

State Government Insurance Corporation

Annual Report 2005

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STATEMENT OF COMPLIANCE TO THE MINISTER

To the Hon. Eric Ripper, MLA
Deputy Premier; Treasurer;
Minister for Government Enterprises;
Minister Assisting the Minister for Public Sector Management

In accordance with Section 66 of the *Financial Administration and Audit Act 1985*, we hereby submit for your information and presentation to Parliament, the Annual Report of the State Government Insurance Corporation for the financial year ended 30 June 2005.

The Annual Report has been prepared in accordance with the provisions of the *Financial Administration and Audit Act 1985* and the *Insurance Commission of Western Australia Act 1986*.



VIC EVANS
CHAIRMAN
31 August 2005



MICHAEL E WRIGHT
DEPUTY CHAIRMAN
31 August 2005

In accordance with a resolution of the Board of Directors of the State Government Insurance Corporation, passed on 31 August 2005.

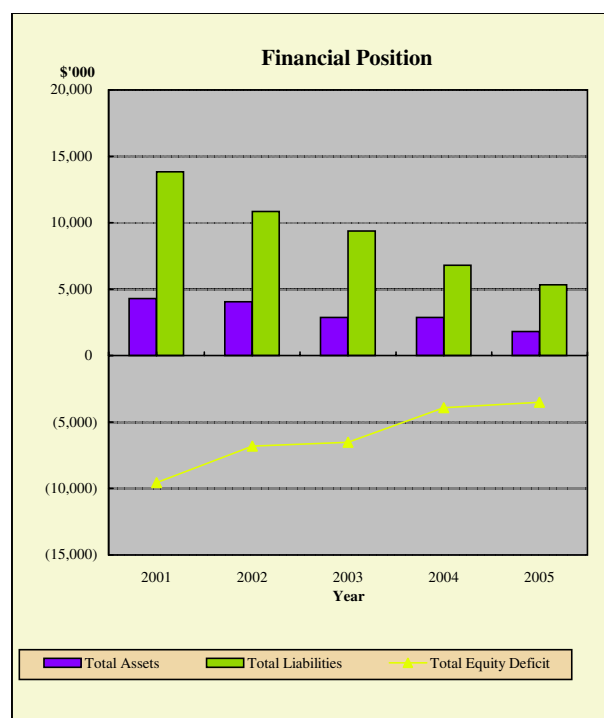
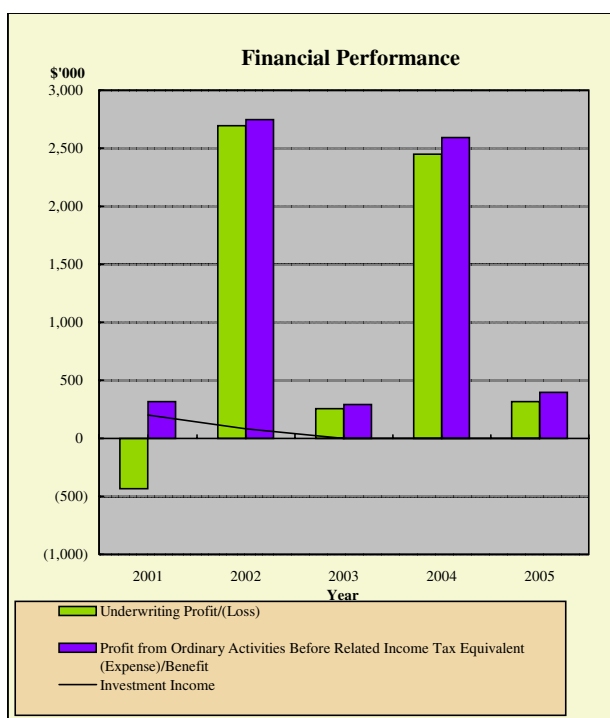
FINANCIAL OVERVIEW

STATEMENT OF FINANCIAL PERFORMANCE

	2005 \$'000	2004 \$'000	2003 \$'000	2002 \$'000	2001 \$'000
Net Earned Premium	190	(105)	307	151	(184)
Claims Incurred	310	2,525	127	2,684	(101)
Reinsurance and Other Recoveries Revenue	(13)	192	5	42	20
Net Claims Incurred	297	2,717	132	2,726	(81)
Underwriting and Administration Expenses	(172)	(164)	(185)	(183)	(169)
Underwriting Profit/(Loss)	315	2,448	254	2,694	(434)
Investment Income	-	-	-	81	201
Other Income	82	144	37	(29)	549
Profit from Ordinary Activities Before Related Income Tax Equivalent (Expense)/Benefit	397	2,592	291	2,746	316

STATEMENT OF FINANCIAL POSITION

Investments	-	-	-	-	3,380
Other Assets	1,804	2,873	2,875	4,043	906
Total Assets	1,804	2,873	2,875	4,043	4,286
Outstanding Claims	5,233	6,742	9,373	10,813	13,663
Other	93	50	13	32	171
Total Liabilities	5,326	6,792	9,386	10,845	13,834
Net Liabilities	(3,522)	(3,919)	(6,511)	(6,802)	(9,548)
Share Capital	100,000	100,000	100,000	100,000	100,000
Accumulated Loss	(103,522)	(103,919)	(106,511)	(106,802)	(109,548)
Total Equity Deficit	(3,522)	(3,919)	(6,511)	(6,802)	(9,548)



CHAIRMAN'S REVIEW

I am pleased to report that for the financial year 2004–2005 the operating profit before tax of the State Government Insurance Corporation (Corporation) was \$397,000.

The Corporation remains in existence mainly to run-off small lines of Australian and overseas reinsurance business it wrote between 1988 and 1992. The Insurance Commission's Reinsurance and Underwriting Section is responsible for the management of the run-off of the business.


Currently, a high degree of uncertainty remains in regard to the final outcome of the run-off due to; the small portfolio of business under management; the advanced state of the run-off; and the heavy liability weighting of the portfolio.

In consequence of the uncertainty regarding the eventual outcome, a risk margin providing a 75% level of adequacy is incorporated in the outstanding claims provision. Furthermore, additional risk margins are retained for Australian Casualty and Professional Indemnity segments, due to even greater uncertainty about the run-off costs for these risks.

Based on an actuarial report there has been a reduction in the outstanding claim provisions at 30 June 2005. The factors contributing to this were; significant claims payments made; appreciation of the Australian dollar against the United States of America (US) and United Kingdom (UK) currencies; and a lengthening of the payment run-off in the actuarial assessment. These positive factors were partially off-set by; a downward movement in the discount rates, based on Australian, US and UK government bond markets; and an increase in the allowance for expenses.

The 1996 amendments to the *Insurance Commission of Western Australia Act 1986* included legislation which, whenever proclaimed, will dissolve the Corporation with its residuary assets, rights and liabilities vested in the Insurance Commission. Over the past few years commutation proposals have been sought and considered by the Corporation.

Going forward, the Board and Executive will consider all options available in determining the most appropriate strategy for positioning the Corporation's future.



VIC EVANS
CHAIRMAN

31 August 2005

BOARD OF DIRECTORS

The Board of Directors of the State Government Insurance Corporation has been appointed in accordance with the *Insurance Commission of Western Australia Act 1986*. The Board as at 30 June 2005 comprised:

VIC EVANS Dip Bus Mgt

Chairman of the Board of Directors

Managing Director, Insurance Commission of Western Australia

Expiry of present term: 21 June 2006

MICHAEL E WRIGHT FAICD

Deputy Chairman

Chairman, Insurance Commission of Western Australia

Consultant, Mallesons Stephen Jaques

Expiry of present term: 30 November 2007

PETER D EASTWOOD FCA, FAICD

Director

Deputy Chairman, Insurance Commission of Western Australia

Consultant, Grant Thornton Chartered Accountants

Director, Capricorn Mutual Limited

Director, Capricorn New Zealand Insurance Limited

Director, Unimutual Limited

Expiry of present term: 30 September 2005

ANNEMIE McAULIFFE MLS, Dip Ed, CMC

Director

Commissioner, Insurance Commission of Western Australia

Board Member, Western Australian Fire and Emergency Services Authority (FESA)

Board of Management

Chair, Bushfire Service Consultative Committee FESA

Deputy Chair, ArtSource

Expiry of present term: 31 December 2005

SHARON BROWN**Director**

Commissioner, Insurance Commission of Western Australia
Deputy Chair, ICT Industry Collaboration Centre
Councillor, Technology and Industry Advisory Council WA
Councillor, Defence Reserves Support Council
Director, Federal Industry Research and Development Board

Expiry of present term: 30 November 2007

DIRECTORS' ATTENDANCE AT MEETINGS 2004–2005

Board of Directors (Total of 11 Meetings)	
Director	Number of Meetings Attended
Vic Evans	11
Michael E Wright	11
Peter D Eastwood	11
Sharon Brown	9
Denyse Phillips*	5
	(Out of a total of 5 meetings)
Annemie McAuliffe**	6
	(Out of a total of 6 meetings)

*Denyse Phillips' appointment expired 30 November 2004.

**Annemie McAuliffe's appointment commenced on 2 February 2005.

REMUNERATION

No fees are paid to non-Executive Directors of the Corporation.

DISCLOSURE OF INTEREST IN AN EXISTING OR PROPOSED CONTRACT

At the date of reporting, other than normal contracts of employment of service, no Directors, or firms of which the Directors are members, or entities in which Directors have substantial interests, had any interests in existing or proposed contracts with the Insurance Commission of Western Australia.

ANNUAL ESTIMATES 2005–2006

In accordance with Section 42 of the *Financial Administration and Audit Act 1985*, the State Government Insurance Corporation's Annual Estimates for 2005–2006 have been approved by the Minister.

As required by *Treasurer's Instruction 953*, the approved Annual Estimates are detailed below:

	\$'000
Net Earned Premium	-
Claims Incurred	101
Reinsurance and Other Recoveries Revenue	10
Net Claims Incurred	111
Underwriting and Administration Expenses	(184)
UNDERWRITING LOSS	(73)
Other Income	65
LOSS ON ORDINARY ACTIVITIES BEFORE RELATED INCOME TAX EQUIVALENT INCOME OR EXPENSE	(8)

**State Government Insurance Corporation
Financial Statements 2005**

FINANCIAL STATEMENTS 2005 INDEX

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CERTIFICATION OF FINANCIAL STATEMENTS BY THE MEMBERS OF THE BOARD AND PRINCIPAL ACCOUNTING OFFICER

State Government Insurance Corporation

The accompanying financial statements of the State Government Insurance Corporation (the Corporation) have been prepared on the assumption that the Corporation is a “going concern” and will continue its business operations in the normal manner. This necessarily assumes that the obligations of the Corporation will be discharged as and when they fall due in the normal course of business.

The financial statements have been prepared on this basis (notwithstanding the excess of liabilities over assets) based on confirmation received from the Government of Western Australia that the Corporation is an Agent of the Crown in the right of the State under the *Insurance Commission of Western Australia Act 1986* and that its ultimate financial viability (including its ability to meet its financial obligations as and when they fall due) is subject to that support.

The financial statements of the Corporation have been prepared in compliance with the provisions of the *Financial Administration and Audit Act 1985* from proper accounts and records to present fairly the financial transactions for the year ended 30 June 2005 and the financial position as at 30 June 2005.

At the date of signing we are not aware of any circumstances which would render the particulars included in the financial statements misleading or inaccurate.



VIC EVANS
CHAIRMAN
31 August 2005



MICHAEL E WRIGHT
DEPUTY CHAIRMAN
31 August 2005



RICHARD A HASELGROVE
PRINCIPAL ACCOUNTING OFFICER
31 August 2005

In accordance with a resolution of the Board of Directors of the State Government Insurance Corporation passed on 31 August 2005.



AUDITOR GENERAL

INDEPENDENT AUDIT OPINION

To the Parliament of Western Australia

STATE GOVERNMENT INSURANCE CORPORATION FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Audit Opinion

In my opinion,

- (i) the controls exercised by the State Government Insurance Corporation provide reasonable assurance that the receipt, expenditure and investment of moneys, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions; and
- (ii) the financial statements are based on proper accounts and present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the Treasurer's Instructions, the financial position of the Corporation at 30 June 2005 and its financial performance and cash flows for the year ended on that date.

Scope

The Corporation's Role

The Corporation is responsible for keeping proper accounts and maintaining adequate systems of internal control, preparing the financial statements, and complying with the Financial Administration and Audit Act 1985 (the Act) and other relevant written law.

The financial statements consist of the Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows and the Notes to the Financial Statements.

Summary of my Role

As required by the Act, I have independently audited the accounts and financial statements to express an opinion on the controls and financial statements. This was done by looking at a sample of the evidence.

An audit does not guarantee that every amount and disclosure in the financial statements is error free. The term "reasonable assurance" recognises that an audit does not examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the financial statements.

D D R PEARSON
AUDITOR GENERAL
31 August 2005

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2005

	Notes	2005 \$'000	2004 \$'000
Premium Revenue		190	6
Outwards Reinsurance Expense		-	(111)
Net Earned Premium		190	(105)
Claims Incurred Credit		310	2,525
Reinsurance and Other Recoveries (Charges)/Revenue		(13)	192
Net Claims Incurred Credit	4	297	2,717
Underwriting and Administration Expenses	3	(172)	(164)
UNDERWRITING PROFIT		315	2,448
Other Income	2	82	144
PROFIT FROM ORDINARY ACTIVITIES BEFORE RELATED INCOME TAX EQUIVALENT EXPENSE		397	2,592
Related Income Tax Equivalent Expense Attributable to Ordinary Activities	5	-	-
NET PROFIT ATTRIBUTABLE TO MEMBERS		397	2,592

The Statement of Financial Performance should be read in conjunction with the Notes to and forming part of the financial statements.

STATEMENT OF FINANCIAL POSITION

as at 30 June 2005

	<u>Notes</u>	2005 \$'000	2004 \$'000
CURRENT ASSETS			
Cash Assets		1,533	2,760
Receivables	6	190	20
Total Current Assets		1,723	2,780
NON-CURRENT ASSETS			
Receivables	6	81	93
TOTAL ASSETS		1,804	2,873
CURRENT LIABILITIES			
Payables	7	93	50
Outstanding Claims	8	747	957
Total Current Liabilities		840	1,007
NON-CURRENT LIABILITIES			
Outstanding Claims	8	4,486	5,785
Total Non-Current Liabilities		4,486	5,785
TOTAL LIABILITIES		5,326	6,792
NET LIABILITIES		(3,522)	(3,919)
EQUITY			
Share Capital	9	100,000	100,000
Accumulated Losses	10	(103,522)	(103,919)
TOTAL EQUITY DEFICIT		(3,522)	(3,919)

The Statement of Financial Position should be read in conjunction with the Notes to and forming part of the financial statements.

STATEMENT OF CASH FLOWS

for the year ended 30 June 2005

		2005	2004
	Notes	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums Received		84	6
Reinsurance and Other Recoveries Received		-	227
Interest Received		114	122
Claims Paid		(1,169)	(106)
Outwards Reinsurance Paid		-	(74)
Underwriting and Administration Expenses Paid		(224)	(164)
Net Cash (Outflow)/Inflow from Operating Activities	(i)	(1,195)	11
CASH AT THE BEGINNING OF THE YEAR			
		2,760	2,727
Effects of Exchange Rate Changes on the Balance of Cash Held in Foreign Currencies		(32)	22
CASH AT THE END OF THE YEAR	(ii)	1,533	2,760

The Statement of Cash Flows should be read in conjunction with the Notes to and forming part of the financial statements.

(i) and (ii), refer to the following below.

(i) Reconciliation of Operating Profit after Income Tax Expense to Net Cash Flows from Operating Activities

Operating Profit after Income Tax Expense	397	2,592
Bad Debts	(65)	-
Foreign Exchange Loss/(Gain)	32	(22)
Changes in Assets and Liabilities		
(Increase)/Decrease in Reinsurance and Other Recoveries Receivable	(93)	35
Decrease in Outstanding Claims	(1,509)	(2,631)
Increase in Other Liabilities	43	37
Net Cash (Outflow)/Inflows from Operating Activities	(1,195)	11

(ii) Reconciliation of Cash

Cash at the end of the year as shown in the Statement of Cash Flows is reconciled to the related items of the Statement of Financial Position as follows:

Cash Assets	1,533	2,760
	1,533	2,760

The Corporation has no stand-by credit arrangements or loan facilities. The Corporation's ability to meet its financial obligations as and when they fall due is ultimately supported by the Government of Western Australia. The cash detailed in (ii) above is available to the Corporation without restriction.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

To facilitate a better understanding of the financial statements, presented below are the significant accounting policies adopted by the State Government Insurance Corporation (Corporation) in the preparation of the financial statements.

General Statement

The financial statements constitute a general purpose financial report, which has been prepared in accordance with Accounting Standards, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group (UIG) Consensus Views as applied by the Treasurer's Instructions. Several of these are modified by the Treasurer's Instructions to vary application, disclosure, format and wording. The *Financial Administration and Audit Act 1985* and the Treasurer's Instructions are legislative provisions governing the preparation of financial statements and take precedence over Accounting Standards, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board and UIG Consensus Views. The modifications are intended to fulfil the requirements of general application to the public sector, together with the need for greater disclosure and also to satisfy accountability requirements. If any such modification has a material or significant financial effect upon the reported results, details of that modification and, where practicable, the resulting financial effect, are disclosed in individual notes to these financial statements. No such modifications were required to be reported either this year or last year.

(a) Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting using the historical cost convention, except for certain assets and liabilities which, as noted, are measured at valuation.

The financial statements have been prepared on the assumption that the Corporation is a "going concern", will continue its business operations in the normal manner and that it will be able to meet its liabilities as and when they fall due. The financial statements have been prepared on this basis notwithstanding the excess of liabilities over assets.

The Corporation is an Agent of the Crown in the right of the State under Section 4(a) of the *Insurance Commission of Western Australia Act 1986*. A letter has been received from the Premier confirming that the State Government fully supports the financial viability of the Corporation and will continue to support the Corporation and its Board as a going concern. The State Government has also confirmed that it is committed to ensuring the Corporation can meet its financial obligations as and when they fall due.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(b) Change in Accounting Policy

The accounting policies used are consistent with those adopted in the previous year.

(c) Principal Activities

The Corporation ceased writing Inwards Reinsurance in August 1992. During the financial year the Corporation's only activity has been the further "run-off" of this operation.

(d) Income Tax Effect Accounting

Pursuant to the *State Enterprises (Commonwealth Tax Equivalents) Act 1996* the Corporation operates within the National Tax Equivalent Regime (NTER).

The purpose of the NTER is to achieve competitive neutrality between government and privately owned trading enterprises by ensuring they bear similar taxed-based imposts.

The calculation of the liability in respect of the tax equivalent is governed by the NTER guidelines and directions approved by government.

As a consequence of participation in the NTER, the entity is required to comply with Australian Accounting Standard "Accounting for Income Tax (Tax Effect Accounting)" (AAS 3).

Effective 1 July 2002, the Corporation joined the Insurance Commission (the tax consolidation parent entity) in a tax consolidation group. As a result, all income tax expenses, revenues, assets and liabilities of the members of the tax consolidation group are recognised in the financial statements of the Insurance Commission.

The tax equivalent sum, payable by the Corporation, and accounted for via the Insurance Commission, being the tax consolidation parent entity, in respect of each financial year, is equal to the amount of any income tax for which the Corporation would have been liable in respect of the financial year if it were not exempt from that tax under the relevant Commonwealth Act.

Timing differences which arise due to income and expense items being recognised in different accounting periods for accounting and taxation purposes, are brought to account as either a provision for deferred income tax (liability) or as a future income tax benefit (asset) at the rate of income tax applicable to the period in which the benefit is expected to be received or the liability is expected to become payable.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Future income tax benefits in relation to timing differences are not brought to account unless realisation of the assets is assured beyond reasonable doubt.

Future income tax benefits arising in relation to tax losses are not brought to account as an asset unless the benefit can be regarded as being virtually certain of realisation.

(e) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the Australian Tax Office (ATO), in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables which are stated with the amount of GST included.

The net amount of GST payable to, or recoverable from, the ATO is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Commitments and contingencies are disclosed gross of amounts recoverable from, or payable to, the ATO.

(f) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific criteria must also be met before revenue is recognised.

- **Premium Revenue**

Premium revenue comprises amounts charged to other insurers. Stamp duty and other amounts collected on behalf of third parties are excluded. Premiums on unclosed business are brought to account as revenue, based upon an actuarial assessment. As the periods of cover provided by all underwritten contracts have now expired, all premium is earned, whether on closed or unclosed business.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

- **Reinsurance and Other Recoveries**

Reinsurance and other recoveries on paid claims, claims reported but not paid, claims incurred but not reported (IBNR) and claims incurred but not enough reported (IBNER) are recognised as revenue. Recoveries receivable for long-tail classes of insurance are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims. The details of discount and inflation rates used are set out in Note 8.

- **Interest Income**

Income from interest is recognised as it accrues.

- **Foreign Exchange Revenue**

Refer Note 1(h) – “Foreign Currencies”.

(g) Outwards Reinsurance

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received.

(h) Foreign Currencies

- Transactions of the Corporation denominated in foreign currencies are converted to Australian currency at the rates of exchange ruling at the dates of the transactions.
- Assets and liabilities of the Corporation denominated in foreign currencies at balance date were, where appropriate, converted to Australian currency using rates of exchange ruling at that date. Resulting exchange differences are recorded as exchange gains or losses in the Statement of Financial Performance in that financial year.

(i) Outstanding Claims

The liability for outstanding claims at balance date comprises:

- claims that have been reported but not paid,
- IBNR claims,
- IBNER claims,

together with the anticipated direct and indirect claims’ settlement costs.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The liability for outstanding claims is the present value of an adjusted “central estimate” of future claim payments (including claims-management expenses), which is affected by factors arising during the period to settlement such as normal (e.g. wage) inflation and “superimposed” inflation. Superimposed inflation refers to factors like trends in court awards and changes in legislation, for example increases in the level and period of compensation for injury. The expected future claims payments are then discounted to a present value at balance date using market-determined risk-adjusted discount rates.

The details of discount and inflation rates used are set out in Note 8.

The liability for outstanding claims is estimated following an independent actuarial assessment. Inwards Reinsurance is a long-tail class of insurance. Long-tail claims are typically not settled within one year of the occurrence of the events giving rise to those claims. Protracted legal proceedings may be involved to resolve the issues of negligence or liability and/or to establish the amount of claims’ settlement.

In determining the liability for outstanding claims the Board has added a prudential margin to the central estimate of the discounted future claims payments. The prudential margin provides for a higher degree of certainty that the estimated liability will be adequate to cover possible adverse developments. The degree of certainty required by the Board has been achieved by adding a prudential margin to the central estimates of claims liabilities that allows for a 75% (2004 -75%) level of confidence. Refer Note 8.

(j) Receivables

Receivables are reviewed as to their collectability on an ongoing basis. Debts which are known to be not collectable are written off. A provision for doubtful debts is raised, where some doubt as to collection exists.

(k) Payables

Payables, including accruals not yet billed, are carried at cost and recognised when the entity becomes obliged to make future payments as a result of a purchase of assets or services. Current payables are generally settled within 30 days.

(l) Net Fair Value of Financial Assets and Liabilities

Net fair values of financial assets and liabilities are determined on the following basis:

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

- **Recognised Financial Assets**

For financial assets traded in an organised market, net fair value equates to net market value.

Where financial assets are not traded in an organised market, net fair value is the historical carrying cost net of any provision for diminution in value or doubtful debt.

- **Recognised Financial Liabilities**

Where financial liabilities are not traded in an organised market, net fair value is the historical carrying value.

(m) Cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand and in banks, together which are integral to the Corporation's general insurance activities.

(n) Management Fee

The Corporation is charged a management fee in proportion to its usage of the Insurance Commission's services.

(o) Comparatives

In accordance with *Treasurer's Instruction 949*, where appropriate, certain reclassifications are made to the prior year's financial statements in order to enhance comparability with those of the current year.

(p) Rounding

In accordance with *Treasurer's Instruction 948*, all amounts shown in the financial statements are rounded to the nearest thousand dollars unless otherwise stated.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

2. REVENUE FROM ORDINARY ACTIVITIES

		2005	2004
	Notes	\$'000	\$'000
Revenue from Operating Activities			
Premium Revenue	(i)	190	6
Reinsurance Recoveries Revenue		(13)	192
Other			
- Interest		114	122
- Foreign Exchange (Loss)/Gain		(32)	22
		82	144
Total Revenue from Ordinary Activities		259	342

(i) The premium revenue is due to premium adjustments from unclosed business.

3. EXPENSES AND NET (GAINS)/LOSSES

Operating Profit Before Income Tax Expense includes the following specific expenses and net (gains)/losses:

NET (GAINS)/LOSSES

Foreign Exchange (Gain)/Loss			
Investment - Realised		32	(75)
Investment - Unrealised		-	53
Net Foreign Exchange Loss/(Gain)		32	(22)

EXPENSES

Claims Incurred Credit		(310)	(2,525)
Outwards Reinsurance Expense		-	111
Underwriting and Administration			
Acquisition Cost Adjustment		13	-
Other Underwriting and Administration	(i)	159	164
		172	164
Total Expenses		(138)	(2,250)

(i) Includes management fee charged by the Insurance Commission which takes into account an amount of \$13,000 (2004 - \$12,000) in respect of amounts due or payable to the Auditor General for auditing the financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

4. NET CLAIMS INCURRED

	2005 \$'000	2004 \$'000
Inwards Reinsurance		
Gross Claims Incurred and Related Expenses - Undiscounted	(405)	(1,429)
Reinsurance and Other Recoveries - Undiscounted	2	(191)
Net Claims Incurred - Undiscounted	(403)	(1,620)
Discount and Discount Movement - Gross Claims Incurred	95	(1,096)
Discount and Discount Movement - Reinsurance and Other Recoveries	11	(1)
Net Discount Movement	106	(1,097)
Net Claims Incurred	(297)	(2,717)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

5. INCOME TAX EQUIVALENT

The Corporation joined the Insurance Commission in a tax consolidation group with effect from 1 July 2002. As a result all income tax expenses, revenue, assets and liabilities are recognised in the financial statements of the Insurance Commission.

6. RECEIVABLES

Current

Reinsurance and Other Recoveries Receivable
Less: Provision for Doubtful Debts

2005 \$'000	2004 \$'000
190	85
-	(65)
190	20

Non-Current

Reinsurance and Other Recoveries Receivable

81	93
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Movement in Provision for Doubtful Debts

Balance at Beginning of the Year
Previously provided for but provision no longer required
Balance at End of the Year

65	65
(65)	-
-	65

In accordance with Section 45(3) of the *Financial Administration and Audit Act 1985* an amount of \$65,061 relating to a Reinsurance Recovery was written off.

7. PAYABLES

Current

Reinsurance Creditors

93	50
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

8. OUTSTANDING CLAIMS

	2005 \$'000	2004 \$'000
Liability for Outstanding Claims (undiscounted)	7,574	9,628
Discount to present value	(2,341)	(2,886)
Liability for Outstanding Claims (discounted)	5,233	6,742
Current	747	957
Non-Current	4,486	5,785
	5,233	6,742
Weighted average expected term to settlement	6 yrs 6 mths	6 yrs 2 mths

Liability for Outstanding Claims

The liability for outstanding claims is based on development patterns derived from the International Underwriting Association statistics, or derived from the experience of particular treaties. These development patterns indicate the manner in which the liability, in respect of individual years of underwriting, are expected to change over future periods. The estimate allows implicitly for the same rates of claim inflation as those occurring during the periods from which the development patterns were derived.

Inwards Reinsurance

The Board has added a prudential margin to the central estimate of the discounted future claims payments to provide for a higher degree of certainty that the estimated liability, at balance date, will be adequate in the event of any possible adverse developments. Refer Note 1(b). The degree of certainty required by the Board has been achieved by adding a prudential margin that allows for a 75% (2004 - 75%) level of confidence. The prudential margin has added \$0.5 million (2004 - \$0.7 million) to the liability for outstanding claims at balance date. In addition, due to adverse experience in two segments of the claims portfolio in recent years, namely in the Australian Casualty Proportional business and on a professional indemnity contract (MIPI), the Board has accepted an actuarial recommendation to include additional margins in these two segments, of \$0.4 million (2004 - \$0.4 million) and \$0.4 million (2004 - \$0.5 million) respectively.

Discount Rates

The following discount rates were used in measuring the liability for outstanding claims, reinsurance and other recoveries:

Financial Year	% Rates Used - 2005			% Rates Used - 2004		
	Australia	UK	US	Australia	UK	US
2005	N/A	N/A	N/A	5.40	4.60	2.10
2006	5.30	4.40	3.50	5.50	5.30	3.20
2007	5.10	4.00	3.70	5.70	5.30	4.10
2008	5.10	4.20	3.80	6.10	5.30	4.70
2009	5.10	4.30	3.90	6.30	5.30	5.30
2010	5.20	4.30	4.00	6.30	5.20	5.70
2011	5.20	4.40	4.10	6.30	5.20	5.90
2012	5.20	4.40	4.20	6.30	5.10	6.00
2013	5.20	4.40	4.30	6.30	5.10	6.00
2014	5.30	4.40	4.30	6.30	5.00	6.00
2015	5.30	4.40	4.40	6.30	4.90	6.00
2016 and later	5.30	4.40	4.40	6.30	4.90	6.00

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

9. SHARE CAPITAL

	2005		2004	
	SHARES	\$'000	SHARES	\$'000
Authorised shares of \$100 each	1,000,000	100,000	1,000,000	100,000
Issued and paid-up share capital				
Balance at beginning and end of year	1,000,000	100,000	1,000,000	100,000

The ultimate holding entity is the Insurance Commission of Western Australia which holds all the shares issued by the Corporation.

10. ACCUMULATED LOSSES

	2005	2004
	\$'000	\$'000
Accumulated Losses at beginning of the year	(103,919)	(106,511)
Net Profit for the year	397	2,592
Accumulated Losses at end of the year	(103,522)	(103,919)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

11. FINANCIAL INSTRUMENTS

(a) Interest Rate Risk Exposure

Interest rate risk is the risk that the Corporation will suffer a financial loss due to adverse movements in interest rates.

The following table details the Corporation's exposure to interest rate risk at balance date:

Current Year

Current Year	2005 (\$'000)			Weighted Average Interest Rate (%)
	Fixed Interest Rate Maturing in Less than 1 Year	Non-Interest Bearing	Total	
Financial Assets				
- Cash	1,533	-	1,533	5.25
Total Financial Assets	1,533	-	1,533	

Previous Year

Previous Year	2004 (\$'000)			Weighted Average Interest Rate (%)
	Fixed Interest Rate Maturing in Less than 1 Year	Non-Interest Bearing	Total	
Financial Assets				
- Cash	2,760	-	2,760	4.66
Total Financial Assets	2,760	-	2,760	

	Notes	2005 \$'000	2004 \$'000
(i) Reconciliation of Net Financial Assets to Net Liabilities			
Net Financial Assets	11(a)	1,533	2,760
Receivables (current and non-current)	6	271	113
Payables	7	(93)	(50)
Outstanding Claims (current and non-current)	8	(5,233)	(6,742)
Net Liabilities per Statement of Financial Position		(3,522)	(3,919)

(b) Credit Risk Exposure

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Corporation.

The following table details the Corporation's maximum credit risk exposure at balance date without taking into account the value of any collateral or other security obtained. 100% of the Corporation's recognised financial assets are held in Australia. The Corporation's credit risk exposure is to one single counterparty, the financial assets having a Standard and Poors rating of A1+.

Credit Risk Exposure	1,533	2,760
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(c) Net Fair Value

The recognised financial assets and financial liabilities are carried at amounts that approximate net fair value. All recognised financial assets and liabilities are readily traded on organised markets.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

12. SEGMENT REPORTING

The general insurance activities of the Corporation relate to the "run-off" of its Inwards Reinsurance business. The Corporation underwrote small lines of Australian and overseas reinsurance between 1988 and 1992. The Inwards Reinsurance account was an international book of business, where half of the insured risks assumed were retrocessions from other reinsurers. The ultimate location of all the insured risks and/or the original risk carrier is therefore not readily identifiable.

As the Inwards Reinsurance account is in "run-off" it is considered that the disclosure of the net claims liabilities, which will be settled in Australian and foreign currencies, and the assets held to meet those net claims liabilities, would provide equivalent relevant information to users. Refer Note 13.

13. FUNDING OF INWARDS REINSURANCE NET CLAIMS LIABILITIES

Claims liabilities are payable in the currency designated by the Reinsurance agreement. During the 2004-2005 financial year, the Corporation amended its previous policy of maintaining a natural hedge by holding assets in the reinsurance currencies. The revised policy is to hold assets only in Australian dollars (A\$) to maximise interest earned on its total assets, also recognising the ongoing reduction in its currency liabilities and corresponding reducing exposure to currency fluctuations.

The following sets out the net liabilities in the respective currencies:

30 June 2005	Currency of Exposure (in Australian dollars equivalent)				
	AUD \$'000	CAD \$'000	GBP \$'000	USD \$'000	Total \$'000
Net Liability	3,212	8	263	1,656	5,139
Amount of Assets Held	1,533	-	-	-	1,533
Funding Deficit	(1,679)	(8)	(263)	(1,656)	(3,606)

30 June 2004	Currency of Exposure (in Australian dollars equivalent)				
	AUD \$'000	CAD \$'000	GBP \$'000	USD \$'000	Total \$'000
Net Liability	3,493	11	443	2,691	6,638
Amount of Assets Held	2,293	-	436	31	2,760
Funding Deficit	(1,200)	(11)	(7)	(2,660)	(3,878)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

14. AMOUNTS RECEIVABLE AND PAYABLE DENOMINATED IN FOREIGN CURRENCIES (Australian dollars equivalent)

Receivables

Current

United States dollars

2 2

Non-current

United States dollars

14 17

Total Receivables

16 19

Payables

Current

Canadian dollars

1 2

Great British pounds sterling

42 70

United States dollars

347 456

390 528

Non-current

Canadian dollars

7 9

Great British pounds sterling

221 373

United States dollars

1,325 2,254

1,553 2,636

Total Payables

1,943 3,164

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

15. EXPLANATORY STATEMENT

	ACTUAL 2005 \$'000	BUDGET 2005 \$'000	ACTUAL 2004 \$'000	PROFIT INCREASE/(DECREASE) FROM ACTUAL 2005 TO ACTUAL 2004	
				BUDGET 2005 \$'000	% \$'000
Premium Revenue	190	-	6	190	-
Outwards Reinsurance Expense	-	-	(111)	-	3,066.7
Net Earned Premium	190	-	(105)	190	100.0
Claims Incurred Credit	310	252	2,525	58	281.0
Reinsurance and Other Recoveries Revenue	(13)	16	192	23.0	(87.7)
Net Claims Incurred Credit	297	268	2,717	(29)	(2,215)
Underwriting and Administration Expenses	(172)	(158)	(164)	(205)	(106.8)
UNDERWRITING PROFIT	315	110	2,448	29	10.8
Other Income	82	109	144	(14)	(8.9)
PROFIT ON ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE	397	219	2,592	178	81.3
				(2,195)	(84.7)

The Corporation underwrote small lines of Australian and overseas reinsurance between 1988 and 1992. The general insurance activities of the Corporation relate to the "run-off" of its Inwards Reinsurance business. During the 2005 and 2004 financial years, the Corporation's only activity has been the winding down of this operation.

Due to the nature of reinsurance, it is expected that it will take a number of years for all claims to be finalised. Reinsurance is, by nature, highly variable, especially where there is a heavy exposure to the liability class of insurance. As a result, significant variations between actual and budget and the current and comparative years are expected to occur.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

16. CONTINGENT LIABILITIES

There are no contingent liabilities that materially affect the financial statements of the Corporation.

17. EXPENDITURE COMMITMENTS

There are no material expenditure commitments, which have not been provided for at balance date.

18. EVENTS OCCURRING AFTER BALANCE DATE

No events have occurred after balance date that materially affect the financial statements of the Corporation.

19. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (A-IFRS)

MANAGEMENT OF THE TRANSITION TO A-IFRS

The Corporation will be required to prepare financial statements that comply with A-IFRS for its annual reporting period beginning on 1 July 2005. Accordingly, the Corporation's first annual financial statements prepared under A-IFRS will be for the year ending 30 June 2006.

In early 2004, the Corporation's parent entity the Insurance Commission established a Steering Committee to manage the transition to A-IFRS, allocating four key internal resources and engaging an external consultant to manage the transition process in three phases, as diagrammatically presented below, with the key activities to be conducted as part of each stage. Risk management and change management has been managed throughout the life of the project.

At the date of this financial report, the Insurance Commission has substantially completed all three phases of the project plan, including the finalisation of the A-IFRS accounting policies that will be adopted from 1 July 2005 and the determination of the likely impact on the results and financial position of the Corporation.

The Steering Committee is currently finalising its analysis of the impacts of adopting the following deferred standards, which are to be applied for the first time in the 30 June 2006 financial report:

- AASB 1023 - General Insurance Contracts
- AASB 132 - Financial Instruments – Disclosure and Presentation
- AASB 139 - Financial Instruments – Recognition and Measurement

LIKELY IMPACTS OF A-IFRS ON THE RESULTS AND FINANCIAL POSITION

The pro-forma Statement of Financial Performance and Statement of Financial Position on the following pages outline the likely impacts on the current year results and financial position of the Corporation had the financial statements been prepared using A-IFRS. It should be recognised that further developments in A-IFRS, if any, may result in changes to the accounting policy decisions made and, consequently, the likely impacts outlined in the following pro-forma statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

19. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (A-IFRS)

STATEMENT OF FINANCIAL PERFORMANCE for the year ended 30 June 2005

	AGAAP Actual	A-IFRS Impact	A-IFRS Actual
	2005 \$'000	2005 \$'000	2005 \$'000
Premium Revenue	190		190
Outwards Reinsurance Expense	-		-
Net Earned Premium	190	-	190
Claims Incurred Credit	310		310
Reinsurance and Other Recoveries Revenue	(13)		(13)
Net Claims Incurred Credit	297	-	297
Underwriting and Administration Expenses	(172)		(172)
UNDERWRITING PROFIT	315	-	315
Other Income	82		82
PROFIT FROM ORDINARY ACTIVITIES BEFORE RELATED INCOME TAX EQUIVALENT EXPENSE	397	-	397
Related Income Tax Equivalent Income Attributable to Ordinary Activities	-	34	34
NET PROFIT ATTRIBUTABLE TO MEMBERS	397	34	431

Notes

(a)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

19. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (A-IFRS) (continued)

STATEMENT OF FINANCIAL POSITION as at 30 June 2005

		AGAAP Actual	A-IFRS Impact	A-IFRS Actual
	Notes	2005 \$'000	2005 \$'000	2005 \$'000
CURRENT ASSETS				
Cash Assets		1,533		1,533
Receivables		190		190
Total Current Assets		1,723	-	1,723
NON-CURRENT ASSETS				
Receivables		81		81
Deferred Tax Assets	(a)	-	19,034	19,034
Total Non-Current Assets		81	19,034	19,115
TOTAL ASSETS		1,804	19,034	20,838
CURRENT LIABILITIES				
Payables		93		93
Outstanding Claims		747		747
Total Current Liabilities		840	-	840
NON-CURRENT LIABILITIES				
Outstanding Claims		4,486		4,486
Total Non-Current Liabilities		4,486	-	4,486
TOTAL LIABILITIES		5,326	-	5,326
NET (LIABILITIES)/ASSETS		(3,522)	19,034	15,512
EQUITY				
Share Capital		100,000		100,000
Accumulated Losses	(a)	(103,522)	19,034	(84,488)
TOTAL (DEFICIT)/EQUITY		(3,522)	19,034	15,512

NOTES TO THE AGAAP AND A-IFRS IMPACT ADJUSTMENTS

The following explanatory note relate to the Statement of Financial Performance and Statement of Financial Position above and describe, for significant items, the differences between the treatment required under A-IFRS and the current treatment of these items under AGAAP.

(a) AASB 112 - Income Taxes

A deferred tax asset of \$19.0 million arises in the Corporation under A-IFRS largely as a result of changes to the recognition criteria in respect of past tax losses of \$62.0 million. This arises from the Urgent Issues Group (UIG) Interpretation 1052 "Tax Consolidation Accounting" that requires the deferred tax position of a subsidiary, which is part of a tax consolidation group, to remain in that subsidiary and be presented in its balance sheet.

CERTIFICATION OF PERFORMANCE INDICATORS

We hereby certify that the Performance Indicators of the State Government Insurance Corporation (Corporation) for the financial year ended 30 June 2005:

- are based on proper records;
- are relevant and appropriate for assisting users to assess the performance of the Corporation; and
- fairly represent the performance of the Corporation.



VIC EVANS
CHAIRMAN
31 August 2005



MICHAEL E WRIGHT
DEPUTY CHAIRMAN
31 August 2005

In accordance with a resolution of the Board of Directors of the State Government Insurance Corporation passed on 31 August 2005.



AUDITOR GENERAL

INDEPENDENT AUDIT OPINION

To the Parliament of Western Australia

STATE GOVERNMENT INSURANCE CORPORATION PERFORMANCE INDICATORS FOR THE YEAR ENDED 30 JUNE 2005

Audit Opinion

In my opinion, the key effectiveness and efficiency performance indicators of the State Government Insurance Corporation are relevant and appropriate to help users assess the Corporation's performance and fairly represent the indicated performance for the year ended 30 June 2005.

Scope

The Corporation's Role

The Corporation is responsible for developing and maintaining proper records and systems for preparing performance indicators.

The performance indicators consist of key indicators of effectiveness and efficiency.

Summary of my Role

As required by the Financial Administration and Audit Act 1985, I have independently audited the performance indicators to express an opinion on them. This was done by looking at a sample of the evidence.

An audit does not guarantee that every amount and disclosure in the performance indicators is error free, nor does it examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the performance indicators.

A handwritten signature in black ink, appearing to read 'D D R Pearson'.

D D R PEARSON
AUDITOR GENERAL
31 August 2005

Performance Indicators

STATE GOVERNMENT INSURANCE CORPORATION

The State Government Insurance Corporation (Corporation) ceased underwriting Inwards Reinsurance in August 1992 and its remaining activity is the "run-off" of its Inwards Reinsurance business. The key effectiveness and efficiency Performance Indicators listed here for the Corporation only relate to this Inwards Reinsurance operation.

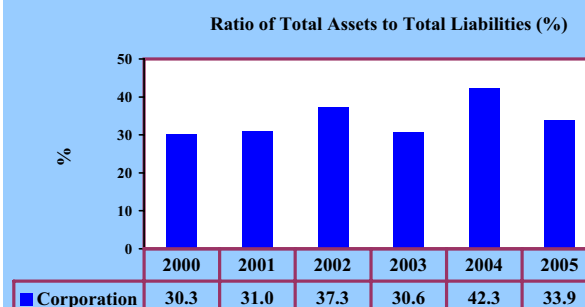
Where appropriate, prior-year figures have been restated in order to enhance comparability with those of the current year.

a) That The Corporation Has Sufficient Assets To Meet Its Liabilities.

Effectiveness Performance Indicator

The **Ratio of Total Assets to Total Liabilities** reflects the financial position of the Corporation at the end of the period.

	2005
	Actual
Corporation	33.9%

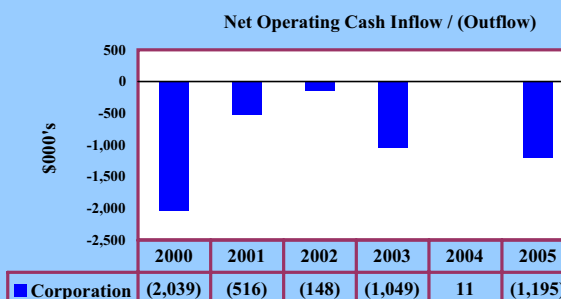


Comments: The Corporation has a deficit net assets position. There was a higher level of claims payments than expected during the year, resulting in a reduction of the cash assets. The outstanding claims liability has reduced, aside from the claims payments made during the year.

Efficiency Performance Indicator

Net Operating Cash Inflow / (Outflow) equals receipts less payments from the operating activities of the Commission. Refer to the *Statement of Cash Flows - Net Cash Inflow from Operating Activities*.

	2005
	Actual
Corporation	(1,195)



Comments: The net cash outflow for the year is largely due to claims payments, which increased to \$1.2 million compared to \$0.1 million in 2004.

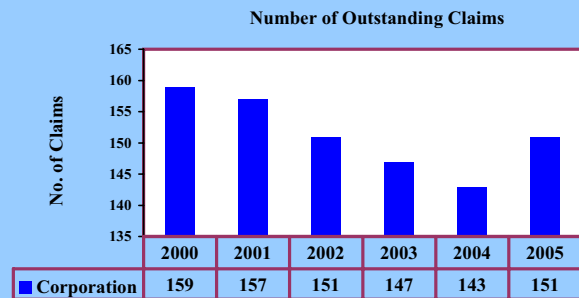
Performance Indicators

b) Minimise The Financial Liability of Insurers And Reinsurers.

Effectiveness Performance Indicator

The **Number of Outstanding Claims** as at year end (accidents from all years). As the Corporation is in "run-off" it is desirable for there to be a downward trend in the number of claims still active.

	2005
	Actual
Corporation	151

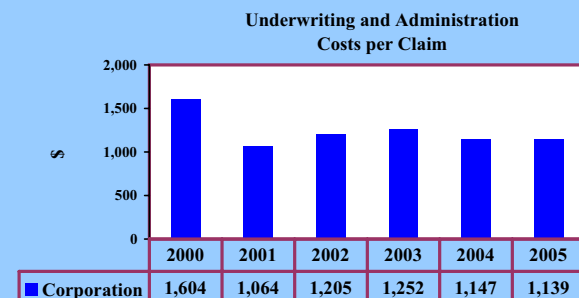


Comments: The number of outstanding claims increased this year despite a downward trend in the four previous years. A small increase in claim numbers has occurred as a result of new claims being reported and the re-opening of some previously closed claims.

Efficiency Performance Indicator

The **Underwriting and Administration Costs per Claim** indicator demonstrates how cost-efficient the claims management process is. Given the Corporation is in "run-off"- the expected trend is for this cost to diminish over time.

	2005
	Actual
Corporation	1,139



Comments: The result of this indicator remains within expectations.

The following definitions have been provided to assist readers in gaining a better understanding of the Annual Report and Financial Statements.

1. CLAIMS

Central Estimate

The estimate of the liability for outstanding claims based on a 50% level of confidence that the liability will be adequate in meeting the actual amount of claim liability to which it relates.

Claims Expense

The amount paid for losses suffered under the terms of an insurance policy/cover, adjusted for:

- claims which have been reported but not paid;
- claims incurred but not reported (IBNR);
- claims incurred but not enough reported (IBNER);

together with the anticipated direct and indirect claims settlement costs.

IBNR and IBNER Claims

IBNR claims are claims arising from events which have occurred but have not been reported at balance date. IBNER claims are claims arising from events which have occurred and been reported at balance date, but the amount reported may be understated.

The liability for outstanding claims in the Statement of Financial Position includes a provision for both IBNR and IBNER claims.

Liability for Outstanding Claims

A provision for the future estimated cost of claims outstanding at balance date. Outstanding claims incorporate those which have been reported but not paid, IBNRs and IBNERs, gross of any GST that may be paid.

Net Claims Incurred

Net Claims Incurred comprises claims paid and the movement in the liability for outstanding claims, net of reinsurance and other amounts recoverable.

Other Recoveries

Other amounts recovered or recoverable (e.g. salvage) in relation to claims.

Prudential Margin

An amount added to the central estimate of the liability for outstanding claims, to increase the level of confidence that the liability will be adequate in meeting the actual amount of claim liability to which it relates.

Reinsurance Recoveries

Amounts recovered or recoverable in respect of reinsurance cover purchased. Reinsurance cover provides some protection against single, large claims or many claims arising out of a single event.

2. PREMIUMS

Net Earned Premium

Premium revenue plus the outwards reinsurance commission earned less than the outwards reinsurance expense.

Outwards Reinsurance Expense

Premium paid to a reinsurer in consideration for the insurance liability assumed by the reinsurer, adjusted for any amount prepaid at balance date.

Premium Revenue

Premium revenue comprises amounts in relation to Inwards Reinsurance, charged to other insurers.

3. REINSURANCE

Cover provided by a general insurer (the reinsurer) to indemnify another general insurer (the reinsured) against all or part of a loss, which the latter may sustain.

4. OTHER

Run-Off

Run-off refers to closed insurance portfolios where the applicable claims liabilities are being progressively extinguished to their final liquidation. The State Government Insurance Corporation is in “run-off”.

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