

State Government Insurance Corporation



Annual Report
2004



Insurance Commission
of Western Australia

STATE GOVERNMENT INSURANCE CORPORATION
2004 ANNUAL REPORT

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CONTACT DETAILS

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**STATE GOVERNMENT INSURANCE CORPORATION
2004 ANNUAL REPORT**

TO THE MINISTER

Statement of Compliance

**TO THE HON NICK GRIFFITHS LLB MLC
MINISTER FOR GOVERNMENT ENTERPRISES**

In accordance with Section 66 of the *Financial Administration and Audit Act 1985*, we hereby submit to the Minister for Government Enterprises, for information and presentation to Parliament, the Annual Report of the State Government Insurance Corporation for the financial year ended 30 June 2004.

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
25 August 2004

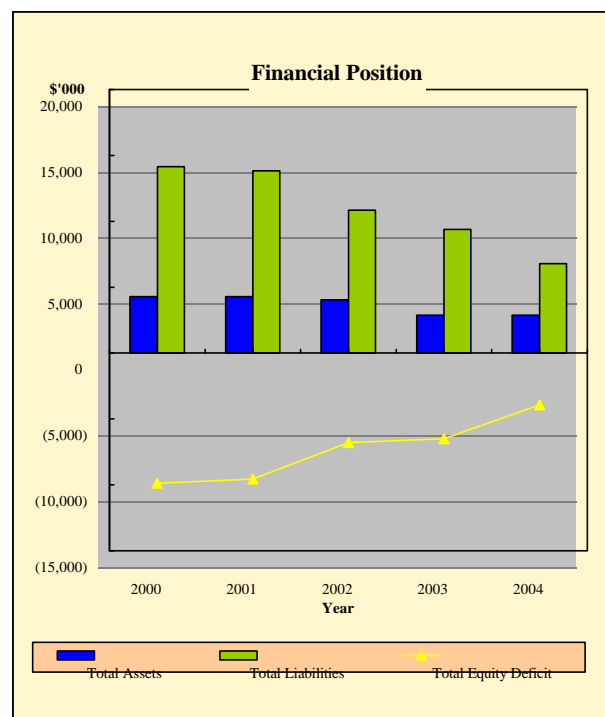
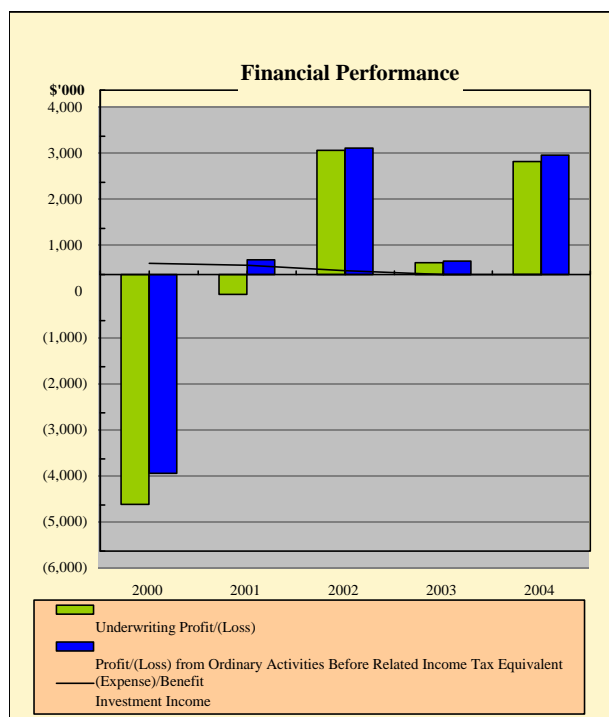


MICHAEL E WRIGHT
DEPUTY CHAIRMAN
25 August 2004

In accordance with a resolution of the Board of Directors of the State Government Insurance Corporation, passed on 25 August 2004.

FINANCIAL OVERVIEW

STATEMENT OF FINANCIAL PERFORMANCE	2004 \$'000	2003 \$'000	2002 \$'000	2001 \$'000	2000 \$'000
Net Earned Premium	(105)	307	151	(184)	(21)
Claims Incurred	2,525	127	2,684	(101)	(4,710)
Reinsurance and Other Recoveries Revenue	192	5	42	20	2
Net Claims Incurred	2,717	132	2,726	(81)	(4,708)
Underwriting and Administration Expenses	(164)	(185)	(183)	(169)	(254)
Underwriting Profit/(Loss)	2,448	254	2,694	(434)	(4,983)
Investment Income	-	-	81	201	243
Other Income	144	37	(29)	549	429
Profit/(Loss) from Ordinary Activities Before Related Income Tax Equivalent (Expense)/Benefit	2,592	291	2,746	316	(4,311)
STATEMENT OF FINANCIAL POSITION					
Investments	-	-	-	3,380	3,168
Other Assets	2,873	2,875	4,043	906	1,116
Total Assets	2,873	2,875	4,043	4,286	4,284
Outstanding Claims	6,742	9,373	10,813	13,663	13,961
Other	50	13	32	171	187
Total Liabilities	6,792	9,386	10,845	13,834	14,148
Net Liabilities	(3,919)	(6,511)	(6,802)	(9,548)	(9,864)
Share Capital	100,000	100,000	100,000	100,000	100,000
Accumulated Loss	(103,919)	(106,511)	(106,802)	(109,548)	(109,864)
Total Equity Deficit	(3,919)	(6,511)	(6,802)	(9,548)	(9,864)



CHAIRMAN'S REVIEW

Between 1988 and 1992 the Corporation underwrote small lines of Australian and overseas reinsurance business. The Insurance Commission's Reinsurance and Underwriting Section is responsible for the management of the run-off of the business.

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. However it is likely to be a number of years before all claims are finalised

To cater for this uncertainty, a risk margin providing a 75% level of adequacy is incorporated in the outstanding claims provision. Due to even greater uncertainty of Australian Casualty and professional indemnity risks, additional risk margins are retained for these classes.

The provision for outstanding claims and expenses reduced significantly during the year ending 30 June 2004, as a consequence of a number of positive factors. These were: a continuation of the recent trend of incurred losses being much less than the actuarial forecasts; a corresponding reduction in the risk margins; an increase in the discount rates for the Australian, United Kingdom and United States government markets; the appreciation in the value of the Australian dollar against the United Kingdom and United States currencies relative to 30 June 2003; and a small reduction in projected administration expenses.

I am pleased to report that after accounting for the above factors, the Corporation's operating profit was \$2.592 million.



VIC EVANS
CHAIRMAN

25 August 2004

STATE GOVERNMENT INSURANCE CORPORATION

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 2004 comprised:

VIC EVANS Dip Bus Mgt, AFAIM
Chairman of the Board of Directors
Managing Director, Insurance Commission of WA

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 2004

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

Expiry of present term: 30 September 2005

DENYSE PHILLIPS LLB
Director
Commissioner, Insurance Commission of Western Australia
Senior Member, Veterans' Review Board
Referee, Small Claims Tribunal

Expiry of present term: 30 November 2004

SHARON BROWN

Director

Commissioner, Insurance Commission of Western Australia
Councillor, WA Technology and Industry Advisory Council
Councillor, Defence Reserves Support Council
Director, Federal Industry Research and Development Board
Chair of Australian Information Industries Association Western Australia

Expiry of present term: 30 November 2004

Directors' Attendance at Meetings 2003-2004

Board of Directors (Total of 11 Meetings)	
Director	Number of Meetings Attended
Vic Evans	11
Michael E Wright	11
Peter D Eastwood	9
Sharon Brown	8
Denyse Phillips*	2

*Approved leave of absence was granted for the period August 2003 to May 2004.

REMUNERATION

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

DISCLOSURE OF INTEREST IN AN EXISTING OR PROPOSED CONTRACT

Deputy Chairman, Mr M E Wright, is a consultant to Mallesons Stephen Jaques which, during 2003–2004, received professional fees for legal advice provided to the Insurance Commission of Western Australia.

STATE GOVERNMENT INSURANCE CORPORATION

2004 ANNUAL REPORT

ANNUAL ESTIMATES 2004–2005

In accordance with Section 42 of the *Financial Administration and Audit Act 1985*, the State Government Insurance Corporation's Annual Estimates for 2004–2005 have been approved by the Minister.

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

	<u>\$'000</u>

Net Earned Premium	-
Claims Incurred	252
Reinsurance and Other Recoveries Revenue	16

Net Claims Incurred	268
Underwriting and Administration Expenses	(158)

UNDERWRITING PROFIT	110
Other Income	109

PROFIT FROM ORDINARY ACTIVITIES BEFORE RELATED INCOME TAX EQUIVALENT EXPENSE	219
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FINANCIAL STATEMENTS 2004 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 2004 and the financial position as at 30 June 2004.

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
25 August 2004



MICHAEL E WRIGHT
DEPUTY CHAIRMAN
25 August 2004



RICHARD A HASELGROVE
PRINCIPAL ACCOUNTING OFFICER
25 August 2004

In accordance with a resolution of the Board of Directors of the State Government Insurance Corporation passed on 25 August 2004.



AUDITOR GENERAL

INDEPENDENT AUDIT OPINION

To the Parliament of Western Australia

STATE GOVERNMENT INSURANCE CORPORATION FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

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 June 30, 2004 and its financial performance and cash flows for the year ended on that date.

Scope

The Corporation's Role

The Board of Directors 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. They have been prepared on a going concern basis notwithstanding that liabilities exceed assets at June 30, 2004. As stated in Note 1(a) to the financial statements, the Corporation has received a letter from the Premier confirming financial support by the State Government of Western Australia to ensure that the Corporation is able to meet its financial obligations as and when they fall due.

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
August 27, 2004

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2004

	<u>Notes</u>	2004 \$'000	2003 \$'000
Premium Revenue		6	307
Outwards Reinsurance Expense		(111)	-
Net Earned Premium		(105)	307
Claims Incurred Credit		2,525	127
Reinsurance and Other Recoveries Revenue		192	5
Net Claims Incurred Credit	4	2,717	132
Underwriting and Administration Expenses	3	(164)	(185)
UNDERWRITING PROFIT		2,448	254
Other Income	2	144	37
PROFIT FROM ORDINARY ACTIVITIES BEFORE RELATED INCOME TAX EQUIVALENT EXPENSE		2,592	291
Related Income Tax Equivalent Expense Attributable to Ordinary Activities	5	-	-
NET PROFIT ATTRIBUTABLE TO MEMBERS		2,592	291

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 2004

	<u>Notes</u>	2004 \$'000	2003 \$'000
CURRENT ASSETS			
Cash Assets		2,760	2,727
Receivables	6	20	17
Total Current Assets		2,780	2,744
NON-CURRENT ASSETS			
Receivables	6	93	131
TOTAL ASSETS		2,873	2,875
CURRENT LIABILITIES			
Payables	7	50	13
Outstanding Claims	8	957	1,223
Total Current Liabilities		1,007	1,236
NON-CURRENT LIABILITIES			
Outstanding Claims	8	5,785	8,150
Total Non-Current Liabilities		5,785	8,150
TOTAL LIABILITIES		6,792	9,386
NET LIABILITIES		(3,919)	(6,511)
EQUITY			
Share Capital	9	100,000	100,000
Accumulated Losses	10	(103,919)	(106,511)
TOTAL EQUITY DEFICIT		(3,919)	(6,511)

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 2004

	2004	2003
Notes	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums Received	6	307
Reinsurance and Other Recoveries Received	227	31
Interest Received	122	130
Claims Paid	(106)	(1,335)
Outwards Reinsurance Paid	(74)	(12)
Underwriting and Administration Expenses Paid	(164)	(170)
Net Cash Inflow/(Outflow) from Operating Activities	(i) 11	(1,049)
CASH AT THE BEGINNING OF THE YEAR	2,727	3,869
Effects of Exchange Rate Changes on the Balance of Cash Held in Foreign Currencies	22	(93)
CASH AT THE END OF THE YEAR	(ii) 2,760	2,727

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	2,592	291
Foreign Exchange (Gain)/Losses	(22)	93
Changes in Assets and Liabilities		
Decrease in Reinsurance and Other Recoveries Receivable	35	26
Decrease in Outstanding Claims	(2,631)	(1,440)
Increase/(Decrease) in Other Liabilities	37	(19)
Net Cash Inflows/(Outflow) from Operating Activities	11	(1,049)

(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	2,760	2,727
	2,760	2,727

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).

On 26 February 2003, the Board of Directors of the Corporation and the Board of Commissioners of the Insurance Commission of Western Australia ("the Commission") resolved that the Corporation would join the Commission (the tax consolidation parent entity) in a tax consolidation group with effect from 1 July 2002. 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 Commission.

The tax equivalent sum, payable by the Corporation, and accounted for via the 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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

applicable to the period in which the benefit is expected to be received or the liability is expected to become payable.

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

underwritten contracts have now expired, all premium is earned, whether on closed or unclosed business.

- **Reinsurance and Other Recoveries**

Reinsurance and other recoveries on paid claims, claims reported but not paid, claims incurred but not reported and claims incurred but not enough reported 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 are 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,
- claims incurred but not reported (“IBNR”),
- claims incurred but not enough reported (“IBNER”),

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

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% (2003 -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.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(l) Net Fair Value of Financial Assets and Liabilities

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

- **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 with short-term discount securities and deposits at call, which are investments integral to the Corporation's general insurance activities (all of which are readily convertible to cash and are subject to an insignificant risk of change in value).

(n) Management Fee

The Corporation is charged a management fee in proportion to its usage of the 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

		2004	2003
	Notes	\$'000	\$'000
Revenue from Operating Activities			
Premium Revenue	(i)	6	307
Reinsurance Recoveries Revenue		192	5
Other			
- Interest		122	130
- Foreign Exchange Gain/(Loss)		22	(93)
		144	37
Total Revenue from Ordinary Activities		342	349

- (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		(75)	1
Investment - Unrealised		53	92
Net Foreign Exchange (Gain)/Loss		(22)	93

EXPENSES

Claims Incurred Credit		(2,525)	(127)
Outwards Reinsurance Expense		111	-
Underwriting and Administration			
Acquisition Cost Adjustment		-	23
Other Underwriting and Administration	(i)	164	162
		164	185
Total Expenses		(2,250)	58

- (i) Includes management fees charged by the Commission which takes into account an amount of \$12,000 (2003 - \$10,000) 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

	2004 \$'000	2003 \$'000
Inwards Reinsurance		
Gross Claims Incurred and Related Expenses - Undiscounted	(1,429)	(890)
Reinsurance and Other Recoveries - Undiscounted	(191)	5
Net Claims Incurred - Undiscounted	(1,620)	(885)
Discount and Discount Movement - Gross Claims Incurred	(1,096)	763
Discount and Discount Movement - Reinsurance and Other Recoveries	(1)	(10)
Net Discount Movement	(1,097)	753
Net Claims Incurred	(2,717)	(132)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

5. INCOME TAX EQUIVALENT

	2004 \$'000	2003 \$'000
(a) Calculation of Income Tax Expense		
Operating Profit before Income Tax Expense	2,592	291
Prima Facie Income Tax Expense on the Operating Profit at 30% (2003 - 30%)	-	(87)
Tax Effect of Timing Differences not brought to account	-	(58)
Tax Effect of Losses not brought to account	-	145
Income Tax Expense attributable to Operating Profit	-	-
(b) Tax Losses		
Tax Losses at the Beginning of the Year	-	(61,917)
Tax Losses transferred	-	61,917
Tax Profit arising in year	-	-
Tax Losses at the End of the Year	-	-

The Corporation joined the 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 Commission.

6. RECEIVABLES

Current

Reinsurance and Other Recoveries Receivable	85	82
Less: Provision for Doubtful Debts	(65)	(65)
	20	17

Non-Current

Reinsurance and Other Recoveries Receivable	93	131
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Movement in Provision for Doubtful Debts

Balance at Beginning of the Year	65	65
Previously provided for but provision no longer required	-	-
Balance at End of the Year	65	65

7. PAYABLES

Current

Reinsurance Creditors	50	13
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

8. OUTSTANDING CLAIMS

	2004	2003
	\$'000	\$'000
Liability for Outstanding Claims (undiscounted)	9,628	12,409
Discount to present value	(2,886)	(3,036)
Liability for Outstanding Claims (discounted)	6,742	9,373
Current	957	1,223
Non-Current	5,785	8,150
	6,742	9,373
Weighted average expected term to settlement	6 yrs 2 mths	6 yrs 1 mth

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(g). The degree of certainty required by the Board has been achieved by a prudential margin that allows for a 75% (2003 - 75%) level of confidence. The prudential margin has added \$0.7 million (2003 - \$1.0 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 (2003 - \$0.9 million) and \$0.5 million (2003 - \$0.9 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 - 2004			% Rates Used - 2003		
	Australia	UK	US	Australia	UK	US
2004	N/A	N/A	N/A	4.40	3.30	1.10
2005	5.40	4.60	2.10	4.50	3.60	1.60
2006	5.50	5.30	3.20	4.70	3.90	2.40
2007	5.70	5.30	4.10	5.00	4.20	3.20
2008	6.10	5.30	4.70	5.40	4.40	3.90
2009	6.30	5.30	5.30	5.50	4.60	4.40
2010	6.30	5.20	5.70	5.50	4.70	4.90
2011	6.30	5.20	5.90	5.50	4.80	5.30
2012	6.30	5.10	6.00	5.50	4.80	5.50
2013	6.30	5.10	6.00	5.50	4.80	5.70
2014	6.30	5.00	6.00	5.50	4.80	5.80
2015 and later	6.30	4.90	6.00	5.50	4.80	5.80

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

9. SHARE CAPITAL

	2004		2003	
	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

	2004	2003
	\$'000	\$'000
Accumulated Losses at beginning of the year	(106,511)	(106,802)
Net Profit for the year	2,592	291
Accumulated Losses at end of the year	(103,919)	(106,511)

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	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	

Previous Year	2003 (\$'000)			Weighted Average Interest Rate (%)
	Fixed Interest Rate Maturing in Less than 1 Year	Non-Interest Bearing	Total	
Financial Assets				
- Cash	2,727	-	2,727	3.99
Total Financial Assets	2,727	-	2,727	

	Notes	2004 \$'000	2003 \$'000
(i) Reconciliation of Net Financial Assets to Net Liabilities			
Net Financial Assets	11(a)	2,760	2,727
Receivables (current and non-current)	6	113	148
Payables	7	(50)	(13)
Outstanding Claims (current and non-current)	8	(6,742)	(9,373)
Net Liabilities per Statement of Financial Position		(3,919)	(6,511)

(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	2,760	2,727
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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

As claims are payable in the currency designated by the Reinsurance agreement, the Corporation seeks to maintain a natural hedge by holding assets in the respective currencies. For practical reasons, this policy is limited to the following major currencies, which collectively account for the substantial majority of the business. These currencies are Australian dollars (A\$), Canadian dollars (C\$), Great British pounds sterling (UK£) and United States dollars (US\$).

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

30 June 2004	Currency of Exposure (in Australian dollars equivalent)				
	A\$ \$'000	C\$ \$'000	UK£ \$'000	US \$ \$'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)

30 June 2003	Currency of Exposure (in Australian dollars equivalent)				
	A\$ \$'000	C\$ \$'000	UK£ \$'000	US \$ \$'000	Total \$'000
Net Liability	4,836	12	448	3,929	9,225
Amount of Assets Held	2,211	-	403	113	2,727
Funding Deficit	(2,625)	(12)	(45)	(3,816)	(6,498)

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

3

Non-current

United States dollars

17

19

Total Receivables

19

22

Payables

Current

Canadian dollars

2

2

Great British pounds sterling

70

68

United States dollars

456

596

528

666

Non-current

Canadian dollars

9

10

Great British pounds sterling

373

380

United States dollars

2,254

3,356

2,636

3,746

Total Payables

3,164

4,412

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

15. EXPLANATORY STATEMENT

	ACTUAL	BUDGET	ACTUAL	PROFIT INCREASE/(DECREASE)			
	2004 \$'000	2004 \$'000		FROM ACTUAL 2004 TO BUDGET 2004		ACTUAL 2003	
			2003 \$'000	\$'000	%	\$'000	%
Premium Revenue	6	-	307	6	-	(301)	(98.0)
Outwards Reinsurance Expense	(111)	-	-	(111)	-	(111)	-
Net Earned Premium	(105)	-	307	(105)	-	(412)	(134.2)
Claims Incurred Credit	2,525	161	127	2,364	1,468.3	2,398	1,888.2
Reinsurance and Other Recoveries Revenue	192	15	5	177	1,180.0	187	3,740.0
Net Claims Incurred Credit	2,717	176	132	2,541	1,443.8	2,585	1,958.3
Underwriting and Administration Expenses	(164)	(163)	(185)	(1)	(0.6)	21	11.4
UNDERWRITING PROFIT	2,448	13	254	2,435	18,730.8	2,194	863.8
Other Income	144	218	37	(74)	(33.9)	107	289.2
PROFIT ON ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE	2,592	231	291	2,361	1,022.1	2,301	790.7

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 2004 and 2003 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. INTERNATIONAL FINANCIAL REPORTING STANDARDS

Management of the transition to A-IFRS

The Corporation will be required to prepare financial statements that comply with Australian equivalents to International Financial Reporting Standards ("A-IFRS") for annual reporting periods beginning on or after 1 January 2005. Accordingly, the Corporation's first annual financial statements prepared under A-IFRS will be for the year ending 30 June 2006.

The Corporation's parent entity, the Commission, has not yet established a Steering Committee to manage the transition to A-IFRS, but has allocated internal resources and engaged external consultants to commence the transition process. Once the Steering Committee is formed, it will establish a project team to carry out the transition work and report to the Committee. The Commission plans to manage the transition to A-IFRS in three phases, being Scoping and Impact Analysis; Evaluation and Design; and Implementation and Review, with the key activities to be conducted as part of each stage. Risk management and change management will be managed throughout the life of the project.

At the date of this report, the Commission has not yet finalised a high-level assessment of the impact of all A-IFRS on the Corporation and consequently has not yet determined how it is going to manage the transition to A-IFRS in relation to those standards. However, the Commission is monitoring the developments and potential impacts of A-IFRS and expects to complete an impact study and commence a plan to prepare the Corporation to be A-IFRS-compliant shortly.

While no decision has yet been made as to the policy alternatives to be applied or the extent to which it will affect the Corporation, the following have been identified as the likely areas of differences affecting it on adoption of A-IFRS. This does not represent an exhaustive list of the differences that will arise, and further analysis may change the Commission's assessment of the importance or otherwise of the various differences. At this stage the Commission has also not been able to reliably quantify the impacts of the transition to A-IFRSs on the Corporation's financial statements:

- AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards"
- AASB 101 "Presentation of Financial Statements"
- AASB 108 "Accounting Policies, Changes in Accounting Estimates and Errors"
- AASB 1023 "General Insurance Contracts"

First-time adoption of A-IFRS

On first-time adoption of A-IFRS, the Corporation will be required to restate its comparative balance sheet such that the comparative balances presented comply with the requirements specified in the A-IFRS. That is, the balances that will be presented in the financial report for the year ended 30 June 2005 may not be the balances that will be presented as comparative numbers in the financial report for the following year, as a result of the requirement to retrospectively apply the A-IFRS. As any adjustments on first-time adoption are to be made against opening retained earnings, the amount of retained earnings at 30 June 2004, as presented as comparatives in the 2005 financial statements, may differ from the retained earnings disclosed in the 2006 financial statements.

Various voluntary and mandatory exemptions are available to the Corporation on first-time adoption, which will not be available on an ongoing basis. The exemptions provide relief from retrospectively accounting for certain balances, instruments and transactions in accordance with A-IFRS.

The impact on the Corporation of the changes in accounting policies on first-time adoption of A-IFRS will be affected by the choices made. The Commission is evaluating the effect of the options available to the Corporation on first-time adoption in order to determine the best possible outcome.

CERTIFICATION OF PERFORMANCE INDICATORS

We hereby certify that the Performance Indicators for the State Government Insurance Corporation for the financial year ended 30 June 2004:

- 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
25 August 2004



MICHAEL E WRIGHT
DEPUTY CHAIRMAN
25 August 2004

In accordance with a resolution of the Board of Directors of the State Government Insurance Corporation passed on 25 August 2004.



AUDITOR GENERAL

INDEPENDENT AUDIT OPINION

To the Parliament of Western Australia

STATE GOVERNMENT INSURANCE CORPORATION PERFORMANCE INDICATORS FOR THE YEAR ENDED JUNE 30, 2004

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 June 30, 2004.

Scope

The Corporation's Role

The Board of Directors 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.

D D R PEARSON
AUDITOR GENERAL
August 27, 2004

STATE GOVERNMENT INSURANCE CORPORATION

PERFORMANCE INDICATORS

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. As such, output measures have not been separately identified. The output measures of cost, quantity, quality and timeliness are embedded in the Performance Indicators below. Further, the key effectiveness and efficiency Performance Indicators listed here for the Corporation only relate to these operations.

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

OUTCOMES

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

	2004	2003	2002	2001	2000
<i>Effectiveness</i>					
Ratio Of Total Assets To Total Liabilities (%)	42.3	30.6	37.3	31.0	30.3
<i>Efficiency</i>					
Net Underwriting Cash Inflow / (Outflow) (\$'000)	11	(1,049)	(148)	(516)	(2,039)

b) Minimise The Financial Liability Of Insurers And Reinsurers

<i>Effectiveness</i>					
Number Of Outstanding Claims	143	147	151	157	159
<i>Efficiency</i>					
Underwriting And Administration Costs Per Outstanding Claim (\$)	1,147	1,252	1,205	1,064	1,604

COMMENTS

"Ratio of total assets to total liabilities" - The improvement in this ratio is as a result of the reduction in the outstanding claims liability after actuarial assessment and claims paid being less than expected (See Note 8).

"Net operating cash inflow" - The level of cash flow is largely dependent on on the settlement of large claims during the year. Claim payments during 2003/04 were minimal.

"Number of outstanding claims" - The Corporation's Inwards Reinsurance business is in "run-off" and therefore the number of outstanding claims is expected to reduce.

"Underwriting and administration costs per outstanding claim" - The improvement in the ratio is the result of lower overriding commissions paid to brokers on reinstatement premiums.

GLOSSARY

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

1. **PREMIUMS**

Premium Revenue

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

Net Earned Premium

Premium revenue plus the outwards reinsurance commission earned less 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.

2. **CLAIMS**

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.

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.

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.

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.

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.

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.

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.

Other Recoveries

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

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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