandum. The restatement reflects the current structure of Insurance given restructuring which occurred during 1999. The financial information has been adjusted to reflect these restructuring transactions as if they had occurred on 1 July 1997. These restructuring adjustments are detailed in Section 11.4 of the Information Memorandum.

Also set out in Table 5 are abridged consolidated Pro Forma profit and loss accounts for NIGL under the proposed structure for the years ended 30 June 1998 and 1999 to provide Insurance Members with an overview of NIGL, assuming the proposal to demutualise had occurred as at 1 July 1997. The Pro Forma Financial Information reflects the costs associated with implementing the Proposal and impact of the Business Relationship Agreements. These adjustments are detailed in Section 11.4 of the Information Memorandum.

To assist Insurance Members, Ernst & Young Corporate Finance has included a commentary on the key factors influencing Insurance's historical financial performance and NIGL's Pro Forma historical performance had the Proposal been implemented.

**Table 5 Abridged Profit and Loss Statements**

\$ million Year ended 30 June	Restated Consolidated Insurance 1999	Pro forma Consolidated NIGL 1999	Restated Consolidated Insurance 1998	Pro forma Consolidated NIGL 1998
Net premium income	1,963.9	1,963.9	1,842.7	1,842.7
Net claims expense	(1,645.1)	(1,645.1)	(1,609.4)	(1,609.4)
Underwriting expenses	(477.4)	(477.4)	(399.0)	(399.0)
<b>Loss from underwriting</b>	<b>(158.6)</b>	<b>(158.6)</b>	<b>(165.7)</b>	<b>(165.7)</b>
Net investment and other income	606.3	598.6	284.5	274.3
<b>Operating profit before abnormal items and income tax</b>	<b>447.7</b>	<b>440.0</b>	<b>118.8</b>	<b>108.6</b>
Abnormal item	(56.1)	(56.1)	-	-
<b>Operating profit after abnormal items and before income tax</b>	<b>396.1</b>	<b>383.9</b>	<b>118.8</b>	<b>108.6</b>
Income tax expense attributable to operating profit	(94.3)	(91.6)	(21.7)	(18.0)
<b>Operating profit after income tax</b>	<b>297.3</b>	<b>292.3</b>	<b>97.1</b>	<b>90.6</b>
Extraordinary item after income tax	-	-	-	(45.8)
<b>Operating profit and extraordinary item after income tax</b>	<b>297.3</b>	<b>292.3</b>	<b>97.1</b>	<b>44.8</b>
Outside equity interest in operating profit and extraordinary item after income tax	(8.9)	(8.9)	(8.2)	(8.2)
<b>Operating profit and extraordinary item after income tax attributable to Members of Insurance/Shareholders of NIGL</b>	<b>288.4</b>	<b>283.4</b>	<b>88.9</b>	<b>36.6</b>

Source: Abridged Profit and Loss of Insurance and NIGL for 1998 and 1999 extracted from Section 11.3 of the Information Memorandum.

#### 9.3.1 Operating profits

Insurance Members' entitlements to profits in the 1998 and 1999 Pro Forma Financial Information increase NIGL's capital and are the source from which NIGL would pay dividends to Shareholders in a post-demutualisation environment. The Restated results for 1999 are not significantly different from the Pro Forma results for 1999 as the level of adjustments made by the Investigating Accountant for the impact of the Business Relationship Agreements and implementation costs are not significant, being \$5 million. In 1998, however, the major costs associated with the Proposal's implementation have been reflected as at 1 July 1997. The impact of the Proposal's implementation and the Business Relationship Agreements is \$52.3 million in 1998 which accounts for the significant difference in Restated and Pro Forma results for that year.

The Pro Forma results for NIGL show significant underwriting losses of \$158.6 million and \$165.7 million in 1999 and 1998, respectively. These losses largely reflect pressures on premium rates in a competitive insurance market. During 1999 there was a release from the provision for outstanding claims to the profit and loss statement in relation to CTP. The release of the provision for outstanding claims more than off-sets the unfavourable claims experience associated with Sydney storms in 1999.

The alliance of Insurance and RACV is expected to contribute future cost savings which will enhance ongoing profitability. These benefits have not been reflected in the Restated or Pro Forma Financial Information in either 1998 or 1999.

The major portion of Insurance Members' profits in 1999 is represented by investment earnings on NIGL's capital and retained profits. To this extent, NIGL's future profits could be relatively volatile, as they are dependent on movements in investment markets. The difference in Pro Forma operating profit before abnormal items and income tax between 1999 and 1998 relates primarily to net investment income.

The 1999 Pro Forma accounts include an abnormal expense of \$56.1 million before tax which relates to an increase in claims provisions in connection with the GST.

The contribution to profits from other businesses within Insurance, including that of Financial Services was relatively small in both years.

### 9.4 Financial Position

Ernst & Young Corporate Finance has reviewed Insurance's and NIGL's financial position based on information included in Section 11.3 of the Information Memorandum.

Set out in Table 6 are abridged Restated balance sheets of Insurance and abridged consolidated Pro Forma balance sheets for NIGL as at 30 June 1999 and 1998, which have been drawn from Restated and consolidated Pro Forma Financial Information as set out in Section 11 of the Information Memorandum.

**Table 6 Abridged Balance Sheets**

\$ million Year ended 30 June	Restated Consolidated Insurance 1999	Pro forma NIGL 1999	Restated Consolidated Insurance 1998	Pro forma NIGL 1998
<b>Assets</b>				
Current assets	2,529.5	2,494.8	1,875.9	1,868.0
Non-current assets	6,653.7	6,532.2	5,791.6	5,743.5
Interest in NRMA Life Statutory Funds Assets	819.8	819.8	727.9	727.9
<b>Total assets</b>	<b>10,003.0</b>	<b>9,846.8</b>	<b>8,395.4</b>	<b>8,339.4</b>
<b>Liabilities</b>				
Current liabilities	4,320.3	4,409.7	3,481.7	3,572.4
Non-current liabilities	2,093.1	2,093.1	1,730.9	1,730.9
Interest in NRMA Life Statutory Funds Liabilities	761.2	761.2	694.6	694.6
<b>Total liabilities</b>	<b>7,174.6</b>	<b>7,264.0</b>	<b>5,907.2</b>	<b>5,997.9</b>
<b>Net assets</b>	<b>2,828.4</b>	<b>2,582.8</b>	<b>2,488.2</b>	<b>2,341.5</b>
<b>Equity</b>				
Share capital	-	2,323.6	-	2,323.6
Reserves	1,744.6	251.6	1,493.3	-
Retained profits	821.7	(254.5)	805.7	(171.3)
Outside equity interest	262.1	262.1	189.2	189.2
<b>Total equity</b>	<b>2,828.4</b>	<b>2,582.8</b>	<b>2,488.2</b>	<b>2,341.5</b>

Source: Abridged Balance Sheet of Insurance and NIGL for 1998 and 1999 extracted from Section 11.3 of the Information Memorandum.

#### 9.4.1 Reserves and retained profits

The balance sheet demonstrates that Insurance is in a strong financial position with equity, including outside equity interest, totalling approximately \$2.58 billion and \$2.34 billion on a Pro Forma basis, as at 30 June 1999 and 30 June 1998, respectively.

The differences in the Restated and Pro Forma 1999 and 1998 balance sheets is attributed primarily to the implementation of the Proposal, with adjustments of \$243.6 million and \$143.1 million made by the Investigating Accountant in 1999 and 1998, respectively. These adjustments are detailed in Section 11.4 of the Information Memorandum.

#### 9.4.2 Capital adequacy

The Consulting Actuary in assessing capital adequacy has had regard to Insurance's capital requirements under a variety of circumstances. These include:

- ability of the company to fund organic or acquisitive growth and the increased exposure to claims liabilities;
- the nature of the insurance risk that is being assumed;
- the volatility of claims experience given geographic presence and insurance product mix, the likelihood of catastrophe and the extent of reinsurance cover in place; and
- the nature of investments which the insurer holds, and the potential volatility in their value.

The Consulting Actuary also has had regard to the capital requirements of the recently announced alliance with RACV Insurance, recent changes to the CTP scheme in New South Wales, the impact of GST, and Insurance's capital requirement should it seek to participate in the New South Wales Workers Compensation privatisation. The Consulting Actuary also notes that the Standard & Poor's Financial Strength Rating of AA+ for Insurance implies that Insurance has a higher level of solvency than its peers.

The Consulting Actuary has concluded that there is a surplus of capital to that required to support Insurance's existing operations should the Proposal be implemented. The level of surplus capital is estimated by the Consulting Actuary to be \$125 million. The Consulting Actuary's Report is presented in Section 12 of the Information Memorandum.

### 9.5 Purpose and Methodology

#### 9.5.1 Purpose of the estimate

The estimate of the market price of a Share in NIGL is relevant to Insurance Members in that it provides an indication of the extent to which the value of their interest may, as a result of the Proposal, be effectively accessed through the sale of shares on the market. Access to the value of Insurance Members interest in Insurance is more limited whilst Insurance is a mutual.

Insurance Members should be aware that the estimate referred to above is based on the financial position of Insurance and the conditions in the insurance industry, Australian economy and financial markets as at the date of this report. The estimate is subject to changes in the market assessment of NIGL and the overall state of the market at the Listing Date and beyond and may vary significantly from the prices estimated. The future NIGL share price will also be affected by the contents of the prospectus issued prior to listing, and any other information disclosed about NIGL and Insurance.

Ernst & Young Corporate Finance has estimated a price at which a NIGL Share would trade on the market as a minority portfolio investment if the Share had been listed at the date of the Information Memorandum and a normal secondary market existed. Market

data has been extracted as at 11 January 2000. No allowance has been made for control premia, or the special value which may be paid by particular categories of purchasers due to synergies or strategic benefits. In addition Ernst & Young Corporate Finance has ignored the potential impact on NIGL's Share price resulting from financial institutions, obtaining their desired weighting in Insurance shares post listing.

The purpose of this estimate of the market price of a Share in NIGL is to provide Insurance Members with some information that can assist them understand this aspect of the Proposal, as part of Insurance Members considering the overall advantages and disadvantages of the Proposal from their perspective. The estimate of market price should not be used for any other purpose and indeed may very well provide a misleading indication of the value of NIGL for other purposes.

#### 9.5.2 Methodology for preparation of the estimate of the market price of a Share in NIGL

In forming an estimate of the market price of a Share in NIGL, Ernst & Young Corporate Finance has considered the following methodologies:

- price estimate based on price to net assets;
- price estimate based on capitalised earnings;
- price estimate based on net tangible assets plus capitalisation of insurance earnings; and
- price estimate based on price to net earned premium.

A discounted cash flow ('DCF') methodology was not employed given difficulties in reliably determining long term cash flows due to uncertainties relating to various issues including investment earnings, CTP, the potential impact of GST, the RACV Insurance alliance and workers compensation markets and the fact that estimates using a DCF analysis are highly sensitive to small changes in assumptions. We are advised that long term cash flows are not prepared by Insurance.

In selecting the range of multiples to be used for each of the four methodologies, Ernst & Young Corporate Finance took account of:

- comparable Australian listed general insurance companies and international general insurance companies due to the limited number of comparable Australian general insurance companies which are listed;
- multiples implied through recent general insurance acquisition transactions whilst recognising that these multiples generally reflect premiums for control and strategic benefits;
- the effect of any takeover speculation believed to be inherent in the published multiples reviewed; and
- return on equity generated by the selected comparable companies relative to that achieved by Insurance.

In selecting multiples appropriate to NIGL, Ernst & Young Corporate Finance have considered the following distinguishing strengths and weaknesses of NIGL:

- the size of NIGL's general insurance business relative to that of its competitors;
- the relative diversity of NIGL's operations as compared with that of its competitors;
- NIGL's competitive position as compared with that of its competitors including its brand and relationship with Association;
- the proposed Business Relationship Agreements with Association which introduce added complexity and potential risk which do not apply to NIGL's competitors;
- the fact that synergies from NIGL's alliance plans with RACV Insurance are not reflected in historical earnings for NIGL;

- the new information technology systems introduced by Insurance following significant investment during 1998 and 1999;
- the growth potential of NIGL's financial services business given it has access to 4 million accounts and a strong branch network (97 branches and 223 agent controlled service centres), and the customer penetration rate for financial services of only 4.5 percent in 1999;
- the level of intangible assets in the composition of NIGL's net assets as compared with its Australian comparables; and
- Association are not charged the fully costed value of services that are provided by Insurance as it is assumed that the cap on distribution costs applicable under the Business Relationship Agreements is introduced gradually from 1 July 1997.

As a cross check Ernst & Young Corporate Finance prepared a high level assessment of the value of NIGL based on consideration of the value of businesses which comprise NIGL.

#### Inputs for price estimation

In preparing the estimate of the market price of a Share in NIGL, Ernst & Young Corporate Finance considered and relied upon:

- the historical Restated and Pro Forma Financial Information for NIGL and the underlying assumptions as at 30 June 1998 and 30 June 1999, included in Sections 11.3 and 11.4 of the Information Memorandum;
- the Insurance Board's commercial assessment of NIGL's business and prospects in the various markets in which it operates and the assumptions underlying the Insurance Group's internal financial projections;
- the conclusions, methodology and assumptions underlying the Capital Adequacy Report prepared by the Consulting Actuary for NIGL and the identification of excess capital resources held by these businesses;
- publicly available information, including broker reports and annual reports, and actual and implied trading multiples of companies which are listed and comparable to NIGL and its major businesses; and
- discussions with management on the business, its prospects and normalisation of historical earnings.

#### 9.5.3 Parameters used in the estimation of the market price of a Share in NIGL Analysis of multiples

The methodologies selected require an analysis of actual and implied pricing multiples of comparable listed companies and involve:

- calculating relevant pricing multiples from the observed trading prices of listed companies with comparable operating risk and financial characteristics to NIGL; and
- applying these pricing multiples to NIGL to derive the estimate of the market price of a Share in NIGL.

The relevance of comparable company analysis to NIGL is affected by a number of factors, including but not limited to:

- financial disclosure and comparability issues in terms of differences between offshore statutory accounting regimes and the Australian accounting regime;
- the limited number of listed domestic general insurance groups; and
- the different characteristics of NIGL and its principal businesses to other listed general insurance groups.

These factors were considered as part of the selection of appropriate multiples to utilise in preparing an estimate of the market price of a share in NIGL.

#### Net assets multiple

This approach involves estimating the price of a company's shares relative to its net asset backing. The premium or discount is a measure of the market's expectations of a business' future earnings and risk.

Ernst & Young Corporate Finance reviewed the ratios of share price to net assets for listed comparable Australian, US and European general insurers. The net assets multiples implied by the share market capitalisation of these companies are set out in Appendix B to this report. These multiples have been calculated using the most recently published annual accounts for the relevant companies.

Summarised in Table 7 are the net asset multiples implied by the share market capitalisation of comparable Australian general insurers.

**Table 7 Net Asset Multiples Implied by Share Market Capitalisation of Comparable Australian General Insurers**

Listed Australian General Insurers	Market Capitalisation (\$ million)	Net Assets 30 Jun 99 (\$ million)	Price to Net Asset Backing (times)
GIO Limited	1,733	453	3.8
HIH Insurance Limited	657	946	0.7
QBE Insurance Group Limited	3,023	1,100	2.7

Source: Bloomberg, Company announcements and Annual Reports. GIO market capitalisation based upon the AMP/GIO Scheme of Arrangement approved on 20 December 1999.

Given the recent consolidation of general insurers in the Australian market, the comparable listed general insurers in Australia are limited to QBE and HIH.

The relationship between price to net assets and return on average equity was reviewed for a group of comparable Australian, US and European general insurance companies. This resulted in a strong correlation between return on average equity and price to net assets multiples for general insurance companies.

The price to net assets multiple for NIGL was determined having regard to QBE and HIH's 1999 return on average equity (adjusting for abnormal items) of 15.8 percent and 2.9 percent, respectively as compared with Insurance's 1999 return on average equity of 12.5 percent. Ernst & Young Corporate Finance also had regard to the returns on average equity over the five years to 30 June 1999 (unadjusted for abnormal items) of 14.8 percent and 4.6 percent for QBE and HIH, respectively and a return on average equity for Insurance of 8.3 percent. QBE and HIH had price to net asset backing multiples of 2.7 and 0.7 respectively as at 30 June 1999.

Having regard to the comparable multiple range of 0.7 to 2.7 and company specific factors identified in Section 9.5.2, and giving significant weighting to Insurance's pre abnormal return on average equity of 12.5 percent as compared with QBE's return of 15.8 percent, we have estimated a range of price to net asset backing for NIGL of 1.6 to 1.9 times.

Ernst & Young Corporate Finance has also had regard to US and European comparable companies implied net asset multiples in forming a view on an appropriate net asset multiple for NIGL. It is noted that the 'generally accepted accounting principles' ('GAAP') for companies in US and European jurisdictions are different in some respects to Australian GAAP. Accordingly the financial position and performance of companies are impacted by the GAAP under which they report. These comparable company net asset multiples are detailed in Appendix B. This multiple range has been applied to NIGL's Pro Forma net asset backing (after outside equity interests) of approximately \$2,321 million in 1999, adjusted for theoretical Pro Forma dividends paid in 1998 and 1999 of \$188 million, resulting in an adjusted net asset backing of \$2,509 million.

#### Price earnings multiple

The capitalisation of earnings methodology has been applied using NIGL's Pro Forma net profit after tax (after outside equity interests and before abnormal items) in 1999 of \$319 million. The Pro Forma results as set out in Section 11 have been reviewed by KPMG. Ernst & Young Corporate Finance considers the Pro Forma 1999 net profit after tax (before abnormal items and after outside equity interests) attributable to members of NIGL to be a suitable proxy for ongoing levels of profitability. We note that NIGL's 1998 Pro Forma net profit after tax result was below that in 1999 as it did not benefit from strong investment returns. Ernst & Young Corporate Finance further notes that the 1999 NIGL Pro Forma does not reflect the impact of the RACV alliance, and reflects eight months of results for SGIO. Ernst & Young Corporate Finance has also had regard to earnings by line of business for NIGL and internal projections for Insurance for the 2000 and 2001 years.

Given the recent consolidation of general insurers in the Australian market, the comparable listed general insurers in Australia are limited to QBE and HIH. The price earning multiples implied by the share market capitalisation of listed Australian general insurers are summarised in Table 8. Similar data for comparable listed US and European general insurers is contained in Appendix B of this report.

Of the 27 US and European comparable companies identified, 10 companies generated implied historical price earnings multiples considered to be outlying. The remaining 17 comparables produced implied historical price earning multiples in the range of 8 to 24 times net profit after tax. It is recognised that there are differences in the generally accepted accounting principles under which companies in different jurisdictions report, differences in the nature of operations, size of business, geographic diversification and the dynamics of the markets in which these companies operate.



**Table 8 Price Earnings Multiples Implied by the Share Market Capitalisation of Comparable Australian General Insurers**

Listed Australian General Insurers	Market Capitalisation (\$ million)	Historical 1999 P/E	Forecast 2000 P/E
GIO Limited	1,733	n/a	16.6
HIH Insurance Limited	657	n/a	9.5
QBE Insurance Group Limited	3,023	24.4	16.4
Average		24.4	14.2
Median		24.4	16.4

Source: Bloomberg, Company announcements, Annual Reports and Barra Estimates Directory. GIO market capitalisation based upon the AMP/GIO Scheme of Arrangement approved on 20 December 1999.

Having regard to the above and company specific factors identified in Section 9.5.2 we consider that an appropriate price earnings multiple to apply to NIGL's 1999 Pro Forma results after tax and outside equity interest but before abnormal items is in the range of 13 to 16 times.

#### Insurance profit multiple

The valuation of an insurance company can be separated into that part which represents the value of shareholders' investments and that component of value which represents the price being paid for the insurance operations. On deducting the net tangible assets from the company's market capitalisation, the estimated amount being paid to acquire the insurance operations can be deduced. A multiple of insurance profit can then be implied.

Pro Forma 1999 Insurance profit of \$114 million for NIGL has been calculated as the net of underwriting loss of \$158.6 million and investment earnings on technical reserves of \$272 million. This amount has been considered to be an appropriate estimate of NIGL's insurance profit for use in relation to this valuation methodology.

Ernst & Young Corporate Finance reviewed the current insurance profit multiple and the five year average historical insurance profit multiple implied by present market capitalisations of listed comparable Australian general insurers. The negative results reported by GIO Limited in 1998 and 1999 has excluded GIO Limited from this analysis. The five year average historical insurance profit multiple, ranged from a low of 0.9 times to a high of 20.7 times. QBE's insurance profit multiple ranged between 20.9 and 14.4 times in 1999 and 1998, respectively. Ernst & Young Corporate Finance notes that NIGL has a higher level of net asset backing and insurance profit to net earned premium as compared with the comparable companies.

Having regard to the above, Ernst & Young Corporate Finance considers that an appropriate insurance profit multiple to apply to NIGL's estimated 1999 insurance profit of \$114 million is in the range of 14 to 18 times. The 1999 net tangible assets (after outside equity interests) for NIGL have been estimated to be approximately \$2.195 billion, after adjusting NIGL's 1999 Pro Forma net tangible assets for the cumulative theoretical dividends of \$188 million, assumed to be paid in 1998 and 1999.

As insurance profit disclosure is not made in the US, no comparable insurance profit multiples were calculated. As such, we have had regard to multiples calculated for QBE and HIH only.

#### Price to net earned premium

Price to net earned premium has been used as a price estimation approach as the measure provides some comparison of the relative importance of the insurance operations contribution to the company and can be used for international comparisons.

Of the 27 US and European comparable companies identified, four companies generated implied net earned premium multiples considered to be outlying. The remaining 23 comparables produced implied net earned premium multiples in the range of 0.4 to 2.1 times net earned premium. It is recognised that there are differences in the generally accepted accounting principles under which companies in different jurisdictions report,

differences in the nature of operations, size of business, geographic diversification and the dynamics of the markets in which these companies operate. The Australian comparable companies ranged from 0.4 to 1.1 times.

Having regard to the above factors, and factors consistent with those considered in selecting an appropriate insurance profit multiple, we consider that an appropriate multiple to apply to NIGL's net earned premium is in the range of 1.6 to 1.8 times.

In 1999 the NIGL Pro Forma reflects eight months of results for SGIO. Annualising the level of net earned premium for an additional four months of SGIO activity results in an additional \$110 million in net earned premium. As such, NIGL net earned premium per the 1999 Pro Forma of \$1,964 million plus \$110 million for SGIO, results in an adjusted net earned premium of \$2,074 million in 1999.

#### Market transactions

Ernst & Young Corporate Finance examined eight Australian transactions involving general insurance companies that have occurred subsequent to June 1995 for which transaction information was publicly available. The equity value for these transactions ranged from \$50 million to \$3.3 billion and the percentage of shares acquired ranged from 22% to 100%.

For each transaction, Ernst & Young Corporate Finance studied the ratios of offer price to historical earnings after tax and offer price to reported net assets. The historical price earnings multiple for three of the comparables ranged from a low of 13.8 times to a high of 47.6 times, with an average of 28.4 times. The price to net assets multiple of the comparables ranged from a low of 0.9 times to a high of 3.8 times, with an average of 2.2 times.

Ernst & Young Corporate Finance noted that average control premiums for successful bids in Australia in recent years have ranged between 15% to 35%, with a midpoint of 25%. The average price to net assets multiple falls from 2.0 to 1.6 and the average price to historical earnings multiple falls from 28.4 to 22.7 when the 25% control premium is excluded.

Ernst & Young Corporate Finance has not sought to rely on the observed price earning multiples, as four of the seven companies observed were either loss making or marginally profitable and therefore generated erroneous price earning multiples.

The circumstances surrounding each of the transactions analysed were diverse. Additionally, inherent differences existed between the proposed operations of NIGL and the companies reviewed in the selected transactions. As such, qualitative judgments concerning, among other things, differences in the characteristics of these transactions and NIGL were required.

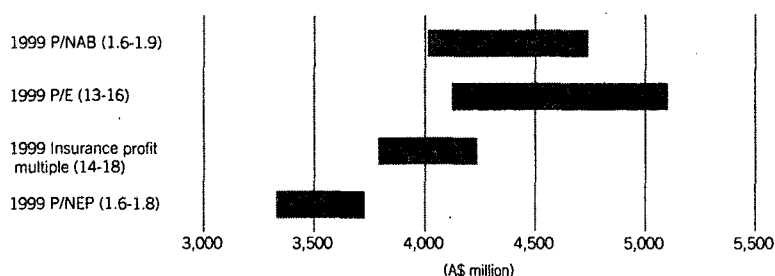
#### Price estimate summary

Table 9 and Chart 4 depict the estimated ranges for the market price of all of the issued NIGL Shares derived when the selected range of implied price to net asset backing, price earnings, insurance profit and price to net earned premium multiples are applied to NIGL.

**Table 9 Estimated Ranges for the Market Price of all of the Issued NIGL Shares**

	Adjusted NIGL Result (\$ million)	Multiple Selected for NIGL		NIGL estimated pricing (\$ million)	
		Low	High	Low	High
Net assets (Price/NAB multiple)	2,509	1.6	1.9	4,014	4,767
Net profit after tax (Price/earnings multiple)	319	13	16	4,147	5,104
Insurance profit result (Insurance profit multiple)	114	14	18	3,791	4,247
Net earned premium (Price/NEP multiple)	2,074	1.6	1.8	3,318	3,733
Average				3,818	4,463

CHART 4 – ESTIMATED RANGES FOR THE MARKET PRICE OF ALL OF THE ISSUED NIGL SHARES



Ernst & Young Corporate Finance estimate the market price of a Share in NIGL, on the basis that the Proposal has been implemented and the Shares traded on the Australian Stock Exchange as at the date of this report, would have been between \$2.60 and \$3.00 per Share based on the issue of 1,465 million Shares as shown in Table 10. The estimation of the market price of a Share provides an indication of the value that could be accessed by Insurance Members under the Proposal.

Table 10 NIGL Price per Share Estimate

	Low	High
Estimated pricing range (\$ million) – refer Table 9	3,818	4,463
Shares issued (million)	1,465	1,465
Implied estimate of price per Share (\$)	\$2.61	\$3.05
Say	\$2.60	\$3.00

Insurance Members should be aware that the estimate referred to above is based on the financial position of Insurance and the conditions in the insurance industry, Australian economy and financial markets as at the date of this report. The estimate is subject to changes in the market assessment of NIGL and the overall state of the market at the time of listing and beyond and may vary significantly from the prices estimated. The future NIGL Share price may also be affected by the contents of the prospectus issued prior to listing and other information that may be disclosed about NIGL and Insurance.

## 10. Statement of Qualifications and Declarations

Ernst & Young Corporate Finance, which is wholly owned by Ernst & Young, holds a Dealers Licence under the Corporations Law and its authorised representatives are qualified to provide this report.

Ernst & Young Corporate Finance has not been involved in the formulation of the Proposal. Prior to accepting this engagement, Ernst & Young Corporate Finance considered its independence with respect to Insurance and Association with reference to the ASC Practice Note 42 titled 'Independence of Expert's Reports'. Some Members of the engagement team are members of Association and Insurance and Ernst & Young Corporate Finance conducts its motor vehicle insurance with Insurance. Ernst & Young's actuarial practice provides professional services to NRMA Life. Ernst & Young Corporate Finance was engaged to prepare an independent expert's report on the One Mutual Proposal. This engagement did not proceed as the proposal was discontinued prior to the preparation of a report. Ernst & Young Corporate Finance carried out a review of the Credit Suisse First Boston's report on Corporate Organisational and Membership Structures. This review was of the process undertaken and the appropriateness of the contents of the report. It did not include any assessment of the validity of the findings, recommendations or conclusions expressed in the report.

In Ernst & Young Corporate Finance's opinion it is independent of Insurance and Association. Ernst & Young Corporate Finance has put in place procedures to ensure the independence of this report as described in the relevant Australian Securities and Investment Commission Policy Statements.

This report has been prepared specifically for the members of Insurance. Neither Ernst & Young Corporate Finance, Ernst & Young, nor any member or employee thereof undertakes responsibility to any person, other than a member of Insurance, in respect of this report, including any errors or omissions howsoever caused.

The statements and opinions given in this report are given in good faith and the belief that such statements and opinions are not false or misleading. In the preparation of this report, Ernst & Young Corporate Finance has relied upon and considered information provided by Insurance, Association and their advisers. Ernst & Young Corporate Finance has no reason to believe that any information supplied to it was false or that any material information has been withheld from it. Ernst & Young Corporate Finance has evaluated the information through inquiry, analysis and review, and nothing has come to its attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base its report. Ernst & Young Corporate Finance does not imply and it should not be construed that it has audited or in any way verified any of the information provided to it, or that its inquiries could have verified any matter which a more extensive examination might disclose.

It is not possible for a company to satisfy itself that it has achieved complete Year 2000 compliance and thus to have certainty that it can estimate all the costs of its remediation efforts and that those efforts will identify the technical failures that may occur as a result of the deficiencies in its own, or other parties' systems. Unlike other uncertainties, this problem is simply too complex. In preparing its report Ernst & Young Corporate Finance has only taken into account information provided by management with respect to Year 2000 compliance.

Ernst & Young Corporate Finance can give no assurance that, as a result of the company's Year 2000 plans, no adverse financial impact will occur. Ernst & Young Corporate Finance has been advised that the residual Year 2000 risk in the business is not altered as a result of this Proposal.

Insurance has provided an indemnity to Ernst & Young Corporate Finance for any claims arising out of any mis-statement or omission in any material or information provided to it in the preparation of this report.

Ernst & Young Corporate Finance will receive a professional fee based on time spent in the preparation of this report. Ernst & Young Corporate Finance will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the making of this report.

Ernst & Young Corporate Finance provided draft copies of this report to Insurance's directors and management for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of Ernst & Young Corporate Finance alone. Changes made to this report as a result of this review, by the directors and management, have not changed the methodology or conclusions reached by Ernst & Young Corporate Finance.

Mr John Gibson CA, BSc, MBA, CBV, is a director of Ernst & Young Corporate Finance and a partner of Ernst & Young. He has been a partner of Ernst & Young for in excess of five years. He has over ten years experience in providing financial advice and valuation advice and has professional qualifications and experience appropriate to the advice being offered.

Mr Bill Bartlett FCA, FCMA, CA (S.A.), CPA is an authorised representative of Ernst & Young Corporate Finance and has been a partner of Ernst & Young since 1980. He is Chairman of Ernst & Young's worldwide insurance practice and is a member of the Life Insurance Actuarial Standards Board. In this capacity, Bill oversees the Australian firm's service delivery to all our major global insurance clients. He has extensive expertise in providing financial institutions with due diligence and corporate advisory assistance. He has been heavily involved with numerous companies considering demutualisation around the world and has professional qualifications and experience appropriate to the advice being offered.

Mr Paul Siviour CA, BEc, ASIA is a partner of Ernst & Young and a director of Ernst & Young Corporate Finance Pty Limited. Paul is a member of the Board of Partners of Ernst & Young and has been a partner of Ernst & Young for in excess of five years. As a director of Corporate Finance, Paul has been involved in providing a wide range of financial advice and valuation advice including for entities considering demutualisation and has professional qualifications and experience appropriate to the advice being offered to corporate and government owned entities.

Mr Andrew Price CA, BEc(Hons), ASIA is an authorised representative of Ernst & Young Corporate Finance and a partner of Ernst & Young. He has over ten years experience in providing audit services and financial advice to financial institutions and has professional qualifications and experience appropriate to the advice being offered.

Mr Ross Lamb CA, BBus, a Director – Corporate Finance of Ernst & Young Corporate Finance and a Principal of Ernst & Young. He has in excess of ten years experience in providing valuation and financial advice and has professional qualifications and experience appropriate to the advice being offered.

Ernst & Young Corporate Finance has had regard to relevant ASC Policy Statements and Practice Notes. It is not intended that the report should be used for any purpose other than to accompany the Information Memorandum to be sent to Insurance members. In particular, it is not intended that this report should be used for any purpose other than as an expression of its opinion as to whether or not the Proposal is in the best interest of Insurance members as a whole.

Ernst & Young Corporate Finance has given and has not withdrawn its consent to the issue of this report in the form and context in which it is included in the Information Memorandum to be sent to Insurance members.

Yours faithfully

Ernst & Young Corporate Finance Pty Limited

John E Gibson  
Director

Bill Bartlett  
Authorised  
Representative

Paul Siviour  
Director

Andrew Price  
Authorised  
Representative

Ross Lamb  
Director –  
Corporate Finance

## Appendix A Sources of Information

In preparing this report Ernst & Young Corporate Finance has relied upon the following sources of information:

- successive drafts of the Information Memorandum;
- discussions and correspondence with members of NRMA Group management, legal advisers to the Project and Insurance and Association, the Consulting Actuary, the Investigating Accountant and Credit Suisse First Boston;
- NRMA Group 1999/2001 Budget;
- NRMA Group Business and Support Unit Plans;
- Annual reports for the years ending 30 June 1995 to 1999 and 5 year summary 1994 to 1998;
- NRMA Group management accounts;
- Proposal summary documents prepared by NRMA management and external advisers to the Project;
- Project Outlook Business Relationship Agreements;
- Investigating Accountant's report prepared by KPMG;
- Consulting Actuary's report and related reports prepared by PricewaterhouseCoopers including – Franking Credits Report, Capital Adequacy Report as at 30 June 1999, Strategic Financial Model Report, Wealth Distribution Report, Report on Appraisal

Value of NRMA Life as at 30 June 1999, Report on Value Attributable to Assigned Trademarks, Report on Increase in Value Attributable to Assigned Trademarks – ITAA Section 160ZZS;

- legal and taxation advices from legal advisers to the Project, Insurance and Association and counsel advices; and
- various insurance industry and market reports.

Ernst & Young Corporate Finance has also read and had regard to the following sources of information:

- reports prepared by external advisers for NRMA Group including Macquarie Corporate Finance Limited (draft report), BT Corporate Finance Limited, Grant Samuel & Associates Pty Limited, Sir Laurence Street, McKinsey & Company, Credit Suisse First Boston and Marsden Jacob Associates Pty Limited and Copernican Securities Pty Limited;
- management responses and reviews of the reports prepared by external advisers including NRMA Board response to Two Mutuals Committee Report dated 3 August 1999;
- minutes of the Boards, Steering Committee and Project Outlook Due Diligence Committee; and
- other legal advices received by NRMA.

## Appendix B Comparable Company Analysis

Australian General Insurers (all amounts A\$ million)	Notes	Market Cap 11 Jan 00	Total Assets 30 Jun 99	Operating Revenue 30 Jun 99	Net Premiums Earned 30 Jun 99	Net Profit After Tax 30 Jun 99	P/E Multiple (hist)	P/E Multiple (f'cast)	P/NAB Multiple	P/NEP Multiple
GIO Limited	3,5	1,733	7,412	3,015	1,724	(743)	n/a	16.6	3.8	1.0
HIH Insurance Limited	4,6	657	7,725	4,978	2,325	(21)	n/a	9.5	0.7	0.3
QBE Insurance Group Limited		3,023	6,914	3,655	2,646	124	24.4	16.4	2.7	1.1
Average (excluding outliers)							24.4	14.2	1.7	1.1
Range (excluding outliers)							24.4	9.5–16.6	0.7–2.7	1.0–1.1
USA General Insurers* (all amounts US\$ million)		Market Cap 11 Jan 00	Total Assets 31 Dec 98	Operating Revenue 31 Dec 98	Net Premiums Earned 31 Dec 98	Net Profit After Tax 31 Dec 98	P/E Multiple (hist)	P/E Multiple (f'cast)	P/NAB Multiple	P/NEP Multiple
Allmerica Corp		2,753	27,608	3,433	2,305	201	13.7	10.5	1.2	1.2
Allstate Corp	1,2	19,229	87,691	25,879	20,826	3,294	5.8	8.8	1.1	0.9
AIG	1,2,3,4	163,823	194,398	33,239	24,345	3,766	43.5	33.2	5.1	6.7
Chubb Corp		9,819	20,746	6,336	5,304	707	13.9	16.7	1.8	1.9
CIGNA Corp		15,329	114,612	21,121	16,413	1,292	11.9	16.0	2.1	0.9
Erie Co	4	1,961	1,453	663	113	135	14.6	16.2	2.9	17.4
Fremont General Corp	1,2	552	7,370	1,038	552	133	4.1	57.9	0.6	1.0
Frontier Inc	3,4	106	2,554	570	493	(50)	n/a	n/a	0.3	0.2
Hartford Inc		9,834	150,632	15,022	11,616	1,015	9.7	12.0	1.6	0.8
Ohio Corp	2	890	4,802	1,452	1,268	85	10.5	617.2	0.7	0.7
Progressive Corp		5,054	8,463	5,285	4,948	457	11.1	18.4	1.8	1.0
Reliance Inc	1,4	689	12,775	3,172	2,443	326	2.1	n/a	0.7	0.3
SAFECO Corp		3,209	30,892	6,452	4,561	352	9.1	18.3	0.6	0.7
Selective Inc		442	2,432	837	723	54	8.3	13.4	0.7	0.6
St Paul Corp	1	7,556	38,323	9,108	6,945	89	84.6	12.6	1.2	1.1
Zenith Corp		364	1,819	637	530	19	19.1	n/a	0.9	0.7
Average (excluding outliers)							12.2	14.9	1.3	1.0
Range (excluding outliers)							8.3–19.1	10.5–18.4	0.6–2.9	0.6–1.9
European General Insurers* (all amounts million)		Market Cap 11 Jan 00	Total Assets 31 Dec 98	Operating Revenue 31 Dec 98	Net Premiums Earned 31 Dec 98	Net Profit After Tax 31 Dec 98	P/E Multiple (hist)	P/E Multiple (f'cast)	P/NAB Multiple	P/NEP Multiple
AGF	EUR	9,420	90,671	15,684	11,619	503	18.7	14.8	1.5	0.8
Allianz AG	1,2 EUR	82,533	342,687	57,378	39,781	1,819	45.4	39.0	2.4	2.1
AXA	1,2 EUR	46,331	384,835	62,129	47,582	1,531	30.3	24.9	2.4	1.0
Baloise Ltd	SFr	7,087	43,451	8,513	6,163	365	19.4	17.8	1.0	1.1
CGU Plc	GBP	11,815	105,864	22,508	15,669	498	23.7	18.9	1.3	0.8
Corp Mapfre	EUR	941	6,067	2,819	2,324	65	14.5	13.1	0.9	0.4
Generali	1,2 EUR	30,880	151,647	39,415	30,116	894	34.5	37.8	3.5	1.0
INA	7 EUR	10,173	28,835	6,325	5,033	476	21.4	27.9	2.4	2.0
Royal & Sun Alliance	GBP	6,865	64,779	15,056	9,545	457	15.0	16.1	1.0	0.7
Sun Life & Provincial Holdings	GBP	4,862	42,157	6,447	3,970	219	22.2	19.1	2.4	1.2
Zurich Allied	1 SFr	41,080	168,110	32,300	20,983	663	62.0	15.1	2.2	2.0
Average (excluding outliers)							19.3	17.9	1.9	1.2
Range (excluding outliers)							14.5–23.7	13.1–27.9	0.9–3.5	0.4–2.1

Source: Bloomberg, Company Accounts and Barra Estimates Directory.

\* It is noted that the "Generally Accepted Accounting Principles" ("GAAP") for companies in US and European jurisdictions are different in some respects to Australian GAAP. Accordingly, the financial position and performance of the above companies are impacted by the GAAP under which they report.

1. This company has been excluded from the calculation of the average P/E Multiple (hist), and P/E Multiple (hist) range.
2. This company has been excluded from the calculation of the average P/E Multiple (f'cast), and P/E Multiple (f'cast) range.
3. This company has been excluded from the calculation of the average P/NAB Multiple, and P/NAB Multiple range.
4. This company has been excluded from the calculation of the average P/NEP Multiple, and P/NEP multiple range.
5. Market capitalisation based on AMP/GIO Scheme of Arrangement approved 20 December 1999.
6. 18 month result for period ended 30 June 1999 reported by HIH due to change of year end.
7. INA is the subject of a takeover offer by Generali at 11 January 2000.

## 10.9 Other material information

Other than as contained in this document, there is no information material to the making of a decision in relation to Insurance Schemes (being information that is within the knowledge of any Insurance director or a related company of Insurance) which has not previously been disclosed to Insurance Members.

## 10.10 Schemes of Arrangement

Set out below are the Schemes of Arrangement proposed to Insurance Members under section 411 of the Corporations Law.

A scheme of arrangement is a plan which, by law, binds a company and its members (or a class of those members) to a restructuring or rearrangement of their positions. The scheme of arrangement must be approved by the Court to become effective.

Members should note that it is a formal legal document and that the definitions and other interpretative items in the Schemes are not used elsewhere in this Information Memorandum.

See also the Association Schemes which are set out on pages 64 to 67.

## Schemes of Arrangement

pursuant to section 411 of the Corporations Law  
between

### NRMA INSURANCE LIMITED

(ACN 000 016 722)

and

## classes of its members

### Part I – Scope and Content of this Document

This document consists of Parts I, II, III, IV and V and contains the terms of two schemes of arrangement, namely:

the 'First Insurance Scheme' being a scheme of arrangement between NRMA Insurance Limited and that class of the members of NRMA Insurance Limited consisting of all members except NRMA Limited; and

the 'Second Insurance Scheme' being a scheme of arrangement between NRMA Insurance Limited and that class of the members of NRMA Insurance Limited consisting of NRMA Limited alone.

The provisions in Part II and Part III form part of each of the First Insurance Scheme and the Second Insurance Scheme.

The provisions in Part IV form part of the First Insurance Scheme only.

The provisions in Part V form part of the Second Insurance Scheme only.

### Part II – Definitions and Interpretation

*(Part II forms part of each of the First Insurance Scheme and the Second Insurance Scheme)*

#### 1 Definitions

In this Part II and in each of Parts III, IV, and V of this document, unless the context otherwise requires:

**ASIC** means the Australian Securities and Investments Commission.

**Association** means NRMA Limited (ACN 000 010 506).

**Association Members** means members of Association registered as such in accordance with the constitution of Association, with several persons who, in accordance with the constitution of Association, are admitted and recorded as a single member being regarded for these purposes as together constituting a single Association Member.

**Association Only Members** means Association Members who are not also Insurance Members as at the Register Date (and, for these purposes, the fact that any of several persons who together constitute a single Association Member is an Insurance Member shall be disregarded).

**Association Schemes** means schemes of arrangement pursuant to section 411 of the Corporations Law between Association its members and certain classes of them as set out on pages 64 to 67 of the Information Memorandum, as those schemes of arrangement may be modified or amended in accordance with their terms.

**Association's Control Rights in Insurance** means the class rights of Association as a member of Insurance referred to in rule 6A of Insurance's constitution.

**Business Relationship Agreements** means the agreements summarised on pages 139 to 145 of the Information Memorandum, including those referred to as Association and Insurance Intra-Group Compliance Deeds.

**Conditions Precedent** means the following conditions:

- (a) all of the Association Schemes becoming effective in accordance with their terms;
- (b) passing of a special resolution of Insurance in the terms set out in the Notices of Meeting modifying the constitution of Insurance by:
  - (i) inserting a provision allowing Association Only Members to become Insurance Members (and causing memberships so arising to cease automatically if the Second Association Scheme is terminated for any reason or ASIC does not alter the details of Insurance's registration to reflect a change in its status to a public company limited by shares on or before 31 December 2000);
  - (ii) altering rule C;
  - (iii) imposing a requirement that notice of any general meeting to consider a proposed special resolution to change Insurance's type be published in a daily newspaper circulating generally throughout Australia;
  - (iv) inserting a new rule 38A imposing a qualified duty on the Insurance directors to cause to be done everything which it is necessary for Insurance and the Insurance directors to do in order to implement and conclude the Proposal;
- (c) execution of the Business Relationship Agreements;
- (d) approval of each of the Insurance Schemes, with or without modification, by the Court making an order under section 411(4)(b) of the Corporations Law; and
- (e) grant by the Treasurer of the Commonwealth of Australia, under section 14 of the Financial Sector (Shareholdings) Act 1998, of approval for NIGL to hold a stake of 100% in Insurance.

**Conditions Subsequent** means the following conditions:

- (a) the due giving of consent, in the manner specified in rule 6A of the constitution of Insurance, to the abrogation and repeal of Association's Control Rights in Insurance through repeal of Insurance's constitution pursuant to the Insurance Demutualisation Resolutions;
- (b) passing of the Insurance Demutualisation Resolutions as special resolutions of Insurance; and
- (c) alteration by the ASIC of the details of Insurance's registration to reflect its new type as a public company limited by shares.

**Court** means the Supreme Court of New South Wales.

**Effective Date** means the later of:

- (a) the date on which office copies of orders under section 411(4)(b) of the Corporations Law approving the First Insurance Scheme and the Second Insurance Scheme are lodged with ASIC; and
- (b) the first date on which all of the Conditions Precedent are satisfied.

**End Date** means 31 December 2000.

**First Insurance Scheme** means a scheme of arrangement between Insurance and that class of its members consisting of all members except Association in the terms set out in this document, subject to any alterations or conditions made or required by the Court pursuant to section 411 of the Corporations Law.

**Implementation Deed** means the deed dated 21 January 2000 between Association, Insurance, NIGL and the directors of NIGL described on page 145 of the Information Memorandum.

**Information Memorandum** means the Information Memorandum dated 14 February 2000 issued in relation to the Proposal.

**Insurance** means NRMA Insurance Limited (ACN 000 016 722).

**Insurance Change of Status** means the process by which:

- (a) Insurance changes its type from a company limited by guarantee to a public company limited by shares, pursuant to Part 2B.7 of the Corporations Law; and
- (b) Insurance becomes a wholly owned subsidiary of NIGL by virtue of NIGL being the only person included by Insurance in the list of persons to whom shares in Insurance will be issued upon its change of type (being the list prepared by Insurance pursuant to paragraph 163(3)(a) of the Corporations Law); and
- (c) Insurance Members and Association are issued shares in NIGL in accordance with the Share Allocation Rules and pursuant to the Implementation Deed.

**Insurance Demutualisation Meeting** means a general meeting of the members of Insurance to consider and, if thought fit, pass the Insurance Demutualisation Resolutions.

**Insurance Demutualisation Resolutions** means special resolutions of Insurance in the following terms:

'That NRMA Insurance Limited change its type from a company limited by guarantee to a public company limited by shares.'

'That the constitution of NRMA Insurance Limited be repealed, with this resolution taking effect on the date on which the change of the type of NRMA Insurance Limited from a company limited by guarantee to a public company limited by shares takes effect under subsection 164(5) of the Corporations Law.'

**Insurance Members** means members of Insurance (other than Association) registered as such in accordance with the constitution of Insurance.

**Insurance Register** means the register of members of Insurance.

**Insurance Schemes** means the First Insurance Scheme and the Second Insurance Scheme.

**Insurance Secretary** means the secretary for the time being of Insurance or the person for the time being appointed by the directors of Insurance to perform the duties of a secretary of Insurance.

**NIGL** means NRMA Insurance Group Limited (ACN 090 739 923).

**Notices of Meetings** means the notices of meeting of Association and Insurance set out on pages 148 to 154 of the Information Memorandum.

**Proposal** means the proposal outlined in clause 3.1 of Part III.

**Register Date** means the date of the meetings at which the Association Schemes and the Insurance Schemes are agreed to.

**Second Insurance Scheme** means a scheme of arrangement between Insurance and that class of the members of Insurance consisting of Association alone in the terms set out in this document, subject to any alterations or conditions made or required by the Court pursuant to section 411 of the Corporations Law.

**Share Allocation Rules** means the rules for determining the allocation of shares in NIGL to be issued to members of Insurance as set out on pages 43 to 47 of the Information Memorandum.

**special resolution and resolution** mean, in relation to Association or Insurance, respectively a resolution of the members of Association or Insurance (as the case may be) which is a special resolution as defined by the Corporations Law and a resolution of those members which is not a special resolution as so defined.

## 2 Interpretation

In this Part II and in each of Parts III, IV, and V of this document, unless the context otherwise requires:

- (a) the singular includes the plural and vice versa;
- (b) each gender includes each other gender;
- (c) a reference to a paragraph or clause is a reference to a paragraph or clause of this document;
- (d) a reference to a statute, regulation or agreement is to such a statute, regulation or agreement as from time to time amended;
- (e) the word person includes a firm, a body corporate, a partnership, a joint venture, an unincorporated body or association, or any government agency;
- (f) a reference to a person includes a reference to the person's executors, administrators, successors, substitutes (including, without limitation, persons taking by novation) and assigns;
- (g) if a period of time is specified and dates from a given day or the day of an act or event, it is to be calculated exclusive of that day;
- (h) a reference to a day is to be interpreted as the period of time commencing at midnight and ending 24 hours later; and
- (i) the interpretation of a substantive provision is not affected by any heading.

## 3 Governing law

Each of the Insurance Schemes is governed by the law in force in New South Wales.

## Part III – Context and Purpose of the Insurance Schemes

(Part III forms part of the First Insurance Scheme and the Second Insurance Scheme)

### 1 Parties

- 1.1 Insurance is a company limited by guarantee and incorporated in New South Wales which provides general insurance and other financial services.
- 1.2 Association is a company limited by guarantee and incorporated in New South Wales which provides to its members emergency and roadside breakdown services, vehicle inspections, maps and other related products and services.
- 1.3 NIGL is a public company limited by shares and incorporated in the Australian Capital Territory which has not commenced business.

### 2 Relationships

- 2.1 Association is a member of Insurance and in that capacity enjoys certain rights, including Association's Control Rights in Insurance.
- 2.2 The one share which has been issued by NIGL is presently held by Stuart John Nelson.

### 3 The Proposal and the role of the Insurance Schemes

- 3.1 The Insurance Schemes, with the Association Schemes, embrace a series of steps together constituting a proposal under which:
  - (a) the Association Only Members will become Insurance Members;
  - (b) Insurance will, through the Insurance Change of Status, convert from a company limited by guarantee to a public company limited by shares;
  - (c) all of the shares in Insurance issued under the Insurance Change of Status will be issued to NIGL;
  - (d) each Insurance Member (including an Association Only Member who becomes an Insurance Member) and Association:
    - (i) will receive an allocation of shares in NIGL in accordance with the Share Allocation Rules; and
    - (ii) through the Insurance Change of Status, will cease to be a member of Insurance so that the liability of the member as guarantor on the winding up of Insurance is extinguished;
  - (e) by virtue of the Insurance Demutualisation Resolutions and its ceasing to be a member of Insurance, Association will cease to enjoy Association's Control Rights in Insurance;
  - (f) commercial and other relationships among Insurance, Association and NIGL become regulated by the Business Relationship Agreements; and
  - (g) ownership of certain trade marks related to insurance and financial services activities will be assigned by Association to NIGL, Association will grant to NIGL licences to use and sub-licence the NRMA trade marks which Association and Insurance are to use concurrently after the Insurance Change of Status and use of all such trade marks will become regulated by certain of the Business Relationship Agreements, all as more particularly described in the Information Memorandum.
- 3.2 If the Insurance Schemes become effective:
  - (a) then Insurance will be appointed as the agent of each Insurance Member (other than an Association Only Member who becomes an Insurance Member) to do the things specified in clause 2.2 of Part IV on behalf of each Insurance Member, including:
    - (i) agreeing, on and subject to the Insurance Change of Status, to become a shareholder of NIGL;
    - (ii) appointing the Insurance Secretary to attend the Insurance Demutualisation Meeting and to vote in favour of the Insurance Demutualisation Resolutions; and
  - (b) Insurance will likewise be appointed the agent of Association; and
  - (c) the members of Insurance (including Association) will be entitled and bound otherwise to become participants in the results of the Proposal.

### 4 Implementation Deed

- 4.1 Association, Insurance, NIGL and the directors of NIGL have agreed by executing and delivering the Implementation Deed to implement the terms of the Insurance Schemes and the Insurance Change of Status.



Part IV – Provisions of the First Insurance Scheme  
(Part IV forms part of the First Insurance Scheme only)

**1 Central provisions – respective rights and obligations**

- 1.1 The Insurance Members are, as against Insurance and among themselves, bound to suffer such detriments and entitled to derive such advantages and enjoy such benefits as arise from the due implementation of the Proposal.
- 1.2 Without limiting the generality of clause 1.1 of this Part IV, each Insurance Member is entitled and bound, as against Insurance and each other Insurance Member:
- (a) to suffer such detriment as shall arise from:
- each Association Only Member being admitted as an Insurance Member and thereby becoming entitled, as an Insurance Member, to participate in the benefits of the implementation of the Proposal along with other Insurance Members;
  - the due performance of the Implementation Deed;
  - the operation of the Share Allocation Rules; and
  - the making of the Business Relationship Agreements; and
- (b) to receive such benefit as shall accrue to the Insurance Member by reason of:
- the operation of the Share Allocation Rules;
  - the due performance of the Implementation Deed;
  - the making of the Business Relationship Agreements; and
  - the attainment of membership of NIGL.
- 1.3 Insurance is bound, as against the Insurance Members, to take all action necessary on its part to implement the Proposal, including action that can only be taken by Insurance's board of directors.
- 1.4 Without limiting the generality of clause 1.3 of this Part IV, Insurance is bound, as against the Insurance Members:
- (a) to enforce, observe and give effect to the Implementation Deed;
- (b) to convene the Insurance Demutualisation Meeting;
- (c) to cause notice of the Insurance Demutualisation Meeting to be published in accordance with Insurance's constitution and to include in the notice a statement of the effect of provisions of the Insurance Schemes and the Association Schemes under which authority thereby created for the appointment of proxies for that meeting may be withdrawn and must not be exercised; and
- (d) if the Insurance Demutualisation Resolutions are passed as special resolutions of Insurance, to make and pursue an application under Part 2B.7 of the Corporations Law for change of Insurance's type to a public company limited by shares.
- 1.5 Insurance and the Insurance Members acknowledge that the Proposal is the scheme or plan referred to in the definitions of 'NRMA Insurance Restructure' in the new rule 38A which is referred to in subparagraph (b)(iv) of the definition of 'Conditions Precedent'.

**2 Central provisions – agency**

- 2.1 On and from the Effective Date each Insurance Member is entitled and bound, on and subject to the Insurance Change of Status, to become a shareholder of NIGL by exercise of the authority created by clause 2.2 of this Part IV and accordingly to be bound by the constitution of NIGL.
- 2.2 On and from the Effective Date and without the need for any further act, Insurance is invested with the authority of each Insurance Member to do each of the following things on behalf of the Insurance Member:
- (a) agree, on and subject to the Insurance Change of Status, to become a shareholder of NIGL and accordingly to be bound by the constitution of NIGL and to consent to the entry of their name and address in NIGL's register of members in respect of the shares in NIGL allocated to them;

- (b) nominate for the purposes of section 249J(3)(b) of the Corporations Law the address of Insurance as their alternative address for receipt of notices of meetings of the members of Insurance;
- (c) empower the Insurance Secretary to receive for the Insurance Member notice of the Insurance Demutualisation Meeting, with no obligation to pass that notice on to the Insurance Member;
- (d) appoint the Insurance Secretary as their proxy to attend and vote for the member at the Insurance Demutualisation Meeting; and
- (e) specify in the proxy appointment that the Insurance Secretary is to vote in favour of the Insurance Demutualisation Resolutions.
- 2.3 Subject to clause 2.5 of this Part IV, Insurance is bound, as against each Insurance Member, to appoint the Insurance Secretary as the proxy of each Insurance Member to attend the Insurance Demutualisation Meeting and vote in favour of each of the Insurance Demutualisation Resolutions and to specify in the proxy appointment that the Insurance Secretary is to vote in favour of the Insurance Demutualisation Resolutions.
- 2.4 The authority conferred upon Insurance by an Insurance Member pursuant to clause 2.2 (d) and (e) of this Part IV and the appointment of the Insurance Secretary may be withdrawn in relation to an Insurance Demutualisation Resolution to be passed at the Insurance Demutualisation Meeting by that Insurance Member:
- (a) attending the Insurance Demutualisation Meeting and voting in person on that Insurance Resolution; or
- (b) appointing another person as the proxy (or, if the Insurance Member is a corporation, the representative) of the Insurance Member for the purposes of the Insurance Demutualisation Meeting,
- but otherwise the authority conferred upon Insurance by an Insurance Member pursuant to a provision of clause 2.2 of this Part IV cannot be withdrawn or revoked.
- 2.5 Insurance must not exercise the power vested in Insurance under clause 2.2 (d) and (e) of this Part IV to appoint the Insurance Secretary in relation to an Insurance Member where that Insurance Member has notified Insurance in writing that they do not wish that power to be exercised in relation to them.

**3 Conditions – First Insurance Scheme**

- 3.1 The satisfaction of each of the Conditions Precedent is a condition precedent to the operation of clauses 1 and 2 of this Part IV.
- 3.2 The First Insurance Scheme will become effective on the Effective Date but only if the Effective Date occurs on or before the End Date.
- 3.3 If any of the Conditions Subsequent is not satisfied by the End Date, then the First Insurance Scheme will terminate at the conclusion of the End Date and all entitlements and obligations arising under it will be extinguished (but without prejudice to anything previously done in exercise of an authority conferred upon Insurance by the First Insurance Scheme) so that the position of each Insurance Member with respect to the subject matter of the First Insurance Scheme is then as it would have been had the First Insurance Scheme not become effective pursuant to clause 3.2 of this Part IV.
- 3.4 None of the Conditions Precedent or Conditions Subsequent, as they affect provisions of the First Insurance Scheme, may be waived or otherwise dispensed with by Insurance, the Insurance Members or any of them.

**4 Authority and Variation – First Insurance Scheme**

- 4.1 The Insurance Members consent to Insurance doing all things necessary or incidental to the implementation of the First Insurance Scheme and the First Insurance Scheme binds Insurance and all Insurance Members.
- 4.2 Insurance may by its counsel or solicitor consent on behalf of all persons concerned (including Insurance Members) to any modifications of or amendments to the First Insurance Scheme which the Court thinks fit to impose.

## Part V – Provisions of the Second Insurance Scheme

(Part V forms part of the Second Insurance Scheme only)

### 1 Central provisions – respective rights and obligations

- 1.1 Association is, as against Insurance, bound to suffer such detriments and entitled to derive such advantages and enjoy such benefits as arise from the due implementation of the Proposal.
- 1.2 Without limiting the generality of clause 1.1 of this Part V, Association is entitled and bound, as against Insurance:
  - (a) to suffer such detriment as shall arise from:
    - (i) each Association Only Member being admitted as an Insurance Member and thereby becoming entitled, as an Insurance Member, to participate in the benefits of the implementation of the Proposal along with other Insurance Members and Association;
    - (ii) the operation of the Share Allocation Rules; and
    - (iii) the due performance of the Implementation Deed; and
  - (b) to receive such benefit as shall accrue to Association by reason of:
    - (i) the operation of the Share Allocation Rules;
    - (ii) the due performance of the Implementation Deed; and
    - (iii) the attainment of membership of NIGL.
- 1.3 Insurance is bound, as against Association, to take all action necessary on its part to implement the Proposal, including action that can only be taken by Insurance's board of directors.
- 1.4 Without limiting the generality of clause 1.3 of this Part V, Insurance is bound, as against Association:
  - (a) to enforce, observe and give effect to the Implementation Deed;
  - (b) to admit each Association Only Member as an Insurance Member;
  - (c) to convene the Insurance Demutualisation Meeting;
  - (d) to cause notice of the Insurance Demutualisation Meeting to be published in accordance with Insurance's constitution; and
  - (e) if the Insurance Demutualisation Resolutions are passed as special resolutions of Insurance, to make and pursue an application under Part 2B.7 of the Corporations Law for change of Insurance's type to a public company limited by shares.
- 1.5 Insurance and Association acknowledge that the Proposal is the scheme or plan referred to in the definitions of 'NRMA Insurance Restructure' in the new rule 38A which is referred to in subparagraph (b)(iv) of the definition of 'Conditions Precedent'.

### 2 Central provisions – agency

- 2.1 On and from the Effective Date Association is entitled and bound, on and subject to the Insurance Change of Status, to become a shareholder of NIGL by exercise of the authority created by clause 2.2 of this Part V and accordingly to be bound by the constitution of NIGL.
- 2.2 On and from the Effective Date and without the need for any further act, Insurance is invested with the authority of Association to do each of the following things on behalf of Association:
  - (a) agree, on and subject to the Insurance Change of Status, to become a shareholder of NIGL and accordingly to be bound by the constitution of NIGL and to consent to the entry of its name and address in NIGL's register of members in respect of the shares in NIGL allocated to it;

(b) nominate for the purposes of section 249J(3)(b) of the Corporations Law the address of Insurance as its alternative address for receipt of notices of meetings of the members of Insurance;

(c) empower the Insurance Secretary to receive for Association notice of the Insurance Demutualisation Meeting, with no obligation to pass that notice on to Association;

(d) appoint the Insurance Secretary as its proxy to attend and vote for Association at the Insurance Demutualisation Meeting; and

(e) specify in the proxy appointment that the Insurance Secretary is to vote in favour of the Insurance Demutualisation Resolutions.

2.3 Subject to clause 2.4 of this Part V, Insurance is bound, as against Association, to appoint the Insurance Secretary as the proxy of Association to attend the Insurance Demutualisation Meeting and vote in favour of each of the Insurance Demutualisation Resolutions and to specify in the proxy appointment that the Insurance Secretary is to vote in favour of the Insurance Demutualisation Resolutions.

2.4 The authority conferred upon Insurance by Association pursuant to a provision of clause 2.2 of this Part V cannot be withdrawn or revoked.

2.5 Insurance must not exercise the power vested in Insurance under clause 2.2 (d) and (e) of this Part V to appoint the Insurance Secretary in relation to Association where Association has notified Insurance in writing that it does not wish that power to be exercised in relation to it.

### 3 Conditions – Second Insurance Scheme

- 3.1 The satisfaction of each of the Conditions Precedent is a condition precedent to the operation of clauses 1 and 2 of this Part V.
- 3.2 The Second Insurance Scheme will become effective on the Effective Date but only if the Effective Date occurs on or before the End Date.
- 3.3 If any of the Conditions Subsequent is not satisfied by the End Date, then the Second Insurance Scheme will terminate at the conclusion of the End Date and all entitlements and obligations arising under it will be extinguished (but without prejudice to anything previously done in exercise of an authority conferred upon Insurance by the Second Insurance Scheme) so that the position of Association with respect to the subject matter of the Second Insurance Scheme is then as it would have been had the Second Insurance Scheme not become effective pursuant to clause 3.2 of this Part V.
- 3.4 None of the Conditions Precedent or Conditions Subsequent, as they affect provisions of the Second Association Scheme, may be waived or otherwise dispensed with by Insurance or Association.

### 4 Authority and Variation – Second Insurance Scheme

- 4.1 Association consents to Insurance doing all things necessary or incidental to the implementation of the Second Insurance Scheme and the Second Insurance Scheme binds Insurance and Association.
- 4.2 Insurance may by its counsel or solicitor consent on behalf of all persons concerned (including Association) to any modifications of or amendments to the Second Insurance Scheme which the Court thinks fit to impose.

# 11. Financial Information

## 11.1 About this Section

### What does this Section contain?

This Section contains Financial Information in respect of the NRMA Group for the years ended 30 June 1999 and 30 June 1998. This information is provided in order to illustrate the expected effect of the Proposal on the financial position and the results of Association and Insurance.

The Financial Information includes Restated and Pro forma Financial Information and assumptions set out on pages 100 to 118. The operating entities that comprise Association, Insurance and the NRMA Group are set out on page 28.

### Why is it presented this way?

To those who are unfamiliar with 'Restated' and 'Pro forma' Financial Information, the following explanation may be helpful. The historical financial information of the NRMA Group does not show the expected effect of the Proposal. Its inclusion alone would not be particularly helpful to Members in deciding how to vote on the Proposal. In addition, Members have already been provided with that information in previous financial statements.

The Restated and Pro forma Financial Information of Association and Insurance has mainly been prepared from the financial statements. Certain information has, however, been modified and certain other information from the published financial statements is not repeated, with the objective of presenting only that information in this document which is both relevant and meaningful in providing an understanding of the Restated and Pro forma Financial Information in the context of the Proposal.

### What are the key differences between the financial statements and Restated Financial Information?

Significant events and developments have occurred since the financial statements of both Association and Insurance for the years ended 30 June 1999 and 30 June 1998 were signed. Therefore, the Restated Financial Information is designed to assist Members in showing the effect of these events and developments on Association and Insurance and their respective subsidiaries.

Details of these adjustments and associated financial impact are provided on pages 104 and 112 for Association and Insurance respectively.

### What are the key differences between Restated Financial Information and Pro forma Financial Information?

The Pro forma Financial Information is different to the Restated Financial Information. It modifies the Restated Financial Information in a manner which seeks to illustrate how the Financial Information of Association and Insurance would have been reported if the Proposal had been implemented on 1 July 1997. Through this presentation, Members are able to compare the financial performance and financial position of Association and Insurance as it was reported at 30 June 1999 and 30 June 1998, to the financial performance and financial position after implementation of the Proposal.

### What should the user be aware of when reviewing the Financial Information?

The Financial Information is provided for indicative purposes. It is important to understand that a number of assumptions and estimates have been made during its preparation, and certain factors limit the level of reliance that can be placed on the Financial Information. The assumptions are summarised on page 118. Members should refer to page 119 'Investigating Accountant's Report' for full details of the scope and basis of preparation of the Financial Information.

If the Proposal is implemented, Association will be in a strong financial position mainly because of the allocation to Association of a shareholding in NIGL. This is best illustrated by the increase in Association's net assets between the Restated and Pro forma Financial Information for 30 June 1999 and 30 June 1998. This increase is quantified in the reconciliation at page 104. In preparing the Pro forma Financial Information, it is assumed that 80% of Association's total shareholding in NIGL would be realised immediately following receipt and reinvested in accordance with Association investment mandates that existed during that period. These investments are intended to enable Association to generate a return sufficient to fund future capital requirements and the road and related motoring service operations, having regard to the impact of the Business Relationship Agreements.

### Material changes in financial position

There have been no material changes to the financial position of Association or Insurance within the knowledge of the directors of those respective companies since 30 June 1999, other than as mentioned in this Information Memorandum.

## 11.2 Restated and Pro forma Financial Information of Association for the years ended 30 June 1999 and 30 June 1998

### Introduction

The Restated Financial Information contained in this Section is based on the historical financial statements of Association, which have been adjusted for:

- the restructuring of operations that has occurred subsequent to 30 June 1998 and outlined at page 104; and
- partial application of Accounting Standard AASB 1038 'Life Insurance Business', which was issued, but did not apply, at the time of preparation of the financial statements for the year ended 30 June 1999.

In preparing the Restated Financial Information, efforts have been made to prepare results for the year ended 30 June 1999 and 30 June 1998 in accordance with current Accounting Standards and policies, but some minor approximation has been necessary.

The Pro forma Financial Information in this Section is based on the Restated Financial Information which has been adjusted for the anticipated financial effects of the Proposal.

A schedule providing a reconciliation from the published financial statements for the years ended 30 June 1999 and 30 June 1998 to the Restated Financial Information and from the Restated Financial Information to the Pro forma Financial Information is shown on page 104.

**Restated basis of consolidation**

The Restated Financial Information of Association and the NRMA Group presents two sets of Restated Financial Information with Association as the parent entity.

The first set of Restated Financial Information, referred to as the Restated Consolidated NRMA Group Financial Information, presents the combined results of the Association Group and Insurance Group. This information is prepared to comply with the requirements of Accounting Standard AASB 1024 'Consolidated Accounts' ('AASB 1024') to prepare consolidated financial statements for all controlled entities. The application of AASB 1024 has, in this instance, resulted in the Consolidated NRMA Group restated balance sheet and profit and loss statement being potentially misleading and not giving a true and fair view. They reflect the results and state of affairs of the wider reporting entity. They should be read in conjunction with the Association Restated Financial Information, if they are to be properly understood.

Insurance is a controlled entity of Association under AASB 1024 because the board of directors of Insurance is appointed by the directors of Association. Association is one of many members of Insurance but, under the constitution of Insurance, Association is entitled to receive the net assets of Insurance upon its winding-up. While this is an ownership interest, it is not a significant one when Financial Information is prepared on a going concern basis. In addition, the objectives of Insurance under its constitution include to generally assist with Association in the attainment and promotion of Association's objectives.

The second set of Restated Financial Information, referred to as Restated Association Group Financial Information, presents the results of Association and those controlled entities in which it both appoints the board and has a significant ownership interest. The ownership interest in such controlled entities is available for the benefit of Association. This additional disclosure is provided in order that the financial statements provide the members of Association with a view of the group of entities in which Association has a controlling interest on a going concern basis and hence, a true and fair view. However, because not all controlled entities are included in the consolidated financial statements, the Association Restated Financial Information is not strictly in compliance with AASB 1024.

The net equity attributable to members of Insurance included in the Consolidated NRMA Group is disclosed as outside equity interests.

**Pro forma basis of consolidation**

All entities that would be controlled by Association under the terms of the Proposal are included in the Pro forma Consolidated Association Financial Information.

**Restated Consolidated NRMA Group, Restated Association Group and Pro forma Consolidated Association****Restated and Pro forma Profit and Loss Statements for the years ended 30 June 1999 and 30 June 1998**

	Note	30 June 1999			30 June 1998		
		Restated Consolidated NRMA Group \$000	Restated Association Group \$000	Pro forma Consolidated Association \$000	Restated Consolidated NRMA Group \$000	Restated Association Group \$000	Pro forma Consolidated Association \$000
<b>Operating profit/(loss) before abnormal item and income tax</b>		429,891	(9,830)	22,200	122,123	1,756	5,732
Abnormal item	3	(56,068)	-	-	-	-	-
<b>Operating profit/(loss) before income tax</b>		373,823	(9,830)	22,200	122,123	1,756	5,732
Income tax expense attributable to operating profit/(loss)	4	(98,128)	(4,353)	(11,984)	(23,645)	(1,978)	(5,401)
<b>Operating profit/(loss) after income tax</b>		275,695	(14,183)	10,216	98,478	(222)	331
Extraordinary item after income tax	5	-	-	-	-	-	324,141
<b>Operating profit/(loss) and extraordinary item after tax</b>		275,695	(14,183)	10,216	98,478	(222)	324,472
Outside equity interest in operating profit/(loss) and extraordinary item after tax		(289,115)	-	-	(102,404)	-	-
<b>Operating profit/(loss) and extraordinary item after income tax attributable to members of Association</b>		(13,420)	(14,183)	10,216	(3,926)	(222)	324,472
Retained profits at the beginning of the financial year		28,474	32,615	357,309	39,104	32,852	32,852
<b>Total available for appropriation</b>		15,054	18,432	367,525	35,178	32,630	357,324
Aggregate of amounts transferred from/(to) reserves		5,409	(1,039)	(1,039)	-	-	-
Other appropriations		(6,448)	-	-	(6,704)	(15)	(15)
<b>Retained profits at the end of the financial year</b>		14,015	17,393	366,486	28,474	32,615	357,309

The above Restated and Pro forma Profit and Loss Statements are to be read in conjunction with the notes to the Restated Consolidated NRMA Group, Restated Association Group and Pro forma Consolidated Association Financial Information.

Restated Consolidated NRMA Group, Restated Association Group and Pro forma Consolidated Association  
 Restated and Pro forma Balance Sheets as at 30 June 1999 and 30 June 1998

	Note	Restated Consolidated NRMA Group \$000	30 June 1999 Restated Association Group \$000	Pro forma Consolidated Association \$000	Restated Consolidated NRMA Group \$000	30 June 1998 Restated Association Group \$000	Pro forma Consolidated Association \$000
<b>Current assets</b>							
Cash		183,336	2,112	2,125	618,815	1,555	2,045
Receivables	6	944,149	12,551	14,432	488,484	13,855	15,703
Investments	7	1,327,404	79,628	139,208	824,720	71,832	124,467
Other		78,024	3,328	3,328	72,373	2,989	2,989
<b>Total current assets</b>		<b>2,532,913</b>	<b>97,619</b>	<b>159,093</b>	<b>2,004,392</b>	<b>90,231</b>	<b>145,204</b>
<b>Non-current assets</b>							
Receivables	8	1,297,341	-	-	1,048,662	8,412	8,412
Investments	9	5,003,967	307,565	607,640	4,715,632	287,280	568,878
Plant and equipment		119,823	18,565	18,565	94,219	21,336	21,336
Future income tax benefits	10	202,735	15	3	179,574	562	103
Other	11	320,328	-	-	26,864	-	-
<b>Total non-current assets</b>		<b>6,944,194</b>	<b>326,145</b>	<b>626,208</b>	<b>6,064,951</b>	<b>317,590</b>	<b>598,729</b>
<b>Interest in NRMA Life Statutory Funds Assets</b>		<b>819,959</b>	<b>-</b>	<b>-</b>	<b>727,901</b>	<b>-</b>	<b>-</b>
<b>Total assets</b>		<b>10,297,066</b>	<b>423,764</b>	<b>785,301</b>	<b>8,797,244</b>	<b>407,821</b>	<b>743,933</b>
<b>Current liabilities</b>							
Bank overdrafts		57,524	1,351	1,351	17,792	647	647
Deposits		585,204	-	-	332,142	-	-
Accounts payable	12	386,939	29,006	29,006	460,598	27,099	27,093
Scrip lending		301,307	-	-	114,530	-	-
Borrowings	13	621,143	-	-	698,738	-	-
Provisions	14	128,655	18,884	26,074	62,876	17,003	20,019
Unexpired services		62,487	62,487	62,487	59,895	59,895	59,895
Outstanding claims		1,106,796	-	-	796,966	-	-
Unearned premium		1,172,753	-	-	1,028,639	-	-
<b>Total current liabilities</b>		<b>4,422,808</b>	<b>111,728</b>	<b>118,918</b>	<b>3,572,176</b>	<b>104,644</b>	<b>107,654</b>
<b>Non-current liabilities</b>							
Deposits		33,643	-	-	29,640	-	-
Borrowings		19,404	-	-	35,738	-	-
Provisions	15	301,336	26,348	35,538	228,637	19,971	29,867
Outstanding claims		1,765,110	-	-	1,458,255	-	-
<b>Total non-current liabilities</b>		<b>2,119,493</b>	<b>26,348</b>	<b>35,538</b>	<b>1,752,270</b>	<b>19,971</b>	<b>29,867</b>
<b>Interest in NRMA Life Statutory Funds Liabilities</b>		<b>761,177</b>	<b>-</b>	<b>-</b>	<b>694,551</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>		<b>7,303,478</b>	<b>138,076</b>	<b>154,456</b>	<b>6,018,997</b>	<b>124,615</b>	<b>137,521</b>
<b>Net assets</b>		<b>2,993,588</b>	<b>285,688</b>	<b>630,845</b>	<b>2,778,247</b>	<b>283,206</b>	<b>606,412</b>
<b>Equity</b>							
Reserves	16	258,328	268,295	264,359	245,768	250,591	249,103
Retained profits		14,015	17,393	366,486	28,474	32,615	357,309
Equity attributable to Members of Association		272,343	285,688	630,845	274,242	283,206	606,412
Outside equity interest in controlled entities:							
- Share capital		889,281	-	-	170,095	-	-
- Reserves		125,726	-	-	1,059,607	-	-
- Retained profits		720,221	-	-	838,371	-	-
- Unitholders' funds		986,017	-	-	435,932	-	-
<b>Total equity</b>		<b>2,993,588</b>	<b>285,688</b>	<b>630,845</b>	<b>2,778,247</b>	<b>283,206</b>	<b>606,412</b>

The above Restated and Pro forma Balance Sheets are to be read in conjunction with the notes to the Restated Consolidated NRMA Group, Restated Association Group and Pro forma Consolidated Association Financial Information.



## Restated Consolidated NRMA Group, Restated Association Group and Pro forma Consolidated Association

**Restated and Pro forma Statement of Total Recognised Gains and Losses as at 30 June 1999 and 30 June 1998**

	30 June 1999			30 June 1998		
	Restated Consolidated NRMA Group \$000	Restated Association Group \$000	Pro forma Consolidated Association \$000	Restated Consolidated NRMA Group \$000	Restated Association Group \$000	Pro forma Consolidated Association \$000
<b>Operating profit/(loss) after income tax attributable to members of Association</b>	(13,420)	(14,183)	10,216	(3,926)	(222)	331
<b>Extraordinary item after income tax</b>	-	-	-	-	-	324,141
<b>Unrealised gains/(losses) on investments taken directly to reserves</b>	17,969	16,665	14,217	(1,233)	2,223	735
<b>Total gains/(losses) attributable to members of Association</b>	4,549	2,482	24,433	(5,159)	2,001	325,207

Australian Accounting Standards only permit the recognition of unrealised gains/(losses) on investments where investment activities are part of an entity's normal operating activities. Hence, unrealised gains/(losses) on the investments of Association are taken directly to reserves. In contrast, Australian Accounting Standard AASB 1023 'Financial Reporting of General Insurance Activities' requires unrealised gains/(losses) on those investments of Insurance relating to general insurance activities to be recognised in the profit and loss statement.

The Proposal envisages a significant capital injection to Association through the realisation of 80% of a 10% shareholding in NIGL. Whilst Accounting Standards would not permit recognition of unrealised gains/(losses) in the Association profit and loss statement following implementation of the Proposal, the management of the proceeds from the sale of NIGL shares along with the existing investment portfolio will form an integral part of the ongoing business of Association. Hence, the above statement of total recognised gains and losses has been included to provide a reflection of Association's ongoing profitability should the Proposal be implemented, and to improve comparability with Insurance.

## Consolidated NRMA Group and Association Group

**Reconciliation of the Restated and Pro forma Financial Information to the financial statements**

The following table shows the effect of the restatement and pro forma adjustments and reconciles the financial statements to the Restated and Pro forma Financial Information. The nature and extent of these adjustments is explained below.

	Note	30 June 1999		30 June 1998	
		Consolidated NRMA Group \$000	Association Group \$000	Consolidated NRMA Group \$000	Association Group \$000
<b>Operating profit/(loss) and extraordinary item after income tax per financial statements</b>		255,494	(3,012)	95,379	11,508
<b>Restatement adjustments</b>					
Effect of prior restructuring	(i)	514	(21,169)	(1,809)	(11,730)
Effect of significant non-recurring expense items	(ii)	19,687	9,998	4,908	-
<b>Operating profit/(loss) and extraordinary item after income tax per Restated Financial Information</b>		275,695	(14,183)	98,478	(222)
<b>Pro forma adjustments</b>					
Implementation of the Proposal	(iii)		32,120		336,844
Business Relationship Agreements	(iv)		1,683		(3,613)
Stand-alone operating costs	(v)		(9,404)		(8,537)
<b>Operating profit and extraordinary item after income tax per Pro forma Financial Information</b>			10,216		324,472
<b>Net assets per financial statements</b>		3,010,569	283,369	2,730,404	346,312
<b>Restatement adjustments</b>					
Effect of prior restructuring	(i)	(41,576)	(7,679)	42,935	(63,106)
Effect of significant non-recurring expense items	(ii)	24,595	9,998	4,908	-
<b>Net assets per Restated Financial Information</b>		2,993,588	285,688	2,778,247	283,206
<b>Pro forma adjustments</b>					
Implementation of the Proposal	(iii)		365,027		335,356
Business Relationship Agreements	(iv)		(1,930)		(3,613)
Stand-alone operating costs	(v)		(17,940)		(8,537)
<b>Net assets per Pro forma Financial Information</b>			630,845		606,412

(i) Independent of the Proposal, a number of restructuring transactions have taken place within the NRMA Group subsequent to 30 June 1998. As these reorganisations reflect the current structure of NRMA Group, the Restated Financial Information has been adjusted to reflect the following transactions as though these took place on 30 June 1997:

- the buy-back of Association's interest in NRMA Life Limited on 6 January 1999;
- the purchase by NRMA Building Society Limited of the ownership interests of Association and Insurance in NRMA Finance Limited on 30 June 1999; and
- the buy-back of Association's interest in NRMA Sales & Service Pty Limited and NRMA Information Services Pty Limited on 4 March 1999.

(ii) In order to reflect the ongoing results of Association and NRMA Group, adjustments have been made to eliminate non-recurring expense items that were included in the 30 June 1999 and 30 June 1998 financial statements. The principal adjustments include:

- costs incurred to 30 June 1999 in preparing the Proposal totalling \$1.0 million after tax by Association and \$15.1 million by NRMA Group; and
- \$7.9 million in costs relating to the establishment and issue of the NRMA Card in 1999.

In addition, a \$13.8 million asset representing the deferral of the costs of acquisition of mortgage and unit trust business was recognised by NRMA Building Society Limited and NRMA Financial Management Limited in the 30 June 1999 published financial statements.

In order to maintain comparability between periods, the Restated Financial Information of Consolidated NRMA Group for the year ended 30 June 1998 has been adjusted to recognise an asset of \$7.7 million representing the deferrable acquisition costs of NRMA Building Society Limited and NRMA Financial Management Limited at 30 June 1998.

(iii) These adjustments have been made to reflect the financial impact of the Proposal as though it were implemented on 1 July 1997, including the receipt by Association of a 10% shareholding in NIGL and immediate realisation and reinvestment in accordance with investment mandates of 80% of that shareholding (refer note 5, page 106).

(iv) These adjustments reflect the financial impact of contractual arrangements (the 'Business Relationship Agreements') as summarised on pages 139 to 145 that would be put in place between Association and Insurance as part of the Proposal.

(v) If the Proposal is implemented, Association will be required to incur certain direct costs in respect of services that were previously provided by Insurance. These adjustments reflect estimates of the costs as if they had been incurred directly by Association.

(vi) Australian Accounting Standard AASB 1038 'Life Insurance Business' ('AASB 1038') is effective for periods ending on or after 31 December 1999. Hence, the financial statements of Consolidated NRMA Group do not currently consolidate NRMA Life Insurance Limited in accordance with AASB 1038. However, to achieve some illustration of the impact on total assets and total liabilities of the AASB 1038 requirement to consolidate statutory ('policyholder') funds on a line by line basis, the assets and liabilities of Consolidated NRMA Group have been grossed up for the value of statutory fund assets and liabilities. This has been recognised by way of a one line entry in assets ('Interest in NRMA Life Statutory Funds Assets') and liabilities ('Interest in NRMA Life Statutory Funds Liabilities'). The adjustments do not have any impact upon profit and loss and do not represent full compliance with AASB 1038, but provide users of the Financial Information with an illustration of the balance sheet impact.

As the 6 January 1999 share buy-back of Association shares in NRMA Life Limited has been reflected in the Restated Financial Information (refer note (i)) the adjustment for AASB 1038 is required only at the Consolidated NRMA Group level.

## Restated Consolidated NRMA Group, Restated Association Group and Pro forma Consolidated Association

**Notes to the Restated and Pro forma Financial Information for the years ended 30 June 1999 and 30 June 1998**

## 1 Details of principal accounting policies specific to the Restated and Pro forma Financial Information of Association

Except where stated, the Restated and Pro forma Financial Information of Association and Consolidated NRMA Group has been prepared on a basis consistent with the Accounting Policies as described in Note 1 of the financial statements of Association for the year ended 30 June 1999.

	30 June 1999			30 June 1998		
	Restated Consolidated NRMA Group \$000	Restated Association Group \$000	Pro forma Consolidated Association \$000	Restated Consolidated NRMA Group \$000	Restated Association Group \$000	Pro forma Consolidated Association \$000
<b>2 Revenue</b>						
<b>(a) Member services revenue</b>						
Membership entrance fees	4,570	4,570	4,570	4,210	4,210	4,210
Membership subscriptions	116,680	116,680	116,680	113,314	113,314	113,314
Vehicle inspections	7,273	7,273	7,273	6,974	6,974	6,974
Open Road	4,206	8,823	8,823	4,112	9,045	9,045
Travel	8,344	8,344	8,344	8,831	9,141	5,303
Technical services	581	581	581	606	606	606
	141,654	146,271	146,271	138,047	143,290	139,452
<b>(b) Insurance and finance revenue</b>						
Premium income	2,208,464	-	-	2,041,135	-	-
Movement in unearned premium reserve	(94,930)	-	-	(141,013)	-	-
Reinsurance and other recoveries	513,992	-	-	176,244	-	-
General insurance revenue	2,627,526	-	-	2,076,366	-	-
Interest revenue from lending	104,925	-	-	73,578	-	-
Life insurance profits	15,079	-	-	10,895	-	-
	2,747,530	-	-	2,160,839	-	-
<b>(c) Investment revenue</b>						
Dividend income	95,901	12,523	37,668	96,896	10,764	21,956
Interest income	194,727	5,681	12,657	186,625	5,751	8,389
Rental income	2,713	227	227	2,492	177	177
Changes in net market values of life insurance shareholders' fund investments	2,831	-	-	(665)	-	-
Changes in net market values of general insurance investments	373,163	-	-	9,105	-	-
Trust income	-	3,855	11,225	564	2,464	4,203
Other investment revenue	9,326	148	148	13,980	500	500
	678,661	22,434	61,925	308,997	19,656	35,225
<b>(d) Revenue from outside operating activities</b>						
Proceeds from disposal of fixed assets	3,870	2,580	2,573	2,607	2,733	2,522
Proceeds from disposal of investments	829,140	806,619	806,619	844,776	844,776	844,776
Other	25,620	4,038	9,534	7,242	1,350	7,877
	858,630	813,237	818,726	854,625	848,859	855,175
<b>Total revenue</b>	4,426,475	981,942	1,026,922	3,462,508	1,011,805	1,029,852
<b>3 Abnormal item</b>						
Increase in outstanding claims provisioning for GST	56,068	-	-	-	-	-
Applicable income tax	(20,184)	-	-	-	-	-
	35,884	-	-	-	-	-

Restated Consolidated NRMA Group, Restated Association Group and Pro forma Consolidated Association  
**Notes to the Restated and Pro forma Financial Information for the years ended 30 June 1999 and 30 June 1998**

	30 June 1999			30 June 1998		
	Restated Consolidated NRMA Group \$000	Restated Association Group \$000	Pro forma Consolidated Association \$000	Restated Consolidated NRMA Group \$000	Restated Association Group \$000	Pro forma Consolidated Association \$000
<b>4 Income tax</b>						
(a) The prima facie tax on the operating profit/(loss) and extraordinary item differs from the income tax provided in the financial statements and is reconciled as follows:						
Operating profit/(loss) and extraordinary item before income tax	373,823	(9,830)	22,200	122,123	1,756	381,500
Prima facie tax thereon at 36%	134,576	(3,539)	7,992	43,964	632	137,340
Net tax effect of permanent differences	(35,651)	7,197	3,297	(20,536)	1,355	(80,303)
Income tax expense applicable to current year	98,925	3,658	11,289	23,428	1,987	57,037
Adjustment to prior year	(797)	695	695	217	(9)	(9)
Income tax expense attributable to operating profit/(loss) and extraordinary item	98,128	4,353	11,984	23,645	1,978	57,028
(b) The potential future income tax benefits relating to tax losses not brought to account are:	-	-	-	1,432	-	-
The benefits will only be obtained if:						
(i) the economic entity derives future assessable income of a nature and of an amount sufficient to enable the benefits from the deductions for the losses and timing differences to be realised;						
(ii) the economic entity continues to comply with the conditions for deductibility imposed by tax legislation; and						
(iii) no changes in tax legislation adversely affect the economic entity in realising the benefit from the deductions for the losses.						
<b>5 Extraordinary item</b>						
Receipt of shares in NIGL	-	-	-	-	-	375,768
Applicable capital gains tax	-	-	-	-	-	(51,627)
	-	-	-	-	-	324,141
As part of the Proposal, Association will receive a 10% shareholding in NIGL upon listing.						
For the purposes of the Pro forma Financial Information the receipt of shares in NIGL represents an extraordinary gain to Association. The gross amount of the gain totalling \$375,768,000 has been based upon an estimated market value of Insurance at 30 June 1999 of \$3.6 billion. The values as at 1 July 1997 and 30 June 1998 have been estimated by assuming the actual ratio of net tangible assets to market value of Insurance at 30 June 1999 remains constant.						
A capital gains tax liability will arise on the excess of net market value over net tangible assets of the NIGL shares received at the time of acquisition. A deferred tax liability of \$51,627,000 representing 36% of this excess has been recognised in respect of the share issue.						
<b>6 Current assets – receivables</b>						
Secured loans, leases and loan agreements	102,303	-	-	116,456	-	-
Unearned finance income	(11,581)	-	-	(13,422)	-	-
	90,722	-	-	103,034	-	-
Trade debtors	139,366	6,345	6,341	44,239	1,936	1,899
Amounts receivable						
- related bodies corporate	-	1,394	1,394	-	5,038	5,038
- other	-	-	1,885	-	-	1,885
	-	1,394	3,279	-	5,038	6,923
Claims recoveries	119,002	-	-	93,442	-	-
Reinsurance recoveries	244,373	-	-	5,090	-	-
Premium receivable	269,912	-	-	169,458	-	-
Other receivables	80,774	4,812	4,812	73,221	6,881	6,881
	944,149	12,551	14,432	488,484	13,855	15,703

## Restated Consolidated NRMA Group, Restated Association Group and Pro forma Consolidated Association

*Notes to the Restated and Pro forma Financial Information for the years ended 30 June 1999 and 30 June 1998*

	Restated Consolidated NRMA Group \$000	30 June 1999 Restated Association Group \$000	Pro forma Consolidated Association \$000	Restated Consolidated NRMA Group \$000	30 June 1998 Restated Association Group \$000	Pro forma Consolidated Association \$000
<b>7 Current assets – investments</b>						
<b>Quoted</b>						
Government and semi-government stocks and bonds	8,995	1,702	2,976	14,498	3,382	5,860
Shares in other parties	36,614	832	1,454	20,629	18,825	32,616
Options for shares	–	–	–	417	–	–
Unit trusts	869	–	–	5,814	299	519
	46,478	2,534	4,430	41,358	22,506	38,995
<b>Unquoted</b>						
Government and semi-government stocks and bonds	–	–	–	1,226	1,339	2,320
Shares in other parties	644	–	–	304	332	574
Deposits in other parties	116,532	–	–	112,278	90	156
Units in NRMA Investment Management Cash Management Trust	–	75,933	132,748	–	46,708	80,929
Commercial bills	1,161,815	–	–	599,154	–	–
Other investments (gross of unearned income)	1,995	1,161	2,030	70,455	867	1,503
Unearned income	(60)	–	–	(55)	(10)	(10)
	1,280,926	77,094	134,778	783,362	49,326	85,472
	1,327,404	79,628	139,208	824,720	71,832	124,467
<b>8 Non-current assets – receivables</b>						
Secured loans, leasing and loan agreements	1,099,064	–	–	933,179	–	–
Unearned finance income	(13,562)	–	–	(15,016)	–	–
	1,085,502	–	–	918,163	–	–
Loans due from related bodies corporate	–	–	–	–	8,412	8,412
Claims recoveries	139,519	–	–	122,666	–	–
Reinsurance recoveries	68,334	–	–	7,833	–	–
Premium receivable	3,986	–	–	–	–	–
	1,297,341	–	–	1,048,662	8,412	8,412
<b>9 Non-current assets – investments</b>						
<b>Quoted</b>						
Government and semi-government stocks and bonds	1,437,936	46,930	82,046	1,241,010	42,128	72,992
Shares in other parties	2,849,610	231,720	405,100	2,619,650	214,094	370,952
Investment in NIGL	–	–	76,000	–	–	73,960
Unit trusts	30,926	–	–	54,595	3,230	5,596
	4,318,472	278,650	563,146	3,915,255	259,452	523,500
<b>Unquoted</b>						
Government and semi-government stocks and bonds	–	–	–	506,401	16,906	29,292
Interest in securitised assets	58,376	–	–	15,611	–	–
Shares in other parties	18,476	6,568	6,568	16,653	2,272	2,272
Unit trusts	4,852	1,570	2,745	6,540	1,687	2,923
Deposits in other parties	350,835	–	–	71,107	911	1,578
Units in NRMA Investment Management Cash Management Trust	30,656	–	–	–	–	–
Other investments (gross of unearned income)	161,746	19,254	33,658	43,368	4,451	7,712
Unearned income	(521)	–	–	(1,391)	(46)	(46)
	624,420	27,392	42,971	658,289	26,181	43,731
Freehold properties	52,106	1,523	1,523	129,279	1,647	1,647
Leasehold properties	8,969	–	–	12,809	–	–
	61,075	1,523	1,523	142,088	1,647	1,647
	5,003,967	307,565	607,640	4,715,632	287,280	568,878

Restated Consolidated NRMA Group, Restated Association Group and Pro forma Consolidated Association  
**Notes to the Restated and Pro forma Financial Information for the years ended 30 June 1999 and 30 June 1998**

	Restated Consolidated NRMA Group \$000	30 June 1999 Restated Association Group \$000	Pro forma Consolidated Association \$000	Restated Consolidated NRMA Group \$000	30 June 1998 Restated Association Group \$000	Pro forma Consolidated Association \$000
<b>10 Non-current assets – future income tax benefits</b>						
Relating to						
– tax losses carried forward	69,913	14	11	99,566	537	85
– other	132,822	1	(8)	80,008	25	18
	202,735	15	3	179,574	562	103
<b>11 Non-current assets – other</b>						
Goodwill – at cost	47,998	–	–	27,794	–	–
Accumulated amortisation	(31,414)	–	–	(6,369)	–	–
	16,584	–	–	21,425	–	–
Excess of net market value of an interest in a controlled entity	297,542	–	–	–	–	–
Deferred acquisition costs	5,919	–	–	5,439	–	–
Prepayments	283	–	–	–	–	–
	320,328	–	–	26,864	–	–
<b>12 Current liabilities – accounts payable</b>						
Trade creditors and accruals	319,093	21,197	21,197	460,496	25,287	25,281
Amounts owing to						
– controlled entities	–	–	–	–	1,674	1,674
– related bodies corporate	–	7,809	7,809	–	138	138
Other	67,846	–	–	102	–	–
	386,939	29,006	29,006	460,598	27,099	27,093
<b>13 Current liabilities – borrowings</b>						
Bank bills	–	–	–	300,000	–	–
Bank loan	25,000	–	–	17,000	–	–
Debenture stock	32,263	–	–	29,787	–	–
Short-term borrowings	–	–	–	204	–	–
Promissory notes	563,880	–	–	351,747	–	–
	621,143	–	–	698,738	–	–
<b>14 Current liabilities – provisions</b>						
Taxation	68,162	5,238	12,428	24,993	5,426	8,442
Employee entitlements	49,577	12,476	12,476	37,368	11,577	11,577
Other	10,916	1,170	1,170	515	–	–
	128,655	18,884	26,074	62,876	17,003	20,019
<b>15 Non-current liabilities – provisions</b>						
Deferred taxation	280,308	21,813	31,003	212,791	15,928	25,824
Employee entitlements	21,028	4,535	4,535	15,846	4,043	4,043
	301,336	26,348	35,538	228,637	19,971	29,867
<b>16 Reserves</b>						
General reserve	12,134	12,134	12,134	12,152	12,134	12,134
Investment fluctuation reserve	178,132	178,132	178,132	153,820	153,824	153,824
Asset replacement reserve	7,021	7,021	7,021	7,021	7,021	7,021
Asset revaluation reserve	54,541	64,508	60,572	66,275	71,112	69,624
Services development reserve	6,500	6,500	6,500	6,500	6,500	6,500
	258,328	268,295	264,359	245,768	250,591	249,103



Restated Consolidated NRMA Group, Restated Association Group and Pro forma Consolidated Association  
**Notes to the Restated and Pro forma Financial Information for the years ended 30 June 1999 and 30 June 1998**

17 Business acquired

Details of acquisitions made during the years ended 30 June 1999 and 30 June 1998 are as follows (30 June 1999 amounts relate to the acquisition of SGIO Insurance Limited by Insurance and 30 June 1998 comparatives relate to the acquisition of NRMA Building Society Limited by Insurance):

	30 June 1999			30 June 1998		
	Restated Consolidated NRMA Group \$000	Restated Association Group \$000	Pro forma Consolidated Association \$000	Restated Consolidated NRMA Group \$000	Restated Association Group \$000	Pro forma Consolidated Association \$000
Consideration – cash	440,782	–	–	66,396	–	–
Fair value of net assets of entity acquired:						
Cash	36,102	–	–	77,835	–	–
Receivables	104,622	–	–	1,854	–	–
Loans	–	–	–	696,388	–	–
Investments	421,291	–	–	–	–	–
Deposits	–	–	–	(553,082)	–	–
Accounts payable	(39,477)	–	–	(14,508)	–	–
Borrowings	–	–	–	(169,225)	–	–
Provisions	(22,911)	–	–	(1,132)	–	–
Unearned premium	(144,555)	–	–	–	–	–
Outstanding claims	(292,456)	–	–	–	–	–
Other	80,624	–	–	472	–	–
	143,240	–	–	38,602	–	–
Excess of net market value of an interest in a controlled entity/goodwill	297,542	–	–	27,794	–	–
	440,782	–	–	66,396	–	–
Outflow of cash to acquire a controlled entity, net of cash acquired:						
Cash consideration	(440,782)	–	–	(66,396)	–	–
Less: Cash balance acquired	36,102	–	–	77,835	–	–
(Outflow)/inflow of cash	(404,680)	–	–	11,439	–	–

### 11.3 Restated Financial Information of Insurance and Pro forma Financial Information of NIGL for the years ended 30 June 1999 and 30 June 1998

#### Introduction

The Restated Financial Information contained in this Section is based on the historical financial statements of Insurance which have been adjusted for:

- the restructuring of operations that has occurred subsequent to 30 June 1998 and outlined at page 112; and
- partial application of Accounting Standard AASB 1038, 'Life Insurance Business' which was issued but did not apply at the time of preparation of the financial statements for the year ended 30 June 1999.

In preparing the Restated Financial Information, efforts have been made to prepare results for the years ended 30 June 1999 and 30 June 1998 in accordance with current Accounting Standards and policies but some minor approximation has been necessary.

#### Consolidated Insurance and NIGL

##### Restated and Pro forma Profit and Loss Statements for the years ended 30 June 1999 and 30 June 1998

	Note	30 June 1999		30 June 1998	
		Restated Consolidated Insurance \$m	Pro forma Consolidated NIGL \$m	Restated Consolidated Insurance \$m	Pro forma Consolidated NIGL \$m
Premium revenue	2(a)	2,113.5	2,113.5	1,900.1	1,900.1
Reinsurance expense		(149.6)	(149.6)	(57.4)	(57.4)
<b>Net premium revenue</b>		<b>1,963.9</b>	<b>1,963.9</b>	<b>1,842.7</b>	<b>1,842.7</b>
Claims expense		(2,159.1)	(2,159.1)	(1,785.6)	(1,785.6)
Reinsurance and other recoveries	2(a)	514.0	514.0	176.2	176.2
<b>Net claims expense</b>		<b>(1,645.1)</b>	<b>(1,645.1)</b>	<b>(1,609.4)</b>	<b>(1,609.4)</b>
Acquisition costs		(209.5)	(209.5)	(211.9)	(211.9)
Other underwriting expenses		(210.9)	(210.9)	(141.2)	(141.2)
Fire brigade charges		(57.0)	(57.0)	(45.9)	(45.9)
<b>Underwriting expenses</b>		<b>(477.4)</b>	<b>(477.4)</b>	<b>(399.0)</b>	<b>(399.0)</b>
Loss from underwriting		(158.6)	(158.6)	(165.7)	(165.7)
Investment income	2(b)	307.3	297.5	302.3	297.5
Realised and unrealised gains on investments	2(b)	376.0	376.0	8.3	8.3
Other operating revenue	2(c)	198.9	207.6	125.7	127.1
Investment and other expenses		(275.9)	(282.5)	(151.8)	(158.6)
<b>Operating profit before abnormal item and income tax</b>		<b>447.7</b>	<b>440.0</b>	<b>118.8</b>	<b>108.6</b>
Abnormal item	3	(56.1)	(56.1)	-	-
<b>Operating profit and abnormal item before income tax</b>		<b>391.6</b>	<b>383.9</b>	<b>118.8</b>	<b>108.6</b>
Income tax expense attributable to operating profit	4	(94.3)	(91.6)	(21.7)	(18.0)
<b>Operating profit after income tax</b>		<b>297.3</b>	<b>292.3</b>	<b>97.1</b>	<b>90.6</b>
Extraordinary item after income tax	5	-	-	-	(45.8)
<b>Operating profit and extraordinary item after income tax</b>		<b>297.3</b>	<b>292.3</b>	<b>97.1</b>	<b>44.8</b>
Outside equity interest in operating profit and extraordinary item after income tax		(8.9)	(8.9)	(8.2)	(8.2)
<b>Operating profit and extraordinary item after income tax attributable to members of Insurance/Shareholders of NIGL</b>		<b>288.4</b>	<b>283.4</b>	<b>88.9</b>	<b>36.6</b>
Retained profits/(accumulated losses) at the beginning of the financial year		805.7	(171.3)	708.8	-
<b>Total available for appropriation</b>		<b>1,094.1</b>	<b>112.1</b>	<b>797.7</b>	<b>36.6</b>
Dividend declared and payable (see page 120)		-	(94.2)	-	(94.2)
Aggregate of amounts transferred (to)/from reserves		(263.6)	(263.6)	15.5	(106.2)
Other appropriations		(8.8)	(8.8)	(7.5)	(7.5)
<b>Retained profits/(accumulated losses) at the end of the financial year</b>		<b>821.7</b>	<b>(254.5)</b>	<b>805.7</b>	<b>(171.3)</b>

The above Restated and Pro forma Profit and Loss Statements are to be read in conjunction with the notes to the Restated Consolidated Insurance and Pro forma NIGL Financial Information.

The Pro forma Financial Information in this Section is based on the Restated Financial Information which has been adjusted for the anticipated financial effects of the Proposal.

A schedule providing a reconciliation from the Pro forma Financial Information to the Restated Financial Information and from the Restated Financial Information to the financial statements for the years ended 30 June 1999 and 30 June 1998 is shown on page 112.

#### Restated basis of consolidation

All entities controlled by Insurance are included in the Restated Consolidated Insurance Financial Information.

For the purposes of the Restated Financial Information, Insurance is referred to as the parent entity of Consolidated Insurance.

#### Pro forma basis of consolidation

All entities that would be controlled by NIGL under the terms of the Proposal outlined on pages 4 to 16 are included in the Pro forma Financial Information of NIGL.

## Consolidated Insurance and NIGL

Restated and Pro forma Balance Sheets as at 30 June 1999 and 30 June 1998

	Note	30 June 1999		30 June 1998	
		Restated Consolidated Insurance \$m	Pro forma Consolidated NIGL \$m	Restated Consolidated Insurance \$m	Pro forma Consolidated NIGL \$m
<b>Current assets</b>					
Cash		181.2	181.2	624.4	624.4
Receivables	6	940.7	940.7	479.3	479.3
Investments	7	1,332.9	1,298.2	702.9	695.0
Other		74.7	74.7	69.3	69.3
<b>Total current assets</b>		<b>2,529.5</b>	<b>2,494.8</b>	<b>1,875.9</b>	<b>1,868.0</b>
<b>Non-current assets</b>					
Receivables	8	1,297.3	1,297.3	-1,017.5	1,017.5
Investments	9	4,732.1	4,610.6	4,495.3	4,447.2
Plant and equipment		101.3	101.3	72.9	72.9
Future income tax benefits	10	202.7	202.7	179.0	179.0
Other	11	320.3	320.3	26.9	26.9
<b>Total non-current assets</b>		<b>6,653.7</b>	<b>6,532.2</b>	<b>5,791.6</b>	<b>5,743.5</b>
<b>Interest in NRMA Life Statutory Funds Assets</b>		<b>819.8</b>	<b>819.8</b>	<b>727.9</b>	<b>727.9</b>
<b>Total assets</b>		<b>10,003.0</b>	<b>9,846.8</b>	<b>8,395.4</b>	<b>8,339.4</b>
<b>Current liabilities</b>					
Bank overdrafts		56.2	56.2	15.8	15.8
Deposits		585.2	585.2	332.1	332.2
Accounts payable	12	367.0	461.2	449.1	543.3
Scrip lending		301.3	301.3	114.5	114.5
Borrowings	13	621.1	621.1	698.7	698.7
Provisions	14	109.9	105.1	45.9	42.3
Outstanding claims		1,106.8	1,106.8	797.0	797.0
Unearned premium		1,172.8	1,172.8	1,028.6	1,028.6
<b>Total current liabilities</b>		<b>4,320.3</b>	<b>4,409.7</b>	<b>3,481.7</b>	<b>3,572.4</b>
<b>Non-current liabilities</b>					
Deposits		33.6	33.6	29.6	29.6
Borrowings		19.4	19.4	34.3	34.3
Provisions	15	275.0	275.0	208.7	208.7
Outstanding claims		1,765.1	1,765.1	1,458.3	1,458.3
<b>Total non-current liabilities</b>		<b>2,093.1</b>	<b>2,093.1</b>	<b>1,730.9</b>	<b>1,730.9</b>
<b>Interest in NRMA Life Statutory Funds Liabilities</b>		<b>761.2</b>	<b>761.2</b>	<b>694.6</b>	<b>694.6</b>
<b>Total liabilities</b>		<b>7,174.6</b>	<b>7,264.0</b>	<b>5,907.2</b>	<b>5,997.9</b>
<b>Net assets</b>		<b>2,828.4</b>	<b>2,582.8</b>	<b>2,488.2</b>	<b>2,341.5</b>
<b>Equity</b>					
Share capital	16	-	2,323.6	-	2,323.6
Reserves	17	1,744.6	251.6	1,493.3	-
Retained profits/(accumulated losses)		821.7	(254.5)	805.7	(171.3)
Equity attributable to members of Insurance/Shareholders of NIGL		2,566.3	2,320.7	2,299.0	2,152.3
Outside equity interest in controlled entities:					
- Retained profits		17.3	17.3	-	-
- Unitholders' funds		244.8	244.8	189.2	189.2
<b>Total equity</b>		<b>2,828.4</b>	<b>2,582.8</b>	<b>2,488.2</b>	<b>2,341.5</b>

The above Restated and Pro forma Balance Sheets are to be read in conjunction with the notes to the Restated Consolidated Insurance and Pro forma NIGL Financial Information.

## Consolidated Insurance and NIGL

**Reconciliation of the Restated and Pro forma Financial Information to the Financial Statements**

The following table shows the effect of the restated and pro forma adjustments and reconciles the financial statements to the Restated Financial Information of Consolidated Insurance and the Pro forma Financial Information of NIGL. The nature and extent of these adjustments is explained below.

Note	30 June 1999 \$m	30 June 1998 \$m
<b>Operating profit and extraordinary item after income tax per financial statements of Consolidated Insurance</b>		
	262.0	83.1
<b>Restatement adjustments</b>		
Effect of prior restructuring	(i) 25.5	9.1
Effect of significant non-recurring expense items	(ii) 9.8	4.9
<b>Operating profit and extraordinary item after income tax per Restated Financial Information of Consolidated Insurance</b>		
	297.3	97.1
<b>Pro forma adjustments</b>		
Implementation of the Proposal	(iii) (6.6)	(48.7)
Business Relationship Agreements	(iv) 1.6	(3.6)
<b>Operating profit and extraordinary item after income tax per Pro forma Consolidated Financial Information of NIGL</b>		
	292.3	44.8
<b>Net assets per financial statements of Consolidated Insurance</b>		
	2,802.3	2,498.6
<b>Restatement adjustments</b>		
Effect of prior restructuring	(i) 11.5	(15.3)
Effect of significant non-recurring expense items	(ii) 14.6	4.9
<b>Net assets per Restated Financial Information of Consolidated Insurance</b>		
	2,828.4	2,488.2
<b>Pro forma adjustments</b>		
Implementation of the Proposal	(iii) (243.6)	(143.1)
Business Relationship Agreements	(iv) (2.0)	(3.6)
<b>Net assets per Pro forma Consolidated Financial Information of NIGL</b>		
	2,582.8	2,341.5

(i) Independent of the Proposal a number of restructuring transactions have taken place within the NRMA Group subsequent to 30 June 1998. As these reorganisations reflect the current structure of NRMA Group, the Restated Financial Information has been adjusted to reflect the following transactions, as though they took place on 30 June 1997.

- the buy-back of Association's interest in NRMA Life Limited on 6 January 1999;
- purchase by NRMA Building Society Limited of the ownership interests of Association and Insurance in NRMA Finance Limited on 30 June 1999; and
- the buy-back of Association's interest in NRMA Sales & Service Pty Limited and NRMA Information Services Pty Limited on 4 March 1999.

(ii) In order to reflect the ongoing results of Insurance adjustments have been made to eliminate one-off expense items included in the 30 June 1999 and 30 June 1998 financial statements. The principal adjustments include:

- costs of preparing the Proposal incurred to 30 June 1999, totalling \$14.1 million after tax; and
- a \$13.8 million asset representing the deferral of costs of acquisition of mortgage and unit trust business was recognised in respect of NRMA Building Society Limited and NRMA Financial Management Limited in the 30 June 1999 financial statements of Insurance. In order to maintain comparability, the Restated Financial Information of Insurance for the year ended 30 June 1998 has been adjusted to recognise an asset of \$7.7 million representing the deferrable acquisition costs of NRMA Building Society Limited and NRMA Financial Management Limited as at 30 June 1998.

(iii) These adjustments reflect the cost of implementing the Proposal including estimates of listing and share registry expenses, the payment of dividends including their cumulative effect as well as the changes in structure outlined in the Proposal, in particular the incorporation of NIGL and Insurance.

(iv) These adjustments reflect the financial impact of contractual arrangements (the 'Business Relationship Agreements' summarised on pages 139 to 145) that would be put in place between Association and Insurance as part of the Proposal.

(v) Australian Accounting Standard AASB 1038 'Life Insurance Business' ('AASB 1038') is effective for periods ending on or after 31 December 1999. Hence, the financial statements of Consolidated Insurance do not currently consolidate NRMA Life Insurance Limited in accordance with AASB 1038. However, to achieve some illustration of the impact on total assets and total liabilities of the AASB 1038 requirement to consolidate statutory ('policyholder') funds on a line by line basis, the assets and liabilities of Consolidated NRMA Group have been grossed up for the value of statutory fund assets and liabilities. This has been recognised by way of a one line entry in assets ('Interest in NRMA Life Statutory Funds Assets') and liabilities ('Interest in NRMA Life Statutory Funds Liabilities'). The adjustments do not have any impact upon profit and loss and do not represent full compliance with AASB 1038 but provide users of the Financial Information with an illustration of the balance sheet impact.

## Consolidated Insurance and NIGL

**Notes to the Restated and Pro forma Financial Information for the years ended 30 June 1999 and 30 June 1998**

## 1 Details of principal accounting policies specific to the Restated Financial Information of Insurance

Except where stated, the Restated and Pro forma Financial Information of Insurance and NIGL has been prepared on a basis consistent with the Accounting Policies as described in Note 1 of the financial statements of Insurance for the year ended 30 June 1999.

	30 June 1999		30 June 1998	
	Restated Consolidated Insurance \$m	Pro forma Consolidated NIGL \$m	Restated Consolidated Insurance \$m	Pro forma Consolidated NIGL \$m
<b>2 Revenue</b>				
<b>(a) General insurance revenue</b>				
Premium Income	2,208.4	2,208.4	2,041.1	2,041.1
Movement in unearned premium reserve	(94.9)	(94.9)	(141.0)	(141.0)
Premium revenue	2,113.5	2,113.5	1,900.1	1,900.1
Direct premium	2,047.0	2,047.0	1,741.3	1,741.3
Inwards reinsurance premium	66.5	66.5	158.8	158.8
	2,113.5	2,113.5	1,900.1	1,900.1
Reinsurance recoveries	297.0	297.0	(2.0)	(2.0)
Other recoveries	217.0	217.0	178.2	178.2
	514.0	514.0	176.2	176.2
	2,627.5	2,627.5	2,076.3	2,076.3
<b>(b) Investment revenue</b>				
Dividend income	85.0	81.5	86.1	85.1
Interest income	204.7	199.2	196.8	193.6
Rental income	8.5	8.5	6.0	6.0
Trust income	9.1	8.3	13.4	12.8
Investment income	307.3	297.5	302.3	297.5
Realised and unrealised gains on changes in net market values of investments	376.0	376.0	8.3	8.3
	683.3	673.5	310.6	305.8
<b>(c) Revenue from outside operating activities</b>				
Interest income on loans	89.9	89.9	58.6	58.6
Other income	97.7	106.4	57.1	58.5
Life insurance profit	11.3	11.3	10.0	10.0
Other operating revenue	198.9	207.6	125.7	127.1
Proceeds from disposal of assets	1.3	1.3	0.2	0.2
	200.2	208.9	125.9	127.3
<b>Total revenue</b>	<b>3,511.0</b>	<b>3,509.9</b>	<b>2,512.8</b>	<b>2,509.4</b>
<b>3 Abnormal item</b>				
Increase in outstanding claims provisioning for GST	56.1	56.1	-	-
Applicable income tax	(20.2)	(20.2)	-	-
	35.9	35.9	-	-

## Consolidated Insurance and NIGL

**Notes to the Restated and Pro forma Financial Information for the years ended 30 June 1999 and 30 June 1998**

	30 June 1999		30 June 1998	
	Restated Consolidated Insurance \$m	Pro forma Consolidated NIGL \$m	Restated Consolidated Insurance \$m	Pro forma Consolidated NIGL \$m
<b>4 Income tax</b>				
(a) The prima facie tax on the operating profit and extraordinary item differs from the income tax provided in the financial information and is reconciled as follows:				
Operating profit and extraordinary item before income tax	391.6	383.9	118.8	62.8
Prima facie tax thereon at 36%	141.0	138.2	42.8	22.6
Net tax effect of permanent differences	(45.2)	(45.1)	(21.3)	(4.8)
Income tax expense attributable to current year	95.8	93.1	21.5	17.8
Adjustment to prior year	(1.5)	(1.5)	0.2	0.2
Income tax expense attributable to operating profit and extraordinary item	94.3	91.6	21.7	18.0
(b) The potential future income tax benefits relating to tax losses not brought to account are:	-	-	1.4	1.4
The benefits will only be obtained if:				
(i) the economic entity derives future assessable income of a nature and of an amount sufficient to enable the benefits from the deductions for the losses and timing differences to be realised;				
(ii) the economic entity continues to comply with the conditions for deductibility imposed by tax legislation; and				
(iii) no changes in tax legislation adversely affect the economic entity in realising the benefits from the deductions for the losses.				
<b>5 Extraordinary item</b>				
Estimated costs of listing NIGL of \$45.8 million net of tax have been incorporated in the Pro forma Consolidated NIGL results for the year ended 30 June 1998. The costs of developing and implementing the Proposal up to the Insurance Demutualisation have not been included in the Pro Forma and Restated accounts because, if the Proposal had been implemented by 1 July 1997, these costs would have been incurred in the year ended 30 June 1997 (see page 146).				
<b>6 Current assets – receivables</b>				
Secured loan, leases and loan agreements	102.4	102.4	101.9	101.9
Unearned finance income	(11.6)	(11.6)	-	-
	90.8	90.8	101.9	101.9
Trade debtors	133.0	133.0	42.3	42.3
Amounts receivable from related bodies corporate	7.8	7.8	2.0	2.0
Claims recoveries	119.0	119.0	93.4	93.4
Reinsurance recoveries	244.4	244.4	5.1	5.1
Premium receivable	269.9	269.9	169.5	169.5
Other receivables	75.8	75.8	65.1	65.1
	940.7	940.7	479.3	479.3
<b>7 Current assets – investments</b>				
<b>Quoted</b>				
Government and semi-government stocks and bonds	7.3	7.1	10.0	9.9
Shares in other parties	36.1	35.1	2.8	2.7
Options for shares	-	-	0.4	0.4
Unit trusts	0.9	0.9	5.1	5.1
	44.3	43.1	18.3	18.1
<b>Unquoted</b>				
Shares in other parties	0.6	0.6	-	-
Deposits in other parties	117.4	114.3	98.4	97.3
Commercial bills	1,169.8	1,139.4	525.3	519.3
Other investments	0.9	0.9	61.0	60.4
Unearned income	(0.1)	(0.1)	(0.1)	(0.1)
	1,288.6	1,255.1	684.6	676.9
	1,332.9	1,298.2	702.9	695.0



## Consolidated Insurance and NIGL

**Notes to the Restated and Pro forma Financial Information for the years ended 30 June 1999 and 30 June 1998**

	30 June 1999		30 June 1998	
	Restated Consolidated Insurance \$m	Pro forma Consolidated NIGL \$m	Restated Consolidated Insurance \$m	Pro forma Consolidated NIGL \$m
<b>8 Non-current assets – receivables</b>				
Secured loans, leases and loan agreements	1,099.1	1,099.1	887.0	887.0
Unearned finance income	(13.6)	(13.6)	–	–
	1,085.5	1,085.5	887.0	887.0
Claims recoveries	139.5	139.5	122.7	122.7
Reinsurance recoveries	68.3	68.3	7.8	7.8
Premiums receivable	4.0	4.0	–	–
	1,297.3	1,297.3	1,017.5	1,017.5
<b>9 Non-current assets – investments</b>				
<b>Quoted</b>				
Government and semi-government stocks and bonds	1,401.1	1,364.7	1,188.7	1,175.3
Shares in other parties	2,638.7	2,570.2	2,395.8	2,368.9
Unit trusts	31.2	30.3	51.0	50.4
	4,071.0	3,965.2	3,635.5	3,594.6
<b>Unquoted</b>				
Government and semi-government stocks and bonds	–	–	485.4	479.8
Shares in other parties	12.0	11.6	15.5	15.3
Shares in related entities	–	–	75.4	75.4
Unit trusts	3.3	3.2	4.8	4.9
Deposits in other parties	353.2	344.1	69.6	68.9
Units in NRMA Investment Management Cash Management Trust	30.9	30.1	–	–
Loans to related bodies corporate	–	–	15.8	15.6
Interest in securitised assets	58.9	57.3	15.4	15.2
Other investments	143.7	140.0	38.8	38.4
Unearned income	(0.5)	(0.5)	(1.3)	(1.3)
	601.5	585.8	719.4	712.2
Freehold properties	50.6	50.6	127.6	127.6
Leasehold properties	9.0	9.0	12.8	12.8
	59.6	59.6	140.4	140.4
	4,732.1	4,610.6	4,495.3	4,447.2
<b>10 Non-current assets – future income tax benefits</b>				
Relating to				
– tax losses carried forward	69.9	69.9	99.0	99.0
– other	132.8	132.8	80.0	80.0
	202.7	202.7	179.0	179.0
<b>11 Non-current assets – other</b>				
Goodwill – at cost	48.0	48.0	27.8	27.8
Accumulated amortisation	(31.4)	(31.4)	(6.3)	(6.3)
	16.6	16.6	21.5	21.5
Deferred acquisitions costs	5.9	5.9	5.4	5.4
Prepayments	0.3	0.3	–	–
Excess of net market value of an interest in a controlled entity	297.5	297.5	–	–
	320.3	320.3	26.9	26.9

## Consolidated Insurance and NIGL

*Notes to the Restated and Pro forma Financial Information for the years ended 30 June 1999 and 30 June 1998*

	30 June 1999		30 June 1998	
	Restated Consolidated Insurance \$m	Pro forma Consolidated NIGL \$m	Restated Consolidated Insurance \$m	Pro forma Consolidated NIGL \$m
<b>12 Current liabilities – accounts payable</b>				
Trade creditors	298.9	298.8	354.0	354.0
Other creditors	67.8	67.8	80.6	80.6
Dividends payable	–	94.2	–	94.2
Amounts payable to related bodies corporate	0.3	0.4	14.5	14.5
	<b>367.0</b>	<b>461.2</b>	<b>449.1</b>	<b>543.3</b>
<b>13 Current liabilities – borrowings</b>				
Bank bills	25.0	25.0	300.0	300.0
Bank loan	–	–	17.0	17.0
Debenture stock	32.2	32.2	29.8	29.8
Promissory notes	563.9	563.9	351.8	351.8
Short-term borrowings	–	–	0.1	0.1
	<b>621.1</b>	<b>621.1</b>	<b>698.7</b>	<b>698.7</b>
<b>14 Current liabilities – provisions</b>				
Taxation	63.1	58.3	19.6	16.0
Employee entitlements	37.1	37.1	25.8	25.8
Other	9.7	9.7	0.5	0.5
	<b>109.9</b>	<b>105.1</b>	<b>45.9</b>	<b>42.3</b>
<b>15 Non-current liabilities – provisions</b>				
Deferred taxation	258.5	258.5	196.9	196.9
Employee entitlements	16.5	16.5	11.8	11.8
	<b>275.0</b>	<b>275.0</b>	<b>208.7</b>	<b>208.7</b>
<b>16 Share capital</b>				
Issued and paid up capital	–	2,323.6	–	2,323.6
<p>The Pro forma Financial Information has been prepared assuming that NIGL was incorporated on 1 July 1997 and Insurance was demutualised in accordance with the terms of the Proposal as outlined in pages 4 to 16. Upon incorporation 100% of the shares of NRMA Insurance would be issued to NIGL. Should the Proposal proceed the amount of share capital of NIGL will be recorded as the total value of net assets of Insurance as recorded in the accounts at date of acquisition by NIGL. NIGL has received conditional relief from ASIC dated 14 February 2000 permitting the distribution of 20% of pre-acquisition reserves which, whilst not being in accordance with accepted acquisition accounting principles, is considered to reflect the true substance of the transactions.</p>				
<b>17 Reserves</b>				
General reserve	310.1	–	310.1	–
Investment fluctuation reserve	1,380.3	–	1,134.4	–
Asset revaluation reserve	66.2	263.6	48.8	–
Distributable reserves	–	–	–	–
Capital transfer to NRMA Life Statutory Funds	(12.0)	(12.0)	–	–
	<b>1,744.6</b>	<b>251.6</b>	<b>1,493.3</b>	<b>–</b>

## Consolidated Insurance and NIGL

## Notes to the Restated and Pro forma Financial Information for the years ended 30 June 1999 and 30 June 1998

	30 June 1999		30 June 1998	
	Restated Consolidated Insurance \$m	Pro forma Consolidated NIGL \$m	Restated Consolidated Insurance \$m	Pro forma Consolidated NIGL \$m
18 Business acquired				
Details of acquisitions made during the years ended 30 June 1998 and 30 June 1999 are as follows (30 June 1999 amounts relate to the acquisition of SGIO Insurance Limited and 30 June 1998 comparatives relate to the acquisition of NRMA Building Society Limited and NRMA Finance Limited):				
Consideration – cash	440.8	440.8	74.5	74.5
Fair value of net assets of entity acquired:				
Cash	36.1	36.1	78.1	78.1
Receivables	104.6	104.6	2.2	2.2
Loans	–	–	751.9	751.9
Investments	421.3	421.3	5.4	5.4
Plant and equipment	10.2	10.2	0.6	0.6
Deposits	–	–	0.1	0.1
Accounts payable	(39.5)	(39.5)	(553.1)	(553.1)
Borrowings	–	–	(16.7)	(16.7)
Provisions	(22.9)	(22.9)	(174.4)	(174.4)
Unearned premium	(144.5)	(144.5)	(1.1)	(1.1)
Outstanding claims	(292.5)	(292.5)	(33.1)	(33.1)
Loans	–	–	(13.0)	(13.0)
Other	70.5	70.5	(0.2)	(0.2)
	143.3	143.3	46.7	46.7
Excess of net market value of an interest in a controlled entity/goodwill	297.5	297.5	27.8	27.8
	440.8	440.8	74.5	74.5
Outflow of cash to acquire SGIO Insurance Limited (30 June 1998: NRMA Building Society Limited and NRMA Finance Limited), net of cash acquired:				
Cash consideration	(440.8)	(440.8)	(74.5)	(74.5)
Less: Cash balance acquired	36.1	36.1	78.1	78.1
(Outflow)/inflow of cash	(404.7)	(404.7)	3.6	3.6

## 19 Contingencies

- (a) Insurance has undertaken to provide financial support to two controlled entities, NRMA Woden Pty Limited and Taglink Pty Limited, to meet their liabilities. As at 30 June 1999, NRMA Woden Pty Limited had no liabilities other than to Insurance and Taglink Pty Limited had no liabilities.
- (b) NRMA Insurance Limited has guaranteed the obligations of NRMA Building Society Limited under its commercial paper on medium-term note program. The program limit is \$750 million (1998: \$750 million) and the face value of the notes on issue 30 June 1999 was \$570 million (1998: \$355 million).
- (c) In the normal course of its operations, Insurance entered a quota share reinsurance contract with a US insurer for one year on 1 July 1997. Notice of rescission has been issued by the company in respect of this contract on the basis that the ceding insurer fraudulently induced the company to enter the contract by, amongst other things, withholding sensitive or criminal information as well as providing financial information and explanations which it knew to be false. A Statement of Claim has been lodged against the ceding insurer and other parties.

No entries have been recorded in the profit and loss statement for the current financial year on the basis of this rescission. No net profit was recorded in the prior financial year.

A letter of credit held by the ceding insurer was exercised in July 1999 for \$56.2 million. The company holds cash of \$16.4 million and a letter of credit for \$38.1 million as security if Insurance is successful in its claim.

Due to the inaccuracy of the financial information received from the ceding insurer it is not possible to quantify the potential financial exposures. However, whilst Insurance believes its case is strong, it also considers that it is unlikely that the potential amounts in dispute will be material to Insurance's operations.

## 11.4 Assumptions used in preparing the Financial Information

In preparing the Restated and Pro forma Financial Information of Association and Insurance it has been necessary to adopt a number of assumptions. Outlined below are the principal assumptions that have been applied.

### Restated Financial Information assumptions

#### Group restructuring

The following corporate reorganisations have occurred within the NRMA Group since 30 June 1997:

- on 6 January 1999, Association disposed of its interest in NRMA Life Limited through a share buy-back, leaving NRMA Life Limited a 100% controlled entity of Insurance;
- on 30 June 1999, NRMA Building Society Limited acquired the ownership interests of Insurance and Association in NRMA Finance Limited. Consideration was based upon net asset value at the time of disposal; and
- on 4 March 1999, Association disposed of its interests in two non-trading entities, NRMA Sales & Service Pty Limited and NRMA Information Services Pty Limited, through a share buy-back. Both entities are thus 100% controlled entities of Insurance.

For the purposes of the Restated Financial Information these transactions were assumed to occur on 30 June 1997. The financial effect was determined using the actual transactions as a guide.

#### NRMA Life Limited buy-back

In order to record the buy-back of Association's interest in NRMA Life Limited on 30 June 1997, the 6 January 1999 market valuation of NRMA Life Limited was reduced by the amount of shareholder and statutory fund profits for the year ended 30 June 1998 and the six months ended 31 December 1998.

#### Impact of adjustments on the balance of investments and investment earnings

Where adjustments made to the Restated Financial Information involve a cash movement, the following was assumed:

- the adjustments were allocated to investments in the same proportions as actual investment holdings at the end of the relevant year;
- an increase or decrease in investment income was calculated on the value of the adjustment based on the actual rates of return achieved by the particular entity in the relevant year. The rates applied were:

Year ended	Association	Insurance
30 June 1998	4.84%	9.43%
30 June 1999	14.04%	7.06%

The subsequent adjustment to particular investment revenue items in the profit and loss was determined based on the weighting of the investments in the underlying portfolio.

Members should note that the rates of return used are historical short-term rates of return. Short-term rates can fluctuate from one year to the next, due to changes in market conditions and the economic cycle, and are not reflective of the long-term rates of return generated by large well-diversified investment portfolios such as those held by Association and Insurance; and

- the tax expense/benefit that arises from the notional investment income was calculated at the actual effective tax rate on investment income of Association (1998: 23%, 1999: 20%). In the case of Insurance the rate applicable to investment income of 36% was used for 1998 and 1999.

These treatments regarding adjustments to investment balances, investment income and taxation were applied consistently in preparing both the Restated and Pro forma Financial Information.

### Pro forma Financial Information assumptions

#### Association's shareholding in NIGL

Under the Proposal, NIGL will issue 10% of total share capital to Association. For the purposes of the Pro forma Financial Information it is assumed that 80% of this shareholding will be sold immediately following receipt of the share capital.

The Pro forma Financial Information assumes that the Proposal was implemented on 1 July 1997. The valuation of Association's shareholding in NIGL as at 30 June 1997 and 30 June 1998 was determined using an Insurance market value of \$3.6 billion as at 30 June 1999 as the basis for the value. This value was adjusted to keep the ratio of market value to net tangible assets constant as at 30 June 1997 and 30 June 1998.

#### NIGL dividends

The following assumptions were made regarding NIGL's dividend policy:

- NIGL declared dividends for the years ended 30 June 1998 and 30 June 1999 representing 50% of the average Insurance operating profit after tax and before abnormal and extraordinary items over the five years up to and including 30 June 1999;
- dividends were paid midway through the year following declaration; and
- the dividends were 50% franked.

Members should note that whilst the NIGL Board anticipates paying dividends, the amount of dividend paid will depend on the Insurance Group's performance.

#### Business Relationship Agreements

The Business Relationship Agreements are summarised on pages 139 to 145 and incorporate a cap on the amount of the distribution recharge payable by Association to Insurance. The forecasts used as a basis for estimating the financial impact of the Business Relationship Agreements for the years ending 30 June 2000 and 2001 incorporate expected increases in business volumes, revenues and expenses and hence distribution costs. The agreements have taken these increases into account with the cap on the distribution recharge set at 10% of Association product revenues in the first year, increasing to 15% by the end of the third year.

In order to provide a commercially realistic estimate of the financial impact of the Business Relationship Agreements for the years ended 30 June 1998 and 30 June 1999 it was necessary to make assumptions regarding the appropriate amount of the cap. For the purposes of the Pro forma Financial Information the cap was assumed to be 6% for the year ended 30 June 1998 and 8% for the year ended 30 June 1999. These reduced caps recognise the gradual movement from a cost recovery basis to a more commercial footing. This has been graduated to ease the impact on Association.



## 11.5 Investigating Accountant's Report

The Boards  
NRMA Limited  
NRMA Insurance Limited  
388 George Street  
Sydney NSW 2000

Dear Boards,

### Introduction

This report has been prepared at the request of the Boards for inclusion in the Information Memorandum ('IM') which is being sent to the members of Association and Insurance for the purpose of providing the Members with sufficient information to enable them to vote on the Proposal.

The Financial Information on pages 100 to 118 has been prepared by Association and Insurance in order to assist Members in reaching a decision in relation to the Proposal set out in the IM. The respective boards of Association and Insurance are responsible for the preparation and presentation of this information.

### Financial Information

#### Restated Financial Information

The Restated Financial Information is presented on pages 100 to 118 and comprises:

- restated consolidated profit and loss statements of Association, NRMA Group and Insurance for the years ended 30 June 1999 and 30 June 1998;
- restated consolidated balance sheets of Association, NRMA Group and Insurance at 30 June 1999 and 30 June 1998; and
- a reconciliation of the Restated Financial Information for the years ended 30 June 1999 and 30 June 1998 to that disclosed in the financial statements of Association and Insurance.

This information has been derived from the financial statements of Association and Insurance for the years ended 30 June 1999 and 30 June 1998 which have been restated:

- to eliminate the effects of significant non-recurring revenue and expense items;
- to reflect the corporate restructuring and reorganisation that has taken place independently of the Proposal as outlined on pages 104 and 112; and
- to reflect the impact of changes to Accounting Standards and NRMA accounting policy.

In addition, the financial statements have also been reformatted to enhance comparability between the years.

#### Pro forma Financial Information

The Pro forma Financial Information of Association and NIGL is presented on pages 100 to 118 and comprises:

- consolidated pro forma profit and loss statements for the years ended 30 June 1999 and 30 June 1998;
- consolidated pro forma balance sheets as at 30 June 1999 and 30 June 1998; and
- a reconciliation of the 30 June 1999 and 30 June 1998 Pro forma Financial Information to the 30 June 1999 and 30 June 1998 Restated Financial Information.

The Pro forma Financial Information of Association has been derived from the Restated Financial Information of Association and its controlled entities, for the years ended 30 June 1999 and 30 June 1998. The Pro forma Financial Information of NIGL has been derived from the Restated Financial Information of Insurance and its controlled entities, for the years ended 30 June 1999 and 30 June 1998. This information has then been adjusted based on the assumption that the transactions, including various contractual arrangements between Association and NIGL necessary to implement the Proposal summarised on pages 139 to 145, had taken place at 1 July 1997.

### Scope of our review

KPMG has audited the financial statements of NRMA Group, Association and Insurance for the years ended 30 June 1999 and 30 June 1998 and has issued unqualified audit reports. Those financial statements and opinions are not included in this IM.

For the purposes of this IM, we have reviewed the Financial Information set out on pages 100 to 118 in accordance with Australian Auditing Standards applicable to review engagements. These procedures included:

- determining the suitability of the financial statements of Association and Insurance for the years ended 30 June 1999 and 30 June 1998 as the basis for the Restated and Pro forma Financial Information;
- reviewing unaudited management information, including management reports and reports by independent experts, analytical review procedures and discussions with senior management and the respective Boards;
- reviewing the adjustments, and the assumptions on which these are based, used to derive the Restated Financial Information to ensure these appropriately reflect current accounting and actuarial standards, current corporate accounting policies, the impact of revisions to significant accounting estimates, the restructure of operations that occurred independently of the Proposal and the exclusion of the impact of certain abnormal and non-recurring items;
- reviewing the adjustments, and the assumptions on which these are based, used to derive the Pro forma Financial Information; and
- considering material items, transactions and events subsequent to 30 June 1999 to the date of this report.

We have conducted this review in order to state whether, as a result of our review, anything came to our attention that would cause us to believe that the Financial Information has not been properly drawn up so as to present fairly, in accordance with the basis of preparation, assumptions and accounting policies as set out on pages 100 to 118:

- the Restated Financial Information of NRMA Group, Association and Insurance; and
- the Pro forma Financial Information of Association and NIGL.

These review procedures do not constitute an audit. Consequently, we do not express an audit opinion on the Financial Information set out on pages 100 to 118.

The Financial Information has been prepared by the Directors of NRMA for inclusion in the IM to the Members. We disclaim any assumption of responsibility for any reliance on this review report or on the information to which it relates to any person other than the Members.

### Statement of opinion

As a result of our review, which was not an audit, nothing came to our attention that would cause us to believe that the Financial Information has not been properly drawn up so as to present fairly the Restated Financial Information of NRMA Group, Association and Insurance and the Pro forma Financial Information of Association and NIGL in accordance with the bases of preparation, assumptions and accounting policies set out in Sections 11.2 to 11.4 and the financial statements of Association and Insurance for the years ended 30 June 1999 and 30 June 1998.

### Significant subsequent events

We are not aware of events occurring in the interval between 30 June 1999 and the date of this report which materially affect the Financial Information set out on pages 100 to 118.

### Independence

KPMG has no interest in the outcome of the Proposal other than in connection with the preparation of this report, the provision of finance and accounting advice in relation to the Proposal and the inclusion of a partner of KPMG as a member of the Review Panel, for which normal professional fees will be received. Individual partners of KPMG may, as a result of being Members of Association or Insurance, participate on the basis outlined in the IM but will be required under KPMG independence policies to dispose of any shares in NIGL.

Yours faithfully

Dr Andries Terblanché  
Partner  
KPMG

Ian Jedlin  
Partner  
KPMG

# 12. Consulting Actuary's report



The Directors  
NRMA Limited  
388 George Street  
Sydney NSW 2000

The Directors  
NRMA Insurance Limited  
388 George Street  
Sydney NSW 2000

**PricewaterhouseCoopers  
Securities Ltd**  
ACN 003 311 617  
Holder of dealer's Licence No 11203

**Darling Park Tower 2**  
201 Sussex Street  
GPO Box 2650  
SYDNEY NSW 1171  
Telephone (02) 8266 0000  
Facsimile (02) 8266 9999  
DX 77 Sydney

14 February 2000

## Subject: CONSULTING ACTUARY'S REPORT

Ladies and Gentlemen

### 1 Background and Scope

#### 1.1 Introduction

You have requested us to provide this Report in connection with the proposed demutualisation of NRMA Insurance Limited (Insurance) and the related corporate restructuring of the NRMA Group (the Proposal). It is important to note that under the Proposal, NRMA Limited (Association) retains its mutual status. This Report has been prepared for inclusion in the Information Memorandum to be issued to Members of Association and Members of Insurance in respect of the Proposal and uses terms consistent with those defined in the Glossary on page 155 of the Information Memorandum.

#### 1.2 Scope of Work

The scope of our work is to provide:

- an actuarial opinion on the effect of the Proposal on the financial security of Insurance Policyholders' benefits;
- an actuarial opinion on the effect of the Proposal on the interests of Association Members and Insurance Members; and
- a recommended methodology for the allocation of the value to be distributed under the Proposal in exchange for relinquishing Membership rights in Insurance.

This Report sets out our opinions and recommendations in the following sections:

1. Background and Scope
2. Summary of Opinions and Conclusions
3. Summary of the Proposal
4. Policyholders' Security and Association's Financial Viability
5. Allocation of Entitlements
6. Reliances, Disclosures and Consents

Appendix 1 – Principles of Allocation of Entitlements

Appendix 2 – Additional Actuarial Assessments

Appendix 3 – Taxation and Social Security Benefits – Implications for Members

Appendix 4 – Insurance and Financial Services Trade Marks

### 2 Summary of Opinions and Conclusions

#### 2.1 Approach

In assessing the effect of the Proposal (see Section 3 of this Report), we have considered separately the interests of Association, Association Members, Insurance Members and

Policyholders of Insurance (Policyholders). It should be noted that the interests of Members (whether of Association or of Insurance or of both Association and Insurance) are not necessarily the same as each other or the same as their interests as Policyholders, even though the majority of Association Members and Insurance Members are also Policyholders.

The effect of the Proposal on the security of Policyholder benefits has been assessed by considering the effect of the Proposal on Insurance itself and the NRMA Group as a whole. In particular, we have considered the impact of the Proposal on the capital available, including future retained earnings, to meet current obligations and to continue normal business operations, including implementing current business plans.

In order to calculate the Group's requirements for capital we have first assessed the appropriateness and soundness of the provisions for outstanding claims of Insurance and SGIO Australia Limited (SGIO) to ensure they form a suitable base on which to calculate capital needs.

Given its financial significance as a part of the Group we have also completed an appraisal valuation of NRMA Life Limited (NRMA Life) and considered the effect of the acquisition of SGIO on the NRMA Group's capital needs. In addition, we have assessed the financial position of the Group employee superannuation funds so as to ascertain the current level of funding and estimated required employer contribution rates going forward. These items are dealt with in detail in Appendix 2 of this Report.

We have also assessed the ongoing financial viability of Association because under the Proposal, Association retains its mutual status and Association Members retain their interests in Association.

In assessing the effect of the Proposal on Members' interests, we have considered the extent and form of benefits that are being offered in exchange for giving up Membership rights in Insurance (including Association's special Membership rights in Insurance) and the proposed basis of allocation of shares in the proposed new holding company for Insurance (NIGL). We have also considered in our assessment the rights of ownership of shares in a publicly listed company compared to the rights attaching to membership of a mutual organisation.

In determining the recommended methodology for the allocation of value to be distributed under the terms of the Proposal, we have had regard to the following parties in determining the commercial basis upon which the allocation of value should take place:

- Association (as a Member of Insurance),
- Members of Insurance generally, and
- Members of Association.

Accordingly, this Report refers to the allocation of value to Members of Association. However, it is acknowledged that as a matter of strict legal form, shares in NIGL will be allocated only to persons who are Members of Insurance at the time of demutualisation. This will include Members of Association who become Members of Insurance immediately prior to its demutualisation under the terms of the Proposal.

The recommended allocation methodology was determined by assessing and comparing the rights that are being relinquished and the contribution made to the value of the NRMA Group with the value of the consideration to be allocated using a number of criteria set out in this Report.



A summary of our opinions is set out below. However, readers of our Report should consider its content in its entirety.

## 2.2 Policyholders' Security and Reasonable Expectations

We consider Insurance Group to be financially strong with sound claims reserving practices including significant prudential margins. In our opinion, irrespective of whether the Proposal is implemented or not, there is a high degree of confidence that the Insurance Group's capital will be adequate to meet its obligations and continue normal business operations, taking into account the Insurance Group's near term business plans.

As a result of the Proposal, the Insurance Group via NIGL would have greater access to external capital through the Australian Stock Exchange which would improve its future financial flexibility. The proposed allocation of 10% of NIGL's shares to Association does not dilute the net assets of Insurance Group and therefore does not reduce its financial strength.

Although under the Proposal there will be increased net cash outflows from Insurance in the form of dividends to shareholders of NIGL, the level of dividends paid out will be dependent upon future levels of profitability and therefore dividends would not be paid if there were any doubt about the adequacy of the remaining capital.

The Proposal does not involve any change in the operating policies of Insurance with respect to underwriting, premium rate setting or the payment of claims in its various insurance businesses compared to the position that would prevail if the Proposal does not proceed.

In our view, Policyholders' security and reasonable expectations will not be prejudiced and will be adequately protected if the Proposal is approved and implemented.

## 2.3 Members' Interests

### Association Members

In summary, the Proposal provides for Association and Insurance to become separately governed entities with Business Relationship Agreements governing the commercial terms of future interaction between the two. If the Proposal is approved and implemented, Association will operate with a higher net ongoing cost base than at present.

However, for the purposes of this Report, and in the light of Association's budgets and Board resolutions, we have assumed that Association should be able to demonstrate the financial capacity to continue to provide benefits and services at their current levels whilst holding member subscription rates fixed until 30 June 2001 (other than for the effect of the introduction of the new Goods and Services Tax (GST)), and thereafter only increasing member subscription rates in line with the Consumer Price Index (CPI).

Under the terms of the Proposal, Association will receive an allocation of 10% of the shares to be issued by NIGL to enable Association to fulfil the above objective and maintain its long term financial viability.

We have assessed that if the Proposal is implemented, allowing for the effects of the Business Relationship Agreements and the allocation of 10% of NIGL's shares, there is a higher degree of confidence in the ongoing financial viability of Association and its ability to fulfil the above objective than under the existing budgets and structure. Therefore, we have concluded that the Proposal will have no adverse financial effect on the interests of Association Members in Association.

Under the terms of the Proposal, Association Members will, in addition to retaining their rights as Association Members, receive shares in NIGL and Association gives up special rights it enjoys as a Member of Insurance and enters into the Business Relationship Agreements which include provision for the assignment of certain trade marks from Association to Insurance.

In our opinion, the Proposal has been structured on a fair and reasonable basis from the perspective of Association Members.

### Insurance Members

In our opinion, Insurance Members' interests as Policyholders of Insurance will not be prejudiced and will be adequately protected if the Proposal is approved and implemented.

Insurance Members will receive shares in NIGL in exchange for giving up their rights as Members of Insurance.

In our opinion, this exchange of rights has been structured on a fair and reasonable basis.

### Association and Insurance Members

The impact of the Proposal on individual Member's interests will depend upon their own individual circumstances with respect to taxation and social security benefit entitlements. A general description of the implications of these factors is set out in Appendix 3 to this Report.

Members will need to consider the effect of these taxation and social security matters on their own individual circumstances to fully understand the effect of the Proposal on their own interests.

## 2.4 Share Allocation to Members

### Form of Benefits in Exchange for Membership

If the Proposal is approved and implemented, Association and Insurance Members will ultimately relinquish their Membership of Insurance. In exchange, Association itself,

Association Members and Insurance Members will be allocated shares in NIGL. It is our opinion that the issue of shares in NIGL to Association, Association Members and Insurance Members is an appropriate means of conveying the value of the interests relinquished to the recipients.

### Basis of Allocation of Shares to Members

We recommend that the allocation of shares in NIGL to Association, Association Members and Insurance Members proceed on the basis set out in Sections 5.8 to 5.11 of this Report. In our opinion, this basis is fair and reasonable.

## 3 Summary of the Proposal

In summary, the Proposal entails implementing the following key steps:

- incorporating a new holding company for Insurance limited by shares (NIGL);
- completing amendments to the constitutions of both Association and Insurance to, amongst other things, separate the two entities and allow Association Members who are not already Insurance Members (Association Only Members) to temporarily become Insurance Members;
- pursuant to a Scheme of Arrangement, granting Membership of Insurance to Association Only Members;
- pursuant to a statutory demutualisation, extinguishing all Membership of Insurance in return for which Insurance Members (including Association) receive shares in NIGL which, in turn, acquires Insurance; and
- NIGL applying to be listed on the Australian Stock Exchange.

Further details on implementing the Proposal are shown in Section 6 of the Information Memorandum. Note that Association retains its mutual status throughout.

## 4 Policyholders' Security and Association's Financial Viability

### 4.1 Basis for Opinion on Policyholders' Security

In order to form our opinion on the effect of the Proposal on the financial security of Insurance Policyholders' benefits we have considered the impact of the Proposal on the capital available, including future retained earnings, to meet current obligations and to continue normal business operations, including implementing current business plans.

All financial institutions need to be able to demonstrate that they have adequate capital to support their obligations so as to maintain the confidence of their present and future customers. For insurers, there are statutory minimum levels of capital that must be held. However, an insurer will generally set capital above the statutory minimum so as to provide a cushion against adverse experience, reflecting the uncertainty and variability inherent in the business of insurance.

The process of assessing an organisation's capital requirements involves considering the organisation's business and its plans and the risks that the organisation is exposed to (the inherent uncertainty and variability referred to above). Capital requirements can then be assessed by reference to a required solvency confidence level.

Capital can be broadly defined as that part of the total market value of the tangible assets held by an institution which is in excess of its liabilities. Other things being equal, the more capital a financial institution holds relative to its obligations, the more security it provides to its customers.

In arriving at our assessment of the impact of the Proposal on the security of Insurance Policyholders' entitlements, we have considered the capital adequacy of the NRMA Group and in particular:

- the value of the assets and liabilities of the Association Group and the Insurance Group including, in particular, the appropriateness of provisions for outstanding insurance claims and unearned premium income;
- the implications for Policyholders' security of the proposed corporate restructuring on a pro forma basis at 30 June 1999; and
- the ongoing implications for Policyholders' security of the proposed demutualisation.

The NRMA Group includes several companies which operate in different sectors of the financial services industry. Each of these companies requires a certain minimum level of capital in order for it to meet its current obligations and continue its usual business operations. It is also important that each of the Association Group and the Insurance Group as well as the NRMA Group as a whole, has sufficient capital to continue their respective businesses both before and after the Proposal is approved and implemented.

In summary, our consideration of the adequacy of capital held by the NRMA Group has included reviewing Insurance's and SGIO's general insurance reserving policies, the capital required to support the general insurance business activities and the capital requirements associated with the NRMA Group's other business activities.

### 4.2 General Insurance Outstanding Claims Provisions

In order to assess the adequacy of the capital held by the NRMA Group, and in particular the Insurance Group, it is necessary to firstly review the appropriateness and soundness of its balance sheet provisions for outstanding claims. We have assessed the provisions in respect of the general insurance business of Insurance and the general and health insurance business of SGIO as at 30 June 1999. SGIO is a wholly-owned subsidiary of Insurance.

It should be noted that the level of assets required to provide security for Policyholders' benefit and claim entitlements in all reasonably foreseeable circumstances is not capable of precise measurement. Nevertheless, the use of actuarial techniques allows for the expected level of future claims to be assessed within reasonable measures of probability thereby allowing for the provisions that need to be held to meet those claims to be estimated.

In calculating Insurance's outstanding claims provisions, Insurance quantifies a 'central' estimate of its outstanding liabilities and then adds an allowance for prudential margins. The central estimates include no particular margin for conservatism. Technically, they are the statistical expectations (or mean values) of the relevant amounts of liability. As such, they have a probability of adequacy in the order of 50%. The prudential margins are added to achieve a higher target probability of adequacy for the claims provisions and to allow for matters not included in the actuarial models used to establish the central estimates.

The size of the prudential margins are, like capital requirements, dependent upon the desired level of confidence in their adequacy and the level of variability of claims experience. The Insurance basis for prudential margin setting for the combined businesses of Insurance and SGIO is based on an assumed probability of adequacy of 90%. This translates to an aggregate prudential margin, when expressed as a percentage of the central estimate, which is 5%-10% higher than the industry average.

Insurance holds this higher prudential margin to reflect the specific characteristics of Insurance's market position. In particular there are features of Insurance's business portfolio which increase the inherent uncertainty in overall claims experience. These include:

- Insurance's higher relative exposure to large claims due to the relatively lower level of reinsurance cover the company has operated with in the past;
- the relative significance of Compulsory Third Party (CTP) business as a proportion of the total book and current provisions for Insurance; and
- the high geographic concentration of Insurance's businesses in New South Wales.

Based on our understanding of prevailing market practice and taking into account the profile of the businesses of Insurance and SGIO, we have formed the view that management's determination, in the aggregate, of the NRMA Group's provisions for outstanding claims are reasonable and prudent with significant prudential margins for long-tail business and form a suitable base on which to assess the NRMA Group's capital requirements.

Further details of our review of the provisions for outstanding claims are set out in Appendix 2 of this Report.

### 4.3 Capital Requirements

In order to examine the effect of the Proposal on the capital strength of the NRMA Group's businesses, we completed an extensive capital adequacy modelling process to test the capacity, at various levels of capitalisation, of the NRMA Group's businesses to withstand the impact of various business outcomes consistent with the risk exposures of those businesses. We have also considered the likely range of business outcomes of a number of scenarios and anticipated industry developments and the resultant impact on the Group's capital requirements.

Capital adequacy modelling is a risk-based approach to calculating capital requirements, alternatively known as dynamic financial analysis, which involves the use of a computer model to project abbreviated financial statements which incorporate:

- the most likely outcome in terms of business volume, claims experience, investment return etc, taken from the Group's medium-term forecasts; and
- for the most significant risk variables, the estimated range of possible future outcomes.

The model is then projected through simulation of a large number of possible business outcomes to assess the effect on the financial statements. Capital requirements are then determined by consideration of the proportions of 'acceptable' and 'unacceptable' results at various levels of capitalisation. For Insurance and SGIO an 'unacceptable' result can, for this purpose, be defined as not having sufficient capital to cover the required statutory solvency margin.

Whilst complex, this modelling process permitted us to test the resilience of the NRMA Group's capital position under different scenarios and estimate the level of any surplus capital held by the NRMA Group.

There are a wide number of factors which determine the amount of capital required by the NRMA Group. Some of the most important of these are discussed below:

- Business scale impacts capital requirements because more capital is required as the business grows and liabilities increase. Hence, capital is required (historically sourced from the NRMA Group's retained earnings) in order for the NRMA Group to grow either organically or by acquisition.
- The amount of time which elapses from the point when an insurer issues a policy and the average time before a claim relating to that policy is paid (the 'tail' of business) influences the amount of capital required. Claims in some lines of business, such as CTP, may not be finalised for several years after the policy is issued because it takes a long time for claims to develop and be resolved. On the opposite end of the spectrum are lines where damage is immediately apparent, such as automobile collision. The key point is that the insurer is less able to accurately estimate its ultimate claim liability for longer-tail lines of business (e.g. New South Wales CTP) and therefore requires more capital (on a relative basis) to support these classes.

- Diversification across lines of business and geography reduces the total amount of capital required because the overall volatility of results at a corporate level is reduced. Insurance is currently heavily concentrated in terms of both lines of business and geography, although the SGIO acquisition in the year ended 30 June 1999 mitigated this somewhat, as will the alliance with RACV.
- More capital is required to support catastrophe-exposed lines of business (such as homeowners' insurance and certain types of inwards reinsurance) because the variance of possible outcomes is much greater than in non-catastrophe exposed lines. Outwards reinsurance (the transfer of insurance risk to another insurer) can reduce both the amount of liabilities retained by the insurer (proportional and excess of loss reinsurance) as well as the volatility of those liabilities (excess of loss reinsurance), thus reducing required capital. Size of the portfolio also reduces volatility and therefore capital requirements. Insurance's current CTP and catastrophe reinsurance retention levels are significantly higher than the industry norm. Prima facie, this will lead to a higher capital requirement than would otherwise be the case however, the larger comparative size of Insurance's portfolios must also be considered.

Implicitly, higher risk assets (such as equities) require more capital support than lower risk investment assets such as bonds and cash. The Australian general insurance sector is not currently subject to a capital adequacy regime which distinguishes between asset classes, but the Australian Prudential Regulation Authority (APRA) has signalled an intention to introduce a new regime which does make this distinction. This will recognise that there are additional economic capital requirements associated with higher risk assets because the volatility of their market value is greater.

- These influences on capital requirements have been appropriately allowed for in our capital adequacy modelling work.

### 4.4 Capital Adequacy Assessment for Insurance Group

Utilising the capital adequacy model (CAM) discussed above, we assessed the capital requirements of the general insurance businesses of Insurance and SGIO. Rather than referring to the existing capital base, we postulated an appropriate level of confidence to be used to determine the implied capital requirement. The level of confidence selected is consistent with a default probability corresponding to Insurance's current credit agency ratings.

The result was that the Insurance Group as at 30 June 1999 should be capitalised to the extent that there is a 97% probability of the Insurance Group maintaining statutory solvency at all times over the three year projection period (broadly equivalent to a solvency confidence level of 99% per annum over the three year projection period). In other words, Insurance and SGIO would have enough capital so that there would only be a 3% chance of events occurring which would be so severe that capital would fall below 20% of premiums or 15% of outstanding claims (the current minimum regulatory requirement) at any time over the next three years. While the selection of a solvency confidence level is inherently subjective, we consider that this is a reasonable assumption leading to a high degree of financial strength.

The financial modelling projections generally used Insurance's and SGIO's 1999/2000 budgets as the basis for constructing the CAM projections including adopting the assumptions on which those budgets are based.

We note that due to the strong financial position of the NRMA Group staff superannuation funds (including the SGIO staff superannuation funds) an employer contribution holiday is expected to be sustainable for the next 8 years, so that no adjustment to the budgets has been necessary in this regard.

The budgets make allowance for the impacts of the new CTP arrangements in NSW. However, at the time the budgets were prepared the legislative proposals were not finalised. These proposals have now been enacted, and on the basis of detailed analyses, we have made an adjustment to the budgets used in our model to reflect the likely impacts.

It was also assumed that:

- premium rates and business volumes would change as budgeted (other than for the assumed impact of GST);
- reinsurance arrangements would remain unaltered from those which applied for the year ended 30 June 1999 (except for the AON contract as discussed below);
- outstanding claims prudential margins would remain unaltered from those adopted at 30 June 1999;
- investment portfolio asset mixes would be rebalanced on an annual basis to reflect the relevant investment mandate;
- for the purposes of modelling the capital requirements, the effective date of the Proposal was assumed to be 30 June 1999;
- current taxation rates and the current tax regime would apply rather than the reduced taxation rates that would be applicable if the government's tax reform proposals announced on 23 September 1999 (the Ralph Review proposals) are implemented; and
- if the Proposal was implemented, dividends would be distributed to shareholders of NIGL equivalent to 50% of profits after tax.

In our assessment of the capital needs of Insurance and SGIO we have made full allowance for the effects of both Insurance's and SGIO's protective outwards reinsurance arrangements and for the effects of Insurance's inwards reinsurance business. However, we have added a further \$100 million to our assessment of the capital requirements for Insurance to make allowance for two inwards reinsurance contracts the risks associated with which are not capable of being represented by the CAM. This amount was arrived at after detailed analysis of the two contracts and, in our assessment, is appropriate for the purpose of establishing capital requirements.

Insurance has also effected Aggregate Stop Loss reinsurance cover through AON with an effective date of 1 July 1998. This arrangement provides Insurance with some protection against adverse experience on its whole account (except inwards reinsurance, new classes of business and any portfolios of business acquired as part of any merger or takeover). The purpose of this contract is to reduce the volatility of Insurance's reported accounting results.

The recent alliance between Insurance and RACV will lead to this contract being renegotiated. Accordingly, we have excluded the impact of this contract from our analysis of Insurance's capital needs. However, we note that, given the purpose of the contract is to reduce the volatility of Insurance's results, we would expect the renegotiated terms of the contract to be such that Insurance's capital requirements will not increase.

Several Insurance business plans or relevant industry developments are likely to affect the available and/or required capital of Insurance in the near future. These include:

- the impact of a goods and services tax (and tax reform generally) depending upon the form in which it is implemented;
- the recent government approved changes to CTP insurance arrangements in NSW;
- the recently announced alliance with RACV; and
- the proposed entry into new markets (or growth in market share) by existing Insurance businesses, including Insurance Group's plans in respect of the upcoming privatisation of NSW Workers' Compensation.

In the capital adequacy modelling work described above we have made allowance for each of the above at what we consider to be the most likely business outcomes, in what we have termed the 'base scenario'. However, because Insurance is not yet formally committed to entering the NSW Workers' Compensation market, we have not included our estimate of the capital that would be required to enter this market in the base scenario.

Our assessment of the capital required to support the general insurance businesses of Insurance and SGIO on the base scenario, at the desired solvency confidence level, is set out below:

	Capital Requirement \$ million
Insurance	1,605
SGIO	180
<b>Total</b>	<b>1,785</b>

As stated earlier, diversification of exposure across lines of business and geographically reduces capital requirements by reducing the volatility of the overall Insurance Group results. The diversification benefit gained from the common ownership of the businesses of Insurance and SGIO has been incorporated in the above capital requirement assessment.

The figures above represent the required capital to support the general insurance businesses of Insurance and SGIO on the base scenario. Details of our assessment of the capital requirements associated with the recently announced alliance with RACV and Insurance's intentions with respect to the NSW Workers' Compensation market are set out in Section 4.9 of this Report.

#### 4.5 Capital Requirements of Insurance Group's Other Businesses

Insurance owns and operates a number of financial services businesses other than its own general insurance operations and those of SGIO. These businesses include NRMA Life, NRMA Building Society Limited (NRMA Building Society), NRMA Finance Limited (NRMA Finance) and associated investment funds management and financial advisory businesses.

In order to determine our assessment of the capital required for these businesses, we estimated their individual capital requirements based upon our view of normal market practice and regulatory capital requirements. Our estimate of the capital required by these businesses is set out below.

##### NRMA Life

The capital adequacy requirements of NRMA Life are currently determined in accordance with the risk-based prudential standard of the Life Insurance Actuarial Standards Board (LIASB) that deals with regulatory capital adequacy. In broad terms, this standard covers all material insurance, asset, asset/liability mismatching and operational risks, and provides a buffer over and above regulatory solvency capital which gives the company latitude to pursue its business plans and to pay dividends to its shareholders without needing approval from APRA.

In the first instance, the company must meet a general requirement to hold at least \$10 million of capital in its shareholders' fund. Up to \$5 million of this amount may be used to meet an expense related component of the capital requirements (calculated in accordance with the LIASB standard) of the statutory funds.

In addition, the company's statutory funds must meet regulatory capital adequacy requirements. Our assessment of the position at 30 June 1999 was that these requirements amounted to approximately \$55 million, of which \$5 million related to the expense component covered by the shareholders' fund. Of the remaining requirement, about \$30 million attached to risk business and the balance to investment business. Life

insurers usually hold a margin above regulatory capital adequacy to seek to ensure that in reasonable circumstances they can continue to retain the freedom from supervisory constraint consistent with complying with the LIASB standard. Allowing for such a margin, we have assessed the capital adequacy requirement (ignoring requirements arising from the acquisition of SGIO) at \$65 million.

The capital requirements of SGIO in respect of its own business activities are dealt with in Section 4.4 of this Report. The shareholders' fund of NRMA Life acquired SGIO on 6 January 1999, for some \$440 million. The acquisition was financed by way of a loan of the same amount from Insurance. NRMA Life, like all Australian life insurance companies, reflects its assets at assessed market value on its balance sheet. As at 30 June 1999, SGIO is held at its acquisition cost, this being considered equivalent to its current market value.

When NRMA Life is consolidated within Insurance Group, however, the excess of the directors' valuation of SGIO over and above its net assets has been included in Insurance Group's net assets. The amount of this excess, as at 30 June 1999, is shown in the notes to the accounts of Insurance Group as \$297.5 million. In Section 4.7 of this Report, where we assess the capital available within Insurance Group we eliminate this intangible asset.

##### NRMA Building Society and NRMA Finance

Insurance Group has established capital requirements for NRMA Building Society based on regulatory requirements and budgeted volumes of lending and deposit business with an appropriate loading to make allowance for volatility in those budgeted volumes.

The APRA requirement is 8% of risk-weighted assets. We believe it is appropriate to hold 10% of projected risk-weighted assets for NRMA Building Society to provide a cushion for adverse experience. As the NRMA Building Society has expansion plans we consider it prudent to assess capital taking into account budgeted growth in business volumes.

We have assessed that the capital requirement, in respect of NRMA Building Society, based on 10% of forecast business volumes at June 2001, to be \$160 million.

NRMA Finance is only about one-tenth of the size of NRMA Building Society (based on balance sheets as at 30 June 1999). We have assessed its capital requirement to be \$16 million on a similar basis to that used for NRMA Building Society, giving a total capital requirement for both of \$176 million.

However, in order to provide a small allowance for differences in the relative capital requirements of NRMA Finance over NRMA Building Society due to the nature of the former's business, we have assessed the total capital requirement in respect of these businesses to be \$180 million.

##### All Other Insurance Group Entities

In this Section we include detail of the capital requirements of all entities of the Insurance Group not covered explicitly elsewhere in this Report.

The following allocations are based on industry practice and our assessments and are intended to provide a level of cover against operational and strategic risks:

- \$3 million to the Adviser Network – calculated as 15% of budgeted fees for the year 2000/2001; and
- \$3.75 million to Funds Management (Unit Trusts) – calculated as 1.5% of budgeted funds under management to be consistent with that determined for investment linked life insurance business. We have assumed funds under management in this business of \$250 million for the year 2000/2001.

The total requirement based on these figures is \$6.75 million. In order to provide a buffer against growth in business volumes over those shown here, we have assessed a total capital requirement in respect of these businesses of \$10 million.

##### GST for Financial Services Entities

Insurance has assessed that the impact of the introduction of GST, and in particular input tax credit blockage, on all of its financial services businesses in aggregate is of the order of \$8 million per annum before tax, broadly equivalent to \$5 million per annum after tax. The marginal capital requirement, over the three year projection period, is therefore approximately \$15 million before this impact can be expected to be mitigated by increased fees or reduced costs.

A summary of our estimate of Insurance Group's capital requirements is set out in the table below.

##### Insurance Group's Capital Requirements at 30 June 1999

Entity	Capital Requirement \$ million
Insurance	1,605
SGIO	180
NRMA Life	65
NRMA Building Society and NRMA Finance	180
All other Insurance Group entities (incl GST)	25
<b>Insurance Group Total</b>	<b>2,055</b>

The availability of capital to meet these requirements is discussed in Section 4.7 of this Report.

#### 4.6 Capital Adequacy Assessment for Association

Under the Proposal, Association continues its existing road and related motoring service operations and retains its mutual status, and Association Members retain the rights attached to their Membership of Association. If the Proposal is approved and implemented future interaction between Insurance and Association will be conducted on commercial terms as set out in the Business Relationship Agreements. Details of these agreements are set out in Section 13.5(B) of the Information-Memorandum.

Under these agreements Insurance and Association will still share many of the costs and revenues associated with the NRMA brand name, trade marks, information technology, marketing, distribution and other shared services. Details of the impact of the Business Relationship Agreements on the projected revenues and costs of Association and Insurance are set out in Section 5.8 of this Report.

Under the terms of the Proposal we have also recommended that Association receive an allocation of 10% of the shares to be issued by NIGL. Further details of this proposed recapitalisation of Association are set out in Sections 5.7 and 5.8 of this Report.

To ensure that the interests of Association Members are adequately protected, we have performed a capital adequacy modelling exercise similar to that undertaken for Insurance (as discussed in Section 4.3 of this Report above) to assess whether the proposed injection of capital in the form of NIGL shares is sufficient to ensure, with a high degree of confidence, the ongoing financial viability of Association.

As for Insurance, we have based our capital adequacy modelling on budgets and projections provided by NRMA Group and have made allowance for the additional anticipated costs and revenues of Association arising out of the Business Relationship Agreements. We have also assumed that Association would continue to hold the majority of its existing assets in the form of equities, as it does at present.

In performing this assessment we have assumed that member benefits will continue to be provided at their current levels whilst member subscription rates will remain unchanged until 30 June 2001 (except for the effect of the introduction of GST) and increased in line with the Consumer Price Index thereafter.

As at 30 June 1999, the net assets of Association of \$283 million are equivalent to approximately twice the gross revenues of Association excluding investment income. We have assessed the adequacy of Association's total capital assuming that additional capital is injected as a result of the Proposal in the form of NIGL shares which, if sold by Association, will give rise to a tax liability calculated in accordance with legal and taxation advice provided to the NRMA Group in respect of the Proposal. We have also assumed that the value of the 10% of NIGL's shares allocated to Association will be between \$320 million and \$400 million consistent with our estimate of the value of NIGL shares set out in Section 5.5 of this Report. On this basis, we have concluded that the proposed allocation of 10% of NIGL's shares to Association will be sufficient to ensure, with a high degree of confidence, Association's ongoing financial viability.

Using the capital adequacy modelling and the assumptions described above, we have also assessed the probability that the capital of Association could be exhausted at any time in the next ten years and assessed the results obtained if the Proposal is adopted (with the Business Relationship Agreements) compared to maintenance of the status quo (without the Proposal and Business Relationship Agreements being effected).

We have formed the view that the probability of ruin of Association measured on this basis is currently very low (approximately 0.3% p.a. over ten years) and will be materially lower if the Proposal is adopted than if it is not adopted.

In addition, for the purposes of assessing the capital adequacy of Association if the Proposal is adopted, we have assessed the injection of capital (in the form of NIGL shares) that would be required to just maintain the probability of ruin to that currently applying to Association if the Proposal did not proceed. We have assessed this injection to be \$168 million (after allowing for an associated tax liability of \$27 million using a 36% tax rate), equivalent to 5.4% of NIGL's shares based on the midpoint of the range of values of NIGL shares referred to above.

The recommended additional capital injection in the form of 10% of NIGL's shares can also be viewed as representing a crystallisation of:

- the ongoing financial support that Association might, under the current structure, have expected to receive from Insurance in the future in the absence of the Business Relationship Agreements being effected; and
- the cost of continuing to maintain Association member benefits and services at existing levels without increasing member subscription rates until 30 June 2001 (other than for the introduction of GST), and thereafter only increasing these in line with the CPI.

#### 4.7 Capital Available

The table below shows the capital available to Association Group and Insurance Group as at 30 June 1999. In this context, Association Group means Association and its subsidiaries other than those that form part of the Insurance Group and Insurance Group means Insurance and its subsidiaries.

#### NRMA Group Capital Available as at 30 June 1999

##### Summary Consolidated Balance Sheet at 30 June 1999

	Association Group \$m	Insurance Group \$m
Current Assets	97	2,523
Non-current Assets	323	6,694
<b>Total Assets</b>	<b>420</b>	<b>9,217</b>
Unearned Premiums	-	1,173
Outstanding Claims	-	2,872
Other Liabilities	137	2,370
<b>Total Liabilities</b>	<b>137</b>	<b>6,415</b>
<b>Net Assets</b>	<b>283</b>	<b>2,802</b>
Less: Intangible Assets <sup>(1)</sup>	-	320
Less: Outside Equity Interests <sup>(2)</sup>	-	262
<b>Capital Available</b>	<b>283</b>	<b>2,220</b>

##### Notes:

(1) Excess of net assessed market value of SGIO over net tangible assets, goodwill and deferred acquisition costs.

(2) Units held by external interests (e.g. NRMA Group Staff Superannuation Funds) in NRMA Group controlled trusts.

We have made no allowance for some \$30 million in damages recently awarded to Insurance Group as a result of a legal action relating to the failed demutualisation attempt in 1994. This figure is not included within the accounts for the year ended 30 June 1999 and is currently the subject of legal appeal. Given the uncertainty of the eventual outcome, and the nature of capital being to protect against adverse events, we believe this treatment is appropriate for determining capital adequacy.

On the other hand no allowance is made in the capital adequacy modelling for the impact of Section 160ZZS of the Income Tax Assessment Act. This section effectively requires all NRMA Group assets to become post capital gains tax assets unless the NRMA Group can satisfy a statutory continuity of majority ownership test. Discussions on this matter are still proceeding with the Australian Taxation Office to determine if the NRMA Group has failed to satisfy this test and if so, when. Depending upon the outcome of those discussions, it is estimated that a deferred income tax liability of \$22.2 million could be expected to arise in the Insurance Group as at 30 June 1999 but the final amount remains uncertain.

In addition, depending upon the final determination made with respect to Section 160ZZS and ongoing discussions with the Australian Taxation Office, a further tax liability may arise in Association as a result of the implementation of the Proposal with respect to the assignment of certain trade marks under the terms of the Proposal from Association to Insurance. This additional potential liability is not expected to be material in the context of the capital adequacy of Association.

In considering the capital requirements in Insurance Group it should also be noted that the capital requirements in respect of the general insurance businesses of Insurance and SGIO are based on the results of capital adequacy modelling which does not make any explicit allowance for those risks that impact the underlying nature of the business or that relate to operational management (as opposed to asset and liability risks encompassed by the CAM). Such risks are primarily a matter for good risk management control.

#### 4.8 Analysis of Impact of Proposal on Capital Adequacy

Using these estimates of the available capital and the capital requirements for Insurance Group and Association Group we analyse below the adequacy of capital held as at 30 June 1999. For the purposes of this analysis, we have assumed that the current net assets of Association are equal to the capital required by Association to support its current business activities. This is equivalent to assuming that Association would wish to maintain its current probability of ruin of approximately 0.5% p.a. over ten years whilst maintaining member benefits and services without increasing member subscription rates until 30 June 2001 (other than for GST), and thereafter only increasing these in line with the CPI.

##### NRMA Group Capital Requirements as at 30 June 1999

	Association Group \$m	Insurance Group \$m
Capital Required <sup>(1)</sup>	283	2,055
Capital Available (Section 4.7)	283	2,220
<b>'Surplus' Capital</b>	<b>Nil</b>	<b>165</b>

##### Note:

(1) From Section 4.5 for Insurance Group.

If the Proposal were to be implemented, we estimate that the capital available, capital required and 'surplus' capital position would change as follows, based on the mid-point of the range of values of NIGL shares set out in Section 5.5 of this Report.



### Estimated Changes in Capital if Proposal is Implemented

Capital Required	Association Group \$m	Insurance Group \$m
'Surplus' Capital if Proposal is not implemented (see above)	Nil	165
Capital Available (after Tax) Increase/(Decrease)	310	(46)
Capital Required (after Tax) Increase/(Decrease)	170	(6)
Movement in 'Surplus' Capital	140	(40)
<b>'Surplus' Capital if Proposal is Implemented</b>	<b>140</b>	<b>125</b>

In assessing the capital movement in the Insurance Group if the Proposal proceeds we have made an allowance of \$46 million for the estimated costs involved in listing NIGL's shares on the Australian Stock Exchange. We have assumed that these costs would not be tax deductible. We have also allowed for the effect of the Business Relationship Agreements implemented under the Proposal, which reduce our assessment of capital required by Insurance by \$6 million. We comment further in Section 4.10 of this Report on the possibility of a reduced capital requirement assessment for Insurance if the Proposal were adopted.

### 4.9 Future Developments

As stated in Section 4.4 of this Report the assessment of capital requirement outlined above is on the base scenario. We have also considered the impact on capital requirements of the recently announced alliance with RACV and Insurance's plans to enter the NSW Workers' Compensation market which is expected to be privatised next year.

#### RACV Alliance

Insurance has recently formed an alliance with RACV to handle the claims processing, administration and product development of the short-tail personal lines policies issued by Insurance (New South Wales and Victoria) and to issue short-tail personal lines policies for distribution by RACV. The alliance company will operate by reinsuring the short-tail personal insurance policies issued by Insurance in New South Wales and ACT and issuing policies for distribution by RACV in Victoria. It is intended that both Insurance and RACV will benefit from this alliance by realising synergies and sharing support services.

By effecting the merger of these businesses Insurance has gained exposure to RACV's short-tail experience in exchange for exposure to its NSW and Victoria short-tail experience. While we would not expect the relative variability of the RACV book to be significantly higher than that of Insurance we would expect Insurance to gain a geographic diversification benefit on merging the two portfolios.

For the purposes of this Report we have made no allowance for this potential diversification benefit, on the basis that it is likely to be offset by an element of the alliance agreement with RACV that requires Insurance to contribute a larger proportion of the joint venture company's capital than would otherwise be the case to acquire its 70% interest in the new company.

Accordingly, in our assessment, the alliance with RACV will not materially impact Insurance Group's capital requirements.

#### Privatisation of NSW Workers' Compensation

The privatisation of the NSW Workers' Compensation Scheme, anticipated for some time in the near future, is expected to have a significant impact on the capital requirements of the insurance industry.

We understand that Insurance Group is considering entering this market. To do so, it will require significant amounts of capital. On the basis that Insurance Group enters the market, and writes \$150 million of gross premiums annually within three years of the privatisation of this market, its capital needs will ultimately be of the order of \$180 million including prudential margins.

In our assessment of the capital needs for Insurance Group as set out in Section 4.8 of this Report we have made no allowance for this potential requirement for capital. The marginal capital requirement, over the three year projection period, on the basis that the Scheme is privatised with effect from 1 July 2000, could be up to half of the ultimate requirement, i.e. some \$90 million.

#### Changes in Taxation

We have also considered the impact on the capital requirements of Association and Insurance for the Federal Government's recent announcements on business taxation reform made in response to the Ralph Committee report. Based on detailed modelling of the effect of the lower company tax rates applicable and the removal of indexation previously applicable to the taxation to capital gains, we have concluded that the effect of these proposals will not cause a material change to the capital requirements of either Association or Insurance.

### 4.10 Capital Benchmarking

As a means of benchmarking the results of our capital adequacy modelling exercises for Insurance we have considered capitalisation levels of competing insurers and financial services providers and also compared the results with the NRMA Group's own internal capital allocation procedures for Insurance.

### Comparison with Peer Group

We have examined Standard & Poor's financial strength ratings of Insurance compared with other significant Australian general insurers:

#### Comparison of Standard & Poor's Financial Strength Ratings – November 1999

Company	S&P Rating
NRMA Insurance Ltd	AA+
CGU Insurance Ltd	AA
Zurich Australian Insurance Ltd	AA-
Royal & Sun Alliance Insurance Australia Ltd	AA-
QBE Insurance Ltd	A+
GIO Insurance Ltd	A+
HIH Casualty and General Insurance Ltd	A-
Suncorp-Metway Insurance Ltd	A-
Allianz (MMI) General Insurance Ltd	A-

We note that other than subsidiaries of foreign parents (CGU, Royal & Sun Alliance and Zurich), Insurance's competitors have been assigned ratings which range from A- to A+ compared with Insurance's rating of AA+. This implies that Insurance has a higher level of financial strength than its peers.

Insurance's capital position can also be compared with its peers. However, it should be noted that because this peer group consists predominantly of listed companies, their capitalisation can be regarded as a guide to the capital requirements of Insurance if the Proposal were adopted and Insurance becomes owned by a publicly listed group, rather than being directly comparable to Insurance's current capital requirements as a mutual.

A comparison of the capital maintained relative to statutory requirements based on the most recent information from the APRA website for the Australian general insurance industry showed that in 1998, the top 20 general insurers (by premium income) held an average of more than twice the statutory solvency requirements. By way of comparison, Insurance held more than four and a half times its statutory solvency requirement. It is evident from this comparison that Insurance maintains a high level of capital relative to its peers, consistent with its AA+ rating.

Factors specific to Insurance's business influencing Insurance's need to maintain a high level of capital were discussed in Sections 4.2 and 4.3 of this Report.

In order to provide an indication of the sensitivity of the assessment of Insurance's capital requirement to the level of confidence attached to that assessment, we have considered the outcome if the required probability of Insurance and SGIO maintaining their combined statutory solvency at all times over three years were reduced from 97% to 94% (broadly equivalent to doubling the risk of not meeting this requirement from 1% p.a. to 2% p.a.). In these circumstances, the assessment of capital required for Insurance and SGIO combined reduces by 14% from \$1,785 million to approximately \$1,535 million.

In our opinion, it is conceivable that the credit rating of Insurance could eventually be upgraded from AA+ to AAA if the Proposal were adopted and Insurance and SGIO continued to maintain their present level of combined capital. This could occur because the risk that statutory solvency could not be met at some future time is reduced by the improved access to new capital inherent in the eventual listing of NIGL's shares under the Proposal.

Alternatively, listing NIGL's shares under the Proposal could be regarded as providing the means whereby Insurance could maintain its AA+ credit rating but still release some capital from its existing insurance business to fund further growth of its other businesses.

#### Insurance's Internal Capital Allocations

For the purposes of assessing capital adequacy, the individual allocation of capital by product line is not in itself significant, as long as the Insurance Group holds sufficient capital overall. Nevertheless, the total provides an interesting comparison with the results of our assessment.

As at 30 June 1999, the individual business lines of Insurance had internally allocated capital of \$1,600 million. This compares with our assessment calculation of the capital requirements of Insurance of \$1,605 million.

### 4.11 Impact of Dividend Payments

It is proposed that NIGL will pay ongoing dividends to shareholders from its emerging profits and retained earnings. We have considered how this will impact the ongoing security of Policyholders as this outgoing cash-flow would not be required if the Proposal was not implemented. We note that the level of dividends payable will be commercially limited by the level of future profitability of the Insurance Group and by prudential regulation by APRA, which will, in our view, serve to adequately protect Policyholders' security in the future.

Further, the Proposal has the benefit for the security of Policyholders that, as a shareholder-owned company, NIGL would have access to an additional source of capital, if this should ever be needed to protect the security of Policyholders, being the public market for listed equity capital obtained through its proposed listing on the Australian Stock Exchange.

### 4.12 Policyholders' Reasonable Expectations

Insurance operates in highly competitive markets with a large number of competitors providing similar services. Premium levels are governed by the level of expected claims costs, administration expenses, investment income and the required rate of return on capital that has been set by the Board.

We have reviewed the return on capital targets currently required by Board policy and consider them to be commercially realistic irrespective of whether the Proposal proceeds or not. We have also been informed that there is no intention to alter underwriting, premium pricing or claims servicing policies or the return on capital required as a result of the Proposal being effected.

Neither Insurance nor any of its subsidiaries have any participating insurance policy contracts formally written on the basis that the Policyholders share in the emerging profitability of the company. Accordingly, we have concluded that Policyholders' reasonable expectations will not be prejudiced and will be adequately protected if the Proposal is approved and implemented.

#### 4.13 Summary on Capital Adequacy and Reasonable Expectations

##### **Insurance Policyholders**

In our view, the capital surplus identified in the above analysis shows that irrespective of whether the Proposal is implemented or not there is a high degree of confidence that Insurance Group's capital will be adequate to meet its obligations and continue normal business operations, taking into account the Insurance Group's near term business plans, and its sound claims reserving practices with significant prudential margins.

As a result of the Proposal, the Insurance Group, via NIGL, will have greater access to external capital through the Australian Stock Exchange which will improve its financial strength.

- Although under the Proposal there will be net cash outflows from Insurance in the form of dividends to shareholders of NIGL, the level of dividends paid out will be dependent upon future levels of profitability and dividends will not be paid if there is any doubt about the sufficiency of the remaining capital.

The issue of shares in NIGL to Association does not dilute the net assets of Insurance Group and therefore does not weaken its financial strength.

The Proposal is not expected to affect Insurance's underwriting, premium rate setting or claims servicing policies.

In summary, taking into account the considerations set out above, in our view Policyholders' security and reasonable expectations will not be prejudiced and will be adequately protected if the Proposal is approved and implemented.

##### **Association Members**

As discussed in Section 4.6 of this Report the need to ensure the ongoing financial viability of Association if the Proposal proceeds will be met by an allocation of shares in NIGL of appropriate value.

We believe that the Proposal will have a beneficial effect on Association Members' interests in Association. The Proposal provides for additional capital to be injected into Association in the form of an allocation of shares in NIGL in excess of that required to maintain its current level of capital adequacy.

It should be noted that this additional capital is expected to allow Association to continue to provide member benefits at their current levels and member subscription rates to remain unchanged until 30 June 2001 (other than for the effect of GST) and thereafter only increasing these in line with the CPI.

Therefore, Association Members will receive continuing membership, and the rights attaching thereto, in a significantly better capitalised Association.

Refer to Sections 5.7 to 5.11 of this Report for further details of this capital injection to Association and for details of the allocation of the value of the NRMA Group between members.

## 5 Allocation of Entitlements

### 5.1 Introduction

Several groups have contributed significantly to the wealth of the NRMA Group. These include:

- current Association Members;
- former Association Members;
- current Insurance Policyholders and Members;
- former Insurance Policyholders and Members;
- NRMA Group employees; and
- NRMA Group directors.

However, as it is current Members who will be voting on the restructure of the NRMA Group, and as it will be Insurance Members who must surrender their Membership rights, in our view it is only current Association Members and Insurance Members (which includes Association itself) who should be compensated by an allocation of benefits under the Proposal.

It is proposed to distribute 100% of the shares in NIGL among the Insurance Members, Association and Association Members.

The boards of both Association and Insurance have resolved to adopt formal Membership Principles (MPs) which, when read with the relevant sections of each company's constitution, define who will be Members of each entity for the purposes of

the Proposal. We have reviewed these MPs and consider that they provide an equitable basis for establishing membership eligibility for the purposes of the allocation of benefits under the Proposal.

The estimated eligible membership for the purposes of the Proposal is 1.684 million for Association and 1.165 million for Insurance. We note that the effective number of Memberships of Insurance will vary from the number of policies in force because some Policyholders are not Members, joint policy ownership gives rise to multiple membership and some Members have multiple policies. We also note that as at 25 February 1999 (the Cut-off Date) there were approximately 1.516 million Insurance policies held by non-members of Insurance, including approximately 0.456 million CTP policies which do not generally give rise to Membership of Insurance under the company's constitution.

We have been asked to recommend an appropriate allocation methodology for distributing the value to be allocated amongst these various parties. In the course of forming our views on this matter, we have:

- reviewed the documentation provided to us concerning the 1994 NRMA Group demutualisation proposal;
- reviewed the judgement of the Federal Court in Dawn Fraser and Richard Talbot v NRMA Holdings Limited, NRMA Limited and NRMA Insurance Limited (No. 3479 of 1994) and the findings on the Appeal heard on that case by the Full Court of the Federal Court in January 1995;
- reviewed the publicly available documentation concerning the recent demutualisations of Australian Mutual Provident Society (AMP), The Colonial Mutual Life Assurance Society Limited (CMLA) and The National Mutual Life Association of Australasia Limited (NMLA);
- reviewed various possible allocation methodologies; and
- examined the appropriateness of these methodologies in the light of the circumstances of the NRMA Group.

### 5.2 Aims of an Allocation Method

In the normal course of business Association Members and Insurance Members would not have an expectation of receiving a distribution of wealth such as that proposed.

Furthermore, the legal terms of the constitutions of Association and Insurance do not provide clear or concise guidance as to how the value of individual Members' interests should be determined in the event of the proposed transactions. In particular, the substantial value inherent in the special rights held by Association and its Board under the constitution of Insurance are not capable of precise quantification by conventional valuation methodologies. Accordingly, there is no single theoretically correct method of allocating this distribution between Members.

We note however, the legal requirement that the transactions proposed must be approved by meetings of Members (or a class of Members) of each of Association and Insurance by up to 75% of the relevant Members voting on the proposals at each meeting. In effect, this means that the method of allocation of the distribution needs to be approved by Members of both companies as part of approving the Proposal as a whole if the Proposal is to proceed.

In our opinion, any allocation method should be able to demonstrably satisfy the criteria discussed below.

#### **Equity**

As any allocation method selected is likely to be publicly and legally debated, it must be defensible on the grounds of fairness and equity. Equity can be approached from two points of view:

- in terms of the rights surrendered. The allocation between Members (and particularly between Association Members and Insurance Members) should reflect the extent of the rights being surrendered by them; and
- in terms of each Member's contribution. The allocation between Association Members and Insurance Members should reflect the contribution each has made to the wealth of the NRMA Group.

Neither of these approaches is entirely satisfactory. As noted above, the value of some of the key rights identified are not readily capable of quantification. Furthermore, a significant proportion of the current wealth of the NRMA Group is probably attributable to retained profits earned from its business relationships with former Members who have died or who no longer have any connection with the NRMA Group.

#### **Practicality**

Theoretical equity must be tempered with what is practical. This applies from the point of view of the Members, and of the NRMA Group itself. Aspects which need to be considered include:

#### **Members**

- Ease of understanding
- Cost to Members of the distribution
- Minimum size of allocation

#### **NRMA Group**

- Cost of distribution process
- Availability of information on which the allocation will be based
- Impact of the allocation method on the business of the NRMA Group

#### **Impact on the NRMA Group**

Other factors being equal, the allocation method should, so far as is practical, maximise the benefits and minimise the disadvantages of the exercise to the NRMA Group itself. This will include the following considerations:



- the allocation method must meet Members' expectations and not only be equitable – it must also appear equitable to Members. As such it should reflect what a large majority of Members would regard as fair and reasonable;
- the allocation method should encourage, rather than discourage, Members to continue and/or increase their business association with the NRMA Group;
- the allocation method should minimise the risk of legal challenge so as to avoid expense and damage to reputation; and
- the allocation method should satisfy potential future investors. It should not contain features that would detract support from future investors and therefore from the share price of a listed NIGL.

### 5.3 Precedents

#### **AMP, CMLA, NMLA**

In recent years there have been a number of demutualisations in Australia. Three of the most significant were AMP, CMLA and NMLA.

AMP, CMLA and NMLA provide some relevant precedents for the situation being considered. However, each of the three companies is predominantly a life insurer whereas the NRMA Group's life insurance business is relatively small compared to its other business activities. Therefore, the emphasis on policy liabilities and reversionary bonus measures inherent in the allocations adopted by AMP, CMLA and NMLA are less relevant to NRMA Group.

Nevertheless, all of the allocation methods adopted in these three prior demutualisations have the following features:

- a minimum allocation per Member which is broadly reflective of a value attached to the right to vote at meetings; and
- an allocation which increases to reflect measures of contribution made to the organisation such as the length of time a Member has been insured, and the types and extent of insurances involved.

#### **NRMA Group in 1994**

It should also be noted that the current proposed restructuring of NRMA Group differs in at least one material respect from the demutualisation proposal prepared but not adopted by NRMA Group in 1994. In the 1994 proposal, no mutual association was proposed to continue the road service operations currently conducted by Association as these operations were to be absorbed by a publicly listed NRMA Group.

In the current proposal, Association Members would continue as Association Members (albeit with Association relinquishing its special rights as a Member of Insurance), as well as receiving shares in NIGL. The value of these shares will predominantly arise from the demutualisation of Insurance rather than demutualisation of the whole NRMA Group.

Because the currently proposed restructuring is different from the 1994 proposal we consider that the allocation method to be used should reflect these differences and may therefore differ from the method proposed as part of the attempted NRMA Group demutualisation in 1994.

### 5.4 Form of Allocation

The method of distributing the value arising from the Proposal could conceivably have taken a number of different forms.

The proposed approach is that shares in NIGL will be issued to Insurance Members, Association and Association Members in return for the Membership rights surrendered in Insurance. Subsequently, NIGL will apply to be listed on the Australian Stock Exchange.

This approach:

- enables recipients to sell their shares after listing as and when they wish;
- preserves the ownership rights of Association Members, while converting the value of Insurance into a marketable form;
- enables the value of NIGL to be distributed without materially reducing the net assets or capital strength of Insurance;
- is consistent with other recent demutualisation precedents established by NMLA, CMLA and AMP; and
- allows the value to be allocated without restriction in whatever proportions are considered to be equitable.

Given the above, our opinion is that the issue of shares in NIGL to Insurance Members, Association and Association Members is an appropriate means of crystallising the value arising from the Proposal to those recipients.

### 5.5 Value of the Insurance Group

We have considered the likely market capitalisation upon listing of NIGL shares based on market trading on the Australian Stock Exchange of comparable securities under current market conditions for the purposes of developing our recommendations on the allocation of NIGL shares under the Proposal and for our assessment of the capital adequacy of Association based on the shares to be issued to Association if the Proposal is implemented. Since the constitution of NIGL will include certain takeover protections, this value will be based on minority interests and will be less than the strategic value that would arise in a takeover or trade sale of the company.

To estimate the value of Insurance on this basis, we have reviewed implied valuation benchmarks in relation to general insurance companies with shares trading on the Australian Stock Exchange and, to a lesser extent, international stock exchanges. Specifically, we have reviewed comparable data for QBE Insurance Ltd and HIH Insurance Ltd for:

- multiples of net tangible assets (currently in the range 1.5 to 2.7);
- prospective price earnings multiples (currently in the range 10 to 13); and
- dividend yields (currently in the range 3.8% to 9.5%).

We have applied selected valuation benchmarks to data on Insurance drawn from its budgets adjusted for the anticipated impact of the alliance with RACV, the Business Relationship Agreements to be executed as part of the Proposal and the proposed sell down by Association through the Facility of 80% of the NIGL shares allocated to it under the Proposal (being 8% of the total number of shares issued by NIGL under the Proposal). To the extent that the values derived by applying different valuation benchmarks are not wholly consistent, we have considered the inherent differences in the commercial circumstances of the broadly comparable companies, and likely market assessments of longer term performance.

We have estimated the total value of NIGL's shares to be distributed under the Proposal on the basis set out above to be between \$3.2 billion and \$4.0 billion. The value of these shares is to be apportioned and distributed in accordance with the recommended allocation method.

### 5.6 Current Membership Rights

#### **Association Members**

Association Members currently enjoy the following rights as members of a company limited by guarantee summarised below:

- the right to stand for election as a director (limited by age, and excluding staff);
- the right to nominate a person for election as a director;
- the right to vote in any election (or removal) of directors;
- the right to receive notice of meetings (Australian residents only);
- the right to attend and vote at any meeting of members;
- the right to request a meeting (with the support of at least 99 other members);
- the right to propose a resolution to be considered at such a meeting; and
- the right to approve the remuneration of directors.

Under the Proposal, Association Members will retain all these rights. Association will also continue to operate and provide the road service related functions it currently provides. In addition, Association Members will receive shares, and the rights attaching thereto, in NIGL which will acquire Insurance.

#### **Insurance Members**

Insurance Members currently enjoy the membership rights summarised below:

- the right to receive notice of meetings;
- the right to attend and vote at meetings (but not the right to vote upon the appointment of directors);
- the right to vote on the removal of directors;
- the right to request a meeting (with the support of at least 99 other members);
- the right to propose a resolution to be considered at such a meeting; and
- the right to approve the remuneration of directors.

#### **Association as a Member of Insurance**

Association is also a Member of Insurance with special rights. The rights of Association in addition to those applying to other Members are:

- the right to any surplus assets in the event Insurance is wound up;
- the right for its Board to appoint (and remove) directors of Insurance and provide a chairman; and
- the right to appoint alternate directors.

The proposed corporate restructuring involves all Insurance Members surrendering their rights. In exchange, Insurance Members, including Association itself (and Association Members who temporarily become Insurance Members pursuant to the Proposal), would receive shares, and the rights attaching thereto, in NIGL.

### 5.7 The Interest of Association in Insurance

Under the Proposal, most of the functions and assets of Association itself will remain unchanged except for the impact of the Business Relationship Agreements and the consideration it receives in exchange for relinquishing its special rights as an Insurance Member.

Association's Membership of Insurance carries powers and rights in addition to those enjoyed by other Members. In particular it has the power to appoint the directors of Insurance and the right to any residual surplus assets in the event of a winding up.

While this implies that Association effectively has management control of Insurance, its powers and rights over Insurance are not absolute. Directors of Insurance, even if appointed by Association, must still act in the best interests of all Insurance Members. Association has no right to any assets or dividend from Insurance unless the latter is wound up and in any general meeting (including any meeting that would be needed to effect a voluntary winding-up), Association only has one vote.

We also note that the objects of Insurance include a requirement to generally assist and co-operate with Association in the attainment and promotion of Association's objects and that Association's rights in Insurance cannot be removed by the Insurance Members in general meeting without Association's consent.

The foregoing indicates that the value of Association's interest in Insurance, in the context of this transaction, is considerable. Further it is notable that the value of Insurance's assets could not be readily accessed or realised by the Insurance Members without the co-operation and/or consent of Association.

If the Proposal is approved and implemented, then Association will relinquish the value inherent in its special Membership rights in Insurance.

## 5.8 The Proposed Allocation between Insurance Members, Association and Association Members

### Association's Interest in Insurance

The bulk of the value of the NRMA Group is contained within Insurance or its subsidiaries. This wealth has largely been created from the contributions of past and present policyholders. In recent years, Association's road service operations have been run on a 'cost recovery' basis where membership subscriptions have been calculated on a basis designed to recover costs with little if any contribution to increasing the financial value of the NRMA Group.

Therefore the value underlying the shares issued under the Proposal comes predominantly from Insurance. Determining the value of Association's interest conferred by its Membership of Insurance needs to be considered in the allocation of the benefits paid to Association and its Members vis-à-vis Insurance Members.

We have reviewed and considered the terms of the proposed Business Relationship Agreements which will be implemented if the Proposal proceeds. These agreements codify the future business relationship between Association and Insurance and provide, amongst other things, for the co-operative use of the NRMA brand and trade marks, information systems, customer databases, distribution functions and other shared services.

The Business Relationship Agreements also provide a detailed basis for determining future revenues and costs that will be attributable to both Association and Insurance from the operation of shared services.

These arrangements have been negotiated between the parties with the assistance of independent legal advisers based on the actual costs of operation of the services involved.

The impact of the Business Relationship Agreements is to increase the net costs of operation of Association and to reduce the costs of operation of Insurance compared to their respective current net costs of operation. Additional costs are also borne by Association which are not currently being incurred by the NRMA Group and the total tax to be paid by the combined group also increases. The projected impact of the Business Relationship Agreements on a pro forma basis, using NRMA Group budgets and projections and assuming that the Proposal had been implemented on 30 June 1999, is shown below. The projection assumes the value of the capital injection is equivalent to \$360 million less tax of \$49.7 million and that an average after tax return of 10% p.a. would be earned on this capital. We believe that 10% p.a. is a reasonable expectation for Association's long term post-tax rate of return on investments.

### Pro Forma Projected Impact on Association of Business Relationship Agreements

Year Ending 30 June	2000 \$m	2001 \$m	2002 \$m	2003 \$m	2004 \$m
Increase in Revenues (before Investment Income)	6.18	6.33	6.54	6.74	6.95
Increase in Costs	10.10	14.50	15.97	21.83	22.63
Increase in Tax (before Investment Income)	1.99	1.96	2.01	1.97	2.03
Increase/(Decrease) in Earnings after Tax (before Earnings after Tax from Capital Injection)	(5.91)	(10.13)	(11.44)	(17.06)	(17.71)
Projected Earnings After Tax from Capital Injection	31.03	33.54	35.89	38.33	40.46
Increase/(Decrease) in Earnings after Tax	25.12	23.41	24.45	21.27	22.75

### Pro Forma Projected Impact on Insurance of Business Relationship Agreements

Year Ending 30 June	2000 \$m	2001 \$m	2002 \$m	2003 \$m	2004 \$m
Increase in Revenues (before Investment Income)	-	-	-	-	-
Increase/(Decrease) in Costs	(0.10)	(3.86)	(4.98)	(10.50)	(10.93)
Increase in Tax (before Investment Income)	0.040	1.39	1.79	3.78	3.93
Increase/(Decrease) in Earnings after Tax (excluding Changes in Investment Income after Tax)	0.06	2.47	3.19	6.72	7.00

We have considered and assessed the net present value of the changes inherent in the Business Relationship Agreements on the projected financial position of Association and Insurance in perpetuity and tested the sensitivity of this value to possible variations in a range of reasonable assumptions underlying this assessment.

The effects of these changes in the cost structures of both Association and Insurance arising from the proposed Business Relationship Agreements have also been fully considered in our capital adequacy modelling discussed in Sections 4.4 and 4.6 of this Report.

We have also considered whether Association and its Members are adequately rewarded under the Proposal as a whole for the rights that Insurance secures over relevant NRMA trade marks pursuant to the Business Relationship Agreements effected under the terms of the Proposal. This matter has a number of aspects, including:

- the extent to which Insurance's rights increase over its current, less formalised rights in relation to certain NRMA trade marks, if the Proposal is adopted;
- the reduced value to Association of rights held by Association produced by such a change;
- offsetting value to Association in the form of consideration it will be receiving under the terms of the Proposal;
- the significant historic contribution to the value of NRMA trade marks made by Insurance; and
- the value implied in the use of the transferred NRMA trade marks (see Appendix 4 to this Report).

We have also considered various possible alternative methods of wealth distribution using regularly recurring insurance premium rebates payable to Policyholders and/or Members of Insurance. Using various assumptions, we have estimated the maximum net present value of total rebates that could conceivably be paid to the current Members of Insurance without affecting the Insurance Group's current credit rating or allowing the Insurance Group's capital adequacy to fall below the level set out in Section 4.5 of this Report. Based on our analysis, we consider that the total net present value of such rebates for the current Members of Insurance, if rebates were implemented as an alternative to the Proposal, would be unlikely to exceed 50% of the value of the Insurance Group (based on the range of values of NIGL's shares set out in Section 5.5). Furthermore, premium rebates would provide little or no benefit for Association or for Association Only Members.

Returning to the Proposal, as discussed in Section 5.2 of this Report a fair allocation of wealth between Association and its Members on the one hand, and Insurance Members (excluding Association) on the other, should reflect the value of the respective rights being surrendered and the relative contribution each set of Members has made to the wealth being allocated.

It is clear from the discussion in Sections 5.6 and 5.7 of this Report that the respective rights of the two sets of Members are interwoven in a way that protects each and that has required co-operation between them in order to develop Insurance and build its value. In aggregate, not only are the rights of one set of Members broadly balanced by those of the other, but the co-operative exercise of those rights has been fundamental to the creation of the wealth that is being allocated. Given also that the future business relationship between Association and Insurance has been clearly defined through the Business Relationship Agreements, we are led to the view that in aggregate the values of the respective rights of Association and its Members and Insurance Members (excluding Association) are broadly equal.

When we turn to consider the relative contribution to the value of Insurance that has been made by the two sets of Members, we note that while that value has come from the profitable operation of an insurance business, and hence from its policyholders, that business has been conducted commercially in a competitive market with all obligations to policyholders being performed. As value was built in Insurance, both sets of Members exercised their interwoven rights in a manner that encouraged this to happen, and in doing so contributed to that value through their common purpose, much as stakeholders in a common venture.

Having considered all of the issues discussed in this Report and in particular the value of the rights being relinquished, the respective contribution to the value of the NRMA Group and the need for practicality and fairness, we recommend that 50% of all the shares in NIGL to be issued under the Proposal be allocated to Association and its Members and that 50% be allocated to Insurance Members (excluding Association).

### Association and its Members

As discussed in Section 4.6 of this Report, if the Proposal proceeds there is a need to give Association the long term financial capacity to continue providing member benefits at their current levels while holding member subscription rates unchanged until 30 June 2001 (other than for the effect of GST) and thereafter only increasing these in line with the CPI.

In order to meet this requirement, we recommend that 10% of all the shares to be issued by NIGL under the Proposal be allocated to Association. Based on our estimated range of the total value of the shares in NIGL set out in Section 5.5 of this Report this implies that NIGL shares with an estimated value between \$320 million and \$400 million would be issued to Association.

Therefore we recommend that of the 50% of NIGL shares to be allocated to Association and its Members, 10% be allocated to Association itself and 40% be allocated to Association Members. Under this approach Association and its Members effectively share in a total of 50% of the value of Insurance. Association Members will retain continuing Membership in a better capitalised Association which has the financial capacity to continue to provide its current services at current member subscription fee levels, excluding GST (until at least 30 June 2001, thereafter only increasing these in line with CPI) and will also receive 40% of shares in NIGL giving voting rights, dividends, potential capital growth and, ultimately, a marketable interest in NIGL.

Among Association Members we recommend that the 40% of NIGL shares are distributed on the basis set out in Sections 5.10 and 5.11 of this Report.

### Insurance Members

Insurance Members (excluding Association itself as covered above) will receive 50% of the shares in NIGL giving voting rights, dividends, potential capital growth and a marketable

interest in NIGL. Among Insurance Members we recommend that the 50% of NIGL shares are distributed on the basis set out in Sections 5.10 and 5.11 of this Report.

## 5.9 Rewarding Loyalty

### Association Members

The value of the contribution each Member has made to the wealth of the NRMA Group is a relevant concept in determining the allocation of benefits under the Proposal. It would generally be seen as unfair to Members that new entrants should receive the same as long standing Members of (say) 20-30 years standing.

We have considered a number of possible approaches to rewarding loyalty. Of these a reward based on years of Membership appears the simplest and most practical, and given the nature of the membership fee structure, is a good proxy for the Member's loyalty. We therefore recommend that part of any allocation to Association Members should be based on length of Membership of Association.

### Insurance Members

There are various possible bases for rewarding loyalty in the case of Insurance. For the same reasons as outlined above a loyalty reward based on length of Membership would appear intuitively attractive. However, length of Membership of Insurance is not recorded, and would require substantial additional systems work and cost to calculate accurately. Policy duration can be determined, but this data is not completely reliable particularly for commencement dates prior to the introduction of the BONUS administration system in 1987. A further problem with this approach is that current policy duration will not be a good proxy for the underlying duration of a Member's association with Insurance because of Insurance's practice of cancelling policies that become 'total loss' claims and issuing a new Insurance policy to cover a Member's replacement car, home or other insured assets. It can also be argued, from a philosophical perspective, that if Members were to receive annual premium rebates dependent on continued future policy renewals as a form of wealth distribution by Insurance that could be adopted either as an alternative to the Proposal or in addition to it at a later date, then their prospective years of future Membership would be likely to be a more important determinant of the value of their Membership to them than the number of years of their past Membership.

There will also have been certain lines of business which have contributed more to the value of Insurance than others (e.g. Comprehensive Car versus Third Party Property). Arguably, a higher reward could be paid to holders of certain policy types to reflect their past profitability. However this raises practical difficulties if pursued to a high level of detail and some policyholders would argue that this is already reflected to a significant extent by Insurance's no claim bonus and premium rating philosophies which, in part, already reward policies with longer durations in force. Using premiums paid as an allocation basis would tend to favour larger policies and higher risks which would not necessarily be more equitable. However it can be reasonably argued that holders of multiple policies should be entitled to greater rewards for their loyalty to Insurance and the data to assess the number of policies associated with each Member is readily available.

The 1994 demutualisation proposal used years of Membership of Association as a proxy for years of Membership of Insurance on the basis that because Membership of Association is generally a prerequisite of Insurance Membership, there is a strong correlation between the length of Membership of Insurance and the length of Membership of Association. Insurance Members who had allowed their Membership of Association to lapse were treated as new entrants. This had significant advantages in terms of simplicity and availability of data. However, in our view this approach does not sufficiently recognise the fact that Association and Insurance are separate and legally distinct entities. In addition, our recommended allocation of benefits to the vast majority of Insurance Members who are also Association Members is already heavily influenced

by the duration of their Membership of both entities. Accordingly, we do not recommend that this approach be used again.

We recommend that a substantial portion of the value allocated should reflect a measure of the Member's contribution to the value of Insurance. We believe the most practical way to do this is to allocate a part of the benefit on the basis of the number of insurance policies with Insurance that each Member had in force as at the Cut-off Date used for determining eligibility generally for all benefit allocations.

## 5.10 Proposed Allocation of Shares amongst Members

Having considered all of the issues discussed in this Report, and in particular the Members' contribution to the value of the NRMA Group and Members' rights, we have set out below our recommended allocation methodology for distributing the shares in NIGL among the Members of Association and Insurance.

### Association Members

We recommend that half of the 40% of NIGL shares to be allocated to Association Members be allocated on a per Member basis consistent with the 'one Member one vote' nature of Membership. This provides a convenient and viable minimum allocation for Association Members. We recommend that the balance be allocated per year of Membership in recognition of loyalty and contribution to the value of the NRMA Group.

### Insurance Members

We recommend that half of the 50% of NIGL shares to be allocated to Insurance Members (other than Association) be allocated among its Members on a per Member basis consistent with the 'one Member one vote' nature of Membership. This also provides a convenient and viable minimum allocation for Insurance Members. We recommend that the balance be allocated on a per policy basis (i.e. per policy that can be associated with each Insurance Member where the policy is in force as at the MP Cut-off Date). Again this provides a substantial reward for loyalty, and for contributing to the creation of value of the NRMA Group.

The total recommended allocation methodology is set out below in a diagrammatic form.

We note that the allocation method and definitions proposed will exclude insurance policies issued by NRMA Life and SGIO. Similarly, customers of NRMA Group entities such as NRMA Building Society will not participate in the allocation of the NRMA Group's value unless they also happen to be Association Members or Insurance Members. This is considered to be appropriate in recognition of the legal entitlements of these various parties. We have set out in Appendix I to this Report a further statement of principles we considered to be appropriate for the allocation of entitlements under the Proposal.

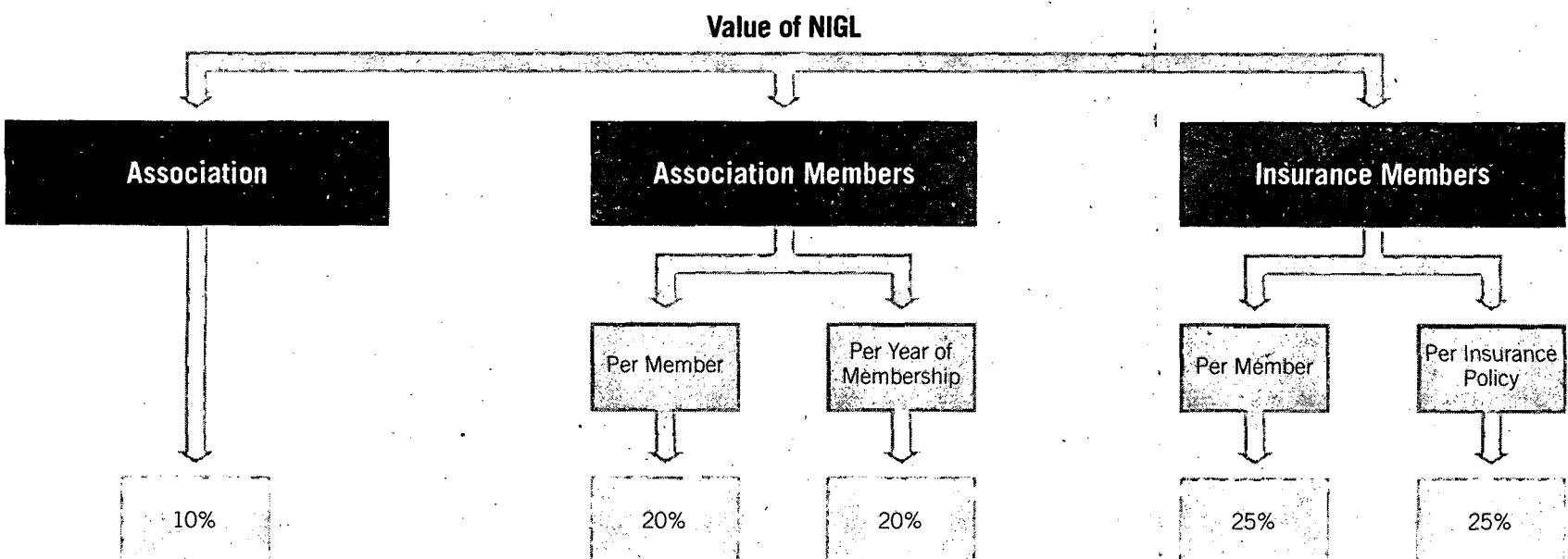
The detailed allocation rules required to effect the allocation as recommended in this Report are set out in Section 8 of the Information Memorandum.

### Lost Members

If the Proposal is approved and implemented, we understand that NIGL will establish clear procedures for dealing with lost Members who become its shareholders. Members become 'lost' where, for a period of at least six years, NIGL has had reasonable grounds for believing that the former Member is not residing at the address shown for the corresponding shareholder in its register. While the address details of some Members held in Association's or Insurance's registers at the time of Insurance's demutualisation may be incorrect, so that they may become lost shareholders six years after NIGL issues shares to them, we anticipate that very few Members will in fact fall into this category.

Where shareholders become 'lost', NIGL may transfer their shares to ASIC in accordance with section 1343 of the Corporations Law. Where dividends remain uncashed for at least six years, they will be dealt with under the relevant unclaimed monies regime.

## BENEFIT ALLOCATION



In our view implementing these procedures in relation to lost Members/shareholders and uncashed dividends are a sufficient and appropriate way of protecting the interests of any Members who have failed to keep Association, Insurance or NIGL informed of their addresses.

### 5.11 Summary of Allocation Rules Recommended

The recommended allocation of entitlements takes into consideration five factors:

- the allocation of shares to Association
- Membership of Association;
- the number of years of Membership of Association;
- Membership of Insurance; and
- the number of Insurance policies that were in force on the Cut-off Date that can be associated with each Insurance Member.

The actual Member entitlements under the Proposal will depend upon the actual date upon which it becomes legally effective (the Register Date). The exact Membership details prevailing on that date are not currently known. Members who do not remain Members until the Register Date will, in many cases, forfeit their entitlement to receive a benefit. However, the form of the benefit allocation proposed makes it possible to estimate total entitlements with a high degree of accuracy, assuming that the Register Date will be between 1 March 2000 and 31 May 2000.

Assuming our recommendations are adopted, we would expect that NIGL would issue a total of approximately 1,465 million shares. Accordingly, the estimated value of NIGL shares would be in the range of \$2.18 to \$2.73 per share based on the total value ascribed to NIGL of \$3.2 billion to \$4.0 billion as set out in Section 5.5 of this Report.

Based on data provided by NRMA Group, we have estimated the expected number of Members of Association, the expected distribution of their years of Membership, the expected number of Members of Insurance and the number of Insurance policies expected to be associated with each of those Insurance Members as at the Register Date using the recommended allocation basis set out below:

- Number of Association Members: 1,684,000;
- Total number of years of Membership of Association Members: 29,348,000;
- Number of Insurance Members: 1,165,000; and
- Total number of policies of Insurance held by its Members: 3,246,000.

Using this data, we recommend that the allocation be made as follows:

- 146,500,000 NIGL shares to Association; and
- 174 NIGL shares for each Association Member, plus
- 10 NIGL shares for each year of Membership of Association, plus
- 314 NIGL shares for each Insurance Member, plus
- 113 NIGL shares for each Insurance policy in force at the Cut-off Date that can be associated with each Insurance Member.

For the purposes of this recommendation, the definitions set out in Sections 8 and page 155 of the Information Memorandum should apply.

### 5.12 Illustration of the Value of Benefits to be Allocated

Indicative values of the shares in NIGL to be distributed to Association Members and Insurance Members (other than Association itself) are set out below based on the recommended allocation principles and the range of estimated values of \$3.2 billion (low) to \$4.0 billion (high) applicable to the total value to be distributed under the Proposal as estimated in Section 5.5 of this Report.

The illustrative values set out below are based on the Membership data set out in Section 5.11 of this Report above.

The following tables illustrate the estimated Member benefits under the recommended allocation principles depending upon the ultimate value of the shares in NIGL and the total estimated value of NIGL shares at \$3.2 billion, \$3.6 billion and \$4.0 billion respectively, consistent with the estimated range of values for NIGL's shares set out in Section 5.5 of this Report.

#### Low Value Scenario (\$3.2 billion)

Association Years of Membership	Number of Insurance Policies					
	0 (\$)	1 (\$)	2 (\$)	3 (\$)	4 (\$)	5 (\$)
1	401	1,332	1,578	1,825	2,071	2,317
2	423	1,354	1,600	1,846	2,093	2,339
3	445	1,376	1,622	1,868	2,115	2,361
4	467	1,397	1,644	1,890	2,136	2,383
5	488	1,419	1,666	1,912	2,158	2,405
10	597	1,528	1,775	2,021	2,267	2,514
15	706	1,637	1,884	2,130	2,376	2,623
20	815	1,746	1,993	2,239	2,485	2,732
25	924	1,855	2,102	2,348	2,594	2,841
50	1,469	2,400	2,647	2,893	3,139	3,386

#### Medium Value Scenario (\$3.6 billion)

Association Years of Membership	Number of Insurance Policies					
	0 (\$)	1 (\$)	2 (\$)	3 (\$)	4 (\$)	5 (\$)
1	453	1,503	1,781	2,059	2,337	2,615
2	477	1,528	1,806	2,084	2,362	2,640
3	502	1,552	1,830	2,108	2,386	2,664
4	526	1,577	1,855	2,133	2,411	2,689
5	551	1,601	1,879	2,157	2,435	2,713
10	674	1,724	2,002	2,280	2,558	2,836
15	797	1,847	2,125	2,403	2,681	2,959
20	920	1,970	2,248	2,526	2,804	3,082
25	1,043	2,093	2,371	2,649	2,927	3,205
50	1,658	2,708	2,986	3,264	3,542	3,820

#### High Value Scenario (\$4.0 billion)

Association Years of Membership	Number of Insurance Policies					
	0 (\$)	1 (\$)	2 (\$)	3 (\$)	4 (\$)	5 (\$)
1	502	1,668	1,977	2,285	2,594	2,902
2	530	1,695	2,004	2,312	2,621	2,929
3	557	1,723	2,031	2,340	2,648	2,957
4	584	1,750	2,058	2,367	2,675	2,984
5	612	1,777	2,086	2,394	2,703	3,011
10	748	1,914	2,222	2,531	2,839	3,148
15	885	2,050	2,359	2,667	2,976	3,284
20	1,021	2,187	2,495	2,804	3,112	3,421
25	1,158	2,323	2,632	2,940	3,249	3,557
50	1,840	3,006	3,314	3,623	3,931	4,240

## 6 Reliances, Disclosures and Consents

### 6.1 Reliance

In preparation of this Report, we have relied on information furnished to us by or on behalf of NRMA Group. Reliance was placed on, but not limited to, the accuracy of information regarding current and historical operating experience, in-force Membership and insurance policy data (including Membership and policy terms and conditions), valuations of assets, historic and projected financial statements and regulatory returns, terms of reinsurance arrangements and reports on the Proposal, advice provided by legal advisers to the NRMA Group, Association and Insurance and NRMA Group's internal management practices and business plans (including their state of preparation of systems and processes for the Year 2000). Although we have reviewed information provided to us for reasonableness and consistency, we have not independently verified the accuracy of this information. The accuracy of the conclusions included in this Report is dependent on the accuracy of the information provided to us.

### 6.2 Disclosures and Consents

Unlike the Independent Financial Experts, PricewaterhouseCoopers Securities Limited ('PwCS') as Consulting Actuary has been involved in the development of the Proposal and therefore cannot be described as being independent of the Proposal as defined in ASIC Practice Note 42. PwCS believe that they are capable of providing this report and advice in a manner which is professional and unbiased. The connections between PwCS and the NRMA Group are set out below.

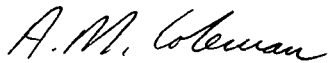
Various partners and staff of PwCS and its parent entity PricewaterhouseCoopers ('PwC'), including the author of this Report, are Association Members and Members and policyholders of Insurance. Any entitlement that these parties may receive as a result of the Proposal being approved and implemented will be calculated in the same way as for all other Members.

Both PwCS and PwC have undertaken various professional engagements for entities within the NRMA Group over the past two years including, in particular, actuarial advisory work in relation to provisions for outstanding claims and assignments related to the installation of new computer systems. PwC also conducts its motor vehicle insurance with Insurance. In addition, PwC is the auditor of RACV Insurance (now renamed IMA), which recently entered into an alliance with Insurance.

PwCS has received a professional fee for work on the Proposal based on the time spent in the provision of its advice and the drafting of this report. The quantum and payment of that fee is not contingent in any way on the outcome of the Proposal. Neither PwC nor PwCS has any pecuniary or other benefit or interest whether direct or indirect in connection with the making of this report or the provision of its advice on the Proposal.

PwCS has given, and not withdrawn, its written consent to the inclusion of this Report in the Information Memorandum in the form and context in which it is included. However, PwCS has not otherwise authorised or caused the issue of this Information Memorandum and takes no responsibility for its contents.

Yours faithfully



A M Coleman BA, MBA, FIA  
Fellow of Institute of Actuaries of Australia  
Director and Authorised Representative

## Consulting Actuary's Report – Appendix 1

### Principles of Allocation of Entitlements

It is intended to allocate entitlements to Members of both Association and Insurance. Membership of Insurance arises from the Membership rules contained in the constitution of that company. Those rules reflect a general principle (subject to some exceptions) that Insurance Membership would not normally be provided to a person unless the person was a Member of Association.

In order to facilitate the Proposal, achieve certainty and to stop improper acquisition of rights, the date on which entitlements shall be determined is midnight, 25 February 1999 (the Cut-off Date). A lapse of Membership after that date could result in entitlement being lost. A second date (the Register Date) will also need to be established at a date when the Proposal is to become legally effective.

Membership Principles have been established by the Boards of Association and Insurance which provide for circumstances where a person may have been a Member at the Cut-off Date but for some reason had failed to renew that Membership. These principles will allow various classes of persons who have failed to renew a Membership to be treated as being Members on the Cut-off Date where they actually renew their Membership after that date.

Consistent with the above, persons seeking new Membership of Association after the Cut-off Date should be issued with a contract for the provision of road and other associated services and should not be Association Members. These persons will not be entitled to vote at the meeting of Members. New insurance policies issued after the Cut-off Date will not qualify for an entitlement (except where, subject to certain conditions, the new policy renews or replaces, prior to the Register Date, a policy which was held at the Cut-off Date).

Special situations arise in the case of staff. Under the current constitution of Association, staff are admitted as Members on the basis that any fees are waived. The current constitution was amended in November 1992 and prior to that staff had been able to become Members in a special class of honorary non-voting Membership. On joining the company a member of the staff was entitled to become a Member. Since November 1992, staff have been entitled to become voting Members. For various reasons some staff did not exercise their right to become a Member although it did not involve payment of any money. That raises issues as to the fair and equitable treatment of staff both as amongst themselves and in comparison with other Members. For equity and practical reasons, it is recommended that staff (other than those employed by SGIO) who are not Association Members be offered Membership of Association that is deemed for the purposes of the Proposal to be backdated to commencement of their most recent period of continuous permanent employment with the NRMA Group.

Therefore, all employees (other than those employed by SGIO) who were not Association Members as at the Cut-off Date would be offered Membership of Association. The deemed period of Membership would be equal to each employees' most recent period of continuous permanent employment as at the Cut-off Date.

Likewise, all employees (other than those employed by SGIO) who are currently Association Members whose Membership period is shorter than their most recent period of continuous permanent employment, would be deemed to have their Membership extended to equal this employment period. These provisions covering permanent employees do not apply to casual employees or contractors to the NRMA Group under the Membership Principles.

It is appropriate that entitlements which stem from Membership of Association be provided to the person who is the Member of Association and, in the case of entitlements which stem from Membership in Insurance, to the person(s) who are Member(s) holding a relevant policy. In a number of cases, a Member of Insurance and the close associates of that Member may hold a number of policies with Insurance. Therefore, it is possible that a Member of Insurance might hold a policy in his or her own name and another policy may be held jointly with a close associate. In these circumstances, it is considered that the most appropriate way is to provide that the entitlement referable to Membership of Insurance would count two policies, one for the directly held policy and one for the jointly held policy held with the close associate. It is recognised that this could lead to some jointly held policies being counted 'twice' (or more) where each of two or more joint policyholders are also Insurance Members. This means that where there are two single Members who have a joint policy, that policy will count twice, once for each Member.

In accordance with the above general principles, we recommend that the Share Allocation Rules as set out in Section 8 of the Information Memorandum be used for the purposes of allocating benefits under the Proposal.

## Consulting Actuary's Report – Appendix 2

### Additional Actuarial Assessments

As part of our review of the capital adequacy of the NRMA Group, we have completed a number of actuarial assessments of specific parts of the NRMA Group's business as set out below.

#### 1.1 Outstanding Claims Provisions of Insurance and SGIO

We have been asked to provide an independent assessment of the balance sheet provisions for outstanding claims of Insurance as at 30 June 1999.

The assessment is in respect of the general insurance business of Insurance and the general and health insurance business of SGIO. It does not include the life insurance business of NRMA Life, which is dealt with elsewhere in this Report. Our assessment is made in the context of Accounting Standard AASB1023.

The liability for outstanding claims of an insurance business at any balance date is uncertain. This uncertainty pertains both to reported claims and to claims incurred but not reported at the balance date. The use of actuarial techniques allows for the expected level of future claims to be assessed within reasonable measures of probability thereby allowing for the provisions that need to be held to meet those claims to be estimated.

In broad terms, the estimation procedure consists of the following steps, to be made at the relevant balance date:

- estimate, in respect of claims incurred prior to that date, the insurer's claim payments period by period into the future;
- estimate the insurer's expenditure in the administration of these claims period by period into the future;
- estimate any recoveries due to the insurer, by virtue of reinsurance or any other source, period by period into the future; and
- calculate the liability for outstanding claims as the present value at the balance date of the insurer's estimated net cash outgoing as found in (a) to (c) above.

Fundamental to actuarial estimation of the outstanding claims liability is the establishment of a mathematical model of the claim payment which serves to predict future claims payments on the basis of historical data and estimate the degree of uncertainty inherent in the estimate.

Different models of the claims process will be sensitive to different features of the data available. When calibrated by reference to historical experience, the models can be used to provide forecasts of claims payments to be made in each future year in respect of claims incurred prior to the balance date.

The estimates finally adopted as best estimates (or central estimates in the sense described below) of liability are often determined as a compromise between the individual estimates of liability provided by different models. The compromise reflects theoretical considerations concerning the strengths and weaknesses of different models and also reflects empirical results, such as the desirability of consistency in various model claim development outcomes over time.

The effects of future inflation and the discounting to present values can be incorporated by reference to the claims cash flows of individual future years forecast by the model.

The essence of actuarial assessment of outstanding claims liability is that it involves estimation of an unknown quantity. Some of the factors affecting uncertainty in the actuarial estimates can be quantified. However, some elements do not render themselves to formal assessment. Moreover, the estimate may be subject to influences which vary in an unforeseeable manner after the balance date.

The central portion of the statistical distribution of the many possible outstanding claims outcomes represents those outcomes with the greatest likelihood of occurring. The central estimates referred to above is usually chosen as the mean (or average) of the distribution of predicted outcomes.

Because of the uncertainties inherent in the estimation process, the management of an insurance company will generally consider it prudent to adopt a provision for liability which has a significantly greater chance than 50% of ultimately proving to be at least adequate to meet the liability concerned. The margin over the central estimate constitutes a prudential margin. The size of the prudential margins is, like capital requirements, dependent upon the desired level of confidence in adequacy and the level of variability of claims experience.

The methodology described above has been applied to the claims experience of the various lines of business of Insurance and SGIO.

The provision for outstanding claims, net of reinsurance and other recoveries, in respect of these lines of business is set out in the table below. These estimates include allowance for claims incurred but not reported at the balance date, future inflation and expenses associated with the administration of the claims generating the liability, all discounted to the balance date in recognition of the future investment income to be earned by the provision being made for the liability. The rates of return used in the discounting are those expected to occur over future years on the basis of market conditions in riskless fixed interest securities at the balance date.



Both Insurance's and SGIO's provisions for outstanding claims include allowance for the anticipated impact of a new taxation system (and in particular the introduction of GST). The increases in outstanding claims provisions for Insurance and SGIO in respect of GST at 30 June 1999 are some \$51 million and \$5 million respectively.

#### Outstanding Claims Provisions – General and Health Insurance

Company Balance Date	Insurance 30/6/99 \$m	SGIO 30/6/99 \$m	Total 30/6/99 \$m
Provision for Outstanding Claims	2,524	348	2,872
Allowance for Outstanding Claims Recoveries	498	73	571
Net Provision for Outstanding Claims	2,026	275	2,301
Recoveries in Respect of Claims Already Finalised	105	9	114
Recoveries under AON Contract	34	-	34
Net Provision as in Actuarial Estimates	2,165	284	2,449

Based on our understanding of prevailing market practice and taking into account the profile of Insurance's business, we have formed the view that management's determination, in the aggregate, of the NRMA Group's provisions for outstanding claims is reasonable and includes significant prudential margins. Moreover, the level of adequacy is generally consistent with the reserving policy adopted in immediately preceding years.

#### 1.2 NRMA Life

##### Embedded Value

We have been asked to provide an independent assessment of the embedded and the appraisal values of NRMA Life as at 30 June 1999.

Our assessment has been made in accordance with the Institute of Actuaries of Australia's professional standards and guidance notes.

We have calculated the Embedded Value of the statutory funds as at 30 June 1999 to be in the range of \$128 million to \$138 million.

The Embedded Value represents the value of the shareholders' interest in the Net Worth of the statutory funds together with their entitlement to share in future distributable surpluses in respect of policies in force at the balance date. No allowance for the value of future business is made for this purpose.

The net worth of the statutory funds has been determined from the statutory surplus of the funds with adjustments for contingency reserves held on a prudential basis that are not expected to be required on a realistic basis.

The value of in force business has been determined from cash flow projections of the business in force at 30 June 1999 using assumptions regarding future mortality, discontinuances and expenses based on recent analyses of the company's experience and expected future experience, and allowing for statutory liabilities and the retention of target surplus in the statutory funds. The projected long term earning rate of the funds was determined having regard to the asset mix of the statutory funds and current investment yields. A discount rate of 11% p.a. (after tax) was used.

##### Appraisal Value

We have calculated the appraisal value of NRMA Life as at 30 June 1999 to be in the range of \$140 million to \$160 million. The appraisal value represents the embedded value plus the assessed value of NRMA Life's new business expected to be written after 30 June 1999.

#### 1.3 Financial Position of NRMA Staff Superannuation Plan and SGIO Superannuation Plans

The financial position of the NRMA Group staff superannuation funds (which include the NRMA Superannuation Plan and two SGIO group superannuation funds) as at 30 June 1999 has been reviewed by the consulting actuaries to those funds.

The assessment of the financial position of the superannuation funds has been undertaken so as to ascertain the extent to which benefits earned are already funded and to assess the likely level of employer contribution rates required going forward.

As at 30 June 1999, on the valuation assumptions adopted, which we consider to be appropriate, the combined plans had a surplus (the net market value of assets less the net present value of accrued past service liabilities) of approximately \$270 million. The combined plans were therefore in a very sound financial position as at 30 June 1999.

On the basis that the three NRMA Group staff superannuation funds are amalgamated as intended into the NRMA Superannuation Plan, the consulting actuary to the NRMA Superannuation Plan has recommended that the employer contributions be suspended. It is estimated that such a contribution holiday could be sustained for 8 years for the combined plans before the surplus was fully utilised. The NRMA Group has accordingly chosen to suspend employer contributions. Once the surplus is utilised, (expected to be in 8 years' time), the employer contribution rate for the combined plans would be expected to revert to a long term expected rate of approximately 13% of salaries.

## Consulting Actuary's Report – Appendix 3

### Taxation and Social Security Benefits – Implications for Members

#### Australian Taxation

The following comments are a general guide only. Members should seek professional tax advice on their own circumstances.

The following comments are based on the assumption that the provisions contained in Division 9AA of the Income Tax Assessment Act 1936 apply to the proposed demutualisation of Insurance. The Australian Taxation Office has been requested to provide written confirmation to this effect.

The Federal Government has also announced an intention to change various aspects of taxation in response to the Ralph Committee's Report on business taxation. At the date of writing, many of these changes have not been passed by Parliament and are not referred to herein. Members are advised to seek advice on the progress of these proposals as they may affect their own circumstances.

#### Taxation Consequences of Disposing of Rights as a Member of Insurance

On demutualisation there is a disposal of Membership rights in Insurance and an acquisition of shares in NIGL. No taxation liability arises as a result of these transactions.

#### Taxation of Dividends Received from NIGL Shares

Resident Australian shareholders must include in their assessable income the amount of dividends received.

For resident Australian individuals and superannuation funds the attached franking credit is also required to be included in assessable income. The franking credit can generally be claimed against tax payable up to the total tax payable by the tax payer.

Resident Australian private companies are entitled to an inter-corporate dividend rebate for the franked portion of any dividend received. Any unfranked amount is not eligible for the inter-corporate dividend rebate and will be taxed accordingly. Public companies are entitled to a rebate for the whole amount of dividends received.

All companies are able to credit their franking account for the franked amount of any dividend they receive.

Usually, the shares must be held at risk for at least 45 days to be able to claim the franking rebate, and in the case of companies, credit the franking account.

Non residents of Australia may be subject to Australian withholding tax.

#### Taxation upon Disposal of NIGL Shares

The shares acquired as a result of the demutualisation will be subject to capital gains tax (CGT) provisions.

The shares issued to former Members will be deemed to have been purchased at the date of demutualisation for a value equal to the lower of:

- net tangible assets per NIGL share of Insurance (estimated to be \$1.51 per NIGL share as at 30 June 1999); and
- the final price at which the shares are traded on the Listing Date.

The deemed purchase price is the cost base for CGT purposes.

If the shares are sold for an amount greater than the cost base, the difference, being a capital gain, is included in assessable income. If the shares have been held for greater than twelve months the cost base is adjusted for inflation (indexation).

If the shares are sold for an amount less than the cost base, a loss will result and the loss can only be set off against capital gains in the same, or future years. In addition, indexation cannot be used to create or augment a capital loss.

Shares purchased subsequent to listing will have a cost base equal to the amount paid plus acquisition and disposal costs.

Transfers of shares to family members will also constitute a disposal, even if the seller does not receive anything. The sale price is deemed to be the market value.

The above comments do not apply to shareholders who are in the business of buying and selling shares, that is, share traders or entities that hold their assets on revenue account.

Non residents of Australia for tax purposes will generally not have to pay Australian tax on any capital gain on disposal of shares.

The transfer of shares that will occur as a result of a disposal will generally attract a liability to pay stamp duty in Australia, but no stamp duty is payable by Members or shareholders on the initial issue of shares which will occur on demutualisation.



### Social Security Benefits and Pensions

Owning, buying and selling shares can have effects on social security benefits and pensions. As the effects are dependant on individual circumstances, Members should seek their own advice. The following is a general guide only.

Social security benefits and pensions may be impacted as a result of the Proposal because recipients of these benefits may be affected by the various asset and income tests which apply. Certain social security benefits are not payable at all if the claimants assets exceed allowable asset limits (see below). Other forms of social security, notably pensions, are decreased by \$3 per fortnight (single or couple) for each \$1,000 of assets in excess of the allowable asset limits.

Payments which are not payable at all if the assets test thresholds, detailed below, are exceeded include:

- Parenting Payment (single) which is paid to a lone parent who has a dependent child under 16 years in their care and control;
- Parenting Payment (partnered) which is paid to partnered parents with a dependent child under 16 years in their care and control;
- Newstart Allowance which is paid to an unemployed person over 21 years who is undertaking activity test obligations;
- Austudy Payment which is paid to full-time students who are over the age of 25 years;
- Youth Allowance which is paid to an unemployed young person between the ages of 16 and 21 years and a full-time student between the ages of 16 and 24 years;
- Mature Age Allowance (granted after 1 July 1996) which is paid to people over 60 years of age and under age pension age who have been in receipt of other income support payments for nine months prior to claiming payments, or have received a payment of a pension or a non-activity tested allowance in the 13 weeks preceding the claim;
- Sickness Allowance which is paid to a person who is temporarily incapacitated for work and cannot work or study for more than eight hours per week;
- Partner Allowance which is paid to people born on or before 1 July 1955 and who are a member of a couple, who have no recent workforce history and have no dependent children;
- Widow Allowance which is paid to women aged 50 or over, who are not a member of a couple and have separated or been widowed since turning 40 and have no recent workforce history; and
- Special Benefit which is paid to a person who is not entitled to any other social security payments and who have no sufficient livelihood

Those people who are receiving Disability Support Pension, Carer Payment, Wife Pension, Parenting Payment (single) and Age Pension are paid the pension rate of payment which is indexed in March and September each year. The pension rates as at 20 September 1999 are \$366.50 (single) per fortnight and \$305.90 (partnered) per fortnight.

Those people receiving Newstart Allowance, Austudy Payment, Sickness Allowance, Partner Allowance, Parenting Payment (partnered), Widow Allowance and Special Benefit are paid \$326.70 (single) per fortnight and \$294.70 (partnered) per fortnight.

People who are in receipt of Mature Age Allowance receive \$353.40 (single) per fortnight and \$294.70 (partnered) per fortnight.

People who are in receipt of Youth Allowance receive a different rate of payment depending on their age or circumstances.

### Asset and Income Tests

The allowable asset limits are indexed each 1 July with CPI. Figures as at 1 July 1999 are:

	Homeowner	Non-homeowner
Single	\$127,750	\$219,250
Couple	\$181,500	\$273,000

Pensions are reduced (as set out above) if the above asset limits are exceeded and are also reduced by \$0.50 per dollar (single) or \$0.25 per dollar each (couple) for each dollar by which the pension recipient's other income exceeds the following limits:

- Single \$102 per fortnight
- Couple \$180 per fortnight (combined)
- Additional children \$24 per fortnight per child.

Recipients of Youth Allowance and Family Allowance are subject to a different assets test linked to family means.

Youth Allowance recipients are generally paid subject to their parents' income and assets test, unless the young person is paid the independent rate. Once the parental assets exceed \$410,000 then no Youth Allowance is payable.

Family Allowance is also not payable once the family assets exceed \$410,000.

For the purposes of applying these tests, all assets, other than those defined as exempt, are assessable. Listed shares are included at market value, while private shares are valued based upon 'net asset backing per share'. The latter is defined as 'the amount of surplus capital that would accrue to each share if the company wound-up'.

Exempt assets are:

- value of the principal residence of the person, or their partner;
- value of any life interest of the person other than:
  - principal home;
  - a life interest created by the person or their partner, or upon death of the person's partner;
- value of any assets-test exempt income stream;
- any amount that is received via a 'Home Equity Conversion Loan' within the past 90 days (up to \$40,000 only);
- value of any granny flat interest in the principal home or sale leaseback home arrangement (i.e. has right to residence);
- value of any assets to which the person is entitled from an estate but is not able to receive;
- value of any cemetery plot or funeral expenses paid in advance;
- value of any insurance or compensation payments received because of loss within the past 12 months; and
- value of any native title rights.

### Gifting

Current legislation allows amount up to \$10,000 per pension year to be given away by a pensioner in gifts or financial assistance without reducing their pension or benefits. In fact, if the pensioner was subject to the assets test prior to disposal of the assets, then their pension may increase. Proposed revised legislation would set the allowable amount as \$5,000 and the pension year would be replaced by financial year. Amounts up to this level may be given each period (either pension or financial year).

If the amount gifted is greater than the limit, the excess is treated as a 'deprived asset' and income deemed therefrom for a period of five years.

The pension year is that period of 12 months beginning on the day in which the pension, benefit or payment first became payable to the person, or the person's partner, whichever is earlier, and each following and preceding 12 months. In other words, with some exceptions, the pension year is the anniversary of first payment.

## Consulting Actuary's Report – Appendix 4

### Insurance and Financial Services Trade Marks

As part of the Proposal, certain trade marks (the Trade Marks) are assigned from Association to the Insurance Group. The value of this assignment of the Trade Marks has been taken into account in developing the Allocation of Entitlements as set out in Section 5 of this Report.

In order to determine the value of the Trade Marks, consideration was given to the following:

- it is only the Trade Marks that are being assigned, with the other elements of business generating infrastructure and goodwill of Insurance (such as customer lists, physical distribution systems, business methodologies and company names) being already owned by Insurance;
- a large portion of the value of the Trade Marks to Insurance has been built up because of their use by the Insurance Group, including its contribution to their value through advertising and sponsorship;
- stringent protocols and controls have been placed on the use of the Trade Marks under the Proposal;
- there are limitations on the use of the Trade Marks in Victoria (where RACV operates), Western Australia and South Australia (where SGIO and SGIC operate);
- the likely costs (estimated in connection with work done on the Proposal to be in the range \$15 million to \$30 million) that would be associated with Insurance establishing a new brand name, including:
  - research regarding the public perception of the current brand name;
  - design of the new brand name;
  - registration of the new brand name;
  - implementation of the new brand name, including signage, stationery and promotion.

The only broadly comparable brand name licensing agreement that we are aware of was entered into in 1999 in the USA, when Allstate Insurance purchased the personal Property and Casualty business of CNA Insurance and licensed the use of the CNA name for this business for 6 years following the purchase. For this licence, Allstate agreed to pay CNA 1.5% p.a. of the premium revenues derived from this business. Should this precedent be applied to the relevant projected NRMA revenues in perpetuity, a present value of the order of \$300 million to \$400 million would result. However, while the Allstate/CNA transaction included the assignment of the relevant trade marks, for the reasons indicated above there are many unique factors and limitations involved in the assignment of the Trade Marks under the Proposal, and we believe that the value to Insurance of these Trade Marks is significantly less than a figure based on the Allstate/CNA transaction.

Based on these considerations, and in particular based upon a consideration of the alternative of establishing a new brand name, it is our assessment that the value of the Trade Marks would be not more than \$30 million to \$40 million.

# 13. Additional information

## 13.1 No offer, invitation or solicitation with respect to Shares

This document is not a prospectus. If the Proposal goes ahead, Shares will be issued to Members. However, this document does not constitute:

- an offer or invitation to issue or sell Shares by any person; or
- an offer or invitation or the solicitation of an offer to subscribe for, or buy, Shares by any person.

The document should not be construed as implying any such offer, invitation or solicitation.

If the Proposal goes ahead, the NIGL Board intends to issue an offer document before the Listing Date, setting out detailed financial and other information.

## 13.2 Background to the review of NRMA corporate and membership structure

The NRMA Boards have considered several reviews of the structure for the NRMA Group for a number of years (see pages 18 to 19). As part of that process, a number of external reports have been commissioned. This Section summarises the findings of each of those reports. No report referred to in this Section has been updated since the date of that report as specified in the summary below.

### Reports prior to 1994 demutualisation proposal

Shortly before the 1994 demutualisation proposal two external reports were commissioned by the NRMA Boards for the purpose of considering structural reform of the NRMA.

#### **Macquarie Corporate Finance Limited draft report**

Macquarie Corporate Finance Limited was asked to review Insurance's existing structure and formulate recommendations for reform. On 14 February 1992, Macquarie Corporate Finance submitted a draft report which recommended that Insurance be demutualised by converting it into a shareholder-owned company and shares in Insurance be listed on the Australian Stock Exchange.

Macquarie Corporate Finance indicated that the reasons for this draft recommendation were problems with the existing structure, including the inappropriateness, in its view, of the mutual structure to Insurance's business and financial position, the need to deal with surplus capital, the inability of members to realise value and the need for a more efficient and flexible structure.

In the draft report, Macquarie Corporate Finance identified a number of criteria against which options for structural change were evaluated. The criteria identified were: unlocking owner value, capital efficiency, owner-imposed management disciplines, fairness, commercial opportunities and preservation of commercial links with Association. Using the criteria Macquarie Corporate Finance concluded that the following alternatives were inferior to the demutualisation and listing of Insurance:

- maintaining the status quo;
- ensuring that Insurance is owned and controlled by policyholders and providing for policyholder participation through 'policy bonuses';
- partial demutualisation, through the introduction of a second class of commercial shareholder members;
- demutualisation and listing of both Insurance and Association;
- making Insurance a wholly-owned subsidiary of Association; and
- sale of Insurance's business.

While aspects of the report were presented to the Boards, it was never formally considered at Board level.

#### **BT Corporate Finance Limited report**

In a report dated 27 October 1993, BT Corporate Finance Limited analysed NRMA's existing structure. BT Corporate Finance recommended in the report that Association and Insurance be demutualised. It recommended that Association and Insurance each become a subsidiary of another company and that shares in that company be listed on the Australian Stock Exchange.

This recommendation was made in the belief that it best addressed the problems identified with the existing structure and would best position the NRMA Group for long-term growth. There were three key problems with the existing structure identified

in the report. First, problems with future growth. In the report, BT Corporate Finance Limited stated that because of the inability to distribute the proceeds of commercial activities, the present NRMA structure is not an efficient or appropriate basis upon which to expand the NRMA's operations. Second, the distribution of surplus capital under the present structure is both difficult and inefficient. Third, problems with governance. BT Corporate Finance commented that under the present NRMA structure there is no symmetry between voting rights and economic interest and that this promotes apathy and may allow minority interests to gain control of the NRMA's substantial resources through control of the NRMA Boards.

The other alternatives considered in the report which were considered less attractive than the demutualisation of Association and Insurance were:

- maintaining the status quo;
- distributing surplus cash;
- demutualising Insurance and listing;
- listing a subsidiary entity owned by Association, Insurance and the public;
- merging Association and Insurance and listing the merged entity; and
- demutualising Association and listing.

In addition, as an alternative to listing shares upon demutualisation, the report considered (and rejected) creating a private exchange so shares could be traded.

#### **1994 demutualisation proposal**

As a result of court action, the resolutions to implement the 1994 demutualisation proposal were never passed by members of Association and Insurance.

A director of Association and a director of Association and Insurance commenced court action challenging the 1994 prospectus on two grounds. First, that the prospectus and other information provided to members did not enable Association members and Insurance members to make an informed and critical assessment of that proposal. Second, that the distribution of the prospectus and other documents to members constituted misleading or deceptive conduct for the purposes of the Trade Practices Act.

The issues were first considered by a single judge of the Federal Court. In a judgment given in October 1994 the court concluded that the prospectus did not provide sufficient information concerning the proposal and that the references to 'free shares' in the prospectus were misleading and deceptive. An injunction was granted which prevented the further distribution of documents to members and prevented the meetings of Association and of Insurance to consider the proposal from proceeding.

The NRMA Group companies involved appealed against the decision to the Full Court of the Federal Court of Australia. In January 1995 the appeal decision was delivered. The Full Court found that the distribution of the prospectus did involve engaging in misleading or deceptive conduct but did so in part on a different basis to the trial judge. The order restraining the distribution of documents and proceeding with the meeting was varied to allow it to be lifted with leave of the court. The judgment of the Full Court left open the possibility that the 1994 proposal could be implemented by the issuing of a supplementary prospectus to rectify the matters giving rise to the misleading and deceptive conduct.

The NRMA Group, however, abandoned the 1994 demutualisation proposal after receiving advice on a High Court decision delivered in March 1995 concerning corporate restructuring. The advice indicated that, in order to succeed, the 1994 demutualisation proposal needed to be reformulated. Before the 1994 demutualisation proposal was abandoned, the NRMA Boards obtained an independent expert's report from Grant Samuel & Associates Pty Limited evaluating the proposal and made the report available to members.

### Reports since 1994 demutualisation proposal

#### **Grant Samuel report**

The Grant Samuel & Associates Pty Ltd report was submitted on 29 March 1995. The report set out Grant Samuel's opinion of whether:

- the proposal contained in the 1994 prospectus was in the interests of Association and Insurance and their respective members;
- the proposal contained in the 1994 prospectus was fair and reasonable as regards Association, the members of Association, Insurance and the members of Insurance; and
- any alternative proposals existed which might achieve the requisite fair and reasonable outcome but in a better manner to the proposal contained in the 1994 prospectus.

Grant Samuel concluded that demutualisation was in the best interests of Association and Insurance and their respective members and that the 1994 proposal was fair and reasonable. Grant Samuel also concluded in the report that there were no alternative restructuring proposals at that time which would achieve a better outcome.

Grant Samuel expressed the view that corporate entities are more effective vehicles than mutuals for carrying out large commercial operations and that NRMA had outgrown its present structure. The principal reasons for Grant Samuel's conclusion that the 1994 proposal was in the best interests of, and was fair and reasonable as regards to, Association and Insurance and their respective members were based on the advantages of the proposal in relation to issues of governance, capital raising, the ability of members to unlock value and market disciplines on management. Grant Samuel also considered that the arguments put forward against demutualisation did not outweigh the benefits of demutualisation. In addition, Grant Samuel expressed the opinion that demutualisation of Association and Insurance should not have a material impact on the cost or quality of road service.

Grant Samuel concluded that the following alternatives were not better than the demutualisation of Association and Insurance:

- separate demutualisation and listing of Insurance with agreement of Association in relation to the use of the NRMA name and sharing of commercial facilities;
- separate demutualisation and listing of Insurance with Association retaining a substantial shareholding;
- separate demutualisation and listing of Insurance with Insurance retaining control or influence over Association through a golden share; and
- the sale of Insurance.

Grant Samuel considered in some detail the possibility that Association remain a mutual and only Insurance be demutualised and listed. In the report Grant Samuel expressed the view that separating the two organisations does not recognise that the strength of the NRMA Group results from the combination of the two businesses. On this point, Grant Samuel stated that the relationship with road service is fundamental to the competitive advantage of Insurance and that problems for existing Association members (such as governance and the inability to unlock member value) would remain unresolved if Association was not demutualised. Grant Samuel also perceived that difficulties for each of Association and Insurance would arise through complexities and tensions associated with the relationship between them, such as establishing workable contractual arrangements between Association and Insurance.

However, the NRMA Boards decided to abandon the 1994 proposal in May 1995, in light of legal advice that the proposed implementation route was probably prevented by the above-mentioned March 1995 judgment of the High Court of Australia and in light of the uncertainty that the required majority members would vote in favour of the demutualisation, given the above mentioned judgments of the Federal Court of Australia.

#### **Sir Laurence Street report**

On 22 May 1997, Sir Laurence Street, the former Chief Justice of the New South Wales Supreme Court, delivered a report to the Corporate Governance Committee appointed by the NRMA Boards. Sir Laurence Street was retained by that Committee to make recommendations regarding an appropriate code of conduct to govern relationships between directors and between directors and management of the NRMA and a course of action to improve corporate governance. Although the report did not focus on structural reform of the NRMA, there are statements in the report supporting structural change. In particular, comments that the present corporate structure does not meet the requirements of a major commercial undertaking. In the report, Sir Laurence Street indicated that he thought it preferable to refrain from recommending reform of management and subsidiary boards until a decision regarding the restructuring of the whole NRMA Group had been made. The recommendations contained in this report were implemented in part only.

#### **McKinsey & Company report**

McKinsey & Company was asked by the Association Board to consider proposals to simplify the mutual structure and membership of the NRMA. McKinsey & Company was expressly requested to assume that a mutual structure would continue and was not asked to examine demutualisation as an alternative structure. McKinsey & Company was also required to assume that the NRMA would pursue a member or client-centred business plan (as set out in the NRMA's *Motoring, Home & Money Strategy*). McKinsey & Company submitted recommendations on the proposals and a business case on 19 February 1998.

McKinsey & Company recommended that Insurance become a wholly-owned subsidiary of Association, which would become the only mutual entity. Insurance membership (other than Association's membership) would be extinguished. This proposal was described as the 'One Mutual' proposal.

McKinsey & Company identified a number of principal potential benefits for the NRMA moving to a 'One Mutual' structure. These were greater strategic focus through becoming one organisation, financial advantages associated with improved flexibility and efficiency (with an estimated present value of future cost savings, after implementation costs, of \$12 million), increased flexibility in structuring the NRMA Group and entering into partnerships and alliances and a reduced risk of legal conflicts for directors (as Insurance members' interests would not need to be considered separately). Alternative means of achieving these benefits were not considered in the report.

The other proposal considered in the report was to extend membership to customers who are not currently members. McKinsey & Company also recommended that the Association Board consider this other proposal after addressing the 'One Mutual' proposal. However, in May 1998 the Boards received legal advice that they had an obligation to consider all structures.

#### **Credit Suisse First Boston report**

Credit Suisse First Boston was engaged to consider potential corporate and membership structures for the NRMA Group and to identify and evaluate practical alternatives for structural reform. The draft Credit Suisse First Boston report was provided to the Boards in November 1998 with a final report on 22 December 1998 and set out a number of restructure options, each of which was assessed against a set of commercial and Member benefit criteria. One option was recommended by Credit Suisse First Boston as the preferred option – this involved the retention of a financially strengthened road service mutual and Insurance being converted from a mutual to a shareholder-owned company.

Credit Suisse First Boston noted the following factors in making its recommendation:

- the current provision of road service and related Association membership benefits is of unique and considerable importance to members and to Insurance;
- maintaining the current structure presents significant and increasing financial and business risks, especially to Insurance's operations and less directly to Association; and
- a more traditional commercial structure for the insurance and financial service operations, including a share market listing, would reduce these risks and improve Insurance's capabilities and operating position, with resulting benefits for members.

This assessment was supported by prior advice to the NRMA concerning organisational restructuring, as well as by trends among other insurance mutuals in Australia seeking to respond to increasing competitive challenges.

On 25 February 1999, approval was given by the Boards to develop a proposal on the terms of the preferred option. This required the closing of the Association and Insurance members' registers with effect from midnight on 25 February 1999 and has resulted in the development of the Proposal explained in this document.

Approval to develop the Proposal was not unanimous. The Association Board was evenly divided on the subject, with the President, Mr Nicholas Whitlam, exercising his casting vote in favour. The Insurance Board voted in favour by a narrow majority.

#### **Two Mutuals Committee report**

Also on 25 February 1999, the Association Board established the Two Mutuals Committee, being a sub-committee of that Board, whose purpose was to work with consultants to provide a report focusing on developing a full case for retaining and strengthening the NRMA Group's existing two mutual structure. It was not the purpose of the report to attempt to establish or argue the case against demutualisation.

On 30 May 1999, a preliminary report on the case for retaining and strengthening the existing dual mutual structure by Marsden Jacob Associates Pty Ltd and Copernican Securities Pty Limited, the consultants engaged by the Two Mutuals Committee, was delivered to Association. Subsequently, an abridged version of that preliminary report was delivered to the Association Board.

The authors of the Two Mutuals Committee report have not consented to the inclusion of any of the findings from that report in this document. The report, however, challenged the recommendations and methodology of the Credit Suisse First Boston report. Management was requested to prepare a report commenting on the findings of the Two Mutuals Committee report.

Having considered a report from management on the issues raised in the Two Mutuals Committee report, on 19 August 1999, the Association Board resolved to disband the Two Mutuals Committee. Although no further work was undertaken on the enhanced two mutual structure model, the Boards and management have considered the various issues raised in the Two Mutuals Committee report and the management report as part of the development of the Proposal and this Information Memorandum includes a discussion of relevant issues arising from that consideration.

## **13.3 Litigation relating to the 1994 demutualisation proposal**

Details of the litigation commenced in 1994 in relation to the 1994 demutualisation proposal and the subsequent appeal from the decision in that case in 1994 are set out on page 134.

Following the decision in the appeal that the prospectus was misleading and deceptive, Association, Insurance and NRMA Holdings Limited ('Holdings') commenced an action in 1995 against Allen Allen & Hemsley and Abbott Tout which each provided legal advice to the companies in relation to the 1994 demutualisation proposal alleging that they were liable to the companies for monies expended by the companies in unsuccessfully attempting to demutualise Insurance and Association. The companies' claim was based on the judgment in the appeal and the decision of the High Court of Australia in *Gambotto v WCP Limited*. Dyson Heydon QC was added as a defendant to the proceedings in 1997.

Association, Insurance and Holdings alleged that the defendants were at fault in:

- failing to adequately advise them of the risk to the demutualisation proposal in connection with the granting of special leave to appeal to the High Court and the hearing of the appeal in the case of *Gambotto v WCP Limited* ('Gambotto liability'); and
- failing to adequately advise them in relation to the use of the phrase 'free shares' in the prospectus, and the failure of the prospectus to identify and inform members about the disadvantages of the proposal ('prospectus liability').

On 4 August 1999, the Court rejected the claim as to prospectus liability, but upheld the claim in relation to Gambotto liability, entering judgment against the defendants for \$32 million (including interest) plus two-thirds of the companies' costs.

Each of the defendants has appealed against the judgment, and Association, Insurance and Holdings have cross-appealed in relation to their claim as to prospectus liability. The appeals will be heard by the NSW Court of Appeal in May 2000. It is also anticipated that one or more parties will seek special leave to appeal from the judgment of that Court to the High Court of Australia.

## 13.4 Process for development of the Proposal

### (A) Background

The Boards on 28 May 1998 by unanimous resolution commissioned Credit Suisse First Boston to prepare a scoping study suggesting practical alternative corporate and membership structures for the NRMA Group (see pages 19 and 135). A draft version of Credit Suisse First Boston's report was provided to the Boards on 26 November 1998 and a special briefing session was conducted by Credit Suisse First Boston for the Boards on 10 December 1998. The final report was delivered to the Boards on 22 December 1998.

At meetings of the Boards held on 28 January 1999, several directors requested that further information be provided in relation to the Credit Suisse First Boston report. Responses to those requests were provided to the directors on 5 and 12 February 1999 and contained further papers and advice regarding the report prepared by NRMA management, Credit Suisse First Boston and various legal advisers to the NRMA Group. The Boards had also received a report from Ernst & Young. Ernst & Young undertook an external assessment of the Credit Suisse First Boston report on corporate organisation and membership structures dated 22 December 1998. This assessment was limited to factual findings on the approach adopted and the appropriateness of its contents, having regard to the process by which the report was prepared. Ernst & Young Corporate Finance did not provide an assessment on the validity of findings, recommendations or conclusions contained within the Credit Suisse First Boston report.

Ernst & Young found that Credit Suisse First Boston had identified and evaluated practical alternatives for the structure of the NRMA Group consistent with the mandate given to them by the Boards. Furthermore, Ernst & Young found that the process adopted by the NRMA and Credit Suisse First Boston to produce the report was rigorous and the report itself was the subject of significant advice and consultation.

On 25 February 1999, the Boards resolved to accept the recommendation of Credit Suisse First Boston that Option 6 (a 'remutualisation' of Association and listing of Insurance) was the most appropriate structure for the NRMA Group and its members for the future. The Boards, however, recognised that more detailed work needed to be done to develop the proposal before a final decision could be made to put it to Members.

### (B) Implementation management structure

On 25 February 1999, the Boards adopted an implementation management structure which included a Steering Committee to oversee the further development and evaluation of the preferred model under Option 6.

The Steering Committee was accountable to, and subject to direction from, the Boards. The members of the Steering Committee were as follows:

- Mr Nicholas Whittam (President of Association and Chairman of Insurance);
- Ms Jane Singleton (Association Board member and former Insurance Board member);
- Ms Anne Keating (Association and Insurance Board member);
- Dr John Campbell (Association Board member);
- the Chief Executive Officer of NRMA, Mr Eric Dodd;
- the Chief Financial Officer of NRMA, Mr George Venardos; and
- the Group Secretary & General Counsel of NRMA, Ms Gaye Morstyn.

Mr Stuart Nelson, General Manager Corporate Services, was an alternate member of the Committee for Messrs Dodd and Venardos and Ms Morstyn.

As indicated above, certain directors of Association and/or Insurance were appointed as members of the Steering Committee. Members should note that a director's membership of the Committee does not mean that an individual director supports the Proposal. Each director's recommendations on the Proposal is set out in full on pages 51 to 54 (in the case of Association directors) and page 69 (in the case of Insurance directors).

The Steering Committee met fortnightly (or more frequently as required) and reported to the monthly meetings of the Boards (or more frequently as required).

The purpose of the Steering Committee was to oversee the further development and evaluation of the proposed corporate structure. The Committee was specifically instructed to:

- consider variants to that structure by either Association retaining ownership of the brand 'NRMA' or otherwise ensuring that the value of the brand and reputation of NRMA was protected and appropriately reflected in the relationship between Association and NIGL; and

- oversee the detailed work necessary to develop the preferred structure further before a final decision was taken by the Boards to put any proposal to members for their consideration.

The Steering Committee established six working groups to undertake the detailed work necessary to further develop the preferred structure. Each working group was directly accountable to the Steering Committee and comprised a mix of NRMA executives and advisers. The working groups were co-ordinated by the Project Office (see below) and comprised:

#### • **Communications Working Group**

The object of this working group was to develop and implement an effective issues management and communication strategy to ensure that all Members, staff and other stakeholder groups were properly informed about the Proposal and the process.

#### • **Membership and Logistics Working Group**

The object of this working group was to identify and handle issues relating to membership and the Proposal.

#### • **Business Alliance Working Group**

The object of this working group was to identify, define, develop and document a structure to resolve issues relating to the proposed business relationship between Association, Insurance and NIGL.

#### • **Legal Working Group**

The object of this working group was to develop and document the legal implementation route as well as identifying and resolving any legal issues that arose during the development of the Proposal.

#### • **Finance Working Group**

The object of this working group was to prepare all financial, actuarial and tax information necessary for the Proposal.

#### • **Information Memorandum Working Group**

The object of this working group was to draft the Information Memorandum in accordance with the necessary requirements as set out in the Corporations Law and to establish an appropriate due diligence system.

The Project Office was established to administer, co-ordinate and monitor the development of the preferred structure. Stuart Nelson, General Manager, Corporate Services, was seconded to the role of Project Manager with responsibility for management of the Project Office.

Specifically, the Project Office:

- performed the role of secretariat to the Steering Committee;
- co-ordinated the six working groups and facilitated the achievement of each working group's project plan, timetable and objectives;
- co-ordinated, in conjunction with NRMA officers and advisers, relationships with regulatory bodies including ASIC, the Australian Taxation Office, the Court, Australian Stock Exchange and APRA;
- managed relationships with advisers and service providers; and
- managed the project plan, timetable and budget and day-to-day process issues as they arose.

On 9 December 1999, the Boards resolved to approve the implementation of the Proposal (see page 138). Following this resolution, on 9 December 1999 the Boards resolved to establish an Implementation Committee. The Steering Committee was disbanded in accordance with its charter on that day. The role of the Implementation Committee is to oversee the implementation of the Proposal.

The members of the Implementation Committee are as follows:

- The President of Association;
- The Deputy President of Association;
- Dr John Campbell (Association Board member);
- Ms Anne Keating (Association and Insurance Board member);
- Mrs Mary Easson (Association and Insurance Board member);
- Mr Eric Dodd, the Chief Executive Officer of NRMA;
- Mr George Venardos, the Chief Financial Officer of NRMA; and
- Ms Gaye Morstyn, the Group Secretary & General Counsel of NRMA.

Members should note that a director's membership of the Committee does not mean that an individual director supports the Proposal. Each director's recommendations in the Proposal are set out in full on pages 51 to 54 (in the case of Association directors) and page 69 (in the case of Insurance directors).

### (C) Adviser appointments

The following advisers were appointed by the Boards to assist in the development of the Proposal:

- Credit Suisse First Boston (corporate adviser);
- KPMG (investigating accountants);
- PricewaterhouseCoopers (consulting actuary);
- Mallesons Stephen Jaques (legal advisers to the Proposal); and
- Cannings (communications adviser).

In addition:

- Corrs Chambers Westgarth were appointed by the Association Board to give separate legal advice to Association; and
- Freehill Hollingdale & Page were appointed by the Insurance Board to give separate legal advice to Insurance,

on the Business Relationship Agreements and on certain aspects of the Proposal.

Independent financial experts were appointed from major accounting firms with relevant experience in reviewing corporate reconstructions to report to Members as to whether the Proposal is in their best interests. For this purpose:

- Deloitte Corporate Finance was appointed by the Association Board to review independently the Proposal from the perspective of the Association Members generally, the Association Only Members and the Dual Members; and
- Ernst & Young Corporate Finance was appointed by the Insurance Board to review independently the Proposal from the perspective of the Insurance Members and Association (in its capacity as an Insurance Member).

#### (D) Due Diligence Committee

On 29 April 1999, the Boards established a Due Diligence Committee to oversee the due diligence investigations in connection with the preparation of this document.

The role of the Due Diligence Committee was to consider and resolve all major issues arising in the course of due diligence investigations, taking into account, amongst other things, the work product of the six working groups referred to above.

The members of the Due Diligence Committee appointed on 29 April 1999 were:

- Mr Nicholas Whitlam (President of Association and Chairman of Insurance);
- Ms Jane Singleton (Association Board member and former Insurance Board member);
- Ms Anne Keating (Association and Insurance Board member);
- Dr John Campbell (Association Board member) to specifically represent the interests of Association in due diligence;
- Ms Susan Ryan (Association Board member and former Insurance Board member) to specifically represent the interests of Insurance in due diligence;
- Mr Eric Dodd, the Chief Executive Officer of NRMA;
- Mr George Venardos, the Chief Financial Officer of NRMA;
- Ms Gaye Morstyn, the Group Secretary & General Counsel of NRMA;
- a representative of Mallesons Stephen Jaques, Credit Suisse First Boston, PricewaterhouseCoopers and KPMG;
- a representative of Corrs Chambers Westgarth, legal advisers to Association; and
- a representative of Freehill Hollingdale & Page, legal advisers to Insurance.

On 7 December 1999, Ms Jane Singleton ceased to be Deputy President of Association and, as a result, ceased to be a member of the Due Diligence Committee (a position Ms Singleton held by virtue of her office as Deputy President). Mrs M Easson was appointed to the Due Diligence Committee on 9 December 1999.

Mr Stuart Nelson, General Manager Corporate Services, was an alternate member of the Committee for Messrs Dodd and Venardos and Ms Morstyn.

As indicated above, certain directors of Association and/or Insurance are or have been members of the Due Diligence Committee. Members should note that a director's membership of the Committee does not mean that an individual director supports the Proposal. Each director's recommendations on the Proposal are set out in full on pages 51 to 54 (in the case of Association directors) and page 69 (in the case of Insurance directors).

The Due Diligence Committee met fortnightly (or more regularly as required) and reported to the monthly meetings of the Boards (or more frequently as required).

Reports setting out the conclusions of the Due Diligence Committee were submitted to the Boards on 9 December 1999 and 20 January 2000.

In addition to its role in relation to due diligence investigations, the Due Diligence Committee was responsible for approving the methods by which verification of this document has been undertaken and for reviewing the adequacy of verification undertaken.

#### (E) Two Mutuals Committee

On 25 February 1999, Association established the Two Mutuals Committee, being a sub-committee of the Association Board, whose purpose was to work with consultants and provide a written report focusing on and developing a full case for retaining and strengthening the NRMA Group's two mutual structure.

The members of the Two Mutuals Committee comprised:

- Mr R J Talbot;
- Ms G Rankin;
- Mr I F Yates;
- Ms B M Gould; and
- Mr A B Llewellyn.

On 29 April 1999, Marsden Jacob Associates Pty Ltd and Copernican Securities Pty Limited were appointed by the Association Board and the Two Mutuals Committee to assist the Two Mutuals Committee to fulfil its role. Their abridged preliminary report was noted by the Association Board on 29 July 1999 (see page 19).

During the development of the Two Mutuals Committee report, Marsden Jacob Associates Pty Ltd and Copernican Securities Pty Ltd requested Credit Suisse First Boston to provide access to, amongst other things, certain models developed or referred to in the course of the preparation of the Credit Suisse First Boston report.

Representatives of Credit Suisse First Boston met with representatives of Marsden Jacob and Copernican Securities to discuss the conclusions of the Credit Suisse First Boston report and provided the consultants with a number of documents requested by them. However, on the basis that such models were either available from other sources or would otherwise be unavailable (either because they were Credit Suisse First Boston group work product or because of Credit Suisse First Boston's ordinary practices on retention and availability of documents and materials), Credit Suisse First Boston declined to provide access to those models.

Each of the matters which were the subject of those models has been superseded by due diligence investigations or valuation reports commissioned as part of the development of the Proposal.

#### (F) Business Relationship Agreements

In April 1999, KPMG's management consulting group analysed the existing NRMA Group business and prepared two reports relating to the proposed business relationship, one recommending a basis for the business relationship between Association and Insurance and the other analysing shared activities between Association and Insurance. KPMG highlighted four broad areas of shared activity within the NRMA Group, being:

- maintenance and marketing of core brands;
- development, manufacturing and management of products and services;
- distribution of those products; and
- support activities.

Workshops were held during the period 7 May 1999 to 17 May 1999 and 3 and 4 June 1999 which involved nominated senior executives of the NRMA Group representing the commercial interests of Association and nominated senior executives of the NRMA Group representing the commercial interests of Insurance together with representatives of Credit Suisse First Boston, KPMG and Mallesons Stephen Jaques.

Following these workshops, terms input documents were prepared which reflected issues that were agreed in principle. On 24 June 1999, the Board of Association resolved to approve the summaries of the terms input documents as a basis to facilitate preparation and negotiation of final documentation underpinning the proposed business relationship between Association and Insurance. A resolution in the same terms was passed by the Insurance Board.

During July and August 1999, representatives of Association led by Mr Stuart Salvage, General Manager, Association & Member Services, and representatives of Insurance led by Mr Graeme Adams, General Manager, Personal Insurance and Services Operations negotiated the terms of the Business Relationship Agreements. The Association team was represented by Corrs Chambers Westgarth as legal advisers and the Insurance team was represented by Freehill Hollingdale & Page as legal advisers.

The Business Relationship Agreements are in a form agreed by Association, Insurance and NIGL. Under the Implementation Deed, Association, Insurance and NIGL agree to enter into the Business Relationship Agreements. Entry into the Business Relationship Agreements is subject to approval of Insurance Members at the Special General Meeting of Insurance. This is because some of the terms of the Business Relationship Agreements may result in financial benefits being provided by Insurance (and one of its subsidiaries) to a related party of Insurance, Association.

#### (G) Information Memorandum development

On 25 March 1999, the Project Office distributed to the Boards a skeleton draft of the Information Memorandum outlining the proposed content of that document.

On 15 June 1999, the Project Office provided to the Boards for their comment an initial draft of the advantages, disadvantages and other considerations of the Proposal for Members, together with examples from other major Australian demutualisations.

The Project Office provided drafts of the Information Memorandum to the Boards on the following dates: 24 June 1999 (working draft); 22 July 1999 (first draft); 4 August 1999 (second draft); 2 September 1999 (third draft); 17 September 1999 (fourth draft); 2 November 1999 (fifth draft); 18 November 1999 (sixth draft); 4 December 1999 (seventh draft); 9 December 1999 (eighth draft) and 17 January 2000 (ninth draft).

Directors' feedback sessions on the Information Memorandum were held on the following dates: 8 July 1999 (on the working draft), 27 July 1999 (on the first draft); 10 August 1999 (on the second draft); 23 September 1999 (on the fourth draft); 11 November 1999 (on the fifth draft); and 7 December 1999 (on the seventh draft).

Each of the directors of Association and Insurance were asked to provide a statement of their views about the Proposal for inclusion in Sections 9 and 10 of this document respectively. Each of the directors was given the opportunity to take legal advice in relation to preparing and providing those statements.

The separate legal advisers to Association and Insurance were also involved in commenting on various parts of this document from the separate perspective of Association and Association Members and Insurance and Insurance Members respectively.



On 14 February 2000, Deloitte Corporate Finance provided to the Association Board its independent expert's report for inclusion in Section 9 of this document.

On 14 February 2000, Ernst & Young Corporate Finance provided to the Insurance Board its independent expert's report for inclusion in Section 10 of this document.

On 14 February 2000, PricewaterhouseCoopers provided to the Boards its consulting actuary's report for inclusion in Section 12 of this document.

#### (H) Board approval and Court proceedings

The Boards met on 9 December 1999. After reviewing the documents necessary to implement the Proposal, satisfying themselves of the adequacy of the due diligence investigations in connection with the preparation of this document, and considering a number of reports and legal advice on aspects of the Proposal, the Boards resolved to approve the draft Information Memorandum and other documents to be sent to Members, to submit these documents to ASIC, to apply to the Court to approve the document being sent to Members and to convene the necessary Members' meetings. Three directors of Association opposed the resolution. One director of Association is on leave of absence and did not attend the meeting but has publicly voiced their opposition to the Proposal.

Following its review by ASIC, the ninth draft of the document was considered by the Boards at meetings held on 20 January 2000. On 21 January 2000, a draft of this document was filed with the Court. At the Court hearing Mr R J Talbot (a director of Association and former director of Insurance) and Mr D Parker (a former director of Association and Insurance) opposed the Proposal. A number of other members made written or oral submissions opposing the Proposal. On 14 February 2000, the Court ordered that:

- meetings of Association Members, and certain classes of them, be convened to consider, and if thought fit, agree to (with or without modification) the arrangement proposed to be made between Association and those classes of Association Members referred to in the various Association Schemes; and
- a meeting of the Insurance Members (other than Association) and a meeting of Association (as a class of Insurance Member) be convened to consider, and if thought fit, agree to (with or without modification) the arrangement proposed to be made between Insurance and Association (as a class of Insurance Member).

### 13.5 Key documents

Copies of the key documents summarised below are available for inspection by Members free of charge between 9.00am and 5.00pm Monday to Friday (excluding public holidays) at 388 George Street, Sydney, New South Wales, Australia. Reference should be made to the copies of the actual documents for further details.

The Business Relationship Agreements have been censored by removing certain schedules containing commercially sensitive information.

The following documents will also be available for inspection:

- the current constitution of Association;
- the current constitution of Insurance; and
- instruments providing regulatory approvals, modifications to and exemptions from the provisions of the Corporations Law.

In addition, copies of the report dated 22 December 1998 by Credit Suisse First Boston (see page 135) and a copy of the judgment of Santow J in the proceedings before the Court pursuant to which orders were granted to convene the Scheme Meetings, are available to Members on request. Members should register their interest by calling the Members' Information Line on 1300 361 646.

Some commercially sensitive information has been omitted from the Credit Suisse First Boston report made available to Members as it is of such a nature as to be potentially prejudicial to the NRMA Group.

The abridged preliminary report dated 30 May 1999 of Marsden Jacob Associates Pty Limited and Copernican Securities Pty Limited (see page 135) is not available to Members. This is because the authors of that report have not consented to the inclusion of any of their preliminary findings in this document or to the release of the report to Members.

#### (A) Constitution of NIGL

Below is a summary of some key terms of the constitution to be adopted by NIGL on the date of the Insurance Demutualisation if the Proposal goes ahead.

##### **Incorporation**

NIGL was incorporated in the Australian Capital Territory under the Corporations Law on 30 November 1999 under the name NRMA Insurance Group Limited. If the Proposal goes ahead, NIGL will become the new holding company of the Insurance Group.

##### **Liability of members**

The liability of Shareholders of NIGL is limited.

##### **Capital raisings before listing**

Listing Rules 7.1 and 7.2 as in force at the start of the Pre-listing Period apply to NIGL during the Pre-listing Period. Those rules currently prohibit the issue of more than 15% of NIGL's Shares in any 12-month period, unless Shareholder approval is obtained or one of the limited exceptions in Listing Rule 7.2 applies.

##### **Variation of class rights**

The rights attached to any class of shares may, unless their terms of issue state otherwise, be varied:

- with the written consent of holders of at least 75% of the issued shares of that class; or
- by a special resolution at a separate meeting of the holders of shares of the class.

##### **Share certificates**

Subject to the Corporations Law and the Listing Rules, NIGL may decide whether to issue share certificates. All Shares issued prior to listing are issued on the condition that the directors are not required to issue certificates.

##### **Joint holders of Shares**

If two or more joint holders of a Share in NIGL purport to vote on a resolution, the vote of those joint holders will only be valid for the relevant resolution if the joint holders vote that Share in the same way. NIGL is not bound to register more than three persons as joint holders of a Share or to issue more than one certificate or holding statement in respect of Shares jointly held. However, the names of all joint holders will be included on all certificates and mailings.

##### **Transfer of Shares**

Shares in NIGL may not be transferred, other than in certain limited circumstances, until the Listing Date or such earlier date (if any) determined by the NIGL Board unless the transfer is approved by the NIGL Board and any one or more of the following is the case:

- the restriction of the transfer would cause undue hardship;
- the transferee is a member of the family of the transferor within the meaning set out in section 60D(2) of the Family Law Act 1975 or a corresponding law in any other country;
- the Shares are transferred to a person nominated by the directors to facilitate the sale of Shares on behalf of Overseas Members or from that person to an Overseas Member, where that member has provided satisfactory evidence that they are resident in Australia; or
- the Shareholder is disposing of Shares under the Facility (if any).

Once the Shares are listed on the Australian Stock Exchange, generally Shareholders will be able to sell or transfer them without restriction.

##### **Unacceptable ownership situation**

Before the Listing Date, a person must not acquire Shares or dispose of Shares if any person who is not entitled to any Shares or is entitled to no more than the aggregate of:

- the number of Shares issued to a Shareholder under the Share Allocation Rules;
- any additional Shares issued to that person; and
- any Shares transferred to that person with the approval of the NIGL Board, would, immediately after the acquisition or disposal, be entitled to at least one Share more than the above aggregate.

Between the Listing Date and five years later, a person must not become entitled to more than 5% of the total number of Shares ('shareholding limit').

Any person who is entitled or becomes entitled to Shares that exceed that limit must cause their entitlement to be reduced to less than the limit. If a person is entitled to Shares in excess of the limit, each Share which a person is entitled to is called a 'default Share'.

The NIGL Board may cause to be given to the registered holder or holders of all the Shares to which a person is entitled to more than the limit, a notice:

- specifying the number of default Shares to which the person is entitled; and
- requiring the disposal by the registered holder or holders of so many of the Shares to which the person is entitled as are equal in number to the default Shares within the period specified in the notice.

If there is non-compliance with the notice, NIGL may dispose of the number of default Shares specified in the notice or such smaller number of those Shares as the NIGL Board may determine.

The words 'acquire', 'dispose' and 'entitled' have the same meanings as they have in Chapter 6 of the Corporations Law. (Note: These terms are very wide and, for example, are likely to embrace an agreement, arrangement or understanding entered into by a Shareholder with any other person relating to the transfer of any interest in Shares, or the exercise of voting rights attached to Shares.)

The Share entitlement prohibition does not apply to:

- NIGL or a subsidiary of NIGL, with the proviso that any votes cast on Shares held by NIGL (or a subsidiary of NIGL) above the entitlement prohibition will be disregarded;
- a person in respect of whom the NIGL Board has passed a resolution, and that resolution is approved by an ordinary resolution of members, which stipulates a maximum number of Shares which is no more than 15% of the total number of Shares, in which case the Share entitlement prohibition applies to that person as if the shareholding limit was that maximum number;
- any person excluded from the operation of the prohibition by special resolution of Shareholders (where that person and their associates do not vote on the resolution);
- the trustee of the Entitlements Trust; and



- during the Pre-listing Period, any Shareholder disposing of Shares under the Facility (if any).

If an allotment and issue of Shares arising from the exercise, conversion or paying up of a quoted security or a quoted right might result in a contravention of the prohibition on Share entitlements, NIGL may allot and issue the Shares to a nominee selected by it, on terms that require the nominee to arrange for the disposal of the Shares for the benefit of the person to whom the Shares would otherwise be issued.

#### **Listing**

If the Shares are not listed within 21 months (or a longer period allowed by the Australian Taxation Office) after the Demutualisation Resolution Date, the NIGL Board must put forward a proposal for consideration at a general meeting of NIGL. Without limitation, the proposal may be for the amendment of the provisions of NIGL's constitution relating to capital raisings before listing, the transfer of Shares and/or the Share entitlements prohibition or to wind up NIGL.

#### **General meetings**

The directors may convene a general meeting at any time. The directors must convene annual general meetings in accordance with the Corporations Law. General meetings may also be requested or convened by Shareholders under the Corporations Law. Notice of general meetings must be given to every Shareholder as required under the Corporations Law. A notice convening a general meeting must state (amongst other things) the general nature of the business to be transacted at the meeting.

The quorum is 25 Shareholders at a general meeting or two Shareholders at an adjourned meeting.

#### **Voting**

On a show of hands, every Shareholder has one vote. On a poll, every Shareholder has:

- one vote for each fully paid Share; and
- for each partly paid Share, a fraction of a vote equivalent to the proportion which the amount paid (not credited) on the Share is to the total amounts paid and payable (excluding amounts credited) on the Shares. Amounts paid in advance of calls are not taken into account.

If two or more joint Shareholders purport to vote, their vote will only be valid if they vote the same way.

Shareholders may appoint a proxy to attend and vote at general meetings on their behalf.

#### **Directors**

The business of NIGL is to be managed under the direction of the NIGL Board. The number of directors must be not less than three and not more than 12.

The NIGL Board may confer on an executive director (which includes the managing director) any powers exercisable by the NIGL Board, subject to any terms and restrictions determined by the NIGL Board.

A NIGL director is not required to hold a Share in NIGL.

In addition to the circumstances in which the office of a director becomes vacant under the Corporations Law, a director will vacate office if the director:

- becomes of unsound mind;
- resigns or is removed from the office; or
- is not present for three months without leave of absence from the NIGL Board.

At each annual general meeting, one-third of the directors must retire from office (excluding the managing director). The directors to retire by rotation are those who have been longest in office since their last election or appointment.

Shareholders may, subject to the Corporation Law, remove and replace any director before the end of the director's term of office, by resolution passed in general meeting.

Subject to the Listing Rules, the directors as a whole (other than a managing director or executive directors) may be paid as remuneration a fixed amount of no more than the total maximum amount determined by the Shareholders in general meeting. Unless or until that amount is determined, the total maximum amount is \$1.5 million per annum.

The NIGL Board may fix the remuneration of an executive director. The remuneration may be by way of any or all of salary, commission or participation in profits; but may not be by commission or a percentage of operating revenue.

The NIGL Board may determine what retirement benefits a director will be paid, subject to the approval of Shareholders if required by the Corporations Law.

#### **Inspection of records**

Subject to the Corporations Law, a Shareholder other than a director does not have the right to inspect any accounting records or other NIGL documents unless authorised by the NIGL Board or NIGL in general meeting.

NIGL must, during the seven-year period after a document comprising NIGL's corporate records was created or provided to a director, allow the director (whether or not they are still in office) to inspect and copy such of the corporate records as relate to the director's period of office.

#### **Dividends**

Subject to the Corporations Law the NIGL Board may determine that a dividend is payable, fix the amount and the time for payment and authorise the payment or crediting by NIGL to each Shareholder entitled to that dividend. Except for any shares with special dividend rights, all fully paid Shares on which any dividend is declared or paid are entitled to participate in the dividend equally, and partly paid Shares are entitled to participate fractionally.

The NIGL Board may deduct from any dividend payable to a Shareholder any amount that Shareholder owes to NIGL on account of calls or otherwise in relation to the Shares.

#### **Indemnity**

NIGL indemnifies certain past and present officers, to the extent permitted by law, in regard to liabilities (including legal costs) incurred by the officer, unless NIGL is forbidden by statute to indemnify the person against the liability or legal costs or an indemnity by NIGL would, if given, be made void by statute.

### **(B) Business Relationship Agreements**

The Proposal seeks to maximise the benefits that accrue from the co-ordination of certain aspects of the businesses of Association and Insurance. To this end, Association, Insurance and NIGL have agreed the form of a series of contracts dealing with the ongoing relationship between them in a range of key areas – the Business Relationship Agreements. Entry into the Business Relationship Agreements is subject to approval of Insurance Members at the Special General Meeting of Insurance. This is because some of the terms of the Business Relationship Agreements may result in financial benefits being provided by Insurance (and one of its subsidiaries) to a related party of Insurance, Association. If the Proposal goes ahead, it is anticipated that the Business Relationship Agreements will be signed on or about the date of the Special General Meetings. The agreements are likely to come into effect on the date of the Insurance Demutualisation.

Association and Insurance will enter into the Business Relationship Agreements on their own behalf and, where relevant, will also procure that their respective related entities comply with key terms of those agreements (under Association and Insurance Intra Group Compliance Deeds). Insurance also has the right to sub-contract the provision of services under the agreements to its related entities. Each of Association on the one hand, and Insurance and NIGL on the other, will enter into agreements with their respective subsidiaries under which the subsidiaries will agree to comply with the terms of the Business Relationship Agreements. Each of Association on the one hand and Insurance and NIGL on the other, undertakes not to amend or waive the provisions of those agreements without the consent of the other. References in this summary to Association, Insurance and NIGL as the parties to these Agreements should be read on that basis.

There is scope to terminate the Services Outsourcing Agreements for convenience (that is without any reason) after an initial period. For example, either party may terminate the Shared Services Outsourcing Agreement, upon notice, at any time after the end of the third annual review period and Association may terminate investment services under the Shared Services Outsourcing Agreement on 30 days' notice to NRMA Investment Management Pty Limited. Association can terminate the whole of the IT Services Outsourcing Agreement in whole (or in part in relation to a service type), after three years by giving Insurance six months' notice.

The aim of the exclusivity provisions in certain of the Business Relationship Agreements, which impose specified limits on the ability of the Association Group and the Insurance Group to receive or provide (as the case may be) services from third parties, is to achieve appropriate commonality of service standards and to enable the Association Group and the Insurance Group to continue to enjoy the benefits of co-operation during the term of the Agreements. The exclusivity provisions are described in detail on pages 143 and 144.

#### **(1) Umbrella Agreement**

A Business Relationship Umbrella Agreement ('Umbrella Agreement') between Association, NIGL and Insurance defines the governing objectives of the Business Relationship, namely to continue to derive the synergistic benefits which Insurance and Association have enjoyed historically, in a manner which does not adversely affect or impede their respective pursuit of their respective commercial objectives having regard to their separate corporate governance and ownership structures following the Insurance Demutualisation.

The Umbrella Agreement also covers key aspects relating to business scope, management and implementation. It imposes an obligation on the parties to strive to act in relation to the use of the NRMA Brands in a way which furthers the realisation of the governing objective and is consistent with the Brand Integrity Principles (as defined in the Trade Mark Relationship Agreement – see page 141). In addition, it provides that any doubt or dispute as to the interpretation of the Business Relationship Agreements should, where applicable, be interpreted so as to facilitate and further the pursuit and achievement of the governing objective and adherence to the Brand Integrity Principles.

#### **Scope of business**

The Umbrella Agreement sets out certain areas of activities in respect of which each of the Association Group and the Insurance Group has the exclusive right to use the NRMA Brands and specifies which activities they may undertake outside of these exclusive areas, whether using the NRMA Brands or any other brand.

During the term of the Umbrella Agreement, the Association Group has the exclusive right to use the NRMA Brands in relation to the activities in Australia and New Zealand of providing:

- roadside assistance services;
- other motoring services (other than those exclusively reserved for the Insurance Group);
- motoring products;
- transportation and travel services (other than travel insurance); and
- other activities, products and services ancillary or incidental to those above, excluding Insurance and Financial Services ('Association's Exclusive Scope').

The Insurance Group has the exclusive right to use the NRMA Brands in relation to all goods and services except those within Association's Exclusive Scope ('Insurance's Exclusive Scope'), including insurance of all kinds, financial or investment products and services of all kinds, smash repair services, car buying services and activities relating to the homes of customers or members of the Insurance Group.

The agreement also provides that none of the following activities are within the scope of either Association's Exclusive Scope or Insurance's Exclusive Scope and that both groups may use the NRMA Brands in relation to:

- the commercialisation of industry research relating to motor vehicles and motoring policy advocacy;
- services and benefits relating to the NRMA Cards issued to members of Association who are not customers of Insurance, except in relation to insurance and financial services; and
- any other activities that Association has at any time, or is presently, carrying on other than those specifically reserved to Association, including merchandising, vehicle inspection services, vehicle towing services, vehicle valuation, legal services and security devices.

The Association Group may engage in activities outside Association's Exclusive Scope and those activities not within either group's exclusive scope provided:

- it does not use the NRMA Brand; and
- insofar as any Insurance Group member is already engaged in those activities at the commencement of the agreement, it is with Insurance's consent.

The Insurance Group may engage in activities outside Insurance's Exclusive Scope and those activities not within either group's exclusive scope provided that:

- if the activity falls within Association's Exclusive Scope, it does not use the NRMA Brand; and
- no Association Group member is already engaged in those activities at the commencement of the agreement.

The Umbrella Agreement permits the Insurance Group to continue to provide its products to an entity unrelated to the Insurance Group pursuant to agreements or arrangements (including joint ventures such as the RACV alliance), notwithstanding that the unrelated entity intends to bundle those Insurance products with its own products. This may include products of the type which are within the Association's Exclusive Scope, on the condition that the combined or bundled products or those which offer Insurance Group products or services as an option are not marketed in those geographic territories in which the Association Group has a substantial business at the time the Insurance Group enters into an agreement to supply services to that unrelated entity.

All of the other Business Relationship Agreements are to be interpreted subject to these scope provisions, which prevail to the extent of any inconsistency.

#### **Governance**

During the term of the Umbrella Agreement, the parties will appoint Alliance Managers as a point of day-to-day contact and liaison between the parties in respect of matters arising under the Trade Mark Relationship Agreement. There will also be Alliance Managers appointed by Association and Insurance whose roles will include liaising in relation to the Distribution Services Outsourcing Agreement, the IT Services Outsourcing Agreement, the Marketing Agreement and the Shared Services Outsourcing Agreement.

#### **Employee secondments and asset transfers**

To facilitate the performance of the Business Relationship Agreements and further the pursuit and achievement of the governing objective, each party agrees to use its reasonable endeavours to facilitate the transfer or secondment of employees between the parties and their respective related entities where that is considered necessary or desirable by the parties. The parties will also consider and agree on appropriate and desirable transfers of assets or other arrangements, including cross licences of intellectual property rights and lease-backs of real property.

#### **Term of the agreement**

The Umbrella Agreement will automatically terminate when all of the other Business Relationship Agreements have terminated.

#### **Liability**

The Umbrella Agreement describes the liability of each party for party/party claims made in respect of losses (other than those arising from third party claims) and certain other types of losses described below suffered in connection with the Business Relationship Agreements.

There is a limit on the liability of one party to the other under the Umbrella Agreement and under all of the other Business Relationship Agreements ('Cap Amount').

The Cap Amount for a claim by Association is the aggregate of all fees payable to the Insurance Group by the Association Group under the Business Relationship

Agreements for the year in which the loss was suffered less the total amount of all prior losses suffered in that year and any fees payable but unpaid to the Insurance Group by the Association Group and its related entities at the time when Association makes its claim.

The Cap Amount for a claim by Insurance is the aggregate of all fees payable to the Insurance Group by Association under the Business Relationship Agreements for the year in which the loss was suffered less the aggregate amount of all prior losses suffered in that year by the Insurance Group.

The Cap Amount (in either case) does not apply to losses suffered by a party which arise from or by reason of the death of, or personal injury to, any person, the wilful default or fraud of the other party, claims by third parties or in respect of the performance of the investment services to be provided by NRMA Investment Management Pty Limited under the Shared Services Outsourcing Agreement. In addition, any losses suffered by a party will not be recoverable from the other to the extent that the loss was attributable to that party's lack of care or diligence.

#### **Further development**

There may be some technical and practical details relating to the implementation of the Business Relationship Agreements which remain to be finalised. At the date of this document, these include:

Under the Trade Mark Agreements:

- finalising the implementation phase of the Business Protocols which are intended to distinguish the business and activities of the Association Group from the business and activities of the Insurance Group and to avoid misleading or deceiving the public or causing confusion as a result of both Groups using the NRMA Brands; and
- finalising the Minimum Standards, being the standards by which Association will exercise quality control over the goods and services the subject of the Australian and New Zealand Non-Exclusive Trade Mark Licences and, to the extent that they apply, the Australian and New Zealand Exclusive Trade Mark Licences.

Under the Distribution and Shared Services Outsourcing Agreements:

- the amount, if any, of each of the incentive fee, fee penalties and service credits which affect the fees payable by Association to Insurance depending on the level of performance of the services;
- the Annual Business Plan which includes budgeted costs to determine the fees payable for the services (to be reviewed on the basis of actual costs at year end) and, in the case of distribution services, sales targets by which to measure the sales performance of Insurance; and
- the Disaster Recovery Plan with which Insurance must comply in the event of a disaster affecting the services.

There is also provision under the Shared Services Outsourcing Agreement for the parties to continue to work together to identify other services which could be provided by Insurance to Association.

To the extent those matters are not finalised between the date of this Information Memorandum and the signing of the Business Relationship Agreements (see page 139 for further details), these matters are to be negotiated by the parties in good faith between the date of the Business Relationship Agreements and the date those agreements come into effect. Where the parties are unable to reach agreement, they may agree a mechanism for resolving the matters. However, there is no enforceable mechanism to ensure these issues are finalised.

#### **NIGL guarantee and indemnity**

NIGL guarantees to Association the observance and performance by Insurance of all the obligations owed by Insurance to Association under all the Business Relationship Agreements and indemnifies Association with respect to losses suffered if any of these obligations are not able to be enforced by Association. Any amounts which may be payable by NIGL pursuant to this guarantee are subject to the limitation of liability discussed above.

#### **(2) Standard clauses**

The following clauses are common to some or all of the Business Relationship Agreements:

##### **Condition precedent and sunset clause**

The substantive provisions of each of the Business Relationship Agreements will only come into force and effect on the date the Insurance Demutualisation occurs, or the date the Association Board approves the terms relating to the sale or disposal of Shares in NIGL to be allocated to Association in connection with the Proposal or the date on which Insurance becomes a wholly-owned subsidiary of NIGL, whichever occurs later. The agreements (other than any terms which are expressly stated to continue to operate) will terminate if this condition is not satisfied by 31 December 2000 or such later date as may be agreed in writing by the parties.

##### **Goods and services tax ('GST')**

The Business Relationship Agreements include a GST clause which ensures that each party is able to recover from the other GST amounts payable on supplies to that other party.

##### **Confidentiality and information sharing**

All of the Business Relationship Agreements (other than the Deed of Assignment: Australian Registered Trade Marks, the Deed of Assignment: New Zealand Registered Trade Marks and the Non-Exclusive Copyright Licence) provide, subject to certain exceptions, including, in relation to the Proposal, that each party undertakes to keep the terms of the agreement and certain information supplied to each party in connection with the agreement confidential. In addition, under each of

these agreements (other than the Umbrella Agreement) the parties agree to share with the other parties all information required by them to enable them to perform their respective obligations under the agreement, subject to the above confidentiality obligations, legal restrictions or any applicable industry guidelines or standards.

#### **Force majeure**

Where relevant the Business Relationship Agreements include a clause which suspends a party's obligations where the party is unable to perform those obligations owing to forces beyond its control.

#### **Year 2000**

Each of the Distribution Services Outsourcing Agreement, the IT Services Outsourcing Agreement, the Marketing Agreement and the Shared Services Outsourcing Agreement includes an acknowledgment by each of the parties that the Year 2000 Compliance Program currently in place in respect of the businesses of the Association Group and the Insurance Group provides priority in the allocation of resources to certain critical business processes, but that no party will be liable for any losses incurred in relation to the failure of its systems or services to be Year 2000 Compliant. The parties also agree to continue to work together in relation to the Year 2000 Compliance Program.

#### **Dispute resolution**

There is a dispute resolution mechanism to deal with any dispute that arises in connection with the Business Relationship Agreements (other than the Deed of Assignment: Australian Registered Trade Marks, the Deed of Assignment: New Zealand Registered Trade Marks and the Non-Exclusive Copyright Licence). The clause provides for resolution of most disputes by negotiation followed by mediation before resort to legal proceedings except, in some cases, where disputes are to be resolved by the binding determination of an independent expert. The parties are obliged to continue to perform their obligations until the dispute is resolved pursuant to these procedures or by a court order.

#### **Indemnity against third party claims**

Each Business Relationship Agreement (other than the Deed of Assignment: Australian Registered Trade Marks, the Deed of Assignment: New Zealand Registered Trade Marks and the Non-Exclusive Copyright Licence) provides that each of Association and Insurance agrees to indemnify the other in relation to all losses suffered in relation to claims by third parties arising from or consequent on any breach of that Business Relationship Agreements or any negligent act or omission by the indemnifying party except to the extent the loss was caused or contributed to by the other party or in respect of punitive or exemplary damages. The agreements also set out the procedures for the conduct of the defence of third party claims. Any settlement of third party claims must be consented to by both parties.

#### **Payment of expenses**

Each party must bear its own expenses in relation to the agreements (including legal fees) and pay any taxes (other than GST) that may be payable by it in respect of the agreements. Insurance must pay any stamp duty payable on the agreements.

### **(3) Trade Mark Agreements**

The Trade Mark Agreements:

- give effect to the Governing Objective under the the Umbrella Agreement in so far as it applies to the Australian and New Zealand trade mark registrations and applications currently owned by Association and used by the NRMA Group (the NRMA Trade Marks); and
- contain measures that address the risks that the Proposal creates for the NRMA Trade Marks (as discussed on pages 32 to 33).

The NRMA Trade Marks have been registered or applied for as trade marks in Australia and New Zealand in respect of various classes of goods and services. For the purposes of the Trade Mark Agreements the trade marks have been divided into three categories:

- Association trade marks – the trade marks registered solely in respect of goods and services that are within Association's Exclusive Branding Scope and defensive trade mark registrations which will remain owned by Association;
- Insurance trade marks – the trade marks registered solely in respect of goods and services that are within Insurance's Exclusive Branding Scope and which will be assigned by Association to NIGL; and
- shared trade marks – the trade marks registered in respect of goods and services that are not solely within Association's or Insurance's Exclusive Branding Scope. The shared trade marks will remain owned by Association and will be licensed by Association to NIGL. They will be used by both Association and the Insurance Group.

#### **Trade Mark Relationship Agreement**

The purpose of the Trade Mark Relationship Agreement is to regulate and co-ordinate the use of the NRMA Brands so as to protect the registration, integrity and value of the NRMA Trade Marks.

The Trade Mark Relationship Agreement has effect on the basis that Association owns and uses the Association trade marks, NIGL owns and the Insurance Group uses the Insurance trade marks, and both Association and the Insurance Group use the shared trade marks with Association as owner and the Insurance Group as licensees.

It also provides for the situation where the assignment of any of the Insurance trade marks to NIGL cannot be completed or is challenged, for example where the Registrar of Trade Marks does not record the assignment because the Registrar

believes it would mislead or deceive the public or cause confusion or where a third party challenges NIGL's right to be the owner of the Insurance trade marks for the same reasons. In such a situation NIGL may reassign the affected Insurance trade marks to Association and Association must then grant to NIGL an exclusive licence to use the Insurance trade marks that have been reassigned.

Under the Trade Mark Relationship Agreement, Association and NIGL agree to review the goods and services for which the Association trade marks, the Insurance trade marks and the shared trade marks are registered and to amend the specifications so that they are appropriate for each Group's business, in particular so that the Association trade marks do not include goods or services in Insurance's Exclusive Branding Scope and so that the Insurance trade marks do not include goods or services in Association's Exclusive Branding Scope.

The Trade Mark Relationship Agreement also contains provisions dealing with:

- the use and registration anywhere in the world of new trade marks the same as or incorporating elements of the NRMA Trade Marks;
- compliance with 'Brand Integrity Principles' intended to maintain the integrity and reputation of the NRMA Brands, and compliance with 'Visual Standards' governing the form and appearance of the NRMA Trade Marks;
- the development of and adherence to Business Protocols intended to distinguish the business and activities of the Association Group from the business and activities of the Insurance Group and to avoid misleading or deceiving the public or causing confusion as a result of both Groups using the NRMA Brand;
- co-operation between the Association Group and the Insurance Group where third parties infringe any of the NRMA Trade Marks.

The Trade Mark Relationship Agreement terminates if an order is made or an effective resolution is passed for the winding-up of Association. In that event NIGL has an option to buy the Association trade marks for a price equal to their fair market value. If NIGL does not exercise the option, it also has a right of last refusal before Association offers the Association trade marks to a third party.

#### **Business Protocols**

The Business Protocols are designed to distinguish the businesses of the Association and Insurance Groups and thereby reduce the risks associated with the NRMA Trade Marks described on pages 32 to 33.

The Business Protocols are a comprehensive set of operational policies and procedures governing the use of the NRMA Trade Marks and names in each interaction made with customers, members and the general public. They address matters such as verbal communication including face to face communication and communication by telephone, written material including brochures, policy documentation and correspondence, advertising and sponsorship, and other discrete areas such as the internet site and the NRMA Card project.

The basic principle on which the Business Protocols have been developed is that customers, members and the general public should know which NRMA company or group of companies they are dealing with. Accordingly the protocols are designed to ensure that in each transaction, the correct company or company group is identified at the earliest practicable opportunity. In the case of written material, this will generally be achieved through the use of clear written disclosure. In the case of branches, this will be achieved through the use of appropriate signage and the availability of informative written material.

In addition to the operational policies, the Business Protocols envisage a public awareness campaign to inform customers, members and the general public of the changes to the corporate structure of the NRMA Group, as well as detailing principles for the implementation phase.

#### **Australian Exclusive Trade Mark Licence**

The Australian Exclusive Trade Mark Licence will be entered into if any of the Australian Insurance trade marks are reassigned to Association. Under the Australian Exclusive Trade Mark Licence, Association will grant to NIGL a royalty free, exclusive licence to use the Australian Insurance trade marks. Association will not itself be permitted to use, nor will it be permitted to license any other person to use, the Australian Insurance trade marks.

The Australian Exclusive Trade Mark Licence will contain provisions requiring NIGL to comply with the Brand Integrity Principles and Visual Standards contained in the Trade Mark Relationship Agreement. In addition, the Australian Exclusive Trade Mark Licence will require NIGL to comply with 'Minimum Standards' under which Association will exercise quality control over the goods and services in respect of which the reassigned Insurance trade marks are used.

Either party may terminate the Australian Exclusive Trade Mark Licence if the other party commits a breach of the Licence that is likely to result in a material risk that the registration of any of the Australian Insurance trade marks could be cancelled, removed or otherwise prejudiced and that breach is either not capable of remedy or, if capable of remedy, is not remedied. The Australian Exclusive Trade Mark Licence terminates automatically if an order is made or an effective resolution is passed for the winding-up of Association. Where NIGL terminates the Australian Exclusive Trade Mark Licence by reason of a breach by Association, and where the Licence terminates automatically because Association is wound up, Association must, if NIGL so requests, assign the licensed Australian Insurance trade marks to NIGL without consideration.

#### **New Zealand Exclusive Trade Mark Licence**

The New Zealand Exclusive Trade Mark Licence will be entered into if any of the New Zealand Insurance Trade Marks are reassigned to Association. The provisions of the New Zealand Exclusive Trade Mark Licence correspond to the provisions of the Australian Exclusive Trade Mark Licence but apply in relation to the New Zealand Insurance trade marks rather than the Australian Insurance trade marks.

**Australian Non-Exclusive Trade Mark Licence**

Under the Australian Non-Exclusive Trade Mark Licence, Association will grant to NIGL a royalty free licence to use the Australian shared trade marks. Association will itself be permitted to use, and may license any other person to use, the Australian shared trade marks. The Australian Non-Exclusive Trade Mark Licence will contain provisions requiring the Insurance Group to comply with the Brand Integrity Principles and Visual Standards contained in the Trade Mark Relationship Agreement. In addition, the Australian Non-Exclusive Trade Mark Licence will require the Insurance Group to comply with Minimum Standards under which Association will exercise quality control over the goods and services in relation to which the Australian shared trade marks will be used.

Either party may terminate the Australian Non-Exclusive Trade Mark Licence if the other party commits a breach of the Licence that is likely to result in a material risk that the registration as a trade mark of any of the Australian shared trade marks could be cancelled, removed or otherwise prejudiced and that breach is either not capable of remedy or, if capable of remedy, is not remedied. The Australian Non-Exclusive Trade Mark Licence terminates automatically if an order is made or an effective resolution is passed for the winding-up of Association. Where NIGL terminates the Australian Non-Exclusive Trade Mark Licence by reason of a breach by Association, and where the Licence terminates automatically because Association is wound up, Association must, if NIGL so requests, assign the Australian shared trade marks the subject of the Licence to NIGL without consideration.

**New Zealand Non-Exclusive Trade Mark Licence**

Under the New Zealand Non-Exclusive Trade Mark Licence, Association will grant to NIGL a royalty free licence to use the New Zealand shared trade marks. The provisions of the New Zealand Non-Exclusive Trade Mark Licence correspond to the provisions of the Australian Non-Exclusive Trade Mark Licence but apply in relation to the New Zealand shared trade marks rather than the Australian shared trade marks.

**Non-Exclusive Copyright Licence**

Association will also license the Insurance Group in respect of any copyright in the NRMA Trade Marks.

**(4) Marketing Agreement**

The Marketing Agreement sets out the relationship between Association and Insurance regarding product strategy and development, marketing services, the NRMA card, the Open Road and access to and use of the customer databases.

**Products and services**

Subject to the scoping provisions of the Umbrella Agreement, each party is free to develop its own product strategies and product marketing programs. Where products will be sold or provided under the NRMA Brands, the terms of the Trade Mark Licences and the Trade Mark Relationship Agreement must be complied with.

New NRMA branded product initiatives or joint ventures or alliances of one party may be notified to the other party by the Alliance Manager, giving the other party the opportunity to participate on commercial terms that are to be negotiated in good faith. The requirement to provide notification takes into account geographic and business operation factors. After 28 days, if the other party has not notified interest, then the product initiative, joint venture or alliance can be developed without further reference.

New NRMA branded products cannot be offered to a competitor of the non-developing party without first being offered to that party on terms no less favourable than those offered to the competitor.

A party must not acquire from a third party services or expertise which are within the scope of the activities performed by the other party with respect to a product unless it has offered to acquire those services or expertise from the other party on terms no less favourable than those offered to the third party.

If a party wishes to offer a bundled product which includes a product in respect of which the other party has the exclusive right to use the NRMA Brands, that other party has the first right of refusal to provide the product to the first party. If the first party proposes to issue a product which bears the brand of a competitor of the other party, the first party must notify that other party.

The parties may cross-sell each other's products.

**Marketing services**

Association may, at its option, acquire marketing services from Insurance at fixed hourly rates.

If Association makes a request, Insurance must provide marketing services to Association for the first 12 months of the agreement. Thereafter, the provision of marketing services will be by commercial agreement as negotiated between the parties.

New sponsorship arrangements may be entered into by either party, or jointly, so long as the sponsorships are consistent with the Brand Integrity Principles.

The parties may carry out corporate advertising using the NRMA Brands either as a shared, corporate campaign or by complementary campaigns.

**Customer databases**

To the extent legally permissible from time to time, and subject to applicable industry guidelines or standards, each party must continue to give to the other party access to all data in the customer databases relevant to the geographic territory in which both parties have substantive operations from time to time. Access to non-database data and customer data relating to extended geographic areas can be provided, on agreed terms.

Each party may use the information in the databases for its own purposes but may not disclose it to, or use it for the benefit of, a third party.

Each party must inform the other of the use it makes of the databases to ensure their activities are not inconsistent.

On termination of the agreement, the customer databases must be disaggregated. Information which is common to both will be provided to both Association and Insurance.

**NRMA Card project**

Insurance will provide to Association services in relation to the administration, production, design and distribution of the NRMA Member Only Card, defined as those cards issued to persons who are members only of Association, and not customers of Insurance.

Association will pay to Insurance the full costs incurred by Insurance in relation to those services plus a margin on those full costs of 5%. No margin will be payable by Association in relation to third party expenses incurred by Insurance in providing such services. Insurance will produce an annual budget of cost payable.

Further development of functionality or applications for the NRMA Member Only Card may be undertaken by either party or jointly by agreement.

**Open Road**

Association may continue to produce Open Road.

Insurance agrees to subscribe at commercial rates for a minimum of five pages per issue of advertising in Open Road for a period of 12 months (and may renew subscription for further 12-month periods).

**Contract management**

Each of Association and Insurance must ensure that, at all times during the term of this agreement, a suitably qualified person is appointed as its Alliance Manager who will be responsible for the day-to-day operational co-ordination and management of the contract.

**Intellectual property**

Each party licenses to the other any intellectual property rights owned by the party which the other needs to exercise to perform its obligations under this agreement. All intellectual property rights in marketing materials developed for Association only will be owned by Association. Rights in relation to joint marketing will be owned jointly. Association will own all intellectual property rights relating to the NRMA Member Only Card with specified exceptions.

**Term and termination**

This agreement continues until lawfully terminated.

Either party may terminate this agreement in the event of insolvency of the other or if any of the Trade Mark Relationship Agreement, Distribution Services Outsourcing Agreement or Shared Services Outsourcing Agreement is terminated. Insurance may also terminate if Association fails to make payments required under this agreement.

In addition, each party may terminate all or part of the agreement upon a material breach of the agreement (after opportunity to remedy in case of breach capable of remedy).

Association may also terminate that part of this agreement relating to marketing services if Insurance is unable to provide the marketing services for more than 30 days for whatever reason apart from by reason of a force majeure event.

Upon termination, customer databases must be disaggregated, at the cost of the breaching party in case of termination for breach, and otherwise, by agreement. On termination, among other things, Insurance must provide reasonable assistance to Association to ensure an orderly transition of the marketing services back to Association or to another service provider. It must provide a royalty free licence over software used for the purposes of the agreement, and provide access to other material and information as specified.

Within six months of commencement of the agreement, Insurance is required to develop, in consultation with Association, a disengagement plan to provide for orderly transition of services in the event of termination.

**(5) Distribution Services Outsourcing Agreement**

This agreement between Association and Insurance defines the terms under which Insurance will provide distribution services to Association to enable Association to bring its product to market. Distribution services will be provided through various distribution channels which include the branch network, call centres, the Internet, Country Service Centres and Assistance Services and other channels agreed between the parties from time to time (Distribution Channels). There are limitations on the ability to sub-contract provision of services.

**Services**

The distribution services are defined by Distribution Channel and are summarised below:

- Branch activities – handle enquiries regarding membership or member services, sale of road memberships and other mutual products, membership renewal payments, update membership database, distribution of travel guides and maps, information and product sales, manage and report complaints regarding Association products, services in relation to Traveland, sell maps to non-member customers (possibly merchandise in future).
- Call centre activities – handle enquiries regarding membership or member services, sale of road service memberships and other mutual products, membership renewal payments, update member database, manage and report complaints regarding Association products.
- Distribution activities in Country Service Centres – channel management and manage performance.
- Internet.
- Assistance services.

Also, Insurance agrees to act as Association's agent in performing its obligations under certain third party contracts relating to Country Service Centres and Assistance Services.

**Performance standards**

The services are to be provided by Insurance in accordance with specified performance levels which will be measured against key performance indicators ('KPIs') with an incentive and penalty scheme applying to minimum performance levels and expected performance levels for services designated as 'critical', and to target performance levels for sales. Insurance must also maintain its technology systems for the purpose of providing the services under the agreement.

There will be a transition period during which some performance levels will not apply.

Performance levels may be reviewed annually as part of the annual business plan.

Performance audits can be called for, up to twice a year. Costs of the audit are borne equally by Association and Insurance, except where the audit reveals inaccurate reporting by Insurance, in which case those expenses will be met by Insurance. Other audits can be called for at Association's expense, again except where the audit reveals major discrepancies in reported outcomes, in which case Insurance must pay the costs of the audit.

**Fees**

Service fees are priced by Distribution Channel. A general fee is payable in respect of each Distribution Channel to recover the full cost (direct cost plus an appropriate proportion of indirect costs) of providing the services plus a 5% margin. The general fee payable for each 12 month period is calculated in advance on a per transaction basis based on budgeted cost per transaction and budgeted transactions. There is an adjustment at the end of each year once actual total cost has been determined.

Insurance will pass through to Association any third party expenses incurred by it in providing the services including the cost of goods purchased, but will not receive the 5% margin on such costs.

The general fee payable in the first, second and third years will be the lesser of 10%, 12% and 15% respectively of Association's revenue (excluding investment income) on the one hand and actual full costs plus 5% on the other hand (where the general fee already paid exceeds such lesser amount). In later years the fee increases are capped by reference to a weighted index based on Average Weekly Earnings and the CPI. Average Weekly Earnings means trend full time ordinary earnings for NSW private sector persons as published by the Australian Bureau of Statistics.

In relation to Critical Services, above expected performance by Insurance can result in service credits which can be offset against fee penalties which are payable by Insurance in respect of under performance. Above budgeted sales of Association products can result in payment of an incentive fee to Insurance.

**Exclusivity**

The Association Group must only engage Insurance to distribute its products through the Distribution Channels, except for Drive Travel and certain other specified products to the extent that they are supplied in the course of providing roadside assistance services.

Insurance has a first right of refusal in relation to the provision of new Distribution Channels. If the parties cannot agree the terms on which a new Distribution Channel is to be provided, or if Insurance decides it will not provide the new Distribution Channel, then the Association Group may, subject to the scope provisions set out in the Umbrella Agreement, appoint other service providers to provide the new Distribution Channel, or set up the new Distribution Channel itself.

Insurance is also precluded from providing similar services to competitors in specified circumstances.

**Contract management**

Each party will appoint an Alliance Manager in relation to distribution outsourcing issues who will administer the agreement. The Alliance Managers will meet at least monthly.

The parties are to agree an annual business plan which shall include details of proposed new Distribution Channels, budgeted sales and revenue, full cost and alterations to the Distribution Channels, performance standards, KPIs, fee penalties, service credits and incentive fee and proposed marketing activities. If the parties fail to agree on these matters, either party may refer the dispute for binding expert determination.

**Intellectual property**

Each party licenses to the other, on a royalty free basis, any intellectual property rights owned by the party which the other needs to exercise to perform its obligations under this agreement:

Intellectual property rights developed by Insurance in performing the services will be owned by Insurance other than intellectual property rights in respect of Association's products distributed by Insurance which will be owned by Association.

**Term and termination**

This agreement continues until lawfully terminated.

Either party may terminate the agreement on material breach (after opportunity is given to rectify in case of remediable breach), insolvency, or termination of the Trade Mark Relationship Agreement.

Association may terminate the agreement if Insurance is unable to provide the services for more than five business days by reason other than force majeure.

Association may also terminate the services in relation to a particular Distribution Channel if certain events occur in respect of that Channel or if a force majeure event causes prolonged delay or non-performance of Insurance's obligations.

Association may terminate Assistance Services on three months' notice.

Insurance may terminate the agreement if Association fails to make payments under the agreement for an extended period.

Upon termination of the agreement each party must return to the other the other party's confidential information and property. Insurance must do all things necessary, including ensuring that Association obtains appropriate rights to software, to enable the services to be provided to Association internally or by another service provider. A disengagement plan will operate to ensure continuity of services during the disengagement period. If requested, Insurance must provide the services for up to 12 months after termination to ensure an orderly transition.

Association may also terminate the services provided through individual distribution channels as well. Where services are terminated for reasons outside a party's control, third party expenses and Association's costs are borne equally between Insurance and Association.

**(6) IT Services Outsourcing Agreement**

The IT Services Outsourcing Agreement between Insurance and Association defines the terms and conditions on which Insurance is to provide certain information technology services to the Association Group. Certain information technology services have already been outsourced by the NRMA Group to IBM Global Services Australia ('IBM GSA').

**Services**

Insurance will provide information technology services to Association. The services include the IBM GSA services. However, these services are not treated separately from non-IBM GSA services under this agreement. The services are grouped in a number of clusters, with each cluster containing similar services.

In connection with the services, Insurance agrees, among other things, to retrieve or reconstruct data at its cost in the event of major error, bear increases of third party software costs resulting from changes by Insurance for its own reasons, ensure the quality and continuity of staff used to perform the services, and remove any viruses introduced into the system by Insurance.

The contract includes a mechanism for varying the services, (including pricing) and for providing new services to Association.

**Performance standards**

The services are to be provided by Insurance in accordance with specified performance levels and Insurance must bear audit costs if errors or misreporting arise.

**Fees**

In relation to IT services, fees are generally based on a negotiated unit rate times actual usage of the services. The unit rates are generally based on cost plus a margin of 5%. The amount of service credits which can accrue to Association in the event that service standards are not met is capped.

**Exclusivity**

Insurance must not provide information technology services to any third party which would require the use of software which is core to the business of the Association Group. Insurance has a first right of refusal to provide any new information technology services to the Association Group.

**Contract management**

Insurance and Association each appoint an 'IT Alliance Manager' to manage the day to day operational issues. The IT Alliance Managers are responsible for first



level dispute resolution. If any dispute cannot be resolved between the IT Alliance Managers, it is referred to the chief executive officers of each party for resolution. The chief executive officers may refer technical issues to an expert for determination.

#### **Intellectual property**

Insurance owns all intellectual property rights in software developed for Association under the agreement, except that Association will own intellectual property rights in any development of core software. Association may cause software to become core software with the agreement of Insurance.

#### **Term and termination**

This agreement continues until lawfully terminated.

Either party may terminate this agreement in the event of insolvency of the other party. Association may terminate all or part of this agreement:

- for a material breach (after opportunity to remedy in case of breach capable of remedy);
- where Insurance fails to provide critical services for a specified period or where service level credits accruing to Association exceed a specified amount; or
- where Insurance fails to reinstate services affected by a disaster within specified time frames.

Association may terminate this agreement if the Trade Mark Relationship Agreement is terminated. Association may also terminate services sourced from IBM GSA in certain circumstances, provided that Association bears any costs imposed by IBM GSA on Insurance as a consequence of the termination of those services. In addition, at any time after the third anniversary of the agreement, Association may terminate at its convenience.

Insurance may terminate if Association fails to make payments required under this agreement (in respect of which Insurance has provided Association with a notice to rectify) or if there is a change to Insurance's platforms or systems such that it is not commercially practical for Insurance to provide the services.

Upon termination, Insurance must provide transition assistance. Where Association terminates for convenience, Association is responsible for the reasonable costs of transition and certain wind down expenses. Where Association terminates for breach, Insurance is responsible for all transition and wind down costs. In all other circumstances, Association is responsible for the reasonable costs of transition.

Upon termination, Insurance must provide reasonable assistance (including a licence to use software used by Insurance to provide the services and other material and information as specified) to enable the services to be transitioned to Association or its nominated supplier.

If requested, Insurance must provide the services for up to a further six months after termination (on the terms of the agreement, including pricing) to ensure orderly transition. In addition, following termination Association may access Insurance's systems, subject to terms being agreed, for the purpose of facilitating data exchange to give effect to any continuing business alliance agreements.

#### **Liability**

Insurance's and Association's liability for loss suffered as a consequence of performance or non-performance of their obligations in respect of non-IBM GSA services is addressed in the Umbrella Agreement.

In relation to IBM GSA services, Insurance is not liable for any loss suffered by Association at the hands of IBM GSA. Instead, Association appoints Insurance as its exclusive agent for the purposes of taking action against IBM GSA in respect of such loss. To the extent that Insurance recovers any monies from IBM GSA it must account to Association. Association must indemnify Insurance for any amount Insurance is required to pay IBM GSA where the Association Group is at fault.

### **(7) Shared Services Outsourcing Agreement**

A Shared Services Outsourcing Agreement between Association and Insurance defines the terms under which Insurance provides shared services and NRMA Investment Management Pty Limited ('NIM'), a member of the Insurance Group, provides investment services to Association.

#### **Services**

The shared services provided by Insurance include:

- Human resources – learning and development, recruitment, payroll administration and employee administration, employee relations, remuneration and benefits and general HR;
- Finance – banking, debtors and creditors/accounting processes, and fixed asset register;
- Purchasing and property – contract management, fleet management services, mailing services, printing (copying) services, distribution centre and property and other services;
- Business documents – provide content, layout and design, manage third parties, provide documents for distribution;
- Research and development (including statistical, actuarial and other analysis support).

Insurance agrees to act as Association's agent in performing its obligations under third party contracts.

The investment services provided by NIM include investment and management of Association's portfolio of investments.

#### **Performance standards**

Insurance will perform the shared services in accordance with specified performance levels which will be measured against key performance indicators ('KPIs'). Insurance will be obliged to supply the infrastructure necessary for it to meet its obligations.

There will be a transition period during which some performance levels will not apply.

Performance levels may be reviewed annually as part of the annual business plan.

The investment services are not subject to any performance levels.

Performance audits can be called for, up to twice a year. Costs of the audit are borne equally by Association and Insurance, except where the audit reveals inaccurate reporting by Insurance, in which case those expenses will be met by Insurance. Other audits can be called for at Association's expense, again except where the audit reveals major discrepancies in reported outcomes, in which case Insurance may be obliged to cover the costs of the audit.

#### **Fees**

Other than in relation to investment services, service fees will be charged in respect of each item of service. As part of the service fees, Insurance will recover the full cost (direct costs plus an appropriate proportion of indirect costs) incurred by them in providing the services plus a margin of 5% on such costs.

Insurance will pass through to Association any third party expenses incurred by it in providing the services including the costs of goods purchased, but will not receive the 5% margin on such costs.

Pricing will be reviewed annually and actual full costs for the previous year will be determined during that review. If the actual full costs plus the margin are less than the service fees already paid, Insurance must remit the difference to Association. If the actual costs are greater than the service fees already paid, and there has been a material change in Association's activities compared to what is set out in the business plan, Association shall remit the difference to Insurance.

In relation to investment services, Association will pay to NIM 0.5% (or such other percentage as may be agreed by the parties) of the value of Association's funds under management as determined in accordance with the agreement.

#### **Exclusivity**

For the first three years, the Association Group must, where it requires the services (with the exception of investment services), only engage Insurance to provide the services. The Association Group may, however, perform for itself or its related entities certain specified activities, primarily of a minor nature.

The Association Group must give Insurance a first right of refusal in relation to any additional services it requires, except for services creating an aggregate liability for Association of less than \$250,000 (indexed) per annum. Failing agreement on terms, or if Insurance decides not to provide the additional services, Association may appoint other service providers to provide the additional services or undertake the additional services itself.

#### **Contract management**

Insurance and Association will appoint an Alliance Manager in relation to shared services issues who will administer the contract. The Alliance Managers will meet at least monthly.

The Alliance Manager appointed by Insurance will represent NIM in relation to investment services issues.

The parties shall agree an annual business plan which shall include budgeted full cost for each item of service, activity and service other than investment services, any alterations to the performance levels, KPIs and fee penalties.

Insurance is obliged to provide reports and keep records in accordance with agreed guidelines.

#### **Intellectual property**

The parties license (on a royalty free basis) to each other any intellectual property rights owned by the party which the other needs to exercise to perform its obligations under this agreement. Intellectual property rights developed by Insurance or NIM in performing the services will be owned by Insurance or NIM, as the case may be, except where those rights derive from rights owned by Association or relate in general terms to Association products.

#### **Term and termination**

This agreement continues until lawfully terminated.

Association or Insurance may terminate the agreement upon material breach (after opportunity is given to rectify in the case of remediable breach), insolvency, or if the Trade Mark Relationship Agreement and Distribution Services Outsourcing Agreement are terminated.

Association may terminate the agreement if Insurance is unable to provide the services for more than five business days for any reason apart from by reason of a force majeure event.



Association may also terminate the agreement as it applies to an activity or service if Insurance or NIM subcontracts provision of such activity or service contrary to the Agreement, if a force majeure event causes prolonged delay or non-performance of obligations, or if Insurance or NIM is unable to provide the activity or service for more than five business days for any reason other than by reason of a force-majeure event or, in the case of Investment Services, if NIM no longer complies with applicable laws or regulations.

Association may terminate the agreement as it applies to a service for convenience at any time after the first three-year period on at least six months' written notice. Insurance may terminate for convenience on 12 months' written notice at the end of every three-year period.

Insurance may terminate the agreement on failure by Association to make payments under the agreement for an extended period.

In respect of Investment Services, Association may terminate by giving at least 30 days' written notice.

Following termination of the agreement, the parties must return to each other all the other parties' property. Insurance and NIM must do all things necessary to enable Association (or another service provider) to provide the services following termination. A disengagement plan will operate to ensure continuity of service during the disengagement period. If requested, Insurance and NIM must provide the services for up to a further 12 months after termination to ensure an orderly transition.

Where services are terminated for reasons outside a party's control, third party expenses and Association's costs are borne equally between Insurance and Association.

### (C) Deeds of Indemnity, Insurance and Access

It is proposed that a deed be entered into with each current and future NIGL director. The deed may also be used for employees who are not directors.

The deed by its terms:

- indemnifies the relevant 'officer' on a full indemnity basis and allows for a coverage of reasonable legal costs and expenses incurred not limited to taxed costs;
- does not operate to indemnify to the extent that the liability is a liability to any Insurance Group company, or arises out of conduct of the officer involving a lack of good faith, wilful misconduct, gross negligence, reckless misbehaviour or fraud;
- enables NIGL to assume on behalf of the officer the conduct of the defence of a claim or permit an insurer to do so and permits NIGL to settle the claim or related proceedings; NIGL may also allow the officer to conduct the defence of a claim;
- enables NIGL to advance money to the officer prior to the resolution of a claim subject to such security and other protections of NIGL's interests as are required;
- requires NIGL to maintain and pay the premium on a directors' and officers' insurance policy to insure the officer against liability incurred in respect of the office; the obligation will apply from the date of the deed until the seventh anniversary after the date when the officer ceases to occupy the relevant office;
- grants an officer access to documents of NIGL;
- requires the officer who is granted access to documents to return those no longer required; and
- protects confidentiality in relation to the documents, subject to the officer's need to disclose information for the purposes of court proceedings.

### (D) Implementation Deed

Association, Insurance, NIGL and NIGL's initial directors, (Eric Dodd, George Venardos and Gaye Morstyn) have entered into an implementation deed to carry into effect the Association Schemes, the Insurance Schemes and the Insurance Demutualisation.

Under the Implementation Deed, Association covenants with each of Insurance and NIGL that it will:

- do everything necessary to implement each of the Association Schemes and the Proposal;
- execute the Business Relationship Agreements, provided always that this does not contravene a provision of Chapter 2E of the Corporations Law in force for the time being;
- execute the Association Intra-Group Compliance Deed; and
- as soon as possible after the Insurance Demutualisation make Association membership available to all Road Service Customers.

Under the Implementation Deed, Insurance covenants with each of Association and NIGL that it will:

- do everything necessary to implement the Insurance Schemes and the Proposal;
- execute the Business Relationship Agreements, provided always that this does not contravene a provision of Chapter 2E of the Corporations Law in force for the time being; and
- execute the Insurance Intra-Group Compliance Deed.

Under the Implementation Deed, NIGL covenants with each of Association and Insurance that it will:

- become the sole member of Insurance and have issued to it all ordinary shares in the capital of Insurance;
- issue Shares in accordance with the Share Allocation Rules;
- appoint a nominee to dispose of Shares on behalf of Overseas Members (being the trustee of the Entitlements Trust);
- establish a review panel, prior to the Insurance Demutualisation, to deal with complaints and disputes arising from the application of the Share Allocation Rules, and issue Shares for up to one year after the Insurance Demutualisation to persons whom the review panel determines were entitled to Shares;
- execute the Business Relationship Agreements, provided always that this does not contravene a provision of chapter 2E of the Corporations Law in force for the time being;
- execute the Insurance Intra-Group Compliance Deed;
- have as its sole purpose, prior to the Insurance Demutualisation, the holding of Shares in the capital of Insurance issued to NIGL on the Insurance Demutualisation;
- prior to the Listing Date, establish a Facility, and issue an appropriate prospectus or other offer document for that Facility;
- procure that, on issue:
  - the Shares rank equally in all respects as between themselves and with all existing shares in NIGL;
  - each Share is fully paid and free from any mortgage, charge, lien, encumbrance or other security interest;
- if it has not already done so by one year after the Insurance Demutualisation:
  - apply to be listed on the Australian Stock Exchange and for quotation of all Shares; and
  - do everything reasonably necessary to ensure that the Australian Stock Exchange grants the application and trading in the Shares commences by 18 months after the Insurance Demutualisation.

Mr Dodd, Mr Venardos and Ms Morstyn, as the initial directors of NIGL, agree, if the Proposal proceeds, to cause:

- the NIGL Board to be reconstituted so that, immediately after the Insurance Demutualisation, all directors of Insurance are directors of NIGL and NIGL has no other directors; and
- the appointment of the Managing Director of Insurance to the position of Managing Director and Chief Executive Officer of NIGL at or before the Insurance Demutualisation.

See page 33 for further details of the intended reconstitution of the NIGL Board.

Under the Implementation Deed, Association covenants with NIGL that it will:

- sell down its shareholding in NIGL through the Facility such that following the sale Association holds no more than 29.3 million Shares; and
- maintain at all times during the term of the Trade Mark Relationship Agreement (one of the Business Relationship Agreements) a shareholding in NIGL of at least 29.3 million Shares plus any Shares issued to Association from time to time pursuant to any pro-rata bonus issue (or where NIGL's share capital is subdivided, the 29.3 million Shares plus bonus Shares subdivided in the same ratio as the ordinary capital).

Each of Association, Insurance and NIGL have entered into Deed Polls by which they covenant in favour of all Association and Insurance Members at the time of the Deed Poll and from time to time thereafter that they will duly and punctually observe and perform all the covenants undertaken by them in the Implementation Deed.

### (E) Trust Deed for the Entitlements Trust

The Entitlements Trust will be established for the benefit of Members whose membership address on Association or Insurance's registers is outside Australia. The initial trustee will be Association. NIGL will have the power to remove and replace the trustee. The trustee will be obliged to:

- hold shares issued in respect of an Overseas Member on trust for that member;
- use its best endeavours to sell the Shares allocated to an Overseas Member through the Facility and, if that is not possible, at the first reasonable opportunity (and in any case within 12 months) after Listing Date; and
- pay to the Overseas Member the net proceeds of sale (on an averaged basis so that all Overseas Members receive the same price) and any income referable to those Shares (less any tax and expenses).

An Overseas Member may notify the trustee (through Association, Insurance or NIGL) of a change of address to Australia before their Shares are sold and, if the trustee accepts the change, the Member will receive their Shares instead of the net sale proceeds. The trustee may accept notice of change of address as sufficient evidence of change of address, except for Members whose registered address is in the United States of America or Canada (or any other country determined by the trustee) where additional evidence is likely to be required.

### 13.6 RACV alliance

Insurance has entered into an alliance with RACV and certain of its subsidiaries to combine their short-tail personal lines insurance 'manufacturing' businesses in New South Wales, the Australian Capital Territory and Victoria in a joint venture company – IMA.

The alliance primarily involves underwriting (either directly or through a reinsurance arrangement), claims handling, product development and product pricing recommendations in relation to short-tail personal lines insurance products that include comprehensive motor vehicle insurance, third party property damage motor vehicle insurance, comprehensive motor cycle insurance, third party property damage motor cycle insurance, touring van insurance, on site caravan insurance, veteran and vintage car insurance, travel insurance, transport accident insurance, home buildings insurance, home contents insurance, home effects insurance, strata insurance and boat insurance ('Personal Lines Products').

Under the alliance:

- the Insurance Group subscribed for 70% of the shares in IMA and RACV retained 30% of the shares in that company (formerly a wholly-owned subsidiary of RACV);
- Insurance will continue directly to underwrite, source and distribute Personal Lines Products in New South Wales and the Australian Capital Territory, however, IMA will reinsure those risks;
- IMA will underwrite Personal Lines Products in Victoria, however, the RACV group will source and distribute those products (excluding travel insurance) from IMA (the NRMA Brands will no longer be used in Victoria for the products covered by the alliance);
- IMA will seek to manufacture Personal Lines Products for third party distributors throughout Australia (those products will not use the NRMA Brand or the RACV brand);
- the Insurance Group transferred cash, prudential assets and office equipment to IMA (in support of the New South Wales and Australian Capital Territory short-tail personal lines businesses to be conducted in IMA) and approximately 1,200 employees of the Insurance Group have transferred to IMA; and
- the Insurance Group will provide services to IMA, such as information technology services, to enable it to perform its operations.

#### IMA board composition

The board of IMA is to consist of seven members, some of whom must be independent of the IMA shareholders:

	Appointed by NRMA	Appointed by RACV
Nominee directors	2	2
Independent directors	2	1

Insurance, through its subsidiary, will appoint one of its nominee directors as chairman of the board of IMA and RACV, through its subsidiary, will appoint one of its nominee directors as deputy chairman of the board of IMA.

The total number of directors appointed by Insurance will always exceed one-half of the total number of directors of IMA, and the number of RACV nominee directors plus the number of independent directors will always exceed the number of Insurance nominee directors. An IMA shareholder may remove any director appointed to the IMA board by them.

A sub-committee of the IMA board comprised of all its independent directors has been established whose role is to review specified matters (including any related party transactions between IMA and its shareholders and any of their related parties, commissions and pricing between IMA and its shareholders or their related parties, IMA's interpretation of, and actions to be taken to enforce, an agreement between IMA and the shareholder if issues cannot be resolved at meetings of the board). The IMA board must accept and adopt all decisions of the sub-committee in respect of those specified matters.

#### Transfer of IMA shares

Shares in IMA are not freely transferable and IMA shareholders are not permitted to grant any encumbrance over any IMA share without the consent of the other IMA shareholder.

A change of control of an IMA shareholder or a parent company of that shareholder (which does not include a change of control as a direct result of a listing event, nor an issue of shares on demutualisation of that IMA shareholder) will permit a shareholder to buy the shares of the other shareholder.

Consent of both shareholders is required if IMA shares are to be issued to a third party.

#### Investment management

NRMA Investment Management Pty Limited has been appointed the Investment Manager of IMA's investment funds and reserves.

#### Branding issues

The Insurance Group will continue to issue Personal Lines Products in NSW and the Australian Capital Territory under the NRMA Brand. RACV will distribute IMA's Personal Lines Products in Victoria under the RACV brand.

### 13.7 Directors' remuneration

The constitution of Association provides that Association directors will be paid fees for ordinary services as directors of Association in an amount approved by Association members. The constitution provides that that amount is to be divided amongst the directors in such proportions as they agree, or failing agreement, equally. A director of Association who serves on a committee of the Association Board or who provides special services in connection with the business of Association may receive remuneration as determined by the directors of Association. That remuneration may be either in substitution for, or (where the Association Board resolves that the director has performed or is to perform services which are outside the scope of ordinary services) in addition to, the director's share of the remuneration for ordinary services.

At the Annual General Meeting of Association in 1999, a resolution of members was passed whereby the President, the Deputy President and the remaining directors had their fees increased from \$3,000 each per annum to a total of \$105,000, \$70,000 and \$35,000 each per annum respectively subject to the boards of Association and Insurance resolving to discontinue arrangements in place for the payment of fees in respect of services on committees and special services in connection with the business of those companies.

However, directors who serve on the following:

- any subsidiary of Association or Insurance on which directors who are not Association directors also serve as independent directors and of any committees of those subsidiaries; or
- the following board committees of NRMA Group companies:
  - the Group Audit & Risk Management Committee, the Implementation Committee and Due Diligence Committee for the Proposal;
  - the Life Compliance Committee of NRMA Life Limited; and
  - the Finance Compliance Committee of NRMA Finance Limited,

are entitled to be paid remuneration in addition to that outlined above.

The constitution of Insurance provides that Insurance directors will be paid fees as directors of Insurance in an amount approved by Insurance members. The constitution also provides that an Insurance director who has performed services which the Insurance Board considers are outside the director's ordinary services as a director because the director serves on any committee or devotes special attention to Insurance's business or otherwise performs services for Insurance may be paid an amount of extra remuneration as the Insurance directors determine and which is approved by the Association Board.

Notwithstanding the provisions of the constitution of Insurance, pursuant to the passage of a resolution at the 1999 Annual General Meeting of Association, no additional fees will be paid to directors of Insurance in respect of their ordinary services where those directors also serve as directors of Association.

Additionally, pursuant to the constitution of Association and having regard to the passage of resolution at the 1999 Annual General Meeting of Association, a director of Association may still be paid remuneration for other special services which he or she may be called on to perform in the future after independent confirmation of the level of remuneration for those services.

Under the constitutions of Association and Insurance, directors of those companies are also entitled to receive payment of certain expenses. A non-executive directors' expense policy was put in place in 1997 to provide the procedures by which directors may seek and receive payments of, or in reimbursement for, certain expenses incurred in carrying out their duties as directors.

### 13.8 Costs of Proposal

The costs of the development of the Proposal and future costs related to demutualisation and listing including professional, consultancy, advisory and expert fees, member meeting expenses, printing, postage, processing, share marketing expenses, advertising, share registry establishment and initial listing fees costs are set out below:

- *Development of the Proposal (25 February 1999 to 9 December 1999) (Actual)* \$31.0 million  
Approximately 40% of these costs related to member communications and logistics, including the member database, and the printing and postage of materials to members.
- *Costs of implementing the Proposal up to Insurance Demutualisation (Estimate)* \$30.6 million  
Approximately 60% of these costs relate to member communications and logistics, including the holding of members' meetings, and the printing and postage of this document and other materials to members.
- *Costs from Insurance Demutualisation to listing on the Australian Stock Exchange (Estimate)* \$45.8 million  
Approximately 50% of these costs relate to member communications and logistics, including the printing and postage of listing documentation and other materials to members.

### 13.9 Regulatory approvals

The following regulatory approvals, exemptions and declarations have been given or have been applied for in relation to the proposed demutualisation and restructuring.

ASIC has granted to NIGL relief from the accounting provisions of the Corporations Law concerning acquisition accounting:

- to allow it to distribute and record as dividend income up to 20% of the pre-acquisition reserves of Insurance, being an amount of approximately \$460 million. As a result, the payment of dividends by Insurance to NIGL from those reserves will be credited in the profit and loss account of NIGL and not against the value of NIGL's investment in Insurance; and
- so that it is not required to record goodwill on the consolidation of Insurance but rather the consolidation will be accounted for on a 'pooling of interests' basis with NIGL's investment in Insurance being recorded at the carrying amounts of the net assets and liabilities of Insurance.

ASIC has granted Association and Insurance approval for the format of this document under Corporations Regulation 1.0.07.

The Australian Stock Exchange has approved in-principle the 5% shareholding limitation in NIGL's constitution which applies in the five year period immediately following the Listing Date. That approval is effective until 31 December 2000 and is subject to conditions, all of which have been reflected in the NIGL constitution (see pages 138 to 139). A copy of the letter is available for inspection.

Application has been made to the Federal Treasurer for the grant of an unconditional approval of NIGL holding all of the issued shares in the capital of Insurance and NRMA Building Society Limited under the Financial Sector (Shareholdings) Act 1998. Approval under that Act is required because Insurance is an authorised insurance corporation and NRMA Building Society Limited is an authorised deposit-taking institution. The Treasurer may give or withhold the approval and is to have regard under the Act to the national interest. As the proposed transfers are in conformity with draft APRA guidelines on non-operating holding companies, it is expected that the approval will be received. The Proposal is subject to the receipt of the approval in relation to the shares in Insurance (see pages 35 and 36).

### 13.10 Other statutory information

NIGL presently has only one Share, which is held by Mr S. Nelson, General Manager – Corporate Services, NRMA. Neither Association nor Insurance currently have any marketable securities on issue. Accordingly, there are no marketable securities in NIGL, Association or Insurance held by Association directors or Insurance directors.

### 13.11 Consents

Written consents have been given and at 14 February 2000 have not been withdrawn by the following parties in the following terms:

Credit Suisse First Boston has given its consent to the inclusion of the references and summaries of its report dated 22 December 1998 in this document in the form and context in which they are included and has given its consent to be named in this document as corporate adviser to the Proposal in the form and context in which it is named.

PricewaterhouseCoopers has given its consent to the inclusion of its Consulting Actuary's Report in Section 12 of this document in the form and context in which it is included and has given its consent to be named in this document as consulting actuary in the form and context in which it is named. PricewaterhouseCoopers has also consented to the inclusion of the references and summaries of that report in this document in the form and context in which they are included.

KPMG have given their consent to the inclusion of their Investigating Accountant's Report in Section 11 of this document in the form and context in which it is included and has given its consent to be named in this document as investigating accountant in the form and context in which it is named. KPMG has also consented to the inclusion of the references and summaries of that report in this document in the form and context in which they are included.

Deloitte Corporate Finance has given its consent to the inclusion of its Independent Financial Expert's Report in Section 9 of this document in the form and context in which it is included and has given its consent to be named in this document as Independent Financial Expert for Association. Deloitte Corporate Finance has also consented to the inclusion of the references and summaries of that report in this document in the form and context in which they are included.

Ernst & Young Corporate Finance Pty Limited has given its consent to the inclusion of its Independent Financial Expert's Report in Section 10 of this document in the form and context in which it is included and has given its consent to be named in this document as Independent Financial Expert for Insurance. In addition, Ernst & Young has consented to the inclusion of the references and summaries of its report dated 19 February 1999 in the form and context in which they are included.

Mallesons Stephen Jaques have given their consent to be named in this document as legal advisers to the Proposal in the form and context in which they are named.

Freehill Hollingdale & Page have given their consent to be named in this document as legal advisers to Insurance in the form and context in which they are named.

Corrs Chambers Westgarth have given their consent to be named in this document as legal advisers to Association in the form and context in which they are named.

Canning-Thornton Pty Limited have given their consent to be named in this document as communications adviser to the Proposal in the form and context in which they are named.

Sir Laurence Street has given his consent to the inclusion of the references and summaries of his report dated 22 May 1997 in this document in the form and context in which they are included.

McKinsey & Company have given their consent to the inclusion of the references and summaries of their report dated 19 February 1998 in this document in the form and context in which they are included.

Macquarie Corporate Finance Limited has given its consent to the inclusion of the references and summaries of its draft report dated February 1992 in this document in the form and context in which they are included.

Macquarie Corporate Finance Group Limited has given its consent to the inclusion of the references and summaries of BT Corporate Finance Limited's report dated October 1993 in this document in the form and context in which they are included.

Grant Samuel & Associates Pty Limited has given its consent to the inclusion of the references and summaries of its report dated March 1995 in this document in the form and context in which they are included.

ACOSS have given their consent to the inclusion of the references and summaries of their report dated October 1999 in this document in the form and context in which they are included.

### 13.12 Organisations advising the NRMA

#### Corporate adviser

Credit Suisse First Boston  
Level 31  
1 Macquarie Place  
Sydney 2000

#### Consulting actuary

PricewaterhouseCoopers  
Securities Limited  
Level 8  
201 Sussex Street  
Sydney 2000

#### Legal advisers to Association

Corrs Chambers Westgarth  
Level 32  
Governor Phillip Tower  
1 Farrer Place  
Sydney 2000

#### Communications adviser

Cannings  
Rugby House  
Level 2  
12 Mount Street  
North Sydney 2060

#### Investigating accountant

KPMG  
The KPMG Centre  
45 Clarence Street  
Sydney 2000

#### Legal advisers to the Proposal

Mallesons Stephen Jaques  
Level 60  
Governor Phillip Tower  
1 Farrer Place  
Sydney 2000

#### Legal advisers to Insurance

Freehill Hollingdale & Page  
Level 32  
MLC Centre  
19-29 Martin Place  
Sydney 2000

This Information Memorandum is dated 14 February 2000.

# Notice of Special General Meeting

A special general meeting of NRMA Limited will be held at Sydney Convention and Exhibition Centre – North, Darling Harbour, Sydney on Wednesday 19 April 2000 at 9.30am.

## What is the resolution?

### To alter the constitution

To consider and, if thought fit, pass the following as a special resolution:

*That the constitution of NRMA Limited is altered by:*

*(a) inserting a new rule 52A (immediately following rule 52) in the following terms:*

*"52A (1) The purpose of this rule 52A is to impose, after the Effective Date, certain duties and obligations upon the Directors and thereby to curtail their freedom of action and to define and limit the powers allocated to them under this constitution in such a way and to such an extent that, subject to rule 52A(5), powers of the Association exercisable by the Directors in relation to matters referred to in rule 52A(2):*

*(a) must not, after the Effective Date, be exercised in any way which is contrary to rules 52A(2) or (3); and*

*(b) must, after the Effective Date, be exercised in the ways required by rules 52A(2) and (3).*

*(2) Subject to rule 52A(5), it is the duty of the Directors, after the Effective Date, to cause to be done everything which it is necessary for the Association and the Directors to do in order to implement and to conclude according to its terms the NRMA Insurance Restructure and, without limiting the generality of the foregoing, the Directors must, after the Effective Date (but subject to rule 52A(5));*

*(a) cause to be passed such resolutions of the Directors;*

*(b) cause to be given by the Association such consents; and*

*(c) cause to be executed under the common seal of the Association such instruments of consent*

*as are necessary under the constitution of NRMA Insurance to enable variation or abrogation, to the extent and in the manner provided for in the NRMA Insurance Restructure, of the powers and rights of the Association in its capacity as a member of NRMA Insurance which are declared by the constitution of NRMA Insurance to be:*

*(d) given to the board of directors of the Association as agent for the Association; and*

*(e) class rights which may only be varied in the manner specified in rule 6A(a)(iii) of the constitution of NRMA Insurance.*

*(3) Subject to rule 52A(5), a consent which the Directors cause the Association to give pursuant to rule 52A(2)(b) must be unconditional and, once given, must not be revoked unless revocation is permitted by the NRMA Insurance Restructure.*

*(4) Rules 52A(1), (2) and (3) have precedence over rule 52 but will cease to have effect if any of the schemes of arrangement referred to in the definition of 'Effective Date' in rule 52A(6) is terminated for any reason.*

*(5) Nothing in rules 52A(1), (2) and (3) requires or permits any Director individually or collectively to act in a way which would be in breach of any duty owed by that Director or which would be unlawful.*

*(6) For the purposes of this rule 52A:*

*'Effective Date' means the earliest day on which all the schemes of arrangement set out in the documents referred to in the definition of 'NRMA Insurance Restructure' in this rule 52A(6) have become effective according to their terms.*

*'NRMA Insurance' means NRMA Insurance Limited (ACN 000 016 722).*

*'NRMA Insurance Restructure' means the scheme or plan defined as the 'Proposal' in clause 1 of Part II of the documents entitled 'Schemes of Arrangement pursuant to section 411 of the Corporations Law between NRMA Limited (ACN 000 010 506) and its members and certain classes of them' and 'Schemes of Arrangement pursuant to section 411 of the Corporations Law between NRMA Insurance Limited (ACN 000 016 722) and classes of its members' appearing on pages 64 to 67 and 96 to 99 of the information memorandum dated 14 February 2000 issued with the notices convening certain meetings of members of the Association and members of NRMA Insurance, including the meeting of members of the Association at which the special resolution adopting this rule 52A was passed."; and*

*(b) inserting the following words at the end of rule A(b)(iv) of the constitution:*

*"except that this object will cease to be effective immediately upon NRMA Insurance Limited (ACN 000 016 722) changing its status to a company limited by shares".*

## Background information

To enable you to make an informed voting decision, further information on the above resolution is set out in the Information Memorandum accompanying this notice of meeting. In particular, the amendments to the constitution are discussed on pages 34 to 35.

To be passed, the resolution must be supported by at least 75% of the votes cast by members who are present at the meeting (whether in person, by proxy, by attorney or by duly appointed corporate representative) and entitled to vote on the resolution.

## Your vote is important

The vote on the proposed resolution is part of a broader proposal described in the Information Memorandum accompanying this notice of meeting.

The outcome of the vote and the implementation of the broader proposal has important consequences for the future of the NRMA Group. The directors of NRMA Limited strongly recommend that members read the Information Memorandum to gain a full understanding of the reasons for the resolution and what its effect will be if it is passed.

In particular, pages 17 to 19 of the Information Memorandum describe why this proposal is being put to members of NRMA Limited.

## Eligibility to vote

Each member of NRMA Limited at the date of the meeting is entitled to vote on the resolution.

## How do I exercise my right to vote?

You can vote in either of two ways:

- attending the meeting and voting in person or, if you are a corporate member, by corporate representative voting for you; or
- appointing a proxy to attend and vote for you, using the enclosed Proxy Form.

### Voting in person

If you plan to attend the meeting, we ask that you arrive at the meeting venue at least 30 minutes prior to the time designated for the meeting so that we may check your membership against our register of members, and note your attendance.

### Voting by corporate representative

In order to vote at the meeting, a corporation which is a member may appoint a person to act as its representative. The appointment must comply with the requirements of section 250D of the Corporations Law. The representative should bring to the meeting evidence of his or her appointment including any authority under which it is signed. If you require further information on how to appoint a corporate representative, please ring the Members' Information Line on 1300 361 646.

### Voting by proxy

To ensure that all members can exercise their right to vote on the proposed resolution, a Proxy Form is enclosed with the Information Memorandum accompanying this notice of meeting together with a reply paid envelope.

A member who is entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote instead of the member. A proxy need not be a member of NRMA Limited. Your proxy will have the right to vote on a poll and also to speak at the meeting.

If you return your Proxy Form but do not nominate the identity of your proxy, the chairman of the meeting will automatically be your proxy and will vote on your behalf. If you return your Proxy Form but your nominated proxy does not attend the meeting, then your proxy will revert to the chairman of the meeting.

Send your completed Proxy Form to the Returning Officer. You can use the reply paid envelope provided or you can send your completed Proxy Form to the address (no stamp required) or the fax number shown below:

The Returning Officer  
NRMA Limited and NRMA Insurance Limited  
Reply Paid 1819  
Strathfield NSW 1819  
Facsimile 1800 264 269

Proxy Forms must be received by the Returning Officer or deposited at 388 George Street, Sydney no later than 5.30pm on Monday 17 April 2000. Proxy Forms received after this time will be invalid.

## Information Memorandum

A copy of the Information Memorandum was mailed to members with this notice of meeting.

Proxy Forms were also mailed to members with this notice of meeting. Any member who has not received this notice of meeting or Proxy Form or a copy of the Information Memorandum, or requires replacements, should telephone the Members' Information Line on 1300 361 646.

Dated at Sydney on 14 February 2000

By order of the Board of directors



14 February 2000  
Secretary

# Notice of Court Ordered Meeting for the First Association Scheme

By an Order of the Supreme Court of New South Wales made on 14 February 2000 pursuant to section 411(1) of the Corporations Law, a meeting of the members of NRMA Limited will be held at Sydney Convention and Exhibition Centre – North, Darling Harbour, Sydney on Wednesday 19 April 2000 at 1.00pm or as soon thereafter as the Special General Meeting of NRMA Limited has concluded or been adjourned.

## What is the resolution?

### Approval of scheme of arrangement

To consider and, if thought fit, pass the following resolution:

*'That pursuant to, and in accordance with, the provisions of section 411 of the Corporations Law, the arrangement proposed between NRMA Limited and all its members, designated the 'First Association Scheme', as contained in and more particularly described in the Information Memorandum accompanying the notice convening this meeting is agreed to.'*

## Background information

To enable you to make an informed voting decision, further information on the scheme of arrangement is set out in the Information Memorandum accompanying this notice of meeting. A copy of the scheme of arrangement is set out on pages 64 to 67 of the Information Memorandum and its purpose and effect are discussed throughout that document.

To be passed, the resolution must be supported by a majority of the members present and voting (either in person or by proxy).

## Your vote is important

The vote on the proposed resolution is part of a broader proposal described in the Information Memorandum accompanying this notice of meeting.

The outcome of the vote and the implementation of the broader proposal has important consequences for the future of the NRMA Group. The directors of NRMA Limited strongly recommend that members read the Information Memorandum to gain a full understanding of the reasons for the resolution and what its effect will be if it is passed.

In particular, pages 17 to 19 of the Information Memorandum describe why this proposal is being put to members of NRMA Limited.

## Eligibility to vote

Each member of NRMA Limited at the date of the meeting is entitled to vote on the resolution.

## How do you exercise your right to vote?

You can vote in either of two ways:

- attending the meeting and voting in person or, if you are a corporate member, by corporate representative voting for you; or
- appointing a proxy to attend and vote for you, using the enclosed Proxy Form.

### Voting in person

If you plan to attend the meeting, we ask that you arrive at the meeting venue at least 30 minutes prior to the time designated for the meeting so that we may check your membership against our register of members, and note your attendance.

### Voting by corporate representative

In order to vote at the meeting, a corporation which is a member may appoint a person to act as its representative. The appointment must comply with the requirements of section 250D of the Corporations Law. The representative should bring to the meeting evidence of his or her appointment including any authority under which it is signed. If you require further information on how to appoint a corporate representative, please ring the Members' Information Line on 1300 361 646.

### Voting by proxy

To ensure that all members can exercise their right to vote on the proposed resolution, a Proxy Form is enclosed with the Information Memorandum accompanying this notice of meeting together with a reply paid envelope.

A member who is entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote instead of the member. A proxy need not be a member of NRMA Limited. Your proxy will have the right to vote on a poll and also to speak at the meeting.

If you return your Proxy Form but do not nominate the identity of your proxy, the chairman of the meeting will automatically be your proxy and will vote on your behalf. If you return your Proxy Form but your nominated proxy does not attend the meeting, then your proxy will revert to the chairman of the meeting.

Send your completed Proxy Form to the Returning Officer. You can use the reply paid envelope provided, or you can send your completed Proxy Form to the address (no stamp required) or the fax number shown below:

The Returning Officer  
NRMA Limited and NRMA Insurance Limited  
Reply Paid 1819  
Strathfield NSW 1819  
Facsimile 1800 264 269

Proxy Forms must be received by the Returning Officer or deposited at 388 George Street, Sydney no later than 5.30pm on Monday 17 April 2000. Proxy Forms received after this time will be invalid.

## Information Memorandum

A copy of the Information Memorandum was mailed to members with this notice of meeting.

Proxy Forms were also mailed to members with this notice of meeting. Any member who has not received this notice of meeting or Proxy Form or a copy of the Information Memorandum, or requires replacements, should telephone the Members' Information Line on 1300 361 646.

# NRMA Limited

(ACN 000 010 506)

## Notice of Court Ordered Meeting for the Second Association Scheme

By an Order of the Supreme Court of New South Wales made on 14 February 2000 pursuant to section 411(1) of the Corporations Law, a meeting of that class of the members of NRMA Limited comprising members who are not also members of NRMA Insurance Limited (ACN 000 016 722) will be held at Sydney Convention and Exhibition Centre – North, Darling Harbour, Sydney on Wednesday 19 April 2000 at 1.20pm or as soon thereafter as the First Court Ordered Meeting of NRMA Limited has concluded or been adjourned.

### What is the resolution?

#### Approval of scheme of arrangement

To consider and, if thought fit, pass the following resolution:

*'That pursuant to, and in accordance with, the provisions of section 411 of the Corporations Law, the arrangement proposed between NRMA Limited and that class of its members comprising members who are not also members of NRMA Insurance Limited (ACN 000 016 722), designated as the 'Second Association Scheme', as contained in and more particularly described in the Information Memorandum accompanying the notice convening this meeting is agreed to.'*

### Background information

To enable you to make an informed voting decision, further information on the scheme of arrangement is set out in the Information Memorandum accompanying this notice of meeting. A copy of the scheme of arrangement is set out on pages 64 to 67 of the Information Memorandum and its purpose and effect are discussed throughout that document.

To be passed, the resolution must be supported by a majority of those members who are not also members of NRMA Insurance Limited present and voting (either in person or by proxy).

### Your vote is important

The vote on the proposed resolution is part of a broader proposal described in the Information Memorandum accompanying this notice of meeting.

The outcome of the vote and the implementation of the broader proposal has important consequences for the future of the NRMA Group. The directors of NRMA Limited strongly recommend that members read the Information Memorandum to gain a full understanding of the reasons for the resolution and what its effect will be if it is passed.

In particular, pages 17 to 19 of the Information Memorandum describe why this proposal is being put to members.

### Eligibility to vote

Each member of NRMA Limited at the date of the meeting who is not also a member of NRMA Insurance Limited is entitled to vote on the resolution.

### How do you exercise your right to vote?

You can vote in either of two ways:

- attending the meeting and voting in person or, if you are a corporate member, by corporate representative voting for you; or
- appointing a proxy to attend and vote for you, using the enclosed Proxy Form.

#### Voting in person

If you plan to attend the meeting, we ask that you arrive at the meeting venue at least 30 minutes prior to the time designated for the meeting so that we may check your membership against our register of members, and note your attendance.

#### Voting by corporate representative

In order to vote at the meeting, a corporation which is a member may appoint a person to act as its representative. The appointment must comply with the requirements of section 250D of the Corporations Law. The representative should bring to the meeting evidence of his or her appointment including any authority under which it is signed. If you require further information on how to appoint a corporate representative, please ring the Members' Information Line on 1300 361 646.

#### Voting by proxy

To ensure that all members can exercise their right to vote on the proposed resolution, a Proxy Form is enclosed with the Information Memorandum accompanying this notice of meeting together with a reply paid envelope.

A member who is entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote instead of the member. A proxy need not be a member of NRMA Limited. Your proxy will have the right to vote on a poll and also to speak at the meeting.

If you return your Proxy Form but do not nominate the identity of your proxy, the chairman of the meeting will automatically be your proxy and will vote on your behalf. If you return your Proxy Form but your nominated proxy does not attend the meeting, then your proxy will revert to the chairman of the meeting.

Send your completed Proxy Form to the Returning Officer. You can use the reply paid envelope provided, or you can send your completed Proxy Form to the address (no stamp required) or the fax number shown below:

The Returning Officer  
NRMA Limited and NRMA Insurance Limited  
Reply Paid 1819  
Strathfield NSW 1819  
Facsimile 1800 264 269

Proxy Forms must be received by the Returning Officer or deposited at 388 George Street, Sydney no later than 5.30pm on Monday 17 April 2000. Proxy Forms received after this time will be invalid.

### Information Memorandum

A copy of the Information Memorandum was mailed to members with this notice of meeting.

Proxy Forms were also mailed to members with this notice of meeting. Any member who has not received this notice of meeting or the Proxy Form or a copy of the Information Memorandum, or requires replacements, should telephone the Members' Information Line on 1300 361 646.



# Notice of Court Ordered Meeting for the Third Association Scheme

By an Order of the Supreme Court of New South Wales made on 14 February 2000 pursuant to section 411(1) of the Corporations Law, a meeting of that class of the members of NRMA Limited comprising members who are also members of NRMA Insurance Limited (ACN 000 016 722) will be held at Sydney Convention and Exhibition Centre – North, Darling Harbour, Sydney on Wednesday 19 April 2000 at 1.40pm or as soon thereafter as the Second Court Ordered Meeting of NRMA Limited has concluded or been adjourned.

## What is the resolution?

### Approval of scheme of arrangement

To consider and, if thought fit, pass the following resolution:

*'That pursuant to, and in accordance with, the provisions of section 411 of the Corporations Law, the arrangement proposed between NRMA Limited and that class of its members comprising members who are also members of NRMA Insurance Limited (ACN 000 016 722) designated as the 'Third Association Scheme', as contained in and as more particularly described in the Information Memorandum accompanying the notice convening this meeting is agreed to.'*

## Background information

To enable you to make an informed voting decision, further information on the scheme of arrangement is set out in the Information Memorandum accompanying this notice of meeting. A copy of the scheme of arrangement is set out on pages 64 to 67 of the Information Memorandum and its purpose and effect are discussed throughout that document.

To be passed, the resolution must be supported by a majority of those members who are also members of NRMA Insurance Limited present and voting (either in person or by proxy).

## Your vote is important

The vote on the proposed resolution is part of a broader proposal described in the Information Memorandum accompanying this notice of meeting.

The outcome of the vote and the implementation of the broader proposal has important consequences for the future of the NRMA Group. The directors of NRMA Limited strongly recommend that members read the Information Memorandum to gain a full understanding of the reasons for the resolution and what its effect will be if it is passed.

In particular, pages 17 to 19 of the Information Memorandum describe why this proposal is being put to members.

## Eligibility to vote

Each member of NRMA Limited at the date of the meeting who is also a member of NRMA Insurance Limited is entitled to vote on the resolution.

## How do you exercise your right to vote?

You can vote in either of two ways:

- attending the meeting and voting in person or, if you are a corporate member, by corporate representative voting for you; or
- appointing a proxy to attend and vote for you, using the enclosed Proxy Form.

### Voting in person

If you plan to attend the meeting, we ask that you arrive at the meeting venue at least 30 minutes prior to the time designated for the meeting so that we may check your membership against our register of members, and note your attendance.

### Voting by corporate representative

In order to vote at the meeting, a corporation which is a member may appoint a person to act as its representative. The appointment must comply with the requirements of section 250D of the Corporations Law. The representative should bring to the meeting evidence of his or her appointment including any authority under which it is signed. If you require further information on how to appoint a corporate representative, please ring the Members' Information Line on 1300 361 646.

### Voting by proxy

To ensure that all members can exercise their right to vote on the proposed resolution, a Proxy Form is enclosed with the Information Memorandum accompanying this notice of meeting together with a reply paid envelope.

A member who is entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote instead of the member. A proxy need not be a member of NRMA Limited. Your proxy will have the right to vote on a poll and also to speak at the meeting.

If you return your Proxy Form but do not nominate the identity of your proxy, the chairman of the meeting will automatically be your proxy and will vote on your behalf. If you return your Proxy Form but your nominated proxy does not attend the meeting, then your proxy will revert to the chairman of the meeting.

Send your completed Proxy Form to the Returning Officer. You can use the reply paid envelope provided, or you can send your completed Proxy Form to the address (no stamp required) or the fax number shown below:

The Returning Officer  
NRMA Limited and NRMA Insurance Limited  
Reply Paid 1819  
Strathfield NSW 1819  
Facsimile 1800 264 269

Proxy Forms must be received by the Returning Officer or deposited at 388 George Street, Sydney no later than 5.30pm on Monday 17 April 2000. Proxy Forms received after this time will be invalid.

## Information Memorandum

A copy of the Information Memorandum was mailed to members with this notice of meeting.

Proxy Forms were also mailed to members with this notice of meeting. Any member who has not received this notice of meeting or the Proxy Form or a copy of the Information Memorandum, or requires replacements, should telephone the Members' Information Line on 1300 361 646.

# Notice of Special General Meeting

A special general meeting of NRMA Insurance Limited will be held at Sydney Convention and Exhibition Centre - North, Darling Harbour, Sydney on Wednesday 19 April 2000 at 3.30pm or as soon thereafter as the Third Court Ordered Meeting of NRMA Limited has concluded or been adjourned.

## What are the resolutions?

### 1. Alterations to the constitution

To consider and, if thought fit, pass the following as a special resolution:

That the constitution of NRMA Insurance Limited is altered by:

(a) inserting a new rule 38A (immediately following rule 38) in the following terms:

"38A (1) The purpose of this rule 38A is to impose, after the Effective Date, certain duties and obligations upon the Directors and thereby to curtail their freedom of action and to define and limit the powers allocated to them under this constitution in such a way and to such an extent that, subject to rule 38A(4), powers of the Company exercisable by the Directors in relation to matters referred to in rule 38A(2):

(a) must not, after the Effective Date, be exercised in any way which is contrary to rule 38A(2); and

(b) must, after the Effective Date, be exercised in the ways required by rule 38A(2).

(2) Subject to rule 38A(4), it is the duty of the Directors, after the Effective Date, to cause to be done everything which it is necessary for the Company and the Directors to do in order to implement and to conclude according to its terms the NRMA Insurance Restructure and, without limiting the generality of the foregoing, the Directors must, after the Effective Date (but subject to rule 38A(4)):

(a) convene a general meeting of the Company for the purpose of considering a special resolution to change the Company's type from a company limited by guarantee to a public company limited by shares and a special resolution to repeal the Company's constitution effective upon the date of the change of type; and

(b) if those special resolutions are duly passed, make and pursue an application under Part 2B.7 of the Act for change of the Company's type to a public company limited by shares in which NRMA Insurance Group Limited ACN 090 739 923 is named as the only person to whom shares are to be issued upon the change of type.

(3) Rules 38A(1) and (2) have precedence over rule 38 but will cease to have effect if any of the schemes of arrangement referred to in the definition of 'Effective Date' in rule 38A(5) is terminated for any reason.

(4) Nothing in rules 38A(1) and (2) requires or permits any Director individually or collectively to act in a way which would be in breach of any duty owed by that Director or which would be unlawful.

(5) For the purposes of this rule 38A:

'Effective Date' means the earliest day on which all the schemes of arrangement set out in the documents referred to in the definition of 'NRMA Insurance Restructure' in this rule 38A(5) have become effective according to their terms.

'NRMA Insurance Restructure' means the scheme or plan defined as the 'Proposal' in clause 1 of Part II of the documents entitled 'Schemes of Arrangement pursuant to section 411 of the Corporations Law between NRMA Limited (ACN 000 010 506) and its members and certain classes of them' and 'Schemes of Arrangement pursuant to section 411 of the Corporations Law between NRMA Insurance Limited (ACN 000 016 722) and classes of its members' appearing on pages 64 to 67 and pages 96 to 99 of the information memorandum dated 14 February 2000 issued with the notices convening certain meetings of members of the N.R.M.A. and members of the Company, including the meeting of members of the Company at which the special resolution adopting this rule 38A was passed.";

(b) substituting for rule C of the constitution the following new rule:

"C. If upon the winding up or dissolution of the Company (otherwise than for the purposes of reconstruction) there shall remain any surplus assets after payment of all the Company's liabilities and the expenses of winding up, or dissolution, the same shall not be paid to or distributed among the members of the Company but shall be given or transferred:

(a) unless paragraph (b) applies, to some other institution or institutions having objects similar to the objects of this Company such institution or institutions to be determined by the members of this Company at or before the time of dissolution, and in default thereof by any Judge of the Supreme Court of New South Wales in its Equitable Jurisdiction or such other Judge or Court as may have or acquired jurisdiction in the matter, and if and so far as effect cannot be given to the aforesaid provision then to some charitable object; or

(b) if either of the events referred to in rule 3(a)(iv)(D) and (E) occurs, to NRMA Limited ACN 000 010 506 ('the N.R.M.A.') or in the event the N.R.M.A. for any reason having ceased to exist then to such other association or associations having objects similar to the N.R.M.A. or such other company having objects similar to those of this Company as shall be determined by the members of this Company at or before the time of winding up or dissolution and in default thereof by any Judge of the Supreme Court of New South Wales in its Equitable Jurisdiction."

(c) inserting a new rule 57D in the constitution:

"57D The Company must cause to be published in a newspaper circulating generally throughout Australia any notice of general meeting which contains a resolution to change the status of the Company within two days of sending that notice of general meeting to members.";

(d) inserting the following new definitions in rule 2 of the constitution in their correct alphabetical positions:

"'Association Scheme of Arrangement' means the Second Association Scheme as defined in the document entitled 'Schemes of Arrangement pursuant to section 411 of the Corporations Law between NRMA Limited (ACN 000 010 506) and its members and certain classes of them' appearing on pages 64 to 67 of the information memorandum dated 14 February 2000 under which among other things:

(i) the members of N.R.M.A. who are not also members of the Company are to become members of the Company; and

(ii) the N.R.M.A. is invested with the authority of each N.R.M.A. member who is not also a member of the Company to do on their behalf certain things to implement a proposed restructuring of the Company and the N.R.M.A.;

"'Meetings Date' means the date on which the court ordered meeting in connection with the Association Scheme of Arrangement is held and the resolution put to that meeting is passed."; and

"'Review Panel' means the panel established by resolution of the boards of the N.R.M.A. and the Company on 27 May 1999, as amended from time to time, details of the charter of which are set out on page 49 of the information memorandum dated 14 February 2000 issued in connection with, among other things, the Association Scheme of Arrangement.";

(e) replacing the full stop "." at the end of rule 3(a)(iii) of the constitution with a semi-colon ";", and inserting the following additional paragraph (iv):

"(iv) any person who is:

(A) a member of the N.R.M.A. at the Meetings Date who has made, or on whose behalf there has been made, an application to become a member of the Company and in that application has agreed to become a member of the Company; or

(B) the legal personal representative (or their nominee) of a person who was a member of the N.R.M.A. but not of the Company at midnight on 25 February 1999 and who afterwards died before becoming a member of the Company under rule 3(a)(iv)(A) above provided that the legal personal representative (or their nominee) agrees to become a member of the Company; or

(C) adjudicated by the Review Panel to have been entitled to have been a member of either the Company or the N.R.M.A. at the Meetings Date and who agrees to become a member of the Company;

and whose name is entered on the Company's register of members by direction of the Directors or the Review Panel, provided that no such person will be admitted as a member unless the Association Scheme of Arrangement has become effective according to its terms and that every person so admitted will immediately cease to be a member if:

(D) any of the schemes of arrangement referred to in the definition of 'Effective Date' in rule 38A(5) is terminated for any reason; or

(E) the Australian Securities and Investments Commission does not, in accordance with section 164(4) of the Act, alter the details of the Company's registration to reflect a change of the Company's status from a company limited by guarantee to a public company limited by shares on or before 31 December 2000.";

(f) deleting the first sentence of rule 3(c) and substituting the following:

*“Joint memberships of the Company are not permitted, except where a person is admitted as a member under rule 3(a)(iv) in which case:*

- (i) *if persons seeking admission under rule 3(a)(iv)(A) were admitted as a single member of the N.R.M.A., then they shall be admitted as joint members of the Company;*
- (ii) *if there is more than one legal personal representative (or their nominee) seeking admission under rule 3(a)(iv)(B) in respect of a person who was a member of the N.R.M.A. but not of the Company at midnight on 25 February 1999 and who afterwards died before becoming a member of the Company under rule 3(a)(iv)(A), then that person's legal personal representatives (or their nominees) shall be admitted as joint members of the Company;*
- (iii) *if persons adjudicated by the Review Panel to have been entitled to have been a single member of the N.R.M.A. at the Meetings Date, then they shall be admitted as joint members of the Company.*

*Where, under this constitution, any right may be exercised by a member, in the case of joint members of the Company, that right must be exercised jointly.”*

## 2. Approval of the Business Relationship Agreements under section 243R of the Corporations Law

To consider and, if thought fit, pass the following as an ordinary resolution:

*That, for the purposes of provisions of the Corporations Law regulating the giving by a public company (and by any entity of which a public company is a holding company or over which it has control) of “financial benefits” to a “related party” of the public company,*

- (a) *each of NRMA Insurance Limited and NRMA Investment Management Pty Limited (the latter being an entity of which NRMA Insurance Limited is a holding company and over which it has control) is permitted to make with NRMA Limited (a “related party” of NRMA Insurance Limited) the proposed contract designated “Shared Services Outsourcing Agreement” included in the Business Relationship Agreements described on pages 139 to 145 of the information memorandum dated 14 February 2000 issued with the notices convening certain meetings of members of NRMA Limited and NRMA Insurance Limited, including the meeting at which this resolution was passed; and*
- (b) *NRMA Insurance Limited is permitted to make with NRMA Limited (a “related party” of NRMA Insurance Limited) those of the remaining proposed contracts included in the Business Relationship Agreements so described to which NRMA Insurance Limited and NRMA Limited are to be parties.*

## Background information

To enable you to make an informed voting decision, further information on the above resolutions is set out in the Information Memorandum accompanying this notice of meeting. In particular, the amendments to the constitution are discussed on page 35 and the reasons why approval is required under section 243R of the Corporations Law are discussed on page 68. A description of the related party benefits under the Business Relationship Agreements is set out on page 33.

To be passed, resolution 1 must be supported by at least 75% of the votes cast by members who are present at the meeting (whether in person, by proxy, by attorney or by duly appointed corporate representative) and entitled to vote on resolution 1. To be passed, resolution 2 must be supported by a majority of the votes cast by members who are present at the meeting (whether in person, by proxy, by attorney or by duly appointed corporate representative) and entitled to vote on resolution 2.

## Your vote is important

The vote on the proposed resolutions is part of a broader proposal described in the Information Memorandum accompanying this notice of meeting.

The outcome of the vote and the implementation of the broader proposal has important consequences for the future of the NRMA Group. The directors of NRMA Insurance Limited strongly recommend that members read the Information Memorandum to gain a full understanding of the reasons for the resolutions and what their effect will be if they are passed.

In particular, pages 17 to 19 of the Information Memorandum describe why this proposal is being put to members of NRMA Insurance Limited.

## Eligibility to vote

Each member of NRMA Insurance Limited at the date of the meeting is entitled to vote on resolution 1. Each member of NRMA Insurance Limited at the date of the meeting is entitled to vote on resolution 2 other than NRMA Limited and its associates (which

includes the directors of NRMA Limited). However, this does not prevent the casting of a vote if it is cast by a director of NRMA Limited as a proxy appointed in writing that specifies how the proxy is to vote in resolution 2 and is not cast on behalf of Association or any of its associates.

## How do I exercise my right to vote?

You can vote in either of two ways:

- attending the meeting and voting in person or, if you are a corporate member, by corporate representative voting for you; or
- appointing a proxy to attend and vote for you, using the enclosed Proxy Form.

### Voting in person

If you plan to attend the meeting, we ask that you arrive at the meeting venue at least 30 minutes prior to the time designated for the meeting so that we may check your membership against our register of members, and note your attendance.

### Voting by corporate representative

In order to vote at the meeting, a corporation which is a member may appoint a person to act as its representative. The appointment must comply with the requirements of section 250D of the Corporations Law. The representative should bring to the meeting evidence of his or her appointment including any authority under which it is signed. If you require further information on how to appoint a corporate representative, please ring the Members' Information Line on 1300 361 646.

### Voting by proxy

To ensure that all members can exercise their right to vote on the proposed resolution, a Proxy Form is enclosed with the Information Memorandum accompanying this notice of meeting together with a reply paid envelope.

A member who is entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote instead of the member. A proxy need not be a member of NRMA Insurance Limited. Your proxy will have the right to vote on a poll and also to speak at the meeting.

If you return your Proxy Form but do not nominate the identity of your proxy, the chairman of the meeting will automatically be your proxy and will vote on your behalf. If you return your Proxy Form but your nominated proxy does not attend the meeting, then your proxy will revert to the chairman of the meeting.

Send your completed Proxy Form to the Returning Officer. You can use the reply paid envelope provided, or you can send your completed Proxy Form to the address (no stamp required) or the fax number shown below:

The Returning Officer  
NRMA Limited and NRMA Insurance Limited  
Reply Paid 1819  
Strathfield NSW 1819  
Facsimile 1800 264 269

Proxy Forms must be received by the Returning Officer or deposited at 388 George Street, Sydney no later than 5.30pm on Monday 17 April 2000. Proxy Forms received after this time will be invalid.

## Information Memorandum

A copy of the Information Memorandum was mailed to members with this notice of meeting.

Proxy Forms were also mailed to members with this notice of meeting. Any member who has not received this notice of meeting or the Proxy Form or a copy of the Information Memorandum, or requires replacements, should telephone the Members' Information Line on 1300 361 646.

Dated at Sydney on 14 February 2000  
By order of the Board of directors



14 February 2000  
Secretary

# NRMA Insurance Limited

(ACN 000 016 722)

## Notice of Court Ordered Meeting for the First Insurance Scheme

By an Order of the Supreme Court of New South Wales made on 14 February 2000 pursuant to section 411(1) of the Corporations Law, a meeting of that class of the members of NRMA Insurance Limited except NRMA Limited (ACN 000 010 506) will be held at Sydney Convention and Exhibition Centre – North, Darling Harbour, Sydney on Wednesday 19 April 2000 at 4.30pm or as soon thereafter as the Special General Meeting of NRMA Insurance Limited has concluded or been adjourned.

### What is the resolution?

#### Approval of scheme of arrangement

To consider and, if thought fit, pass the following resolution:

*'That pursuant to, and in accordance with, the provisions of section 411 of the Corporations Law, the arrangement proposed between NRMA Insurance Limited and that class of its members except NRMA Limited 000 010 506, designated as the 'First Insurance Scheme', as contained in and more particularly described in the Information Memorandum accompanying the notice convening this meeting is agreed to.'*

### Background information

To enable you to make an informed voting decision, further information on the scheme of arrangement is set out in the Information Memorandum accompanying this notice of meeting. A copy of the scheme of arrangement is set out on pages 96 to 99 of the Information Memorandum and its purpose and effect are discussed throughout that document.

To be passed, the resolution must be supported by a majority of the members present and voting (either in person or by proxy).

### Your vote is important

The vote on the proposed resolution is part of a broader proposal described in the Information Memorandum accompanying this notice of meeting.

The outcome of the vote and the implementation of the broader proposal has important consequences for the future of the NRMA Group. The directors of NRMA Insurance Limited strongly recommend that members read the Information Memorandum to gain a full understanding of the reasons for the resolution and what its effect will be if it is passed.

In particular, pages 17 to 19 of the Information Memorandum describe why this proposal is being put to members of NRMA Insurance Limited.

### Eligibility to vote

Each member of NRMA Insurance Limited (other than NRMA Limited) at the date of the meeting is entitled to vote on the resolution.

### How do I exercise my right to vote?

You can vote in either of two ways:

- attending the meeting and voting in person or, if you are a corporate member, by corporate representative voting for you; or
- appointing a proxy to attend and vote for you, using the enclosed Proxy Form.

#### Voting in person

If you plan to attend the meeting, we ask that you arrive at the meeting venue at least 30 minutes prior to the time designated for the meeting so that we may check your membership against our register of members, and note your attendance.

#### Voting by corporate representative

In order to vote at the meeting, a corporation which is a member may appoint a person to act as its representative. The appointment must comply with the requirements of section 250D of the Corporations Law. The representative should bring to the meeting evidence of his or her appointment including any authority under which it is signed. If you require further information on how to appoint a corporate representative, please ring the Members' Information Line on 1300 361 646.

#### Voting by proxy

To ensure that all members can exercise their right to vote on the proposed resolution, a Proxy Form is enclosed with the Information Memorandum accompanying this notice of meeting together with a reply paid envelope.

A member who is entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote instead of the member. A proxy need not be a member of NRMA Insurance Limited. Your proxy will have the right to vote on a poll and also to speak at the meeting.

If you return your Proxy Form but do not nominate the identity of your proxy, the chairman of the meeting will automatically be your proxy and will vote on your behalf. If you return your Proxy Form but your nominated proxy does not attend the meeting, then your proxy will revert to the chairman of the meeting.

Send your completed Proxy Form to the Returning Officer. You can use the reply paid envelope provided, or you can send your completed Proxy Form to the address (no stamp required) or the fax number shown below:

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# Glossary

**ACOSS** The Australian Council of Social Service, which is the 'peak council of the community welfare sector in Australia and the national voice for the needs of people affected by poverty and inequality'.

**APRA** The Australian Prudential Regulation Authority, which is the regulatory body responsible for the prudential regulation of banks, insurance companies, superannuation funds, credit unions, building societies and friendly societies in Australia.

**ASIC** The Australian Securities and Investments Commission, which is the regulatory body responsible for enforcing and administering the Corporations Law and consumer protection law for investments, life and general insurance, superannuation and banking (except lending) throughout Australia.

**Association** NRMA Limited (ACN 000 010 506).

**Association Board** The board of directors of Association.

**Association Group** Association and its subsidiaries but excluding any company in the Insurance Group.

**Association Member** A member of Association – see pages 47 to 49 for membership criteria.

**Association Only Member** An Association Member who is not also an Insurance Member.

**Association Schemes** The schemes of arrangement between Association and Association Members substantially in the form set out on pages 64 to 67.

**Australian Stock Exchange** Australian Stock Exchange Limited (ACN 008 624 691), which is Australia's national stock exchange.

**Boards or NRMA Boards** The Association and the Insurance Boards.

**Business Relationship Agreements** Agreements to be entered into between Association, Insurance and NIGL summarised on pages 139 to 145.

**constitution** The document adopted by members of a company, as amended from time to time, that governs the internal management of the company and the relationship amongst the company, the members and the officers of the company and given binding effect under the Corporations Law. Until 1 July 1998, a company's constitution was referred to as its memorandum and articles of association.

**Court** The Supreme Court of New South Wales.

**CPI** The Consumer Price Index published by the Australian Bureau of Statistics.

**CTP** Compulsory third party insurance (greenslip insurance in New South Wales and Third Party Insurance in the Australian Capital Territory).

**Deceased Members** Those Members who died after 25 February 1999.

**Deloitte Corporate Finance** Deloitte Corporate Finance Pty Limited (ACN 003 833 127).

**Demutualisation Resolution Date** The date on which Insurance Members in general meeting approve the Insurance Demutualisation.

**Dual Member** An Association Member who is also an Insurance Member.

**Entitlements Trust** The trust summarised on page 145.

**Ernst & Young Corporate Finance** Ernst & Young Corporate Finance Pty Limited (ACN 003 599 844).

**Facility** A facility to be established by the NIGL Board to enable Members to buy and sell Shares on or near the Listing Date.

**Financial Information** The Restated Financial Information, Pro Forma Financial Information and assumptions set out on pages 100 to 118.

**GST** A goods and services tax, legislation for the introduction of which was passed by the Federal Parliament at the end of June 1999 and which is expected to commence on 1 July 2000.

**IMA** Insurance Manufacturers of Australia Pty Limited (ACN 004 208 084), a joint venture company owned by the Insurance Group and RACV which now operates their short tail personal insurance manufacturing operations in New South Wales, the Australian Capital Territory and Victoria.

**Implementation Deed** The deed dated 21 January 2000, as supplemented by deed dated 14 February 2000, between NIGL, Association, Insurance, NIGL's initial directors (Eric Dodd, George Venardos and Gaye Morstyn) and summarised on page 145.

**Insurance** NRMA Insurance Limited (ACN 000 016 722).

**Insurance and Financial Services Trade Marks** Those NRMA Trade Marks which will be assigned to Insurance under the Business Relationship Agreements and which relate only to products and services provided exclusively by the Insurance Group.

**Insurance Board** The board of directors of Insurance.

**Insurance Demutualisation** The process by which Insurance is converted from a company limited by guarantee to a public company limited by shares under Part 2B.7 of the Corporations Law.

**Insurance Group** If the Proposal goes ahead, the group made up of NIGL and its subsidiaries.

**Insurance Member** A member of Insurance – see pages 47 to 49 for membership criteria.

**Insurance Only Member** An Insurance Member who is not also an Association Member.

**Insurance Schemes** The schemes of arrangement between Insurance and Insurance Members substantially in the form set out on pages 96 to 99.

**Listing Date** The day on which Shares are first admitted to official quotation by the Australian Stock Exchange.

**Listing Rules** The Listing Rules of the Australian Stock Exchange.

**Members** Association Members and/or Insurance Members – see pages 47 to 49 for membership criteria.

**membership fee** The annual subscription fee for basic road service, currently at \$46.00, plus GST.

**Membership Principles** The principles approved by the Boards in accordance with the constitutions of Association and Insurance for determining a person's membership of Association and Insurance and their eligibility for Shares (see page 48).

**NIGL** NRMA Insurance Group Limited (ACN 090 739 923), which will become the immediate holding company of Insurance and NRMA Building Society Limited if the Proposal goes ahead.

**NIGL Board** The board of directors of NIGL.

**NIGL constitution** The constitution to be adopted by NIGL on the date of the Insurance Demutualisation if the Proposal goes ahead (see pages 138 to 139).

**NIM** NRMA Investment Management Pty Limited (ACN 054 552 046), a subsidiary of Insurance.

**NRMA Boards or Boards** The Association and the Insurance Boards.

**NRMA Brands** The brand name 'NRMA' as well as the 'wings' device and various series and combinations including 'HELP' and 'SAVE', other words and logos, and various combinations of them.

**NRMA Group** The group of companies, comprising Association, Insurance and their respective subsidiaries.

**NRMA Trade Marks** The trade mark applications and registrations currently in the name of Association relating to the NRMA Brands.

**Overseas Member** A Member whose membership address is outside Australia.

**Pre-listing Period** The period starting when Shares are first issued in connection with the Insurance Demutualisation and ending immediately before the Listing Date.

**PricewaterhouseCoopers** PricewaterhouseCoopers Securities Ltd (ACN 003 311 617), the consulting actuary.

**Pro Forma Financial Information** The Pro Forma Financial Information of Association set out on pages 100 to 109 together with the Pro Forma Financial Information of NIGL set out on pages 110 to 117.

**Proposal** The proposal outlined on pages 4 and 34 to 37.

**Proxy Forms** The forms headed 'Proxy Form' which accompany this document.

**RACV** Royal Automobile Club of Victoria (RACV) Limited (ACN 004 060 833).

**Register Date** The date of the meetings at which the Association Schemes and the Insurance Schemes are agreed to.

**Restated Financial Information** The Restated Financial Information of Association set out on pages 100 to 109 together with the Restated Financial Information of Insurance set out on pages 110 to 117.

**Road Service Customers** Those persons who entered, in their own name, a contract for the provision of road service after 25 February 1999.

**Scheme Meetings** The meetings of Members to consider the Schemes of Arrangement.

**Schemes of Arrangement or Schemes** The Association Schemes and the Insurance Schemes.

**SGIO** SGIO Insurance Limited (ACN 058 277 866), a wholly owned subsidiary of Insurance and formerly known as State Government Insurance Office (WA).

**Share** An ordinary share in the capital of NIGL.

**Share Allocation** The number of Shares which a Member is entitled to receive under the Proposal.

**Share Allocation Form** The form setting out your Share Allocation which accompanies this document.

**Share Allocation Rules** The rules for determining a Member's Share Allocation as set out on pages 43 to 47.

**Shareholder** The legal owner of a Share, if and when issued.

**Special General Meetings** The special general meetings of Members to consider aspects of the Proposal, details of which are on pages 34 to 37.

**Tax Act** The Income Tax Assessment Acts of 1936 and 1997.

# Index

This Index is a guide only. It has been included to assist Members in finding information on key matters in the Information Memorandum. It is not intended to be a definitive list of all those matters. See also the Contents on pages 2 to 3 and the Glossary on page 155.

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