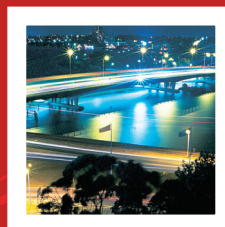


Insurance Commission of Western Australia



Annual Report 2006



CONTACT DETAILS

Address:
Insurance Commission of Western Australia
The Forrest Centre
221 St George's Terrace
PERTH WA 6000

Postal Address:
GPO Box U1908
PERTH WA 6845

Telephone: +61 (8) 9264 3333
Facsimile: +61 (8) 9264 3690
Email: customer@icwa.wa.gov.au
Websites: www.icwa.wa.gov.au
www.riskcover.wa.gov.au



**Insurance Commission
of Western Australia**

CONTENT	PAGE
Statement of Compliance to the Minister.....	3
YEAR IN REVIEW	
Chairman and Managing Director's Joint Review	4
Highlights.....	7
Financial Overview.....	8
Profile of Insurance Commission of Western Australia	10
REPORT ON OPERATIONS	
Motor Vehicle Third Party (Personal Injury) Insurance.....	16
RiskCover	20
Other Funds managed by the RiskCover Division.....	26
Our People	27
Investments	30
Community Focus.....	34
Complaints and Compliments.....	36
GOVERNANCE	
Corporate Governance	37
Compliance Reports	47
THE ROAD AHEAD	
Strategic Business Planning for 2007	56
Annual Estimates 2007	59
FINANCIAL STATEMENTS	
Financial Statements Index	62
Certification of Financial Statements by the Members of the Board and Chief Financial Officer.....	64
Opinion of the Auditor General.....	65
PERFORMANCE INDICATORS	
Certification of Performance Indicators.....	190
Opinion of the Auditor General.....	191
Performance Indicators	192
APPENDICES	
Glossary.....	204
Index.....	207

When reading this Annual Report, please note the following:
All references to the year 2005 mean the 2004-2005 financial year ended 30 June 2005.
All references to the year 2006 mean the 2005-2006 financial year ended 30 June 2006.
All references to the year 2007 mean the 2006-2007 financial year ended 30 June 2007.

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 Insurance Commission of Western Australia for the financial year ended 30 June 2006.

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.



MICHAEL E WRIGHT
CHAIRMAN
12 September 2006



VIC EVANS
MANAGING DIRECTOR
12 September 2006

In accordance with a resolution of the Board of Commissioners of the Insurance Commission of Western Australia, passed on 12 September 2006.

Chairman and Managing Director's Joint Review

It has been an eventful and challenging year for all of us at the Insurance Commission as we continue our efforts to deliver equitable compensation schemes and responsible risk management for the people of Western Australia.

The pleasing underwriting performance of the various business sectors, and superior investment returns achieved for the year ended 30 June 2006 have further strengthened the Insurance Commission's 30 June 2006 financial position.

Financially, the Insurance Commission recorded a consolidated after tax profit for the year of \$170.6 million (2005: \$155.1 million). The result included an investment return of 18.2% net of fees and expenses (2005: 13.4%). At balance date, total consolidated assets were \$2.29 billion (2005: \$1.99 billion), with consolidated net assets of \$577.2 million (2005: \$384.2 million).

Motor Vehicle Third Party (Personal Injury) Insurance

As the State's sole Compulsory Third Party (CTP) insurer, the Insurance Commission provided Western Australian family motorists with the lowest CTP Insurance premiums in Australia for the ninth consecutive year. Furthermore, the Minister for Government Enterprises has approved a 10% reduction in CTP premiums for the 2007 financial year for the majority of vehicle classes. This will result in a saving of at least \$25 per vehicle for most Western Australian motorists who will continue to enjoy the lowest CTP Insurance premiums for a private motor vehicle in Australia.

Our Motor Vehicle Personal Injury Division which administers the CTP scheme, continues to manage claims efficiently and in accordance with our Core Values.

The Third Party Insurance Fund (TPIF) ended the year with an underwriting result of a \$33.0 million loss (2005: \$50.3 million profit). Overall however, the financial outcome was a profit for the Fund of \$174.8 million after tax (2005: \$188.7 million), again highlighting the importance of investment returns. Net assets of the Fund at balance date were \$442.0 million (2005: \$457.3 million).

In 1996 State Treasury provided a one-off payment of \$74.8 million from the Consolidated Fund to the TPIF at a time when the TPIF was in a deficit position. This contribution facilitated the removal of the \$50 levy on CTP Insurance Policies that existed at that time.

Reduced claims frequencies and the positive investment performance since that time have consolidated the restored surplus in the TPIF and enabled a transfer of \$190 million from the TPIF to the Insurance Commission General Fund (ICGF) to reduce the deficit in that Fund.

The \$190 million transfer approximates the present day value of the original one-off contribution of \$74.8 million to the TPIF from the State's Consolidated Fund and restores the ability of the ICGF to meet liabilities (including asbestos claims from the Wittenoom mine) that might otherwise result in recourse to the Consolidated Fund. Notwithstanding this transfer, the TPIF is still fully funded and meets Australian Prudential Regulation Authority requirements.

The Board also allocated \$4.2 million funding from the TPIF to road safety programs, of which \$3.2 million was committed to the Road Safety Council to support strategies within 'Arriving Safely: Road Safety Strategy for Western Australia 2003–2007'. The funding is a small percentage of the CTP premium collected from motor vehicles licensed in Western Australia and we consider the programs we fund, in particular Road Aware, to be a long-term investment in improving road safety. We have experienced a decade of sustained reduction in the number of CTP claims received and the Road Safety Council/Office of Road Safety long-term strategies must be recognised as having contributed to reducing claim frequency, thereby clearly benefiting the people of Western Australia.

Currently Western Australian CTP Insurance operates as a common-law or fault-based scheme. The strong financial status of the TPIF provides the challenge and opportunity to increase the cover offered under the

scheme to include no-fault benefit components for a separate group of injured motor vehicle crash victims: specifically catastrophically injured persons who require long term care.

RiskCover

In 2006 the RiskCover Fund achieved a profit of \$59.2 million (2005: \$33.6 million profit).

We are pleased to report that the strong sustained performance of the RiskCover Fund enabled well-performing agencies to be rewarded with contribution performance adjustments - for both workers' compensation and motor vehicle insurance classes, totalling some \$20.9 million which will be offset against the 2007 Fund Contributions.

RiskCover's underwriting result (\$3.1 million loss) was significantly less than budgeted (\$15.6 million loss) and reflects material benefits gained from employing structured risk management programs. Notwithstanding the \$3.1 million underwriting loss, the RiskCover Fund remains in a surplus position, with net assets of \$117.1 million (2005: \$57.9 million) after bringing to account its share of the Insurance Commission's strong investment returns.

During 2006, RiskCover embarked on an organisational restructure designed to better align its core services to meet ever changing client demands. RiskCover's new structure was completed in May 2006. This strategic change in structure reflects the future direction of RiskCover as both a leader in risk management and an expert service/support provider of risk management and self-insurance services for Western Australian public authorities.

The Treasurer's Instructions and *Financial Administration and Audit Act 1985* have identified risk management as a key feature of the operation of the public sector for many years. The Insurance Commission, through its RiskCover Division, has a mandate to manage and administer risk management arrangements on behalf of public authorities and to provide advice to the Government on matters relating to this key issue.

Investments

The Insurance Commission is empowered under its Act to invest in real or personal property of any kind. As a result, premium-income and other revenue generated in excess of the Insurance Commission's day-to-day operating requirements is invested in various asset classes. The key goals of the Insurance Commission investment strategy are to:

- Optimise investment returns without incurring additional risk, through diversification of both investment assets and Managers.
- Achieve a rate of return for each asset class that:
 - is focussed on maintaining an absolute return overall; and
 - exceeds the relevant asset class performance benchmark.

Furthermore, the investment strategy seeks to broadly match the Insurance Commission's investment assets with the risk profile of its claims liabilities, for both the Third Party Insurance Fund and the RiskCover Fund. This has historically necessitated detailed asset/liability modelling to determine the appropriate level of investment risk/return for the Portfolio.

Bell Group Recovery Action

The Insurance Commission continues to provide financial support to the Bell Group Liquidators in their legal action to recover monies claimed by their administrations against a syndicate of 20 banks led by Westpac Banking Corporation and Lloyds Bank plc of London. In the year to 30 June 2006, the Insurance Commission outlaid \$25.4 million (2005: \$23.2 million) to fund, as an indemnifying creditor, the prosecution by the Bell Group Liquidators' of their claim.

The trial of the Bell Group Recovery Action commenced in the Supreme Court of Western Australia on 22 July 2003 and is expected to finish in September 2006. The Insurance Commission has maintained its related insurance program, in conjunction with recoveries from the related Southern Equities Corporation Ltd (in Liquidation) administration (formerly Bond Corporation), to minimise the impact of financing the Bell Group Liquidators. Should the Bell Group Liquidators' action be successful, creditors, including the Insurance Commission, stand to gain substantial benefits from the recovery.

Corporate Initiatives

During the year, the Insurance Commission revised its Corporate Values into a distilled set of Core Values for the organisation: Simplicity; Teamwork; Accountability; Integrity and Openness; and Respect and Compassion. The Executive recognises that it is appropriate to periodically review our Values to ensure they remain consistent with what is important and contribute to the organisational culture we encourage at the Insurance Commission. Values are a statement of the important beliefs we share, the kinds of conduct our customers can expect from us and the way in which we should behave. They are intended to be translated into behaviours and acted upon. One of our key projects for the 2007 year is embedding these Core Values into the culture of the organisation.

Acknowledgements

We thank our staff for their ongoing work and initiative which contributed to the year's excellent performance. We also thank our fellow Commissioners and the Executive for their strategic support and valuable contribution. The Insurance Commission's solid performance, strong financial position and positive organisational culture reflects the high standard of leadership and management skills they exhibit and has positioned the Insurance Commission extremely well to continue its valuable contribution to the State of Western Australia.



MICHAEL E WRIGHT
CHAIRMAN



VIC EVANS
MANAGING DIRECTOR

Highlights

- We achieved a consolidated profit, before tax, of \$240.8 million.
- Consolidated total assets at balance date were \$2.286 billion, with consolidated net assets of \$577.2 million.
- Our investment return for the year was 18.2% net of fees and expenses.
- Western Australia's compulsory Third Party Insurance premium for a family motor vehicle was the cheapest in Australia.
- \$318.7 million (gross) was paid for claims-related payments made on behalf of injured persons in respect of Motor Vehicle Third Party (Personal Injury) Insurance claims.
- The Third Party Insurance Fund recorded a profit, before tax, of \$246.9 million and remains fully-funded.
- \$4.2 million was expensed for road safety initiatives for Western Australia from the Third Party Insurance Fund.
- The RiskCover Fund, underwritten by the Government of Western Australia, ended the year with a profit of \$59.2 million, primarily due to its strong investment return, and a better than forecast underwriting result.
- RiskCover's Risk Management Team facilitated 300 public authority-specific workshops on various risk management issues.
- We revised and distilled our Corporate Values into a set of Core Values for the organisation: Simplicity; Teamwork; Accountability; Integrity and Openness; and Respect and Compassion.
- For the second consecutive year, our employees did not have any Lost-Time Injuries.
- The Information Technology (IT) Division established an Open System Development Environment. A pilot project to test the environment and progress the migration of mainframe applications to a more current/flexible deployment platform commenced.
- Improved service delivery processes were generated by aligning our IT Division's critical Service Management processes with ITIL (International Standard for Service Delivery).

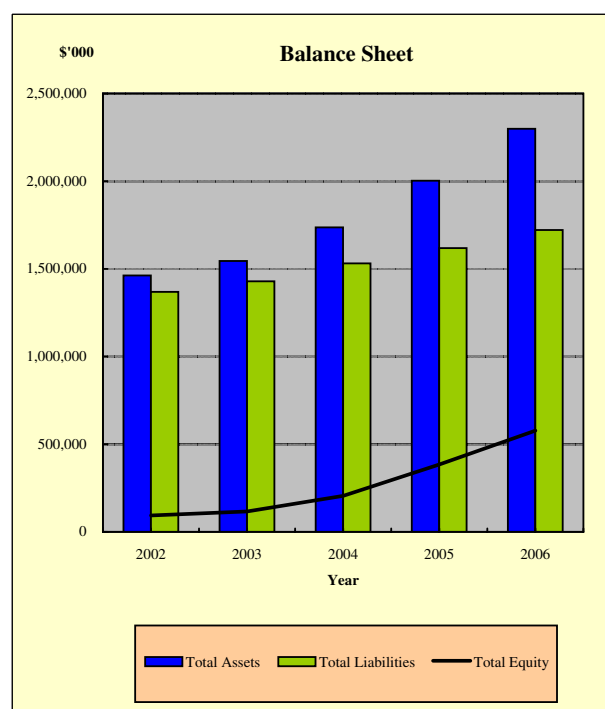
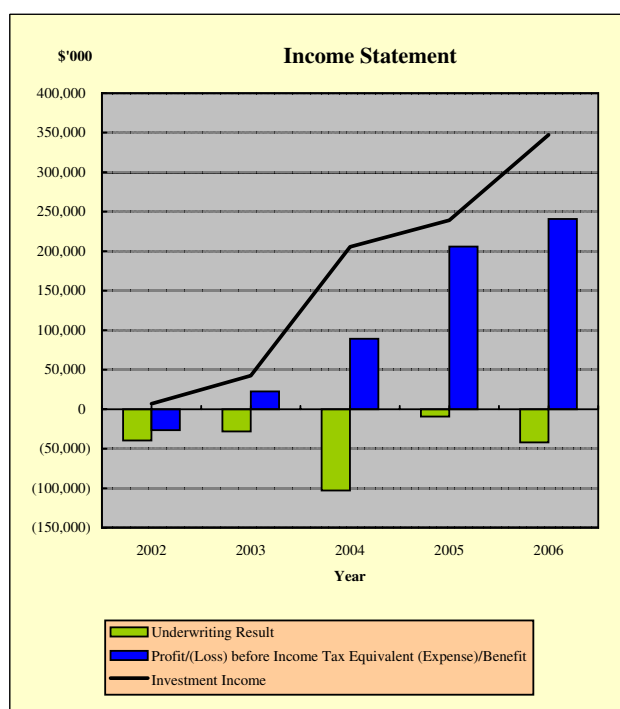
FINANCIAL OVERVIEW - INSURANCE COMMISSION

INCOME STATEMENT	AIFRS		AGAAP (i)		
	2006 \$'000	2005 \$'000	2004 \$'000	2003 \$'000	2002 \$'000
Net Premium Revenue	351,884	338,069	323,464	306,815	296,895
Claims Expense	(329,119)	(304,201)	(377,338)	(316,690)	(317,029)
Reinsurance and Other Recoveries Revenue	2,576	23,563	9,782	22,122	19,448
Net Claims Incurred	(326,543)	(280,638)	(367,556)	(294,568)	(297,581)
Acquisition Costs	(8,186)	(7,799)	-	-	-
Underwriting and Administration Expenses	(59,047)	(58,817)	(58,665)	(40,221)	(38,804)
Underwriting Result	(41,892)	(9,185)	(102,757)	(27,974)	(39,490)
Investment Income	347,277	239,140	205,553	42,498	6,988
Investment Expense	(16,904)	(12,736)	(14,484)	(13,396)	(4,493)
Finance Costs	(62,401)	(43,733)	(30,175)	(6,453)	(3,655)
Other Income	24,076	40,430	28,908	28,432	12,164
Other Expenses	(9,388)	(8,109)	2,163	(504)	2,141
Profit/(Loss) before Income Tax Equivalent (Expense)/Benefit	240,768	205,807	89,208	22,603	(26,345)
BALANCE SHEET					
Financial Assets at Fair Value Through Profit or Loss	1,549,601	1,316,938	1,434,496	1,273,506	1,196,577
Other Assets	749,534	686,049	302,500	271,616	265,924
Total Assets	2,299,135	2,002,987	1,736,996	1,545,122	1,462,501
Outstanding Claims Liability	1,401,191	1,385,188	1,360,466	1,251,006	1,215,914
Unearned Premiums Liability	145,252	135,805	135,034	126,005	117,857
Other Liabilities	175,470	97,798	36,099	51,921	35,143
Total Liabilities	1,721,913	1,618,791	1,531,599	1,428,932	1,368,914
Net Assets	577,222	384,196	205,397	116,190	93,587
Asset Revaluation Reserve	25,368	2,966	11,869	11,540	12,528
Compensation (Industrial Diseases) Fund Reserve	13,957	12,569	-	-	-
Retained Earnings	537,897	368,661	193,528	104,650	81,059
Total Equity	577,222	384,196	205,397	116,190	93,587

(i) Amounts are stated under Australian Generally Accepted Accounting Practices (AGAAP) prior to 2005, and are not restated for the purpose of Australian Equivalents to International Financial Reporting Standards (AIFRS).

The Financial Overview excludes the RiskCover Fund, Community Insurance Fund, and the Corporation.

FINANCIAL OVERVIEW - INSURANCE COMMISSION (continued)



Profile of Insurance Commission of Western Australia

The Insurance Commission was established on 1 January 1987 under the *State Government Insurance Commission Act 1986*, following the amalgamation of the operations of the State Government Insurance Office and the Motor Vehicle Insurance Trust. At that time, the organisation's name was the State Government Insurance Commission.

The State Government Insurance Corporation was also established on 1 January 1987 as a subsidiary of the Insurance Commission, and traded as SGIO until 1993.

On 1 October 1997, the organisation's name changed from the State Government Insurance Commission to the Insurance Commission of Western Australia.

The Insurance Commission is a statutory authority that was established and operates in accordance with the *Insurance Commission of Western Australia Act 1986*. Our main statutory functions are:

- to issue, or cause to be issued, and undertake liability under policies of insurance as required by the *Motor Vehicle (Third Party Insurance) Act 1943*;
- to issue and undertake liability under policies of insurance as required by section 163 of the *Workers' Compensation and Injury Management Act 1981*, (i.e. *pneumoconiosis, lung cancer and mesothelioma*);
- to manage and administer insurance and risk management arrangements on behalf of Western Australian Government public authorities;
- to manage and administer insurance and risk management arrangements on behalf of eligible community organisations;
- to provide services, facilities and advice to those public authorities in respect of the management of claims against them or against funds maintained or administered by them under any written law;
- to initiate, or participate in, and promote programmes and schemes for:
 - research into the treatment of industrial diseases and personal injury; and
 - research into, education for, and promotion of public awareness relating to the prevention of industrial diseases, personal injury and accidental death,
- being programmes and schemes relevant to risks in respect of which the Insurance Commission is to provide insurance;
- to provide advice to the Government on matters relating to insurance and risk management; and
- to invest and manage moneys and other property under its control.

We are the sole provider of Motor Vehicle Third Party (Personal Injury) Insurance in Western Australia, commonly referred to as Compulsory Third Party (CTP) Insurance. Our purpose is to administer the CTP scheme in Western Australia and manage the claims lodged by those injured in motor vehicle crashes involving a Western Australian registered vehicle.

Our RiskCover Division was established in July 1997 to manage and administer the self-insurance and risk management arrangements of Western Australian public authorities on behalf of the State Government. RiskCover provides risk management services, data analysis services, Fund services, and claims management services to Western Australian public sector agencies that are part of the RiskCover Fund.

RESPONSIBLE MINISTER

The Hon. Eric Ripper, MLA, Deputy Premier; Treasurer; Minister for Government Enterprises; Minister Assisting the Minister for Public Sector Management is the Minister responsible for the Insurance Commission in his capacity as Minister for Government Enterprises.

VISION

Recognised by the community as the leader in the responsible management of risk and the delivery of equitable compensation schemes.

MISSION

To excel in the delivery of high quality insurance and risk management services, specifically:

- provide insurance for motor vehicle personal injury and industrial diseases compensation;
- manage and administer self-insurance and risk management services on behalf of Western Australian public authorities and eligible community groups; and
- provide advice to government on matters relating to insurance and risk management,

in accordance with the *Insurance Commission of Western Australia Act 1986*.

VALUES

In everything we do our Core Values are:

- Simplicity
- Team Work
- Accountability
- Integrity and Openness
- Respect and Compassion

STRUCTURE

The Insurance Commission has two Insurance Divisions:

- Motor Vehicle Personal Injury (MVPI) Division; and
- RiskCover Division.

These two Insurance Divisions each have a dedicated Fund: the Third Party Insurance Fund and the RiskCover Fund. Our Insurance Divisions are supported by six Service Divisions:

- Investments;
- Finance and Administration;
- Human Resources;
- Information Technology;
- Special Investigations; and
- Commission Executive.

The Managing Director's office, the Commission Executive, is responsible for the provision of overall leadership, legislation, policy advice, administrative support and performance reporting to the Minister and Board, along with media and public relations activities.

The Managing Director works with the Insurance Commission's Board of Commissioners and Executive Committee to oversee the strategic planning, and all operational and administrative functions of the organisation.

We have 304 employees. The organisation chart following details our management structure.

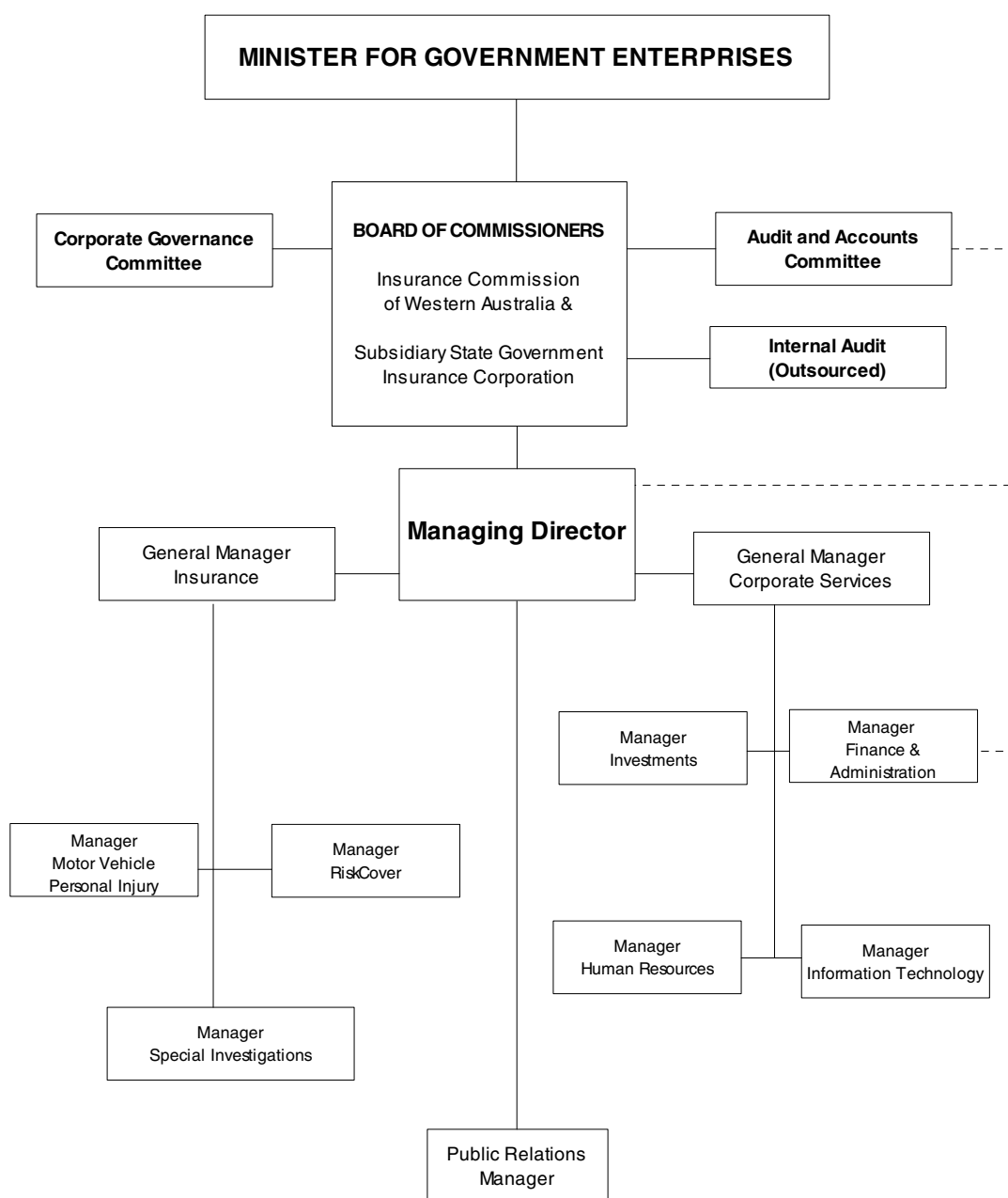
We manage and underwrite the following four Funds:

- Third Party Insurance Fund;
- Compensation (Industrial Diseases) Fund;
- Insurance Commission General Fund; and
- Government Insurance Fund* (GIF).

*The State Government of Western Australia indemnifies the Insurance Commission for any deficit in the Fund (refer to Note 9 of the Financial Statements and Notes).

We also manage, but do not underwrite, the RiskCover Fund and Community Insurance Fund on behalf of the Government of Western Australia.

ORGANISATION CHART



OUTCOME STATEMENTS

We have 'Key Outcomes' for the Insurance Commission overall and then each business area. These Key Outcomes are expressed in the form of key Effectiveness and Efficiency Performance Indicators which are listed in our Performance Indicators contained within the 2006 Financial Statements. Our 'Key Outcomes' are:

Insurance Commission

- Revenue is sufficient to meet expenditure.

Third Party Insurance Fund

- Revenue is sufficient to meet its expenditure.
- All Western Australian motor vehicles using public roads are registered and insured.
- Minimise the financial hardship of motor vehicle personal injury claimants.

RiskCover

- Meet customer risk management and self-insurance needs.
- Promote and support the growth of risk management practice to minimise the cost of risk to Government.

Compensation (Industrial Diseases) Fund

- Minimise the financial hardship of Industrial Diseases claimants.

OUR CUSTOMERS

The Insurance Commission is a State-owned enterprise of the Government of Western Australia. Whilst operated on a commercial insurance basis, funded by both premiums and investment-generated returns, it is not profit-driven. The Insurance Commission deals with the following customer groups:

Policyholders

Our policyholders include any person or company holding a policy of insurance underwritten by the Insurance Commission.

Claimants

Our claimants include any person, company or State Government public authority that makes a claim for compensation or damages through the Insurance Commission.

State Government Clients (Public Authorities)

Almost all State Government departments, authorities and instrumentalities are our clients. The RiskCover Division manages the self-insurance arrangements of the State Government and provides professional risk management and insurance services.

Service Providers

Professional bodies and individual service providers are engaged to assist with insurance and operational matters.

OUR KEY STAKEHOLDERS

The Insurance Commission's key stakeholders are:

- The State Government of Western Australia (as our sole "shareholder");
- The Minister for Government Enterprises;
- Owners/Drivers of Western Australian registered motor vehicles (as Policyholders);
- Western Australian Public Authorities who are members of the RiskCover Fund (as Policyholders);
- Department of Treasury and Finance (as the owners of the RiskCover Fund);
- Department for Planning and Infrastructure (as our premium collection agent for CTP insurance); and

- The Workers' Compensation and Injury Management Commission (as the regulator of workers' compensation in Western Australia).

EXECUTIVE COMMITTEE

The Executive Committee comprises the Managing Director, the two General Managers and the seven Divisional Managers. The Executive Committee met ten times in 2006. A profile of each member of the Executive Committee is provided below.

VIC EVANS Dip Bus Mgt
Managing Director

Vic commenced work with the then Motor Vehicle Insurance Trust in 1960. He has more than 40 years experience in all facets of the insurance industry, including Compulsory Third Party Insurance, general insurance and reinsurance. He has held senior management positions since 1976 and was appointed Managing Director in 1993. He is the permanent head responsible for overseeing the performance of the Insurance Commission's functions and operations. He is also Chairman of the State Government Insurance Corporation.

LEW WATTS Dip Pub Admin, AAIL, Grad Cert Bus Admin
General Manager Insurance

Lew commenced work with the then SGIO in 1975 and has worked in a diverse range of roles with the Insurance Commission and its predecessor agencies. His executive management experience encompasses six years as Manager Human Resources followed by a further six years as Manager Motor Vehicle Personal Injury Division, culminating in his appointment as General Manager Insurance in 2002. In this role, Lew is responsible for the Insurance operations of the organisation (i.e. Motor Vehicle Personal Injury, RiskCover and Special Investigations).

KEN McAULLAY Grad Dip Bus, Grad Cert Mgt, Dip Pub Admin
General Manager Corporate Services Division

Ken has worked in the corporate services area for 40 years and joined the Insurance Commission in 1986. His executive management experience covers 10 years as Manager Human Resources, 10 years as General Manager Corporate Services and he has served as Corporate Secretary to the Board of Commissioners for the past 18 years. As General Manager Corporate Services, Ken is responsible for the Corporate Services operations of the Insurance Commission (i.e. Finance and Administration, Human Resources, Information Technology and Investments).

FAB ZANUTTIGH MBA, Grad Cert Mgt, AIMM
Manager Motor Vehicle Personal Injury Division

Fab has post-graduate qualifications in business and 20 years experience in Compulsory Third Party Insurance. He was appointed Manager of the Motor Vehicle Personal Injury Division in January 2003 and in this position is responsible for ensuring the effective management of the Third Party Insurance Fund in accordance with the relevant legislation.

DON WILLIAMS Dip Bus Admin, AIMM
Manager RiskCover Division

Don commenced work with the then SGIO in December 1968 and has over 37 years experience in all facets of general insurance company operations. He is responsible for the effective management of the State Government's self-insurance arrangements and resultant claims, facilitating the implementation of risk management practices within State Government agencies, and managing a number of smaller insurance funds.

JIM MILLIGAN M Crim Just, BSc (Security), Grad Cert Comp Sec

Manager Special Investigations Division

Jim has more than 30 years experience in the criminal and commercial investigations field. He was with the Criminal Investigations Branch of the Western Australia Police Service for many years and also spent two years attached to the National Crime Authority's Melbourne office. Jim has managed the Insurance Commission's Special Investigations Division since joining the Insurance Commission in 1990. He is responsible for coordinating strategies to protect the assets of the Insurance Commission and minimising the incidence of fraud.

ERNIE COWELL FCCA

Acting Manager Finance and Administration Division, Chief Financial Officer

Ernie is a Fellow of the Association of Chartered Certified Accountants of the United Kingdom (UK) with more than 35 years experience in accounting. Before joining the Insurance Commission in 1999 initially as a consultant, he held senior finance roles in the UK private sector having earlier worked in various audit roles. Ernie has experience in strategic and business planning, external audit, due diligence, financial systems implementations and management and detailed management and statutory reporting. Ernie has primary responsibility for ensuring that all the Insurance Commission's revenues and expenditures are brought to account and for ensuring compliance with the *Financial Administration and Audit Act 1985* and the Treasurer's Instructions.

GRAHAM CROFT BBus, Grad Dip App Fin (FINSIA), Dip in Acctg, FCPA, ASIA,

Manager Investments Division

Graham has been involved in management of Finance and Investment operations of the Insurance Commission for more than 30 years and has been Manager Investments Division since 1995. He is experienced in investment portfolio construction and managing one of the largest institutional portfolios in Western Australia. Graham is responsible for the effective management of the Insurance Commission's investment portfolio.

PETER AMOS BSc

Manager Information Technology Division

Peter's 35 years experience in IT management positions has been gained in government, and national and international organisations trading in the manufacturing and financial services sectors. For the last 18 years he has overseen the planning, development and operation of the Insurance Commission's information systems. Peter is responsible for ensuring that the Insurance Commission's information and communication systems requirements are met via systems maintenance and systems and technological improvements.

GRANT SPEIGHT M HRM, Grad Dip Bus, Dip Training and Assessment Systems, FAHRI

Manager Human Resources Division

Grant commenced his career in the general insurance areas of the then SGIO in 1977 before moving into a number of senior human resource roles culminating in his appointment as Manager Human Resources Division in 1996. Grant has more than 20 years experience in human resource management and as a Fellow of the Australian Human Resource Institute is active in a number of external human resource, academic and industry advisory committees. Grant is responsible for developing and implementing human resource strategies that contribute to the achievement of the Insurance Commission's corporate objectives.

Re-appointment of Managing Director

On 22 June 2006, Mr Vic Evans was re-appointed as Managing Director of the Insurance Commission for a term of three-years. The Board of Commissioners fully supported Mr Evan's re-appointment which was endorsed by the Minister for Government Enterprises and Cabinet and approved by the Governor His Excellency Dr Ken Michael AC.

Motor Vehicle Third Party (Personal Injury) Insurance

Key goals

- To provide affordable premiums to owners of Western Australian registered motor vehicles
- To provide a claims system that treats claimants fairly and delivers equitable compensation
- To ensure that the Third Party Insurance Fund is fully funded

The Insurance Commission is the sole provider of Motor Vehicle Third Party (Personal Injury) Insurance, commonly referred to as Compulsory Third Party (CTP) Insurance, in Western Australia.

Motor Vehicle Personal Injury Insurance is compulsory in all States and Territories of Australia. The Motor Vehicle Personal Injury Division (MVPI Division) of the Insurance Commission deals with all personal injury and fatality claims resulting from motor vehicle crashes that involve Western Australian registered vehicles. As at 30 June 2006 there were approximately 1.99 million registered vehicles in Western Australia, including approximately 370,000 caravans and trailers. An unlimited indemnity policy of insurance is issued on a combined basis with every motor vehicle licence. The Department for Planning and Infrastructure and its agents issue the policies and collect the premiums on behalf of the Insurance Commission.

The enabling legislation is the *Motor Vehicle (Third Party Insurance) Act 1943*, and its administration is the responsibility of the MVPI Division. Legislative amendments were passed by Parliament during the year, varying the *Motor Vehicle (Third Party Insurance) Act 1943*, which now:

- empowers the Minister responsible for the Insurance Commission to vary the Scale of Premiums for compulsory third party insurance on more than one occasion in any financial year, should it be deemed necessary;
- removes a means by which a workplace risk intended to be insured under a workers' compensation/employers' indemnity policy, can be transferred to the Third Party Insurance Fund (TPIF); and
- provides a cap on all economic loss for all motor vehicle personal injury claims, consistent with the outcome of the *Civil Liability Act 2002*.

These amendments represent a prudent risk management strategy directed at seeking clarity and ensuring long-term viability of the Western Australian CTP scheme.

Without doubt, the most misunderstood aspect of the Third Party system in Western Australia is the type of cover provided to the policyholder. The policy does not cover the driver for injuries he/she receives as a result of his/her own negligence, nor does it cover damage to vehicles or other property. The policy does however indemnify drivers/owners of motor vehicles against liability for personal bodily injury claims made against them. Negligence must be established against the owner or driver of a Western Australian registered motor vehicle, for personal injury or fatality claims to be successful.

In delivering the compulsory third party scheme in Western Australia, we continued to provide:

- the lowest premiums in Australia for a family motor car;
- benefits to claimants comparable with, or better than, those provided by alternative schemes throughout the other States and Territories of Australia;
- cost-efficient administration when compared to alternative schemes in other States and Territories of Australia; and
- a Third Party Insurance Fund which is fully funded (after applying a commercially prudent 75% level of confidence to the Outstanding Claims Liabilities).

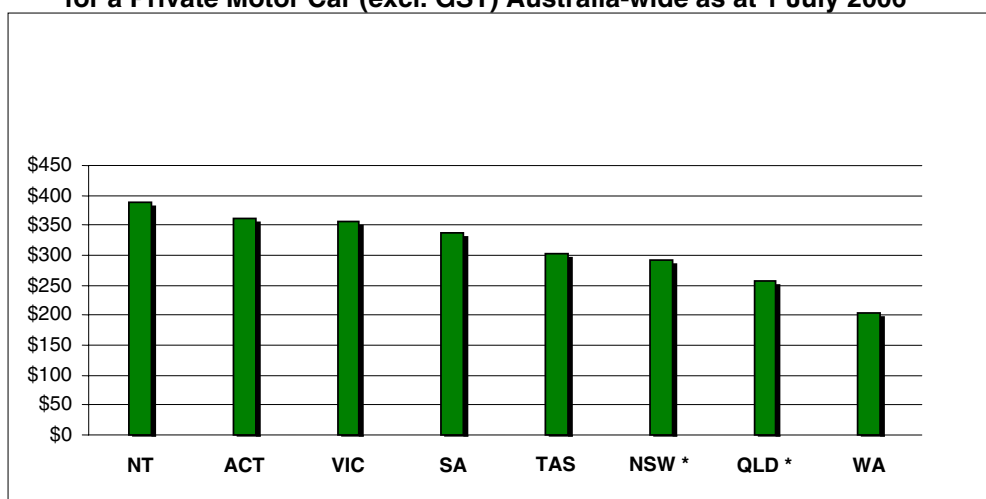
Pricing Policy

To comply with Section 3T of the *Motor Vehicle (Third Party Insurance) Act 1943*, we assess the extent to which the premium income of the Insurance Commission, together with other income expected to be received, will be sufficient to meet the claims, costs and other expenses anticipated to arise or to be incurred under the Act. In making this assessment, we consider an independent actuarial report and take into account any accumulated surplus or deficit in the Third Party Insurance Fund. Following this process, the Board then makes a recommendation to the Minister for Government Enterprises. (For the Schedule of Premiums, refer to the Government Gazette, 23 May 2006, reference IZ401 on pages 1862-65.)

Premiums

In April 2006, the Minister for Government Enterprises endorsed the Board's recommendation of a 10% reduction in CTP premiums for most vehicle classes for the 2007 financial year. This is the first time since the 1970's that CTP premiums have been reduced in Western Australia and follows nil premium increases in three out of the last four years. The 10% reduction in CTP premiums further entrenches Western Australia's position as the provider of the most affordable CTP Insurance in Australia.

**Compulsory Third Party Insurance Premium Rates
for a Private Motor Car (excl. GST) Australia-wide as at 1 July 2006**



*Lowest premium on offer amongst the private insurers operating in these States, therefore the average premium is higher.

Customers

The process of continuous improvement in the efficiency and delivery of our customer service remains a key priority for the MVPI Division. During 2006, we focused on reviewing business processes and service delivery models and implementing initiatives designed to help us better manage our customer's needs and expectations.

Key initiatives undertaken included:

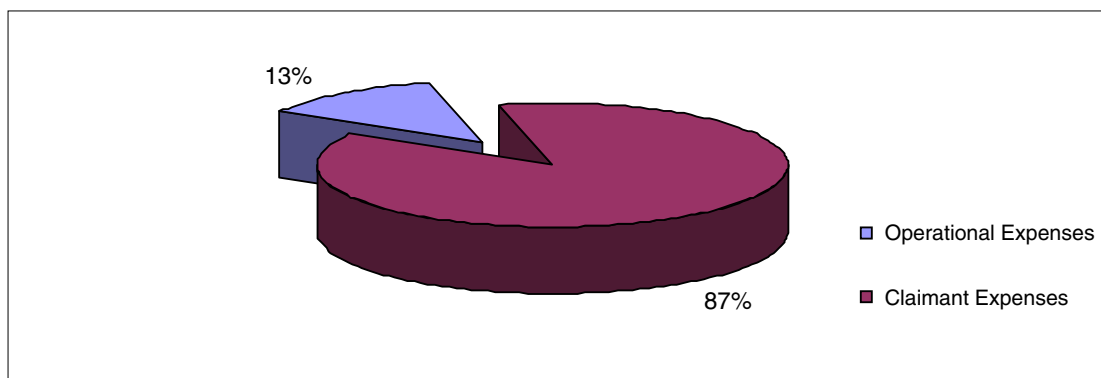
- the establishment of a dedicated Catastrophic Injuries Claims Team, to better manage and respond to the needs of catastrophically injured claimants and their families;
- renewed emphasis on ensuring our publications and correspondence is written in plain English and is both informative and relevant;
- a review and update of web-based information for claimants and the general public;
- improved on-line access for service providers to track progress of payment of their invoices.

Third Party Insurance Fund

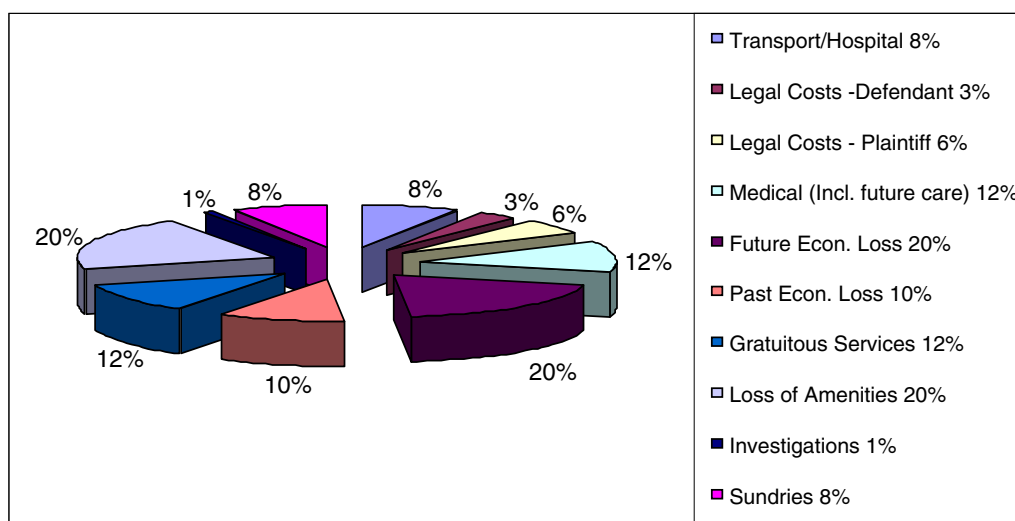
The net assets of the Third Party Insurance Fund were \$442 million as at 30 June 2006 (net of a \$190 million transfer to the Insurance Commission General Fund. Refer to page 4 – Chairman and Managing Director's Joint Review) compared to \$457.3 million in the previous year. This strong financial position is due to an excellent investment return and sound claims management practices.

Claims payments net of GST adjustments and recoveries for the 2006 year amounted to \$297.6 million, approximately \$260 million of which was paid for the direct benefit of claimants.

Proportion of Total Claims Costs paid directly for the benefit of Claimants 2006



Net Claims Incurred for the reporting year was budgeted at \$385.3 million however, the actual amount incurred was \$340.7 million (2005: \$260.4 million). This excellent outcome was achieved notwithstanding a higher than expected number of claims settled. The total outstanding active claims reduced from 8,259 in 2005 to 7,911 at 30 June 2006, a reduction of 348.

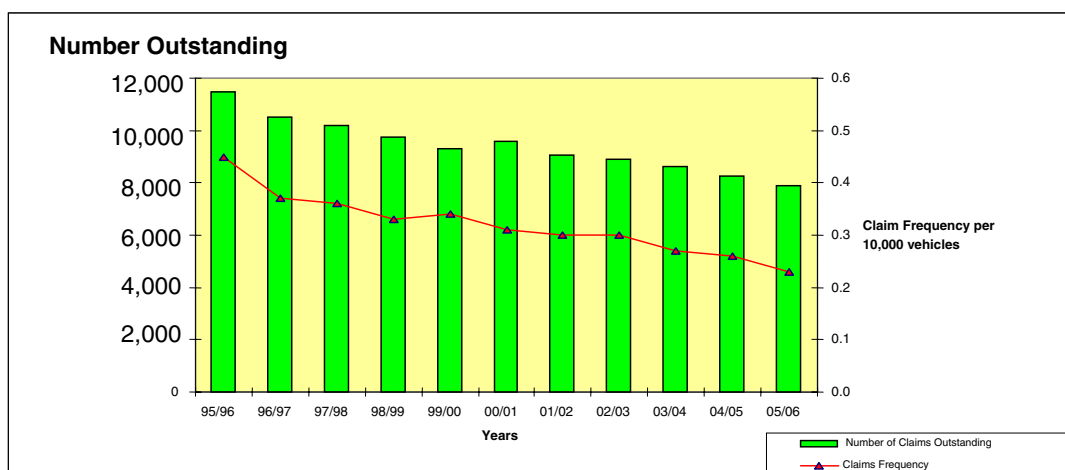


Annual Expenditure by Head of Damage 2006

During the year, 4,503 new claims were received. This is 446 less than the previous year and reflects a continuation of the decreasing claim frequency trend experienced over the last 12 years, despite a 4% increase in vehicle registrations for 2006.

The stronger focus on road safety and crash-prevention initiatives, safer cars and better roads, are some of the recognised factors influencing this pleasing, long-running, downward trend.

Claims Frequency and Number of Claims Outstanding



As the “notional nominal defendant”, we have a statutory obligation to pay the claims of innocent third party crash victims in circumstances where a Western Australian motor vehicle may be uninsured, or there have been breaches of the CTP Policy.

In accordance with Section 45(3)(b) of the *Financial Administration and Audit Act 1985*, for the 2006 financial year the Minister for Government Enterprises approved debt write-offs totaling approximately \$9.7 million and the Board approved debt write-offs totaling approximately \$1.1 million. (The Board has delegated authority to approve individual debt write-offs of up to \$50,000; any write-off amounts higher than this must be approved by the Minister.)

These write-offs are not charged as an expense to the Income Statement. The debt write-offs are net of recoveries received from the negligent owners/drivers who either breached the CTP policy or were uninsured, which totalled \$138,826 in 2006. From a financial aspect, the only loss to the Insurance Commission is the non-receipt of premiums from the uninsured motor vehicle owners responsible, the total of which is estimated at only \$3,307, however this is more than offset by the \$138,826 in recoveries.

Work planned for 2007

Our MVPI Division plans to do the following during 2007:

- Focus on current market developments in imaging and workflow to ensure that we continue to derive benefits from our investment in this technology;
- Continue to focus on initiatives and strategies directed towards improving claims management processes, productivity and customer service delivery models;
- Maintain efforts, in collaboration with the Department for Planning and Infrastructure, to enhance the Transport Executive and Licensing System (TRELIS) to provide timely and accurate policy details, premium collection and associated statistical data.
- Continue to work with the Actuary to determine how the models for evaluating outstanding claims liabilities might be more responsive to actual claims experience.
- Explore possible opportunities to enhance the benefits provided under the existing CTP scheme, specifically providing a no-fault benefit component for minors and people who are catastrophically injured as a result of a motor vehicle crash.
- Monitor Third Party Personal Injury Insurance schemes throughout the world to ensure best practice for all Western Australian motor vehicle owners.
- Maintain support of road safety programs aimed at preventing crashes that result in personal injury or death.

RiskCover

Key goals

- **To be recognised by our customers as the best provider of risk management and self-insurance services**
- **To take a leadership role in the minimisation of the cost of risk for the Government of Western Australia**

The Insurance Commission manages a self-insurance and risk management enterprise under the name RiskCover on behalf of Western Australia's Department of Treasury and Finance. RiskCover commenced operations in 1997 as a Business Division of the Insurance Commission.

The *Insurance Commission of Western Australia Act 1986* authorises the Insurance Commission to:

- manage and administer insurance and risk management arrangements on behalf of Western Australian public authorities; and
- provide services, facilities and advice to public authorities in respect of the management of claims against them or against funds maintained or administered by them under any written law.

RiskCover will only achieve this through a collaborative approach that delivers a total coordinated service to its clients in the following areas:

Loss-prevention

- Risk management program development and implementation
- Claims Analysis

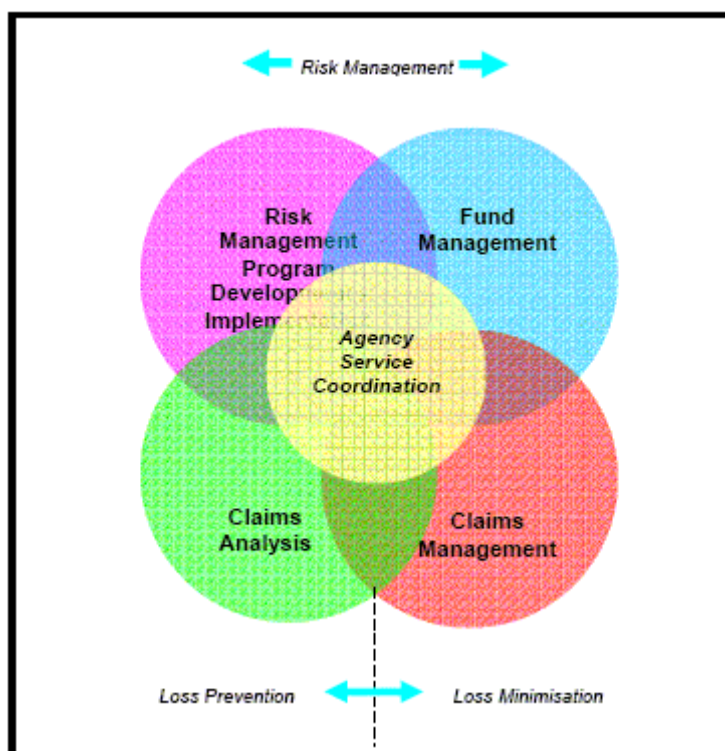
Loss-minimisation

- Claims management
- Fund management

It is important to understand that each one of these areas is inter-dependent on the other, and all are equally important to the future success of our clients and the RiskCover Division.

During the year the RiskCover Division was restructured to better align its core services to meet the ever changing needs of its clients. The diagram following shows RiskCover's new Service Delivery Model which resulted from the restructure.

RiskCover New Service Delivery Model



Risk Management Services

RiskCover continued its support to Western Australian public authorities in implementing their risk management which commenced in 1998. The attitude of public authorities to the management of risks has shifted significantly over the years, to the point that today most have embraced it as part of managing their business.

In March 2006, the Premier issued a Circular (Number 2006/03) directing all public sector bodies to regularly undertake a structured risk management process to:

- identify the risks facing the agency;
- be able to demonstrate the management of risks; and where appropriate
- have business continuity plans to ensure they can respond to and recover from any business disruption.

This clear directive highlights the importance that the Premier is placing on public authorities undertaking thorough risk management.

RiskCover has assisted by delivering training and development opportunities to a wide variety of public authorities through many different forums over the past twelve months. Some of these initiatives include:

- Approximately 300 delegates attending the one-day annual GRM (Government Risk Management) Conference held in August 2005. The theme of the conference was 'Risk Management – The holistic approach'.
- A total of 75 representatives attended three seminars on 'Business Continuity Management', and 80 representatives attended a seminar on 'Risk Management – What, Why and How?'

- RiskCover facilitated more than 300 risk workshops. The workshops concentrated on strategic, operational and specific project risk management.
- RiskCover conducted more than 100 training sessions, which focused on the individual public authority's requirements. The sessions included training on their risk management practices, occupational safety and health, and Risk Management Coordinator training.

Claims Analysis Services

Claims data analysis is an integral part of the risk management process and enables across-government and public authority-specific risks to be effectively identified so that the cost of those risks can be minimised. Numerous claims and data analysis activities across workers' compensation, motor vehicle, property, treatment liability and general liability cover classes were conducted during the year.

Key highlights include:

- RiskCover prepared and delivered 45 utilisation reports and presentations, which highlighted a range of operational and strategic risks. More than 150 representatives attended data analysis presentations, which identified across-government and organisation-specific risk exposures, trends and benchmark targets.
- RiskCover carried out across-government benchmarking which identified 'at-risk' public authorities.
- A research project was undertaken in an effort to gain a deeper understanding of disputed workers' compensation claims. The results revealed a significantly higher cost for disputed claims and the project recommended ways to reduce the risk associated with these claims (i.e. implement prevention, early intervention and injury management without delay).
- An extensive review of all claim forms, in conjunction with key stakeholders, was completed. The improvements will enhance RiskCover's ability to better meet client information and risk management needs.

RiskCover's Data Warehouse continues to be developed to further enhance the reporting and analysis capabilities for the benefit of Western Australian Public Authorities. During 2006, data capture was expanded to include all classes of claims. The depth and breath of data captured within the data warehouse was also enhanced. Combined with a major upgrade to RiskCover's reporting and analysis tools during 2007, this will ensure that the existing and future reporting and analysis needs of our client agencies can be met.

Claims Services

Claims management and injury services represent the largest part of RiskCover's operations. RiskCover is focused on delivering quality, cost-efficient claims management and injury services in partnership with our client agencies.

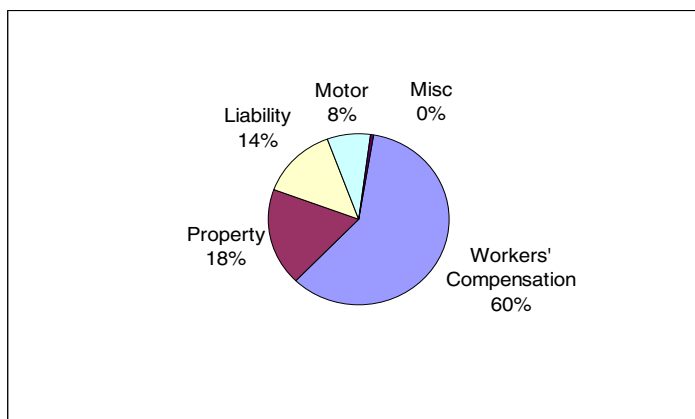
Workers' compensation is the largest cover provided to client agencies. We focus on providing a service that integrates injury prevention, injury management and claims management.

Significant amendments to Western Australia's Workers' Compensation legislation came into effect on 14 November 2005. During the year we assisted client agencies to understand and meet the requirements of the new *Workers' Compensation and Injury Management Act 1981* by delivering information sessions and workshops in the metropolitan area and major regional centres. The sessions and workshops covered all aspects of the legislation including injury management and dispute resolution.

In addition to this training, we provided client agencies with injury management tools and the services of an injury management consultant to review their injury management systems and procedures for legislative compliance.

In 2006, RiskCover made claim payments of \$89.9 million (2005: \$89.4 million). A breakdown by insurable risk (cover class) is provided below.

Claim Payments by Insurable Risk for 2006



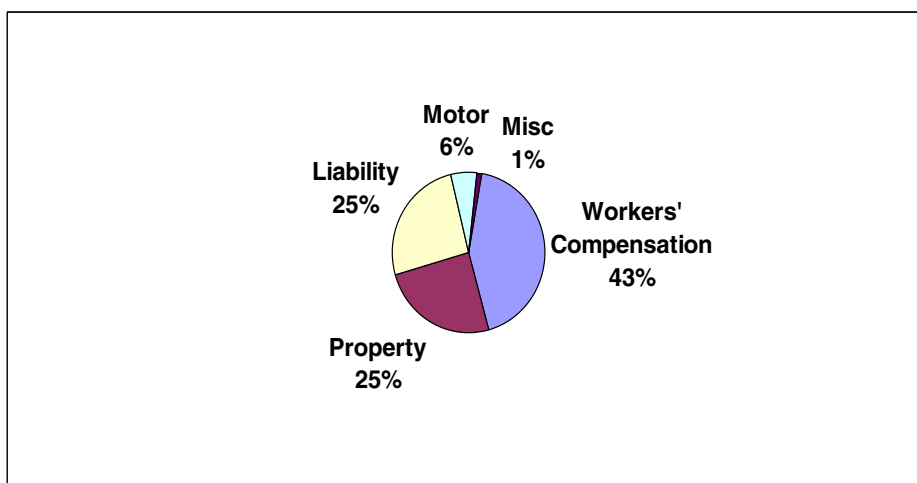
In the Workers' Compensation class, the number of reported claims, claim closures, and claim payments, were all less than projected. The experience of the Liability and Property classes was better than expected. Conversely, the Motor Vehicle class claim payments were 19.5% more than projected.

Fund Services

RiskCover has an underpinning Fund objective of breaking even over time. Better than expected investment performance was again achieved, and this factor, coupled with good claims results for the property and liability classes, resulted in a significant surplus for the year.

Contributions (Premium Revenue) totalled \$120.2 million for the year (2005: \$122.7 million). Administration Expenses, which include risk management services, increased by \$0.9 million to \$16.6 million, which is approximately 13.8% of Contributions. A breakdown of premiums by insurable risk (i.e. class of insurance cover), is shown in the following graph.

2006 Contributions (Premium Revenue) by Insurable Risk



The strong investment return of 18.2% produced Investment Income of \$62.3 million, resulting in a surplus of \$59.2 million (2005: \$33.6 million surplus).

The accumulation of a significant surplus in the RiskCover Fund at 30 June 2004, and a further increase in 2005, caused RiskCover to consider options for developing a methodology for returning that portion of reserves deemed surplus to the Fund's objectives, to the participating public

authorities. Following consultation with the Department of Treasury and Finance (DTF), a methodology for distribution was formulated during 2006.

The State Government Expenditure Review Committee gave approval for the RiskCover Fund to maintain a minimum Prudential Surplus, approximately equal to the value of a Prudential Margin, calculated as if it had to comply with the APRA/AIFRS requirements in respect of a Prudential Margin. The Prudential Surplus came to \$26.5 million. It was calculated by the Insurance Commission's independent Actuary and should achieve a 75% likelihood of adequacy with respect to the provision for outstanding claims.

The State Government Expenditure Review Committee also gave approval for the RiskCover Fund to introduce a 'Fund Experience Allowance' (i.e. a return of capital) whereby surplus funds in excess of the approved Prudential Surplus are returned to RiskCover Fund Members (i.e. participating public authorities) over a four-year period.

For the 2007 financial year, the Fund Experience Allowance is to be based on the accumulated surplus at 30 June 2005 (\$57.9 million). Surpluses for the Motor Vehicle and Workers' Compensation classes are deducted from this as balance day adjustments to the Contribution (Premium Revenue) adjustment provisions for these classes. This leaves an accumulated Fund surplus of \$56.7 million, from which the Prudential Surplus of \$26.5 million is then deducted, leaving a net accumulated Fund surplus of \$30.2 million.

It is planned to return a quarter, or 25%, of the Fund Experience Allowance (return of capital) to members each year over the next four years. (This will be subject to annual review of the net accumulated Fund surplus.) For 2007, \$7.6 million (equating to the first 25% of the net accumulated Fund surplus) will be returned. This amount will be apportioned amongst Fund Members by way of a credit note which will be offset against the 2007 contributions. It is based on each Member's proportion of the total Contributions (Premium Revenue) received for the Property and Liability classes over the past five years.

Coverage

RiskCover continues to provide extensive cover for the majority of State Government insurable risks including:

- Workers' Compensation;
- Property and Business Interruption;
- Liability, including General, Professional, Medical Treatment and Employment Practices Liability;
- Motor Vehicle Property Damage; and
- Miscellaneous, including Travel, Personal Accident and Special Covers.

Some of the benefits that the RiskCover Fund provides include:

- extensive coverage;
- cost-efficient administration in comparison to other funding methods;
- consistent and systematic approach to risk management across the State Government;
- consistency in claims and injury management; and
- buying power in reinsurance markets.

Pricing Policy

Fund Contributions are set to ensure that sufficient funds are collected to pay for all liabilities. The key outcomes that RiskCover aims to achieve in setting premiums are:

- equity for all public authorities;
- transparency in the Fund Contributions setting methodology;
- minimum cross-subsidisation;

- protection against major surprises; and
- incentives for risk management.

As agreed with the Department of Treasury and Finance, claims costs used to determine Fund Contributions do not include a prudential margin as the Government of Western Australia underwrites the Fund.

Work planned for 2007

RiskCover plans to do the following during 2007:

- Commence the development of a Workflow and Imaging System for the claims management process.
- Implement improved claimant and service provider information services.
- Further develop electronic business capabilities, including the re-design of the RiskCover public website.
- Provision of consultancy services to Western Australian public authorities focused on business continuity planning.

Other Funds managed by the RiskCover Division

Compensation (Industrial Diseases) Fund (CIDF)

Industrial Diseases insurance is compulsory for employers engaged in mining. Liability is limited to workers' compensation payments for the respiratory diseases of pneumoconiosis, lung cancer and mesothelioma, all of which may arise from exposure to harmful mineral dust in the course of employment.

The CIDF has been in surplus for many years and it is expected that this situation will continue. Due to its sound financial status, the premium rate was decreased from 1 July 2003 to a flat charge of \$100 per three-year policy period. Following a review of the financial performance of the CIDF and projected future claims, during 2006, it has been determined to maintain the premium rate at the flat charge of \$100 per three-year policy period for the next three years.

Insurance Commission General Fund (ICGF)

The claims paid from the ICGF relate to liabilities of the former State Government Insurance Office (SGIO). This Fund is in run-off and no policies have been issued since 31 December 1986.

Employers' Indemnity Supplementation Fund (EISF)

The WorkCover Western Australia Authority manages the EISF, with the Insurance Commission liable for the payment of claims against this Fund. In response to the collapse of the HIH Group of Companies (HIH) in March 2001, the EISF was activated to fund claims for workers injured in the course of their employment prior to 15 March 2001 whose employer was insured by HIH at the time of its collapse.

All claims in relation to the collapse of HIH are managed externally by CGU Workers' Compensation Claims (an Insurance Australia Group company) on behalf of the Insurance Commission. In discharging its statutory obligations, the RiskCover Division continues to provide an important supervisory role in the management of these ongoing claims and it is expected this role will continue for a number of years. WorkCover WA reimburses the Insurance Commission for all payments and expenses incurred in respect of the management of these claims.

Government Insurance Fund (GIF)

The GIF is a consolidation of the State Government's self-insurance arrangements which preceded RiskCover. The Fund is in run-off and the RiskCover Division manages it on behalf of the Department of Treasury and Finance. The financial aspects of the GIF are reported in the Insurance Commission's Financial Statements, however the Insurance Commission is indemnified by the Government of Western Australia for any liabilities arising in the GIF.

Community Insurance Fund (CIF)

The CIF provides eligible incorporated not-for-profit community organisations based in Western Australia with "affordable" insurance cover (particularly public liability). The RiskCover Division manages the CIF which is underwritten by the Government of Western Australia.

During 2006, reduced demand to join the CIF combined with a number of participating organisations electing not to renew, gave support to the widely held view that the General Insurance market has recovered and is now willing to provide public liability cover at an "affordable" price. The CIF however, continues to deliver not-for-profit organisations with a valuable resource where coverage from the private insurance industry cannot be reasonably achieved.

Our People

Key Goals

- To have a working environment that reflects our Core Values
- Recruit the right people and develop staff to their full potential

Employee Relations – Creating the Right Environment

(Treasurer's Instruction 903)

The Insurance Commission employed 304 people in 2006 (2005: 307 employees). A challenge is our ability to retain employees in the current period of high demand for labour. Employee turnover for the previous three years has been slightly above 7%, however in 2006 this increased to 11.9%.

A review of our exit interviews indicated that almost half of these employees left to pursue alternative employment. Five employees who had an average length of service of 23 years also retired during the year. Their knowledge and expertise will be rebuilt as part of our knowledge management strategies.

Employee Profile	2005	(FTE)	2006	(FTE)
Permanent Full Time	253	(253.0)	254	(254.0)
Permanent Part Time	28	(14.9)	33	(18.4)
Fixed-Term Full Time	22	(22.0)	12	(12.0)
Fixed-Term Part Time	3	(1.6)	3	(1.6)
Casual	0	(0)	1	(0.4)
Seconded Out	1	(1)	1	(1.0)
Totals	307	(292.5)	304	(287.4)

Full time equivalents are shown in brackets.

Workplace Relations

(Treasurer's Instruction 903)

Our employment terms and conditions are governed by the Insurance Commission 2004 General Agreement and the Government Officers (SGIC) Award 1987. These agreements provide a range of flexible conditions to aid employees with their work/life balance. For example, 15 employees (2005: eight employees) are participating in our 44/52 arrangements whereby they can purchase up to an additional eight weeks leave.

Negotiations for a replacement General Agreement have commenced. The new General Agreement is intended to provide employees with future salary increases that are consistent with Government Wages Policy and a continuation of the flexible conditions of employment.

The potential impact of the Federal WorkChoices legislation on the Insurance Commission remains unclear. The State Government has indicated it will take the appropriate actions to protect the terms and conditions of employment for public sector employees, however, we will continue to monitor developments in this area.

Occupational Safety and Health (OSH)

(Treasurer's Instruction 903)

Our OSH vision is to ensure a safe and healthy work environment for all employees, contractors and visitors. To help achieve this, we prepare an annual OSH Business Plan which is reviewed regularly by our OSH Committee. During the year, we attained the following significant achievements through implementing the strategies in our annual OSH Business Plan:

- A second consecutive 12-months without a Lost-Time Injury.
- A Safe Driving Policy was developed and implemented. The Policy aims to maximise employee safety when driving through the use of appropriate safety features in our vehicles, driver education and practical application of low-risk driving behaviours.

In compliance with Treasurer's Instruction 903, we are required to provide information on our workers' compensation claims, the prevention of occupational injuries and illnesses and the rehabilitation of injured and sick employees during the financial year. The details of this report are outlined in the table below.

Key Occupational Safety and Health Measures

Indicator	2006	2005	2004	2003	2002	2001	2000	1999
Total Claims	0	1	5	3	1	4	3	3
Lost-time injuries	0	0	1	2	0	1	0	0
Lost-time injuries (hours) per million hours worked	0	0	2.19	4.83	0	1.72	0	0
Workers' compensation premium as a percentage of payroll	0.44	0.47	0.44	0.44	0.54	0.69	0.69	0.46
Rehabilitation success rate	No eligible rehab cases	No eligible rehab cases	100%	100%	No eligible rehab cases	No eligible rehab cases	No eligible rehab cases	No eligible rehab cases

Equal Employment Opportunities and Productive Diversity

(Equal Opportunity Act 1984, S146)

Our commitment to achieving a diverse workforce that reflects the Western Australian community continued during the year through the recruitment of two Indigenous trainees and one trainee with a disability. The trainees are provided with a range of work experiences and support whilst completing a Certificate II in Business Administration. Additionally, three former trainees (one Youth and two Indigenous trainees) secured employment with us after successfully completing their traineeships.

Target Group	% of Community Representation	% of Public Sector workforce at 30 June 2005*	% of Insurance Commission employees at 30 June 2006
Women	52	64	49
People with disabilities	4	1.4	5
Youth	11	5.7	9.6
Indigenous Australians	3	2.5	2.3
People from culturally diverse backgrounds	12	8	14.2

*Source: Profile of Government of Western Australia June 2005

Employee Development – Enabling Our People to Achieve Their Best

(Treasurer's Instruction 903)

We continued our better-practice approach in developing our employees through programs that incorporate our Core Values. Our strategies are designed to enhance the mutual responsibility for employees to take control of their professional and career development, with the Insurance Commission providing the opportunities and resources.

The following key outcomes were achieved during the year:

- Our commitment to developing our people was reflected by an increase in the average training investment per employee to \$2,405 (2005: \$2,367), which again exceeds the all-industry benchmark of \$1,850.
- A nationally accredited Certificate IV Insurance qualification was developed for on-site delivery to our employees. We consulted extensively with the Australian and New Zealand Institute of Insurance and Finance (ANZIIF) to achieve this.
- Selected employees commenced the Swinburne Graduate Certificate of Risk Management to increase skills in this key part of our business.
- A coaching program for senior employees who completed our Management and Leadership Development program was introduced.

Work planned for 2007

Our Human Resources Division plans to do the following during 2007:

- Continue to monitor and respond as necessary to the changing industrial relations environment in light of the WorkChoices legislation.
- Embed our Core Values into all that we do.
- Further develop the Insurance Commission's on-site accredited education programs in insurance and risk management.

Investments

Key Goals

- To enhance investment returns, without incurring additional risk, through diversification of investment assets and investment managers.
- To achieve a rate of return for each asset class that exceeds the relevant performance benchmark.

Investment Strategy

The Insurance Commission's investment strategy is based on the need to broadly match its investment assets to the claims liabilities for both the Third Party Insurance Fund and the RiskCover Fund. This has historically involved detailed asset-liability modelling to determine the appropriate level of investment risk/return for the Portfolio.

In setting our investment strategy, we continue to focus on achieving consistent, strong, long-term positive returns balanced with reducing the overall level of volatility of investment returns. Investment strategy is formulated in consultation with our independent investment consultants, JANA Investment Advisers, together with input from the Investment Division. Our investment manager configuration is achieved through a combination of external and internal management.

Investment Performance

The total investment return for the year was 18.2% net of fees and expenses (18.9% gross) which was 3.2% above the portfolio benchmark return of 15.0%. Performance for the year was dominated by the strength of Australian and Global share markets where we recorded returns of 26.9% and 21.0% respectively. Our direct property portfolio also recorded a stellar result for the year with a return of 26.0%. Fixed interest was the one asset class that disappointed with the Australian fixed interest benchmark returning 3.5% for the year.

Within the Global share return, Emerging Market shares achieved the highest asset sector return of all markets, with a return of 38.9%. In terms of out-performance against benchmarks, the Property portfolio exceeded benchmark by 10.0% and the Australian Shares portfolio exceeded the benchmark by 2.3%. All other asset classes were either marginally above or close to their respective benchmarks.

Australian Shares

The Insurance Commission's four External Investment Managers for Australian Shares are:

- Concord Capital
- Challenger Managed Investments
- GMO Australia
- BGI Global Investors

Australian Shares produced strong returns for the third consecutive year with an annualised return of 25.1% over the three-year period. The 2006 return of 26.9% outperformed the benchmark by 0.6%. The strong Australian economy and impact of high commodity prices pushed the resource sector to new highs with that section of the market returning 54% for the year.

Global Shares

The Insurance Commission's External Investment Managers for Global Shares are:

- Wellington Management
- Holwesko Global Fund (long/short equities)
- Marathon Asset Management
- Genesis Emerging Markets Trust
- Genesis Emerging Markets Opportunities Fund (small companies emerging markets)

Global Shares performed strongly over the year, recording a return of 21.0% which was 1.1% above the performance benchmark. Over the three-year period the Global Shares portfolio returned 17.9% which exceeded the performance benchmark by 5.2%. As previously mentioned, the return from emerging markets was outstanding with a return of 38.9% for the year, equal to the benchmark.

Property

The Insurance Commission's Property Investments are internally managed, except for the Queensland Investment Corporation (QIC) Shopping Centre Fund. Our directly owned properties are:

- 'Shops at Ellenbrook'
- 'Livingston Marketplace Shopping Centre'
- 'Forrest Centre' (221 St Georges Terrace, Perth)
- 'Westralia Square' (141 St Georges Terrace, Perth)
- 161 St Georges Terrace, Perth

The return from the property portfolio of 26.1% was a significant turn around from the 5.6% achieved in the previous year. The main factors driving this result were the strong improvement to the leasing market for Perth office property, and the continuing strength of the shopping centre properties, in particular the QIC Shopping Centre Fund which represents approximately 25% of the Insurance Commission's property investments. The QIC investment returned 18.5% for the year (after fees).

The out-performance of the property portfolio of 10.0% above the performance benchmark was a major factor contributing to the overall strong investment return for the year.

The demand for Perth office space is expected to continue to push leasing rates to higher levels over the next two to three years and the Insurance Commission's office buildings are well placed to benefit from those increases. Likewise the retail properties are also expected to benefit from growth within their respective regions and from contracting yields within the sector.

It should be noted that in the Financial Statements the Forrest Centre building has been treated as Property Plant and Equipment due to the Insurance Commission's partial occupancy of that building and the requirements under AIFRS to treat this partial occupancy of an owner-occupied building as a material level occupancy. For investment performance measurement purposes, however, the Board considers the Forrest Centre to be an integral part of the Insurance Commission's property investments. Therefore, the Forrest Centre has been included in investment performance calculations, as part of the Property investment asset allocation.

Fixed Interest

The Insurance Commission's External Investment Managers for Fixed Interest are:

- BGI Global Investors (enhanced passive)
- Colonial First State (composite)
- Hastings Funds Management (high yield)
- Mondrian Investment Partners (Global)

We internally manage Australian Inflation Linked Bonds (passive).

Fixed Interest returns have remained at historically low levels for the past five years. The Australian Fixed Interest portfolio returned 4.4% for the year, 4.9% over three years and 6.2% over five years. Global Fixed Interest had a similar relative poor performance against other asset classes, with returns of 1.2% for the year, 6.3% over three years and 8.0% over five years.

With world growth expected to continue over the next two years, there is little sign that interest rates will moderate, and returns from this asset class, both within Australia and overseas, will continue to be negatively impacted. The two sectors within Fixed Interest that have performed reasonably well over the past three years have been High Yield debt, which is managed by Hastings Funds Management, and the internally managed Inflation Linked Bond portfolio.

Alternative Assets

The Insurance Commission's External Investment Managers for Alternative Assets are:

- IXIS Aurara II Fund (Fund of Hedge Fund managers)
- Warakirri Absolute Return Fund (Fund of Hedge Fund managers)
- GMO Australia (Multi Strategy Fund)

Investments with the three Alternative Asset class Managers were funded in December 2005. Investing in this asset class reduces overall volatility within the portfolio and the risk of experiencing a negative return. The Alternative Asset class Managers have an absolute return focus (not being measured against a specific performance benchmark) and are expected to perform strongly in periods where other asset classes experience negative returns.

This asset class has a long-term focus and performance is to be measured over a minimum rolling three-year period.

Cash

The internally managed Cash portfolio provides for the liquidity requirements associated with the business operations of the Insurance Commission. The objective of the portfolio is to achieve a return at least equal to the UBS Bank Bill Index. Over the year the return was 0.11% above that benchmark and over a 3 year period it was 0.03% above the benchmark.

Currency Hedge for Global Equities

The Insurance Commission's External Investment Manager for Currency Hedge for Global Equities is:

- Macquarie Funds Management

Macquarie Funds Management manages two currency hedge arrangements on behalf of the Insurance Commission: a passive hedge on 100% of the exposure to the global long/short equities portfolio managed by Holowesko; and an actively-managed hedge on the balance of the Global Equities portfolio, excluding Emerging Markets.

Performance of the currency hedge, relative to having no hedging in place for global equities, resulted in a loss of \$5.8 million for the year and reduced the global share return by 1.5%.

Investment Manager Changes

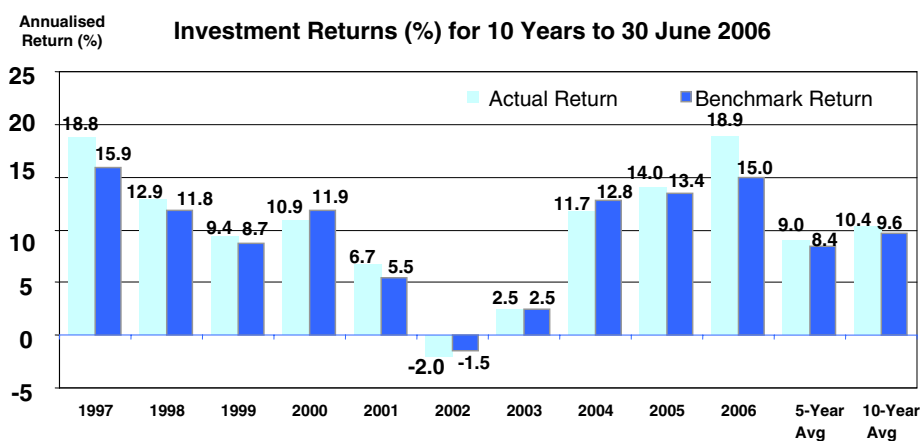
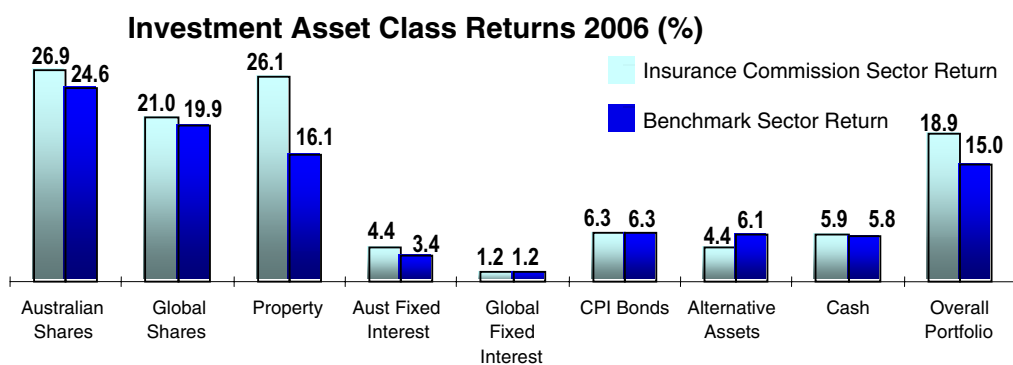
Three Alternative Asset class investment managers previously referred to, and one new Investment Manager were appointed during the year. The Genesis Emerging Markets Opportunities Fund (small cap share fund) was added to the global share manager configuration. Genesis already manages an Emerging Market Shares Fund for the Insurance Commission. As at 30 June 2006, we have committed to investing in the AMP Strategic Infrastructure Trust of Europe. The initial partial funding of this investment occurred in July 2006.

Asset Allocation

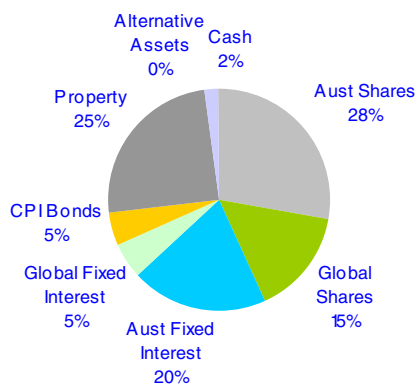
With the addition of Alternative Asset Class managers during the year, the asset allocation was changed to accommodate the 6% allocation to this new asset class.

Within the Fixed Interest asset class, a short-term 2% tactical allocation away from Inflation Linked Bonds to Cash remains in place. There is also a 4% tactical allocation away from Fixed Interest in favour of Global Shares. The tactical asset allocation away from Inflation Linked Bonds detracted slightly from the overall return, however the increased allocation to Global Shares had a very positive affect on the overall return for the year.

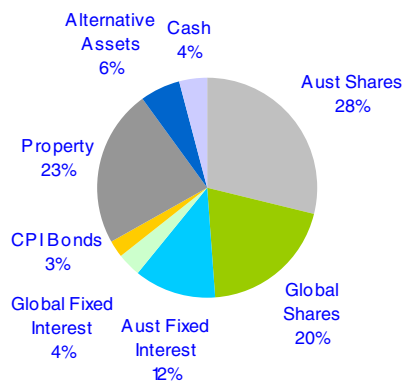
The strategic benchmark allocation between defensive assets and growth assets is 32% / 68%. The actual allocation as at 30 June 2006 between defensive and growth assets was 26.3% / 73.7%.



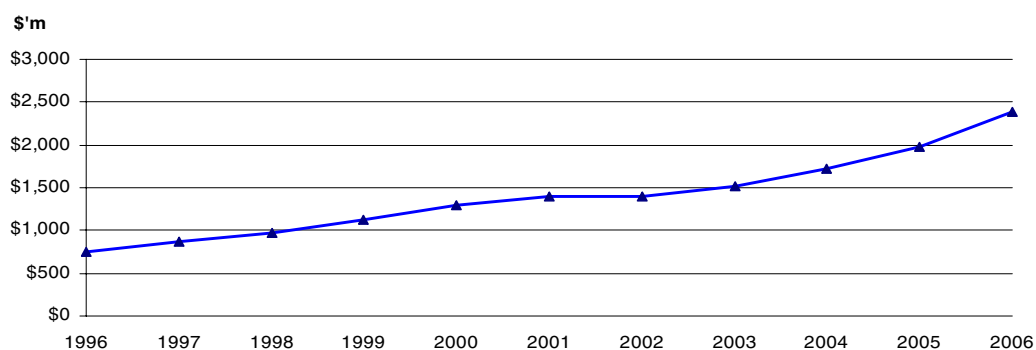
**Strategic Asset Allocation
as at 30 June 2006**



**Actual Asset Allocation
as at 30 June 2006**



Growth in Investment Assets from 1996 to 2006



Community Focus

A function of the Insurance Commission is to provide financial support for programs that relate to the insurances we provide. Section 6(e) of our Act reads:

The functions of the Commission are to initiate, or participate in, and promote programs and schemes for:

- research into the treatment of industrial diseases and personal injury; and
- research into, education for, and promotion of public awareness relating to the prevention of industrial diseases, personal injury and accidental death.

being programs and schemes relevant to risks in respect of which the Insurance Commission is to provide insurance.

Road Safety Partnerships

The Insurance Commission continues to contribute annual funds to the Office of Road Safety's Road Trauma Trust Fund in support of the Western Australian Road Safety Strategy.

For the 2006 financial year, \$4.2 million was budgeted for and expensed on road safety initiatives. This is approximately 1.2% of Premium Revenue collected for the Third Party Insurance Fund or approximately \$3 per policy, which is comparable with what other CTP insurers around Australia are committing to road safety initiatives.

Of the \$4.2 million budgeted and expensed, \$3.2 million was allocated to the Office of Road Safety to fund road safety programs that support the State's road safety strategy entitled 'Arriving Safely: Road Safety Strategy for Western Australia 2003-2007'. Approximately \$2.2 million of those funds were allocated to 'Road Aware', a comprehensive state-wide school road safety program being embedded into school curriculum as part of the health learning area. The aim of 'Road Aware' is to ensure that effective road safety education is provided for children and young people throughout Western Australia.

We work closely with the Office of Road Safety, the administering body of the Road Safety Council, on the planned annual funding program. Providing funding for road safety programs is also a key strategy to help control Motor Vehicle Third Party Personal Injury Insurance claim costs.

To ensure proper accountability for the funding of these programs, we have a legally binding funding agreement between the Insurance Commission and the Office of Road Safety for 2006. The Funding Agreement sets out the obligations and performance evaluation of each program. All programs have performance indicators and are evaluated by independent bodies and the Insurance Commission. Each program is evaluated and the larger out-sourced programs incorporate an amount for formal evaluations.

The remainder of the funding supported several other road safety initiatives, including two road safety theatre projects – 'The Buzz' and 'Muttacar Sorry Business'.

'The Buzz' is an award-winning play that addresses the risks facing young drivers - lack of driver experience and the thrill of speeding. Free performances of 'The Buzz' are offered to Years 10, 11 and 12 students of secondary schools throughout the State. The Insurance Commission has sponsored these state-wide school tours of 'The Buzz' since 2001.

During 2006, 'The Buzz' was performed in schools in the Pilbara, Gascoyne, Midwest, South West, Great Southern and metropolitan areas. The tour commenced on Monday 6 March 2006 and finished on Friday 7 July 2006. Overall, a total of 95 performances were held in 89 schools, resulting in more than 14,000 secondary students who are either novice drivers or about to get their driver's license seeing the show.

In 2004, we commissioned Yirra Yaakin Aboriginal Corporation, one of Australia's leading Aboriginal theatre companies, to create, develop and tour a 30-minute play followed by a 30-minute workshop about Aboriginal road-trauma related issues. Our tender specified that the play and workshop must be written and performed by Aboriginal people, with the aims of educating, promoting and informing the

Western Australian Indigenous community on road safety. The project, entitled 'Muttacar Sorry Business', addresses the following key elements: alcohol, speeding, driver fatigue, vehicle overcrowding coupled with no seatbelts, pedestrian road trauma, and risk-taking behaviour.

The 'Muttacar Sorry Business' package is presented free to communities, schools, remand centres and prisons, both within the Perth metropolitan area and regions of Western Australia. In 2006, Yirra Yaakin completed a six-week tour of 'Muttacar Sorry Business' which incorporated a one-week Perth metropolitan tour and a five-week regional tour of communities in the Pilbara. A total of 27 performances were presented, resulting in more than 2,200 people seeing the play, half of whom were Indigenous.

Medical Research into Mesothelioma

We are a long-term supporter of medical research into mesothelioma as this research is relevant to the Compensation (Industrial Diseases) Fund, a fund managed by RiskCover. During the year, we provided \$298,600 (excl GST) to the Foundation for Advanced Medical Research and The University of Western Australia (UWA) as part of a four-year funding commitment for research into mesothelioma, an asbestos-related disease (the Project). Professor Bruce Robinson and his team at the Department of Medicine at Sir Charles Gairdner Hospital undertake this research.

At the end of this funding period (31 December 2005), we commissioned an independent peer review of the research. The independent reviewers evaluated the progress and achievements since 2001 and gave favourable reviews, recommending that we continue to fund the project for another four-year period at a rate of \$294,000 (excl GST) per annum plus CPI increases. The peer review also recommended that progress of the research is evaluated and reviewed annually instead of every four years, and this has been incorporated into a new Funding Agreement.

Complaints and Compliments

Complaints

Premier's Circular 2005/04 – Whole of Government Complaints Management Strategy requires all agencies to have in place a complaints management system that conforms to the principles of the Australian Standard on Complaints Handling - AS 4269, and have a direct link on the front page of their website to information assisting people to make a complaint.

We are pleased to report that the following achievements were made during the year:

- On 1 July 2005 we introduced our Complaints System and Policy that meets the standards set out by AS 4269, and there is a direct link to the system and policy on the front page of our website. The Complaints System is a computerised system which is customised for our organisation and enables people to submit complaints online via our public website. It also enables our staff to lodge a complaint onto the system via our internal Intranet website on behalf of members of the general public who lodge a complaint by phone, fax, email, letter, or in person.
- A training program for the Insurance Commission's Complaints System and Complaints Policy and Procedures was developed and more than 200 staff, including all Insurance Division employees and Executive Committee members completed the training program.
- A brochure entitled 'How to make a complaint' was produced to assist people to make a complaint. Copies of the brochure are available on our website, from our reception foyer, or upon request.
- A quarterly report on complaints was provided to the Board and Executive. The reports provided the number of complaints received against each Division for the quarter, the category of the complaint, whether the complaints were justified or not, and whether they were resolved in a timely manner.

When reporting on complaints recorded, it should be noted that a large part of our core business involves processing claims, therefore the Insurance Commission does not consider a complaint to be a dispute with any claims assessment or offer it makes on:

- Liability and/or quantum;
- Special Damages, being reasonable expenses related to the treatment of injuries received in a crash, together with compensation for any loss of earning capacity sustained;
- General Damages (Non Pecuniary Loss), being damages awarded for pain, suffering and inconvenience experienced as a result of injuries, together with any disability.

During the year we received five complaints compared to 12 last year. Of these, three related to the Motor Vehicle Personal Injury Division, one to the Special Investigations Division and one to an image used in one of our brochures. The 'nature of the complaints' (i.e. complaint category) were: Other – one complaint; Processing of claim – two complaints; Staff – two complaints. We assessed that four of the five complaints were justified. The complaint assessed as unjustified was regarding a staff member, and was considered unjustified as the staff member complied with our Code of Conduct, was courteous and polite at all times and obtained all information with consent. All complaints received were resolved fairly and to the customer's satisfaction, and responses were issued within our prescribed timeframe of 15 working days.

Compliments

We received 21 compliments regarding the service provided by our employees compared to 14 in 2005. This was an excellent outcome and highlights the outstanding level of service provided by our staff throughout the year. The reduction in the number of complaints, together with the increase in compliments received, was a pleasing result, especially considering the potentially adversarial nature of the greater part of our business which relates to claims management.

Corporate Governance

Corporate Governance is the system by which the Insurance Commission of Western Australia is directed and managed. It influences how the objectives of the Insurance Commission are set and achieved, how risk is monitored and assessed and how performance is optimised.

The Insurance Commission is committed to having good corporate governance practices as a framework to act with high standards of corporate behaviour and in the best interests of our stakeholders. We believe that this is essential to ensure the success of our organisation, particularly as we have multiple stakeholders. This section outlines the principal corporate governance practices followed during the year.

CONTENTS	Page
LEGISLATION AND LEGISLATIVE COMPLIANCE	
Enabling legislation	38
Legislation administered	38
Legislation impacting on the Insurance Commission's activities	38
Changes in written law	39
BOARD OF COMMISSIONERS STRUCTURE AND CORPORATE GOVERNANCE	
Board of Commissioners	39
Appointment of Commissioners	39
Changes to the Board	39
Board of Commissioners Profile	40
Board Committees	42
Board Performance Measurement	42
Commissioners' Attendance at Meetings 2006	42
Disclosure of interest	43
Board of Commissioners' remuneration	42
Codes of Conduct and Ethical Standards	43
Strategic Business and Budget Plan	43
Directions by the Minister	43
Executive Committee	43
Financial Administration	43
Independent Professional Advice	44
Internal Audit	44
Investments	44
Risk Management	44
Relationship with Government of Western Australia	44
Publications	45

LEGISLATION AND LEGISLATIVE COMPLIANCE

Enabling Legislation

The Insurance Commission was established as a statutory authority under section four of the *Insurance Commission of Western Australia Act 1986* on 5 August 1986 and operates in accordance with this Act and the *Insurance Commission of Western Australia Amendment Act 2002 (no. 34 of 2002)*.

Legislation Administered

The Insurance Commission administers the following Acts:

- *Insurance Commission of Western Australia Act 1986*
- *Insurance Commission of Western Australia Amendment Act 2002*
- *Motor Vehicle (Third Party Insurance) Act 1943*

The Insurance Commission administers certain sections only of the following Acts:

- *Workers' Compensation and Injury Management Act 1981 (Section 163 only – sole insurer against certain industrial diseases)*
- *Employers Indemnity Supplementation Fund Act 1980 (Claims management only)*
- *Mine Workers' Relief Act 1932 (Part II – vesting of assets and liabilities of the Mine Relief Workers' Board in SGIO)*
- *Police Assistance Compensation Act 1964 (Section 8 only – extension of General Liability cover)*
- *Waterfront Workers (Compensation for Asbestos Related Diseases) Act 1986 (Claims management only)*
- *Workers' Compensation and Injury Management (Acts of Terrorism) Act 2001 (Section 9 only – indemnity for liability attributable to terrorism).*

Legislation impacting on the Insurance Commission's activities

Written laws which impact on the Insurance Commission in the performance of its functions include:

- *Civil Liability Act 2002 (WA)*
- *Corruption and Crime Commission Act 2003*
- *Criminal Code Act 1913*
- *Electronic Transactions Act 2003*
- *Equal Opportunity Act 1984*
- *Evidence Act 1906*
- *Fatal Accidents Act 1959*
- *Fair Trading Act 1987*
- *Freedom of Information Act 1992*
- *Financial Administration and Audit Act 1985*
- *Limitation Act 2005*
- *Public Interest Disclosure Act 2003*
- *Public Sector Management Act 1994*
- *Road Traffic Act 1974*
- *State Records Act 2000*
- *Trade Practices Act 1974*

Changes in written law

During 2006, amendments to the *Motor Vehicle (Third Party Insurance) Act 1943* were enacted which:

- a) empowers the Minister responsible for the Insurance Commission to vary the Scales of Premiums for compulsory third party insurance on more than one occasion in any financial year, should it be deemed necessary;
- b) removes a means by which a workplace risk intended to be insured under a workers' compensation/employers' indemnity policy can be transferred to the compulsory Third Party Insurance Fund (TPIF);
- c) provides a cap on all economic loss for all motor vehicle personal injury claims, consistent with the outcome of the *Civil Liability Act 2002*.

These changes impact primarily upon the operations of the Motor Vehicle Personal Injury Division (MVPID), which is responsible for administering the Western Australian Compulsory Third Party (CTP) insurance scheme.

On 15 November 2005 the *Limitations Act 2005* replaced the *Limitations Act 1935*. The new Act principally amends the initial limitation period for the commencement of proceedings for personal injury to three years, from a previous limit of six years. It also grants a relevant Court the power to extend time for the commencement of proceedings, for three years from when the victim knew, or ought to have known, that the physical cause of his or her injury was attributable to the conduct of a person and the identity of that person. In the case of latent injury or disease, the Act now provides for the cause of action to accrue from when it first manifests itself in a not insignificant form. These provisions impact upon the Insurance Commission's Motor Vehicle Personal Injury Division and RiskCover Division in their management of personal injury common law claims.

BOARD OF COMMISSIONERS STRUCTURE AND CORPORATE GOVERNANCE

Board of Commissioners

The Board of Commissioners (the Board) is the governing body of the Insurance Commission. It has legislative authority to perform the functions and duties that the *Insurance Commission of Western Australia Act 1986* places on the Insurance Commission. The Board is responsible for:

- the overall corporate governance of the Insurance Commission;
- approving its goals, strategic directions and budgets; and
- ensuring that legal compliance; ethical behaviour and proper risk management processes are in place and operate effectively.

Comprehensive monthly reports are provided to the Board to enable it to monitor performance. The composition of the Board is diverse, with members having a variety of commercial backgrounds. There are six non-Executive Commissioners, including the Chairman and Deputy Chairman, and one Executive Commissioner being the Managing Director (Chief Executive Officer). Board meetings are generally held monthly.

Appointment of Commissioners

Commissioners are appointed by the Governor on the nomination of the Minister for Government Enterprises. Commissioners are appointed for terms up to three-years and are eligible for re-appointment. The Minister appoints a Chairperson and Deputy Chairperson from the six non-executive Commissioners.

Changes to the Board

There was no change to the composition of the Board during the year.

Board of Commissioners Profiles

As at 30 June 2006, the Board of Commissioners of the Insurance Commission comprised:

MICHAEL E WRIGHT FAICD Chairman

Mr Wright began his term as Chairman on 27 June 1994. He is a Barrister and Solicitor who has practised since 1964 and a former senior partner with law firm Mallesons Stephen Jaques. Mr Wright specialised in banking and finance and corporate commercial and resources law. Mr Wright was a past National President of the Australian Mining and Petroleum Law Association Limited and is also Past Deputy Chairman of Wesfi Limited Group and a past Director of Markalinga Investments Ltd.

Deputy Chairman, State Government Insurance Corporation
Director, CCK Financial Solutions Limited
Director, Wesbeam Holdings Limited Group

First appointed: 7 January 1993
Expiry of present term: 30 November 2007

PETER D EASTWOOD FCA, FAICD Deputy Chairman

Mr Eastwood is a Chartered Accountant who was in practice for more than 30 years and a partner of Grant Thornton from 1971 to 1997. His experience as a practising Chartered Accountant was principally as company auditor and his audit experience includes a wide range of industries, including mining, public company audits and assignments for the Office of the Auditor General. Mr Eastwood is the Chair of the Insurance Commission's Audit and Accounts Committee.

Director, State Government Insurance Corporation
Consultant, Grant Thornton Chartered Accountants
Director, Capricorn Mutual Limited
Director, Capricorn New Zealand Insurance Limited
Director, Unimutual Limited
Director Unimutual Insurance (NZ) Limited

First appointed: 24 May 1994
Expiry of present term: 30 September 2008

SHARON BROWN Commissioner

Ms Brown has more than 30 years experience in the Information Technology industry and is the Strategic Business Manager of Alphawest Services Pty Ltd. Ms Brown was 'Telstra Business Woman of the Year' for Western Australia in 1999 and was the first woman to be elected to the position of Branch Convenor at the Western Australian chapter of the Australian Information Industries Association for two consecutive years. Ms Brown sits on a number of Boards and Committees.

Director, State Government Insurance Corporation
Deputy Chair, ICT Industry Collaboration Centre
Councillor, Technology and Industry Advisory Council Western Australia
Councillor, Defence Reserves Support Council
Director, Federal Industry Research and Development Board

First appointed: 11 December 2001
Expiry of present term: 30 November 2007

ANNEMIE MCAULIFFE MLS, Dip Ed, CMC
Commissioner

Ms McAuliffe has a background in business management and strategic planning and currently undertakes some consulting work. Her previous positions have included Director of Gilbert McAuliffe & Associates P/L, management consultants, Director of the Western Australian (WA) Trade Office in Indonesia, Manager of the International Relations Branch for the WA Department of Trade and Commerce and Ministerial Representative for Industry and Technology with the WA London Office. Ms McAuliffe is the Chair of the Insurance Commission's Corporate Governance Committee.

Director, State Government Insurance Corporation
Board Member, WA Potato Marketing Corporation
Chair, WA Telecentres Advisory Council

First appointed: 1 January 2003
Expiry of present term: 31 December 2007

DOUG PASCOE AAI
Commissioner

Mr Pascoe worked in the insurance industry for more than 40 years and held General Manager positions at AGC (Insurances) Limited, AMP United Insurance Limited and MMI Insurance (now Allianz). He also held the position of General Manager Insurance with the Insurance Commission of Western Australia from 1996 to 2002. Mr Pascoe was the Governor of Rotary International District 9450 in Western Australia for 2003–2005.

Director, Rotary Australia World Community Service Limited
Director, Foodbank of Western Australia Incorporated

First appointed: 1 January 2003
Expiry of present term: 31 December 2006

JUDY MCGOWAN LLB
Commissioner

Ms McGowan has broad theoretical knowledge of Consumer, Trade Practices, Contract and Fair Trading laws from teaching at university level since 1976. She is a compliance and legal issues trainer to numerous government and private organisations and a Sexual Harassment Mediator for Curtin University. Since 1976 to the present time, Ms McGowan has lectured in Law at Curtin Business School, Curtin University. Her previous positions have included Director of Unicredit, Member of the Western Australian Dental Board, Director TAB, member of Aquinas College Board, Board member, Western Australian Gaming Commission.

Tribunal member, Small Claims Tribunal and the Building Disputes Tribunal

First appointed: 1 December 2005
Expiry of present term: 30 November 2007

VIC EVANS Dip Bus Mgt
Commissioner

Mr Evans is the Managing Director of the Insurance Commission of Western Australia and has held this position since 1993. He is responsible for the operations of the Insurance Commission and is the only executive member of the Board.

Chairman, State Government Insurance Corporation

First appointed: 22 June 1993
Expiry of present term: 21 June 2009

Commissioners' Attendance at Meetings 2005–2006

Number of Meetings Held:	Board Meetings	Audit and Accounts	Corporate Governance
	12	9	2
Number of meetings attended by:			
Michael E Wright	11	8	N/A
Peter D Eastwood	12	9	2
Sharon Brown	12	9	N/A
Annemie McAuliffe	11	8	2
Doug Pascoe	11	8	1
Judy McGowan	11	8	2
Vic Evans	7	5	N/A
Ken McAullay (A/Managing Director)	4	3	N/A

Board Committees

Committees of the Board that operated during the year were:

▪ Audit and Accounts

The Audit and Accounts Committee comprises all non-Executive Commissioners. The Audit and Accounts Committee is responsible for making recommendations to the Board, on the adequacy of internal and external audit arrangements, financial statements, financial administration policies and reporting procedures. This Committee regularly meets with the Internal Auditors and officers of the Office of the Auditor General.

▪ Corporate Governance

The Corporate Governance Committee is a sub-committee of the Board of Commissioners to assist the Board in discharging its corporate governance responsibilities. The Committee which comprises four non-Executive Commissioners met twice during the 2006 financial year.

Board Performance Measurement

Board members completed a Board Performance Measurement Questionnaire as part of its annual evaluation process.

Board of Commissioners' remuneration

Remuneration of the non-Executive Commissioners is determined by the Minister for Government Enterprises on recommendations received from the Public Sector Management Division of the Department of the Premier and Cabinet. Non-executive Commissioners do not receive retirement benefits except for 9% in superannuation.

The Salaries and Allowances Tribunal determines the remuneration for the Managing Director.

Codes of Conduct and Ethical Standards

The Board has approved a Code of Conduct for the Board which has its foundation in, and complements, the 'Western Australian Public Sector Code of Ethics' (www.wa.gov.au/opssc/). The standards in the Code apply to the behaviour of members of the Board and extend beyond the procedures prescribed in the Insurance Commission of Western Australia Act 1986. They require all Board members to act with honesty, fairness and integrity and to display the highest ethical standards at all times. The Code is reviewed regularly and amended to ensure it retains its importance and remains relevant.

Disclosure of Interest

Schedule 1, Section 5 of the *Insurance Commission of Western Australia Act 1986* requires Commissioners to disclose any direct and indirect pecuniary interests in a matter being considered, or about to be considered, by the Board. All disclosures are required to be recorded in the Board meeting minutes.

During 2006, there were no disclosures of pecuniary interest by Commissioners.

The Insurance Commission also has an established 'Conflict of Interest' policy for its employees for identifying, preventing, or resolving conflicts of interest. All employees have access to this Policy via the Insurance Commission's Intranet website. In accordance with the Policy, employees must declare any personal activities or involvements which may present a conflict of interest relating to their duties within the Insurance Commission.

Strategic Business and Budget Plan

Each year the Board participates with senior management and a cross-section of employees to determine the Insurance Commission's key objectives, strategies and initiatives for the forthcoming year. The outcome of this meeting is the production of a detailed Strategic Business Plan and Budget for consideration and approval by the Board. The Strategic Business Plan and Budget is then submitted to the Minister for approval in accordance with Section 42 of the *Financial Administration and Audit Act 1985*.

Directions by the Minister

Section 10 of the *Insurance Commission of Western Australia Act 1986* empowers the Minister responsible for the Insurance Commission to give directions in writing to the Insurance Commission with respect to its functions, powers and duties, either generally or with respect to a particular matter. The Insurance Commission is then required to give effect to those directions and to include the text of any direction received in its Annual Report.

No ministerial directives were received during 2006.

Executive Committee

The Executive Committee generally meets monthly and is comprised of the Managing Director, the two General Managers and the seven Divisional Managers. Details of the members of the Executive Committee can be found on pages 14 and 15 of this Annual Report.

Financial Administration

An Accounting Manual is maintained in accordance with Section 44 of the *Financial Administration and Audit Act 1985*. A Financial Delegations and Authorisations Manual, which records the Board's delegation of powers, obligations and duties, is also maintained.

Independent Professional Advice

The *Insurance Commission of Western Australia Act 1986* empowers the Insurance Commission to engage, under contract, professional and technical services to enable it to carry out its functions. Under these powers, any requests by the Board to seek independent professional advice would be a matter for them to consider at the time in light of the specific circumstances.

Internal Audit

The Insurance Commission's Internal Audit Service is undertaken by an external contractor. This provides the Board with an independent appraisal of the operation and effectiveness of systems and controls, and assists it in discharging its responsibilities under the *Financial Administration and Audit Act 1985* and relevant Treasurer's Instructions.

The audit assesses financial and administrative control systems and seeks to improve our management of, and accountability for, the use of resources. It also aims to address, at a strategic level, key risk areas and corporate governance issues. The results of all audits are reported to the Audit and Accounts Committee and include opinions regarding the adequacy of financial, operational, administrative and systems controls.

During 2006, the Audit and Accounts Committee considered 16 Internal Audit reports covering all areas of the Insurance Commission's operations.

Investments

The Board, in consultation with its independent asset consultants and input from the Investments Division, oversees the Insurance Commission's investment strategies. The Board decides on investment strategy, investment manager appointments and other key investment portfolio construction issues. These are subject to Prudential Guidelines for Investments (Guidelines) issued by the Treasurer of Western Australia. The Guidelines are regularly reviewed and updated and can be viewed on the Insurance Commission's website www.icwa.wa.gov.au.

The Board receives detailed monthly and quarterly reports and regular presentations on investment performance and results from the Investments Division and the 18 appointed external specialist investment managers. The Treasurer approves external investment manager appointments. A Master Custodian carries out the administration of externally managed funds. There are also three portfolios managed internally by the Insurance Commission involving the management of Cash, Direct Property, and Inflation Linked Bonds. The administration and management of property assets is performed by external property managers who are responsible for the day-to-day operations of the buildings owned by the Insurance Commission.

Risk Management

The Board has in place a number of arrangements to identify and manage risks, which include the following:

- An Executive Committee which, as part of its monthly meeting, considers the Insurance Commission's Risk Management issues as they arise. The Insurance Commission also has a Risk Management Consultant to assist in this process.
- A Risk Register is maintained and reviewed to identify, analyse, evaluate and formulate treatment plans for all risks.

Relationship with Government of Western Australia

The Insurance Commission is an Agent of the Crown in right of the State and has the status, immunities and privileges of the Crown, except as otherwise prescribed in the *Insurance Commission of Western Australia Act 1986*.

Publications

All Annual Reports and relevant publications are published on both the Insurance Commission's and RiskCover's websites – www.icwa.wa.gov.au and www.riskcover.wa.gov.au respectively. The following documents are prepared by the Insurance Commission and are available upon request:

- **Insurance Commission of Western Australia Annual Report**

This document contains details of the objectives, achievements and the financial results and status of the Insurance Commission of Western Australia at balance date. It is published on the Insurance Commission's website and hard copies are provided to the Minister for Government Enterprises and other relevant key stakeholders.

- **Insurance Commission of Western Australia Annual Report Executive Summary**

This document is an extract of the Insurance Commission's full Annual Report and contains key objectives, achievements and the financial results and position of the Insurance Commission of Western Australia at balance date. It is professionally designed and printed and mailed to Members of Parliament and the Insurance Commission's key stakeholders.

- **State Government Insurance Corporation Annual Report**

This document contains details of the operations and financial results of the State Government Insurance Corporation at balance date.

- **RiskCover Fund Report**

This document contains details of the objectives, achievements and financial results and position of the Managed Fund at balance date. The report is mailed to all State Government public authorities that are members of the Fund.

- **RiskCover Services and People**

This document contains information on the services that RiskCover offers to public authorities. It is available to any State Government public authority client that works directly with RiskCover and/or wishes to gain a better understanding of its operations and services.

- **GRM (Government Risk Management) magazine**

Each issue of GRM highlights risk management practices and concepts and addresses a variety of RiskCover Fund issues that apply to agencies. All Western Australia public authorities are encouraged to contribute articles of interest and identify new topics that they would like to see covered. GRM is published twice a year and mailed to all Western Australia public authorities who are members of the RiskCover Fund.

- **Customer Service Commitment**

The Insurance Commission has a 'Customer Service Commitment' brochure that lists our customer groups and the standard of service that we aim to deliver. It is mailed to all motor vehicle personal injury claimants and customers, together with the 'Motor Vehicle Third Party (Personal Injury) Insurance in Western Australia' brochure, when they request a Crash Report form and/or Notice of Intention to Claim form.

- **Motor Vehicle Third Party (Personal Injury) Insurance in Western Australia**

This brochure outlines the rights and responsibilities of both claimants and owners and drivers of Western Australian registered vehicles following involvement in motor vehicle crashes that result in personal injury. It is mailed to all motor vehicle personal injury claimants and customers, together with the 'Customer Service Commitment' brochure, with any Crash Report Forms and/or Notice of Intention to Claim Forms. It is also provided to medical service providers and legal firms to display in their premises.

- **Your Compulsory Third Party Insurance Explained**

This brochure explains what Western Australian Compulsory Third Party insurance is, in easy to understand language, including what cover is provided and what is not covered, and the warranties and conditions. It was inserted with all motor vehicle registration invoices that were mailed out from 1 January 2005 to March 2006, which totalled some 2.3 million brochures. Every vehicle licensing centre and agent was also sent 200 brochures each and additional brochures upon request.

- **Information Statement and Privacy Guidelines**

The Information Statement outlines the functions and structure of the Insurance Commission, the types of documents held, the availability of such documents to the public and the appropriate avenues for requesting access to such documents.

Privacy Guidelines outline how the Insurance Commission safeguards personal information about individuals who conduct business with the Insurance Commission.

- **Insurance Commission Internet Website**

This website contains information about a variety of topics relevant to the Insurance Commission's operations, functions, customers, publications and claims procedures. It can be accessed at www.icwa.wa.gov.au.

- **Intercom**

Intercom is the Insurance Commission's quarterly internal staff newsletter.

- **How to make a complaint**

This brochure provides information on the definition of a complaint and how to make a complaint to the Insurance Commission.

Compliance Reports

CONTENTS	Do we comply?	Page
INTRODUCTION		48
PEOPLE AND COMMUNITIES		
Cultural Diversity and Language Services Outcomes	✓	48
Disability Access and Inclusion Plan Outcomes	✓	49
Substantive Equality	✓	50
Youth Outcomes	✓	50
THE ECONOMY	✓	50
THE ENVIRONMENT	✓	51
Energy Smart Government Policy	exempt	51
Waste Paper Recycling	✓	51
THE REGIONS		
Regional Development Policy	✓	51
GOVERNANCE		
Advertising - Statement of Expenditure	✓	52
Compliance with Public Sector Standards and Public Sector Code of Ethics	✓	53
Corruption Prevention	✓	53
Equal Employment Opportunity and Diversity	✓	53
Evaluations	✓	54
Freedom of Information and Information Statement	✓	54
Public Interest Disclosures	✓	54
Record Keeping Plans	✓	54
Sustainability	✓	55

INTRODUCTION

The 2006 financial year is the third year for which Western Australian Public Authorities are expected to reflect their contribution to 'Better Planning: Better Services' (BPBS) in their annual report.

The Insurance Commission has adopted a new format for reporting, incorporating the headings of the five BPBS overarching areas and goals. Our obligatory reporting requirements, as required by the 'Western Australian Public Sector Annual Report Framework for the 2006 Reporting Year', are also presented under these same headings.

PEOPLE AND COMMUNITIES

Goal: To enhance the quality of life and well-being of all people throughout Western Australia

Insurance Commission contribution to 'People and Communities'

The Insurance Commission's core business – being the sole provider of Third Party (Motor Vehicle) Personal Injury Insurance in Western Australia, and manager of the self-insurance arrangements of the Western Australia public sector – is directly linked with this goal.

Our business helps to achieve the 'People and Communities' Strategic Outcome No. 11 – Contributing factors to social and economic disadvantage in our community addressed. The State's Third Party (Motor Vehicle) Personal Injury Insurance (CTP Insurance) helps to achieve this outcome in two distinct ways –

It contributes to addressing social and economic disadvantage that firstly drivers/owners of vehicles may face, and secondly injured third parties, would face, if the scheme did not exist.

1. Every owner of a motor vehicle licensed in Western Australia is a policy holder. An unlimited indemnity policy of insurance is combined with every motor vehicle licence. If an owner/driver of a WA registered vehicle is partly or fully responsible for causing personal or fatal injuries to another person, that owner/driver will not be held personally liable for the financial costs of any claims for personal injury or death made against him/her. The CTP policy protects that negligent owner/driver against the costs of any such claims (exceptions can occur including drivers without a licence or exceeding blood alcohol limits). This directly contributes to addressing social and economic disadvantage that the owner/driver may otherwise face.
2. Any third party injured or killed as a consequence of the negligent driving of a Western Australian registered motor vehicle is entitled to damages for personal injury under this system. Furthermore, the Third Party Insurance Fund undertakes the liabilities of a Nominal Defendant. Therefore, having a well-managed, affordable CTP Scheme in our State directly contributes to addressing social and economic disadvantage that the injured person, or in the event of a death, the dependents, may otherwise face if the scheme did not exist.
3. The Insurance Commission's RiskCover Division supports Western Australian Public Authorities in implementing their risk management. RiskCover is recognised by RiskCover Member Agencies as the best provider of risk management and self insurance services, and their risk management services, support and advice has directly minimised the cost of risk for the Government of Western Australia.

Additionally, the Insurance Commission provides funding support for road safety and medical research into the industrial disease mesothelioma. Refer to our 'Community Focus' section on page 34 for details.

Cultural Diversity and Language Services Outcomes

(Cabinet Decision on *"Language Services Policy of the Public Sector"*)

The Insurance Commission makes its information brochures available in languages other than English, Braille or recording if requested.

During the year, the Insurance Commission provided language interpreting services to several motor vehicle personal injury claimants to assist them in understanding and accessing our claims service.

Disability Access and Inclusion Plan Outcomes

(Disability Services Act 1993, S29)

In compliance with Section 29 of the *Disability Services Act 1993*, the Insurance Commission is required to report on current activities undertaken through our Disability Services Plan, which is available upon request from our offices, and present those activities as they relate to the following six desired outcomes:

1. People with disabilities have the same opportunities as other people to access the services of, and any events organised by, a public authority.

The Insurance Commission is committed to ensuring that people with disabilities, their families and carers are able to access our full range of services and facilities. The perceived barriers and proposed strategies and actions aimed at facilitating access are outlined in our Disability Services Plan, which is available from the Insurance Commission.

2. People with disabilities have the same opportunities as other people to access the buildings and other facilities of a public authority.

The Insurance Commission is located within The Forrest Centre, 221 St Georges Terrace, Perth, Western Australia. The Forrest Centre has been designed to ensure that people with disabilities have the same opportunities to access the building. This has been achieved through:

- A public car park within the Centre which has bays for disabled people.
- Lift and ramp access from the car park to the Forrest Centre. The lifts with handrails on both sides.
- Flat surfaces (i.e. no stairs or ramps) for public entry to the Forrest Centre from the street sidewalk and Forrest Centre ground level, together with wide automatic sliding doors at the two public entrances to the building.
- A toilet for people with disabilities on the ground floor and 27th floor.
- Clear signage in large format print of the organisations on each Floor and a Concierge Desk for customer service. In addition, the Insurance Commission's Reception Foyer on Level 13 has clear large signs to show that it is the premises of the Insurance Commission.
- A staff member at Reception during our opening hours who is available to open the door for anyone who may require assistance.

3. People with disabilities receive information from a public authority in a format that will enable them to access the information as readily as other people are able to access it.

- The AUSLAN (sign language) interpreting service, the ACE (Australian Communication Exchange) telephone interpreting service will be provided if requested.
- Information brochures are made available in large format, Braille or by recording if requested.
- Printed information, including forms and publications, is made clear and easy to understand through the use of plain English, short sentences, clear headings and no jargon. Our brochures are produced in a plain sans serif font.

4. People with disabilities receive the same level and quality of service from the staff of a public authority as other people receive from the staff of that public authority.

- The Insurance Commission has a Better Hearing stand-up counter card on our public counter. The front of the card states 'Hard of hearing? Please let our staff know if you have a hearing problem'. The back of the card contains information for staff about communicating with people with hearing impairments.

5. People with disabilities have the same opportunities as other people to make complaints to a public authority.

- The Insurance Commission has a Complaints System and Policy which complies with Australian Standards for dealing with complaints and can be accessed in a range of ways. People can lodge a complaint with the Insurance Commission via telephone, e-mail, letter, fax, in person or our website.
- Furthermore, people with disabilities can use an advocate. When a complaint is lodged, we request details of any special circumstances such as vision or hearing impaired.

6. People with disabilities have the same opportunities as other people to participate in any public consultation by a public authority.

- The Insurance Commission did not undertake any public consultation during the year. It is committed to ensuring that people with disabilities have the same opportunities as other people to participate in any public consultation that may be undertaken in the future.

Substantive Equality

(Premier's Circular 2005/07: Implementation of the Policy Framework for Substantive Equality)

All departments represented on the Strategic Management Council are required to report on their commitment to implement the Policy Framework for Substantive Equality. The Insurance Commission is not represented on the Strategic Management Council, and therefore is not required to report on its commitment to implement the Policy Framework for Substantive Equality. We are, however, committed to substantive equality and reports on initiatives achieved in this area are contained within the 'Our People' (pages 27 - 29) and 'Community Focus' (page 34) sections of this Annual Report.

Youth Outcomes

(Cabinet Decision on "*Action: A State Government Plan for Young People 2002–2003*")

The Insurance Commission is committed to having a workforce that reflects the profile of the community including the employment and development of young West Australians. During the year:

- three youth trainees and one Human Resources Graduate were appointed;
- our percentage of youth employment increased from 8.8% to 9.6% which exceeds the public sector objective of 6.5%;
- three employees under 25 were undertaking tertiary studies with course fees, and books funded by the Insurance Commission; and
- all employees under 25 were provided with the opportunity to undertake a one-day defensive driver training program in recognition of their high risk profile and our commitment to safety in the workplace and at home.

THE ECONOMY

Goal: To develop a strong economy that delivers more jobs, more opportunities and greater wealth to Western Australians by creating the conditions required for investment and growth

Obligatory reporting in relation to this goal is provided in our Financial Statements and Key Performance Indicators sections of this Annual Report. Other relevant information is provided in the Highlights and Report on Operations (specifically Motor Vehicle Personal Injury Division, RiskCover, and Investments) sections of the report.

The Insurance Commission contributes directly to a strong economy through the provision of the following:

- Western Australia's CTP scheme, administered by the Insurance Commission, has had the lowest premiums for a family motor vehicle in Australia for the past nine years. The premium for a private motor vehicle was the cheapest in Australia by 21% during 2005–2006.
- CTP insurance premiums for Western Australian motorists will be reduced by 10% for the majority of vehicle classes in the 2006–2007 financial year, with the majority of Western Australian motorists paying \$25 less than they did in 2005–2006. It means that the State's CTP insurance premiums will remain the most affordable of all States and Territories at \$205.25 (excl. Stamp Duty and GST).
- The Insurance Commission contributes to the economy through payments to service providers, including doctors, physiotherapists, chiropractors, and other medical service providers for treatments relating to personal injury claimants.
- The Insurance Commission applies the 'Buy Local' policy. This has resulted in Western Australian companies being awarded large building and other contracts for The Shops at Ellenbrook.
- The Insurance Commission's RiskCover Division supports Western Australian Public Authorities in implementing their risk management. RiskCover is recognised by RiskCover Member Agencies as the best provider of risk management and self insurance services, and their risk management services, support and advice has directly minimised the cost of risk for the Government of Western Australia.

THE ENVIRONMENT

Goal: *To ensure that Western Australia has an environment in which resources are managed, developed and used sustainably, biological diversity is preserved and habitats protected*

Energy Smart Government Policy

As a Government Enterprise agency, the Insurance Commission is exempt from being required to report on the performance of its energy saving initiatives against the Energy Smart Government Policy. We do, however, have an ongoing commitment to energy saving initiatives and have implemented several practices and policies to help achieve them.

Waste Paper Recycling

(Cabinet Minute 2.7 of October 1991 on Government Waste Paper Recycling Proposal to Improve Recovery Rates)

The Insurance Commission maintained its commitment to waste paper recycling by continuing to separate recyclable material from general waste.

THE REGIONS

Goal: *To ensure that regional Western Australia is strong and vibrant.*

Regional Development Policy

The Insurance Commission is not one of the responsible public authorities in relation to the State Government's Regional Development Policy and therefore does not have specific responsibilities in relation to the outcome priorities.

The Insurance Commission's business operations and road safety partnerships do, however, contribute directly to achieving the Policy Outcome Priorities for the following Policy outcomes:

Outcome 3: Effective Government Service Delivery to the Regions

- Outcome 3 has an Outcome Priority of 'Equitable access to services regardless of socio-cultural status'. The benefits of the Western Australian CTP scheme can be accessed by owners and drivers, and claimants, regardless of socio-cultural status. The benefits of RiskCover's self-insurance and risk-management services are also available to, and can be accessed by, public

authorities and their employees State-wide, including those in the regions, regardless of socio-cultural status.

Outcome 8: Fair pricing for Regional Residents and Businesses

- Outcome 8 has the Outcome Priorities 'Fair pricing structures for goods and services in regional Western Australia' and 'Greater percentage of government purchases made through local regional businesses'. The Insurance Commission utilises the services of local regional businesses, in particular medical service providers, and its payments to medical service providers are based on the Australian Medical Association rates, therefore equal pricing is provided for services throughout the State.
- To achieve equal access to services (regardless of socio-cultural status), the Insurance Commission utilises service providers, including private sector health and medical service providers, throughout the State to treat personal injury claimants (whether they be Motor Vehicle Personal Injury claimants or RiskCover claimants). The use of services, and payment to service providers in the regions, also contributes to several other Regional Development Policy Outcomes and Outcome Priorities.

Outcome 11: Safe Regional Communities

- Outcome 11 – Safe Regional Communities has an Outcome Priority which is 'Substantial reduction in regional road fatalities'. The strategy listed to achieve this is "Regional communities, local governments and the State Government continue to work in partnership to ensure safer road user behaviour". Refer to our 'Community Focus' section within our Report on Operations which summarises our road safety partnerships and initiatives, all of which are available in the regions and help to achieve this Outcome Priority.

GOVERNANCE

Goal: To govern for all Western Australians in an open, effective and efficient manner that also ensures a sustainable future.

Advertising - Statement of Expenditure

(*Electoral Act 1907, S175ZE*)

In compliance with Section 175ZE of the *Electoral Act 1907*, we are required to report on expenditure incurred during the financial year in relation to advertising agencies, market research organisations, polling organisations, direct mail organisations, and media advertising organisations. The report is outlined in the table below:

Class of Expenditure	Organisation	Amount (\$)	Purpose
Advertising agencies	–	0	
Market research organisations	Data Analysis Australia	16,595	2006 RiskCover Survey of Workers' Compensation claimants
	Data Analysis Australia	17,283	2005 RiskCover Customer Satisfaction Survey
	Data Analysis Australia	7,650	2005 RiskCover Customer Satisfaction Questionnaire
	Data Analysis Australia	14,508	2005 RiskCover Survey of Claimants
	Data Analysis Australia	3,581	2005 RiskCover Motor Vehicle claimants questionnaire
Polling organisations	–		
Direct mail organisations	Hermes Precisa Pty Ltd	2,328	Mailing of GRM magazine
	Zipform Pty Ltd	15,382	Insertion of 'Your Compulsory Third Party Insurance explained' brochure into motor vehicle registration invoices
Media advertising organisations	Marketforce Productions	18,008	Employment and tender advertisements
Total (GST Inclusive)		95,335	

Compliance with Public Sector Standards and Ethical Codes

(Public Sector Management Act 1994, S31 (1))

Compliance with Human Resource Management Standards

The Insurance Commission of Western Australia has complied with the Public Sector Standards in Human Resource Management.

Summary of Breach Claims

Number lodged:	1 (subsequently withdrawn)
Breaches found:	0
Multiple breaches:	0
Breaches under review:	0
Material breaches:	0
Non-material breaches:	0

The Insurance Commission's Internal Audit program again included an independent assessment against the Standards. One employee made an application to the Western Australian Industrial Relations Commission (Public Service Arbitrator) concerning a disciplinary matter. This case remains unresolved.

Investigations

No investigations were undertaken during the year by the Office of the Public Sector Standards Commissioner in accordance with Section 24 of the *Public Sector Management Act 1994*.

Compliance with Codes of Ethics and Codes of Conduct (Ethical Codes)

The Insurance Commission has a Code of Conduct for its employees which incorporates the foundations of the Western Australian Public Sector Code of Ethics. The standards in the Code apply to the behaviour of employees and provide guidance for employees to act honestly, fairly, with integrity and display the highest ethical standards at all times.

The Insurance Commission has put in place policies, guidelines and procedures, and conducted appropriate internal assessments, all of which are designed to ensure compliance with the Ethical Codes.

No internal grievances were lodged relating to non-compliance with the ethical codes.

Compliance Audits

No compliance audits were undertaken during the year by the Office of the Public Sector Standards Commissioner.

Corruption Prevention

(Premier's Circular 2005/02: Corruption Prevention)

The Insurance Commission followed its Corporate Fraud and Corruption Control Plan. Embedded within the Plan is a 'Fraud and Corruption Control Policy' to help prevent and address corruption and misconduct. The Plan and Policy is published on the Insurance Commission's Intranet website so that it can be accessed by all employees and the Board of Commissioners. In addition, corruption and risk management are addressed as specific areas in the Insurance Commission's annual strategic planning and budgeting process.

Following on from corruption prevention training delivered during 2005 in partnership with the Corruption, Prevention, Education and Research Directorate of the Corruption and Crime Commission, Internal Audit has focussed on identifying potential areas of risk with a view to developing treatment plans to minimise exposure.

Equal Employment Opportunity and Diversity

(Equal Opportunity Act 1984, S146)

The obligatory report in relation to Equal Employment Opportunity and Diversity is contained on page 28 in the Our People section of this Annual Report.

Evaluations

The obligatory report in relation to Evaluation is contained in Report on Operations (specifically Motor Vehicle Personal Injury Division, Community Focus) and The Road Ahead sections of this Annual Report.

Freedom of Information and Information Statement

(Freedom of Information Act 1992, S96-97)

The Insurance Commission has met its obligations under the *Freedom of Information Act 1992*. The Freedom of Information Coordinator is responsible for processing applications received under the *Freedom of Information Act 1992*. During 2006:

- 64 new applications were received;
- two (2) applications for internal review were received; and
- one (1) application for external review was lodged with the Office of the Information Commissioner.

The Insurance Commission's Information Statement can be downloaded from our website www.icwa.wa.gov.au or by contacting:

Freedom of Information Coordinator
Insurance Commission of Western Australia
Level 13, The Forrest Centre
221 St George's Terrace
Perth WA 6000

Telephone: (08) 9264 3490
Facsimile: (08) 9321 1246
E-mail: foi@icwa.wa.gov.au

Public Interest Disclosures

(*Public Interest Disclosure Act 2003*, S23 (1) (f))

The Insurance Commission has complied with its obligations under the *Public Interest Disclosure Act 2003* and has a 'Policy and Guidelines on internal procedures' which were followed during the year. The Policy and Guidelines are published on our Intranet website for employees and clearly define how we should meet our obligation to provide protection for people who make a Public Interest Disclosure (PID) and the outcome of the PID.

Our Manager Special Investigations is the Insurance Commission's PID Officer and our General Manager Corporate Services is the Deputy PID Officer. The Insurance Commission's PID Officer is responsible for receiving disclosures of public interest information relating to matters falling within the Insurance Commission's sphere of responsibility.

Record Keeping Plans

(*State Records Act 2000*, S61 and State Record Commission Standards, Standard 2, Principle 6)

Recordkeeping Systems Review

A review of the Insurance Commission's recordkeeping systems was completed in September 2002. Our Recordkeeping Plan was approved by State Records Commission in October 2004.

Recordkeeping Training Program

Recordkeeping Awareness Training: In 2006, 315 or 89% of staff, contractors and Board members participated in a variety of training. Additionally, 14 new staff participated in 23 claims management training sessions within which recordkeeping training is embedded. (Note: the low number of staff undertaking Claims management training is an indicator to the low turnover of staff at the Insurance Commission.)

Over the next twelve months, additional training will be rolled out to all Divisions around corporate (i.e. non-claims) recordkeeping.

Effectiveness of Recordkeeping Training (Corporate Record Keeping training)

The effectiveness of the training is high with 92% of participant evaluations indicating that the training 'would contribute greatly to their work or ... has possibilities'.

Recordkeeping within Claims Management

A total of 93% of the new staff trained achieved the predetermined level of competency upon completion of training. There have been no adverse findings reported with regard to recordkeeping related matters arising from the Case or File Reviews undertaken by either RiskCover or MVPI Divisions throughout the year.

Induction Program

The Insurance Commission's Induction Program addresses employee and contractor roles and responsibilities in regard to their compliance to the Insurance Commission's Recordkeeping Plan. This program includes Recordkeeping Awareness and Recordkeeping Training specifically tailored to the role of the new staff member within the Insurance Commission, whether engaged in largely corporate activities or claims management activities.

Sustainability

(Premier's Circular 2005/14: Sustainability Code of Practice for Government Agencies)

The Insurance Commission has an ongoing commitment to sustainability and have had a number of sustainability activities in place for several years. In the spirit of continuous improvement, we will continue these activities and seek methods of enhancement. The benefits of proactive sustainability programs are clear to us and our focus will be maintained.

During 2006, the Insurance Commission followed its 'Sustainability Statement and Action Plan' in accordance with the Premier's Circular 2005/14 *Sustainability Code of Practice for Government Agencies*. The Insurance Commission's 'Sustainability Statement and Action Plan' provides a statement of current aims, actions and plans in relation to specific activities relating to sustainability in the following areas:

- Energy Use – Electricity; Water
- Vehicle Fuel
- Recycling
- Imaging
- Purchasing (goods)

Strategic Business Planning for 2007

The Insurance Commission's 2007 Strategic Business Plan and Budgets were based upon the outcomes of a series of Strategic Business Planning sessions and workshops held between December 2005 and March 2006 involving Board members, the Executive and senior staff.

Initially, a full day external workshop was held on 8 December 2005, facilitated by an independent external consultant, to introduce the Australian Business Excellence Framework (ABEF) and to consider the Insurance Commission's Strategic Development Plan, a five-year forecast viewpoint. This workshop was attended by the Executive team, a small number of key managers and representatives from the Board of Commissioners. A list of key issues and considerations was developed for input into the upcoming planning cycle. Utilising the ABEF methodology, the Insurance Commission decided upon the following key priorities for 2007:

Continue to:

- Provide affordable motor vehicle third party personal injury insurance premiums to owners of Western Australian registered motor vehicles.
- Provide a motor vehicle third party personal injury claims system that treats claimants fairly and delivers equitable compensation.
- Ensure that the Third Party Insurance Fund remains fully funded after applying a commercially prudent 75% level of confidence to the outstanding claims (known as a prudential margin) in line with Australian Prudential Regulation Authority solvency guidelines.
- Be recognised by RiskCover Member Agencies as the best provider of risk management and self insurance services.
- Build on RiskCover's role in the minimisation of the cost of risk for the Government of Western Australia.
- Enhance investment returns without incurring additional risk through diversification of investment assets and Managers.
- Achieve a rate of return for each asset class that exceeds the relevant asset class performance benchmark.
- Provide financial support to Road Safety programs (with a focus on educating children and young adults) aimed at promoting safe driving practices and reducing death and injury.
- Build upon our positive working environment which reflects our values and challenges people to achieve their best.
- Review and implement business processes to better meet customer needs and to increase productivity.

A second workshop held on 11 January 2006, was attended by a select planning group comprising executive and other managers and staff. This workshop focused on the Environment Scan, SWOT, Risk Review and identification of Stakeholder Expectations.

The next full day workshop held on 18 January 2006, was attended by the planning group who reviewed all the work to date and then formulated the draft Insurance Commission Balanced Plan for 2007. Teams were formed to finalise work on this plan for presentation along with draft Divisional plans at the planning conference held February 13-14th 2006. At this planning conference the plans for the Insurance Commission and the Divisions were checked for alignment and finalised.

Statement of Corporate Intent

The Statement of Corporate Intent (SCI) has a one-year timeframe and describes how the Insurance Commission of Western Australia intends to achieve its objectives and priorities in the 2007 financial year.

It meets the requirements of the *Insurance Commission of Western Australia Act 1986* and represents the agreement between the Minister for Government Enterprises (as the Shareholder) and the Board of Commissioners of the Insurance Commission of Western Australia regarding the expected level of performance by the Insurance Commission during 2006-2007.

The Insurance Commission's SCI for 2006–2007 was endorsed by the Minister for Government Enterprises in August 2006. It is a public document and is available on our public website – www.icwa.wa.gov.au

Strategic Development Plan

The Strategic Development Plan (SDP) describes how the Insurance Commission of Western Australia intends to manage its business and develop its services over the five year period to June 2011.

The Plan meets the requirements of the *Insurance Commission of Western Australia Act 1986* and represents the agreement between the Minister for Government Enterprises (as the Shareholder) and the Board of Commissioners of the Insurance Commission of Western Australia regarding the expected level of performance by the Insurance Commission during the 2006–2007 to 2010–2011 period.

The Insurance Commission's SDP for 2007–2011 was endorsed by the Minister for Government Enterprises in August 2006. It is not a public document.

Balanced Scorecard

The Insurance Commission uses the Balanced Scorecard as a device to record and communicate to the organisation what progress is being made against its original balanced Business Plan. It enables Management to monitor and adjust strategies where required to assist in the achievement of organisational and divisional goals.

The main objective of a balanced business plan is to set out the critical goals for the organisation and Divisions over the next financial year. It identifies the enabling strategies and initiatives across the four scorecard perspectives (Customers, People, Business Processes and Financial).

Measurement

Measures are a means by which progress is tracked against the balanced plan being assessed. They are assigned to the various goals and initiatives in the business plan. In addition each task/project is measured to record its activity over the period of the plan. These measures are tracked throughout the year and are reviewed and reported on either quarterly, six monthly or on an annual basis.

The development of suitable measures requires careful analysis of each goal within the balanced plan. It must truly reflect the success or failure of accomplishing a given goal. It most importantly must be clearly definable, collectable, have an owner and be able to be verified.

In order to clearly demonstrate just how successful the plan is running, each measure's progress is represented by using "Traffic Light" indicators. For each measure, target ranges must be set for each traffic light. The Commission uses four colours on the Balanced Scorecard to achieve this:

Green	Indicates a result which is within range of the intended target and does not require action.
Yellow	Indicates a result which is just beyond the range of the intended target to date and may indicate further action is required.
Red	Indicates a result which is behind the range of the intended target to date and action is required.
White	This measure is not being or is unable to be measured.

Key Business Objectives

The Insurance Commission's overall long-term key business objectives have remained relatively unchanged for some time. They are listed below.

Motor Vehicle Personal Injury

- To provide a claims system that treats claimants fairly and delivers equitable compensation.
- To provide affordable premiums to owners of Western Australian registered motor vehicles.

RiskCover

- To meet our customer risk management and self-insurance needs.
- To support the growth of client risk management skills.

Corporate

- To have a working environment that reflects our Core Values.
- To continually review and implement business processes to better meet customer needs and to increase productivity.
- Achieve all key financial targets.

We have planned a number of key projects and initiatives to help achieve these objectives.

Annual Estimates 2007

In accordance with Section 42 of the *Financial Administration and Audit Act 1985*, the following 2007 Annual Estimates for the Insurance Commission of Western Australia have been approved by the Minister.

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

INSURANCE COMMISSION OF WESTERN AUSTRALIA	\$'000
Premium Revenue	346,423
Outwards Reinsurance Expense	(5,000)
Outwards Reinsurance Commission	(500)
Net Premium Revenue	340,923
Claims Incurred	(401,902)
Reinsurance and Other Recoveries Revenue	(263)
Net Claims Incurred	(402,165)
Acquisition Costs	(8,800)
Underwriting and Administration Expenses	(52,549)
UNDERWRITING RESULT	(122,591)
Investment Income	247,906
Investment Expenses	(31,886)
Interest Paid	(43,078)
Other Income	21,645
Other Expenses	153
PROFIT BEFORE INCOME TAX EQUIVALENT EXPENSE	72,149

Annual Estimates 2007 (continued)

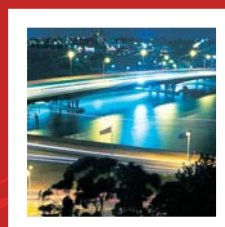
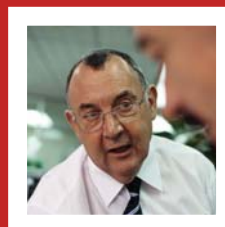
The 2007 Annual Estimates for the RiskCover Fund and Community Insurance Fund (both Managed Funds on behalf of the Department of Treasury and Finance) are detailed below:

RISKCOver FUND	\$'000
Premium Revenue	115,647
Premium Adjustment	22,760
Outwards Reinsurance Premium Expense	(12,300)
Outwards Reinsurance Commission Revenue	1,143
Net Premium Revenue	127,250
Claims Expense	(133,611)
Reinsurance and Other Recoveries Revenue	2,751
Net Claims Incurred	(130,860)
Underwriting and Administration Expenses	(20,631)
UNDERWRITING RESULT	(24,241)
Investment Income	43,013
PROFIT	18,772

COMMUNITY INSURANCE FUND	\$'000
Premium Revenue	500
Outwards Reinsurance Premium Expense	-
Outwards Reinsurance Commission Revenue	-
Net Premium Revenue	500
Claims Expense	(60)
Net Claims Incurred	(60)
Underwriting and Administration Expenses	(120)
UNDERWRITING RESULT	320
Other Income	65
PROFIT	385

The RiskCover Fund and Community Insurance Fund are not liable to pay income tax equivalents under current arrangements with the Department of Treasury and Finance.

Insurance Commission of Western Australia



Financial Statements



FINANCIAL STATEMENTS 2006 INDEX

	<u>Page</u>
Certification of Financial Statements by the Members of the Board and Chief Financial Officer	64
Opinion of the Auditor General	65
Income Statement for the year ended 30 June 2006	66
Balance Sheet at 30 June 2006	67
Statement of Changes in Equity for the year ended 30 June 2006	68
Cash Flow Statement for the year ended 30 June 2006	69
Note 1 Statement of Significant Accounting Policies	70
Note 2 Critical Accounting Judgements and Estimates	94
Note 3 Actuarial Assumptions and Methods	95
Note 4 Insurance Contracts – Risk Management Policies and Procedures	104
Note 5 Revenue and Income	109
Note 6 Expenses	110
Note 7 Net Claims Incurred	111
Note 8 Income Tax Equivalent	112
Note 9 Receivables	114
Note 10 Financial Assets at Fair Value through Profit or Loss	115
Note 11 Property, Plant and Equipment	116
Note 12 Investment Properties	118
Note 13 Intangible Assets	118
Note 14 Deferred Acquisition Costs	119
Note 15 Other Assets	119
Note 16 Payables	119
Note 17 Outstanding Claims Liability	120
Note 18 Unearned Premium Liability	134
Note 19 Unexpired Risk Liability	134
Note 20 Provisions	135
Note 21 Employee Benefit Liabilities	135
Note 22 Other Liabilities	138
Note 23 Property Lease Income	138
Note 24 Amounts Receivable and Payable Denominated in Foreign Currencies	138
Note 25 Notes to the Cash Flow Statement	139
Note 26 Financial Instruments	140
Note 27 Segment Reporting	145
Note 28 Funds' Income Statement	146
Note 29 Funds' Balance Sheet	148
Note 30 Funds' Retained Earnings	150
Note 31 Explanatory Statement – Insurance Commission	151
Note 32 Group Entities	153
Note 33 Economic Dependency	154
Note 34 Contingent Assets and Liabilities	154
Note 35 Expenditure Commitments	155
Note 36 Events Occurring after Balance Date	155
Note 37 Losses Through Theft, Default and Other Causes	156
Note 38 Remuneration of the Board of Commissioners and Senior Officers	157
Note 39 Remuneration of Auditor	157

	<u>Page</u>
Note 40 Reconciliation Explaining the Transition to Australian Equivalents to International Financial Reporting Standards (AIFRS)	158
Note 41 Related Party Disclosures	179
Note 42 RiskCover Fund Financial Statements	180
Note 43 Community Insurance Fund Financial Statements	185

**CERTIFICATION OF FINANCIAL STATEMENTS BY THE MEMBERS OF THE
BOARD AND CHIEF FINANCIAL OFFICER**


Insurance Commission of Western Australia

The accompanying financial statements of the Insurance Commission of Western Australia and the accompanying consolidated financial statements 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 2006 and the financial position as at 30 June 2006.

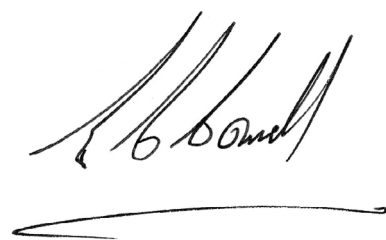
At the date of signing we are not aware of any circumstances, which would render the particulars included in the financial statements misleading or inaccurate.



MICHAEL E WRIGHT
CHAIRMAN
12 September 2006



VIC EVANS
MANAGING DIRECTOR
12 September 2006



ERNIE COWELL
ACTING CHIEF FINANCIAL OFFICER
12 September 2006

In accordance with a resolution of the Board of Commissioners of the Insurance Commission of Western Australia passed on 12 September 2006.



AUDITOR GENERAL

INDEPENDENT AUDIT OPINION

To the Parliament of Western Australia

INSURANCE COMMISSION OF WESTERN AUSTRALIA FINANCIAL STATEMENTS AND PERFORMANCE INDICATORS FOR THE YEAR ENDED 30 JUNE 2006

Audit Opinion

In my opinion,

- (i) the financial statements are based on proper accounts and present fairly the financial position of the Insurance Commission of Western Australia at 30 June 2006 and its financial performance and cash flows for the year ended on that date. They are in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the Treasurer's Instructions;
- (ii) the controls exercised by the Commission 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
- (iii) the key effectiveness and efficiency performance indicators of the Commission are relevant and appropriate to help users assess the Commission's performance and fairly represent the indicated performance for the year ended 30 June 2006.

Scope

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

The financial statements consist of the Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and the Notes to the Financial Statements.

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

Summary of my Role

As required by the Act, I have independently audited the accounts, financial statements and performance indicators to express an opinion on the financial statements, controls and performance indicators. This was done by testing selected samples of the evidence. Further information on my audit approach is provided in my audit practice statement. Refer "<http://www.audit.wa.gov.au/pubs/Audit-Practice-Statement.pdf>".

An audit does not guarantee that every amount and disclosure in the financial statements and performance indicators 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 and performance indicators.

JOHN DOYLE
ACTING AUDITOR GENERAL
12 September 2006

INCOME STATEMENT

for the year ended 30 June 2006

	Notes	CONSOLIDATED		INSURANCE COMMISSION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Premium Revenue	5	356,226	341,431	356,354	341,241
Outwards Reinsurance Premium Expense	6	(4,896)	(3,515)	(4,896)	(3,515)
Outwards Reinsurance Commission Revenue	5	426	343	426	343
Net Premium Revenue		351,756	338,259	351,884	338,069
Claims Expense	6	(328,686)	(303,891)	(329,119)	(304,201)
Reinsurance and Other Recoveries Revenue	5	2,570	23,550	2,576	23,563
Net Claims Incurred	7	(326,116)	(280,341)	(326,543)	(280,638)
Acquisition Costs	6	(8,176)	(7,812)	(8,186)	(7,799)
Underwriting and Administration Expenses	6	(59,065)	(58,818)	(59,047)	(58,817)
UNDERWRITING RESULT		(41,601)	(8,712)	(41,892)	(9,185)
Investment Income	5	347,277	239,140	347,277	239,140
Investment Expenses	6	(16,904)	(12,736)	(16,904)	(12,736)
Finance Costs	6	(62,401)	(43,733)	(62,401)	(43,733)
Other Income	5	23,927	40,253	24,076	40,430
Other Expenses	6	(9,461)	(8,439)	(9,388)	(8,109)
PROFIT BEFORE INCOME TAX EQUIVALENT EXPENSE		240,837	205,773	240,768	205,807
Income Tax Equivalent Expense	8	(70,213)	(50,643)	(70,144)	(50,677)
PROFIT AFTER INCOME TAX EQUIVALENT EXPENSE ATTRIBUTABLE TO THE STATE GOVERNMENT OF WESTERN AUSTRALIA		170,624	155,130	170,624	155,130

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

The Income Statement for the Insurance Commission represents an aggregation of the Insurance Commission's Funds, taking into account inter-fund eliminations. Refer Note 28.

The RiskCover Fund and Community Insurance Fund are managed by the Insurance Commission on behalf of the State Government of Western Australia. Refer Notes 42 and 43 respectively. These funds are excluded from this Income Statement.

BALANCE SHEET

at 30 June 2006

		CONSOLIDATED		INSURANCE COMMISSION	
		2006	2005	2006	2005
	Notes	\$'000	\$'000	\$'000	\$'000
ASSETS					
Current Assets					
Cash and Cash Equivalents	25	1,528	1,533	-	-
Receivables	9	44,554	45,900	44,354	45,710
Financial Assets at Fair Value Through Profit or Loss	10	1,409,129	1,198,367	1,409,129	1,198,367
Deferred Acquisition Costs	14	3,279	3,064	3,279	3,064
Other Assets	15	694	1,265	694	1,265
Total Current Assets		1,459,184	1,250,129	1,457,456	1,248,406
Non-Current Assets					
Receivables	9	270,175	272,971	270,099	272,890
Financial Assets at Fair Value Through Profit or Loss	10	124,799	103,059	140,472	118,571
Property, Plant and Equipment	11	169,938	141,682	169,938	141,682
Investment Properties	12	258,426	219,400	258,426	219,400
Intangible Assets	13	2,316	573	2,316	573
Other Assets	15	428	1,465	428	1,465
Total Non-Current Assets		826,082	739,150	841,679	754,581
TOTAL ASSETS		2,285,266	1,989,279	2,299,135	2,002,987
LIABILITIES					
Current Liabilities					
Bank Overdraft	25	2,910	680	2,910	680
Payables	16	17,160	17,101	16,713	17,008
Current Tax Payable		2,033	-	2,033	-
Outstanding Claims Liability	17	327,914	325,795	327,233	325,048
Unearned Premium Liability	18	145,252	135,805	145,252	135,805
Provisions	20	3,554	3,538	3,554	3,538
Other Liabilities	22	152	99	152	99
Total Current Liabilities		498,975	483,018	497,847	482,178
Non-Current Liabilities					
Payables	16	4,016	4,017	22,467	22,562
Outstanding Claims Liability	17	1,077,926	1,064,626	1,073,958	1,060,140
Provisions	20	11,088	11,878	11,088	11,878
Deferred Tax Liabilities		116,039	41,544	116,553	42,033
Total Non-Current Liabilities		1,209,069	1,122,065	1,224,066	1,136,613
TOTAL LIABILITIES		1,708,044	1,605,083	1,721,913	1,618,791
NET ASSETS		577,222	384,196	577,222	384,196
EQUITY					
Asset Revaluation Reserve		25,368	2,966	25,368	2,966
Compensation (Industrial Diseases) Fund Reserve		13,957	12,569	13,957	12,569
Retained Earnings		537,897	368,661	537,897	368,661
TOTAL EQUITY		577,222	384,196	577,222	384,196

The Balance Sheet should be read in conjunction with the Notes to and forming part of the financial statements.

The Balance Sheet for the Insurance Commission represents an aggregation of the Insurance Commission's Funds, taking into account inter-fund eliminations. Refer Note 29.

The RiskCover Fund and Community Insurance Fund are managed by the Insurance Commission on behalf of the State Government of Western Australia. Refer Notes 42 and 43 respectively. These funds are excluded from this Balance Sheet.

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2006

		CONSOLIDATED		INSURANCE COMMISSION	
	Notes	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
RESERVES					
Asset Revaluation Reserve					
Balance at Start of the Year		2,966	-	2,966	-
Gains from Asset Revaluation, Net of Tax Effect		22,402	2,966	22,402	2,966
Balance at End of the Year		25,368	2,966	25,368	2,966
Compensation (Industrial Diseases) Fund Reserve					
Balance at Start of the Year		12,569	11,869	12,569	11,869
Transfer from Retained Earnings		1,388	700	1,388	700
Balance at End of the Year		13,957	12,569	13,957	12,569
RETAINED EARNINGS					
Balance at Start of the Year		368,661	214,231	368,661	214,231
Profit after Income Tax Equivalent Expense for the Year		170,624	155,130	170,624	155,130
Transfer to Compensation (Industrial Diseases) Fund Reserve		(1,388)	(700)	(1,388)	(700)
Balance at End of the Year		537,897	368,661	537,897	368,661
30					
SUMMARY OF CHANGES IN EQUITY					
BALANCE OF EQUITY AT START OF THE YEAR					
		384,196	226,100	384,196	226,100
Fair Value Revaluation of Land and Buildings		32,002	4,237	32,002	4,237
Income Tax on Items Taken Directly to Equity		(9,600)	(1,271)	(9,600)	(1,271)
Net Income Recognised Directly in Equity		22,402	2,966	22,402	2,966
Profit after Income Tax Equivalent Expense for the Year		170,624	155,130	170,624	155,130
Total Recognised Income and Expense for the Year		193,026	158,096	193,026	158,096
BALANCE OF EQUITY AT END OF THE YEAR		577,222	384,196	577,222	384,196
11					

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

The Statement of Changes in Equity for the Insurance Commission in relation to Retained Earnings, represents an aggregation of the Insurance Commission's Funds, taking into account inter-fund eliminations. Refer Note 30.

The Asset Revaluation Reserve is held within the Insurance Commission General Fund.

The RiskCover Fund and Community Insurance Fund are managed by the Insurance Commission on behalf of the State Government of Western Australia. Refer Notes 42 and 43 respectively. These funds are excluded from this Statement of Changes in Equity.

- (i) The Compensation (Industrial Diseases) Fund Reserve results from funds surplus to the actuarial estimate for its outstanding claims liabilities. In accordance with the *Insurance Commission of Western Australia Act 1986*, the Insurance Commission may only transfer the monies in this Reserve to meet, or assist in meeting, any amounts required to be expended by the Insurance Commission pursuant to the *Mine Workers' Relief Fund Act 1932* (Refer Note 16) and research into the prevention and treatment of industrial diseases. Part of the reserve has been and will in the future be expended on medical research to find a cure for mesothelioma.

CASH FLOW STATEMENT

for the year ended 30 June 2006

		CONSOLIDATED		INSURANCE COMMISSION	
		2006	2005	2006	2005
	Notes	\$'000	\$'000	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Premium Received		402,206	373,562	402,046	373,478
Right of Indemnity Receipts - Government Insurance Fund		6,078	5,334	6,078	5,334
Right of Indemnity Receipts - WorkCover WA		6,664	8,182	6,664	8,182
Interest Received		28,429	31,842	28,429	31,842
Property Income Received		38,600	40,395	38,600	40,395
Dividends Received		54,050	31,733	54,050	31,733
Reinsurance and Other Recoveries Received		2,308	4,490	2,309	4,490
Management Fees Received		15,017	14,754	15,017	14,754
Recovery of Investments Previously Written Off	10	-	22	-	22
Other Receipts		675	614	675	601
Interest Paid to Corporation		-	-	(88)	(101)
Claims Paid		(335,652)	(305,902)	(335,550)	(304,734)
Interest Paid - RiskCover	42	(62,324)	(43,683)	(62,324)	(43,683)
Interest Paid - Community Insurance Fund	43	(77)	(50)	(77)	(50)
Outwards Reinsurance Paid		(4,753)	(3,821)	(4,753)	(3,821)
Acquisition Costs Paid		(9,220)	(8,733)	(9,220)	(8,733)
Underwriting and Administration Expenses Paid		(31,533)	(36,777)	(31,383)	(36,552)
Security of Costs Paid	9	(12,499)	-	(12,499)	-
Debt Recovery Costs		(25,963)	(23,651)	(25,963)	(23,651)
Property Expenses Paid		(13,477)	(11,185)	(13,477)	(11,185)
Income Tax Equivalent Paid		(3,286)	-	(3,286)	-
Goods and Services Tax Paid		(14,434)	(11,237)	(14,434)	(11,237)
Other Payments		(10,480)	(7,096)	(10,480)	(7,096)
Net Cash From Operating Activities	25	30,329	58,793	30,334	59,988
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment Funds Received from RiskCover		67,725	44,423	67,725	44,423
Payments for Purchase of Investments		(881,621)	(1,019,167)	(881,621)	(1,019,167)
Proceeds from Sale of Investments		781,090	931,680	781,090	931,680
Payments for Purchase of Property, Plant and Equipment		(4,247)	(2,192)	(4,247)	(2,192)
Proceeds from Sale of Property, Plant and Equipment		429	567	429	567
Net Cash Used In Investing Activities		(36,624)	(44,689)	(36,624)	(44,689)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(6,295)	14,104	(6,290)	15,299
CASH AND CASH EQUIVALENTS AT START OF THE YEAR					
		56,822	42,750	55,289	39,990
Effects of Exchange Rate Changes on the Balance of Cash Held in Foreign Currencies		-	(32)	-	-
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	25	50,527	56,822	48,999	55,289

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

The economic entity does not have any stand-by credit arrangements or loan facilities.

The RiskCover Fund and Community Insurance Fund are managed by the Insurance Commission on behalf of the State Government of Western Australia. Refer Notes 42 and 43 respectively. These funds are excluded from this Cash Flow Statement.

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 economic entity comprising the Insurance Commission of Western Australia (Insurance Commission) and its subsidiary, the State Government Insurance Corporation (Corporation), in preparing the financial statements.

(a) First Time Adoption of Australian Equivalents to International Financial Reporting Standards.

The Australian Accounting Standard Board (AASB) adopted the Standards of the International Accounting Standards Board for application to reporting periods beginning on or after 1 January 2005 by issuing Australian Equivalents to International Financial Reporting Standards (AIFRS) which comprise a Framework for the Preparation and Presentation of Financial Statements (Framework), Australian Accounting Standards and Urgent Issues Group (UIG) Interpretations.

These financial statements for the year ended 30 June 2006 are the first prepared under AIFRS.

Accounting Standard AASB 1, First-time adoption of Australian Accounting Equivalents to International Financial Reporting Standards, has been adopted in preparing these financial statements. Comparatives for the year ended 30 June 2005 have been restated for AIFRS except as detailed below.

In accordance with the option provided by AASB 1.36A and exercised by *Treasurer's Instruction (TI) 1101*, Application of Australian Accounting Standards and Other Pronouncements, financial instrument information prepared under AASB 132 and AASB 139 will apply from 1 July 2005 and consequently comparative information for financial statements is presented on the previous Australian Generally Accepted Accounting Practices (AGAAP) basis.

Similarly, in accordance with the option provided by AASB 1.36A, information prepared under AASB 1023, General Insurance Contracts, is applied from 1 July 2005. As a result, the comparatives for 30 June 2005 relating to this standard are presented under the previous AGAAP.

Additional AASB 1023 disclosure information brought about by the new standard has not always been possible for comparatives as outlined further below.

Under new requirements of AASB 1023 from 1 July 2005, Liability Adequacy Testing is required and consequently, where appropriate, Unexpired Risk Liability disclosures are required in the Income Statement and Balance Sheet.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

AASB 1023 requires the use of risk-free discount rates in the calculation of the present values of outstanding claim liabilities whereas AGAAP required the use of market-determined risk-adjusted rates. This however would have had no impact as of 1 July 2005 because the Insurance Commission has for a number of years adopted risk-free rates in determination of the present value of all outstanding claims

(b) Early Adoption of Standards

The Insurance Commission cannot early adopt an Australian Accounting Standard or UIG Interpretation unless specifically permitted by TI 1101, Application of Australian Accounting Standards and Other Pronouncements.

This TI requires the early adoption of revised AASB 119, Employee Benefits, as issued in December 2004, AASB 2004-3, Amendments to Australian Accounting Standards; AASB 2005-3, Amendments to Australian Accounting Standards AASB 119, AASB 2005-4, Amendments to Australian Accounting Standard, AASB 139, AASB 132, AASB 1, AASB 1023 & AASB 1038 and AASB 2005-6, Amendments to Australian Accounting Standards AASB 3, to the annual reporting period beginning 1 July 2005. AASB 2005-4 amends AASB 139, Financial Instruments: Recognition and Measurement, so that the ability to designate financial assets and financial liabilities at fair value is restricted. AASB 2005-6 excludes business combinations involving common control from the scope of AASB 3, Business Combinations.

Note 40, Reconciliations Explaining the Transition to Australian Equivalents to International Financial Reporting Standards (AIFRS) provides a detailed explanation of the impacts of the transition to AIFRS at 1 July 2004 and 30 June 2005.

(c) General Statement

These financial statements to 30 June 2006 constitute a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board as applied by the Treasurer's Instructions. Several of these are modified by the Treasurer's Instructions to vary application, disclosure, format and wording. Such modifications are intended to provide certainty and ensure consistency and appropriate reporting across the public sector. These modifications do not result in a departure from AIFRS.

Where modification is required and has a material or significant effect upon the reported results, details of that modification and the resulting financial effect are disclosed in individual notes to the accounts.

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, the Framework, Statements of Accounting

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concepts and other authoritative pronouncements of the Australian Accounting Standards Board.

(d) Basis of Preparation

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 detailed in the remainder of this accounting policies note, are measured at fair value.

The Financial Statements are presented in Australian dollars and in accordance with *Treasurer's Instruction 948*, all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

The judgments that have been made in the process of applying the Entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements are disclosed at Note 2, Critical Accounting Judgments and Estimates.

Key assumptions made concerning the future, and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed at Note 3, Actuarial Assumptions and Methods.

The financial statements have been prepared on the assumption that the consolidated economic entity 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 Insurance Commission and Corporation are Agents of the Crown in the right of the State under Section 4(a) of the *Insurance Commission of Western Australia Act 1986*. Letters have been received from the Premier confirming that the State Government fully supports the financial viability of both the Insurance Commission and Corporation and will continue to support them and their Boards.

(e) Change in Accounting Policy

As indicated above, the Insurance Commission has applied the exemptions in relation to restatement of comparisons for 30 June 2005 for AASB 1023, AASB 132 and AASB 139.

Refer Note 1(a) in relation to the adoption of the new AIFRS standards. Apart from these, there are no other changes in accounting policies which impact the consolidated financial statements of the economic entity.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(f) Basis of Consolidation**

The consolidated financial statements of the economic entity combine the financial statements of the Insurance Commission, being the parent entity and the Corporation, being a controlled entity in accordance with AASB 127, Consolidated and Separate Financial Statements.

The financial statements of the Corporation are prepared for the same reporting period as the parent entity.

Consistent accounting policies have been applied by each entity in the consolidated economic entity and unless otherwise stated are consistent with those adopted in the previous year.

In preparing the consolidated financial statements, all inter-entity balances, transactions and unrealised profits or losses arising within the consolidated entity are eliminated in full.

The financial statements of the RiskCover Fund and the Community Insurance Fund are not consolidated as their assets are controlled by the Government of Western Australia and not by the parent economic entity.

(g) Principles of General Insurance Business

An insurance contract is defined as a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

The General Insurance activities of the Insurance Commission consist of all transactions arising from writing General Insurance contracts.

(h) Income Tax Effect Accounting

The economic entity operates within the National Tax Equivalent Regime (NTER). All Funds of the economic entity are subject to the NTER, except for the Government Insurance Fund.

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

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As a consequence of participation in the NTER, the entity is required to comply with AASB 112, Income Taxes.

Current Tax

Current tax is calculated by reference to the amount of income tax payable or recoverable, to or from the Australian Taxation Office (ATO). The tax rates and tax laws used to compute the amount are those that are enacted at balance date.

Deferred Tax

Deferred tax is accounted for using a comprehensive balance sheet liability approach whereby account is taken of temporary differences between the carrying amounts in the balance sheet and their corresponding tax base.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

There were no such exceptions for the current or prior year.

Deferred income tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The carrying amounts of all deferred income tax assets are reviewed at balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at balance date and are recognised only to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at tax rates expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and laws enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not through profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax Consolidation

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

Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits arising from the Corporation are recognised by the Insurance Commission (as head entity of the tax-consolidated group).

Tax expense/benefits, deferred tax liabilities and deferred tax assets arising from temporary differences of the Corporation are recognised in the Corporation's Financial Statements.

There is a tax funding agreement in place between the Insurance Commission and the Corporation whereby amounts paid or payable between them are recognised in relation to their respective tax contributions.

The tax equivalent sum, payable to the State Department of Treasury and Finance in respect of each financial year, is equal to the amount of any income tax for which the tax consolidation parent entity would have been liable in respect of the financial year if it were not exempt from that tax under the relevant Commonwealth Act.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(i) 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 Balance Sheet.

Cash flows are included in the Cash Flow Statement 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.

(j) Revenue Recognition

Revenue is recognised to the extent that it is probable that 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 premiums from direct business and from reinsurance business.

Premium revenue includes amounts charged to policyholders or other insurers, including workers' compensation insurance levies but excluding stamp duty, GST and other amounts collected on behalf of third parties

Premium revenue, including unclosed business, is recognised in the Income Statement when it has been earned. Premium revenue is recognised in the Income Statement from the attachment date over the period of the contract for direct business and over the period of indemnity for reinsurance business, based on time, which closely approximates the pattern of risks underwritten.

Premiums for unclosed business are recorded as revenue on the basis of premiums received subsequent to balance date in accordance with AASB 1023, General Insurance Contracts. Unclosed business is recorded only for those classes of insurance where it can be reliably measured.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Premium revenue relating to Inwards Reinsurance relates to adjustment premiums affected by the final cost of certain long tail claims for losses occurring prior to 1992 when the Corporation ceased writing Inwards Reinsurance business.

This policy is consistent with the policy which applied at 30 June 2005 under AGAAP.

- **Unearned Premium**

The proportion of premium received or receivable which relates to risks for periods of insurance subsequent to balance date and hence not earned in the Income Statement at balance date is recognised in the Balance Sheet as the Unearned Premium Liability. This liability is determined by apportioning the premium written in the year on a pro-rata basis.

- **Reinsurance and Other Recoveries Revenue**

Reinsurance and other recoveries revenue 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 inflation and discount rates used are set out in Note 3.

- **Interest Revenue**

Interest revenue is recognised as the interest accrues, based on the effective interest method.

- **Property Rental Income**

Income from property rentals is recognised on a receivables basis. Rental income includes a proportional amount arising out of the value of rent free periods and other agreed lease incentive expenses met by the Insurance Commission, apportioned over the term of the relevant leases.

Income in respect of Investment Properties is reported as Investment Income.

Income in respect of Owner Occupied Properties is reported as Other Income.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **Dividend Income**

Dividend income is recognised when the underlying shares become ex-dividend. Distributions from investment trusts are recognised as income on the date they are declared and payable.

- **Investment Revenue – Changes in Fair Values**

Gains and losses relating to assets categorised in the Balance Sheet as Financial Assets at Fair Value through Profit or Loss, and gains and losses resulting from revaluation of assets categorised as Investment Properties may be realised or unrealised. Realised gains and losses arise from the sale of investment assets including investment property where applicable) and unrealised gains arise from changes in the fair value of investments and Investment Properties held at balance date. These gains and losses are recognised in the Income Statement.

- **Foreign Exchange Revenue**

Refer Note 1 (m) 'Foreign Currencies'.

- **Proceeds from Sale of Property, Plant and Equipment**

Revenue from the sale of property, plant and equipment is recognised when the significant risks and rewards of ownership control transfer to the purchaser.

(k) Third Party Insurance Fund – Premium Setting

In compliance with Section 3T of the *Motor Vehicle (Third Party Insurance) Act 1943*, the Insurance Commission makes an assessment of the premium income which will be necessary to meet claims and administration costs arising in the following financial year. This assessment takes into account an independent actuarial report and the retained earnings expected to exist in the Fund at the commencement of the next financial year.

The *Motor Vehicle (Third Party Insurance) Act 1943* requires that the Insurance Commission's premium recommendations are considered by the responsible Minister who may approve, refuse or invite the Insurance Commission to review any or all of its recommendations.

(l) Outwards Reinsurance

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(m) Foreign Currencies**

- The functional and presentation currency of the economic entity and its subsidiary is Australian dollars (A\$).
- Transactions of the economic entity 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 economic entity 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 Income Statement in that financial year.

(n) Acquisition Costs

Acquisition costs incurred in obtaining insurance business are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to revenue that will be recognised in the Income Statement in subsequent reporting periods.

(o) Claims

Claims expense represents payment for claims and the movement in outstanding claims liabilities.

(p) Unexpired Risk Liability

At reporting date, an assessment is made to determine the sufficiency of the unearned premium liability to cover all expected future cash flows relating to future claims against related unexpired portion of insurance contracts. This assessment is referred to as the Liability Adequacy Test (LAT). Liability adequacy testing is performed at the level of a portfolio of contracts which are subject to broadly similar risks and which are managed together as a single portfolio.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin exceeds the unearned premium liability less any related intangible assets and related deferred acquisition costs then the unearned premium liability is deemed to be deficient. The Insurance Commission applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability (Refer Note 17).

The total deficiency (net of reinsurance), if any, is recognised immediately in the Income Statement. The deficiency is determined by first writing down any related intangible assets and then any related deferred acquisition costs, with any shortfall

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

being recorded in the Balance Sheet as an Unexpired Risk Liability (URL).

Comparative URL information has not been provided for the 30 June 2005 year in accordance with the exemptions provided by AASB 1.36A.

An assessment of the URL at 30 June 2006 has only been made in relation to the Third Party Insurance Fund.

The Government Insurance Fund, Insurance Commission General Fund and Corporation (Inwards Reinsurance) are in run-off and hence there is no unearned premium. As a result LAT's and URL's are not required.

The Compensation (Industrial Diseases) Fund issues policies covering a 3 year period. All policies in issue ended on 30 June 2006 and hence there was no unearned premium. As a result neither an LAT nor URL is required at 30 June 2006.

(q) Assets Backing General Insurance Liabilities

With minimal exceptions, assets, (including Owner Occupied Land and Buildings and Land and Buildings under Construction or Development, presented under AASB116 within Property, Plant and Equipment), are held to back general insurance liabilities.

The exceptions are intangible software assets and the remaining items presented within Property, Plant and Equipment.

Financial assets backing General Insurance liabilities include liquid and high quality investments such as cash and fixed income securities. Financial assets backing policy liabilities are invested to reflect the nature of the policy liabilities.

Financial assets held to back General Insurance liabilities are valued at fair value in the Balance Sheet.

The management of financial assets, General Insurance liabilities and policy liabilities are closely monitored to ensure that investments are appropriate given the expected pattern of future cash flows arising from General Insurance liabilities and policy liabilities.

Assets Backing General Insurance Liabilities are discussed in more detail under the relevant Balance Sheet headings in this Accounting Policy note.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(r) Property, Plant and Equipment****Property**

Land and Buildings presented within Property Plant and Equipment are Assets Backing General Insurance Liabilities.

Land and Buildings with a significant degree of owner occupation and Land and Buildings under construction or development are required to be accounted for in accordance with AASB 116, Property Plant and Equipment. Under AGAAP these had been accounted for as Investment Properties

Property comprising land and buildings is initially measured at cost.

Subsequent to initial measurement, all Insurance Commission properties are revalued annually at balance date to fair value by an independent valuer. Owner occupied property and property under construction or development comprises both Land and Building.

Depreciation is applied to owner occupied building only. Following revaluation each year, depreciation is applied to the revised fair value over its remaining useful life.

Revaluation of Property presented within Property Plant and Equipment

Fair value is determined by reference to market based evidence, having regard to current economic and market conditions and based on an orderly sale between a knowledgeable willing buyer and a knowledgeable willing seller in an arms length transaction.

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the Balance Sheet unless it reverses a revaluation decrement of the same asset previously recognised in the Income Statement.

Any revaluation deficit is recognised in the Income Statement unless it directly offsets a previous surplus of the same asset in the asset revaluation reserve.

Any accumulated depreciation at revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The amount of the adjustment arising on the elimination of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for.

Upon disposal, any revaluation reserve relating to a particular asset being sold will be transferred to retained earnings.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Plant and Equipment

Plant and equipment is carried at cost less accumulated depreciation and any impairment in value.

Items of computer hardware with a cost of \$300 or over and all other items of plant and equipment costing \$1,000 or over are recognised as assets in the year of acquisition. Amounts less than this are expensed direct to the Income Statement other than where they form a part of a group of similar items which are significant in total.

Amounts relating to software required to operate specific items of hardware are included as part of the hardware asset.

Depreciation is provided on a straight-line basis, applied at rates necessary to write off assets, net of residual values, over the period in which the future economic benefits are expected to be consumed by the economic entity. The rates used are reviewed annually.

The annual depreciation rates used for each class of property, plant and equipment, for the current and previous year, are as follows:

	<u>2006</u>	<u>2005</u>
• Plant and Equipment	16 % to 25%	16 % to 25%
• Furniture and Fittings	12 %	12 %
• Computer Hardware	33 %	33 %
• Motor Vehicles	50 %	50 %
• Leasehold Improvements	15 %	15 %
• Building – Owner Occupied	3.3%	3.5%

Plant and equipment are derecognised upon disposal or when no future economic benefit is expected to arise from their continued use.

Any gain or loss arising on derecognition (calculated as the difference between the net proceeds and the carrying amount of the item) is included in the Income Statement in the year the item is derecognised.

Impairment of Plant and Equipment

The varying items of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

If any such indication exists and where the carrying amount exceeds the estimated recoverable amount, the assets are written down to their recoverable amount.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment risk relates mainly to circumstances where an asset's depreciation is materially understated or where replacement cost is falling. Each relevant class of assets is reviewed annually to verify that the accumulated depreciation/amortisation fairly reflects the level of consumption of the asset's future economic benefits and to re-evaluate any impairment risks.

Impairment losses are recognised in the Income Statement.

(s) Impairment of Assets

Non-current assets are not carried at an amount above their recoverable amount. Where the carrying value of an asset exceeds the recoverable amount, the asset is written down. The recoverable amount, is the higher of fair value, less cost to sell and value in use. In assessing value in use, estimated future net cash flows are, where applicable, discounted to their present value using a market-determined risk adjusted discount rate.

(t) Investment Properties

Freehold Land and Buildings presented within Investment Property are Assets Backing General Insurance Liabilities.

Following initial recognition at cost, investment properties are revalued annually at balance date by an independent valuer to fair value.

Fair value is determined by reference to market based evidence, having regard to current economic and market conditions and based on an orderly sale between a knowledgeable willing buyer and a knowledgeable willing seller in an arms length transaction at balance date.

Investment Properties are integral to the investing activities of the Insurance Commission and in accordance with AASB 1023, General Insurance Contracts, are not depreciated.

Gains and losses arising from changes in the fair values of investment properties are included in the Income Statement in the year in which they arise.

(u) 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),

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The liability for outstanding claims is the present value of an adjusted 'central estimate' of future claim payments (including claims management expenses), which is effected by factors arising during the period to settlement such as normal (e.g. wage) inflation and 'superimposed' inflation. Superimposed inflation refers to factors such as 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 risk-free discount rates.

Refer Note 3 for details of inflation and discount rates used.

- **Short-tail claims**

There are a number of short-tail claims relating to the RiskCover Managed fund, reported in Notes 42. RiskCover as previously stated does not form a part of the Consolidated Entity reporting.

These short-tail claims relate to classes of business where claims are typically settled within one year of the occurrence of the events giving rise to those claims.

RiskCover's liability for outstanding claims for the short-tail classes, such as Property and Motor, are internally assessed using a central estimate.

- **Long-tail claims**

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 issue of negligence or liability and/or to establish the amount of claims' settlement.

The liability for outstanding claims for the long-tail classes of insurance such as Workers' Compensation, Inwards Reinsurance, Public Liability, Motor Vehicle Third Party Personal Injury and Industrial Diseases are estimated using independent actuarial assessments.

In determining the liability for outstanding claims, the Board has added a risk margin to the central estimate of the discounted future claims payments for all long-tail classes of insurance (excluding RiskCover, Refer Note 41). The risk 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 risk margin to the central estimate of claims liabilities. Refer Note 17.

This policy is consistent with the policy which applied at 30 June 2005 under AGAAP.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(v) Receivables**

Receivables are reviewed as to their collectability on an ongoing basis. Debts which are known to be not collectable are written off. Where evidence of impairment exist such as where there is doubt as to whether a debt is collectable an appropriate provision is made.

- **Premiums Receivable**

Premiums receivable mainly relates to Motor Vehicle Third Party Personal Injury insurance due from policyholders for unclosed business. The unclosed business is based upon an assessment of premiums collected in the first 15 days subsequent to balance date. Refer Note 1(j).

Other Receivables

Other receivables are recognised and carried at fair value. This policy is materially consistent with the policy which applied at 30 June 2005 under AGAAP.

(w) Intangible Assets

Intangible Assets are non-monetary assets with no physical substance, that are separately identifiable, controlled by the Insurance Commission and have future economic benefits.

Acquisitions of intangible assets and internally generated intangible assets under a thousand dollars are capitalised.

The intangible assets reported relate to computer software which is not of an essential nature required to operate specific items of hardware.

This software is amortised over 4 years and tested for impairment whenever there is an indication that the asset may be impaired.

(x) 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.

This policy is materially consistent with the policy which applied at 30 June 2005 under AGAAP.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Provisions

Provisions are recognised when the economic entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

(z) Employee Benefits

- Salaries, Long Service Leave, Annual Leave and Sick Leave

Liabilities in respect of employee entitlements to salaries, long service leave, annual leave and sick leave, which are expected to be settled within twelve months of the balance date, are measured at their nominal amounts using the salary rates expected to be paid when the liability is settled.

Liabilities in respect of employee entitlements to long service leave, which are not expected to be settled within twelve months of the balance date, are measured at the present value of their future estimated cash outflows. In determining the liability, consideration has been given to future increases in salary rates, experience with staff departures and periods of service.

In determining the present value of the future estimated cash outflows, the interest rates attaching to Commonwealth Government securities at balance date, which most closely match the terms of maturity of the related liabilities, are used.

- Superannuation

Staff may contribute to the Pension Scheme as set out in the repealed *Superannuation and Family Benefits Act 1938*, a defined benefits scheme closed to new members with effect from 15 August 1986 but whose provisions continued to apply by virtue of Section 26 of the *State Superannuation (Transitional and Consequential Provisions) Act 2000*, or to the Gold State Superannuation Scheme, a defined benefits lump sum scheme closed to new members with effect from 30 December 1995. All staff who do not contribute to either of these schemes become non-contributory members of the West State Superannuation Scheme (*Government Employees Superannuation Act 1987*), an accumulation fund complying with the Commonwealth Government's *Superannuation Guarantee (Administration) Act 1992*.

All of these Schemes are administered by the Government Employees Superannuation Board (GESB).

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The employer's liability to meet members' pensions under the defined benefit Pension scheme is paid monthly to the State Department of Treasury and Finance.

The liabilities for superannuation charges under the Gold State Superannuation Scheme and West State Superannuation Scheme are extinguished by payments of employer contributions to the GESB. Refer Note 21.

The Pension Scheme and the pre-transfer benefit for employees who transferred to the Gold State Superannuation Scheme are unfunded and the liability for future payments is provided for at balance date. The present value of the liabilities is determined following an independent actuarial assessment by Mercer Human Resource Consulting. Movements in Actuarial Assessments are brought to account through the Income Statement.

- **Superannuation – Fair Value of Plan Assets**

In relation to the Pension Scheme and the pre-transfer benefits for employees who transferred to the Gold State Superannuation Scheme, the value of any excess of accrued superannuation benefits over the net fair value of assets is recorded as a liability of the Insurance Commission. This liability is brought to account on the basis that there is no pre-funding of the employer's liability for benefits under this Pension Scheme. Refer Note 21.

(aa) Deferred Acquisition Costs

At balance date, a portion of acquisition costs is deferred in recognition that it represents expense that will give rise to premium revenue that will be recognised in future reporting periods. Deferred Acquisition Costs are amortised over the financial periods expected to benefit from the expenditure, which is generally less than one year. Refer Note 14.

(bb) Statutory Charges

Statutory levies and charges, such as Workers' Compensation and Injury Management Commission (WorkCover WA) charges, paid or payable are accounted for on the same basis as the recognition of corresponding premium revenue.

(cc) Financial Assets at Fair Value through Profit or Loss

Investment assets presented as Financial Assets at Fair Value through Profit or Loss are considered to back General Insurance Liabilities of the economic entity. These are initially recognised at cost and subsequently measured at fair value. Refer Note 10.

Investments other than freehold properties, unlisted shares and unlisted property trusts, are treated as current on the basis that they are readily convertible into cash.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **Securities**

Securities include bonds and short-term discount securities. Purchases and sales of securities are recognised at trade (transaction) date. There are two types of securities, namely coupon (interest-bearing) securities and discount (non-interest-bearing) securities.

Purchases of coupon securities are initially recognised at cost. Interest income for such securities is accrued monthly using the coupon rate of interest.

Purchases of discount securities are initially recorded at their principal amount with the unearned discount netted against the principal amount to arrive at carrying value.

The discount security is amortised in line with the underlying security.

Securities are marked to market at the close of the last business day of the financial year. The securities are valued at quoted bid price or, if such prices are not available, at prices for securities of comparable maturity, quality and type. The costs of coupon securities are adjusted by the marked to market process. The difference between the amortised amount (discount securities) or the cost amount (coupon securities) and the market value is recorded as unrealised revenue.

- **Shares**

Purchases of shares are initially booked at cost. Shares are marked to market using the securities quoted bid price at balance date.

- **Convertible Notes**

Convertible notes are convertible into ordinary shares of the issuing company at the option of the holder. The cost of the ordinary shares issued on conversion is based on the carrying value of the option extinguished with no gain or loss realised.

- **Units in Unlisted Equity and Hedge Fund Trusts**

Fair values of units in unlisted unit trust and Hedge Fund Trusts are determined using the net asset value (NAV) per unit applicable for redemption on the last day of the financial year. The NAV is calculated by deducting from the value of the unlisted unit trust's gross assets, the value of its liabilities. Unit values denominated in foreign currency are converted to Australian currency at rates of exchange ruling at balance date.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **Unlisted Property Trusts**

Unlisted Property Trusts are valued by the Trustee at market values based upon independent valuations of properties held within the trust. A unit price is advised to unit holders, which forms the basis for the calculation of market value at balance date which equated to fair value.

- **Investments in Subsidiaries**

Investments in subsidiaries are measured at fair value.

- **Derivative Financial Instruments**

Derivative financial instruments are accounted for on a marked to market basis using the most verifiable source of market prices or generally accepted valuation principles, such as discounted future cash flows.

The purpose for which derivative transactions are undertaken is set out in Note 26(a).

- **Forward and Futures Contracts**

Forward and futures contracts are legal agreements for the delayed delivery of financial instruments in which the seller agrees to settle at a specified future date at a specified price or yield. A forward rate agreement is a confirmed agreement between two parties to exchange an interest rate differential on a notional principal amount at a given future date.

Futures contracts are used to hedge holdings and anticipated purchase commitments to avoid or minimise possible adverse financial effects of movements in exchange rates. Initial margin requirements and daily cash calls are met in cash with a corresponding adjustment to 'investment debtors' or 'investment creditors' until the underlying transaction occurs, at which time any unrealised gain or loss is recorded in the Income Statement.

The market value of forward foreign currency contracts (forwards) fluctuates with changes in the currency exchange rate. The forward is marked to market daily and the change in market value is recorded as an unrealised foreign exchange gain or loss in the Income Statement. When the forward is closed, a realised gain or loss, equal to the difference in the value at the time the forward was entered into and the value at the time it was closed is recorded.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The value of bond, bank bill and share price index futures contracts are marked to market based on the value of the last quoted purchase or sale price of the relevant contract traded on a recognised futures exchange. Any gain or loss is recorded in the Income Statement as a change in the fair value of investments.

- **Options**

Options are contracts that allow the holder of the option the right, but not the obligation, to purchase or sell a financial instrument at a specified price and within a specified period.

A call/put option gives the purchaser the right to buy/sell the financial instrument covered by the option at the exercise price at any time up until or at expiry. The opposite would apply if the purchaser were the writer of the option.

Domestic equity options are priced daily from the Australian Stock Exchange at 'Bid' price. If the option expires on its stipulated expiration date, or if a closing sale transaction is entered into, a gain or loss is realised on disposal and brought to account as a change in the fair value of investments in the Income Statement.

(dd) Fair Value of Financial Assets and Liabilities

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

- **Recognised Financial Assets**

For financial assets traded in an organised market, refer 1(cc).

Where financial assets are not traded in an organised market, fair value is the historical carrying cost net of any provision for diminution in value or doubtful debt. Refer Note 1(cc) for determination of fair value of unlisted units in equity and property trusts.

- **Recognised Financial Liabilities**

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

- **Unrecognised Financial Assets and Financial Liabilities**

For unrecognised financial assets and liabilities traded in an organised market, fair value equates to market value.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(ee) Bank**

Any liability for bank overdraft shown in the Balance Sheet represents the general ledger account balance and includes the value of cheques drawn but unrepresented on the bank account at balance date and equates to fair value.

(ff) Cash and Cash Equivalent Assets

Cash and cash equivalent assets are carried at face value of the amounts deposited or drawn. The carrying amounts of cash assets approximate to their fair value.

For the purpose of the Cash Flow Statement, cash includes cash assets on hand and in banks, net of any bank account liability, refer Note 1(ee), together with short-term discount securities and deposits at call, which are investments integral to the entity's general insurance activities (all of which are readily convertible to cash and are subject to an insignificant risk of change in value).

(gg) Management Fee

The RiskCover Fund, the Community Insurance Fund and the Corporation are charged management fees in proportion to their usage of the Insurance Commission's services.

(hh) Future Impact of Australian Accounting Standards Not Yet Operative

The Authority cannot early adopt an Australian Accounting Standard or UIG Interpretation unless specifically permitted by TI 1101 'Application of Australian Accounting Standards and Other Pronouncements'. TI 1101 has only mandated the early adoption of revised AASB 119, AASB 2004-3, AASB 2005-3, AASB 2005-4 and AASB 2005-6. Consequently, the Authority has not applied the following Australian Accounting Standards and UIG Interpretations that have been issued but are not yet effective. These will be applied from their application date:

- AASB 7 'Financial Instruments: Disclosures' (including consequential amendments in AASB 2005-10 'Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]'). This Standard requires new disclosures in relation to financial instruments. The Standard is required to be applied to annual reporting periods beginning on or after 1 January 2007. The Standard is considered to result in increased disclosures of an entity's risks, enhanced disclosure about components of financial position and performance, and changes to the way of presenting financial statements, but otherwise there is no financial impact.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- AASB 2005-9 'Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB 139 & AASB 132]' (Financial Guarantee Contracts). The amendment deals with the treatment of financial guarantee contracts, credit insurance contracts, letters of credit or credit derivative default contracts as either an "insurance contract" under AASB 4 'Insurance Contracts' or as a "financial guarantee contract" under AASB 139 'Financial Instruments Recognition and Measurement'. The Authority does not undertake these types of transactions resulting in no financial impact when the Standard is first applied. The Standard is required to be applied to annual reporting periods beginning on or after 1 January 2006.
- UIG Interpretation 4 'Determining whether an Arrangement Contains a Lease'. This Interpretation deals with arrangements that comprise a transaction or a series of linked transactions that may not involve a legal form of a lease but by their nature are deemed to be leases for the purposes of applying AASB 117 'Leases'. At reporting date, the Authority has not entered into any arrangements as specified in the Interpretation resulting in no impact when the Interpretation is first applied. The Interpretation is required to be applied to annual reporting periods beginning on or after 1 January 2006.

The following amendments are not applicable to the Authority as they will have no impact:

AASB Amendment	Affected Standards
2005-1	AASB 139 Cash Flow Hedge Accounting of Forecast of Intragroup Transactions
2005-5	Amendments to Australian Accounting Standards [AASB 1 & AASB 139]
2006-1	AASB 121 Net Investment in Foreign Operations
UIG 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
UIG 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.
UIG 7	Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies.
UIG 8	Scope of AASB 2
UIG 9	Reassessment of Embedded Derivatives

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Other Corporate Information

The Insurance Commission and Corporation are Agents of the Crown in the right of the State under Section 4(a) of the *Insurance Commission of Western Australia Act 1986*.

Principal Place of Business

Insurance Commission of Western Australia
The Forrest Centre
221 St George's Terrace
PERTH WA 6000

Postal Address:
GPO Box U1908
PERTH WA 6845

Telephone: +61 (8) 9264 3333
Facsimile: +61 (8) 9264 3690
Email: customer@icwa.wa.gov.au
Websites: www.icwa.wa.gov.au
www.riskcover.wa.gov.au

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Insurance Commission makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates are applied are described below:

(a) Liabilities Arising Under Insurance Policies

Provisions are made at the year end for the outstanding claims liability in the Balance Sheet. This is the cost of claims incurred but not settled at the balance date, including the cost of claims incurred but not yet reported (IBNR) and claims incurred but not enough reported (IBNER). Estimations are also made in respect of all recoveries, including reinsurance and where appropriate tax credits. Those recoveries appear in the Balance Sheet at Note 9 as Receivables and are discussed at (b) below. Recoveries include, an allowance for future wage increases and superimposed inflation, investment return, claims administration expenses, and a prudential risk margin.

Whilst all reasonable steps are taken to ensure that adequate information is obtained regarding outstanding claims exposures, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. In particular, the estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of claims already notified, where more information about the claim is usually available. IBNR claims may not be lodged until many years after the events giving rise to the claims have occurred.

The estimate of liability for outstanding claims is based upon an independent actuarial valuation employing a number of actuarial models, which utilise statistical analyses of historical experience, and which assume that the development pattern of the current claims will be consistent with past experience.

Allowances are also made, where appropriate, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of outstanding claims to increase or reduce when compared with the cost of previously settled claims. These include:

- Changes in claims management processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods.
- Changes in the legal environment or social attitudes.
- The effects of inflation and superimposed inflation.

Refer Note 3 for details of the specific assumptions used in deriving the outstanding claims liability at year end.

(b) Assets Arising From Reinsurance Contracts

Assets arising from reinsurance contracts are also calculated using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Insurance Commission may not receive amounts due to it and these amounts can be reliably measured.

(c) Property Valuations

Valuations are obtained from independent licensed valuers for each property presented under Property, Plant and Equipment and Investment Properties. These valuations are based *inter-alia* on projected future income streams of the individual properties and analysis of comparable sales evidence.

(d) Superannuation

The Pension Scheme and the pre-transfer benefit for employees who transferred to the Gold State Superannuation Scheme are unfunded and the liability for future payments is provided for at balance date. The present value of the liabilities is determined following an independent actuarial assessment by Mercer Human Resource Consulting on behalf of the Government Employees Superannuation Board.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

3. ACTUARIAL ASSUMPTIONS AND METHODS

The Insurance Commission underwrites a number of insurance classes through its funds and its subsidiary, the Corporation.

The process of determining the value of the outstanding claims liability of the various classes of insurance underwritten by the Insurance Commission is described below.

The ultimate liability for outstanding claims is estimated by:

- discounting inflated claim payments to allow for investment return at risk-free rates;
- deducting the estimated effect of tax credits;
- adding an amount to provide for associated claims management expenses;
- reducing the amount by an allowance for reinsurance and other recoveries; and
- adding an allowance for a prudential risk margin.

Processes Used To Determine Assumptions

A description of the factors used to determine these assumptions is provided below:

Inflation Rates: based on forecasts of a respected independent third party economics research firm.

Discount Rates: risk-free rates derived from the market yields on traded Commonwealth Treasury Bonds on 30 June 2006.

Claims Management Expenses: derived from past experience and breakdown of expenses.

Reinsurance Recoveries: based on expected recoveries from claims that have or are estimated to exceed the reinsurance retentions.

Super-Imposed Inflation: derived internally from one of the actuarial models based on the long term average of past experience.

Risk Margin: based on benchmark studies. Refer Note 17 (c) for more detail.

Other Factors: Such as Third Party Recoveries, Number of Claims, Average Claim Size, Average Term to Settlement, IBNR, Development of Case Estimates and Projected Case Estimates Payment Factors are based on past experience.

THIRD PARTY INSURANCE FUND

Outstanding claims estimates (including IBNR and IBNER) for the Third Party Insurance Fund are assessed by an independent actuary, based upon a number of actuarial models. Ultimate numbers of claims are projected based upon past monthly data and the model allows for growth in the number of registered vehicles, seasonal variations in monthly experience, trends in claim frequency, and patterns in the delay of reporting. Payments experience is analysed based on past experience and projections of future claims payment. Cash flows are made based upon aggregate, individual and historic case estimate models. Separate predictions are made in respect of each combination of accident year and financial year of payment.

Actuarial Assumptions

The following table provides key actuarial assumptions made in determining the outstanding claims liability:

Third Party Insurance Fund	2006	2005
Inflation Rate	Varies from 5.5% for 2007 up to 6.4% for 2009 and down to 4.8% for 2014 and later	Varies from 5% for 2006 down to 3.7% for 2010 and up to 4.7% for 2014 and later
Discount Rate	5.9% for 2007 and later	Varies from 5.3% for 2006 down to 5.1% for 2009 and up to 5.3% for 2014 and later
Claims Management Expenses	3.75% of gross claim payments	3.75% of gross claim payments
Reinsurance Recoveries	1.7% of gross claim payments	1.5% of gross claim payments
Superimposed Inflation	Approximately 5% p.a. assumed although this varies according to the different actuarial models	Approximately 5% p.a. assumed although this varies according to the different actuarial models
Risk Margin	6% of central estimated liability for 75% probability of sufficiency	6% of central estimated liability for 75% probability of sufficiency
Third Party Recoveries	0.06% of gross claim payments	0.06% of gross claim payments
Number of Claims	Approximately 4,500	Approximately 4,900
Average Claim Size	Approximately \$66,500	Approximately \$64,500
Average Term to Settlement	3.3 years	3.2 years

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

3. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

INSURANCE COMMISSION GENERAL FUND (ICGF)

The outstanding claims liability of the ICGF incorporates claims on policies in run-off pre-dating 1986 and claims made by former HIH Insurance Group clients under the *Employers Indemnity Supplementation Fund Act 1980* (EISF Act).

Run-Off Claims Liabilities

Outstanding liabilities for claims in run-off for the ICGF are assessed by an independent actuary using models applicable to the nature of the incident by which the liability under the fund has been incurred. Claims within the ICGF fall into, and are assessed, in the categories of Workers' Compensation and Public Liability claims. Workers' Compensation liabilities include those relating to common law risks and asbestos-related lung disease (which includes incidents of mesothelioma, lung cancer and other diseases of the respiratory system).

Workers' Compensation - Lung Disease Claims

Lung disease claims are assessed using actuarial models based on those developed by Professor Geoffrey Berry* utilising ICGF data. The models predict the total number of claims likely to emerge over time and also determine likely average cost per claim.

Workers' Compensation - Non Lung Disease Claims

The majority of these claims are extremely long tail in nature and the actuarial models rely heavily on the case estimates of each claim to determine the total outstanding liabilities.

Public Liability

The majority of these claims are extremely long tail in nature and the actuarial models rely heavily on the case estimates of each claim to determine the total outstanding liabilities.

Actuarial Assumptions

The following table provides key actuarial assumptions made in determining the outstanding claims liabilities:

Insurance Commission General Fund	2006	2005
Inflation Rate	Varies from 5.5% for 2007 up to 6.4% for 2009 and down to 4% for 2014 and later	Varies from 5% for 2006 down to 3.7% for 2010 and up to 4.7% for 2014 and later
Discount Rate	5.9% for 2007 and later	Varies from 5.3% for 2006 down to 5.1% for 2009 and up to 5.3% for 2014 and later
Claims Management Expenses	8% of gross claim payments	8% of gross claim payments
Risk Margin	25% of net outstanding claims for 75% probability of sufficiency	25% of net outstanding claims for 75% probability of sufficiency
Third Party Recoveries	45.3% of gross claim payments	43.8% of gross claim payments;
Average Term to Settlement	6.9 years	7.4 years

* "Prediction of mesothelioma, lung cancer, and asbestosis in former Wittenoom asbestos workers", British Journal of Industrial Medicine; 48: 793-802.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

3. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

INSURANCE COMMISSION GENERAL FUND

EISF Act Liabilities

The outstanding liabilities for claims in run-off for clients of the HII Insurance Group are assessed by an independent actuary using models applicable to the nature of the incident by which the liability under the fund has been incurred. Claims under the EISF Act are assessed under the categories of Asbestos-Related Claims (which includes incidents of mesothelioma, lung cancer and other diseases of the respiratory system) and Non Asbestos-Related Claims.

Workers' Compensation - Asbestos-Related Claims

Asbestos-Related Claims are assessed using actuarial models based on those developed by Professor Geoffrey Berry* utilising ICGF data. The models predict the total number of claims likely to emerge over time and also determine likely average cost per claim.

Workers' Compensation - Non Asbestos-Related Claims

The majority of these claims are long tail in nature and the actuarial models rely heavily on the case estimates placed on each claim to determine the total outstanding liabilities.

Actuarial Assumptions

The following tables provide key actuarial assumptions made in determining the outstanding claims liabilities:

EISF Act: Asbestos-Related Claims	2006	2005
Inflation Rate	4.5% for 2007 and later	Comparatives not provided #
Discount Rate	5.8% for 2006-2010 and 5.9% for 2011 onwards	
Claims Management Expenses	5% of claim payments	
Superimposed Inflation	2%	
Risk Margin	20.4% of estimated gross liability	

EISF Act: Non Asbestos-Related Claims	2006	2005
Inflation Rate	4.5% for 2007 and later	Comparatives not provided #
Discount Rate	Varies from 6% for 2007 up to 5.4% for 2009 then up to 6.3% for 2013 and onwards	
Claims Management Expenses	5% of claim payments	
Superimposed Inflation	4.5%	
Risk Margin	12.1% of estimated gross liability	

* "Prediction of mesothelioma, lung cancer, and asbestosis in former Wittenoom asbestos workers", British Journal of Industrial Medicine; 48: 793-802.

Information prepared under AASB 1023 - General Insurance Contracts is applied from 1 July 2005, restatement of comparatives not required. Refer Note 1(a). The cost of obtaining this information would outweigh the benefit to the users of the Financial Statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

3. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

GOVERNMENT INSURANCE FUND (GIF)

Outstanding claims estimates including IBNR and IBNER are assessed by an independent actuary based on a number of actuarial models. The ultimate number of claims and their associated costs are projected on past yearly data used to determine trends in the anticipated reporting and payment patterns.

As the GIF has been in a state of run-off since 1997, the remaining outstanding claims on which the Insurance Commission obtains actuarial valuations of outstanding claims are the long tail classes of Workers' Compensation and Public Liability.

The following tables provide the key actuarial assumptions made in determining the outstanding claims liabilities:

Government Insurance Fund: Workers' Compensation	2006	2005
Inflation Rate	Varies from 5.5% for 2007 up to 6.4% for 2009 and down to 4% for 2014 and later	Varies from 5% for 2006 down to 3.7% for 2010 and up to 4.7% for 2014 and later
Discount Rate	5.9% for 2007 and later	Varies from 5.3% for 2006 down to 5.1% for 2009 and up to 5.3% for 2014 and later
Claims Management Expenses	10% of net claim payments	10% of net claim payments
Superimposed Inflation	3% p.a. assumed for payments per claim for non asbestos-related claims	nil
Risk Margin	22.5% of central estimated liability for 75% probability of sufficiency	22.5% of central estimated liability for 75% probability of sufficiency
Third Party Recoveries	0% for asbestos-related claims and 7.8% of other net claim payments	0% for asbestos-related claims and 8.5% of other net claim payments
Average Term to Settlement	7.7 years	6.5 years

Government Insurance Fund: Public Liability	2006	2005
Inflation Rate	Varies from 5.5% for 2007 up to 6.4% for 2009 and down to 4% for 2014 and later	Varies from 5% for 2006 down to 3.7% for 2010 and up to 4.7% for 2014 and later
Discount Rate	5.9% for 2007 and later	Varies from 5.3% for 2006 down to 5.1% for 2009 and up to 5.3% for 2014 and later
Claims Management Expenses	7% of net claim payments	7% of net claim payments
Superimposed Inflation	4% for general liability	4% for general liability
Risk Margin	16.76% of central estimated liability for 75% probability of sufficiency	16.76% of central estimated liability for 75% probability of sufficiency
Average Term to Settlement	3.6 years	4 years

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

3. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

COMPENSATION (INDUSTRIAL DISEASES) FUND (CIDF)

As the claims for this fund are limited to those related to pneumoconiosis, lung cancer and mesothelioma resulting from exposure to harmful mineral dust, the models used are similar to those used to determine the lung disease claims for the ICGF Lung Disease claims. This valuation is conducted on the same basis as for ICGF Workers' Compensation Lung Disease models.

The following table provides the key actuarial assumptions made in determining the outstanding claims liability:

Compensation (Industrial Diseases) Fund	2006	2005
Inflation Rate	Varies from 5.5% for 2007 up to 6.4% for 2009 and down to 4% for 2014 and later	Varies from 5% for 2006 down to 3.7% for 2010 and up to 4.7% for 2014 and later
Discount Rate	5.9% for 2007 and later	Varies from 5.3% for 2006 down to 5.1% for 2009 and up to 5.3% for 2014 and later
Claims Management Expenses	35% of gross claim payments	35% of gross claim payments
Risk Margin	18.7% of net outstanding claims for 75% probability of sufficiency	18.7% of net outstanding claims for 75% probability of sufficiency
Third Party Recoveries	38.5% of gross claim payments	37.3% of gross claim payments;
Average Term to Settlement	6.6 years	7 years

STATE GOVERNMENT INSURANCE CORPORATION (Corporation)

The outstanding claims of the Corporation are assessed by an independent actuary. To estimate the claims liability, the portfolio has been divided into a number of groups based on the types of risks covered, the nature of the reinsurance treaties and the currency in which the treaties, have been denominated.

Actuarial models have been constructed to describe the rate of development of incurred losses. These models were constructed by considering a mix of the insurer's own experience as well as the experience of similar industry portfolios. The models of incurred loss development are applied to losses incurred to balance date to give estimates of incurred losses, as they will ultimately stand (ultimate incurred losses) for each underwriting year ending 30 June. This is done separately by line of business, currency and underwriting year. Losses paid to balance date are deducted from the ultimate incurred losses, to give the outstanding claims at balance date.

Models of the ratio of claims paid to incurred losses are applied to the outstanding claims liability at balance date to project gross claim payment cash flows, as they fall due in future years.

The claim payment cash flows are discounted using risk-free rates in anticipation of future investment return to give a discounted estimate of gross outstanding claims at balance date. An estimate of outstanding retrocession recoveries is made according to Corporation estimates at balance date. These are deducted from the gross outstanding claims liability to yield the net liability for outstanding claims. A prudential risk margin is then added to the net liability for outstanding claims.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

3. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

The following table provides the key actuarial assumptions made in determining the outstanding claims liability of the Corporation.

Corporation	2006	2005
Inflation Rate	5.2% for 2007 up to 6.4% for 2009 and down to 3.9% for 2012 and later	4.8% for 2006 down to 3.4% for 2011 and up to 4% for 2015 and later.
Discount Rate	AUD – 5.9% for 2007 and later GBP – 4.8% for 2007 up to 4.9% for 2007 and down to 3.8% for 2027 and later USD – 5.2% for 2007 up to 5.3% for 2019 and later	AUD - 5.3% for 2006 down to 5.1% for 2007 and up to 5.3% for 2014 and later GBP – 4.4% for 2006 down to 4% for 2007 up to 4.4% for 2011 and later USD – 3.5% for 2006 up to 4.6% for 2021 and later
Claims Management Expenses	93.1% of gross claim payments	70.2% of gross claim payments
Reinsurance Recoveries	5.8% of gross claim payments	4.8% of gross claim payments
Risk Margin	14.3% of net claims outstanding. An additional precautionary margin has been added for two segments of the portfolio which have historically showed significant volatility.	13.8% of net claims outstanding. An additional precautionary margin has been added for two segments of the portfolio which have historically showed significant volatility.
Average Term to Settlement	6.0 years	6.1 years

Sensitivity Analysis

The tables below illustrate how changes in key assumptions would impact equity and the profit after tax (assumed at a Corporate tax rate of 30%) gross and net of all recoveries except for:

- The GIF which is exempt from the National Tax Equivalent Regime and is indemnified by the Department of Treasury and Finance via a Right of Indemnity (Refer Note 9), hence changes in the actuarial assumption variables will have no impact at all upon profit. For disclosure purposes the impact upon outstanding claims liabilities is disclosed instead of impact upon after tax profit.
- EISF Act liabilities which are indemnified by WorkCover WA via a Right of Indemnity (Refer Note 9), hence changes in the actuarial assumption variables will have no impact at all upon profit after tax. For disclosure purposes the impact upon outstanding claims liabilities is disclosed instead of impact upon after tax profit.

Note that the impact of change in the variables upon outstanding claim liabilities moves in a contra direction to the impact upon profits.

Third Party Insurance Fund		Profit/(Loss) Increase/(Decrease)	
Variable	Change in Variable %	Net of Reinsurance and Other Recoveries \$'000	Gross \$'000
Inflation	+1	(27,510)	(27,930)
Inflation	-1	25,760	26,180
Discount	+1	18,970	19,250
Discount	-1	(20,650)	(20,930)
Superimposed Inflation	+1	(27,230)	(27,230)
Superimposed Inflation	-1	24,920	24,920
IBNR	+10	(46,410)	(46,410)
IBNR	-10	35,000	35,000
Development of Case Estimates	+10	(3,150)	(3,150)
Development of Case Estimates	-10	3,010	3,010
Projected Case Estimates Payment Factors	+10	2,310	2,310
Projected Case Estimates Payment Factors	-10	(2,800)	(2,800)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

3. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Sensitivity Analysis (continued)

Compensation (Industrial Diseases) Fund		Profit/(Loss) Increase/(Decrease)	
Variable	Change in Variable %	Net of Reinsurance and Other Recoveries \$'000	Gross \$'000
Inflation	+1	(210)	(280)
Inflation	-1	210	280
Discount	+1	210	280
Discount	-1	(210)	(350)
Superimposed Inflation	+2	(490)	(700)
Increasing Base numbers of Mesothelioma Claims by 2 for over 65's and by 1 for under 65's	n/a	(490)	(770)
Increasing Decay Rates in Annual Number of Future Mesothelioma Cases Reported every Future Year	+5	(630)	(980)
Increasing Base numbers of 'Other' Claims by 2 for over 65's and by 1 for under 65's	n/a	(490)	(630)
Increasing Decay Rates in Annual Number of Future 'Other' Cases Reported every Future Year	+5	(630)	(840)

Insurance Commission General Fund: Workers' Compensation		Profit/(Loss) Increase/(Decrease)	
Variable	Change in Variable %	Net of Reinsurance and Other Recoveries \$'000	Gross \$'000
Inflation	+1	(1,960)	(3,220)
Inflation	-1	1,750	2,870
Discount	+1	1,820	2,940
Discount	-1	(2,030)	(3,360)
Superimposed Inflation	+2	(3,710)	(6,510)
Increasing Base numbers of Mesothelioma Claims by 2 for over 65's and by 1 for under 65's	n/a	(3,570)	(7,210)
Increasing Decay Rates in Annual Number of Future Mesothelioma Cases Reported every Future Year	+5	(6,020)	(12,180)
Increasing Base numbers of 'Non-CSR EI Lung' Claims by 2 for over 65's and by 1 for under 65's	n/a	(2,730)	(2,730)
Increasing Decay Rates in Annual Number of Future 'Non-CSR EI Lung' Cases Reported every Future Year	+5	(4,410)	(4,480)

Insurance Commission General Fund: Liability		Profit/(Loss) Increase/(Decrease)	
Variable	Change in Variable %	Net of Reinsurance and Other Recoveries \$'000	Gross \$'000
Inflation	+1	(140)	(140)
Inflation	-1	140	140
Discount	+1	140	140
Discount	-1	(140)	(140)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

3. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Sensitivity Analysis (continued)

EISF Act: Asbestos-Related Claims		Movement in Outstanding Claims Liability	
Variable	Change in Variable %	Net of Reinsurance and Other Recoveries \$'000	Gross \$'000
Inflation	+1	629	634
Inflation	-1	(556)	(560)
Discount	+1	(544)	(548)
Discount	-1	627	631
Superimposed Inflation	+1	645	650
Superimposed Inflation	-1	(569)	(573)
Number of Claims	+10	612	616
Number of Claims	-10	(612)	(616)
Average Claim Size	+10	1,236	1,245
Average Claim Size	-10	(1,135)	(1,143)
Claims Management Expenses	+1	67	68
Claims Management Expenses	-1	(67)	(68)

EISF Act: Non Asbestos-Related Claims		Movement in Outstanding Claims Liability	
Variable	Change in Variable %	Net of Reinsurance and Other Recoveries \$'000	Gross \$'000
Inflation	+1	311	314
Inflation	-1	(297)	(300)
Discount	+1	(291)	(293)
Discount	-1	310	313
Superimposed Inflation	+1	171	172
Superimposed Inflation	-1	(165)	(166)
Claims Reported	+10	202	204
Claims Reported	-10	(202)	(204)
Claims Management Expenses	+1	105	106
Claims Management Expenses	-1	(105)	(106)

Government Insurance Fund: Workers' Compensation		Movement in Outstanding Claims Liability	
Variable	Change in Variable %	Net of Reinsurance and Other Recoveries \$'000	Gross \$'000
Inflation	+1	4,500	4,600
Inflation	-1	(4,100)	(4,100)
Discount	+1	(4,200)	(4,300)
Discount	-1	4,800	4,900
Increase in Asbestos-Related Claims	+20	10,000	10,100
Increase in Asbestos-Related Claims	-20	(10,100)	(10,200)
Development of Case Estimates	+10	400	400
Development of Case Estimates	-10	(300)	(400)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

3. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Sensitivity Analysis (continued)

Government Insurance Fund: Liability		Movement in Outstanding Claims Liability	
Variable	Change in Variable %	Net of Reinsurance and Other Recoveries \$'000	Gross \$'000
Inflation	+1	30	40
Inflation	-1	(30)	(30)
Discount	+1	(30)	(60)
Discount	-1	30	60
Development of Case Estimates	+10	-	-
Development of Case Estimates	-10	-	-

State Government Insurance Corporation		Profit/(Loss) Increase/(Decrease)	
Variable	Change in Variable %	Net of Reinsurance and Other Recoveries \$'000	Gross \$'000
Inflation	+1	(58)	(58)
Inflation	-1	55	55
Discount	+1	162	167
Discount	-1	(183)	(188)
Claims Management Expenses	+10	(122)	(122)
Claims Management Expenses	-10	123	123
Assumed Loss Ratio for Australian Casualty Proportional	+5	(64)	(64)
Assumed Loss Ratio for Australian Casualty Proportional	-5	64	64

4. INSURANCE CONTRACTS - RISK MANAGEMENT POLICIES AND PROCEDURES

It is the policy of the Insurance Commission and its subsidiary the Corporation to strive to achieve Best Practice in the management of all risks that threaten to adversely impact the entity, its customers, people, assets, finances, functions, objectives, operations or members of the public.

The entity is subject to a number of key financial risks which include insurance risk, market risk, liquidity risk, interest rate risk, foreign exchange risk and credit risk.

Risk Management forms a part of operational and line responsibilities and is integrated into the Strategic and Operational Business Planning cycles.

Overall Risk Management within the Insurance Commission is a Board and Executive responsibility. The Insurance Commission's Executive Committee determines and communicates Risk Policy, Objectives, Procedures and Guidelines and monitors implementation, practice and performance. This information is reported on a regular basis to the Board of Commissioners.

The Risk Policy provides for the retention of external consultants where required to advise and assist in the risk management process, or management of specific risks or categories of risk.

Internal Audit, which is provided by an independent external provider, assists in the identification, monitoring and evaluation of risk and gives assurance to the Board of Commissioners in relation to higher risk activities.

(a) Objectives in Managing Risks Arising from General Insurance Contracts and Policies for Mitigating those Risks

The Insurance Commission activities primarily involve the issuing of insurance policies and managing the claims resulting from them together with the management of claims run-off in a number of areas. In addition, it provides risk management services and advice. In doing this, the Insurance Commission seeks to minimise the cost of risk to those it insures and to efficiently manage the claims arising from its statutory funds.

The only funds for which contracts of insurance are still issued by the Insurance Commission are the Third Party Insurance Fund and the Compensation (Industrial Diseases) Fund. The Government Insurance Fund, Insurance Commission General Fund and State Government Insurance Corporation are all in run-off.

In the management of its funds, the Insurance Commission has identified a number of risks to which it has applied a framework for the systematic identification, assessment, and management of risks that could prevent it from achieving its goals.

Key processes for the mitigation of risks faced in the operations of the Insurance Commission include:

- Use of information systems to provide up-to-date, reliable data on the risks to which the Insurance Commission is exposed.
- Independent Actuarial models, using data from the information systems, are used to monitor claims patterns, and in the production of statistical models to predict the outstanding claims liabilities for the various Funds.
- The mix of assets and Fund Managers in which the Insurance Commission invests, is driven by the nature and term of the insurance liabilities. Management of assets and liabilities is monitored to match the maturity dates of assets with the expected claim payment patterns.

Corporation

The Corporation remains in existence to run-off small lines of Australian and overseas reinsurance business written by the Corporation between 1988 and 1992.

Key processes for the mitigation of risks faced in the operations of the Insurance Commission in its management of the Corporation:

- Use of information systems to provide up to date, reliable data on the risks to which the Insurance Commission is exposed.
- Independent Actuarial models, using data from the information systems, are used to monitor claims patterns, and in the production of statistical models to predict the outstanding liabilities for the various risks.

As the Corporation is in run-off the emerging payment patterns are highly variable and virtually impossible to predict. For this reason assets used to offset emerging liabilities are held in Australian cash funds.

**4. INSURANCE CONTRACTS - RISK MANAGEMENT POLICIES AND PROCEDURES
(continued)****(b) Terms and Conditions of Insurance and Reinsurance Risks****Third Party Insurance Fund (TPIF)**

The policy of insurance issued by the Insurance Commission provides unlimited indemnity to the owner or driver of a Western Australian registered motor vehicle for all liability for negligence incurred by that owner or driver in respect to the death or bodily injury to any person directly caused by, or by the driving of, the insured motor vehicle in any part of the Commonwealth of Australia. The policy is combined with every motor vehicle licence and the Department for Planning and Infrastructure and its agents issue the policies and collect the premiums on behalf of the Insurance Commission on a fee-for-service basis.

The process for pricing the risk is laid out in section 3T of the *Motor Vehicle (Third Party Insurance) Act 1943*, which requires an assessment of the premium income necessary to meet the likely claims and administration costs expected to arise in the following year. This assessment is made after an independent actuarial report has been considered and takes into account any retained earnings expected to exist at the commencement of the following financial year. Following this process, the Board then makes a recommendation to the Minister for Government Enterprises.

The TPIF has in place excess of loss treaty reinsurance arrangements, on a “per event” basis, to cover losses in excess of a defined limit for any one event. Reinsurance arrangements are placed through a broker with a number of global reinsurers, each carrying a share of the risk on 12-month contracts. Reinsurers on the program are regularly assessed to determine their effectiveness and only reinsurers with an “A-” or higher security rating are considered for inclusion on the program.

Compensation (Industrial Diseases) Fund (CIDF)

The Insurance Commission is the only insurer authorised to issue contracts of insurance covering employers against workers’ compensation claims for respiratory diseases of pneumoconiosis, lung cancer and mesothelioma, arising from exposure to harmful mineral dust in the course of employment in the mining industry in Western Australia.

Due to the advent of modern mining techniques and the adoption of preventative occupational health and safety practices within the mining industry, there has been a substantial decline in the incident rate of Industrial Diseases. This has caused the CIDF to be in surplus for many years and it is expected that this situation will continue.

The majority of the potential outstanding liability for this Fund results from exposure to asbestos fibre from the mining activities at Wittenoom between 1943 and 1966.

Due to the CIDF’s sound financial status, the independent Premium Rates Committee has set premiums from 1 July 2003 at a flat charge of \$100 (plus GST) per three-year policy period.

Ongoing policies of insurance issued by the CIDF are of a standard format and contain no special terms or conditions that would have a material impact on the financial statements of the Insurance Commission.

Government Insurance Fund (GIF)

This Fund is in run-off and the Insurance Commission is indemnified by the Department of Treasury and Finance for deficits arising in the GIF. The GIF ceased to issue contracts of insurance on 30 June 1997.

There are no special terms or conditions that would materially impact on the financial statements from latent contracts of insurance issued under this Fund as the majority of these covers were issued under a standard form basis.

Insurance Commission General Fund (ICGF)

The claims paid from the Fund relate to liabilities of the former State Government Insurance Office (SGIO). This Fund is in run-off and no policies have been issued since 31 December 1986. There are no special terms or conditions that would materially impact on the financial statements from latent contracts of insurance issued under this Fund as the majority of these covers were issued under a standard form basis.

4. INSURANCE CONTRACTS - RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

Employers' Indemnity Supplementation Fund Act 1980 (EISF Act)

In response to the collapse of the HIH Group (HIH) in March 2001, the EISF Act was activated to fund claims for workers injured in the course of their employment prior to 15 March 2001.

The run-off of claims for policies of insurance issued by HIH is managed externally by CGU Workers' Compensation Claims (an Insurance Australia Group company) on behalf of the Insurance Commission. Under Section 25(2) of the EISF Act, the Insurance Commission has a right of reimbursement for all costs associated with run-off of these liabilities.

As the contracts of insurance issued by HIH, for which the Insurance Commission has now assumed responsibility, fall under the legislative guidelines governing all Workers' Compensation policies within Western Australia, they would not contain any terms or conditions that would materially impact on the financial statements of the Insurance Commission.

Corporation

The terms and conditions under which inwards reinsurance business was placed through the operation of the Corporation were highly variable and in some cases extremely complex. The key issue being managed with the run-off of the fund is ensuring that all accounts being submitted are in accordance with the original contract terms.

(c) Concentration Risk

Third Party Insurance Fund

A TPIF policy provides for an unlimited indemnity in respect to the death or bodily injury to any person directly caused by, or by the driving of, a Western Australian registered motor vehicle in any part of the Commonwealth of Australia. Most of the risk however, is concentrated within the Perth metropolitan area of Western Australia.

Compensation (Industrial Diseases) Fund

The CIDF has an exposure to concentration risk as it is restricted to one class of business and operates solely within the confines of Western Australia. This risk is mitigated by the large surplus held by the Fund and the decreased exposure to harmful mineral dust in modern mining operations, resulting in a far lower incidence rate in recent years.

Government Insurance Fund

During the years that GIF contracts of insurance were being issued, exposure to significant concentration risk was mitigated by having a diversified portfolio across the large geographic area of Western Australia. As this fund has been in run-off for a considerable time, the concentration risk has increased as the majority of outstanding liabilities at balance date arise from risks associated from common law liability and long tail workers' compensation claims.

The Insurance Commission has secured an indemnification from the Department of Treasury and Finance of Western Australia for Fund deficits resulting from the run-off of the GIF.

Insurance Commission General Fund

During the years that ICGF contracts of insurance were being issued, exposure to significant concentration risk was mitigated by having a diversified portfolio across the large geographic area of Western Australia. As this fund has been in run-off for a considerable time, the concentration risk has increased as the majority of outstanding liabilities at balance date arise from risks associated from common law liability and long tail workers' compensation claims.

To mitigate the risk contained in the ICGF, the majority of which stems from the common law liability resulting from asbestos mining activities at Wittenoom between 1943 and 1966, a deed of agreement has been entered into between the Insurance Commission, CSR Limited and Midalco Pty Ltd providing reimbursement for a set proportion of losses incurred from these activities.

Employers' Indemnity Supplementation Fund

As at balance date, all claims made against the Insurance Commission under the EISF Act result from contracts of insurance restricted to risks associated with the Workers' Compensation class of business and hence there is considerable concentration risk. This risk is mitigated by a requirement under the EISF Act that the Insurance Commission has a right of reimbursement from WorkCover WA for all costs associated with the run-off of claims under this Fund.

**4. INSURANCE CONTRACTS - RISK MANAGEMENT POLICIES AND PROCEDURES
(continued)****Corporation**

The inwards reinsurance covers issued by the Corporation during its years of operation sought to mitigate concentration risk by the diversification of its portfolio across a number of product lines and geographical regions. As could be expected the majority of the benefit of the diversification has been consumed due to the shorter tail claims being settled some time ago leaving a residual tail of claims originating from a far more concentrated risk base.

(d) Development of Outstanding Claims Liability

Given that the majority of insurance contracts under management of the Insurance Commission deal with classes of insurance where the estimate of liability is subject to material change following the close of the contract period, Claims Development Tables have been provided in Note 17 which detail outstanding claims estimates for underwriting years at successive year ends.

To ensure the adequacy of the outstanding claims provisions, all active claims have estimates placed by a designated Claims Officer, and independent actuaries usually review the outstanding claims provisions at least twice yearly. Although not required by law, the Insurance Commission has adopted a prudential margin in accordance with Australian Prudential Regulatory Authority regulations covering private insurers. The central estimate is discounted using risk-free rates and the total outstanding claims liability provision is required to achieve a 75% level of adequacy based solely on liability risk (i.e. with no allowance for asset risk, nor asset returns above risk free rates).

Nevertheless the provision for outstanding claims liability is subject to significant uncertainty, related to:

- Future trends in claim frequency;
- Future changes in social and judicial attitudes;
- Changes in legislation; and
- Changes in economic conditions (e.g. inflation, investment returns).

Corporation

Given that the majority of insurance contracts under management of the Insurance Commission deal with classes of insurance where the estimate of liability is subject to material change following the close of the contract period, a Claims Development Table has been provided in Note 17 which details outstanding claims estimates for underwriting years at successive year ends.

(e) Market Risk

Market risks arise in regard to varying interest rates, currency, and equity products which are exposed to general and specific market volatilities.

To minimise exposure to this risk which can affect assets and liabilities backing insurance contracts, the Insurance Commission's investment decisions are undertaken in accordance with Prudential Guidelines for Investments (Guidelines) issued by the Treasurer of Western Australia. The Board of Commissioners determines investment strategy, investment manager appointments and other key investment portfolio construction issues subject to those Guidelines. The Guidelines are regularly reviewed and updated to incorporate changes as the investment market evolves both internationally and within Australia.

(f) Liquidity Risk

The Insurance Commission is subject to daily calls upon its available cash resources for insurance policy claims. Liquidity risk is the risk that payments of obligations may not be met in a timely manner at a reasonable cost. The Insurance Commission has in place policies and procedures to cover unexpected fluctuations in the levels of claims payments. The liquidity component of the overall investment portfolio is governed by the Guidelines which are reviewed regularly.

(g) Interest Rate Risk

The Insurance Commission manages its exposure to interest rate risk associated with assets and liabilities arising from insurance contracts, through strategies that seek to match the interest rate sensitivity of the assets to the underlying liabilities. Interest rate risk in the investment portfolio is managed using a diversified fixed and variable, short and long term instruments.

(h) Foreign Exchange Risk

Foreign exchange risks arise when transactions are denominated in a currency that is not Australian Dollars. The Insurance Commission invests a portion of its financial assets (which back insurance contracts) in global equities. In order to reduce the exposure to foreign exchange risk, the Insurance Commission holds forward foreign exchange contracts which cover an average of 50% of the exposure generated. Refer Note 26.

4. INSURANCE CONTRACTS - RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

(i) Credit Risk

Financial assets and liabilities arising from insurance and reinsurance contracts are stated in the Balance Sheet at the amount which best represents the maximum credit risk exposure. In addition, as stated above, the Treasurer of Western Australia has set Guidelines for investments, developed by the Insurance Commission, which controls the types of investments held and imposes and monitors ratings for credit risk for those investments.

The economic entity does not have a significant credit risk exposure to any single counterparty or any group of counterparties with similar characteristics, with the exception of having 73% (2005: 79%) of its recognised financial assets in Australia. Refer Note 26.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

5. REVENUE AND INCOME

5. REVENUE AND INCOME		CONSOLIDATED		INSURANCE COMMISSION	
	Notes	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Profit before Income Tax Equivalent Expense includes the following specific revenue items:					
Premium					
Direct		365,802	342,011	365,802	342,011
Inwards Reinsurance		(128)	190	-	-
Movement in Unearned Premium					
Direct		(9,448)	(770)	(9,448)	(770)
		356,226	341,431	356,354	341,241
Outwards Reinsurance Commission		426	343	426	343
Recoveries					
Reinsurance		2,945	17,293	2,951	17,306
Other		(375)	6,257	(375)	6,257
		2,570	23,550	2,576	23,563
Investment Income					
Investment Property Income		22,480	23,339	22,480	23,339
Dividends		54,395	32,807	54,395	32,807
Interest		23,620	29,761	23,620	29,761
Changes in Market Values: Unrealised		187,064	120,078	187,064	120,078
Changes in Market Values: Realised		56,262	27,544	56,262	27,544
Foreign Exchange Gain/(Loss): Unrealised		11,969	(12,751)	11,969	(12,751)
Foreign Exchange (Loss)/Gain: Realised		(8,696)	18,133	(8,696)	18,133
Recovery of Investments Previously Written Off	10	-	22	-	22
Other		183	207	183	207
		347,277	239,140	347,277	239,140
Other					
Other Property Income	(i)	13,613	12,332	13,613	12,332
Management Fees		15,155	14,654	15,304	14,812
Right of Indemnity - Government Insurance Fund		(6,029)	11,255	(6,029)	11,255
Interest		1,165	2,021	1,165	2,008
Net Gains Arising from Disposal of Property, Plant and Equipment		-	8	-	8
Foreign Exchange Loss: Corporation: Realised		-	(32)	-	-
Sundry		23	15	23	15
		23,927	40,253	24,076	40,430
Total Revenue and Income		730,426	644,717	730,709	644,717

(i) Other Property Income relates to Land and Buildings required by AASB 116 to be presented within Property, Plant and Equipment.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

6. EXPENSES

6. EXPENSES		CONSOLIDATED		INSURANCE COMMISSION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
	Notes				
Profit before Income Tax Equivalent Expense includes the following specific expenses:					
Claims					
Direct		329,119	304,201	329,119	304,201
Inwards Reinsurance		(433)	(310)	-	-
		328,686	303,891	329,119	304,201
Outwards Reinsurance					
		4,896	3,515	4,896	3,515
Investment Expenses					
Investment Property Expenses		6,926	6,045	6,926	6,045
Investment Management and Custodian Fees		6,926	5,648	6,926	5,648
Administration Expenses		3,052	1,043	3,052	1,043
		16,904	12,736	16,904	12,736
Finance Costs					
Interest Paid to RiskCover Fund	42	62,324	43,683	62,324	43,683
Interest Paid to Community Insurance Fund	43	77	50	77	50
		62,401	43,733	62,401	43,733
Acquisition Costs					
		8,176	7,812	8,186	7,799
Underwriting and Administration					
Accident Prevention and Research		3,045	4,110	3,045	4,110
Levies and Charges		76	67	76	67
Impairment of Receivables		8	(8)	(9)	(8)
Amounts paid or due and payable to the Auditor General					
- Auditing the Financial Statements	39	347	345	347	345
Board of Commissioners' Fees		254	203	254	203
Contractors and Consultants		2,726	2,957	2,726	2,957
Debt Recovery Costs		25,384	23,234	25,384	23,234
Amortisation Intangible Assets		539	242	539	242
Depreciation		1,162	1,515	1,162	1,515
Employee Benefits					
- Annual Leave		1,493	1,128	1,493	1,128
- Long Service Leave		297	417	297	417
- Salaries and Employee-Related Costs		14,740	14,604	14,740	14,604
- Superannuation		1,962	3,174	1,962	3,174
IT Hardware and Software		3,865	3,670	3,865	3,670
Other Underwriting and Administration		3,167	3,160	3,166	3,159
		59,065	58,818	59,047	58,817
Other					
Other Property Expenses	(i)	9,404	8,143	9,404	8,143
Net Losses Arising from Disposal of Property, Plant and Equipment		54	-	54	-
Movement in Value of Corporation	32	-	-	(161)	(431)
Interest Paid to Corporation		-	-	88	101
Sundry		3	296	3	296
		9,461	8,439	9,388	8,109
Total Expenses		489,589	438,944	489,941	438,910

(i) Other Property Expenses relate to Land and Buildings required by AASB 116 to be presented within Property, Plant and Equipment.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

7. NET CLAIMS INCURRED

	CONSOLIDATED			INSURANCE COMMISSION		
	2006			2006		
	Current Year (i) \$'000	Prior Years (ii) \$'000	Total \$'000	Current Year (i) \$'000	Prior Years (ii) \$'000	Total \$'000
Current Year						
Gross Claims Incurred and Related Expenses - Undiscounted	393,238	9,138	402,376	393,238	9,595	402,833
Reinsurance and Other Recoveries - Undiscounted	(21,140)	11,576	(9,564)	(21,140)	11,577	(9,563)
Net Claims Incurred - Undiscounted	372,098	20,714	392,812	372,098	21,172	393,270
Discount and Discount Movement - Gross Claims Incurred	(70,860)	(2,831)	(73,691)	(70,860)	(2,855)	(73,715)
Discount and Discount Movement - Reinsurance and Other Recoveries	38,090	(31,095)	6,995	38,090	(31,102)	6,988
Net Discount Movement	(32,770)	(33,926)	(66,696)	(32,770)	(33,957)	(66,727)
Net Claims Incurred	339,328	(13,212)	326,116	339,328	(12,785)	326,543
	2005			2005		
	Current Year (i) \$'000	Prior Years (ii) \$'000	Total \$'000	Current Year (i) \$'000	Prior Years (ii) \$'000	Total \$'000
Previous Year						
Gross Claims Incurred and Related Expenses - Undiscounted	398,504	(103,821)	294,683	398,504	(102,965)	295,539
Reinsurance and Other Recoveries - Undiscounted	(21,660)	(866)	(22,526)	(21,660)	(868)	(22,528)
Net Claims Incurred - Undiscounted	376,844	(104,687)	272,157	376,844	(103,833)	273,011
Discount and Discount Movement - Gross Claims Incurred	(62,270)	71,478	9,208	(62,270)	70,932	8,662
Discount and Discount Movement - Reinsurance and Other Recoveries	39,630	(40,654)	(1,024)	39,630	(40,665)	(1,035)
Net Discount Movement	(22,640)	30,824	8,184	(22,640)	30,267	7,627
Net Claims Incurred	354,204	(73,863)	280,341	354,204	(73,566)	280,638

(i) **Current Year's** claims relate to risks borne in the current financial year.

(ii) **Prior Years'** claims relate to a re-assessment of the risks borne in all previous financial years.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

8. INCOME TAX EQUIVALENT

	CONSOLIDATED		INSURANCE COMMISSION	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
INCOME TAX EQUIVALENT EXPENSE				
Current Income Tax				
Current Income Tax Equivalent Expense	5,319	-	5,225	-
Adjustments in Respect of Current Income Tax of Previous Years	-	(5,607)	-	(5,583)
Deferred Income Tax				
Relating to Origination and Reversal of Temporary Differences	64,894	56,250	64,919	56,260
Income Tax Equivalent Expense Reported in the Income Statement	70,213	50,643	70,144	50,677
AMOUNT RECOGNISED DIRECTLY IN EQUITY				
Deferred Income Tax Related to Items Charged or Credited Directly to Equity:				
Net Revaluation Increment of Land and Buildings - Forrest Centre	9,600	1,271	9,600	1,271
Income Tax Equivalent Expense Reported in Equity	9,600	1,271	9,600	1,271
RECONCILIATION OF INCOME TAX TO PRIMA FACIE TAX PAYABLE				
Profit before Income Tax Equivalent Expense	240,837	205,773	240,768	205,807
Tax at the Statutory Income Tax Rate of 30% (2005: 30%)	72,251	61,732	72,230	61,742
Tax Free Dividends	(3,210)	(5,512)	(3,210)	(5,512)
Adjustments Recognised in the Current Year in Relation to the Current Tax of Prior Years	-	(5,607)	-	(5,583)
Miscellaneous Items	1,172	30	1,124	30
Income Tax Equivalent Expense	70,213	50,643	70,144	50,677

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

8. INCOME TAX EQUIVALENT (continued)

	BALANCE SHEET		INCOME STATEMENT	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
DEFERRED INCOME TAX				
Deferred Income Tax at 30 June Relates to the Following:				
CONSOLIDATED				
Deferred Tax Liabilities				
Revaluations of Land and Buildings to Fair Value	(24,377)	(11,665)	12,713	(3,400)
Revaluation of Property, Plant & Equipment (Forrest Centre & 161 St Georges Terrace)	(20,805)	(11,939)	(735)	(798)
Financial Assets at Fair Value Through Profit and Loss - Net Unrealised Gains	(81,452)	(53,820)	27,631	24,435
Property Receipts - Other	(1,365)	(436)	929	-
Recoverable Costs - Other	(18,000)	(18,000)	-	-
Other	-	-	-	34
	(145,999)	(95,860)		
Deferred Tax Assets				
Depreciable Property, Plant and Equipment	664	688	24	(17)
Losses Available for Offset Against Future Taxable Income	-	28,825	28,825	35,114
Trust Income	9,529	3,989	(5,540)	-
Indirect Claims Settlement Costs	15,049	14,677	(372)	1,246
Provisions - Various	4,718	4,712	(6)	(368)
Other	-	1,425	1,425	4
	29,960	54,316		
Net Deferred Income Tax Liability	(116,039)	(41,544)		
Deferred Income Tax Equivalent Expense			64,894	56,250
INSURANCE COMMISSION				
Deferred Tax Liabilities				
Revaluations of Land and Buildings to Fair Value	(24,377)	(11,665)	12,713	(3,400)
Revaluation of Property, Plant & Equipment (Forrest Centre & 161 St Georges Terrace)	(20,805)	(11,939)	(735)	(798)
Financial Assets at Fair Value Through Profit and Loss - Net Unrealised Gains	(81,452)	(53,820)	27,631	24,479
Property Receipts - Other	(1,365)	(436)	929	-
Recoverable Costs - Other	(18,000)	(18,000)	-	-
Other	-	-	-	-
	(145,999)	(95,860)		
Deferred Tax Assets				
Depreciable Property, Plant and Equipment	664	688	24	(17)
Losses Available for Offset Against Future Taxable Income	-	28,825	28,825	35,114
Trust Income	9,529	3,989	(5,540)	-
Indirect Claims Settlement Costs	14,540	14,188	(352)	1,246
Provisions - Various	4,713	4,712	(1)	(368)
Other	-	1,425	1,425	4
	29,446	53,827		
Net Deferred Income Tax Liability	(116,553)	(42,033)		
Deferred Income Tax Equivalent Expense			64,919	56,260

Tax Consolidation

The Insurance Commission and its 100% owned Australian resident subsidiary, the Corporation, have formed a tax consolidated group with effect from 1 July 2002. The Insurance Commission is the head entity of the tax consolidated group.

Tax Effect Accounting by Members of the Tax Consolidated Group

Members of the tax consolidated group have entered into a tax funding agreement. Under the terms of the tax funding agreement the Insurance Commission and its subsidiary, the Corporation, have agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity calculated using the Group Allocation approach. Such amounts are reflected in amounts receivable from or payable to the Corporation.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

9. RECEIVABLES

	Notes	CONSOLIDATED		INSURANCE COMMISSION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current					
Premiums Receivable		3,225	3,064	3,225	3,064
Discounted Value of Expected Future Reinsurance and Other Recoveries Receivable		27,998	27,798	27,781	27,608
Less: Provision for Impairment		(598)	(589)	(581)	(589)
		27,400	27,209	27,200	27,019
Right of Indemnity					
Government Insurance Fund	(i)	6,068	8,939	6,068	8,939
WorkCover WA	(ii)	3,312	3,402	3,312	3,402
		9,380	12,341	9,380	12,341
Other Receivables					
Sundry Receivables		4,549	3,286	4,549	3,286
		44,554	45,900	44,354	45,710
Non-Current					
Discounted Value of Expected Future Reinsurance and Other Recoveries Receivable		95,789	96,675	95,713	96,594
Right of Indemnity					
Government Insurance Fund	(i)	52,407	61,643	52,407	61,643
WorkCover WA	(ii)	14,419	19,591	14,419	19,591
		66,826	81,234	66,826	81,234
Other Receivables	(iii)	107,560	95,062	107,560	95,062
		270,175	272,971	270,099	272,890
Movement in Provision for Impairment					
Balance at Start of the Year		589	662	589	597
Impairment Written Off During the Year		-	(65)	-	-
Impairment Provision No Longer Required		(8)	(8)	(8)	(8)
New Provision Made During the Year		17	-	-	-
Balance at End of the Year		598	589	581	589

- (i) In accordance with Cabinet's decision of May 1996, Treasury assumed liability for any accumulated deficit existing in the Government Insurance Fund.
- (ii) In accordance with Section 25(2) of the *Employers' Indemnity Supplementation Fund Act 1980*, the Insurance Commission has the right of reimbursement from WorkCover WA for all payments and expenses paid under this Act. Refer Note 17.
- (iii) Other Receivables (Non-Current) includes \$60.0 million (2005 - \$60.0 million) relating to costs incurred in a debt recovery action (Refer Note 10) and \$44.6 million (2005 - \$32.1 million) relating to the payment of security of costs ordered by the Supreme Court of Western Australia in the Bell Group recovery action.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

		CONSOLIDATED		INSURANCE COMMISSION	
		2006	2005	2006	2005
		\$'000	\$'000	\$'000	\$'000
Current Investments					
Fixed Interest Bonds		218,426	251,896	218,426	251,896
Fixed Interest Unit Trusts		170,626	150,782	170,626	150,782
Indexed Bonds		57,957	53,415	57,957	53,415
Shares - Listed		960,983	862,133	960,983	862,133
Equity Unit Trusts		193,646	137,253	193,646	137,253
Hedge Funds		140,000	-	140,000	-
Cash and Cash Equivalent Assets		51,909	55,969	51,909	55,969
Receivables		937	1,211	937	1,211
Floating Rate Promissory Note	(i)	(387,889)	(320,164)	(387,889)	(320,164)
Forward Foreign Exchange Contracts	26 (c)	2,534	5,872	2,534	5,872
		1,409,129	1,198,367	1,409,129	1,198,367
Non-Current Investments					
Property Trust - Unlisted		124,073	101,905	124,073	101,905
Receivables		726	1,154	726	1,154
		124,799	103,059	124,799	103,059
Original Investment in Subsidiary	(ii)	-	-	100,000	100,000
Provision for Write Down in Subsidiary		-	-	(84,327)	(84,488)
Value of Investment in Subsidiary at Balance Date		-	-	15,673	15,512
		124,799	103,059	140,472	118,571
		1,533,928	1,301,426	1,549,601	1,316,938

(i) The Floating Rate Promissory Note represents RiskCover's share of the investment pool of the economic entity. Refer Note 42.

(ii) The Insurance Commission owns 100% of the issued share capital of the Corporation. The original investment in the Corporation is written down at balance date to the extent that the Insurance Commission's original investment exceeds fair value.

Spedley Securities Limited (in Liquidation) (Spedley) - Investment

\$22,000 was received during the year ended 30 June 2005. No further amounts are expected to be received from the liquidator.

The Bell Group Ltd (in Liquidation) (TBGL) and Bell Group Finance Pty Ltd (in Liquidation) (BGF) - Convertible Bonds

The Insurance Commission was owed \$150 million (previously written off) plus interest by TBGL and BGF in respect of subordinated convertible bonds (Bell bonds) which were purchased by the Insurance Commission pursuant to an underwriting agreement dated 29 April 1988.

The Insurance Commission is one of the creditors funding the liquidators of TBGL, BGF and their subsidiaries pursuant to indemnity agreements with the liquidators to meet their costs of conducting an action (the Bell recovery action) for the recovery of approximately \$280 million plus interest (which results in a total claimed recovery to the liquidations in excess of \$1.4 billion) from two syndicates of banks headed by Westpac Banking Corporation and Lloyds Bank plc of London.

The Board believes that it is appropriate to maintain the carrying value of the Bell bonds at zero, pending the final outcome of the Bell recovery action.

- TBGL Shares and Southern Equities Corporation Ltd (in Liquidation) (SECL) Indemnity

The Insurance Commission was owed \$200.967 million (previously written off) by SECL (formerly known as Bond Corporation Holdings) pursuant to a judgement of the Supreme Court of Western Australia dated 21 June 1996. The judgement arose from an indemnity given by SECL in relation to the purchase of shares in TBGL by the Insurance Commission at the time it acquired the Bell bonds. On 21 August 2002, the Insurance Commission received \$26.741 million from the SECL administration pursuant to a legal settlement reached with SECL's auditors, Arthur Andersen. This receipt does not reduce the Insurance Commission's claim in respect of the judgement debt.

Dividends totalling \$17.082 million (8.5 cents in the dollar) had been received from the SECL administration at 30 June 2004. No further dividends were received in the years ended 30 June 2005 or 30 June 2006. Further dividends from the SECL administration are expected. However, the Board, having regard to the uncertainty that exists in relation to the amount and timing of the future dividends to be received from the SECL liquidator, believes that it is appropriate to maintain the carrying value of this debt at zero.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

11. PROPERTY, PLANT AND EQUIPMENT

CONSOLIDATED 2006 (\$'000)								
	Freehold Land	Freehold Buildings	Buildings under Development or Construction	Plant and Equipment	Furniture and Fittings	Computer Hardware	Motor Vehicles	Leasehold Improvements
Current Year								Total
Cost or Valuation								
Balance at Start of the Year	14,100	118,400	5,600	1,009	393	5,512	1,034	2,630
Additions	-	428	51	17	27	592	542	296
Disposals	-	-	-	(253)	(256)	(711)	(552)	-
Net Revaluation Increments/(Decrements) (i)	-	27,072	849	-	-	-	-	-
Balance at End of the Year	14,100	145,900	6,500	773	164	5,393	1,024	2,926
Accumulated Depreciation								
Balance at Start of the Year	-	-	-	741	300	4,608	101	1,245
Depreciation Expense for the Year	-	4,080	-	91	14	527	131	410
Disposals	-	-	-	(252)	(256)	(703)	(115)	-
Net Adjustments from Revaluation Increments/(Decrements) (i)	-	(4,080)	-	-	-	-	-	-
Balance at End of the Year	-	-	-	580	58	4,432	117	1,655
Carrying Amount at End of the Year	14,100	145,900	6,500	193	106	961	907	1,271
								169,938

All Property, Plant and Equipment is held within the Insurance Commission General Fund of the Insurance Commission.

Freehold Land and Buildings, being the Forrest Centre, and Freehold Land and Buildings under Development or Construction, being 161 St Georges Terrace (formerly known as Bible House), were valued at balance date. Refer Note 1 (r). The Independent Valuer used was Mr J Fenner AAPf of CB Richard Ellis Pty Ltd.

(i) Total movement in Asset Revaluation Reserve before tax.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

11. PROPERTY, PLANT AND EQUIPMENT (continued)

	CONSOLIDATED 2005 (\$'000)								
	Freehold Land & Buildings under Development or Construction								
Prior Year	Freehold Land	Freehold Buildings	Buildings under Development or Construction	Plant and Equipment	Furniture and Fittings	Computer Hardware	Motor Vehicles	Leasehold Improvements	Total
Cost or Valuation									
Balance at Start of the Year	14,100	117,900	35,628	955	390	5,248	990	2,606	177,817
Additions	-	193	17,223	160	4	671	716	24	18,991
Disposals	-	-	-	(106)	(1)	(407)	(673)	-	(1,187)
Net Revaluation Increments/(Decrements)	-	307	-	-	-	-	-	-	307
Impairment Losses Charged to Profit	-	-	(294)	-	-	-	-	-	(294)
Transfer to Investment Properties	-	-	(46,957)	-	-	-	-	-	(46,957)
Balance at End of the Year	14,100	118,400	5,600	1,009	393	5,512	1,033	2,630	148,677
Accumulated Depreciation									
Balance at Start of the Year	-	-	-	744	290	4,114	151	854	6,153
Depreciation Expense for the Year	-	3,930	-	98	12	894	129	391	5,454
Disposals	-	-	-	(101)	(2)	(400)	(179)	-	(682)
Net Adjustments from Revaluation Increments/(Decrements)	-	(3,930)	-	-	-	-	-	-	(3,930)
Balance at End of the Year	-	-	-	741	300	4,608	101	1,245	6,995
Carrying Amount at End of the Year	14,100	118,400	5,600	268	93	904	932	1,385	141,682

All Property, Plant and Equipment is held within the Insurance Commission General Fund of the Insurance Commission.

Freehold Land and Buildings, being the Forrest Centre, and Freehold Land and Buildings under Development or Construction, being 161 St Georges Terrace (formerly known as Bible House), were valued at balance date. Refer Note 1 (f). The Independent Valuer used was Mr S Nuttall AAPI ASIA of CB Richard Ellis Pty Ltd.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

12. INVESTMENT PROPERTIES

	CONSOLIDATED		INSURANCE COMMISSION	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
At Valuation				
Freehold Land and Buildings	258,426	219,400	258,426	219,400
RECONCILIATION				
Cost or Valuation				
Balance at Start of the Year	219,400	149,200	219,400	149,200
Additions	923	39,097	923	39,097
Net Revaluation Increments/(Decrements)	38,103	(15,854)	38,103	(15,854)
Transfers from Property, Plant and Equipment	-	46,957	-	46,957
Balance at End of the Year	258,426	219,400	258,426	219,400

The Westralia Square land and buildings at 141 St Georges Terrace and shopping centre land and buildings at Ellenbrook and Livingston were valued at balance date. Refer Note 1(t).

The Independent Valuer used for 141 St Georges Terrace was Mr J Fenner AAPI of CB Richard Ellis Pty Ltd. Investment Properties includes \$92.9 million relating to the shopping centre land and buildings. The Independent Valuer used for these retail properties was Mr M. Foster-Key AAPI MRICS of Savills (WA) Pty Ltd.

13. INTANGIBLE ASSETS

Computer Software

Cost

Balance at Start of the Year	4,072	3,655	4,072	3,655
Additions	2,282	417	2,282	417
Disposals	(944)	-	(944)	-
Balance at End of the Year	5,410	4,072	5,410	4,072

Accumulated Amortisation

Balance at Start of the Year	3,499	3,257	3,499	3,257
Amortisation Expense for the Year	539	242	539	242
Disposals	(944)	-	(944)	-
Balance at End of the Year	3,094	3,499	3,094	3,499

Carrying Amount at End of the Year

	2,316	573	2,316	573
--	--------------	-----	--------------	-----

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

14. DEFERRED ACQUISITION COSTS

	CONSOLIDATED		INSURANCE COMMISSION	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Balance at Start of the Year	3,064	2,910	3,064	2,910
Acquisition Costs Deferred	3,279	3,064	3,279	3,064
Amortisation Charged to Income	(3,064)	(2,910)	(3,064)	(2,910)
Balance at End of the Year	3,279	3,064	3,279	3,064

15. OTHER ASSETS

Current				
Prepaid Expenses	449	463	449	463
Sundry	245	802	245	802
	694	1,265	694	1,265
Non-Current				
Sundry	428	1,465	428	1,465
	428	1,465	428	1,465

16. PAYABLES

	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Current				
Sundry Creditors	13,185	10,925	13,185	10,925
Reinsurance Creditors	1,625	638	1,178	545
Investment Sundry Payables	2,033	3,658	2,033	3,658
Goods and Services Tax Liability	317	1,880	317	1,880
	17,160	17,101	16,713	17,008
Non-Current				
Investment Sundry Payables	4,000	4,000	4,000	4,000
Other Payables	(i) -	-	18,451	18,545
Mine Workers' Relief Fund	(ii) 16	17	16	17
	4,016	4,017	22,467	22,562

- (i) Other Payables relates to amounts due to the Corporation in respect of deferred tax assets arising from past losses presented as an intercompany payable in accordance with UIG 1052.
- (ii) The assets of the Mine Workers' Relief Fund (MWRF) were vested in the State Government Insurance Office on 14 September 1984 pursuant to Section 62A of the *Mine Workers' Relief Fund Act 1932* and were transferred to the Insurance Commission on 1 January 1987 when Schedule 4(9) of the *Insurance Commission of Western Australia Act 1986* came into operation. The MWRF is managed by the Insurance Commission, the liability for which is included in the Insurance Commission General Fund.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

17. OUTSTANDING CLAIMS LIABILITY

	CONSOLIDATED		INSURANCE COMMISSION	
	2006	2005	2006	2005
(a) Outstanding Claims Liability	\$'000	\$'000	\$'000	\$'000
Central Estimate	1,619,210	1,531,459	1,616,388	1,528,042
Discount to Present Value	(363,269)	(293,963)	(362,272)	(292,871)
	1,255,941	1,237,496	1,254,116	1,235,171
Claims Management Expenses (discounted)	54,842	55,792	53,145	54,161
	1,310,783	1,293,288	1,307,261	1,289,332
Risk Margin	95,057	97,133	93,930	95,856
Gross Outstanding Claims Liability	1,405,840	1,390,421	1,401,191	1,385,188
Current	327,914	325,795	327,233	325,048
Non-Current	1,077,926	1,064,626	1,073,958	1,060,140
	1,405,840	1,390,421	1,401,191	1,385,188

(b) Employers' Indemnity Supplementation Fund Act 1980 (EISF Act) Liabilities

On 14 March 2001, the HIH Insurance Group of companies (incorporating both FAI Insurances Limited and CIC Insurance Limited) was placed in provisional liquidation. All relevant workers' compensation claims arising within Western Australia up to and including this date will be met from the Employers' Indemnity Supplementation Fund, which is managed by WorkCover WA.

The EISF Act was established to fund the payment of certain claims for workers' compensation and for damages, and other incidental purposes, arising from injury to, or death of, a worker. Section 19 of the EISF Act states that a person or employer may make a claim against the Insurance Commission for compensation under the *Workers' Compensation and Injury Management Act 1981*, for damages at common law, if the liability of the employer is covered by an employers' policy and the insurer who issued that policy is dissolved under law, or is unable to provide the indemnity required under that policy. Accordingly, the Insurance Commission is required to take up a liability for the HIH workers' compensation outstanding claims, notwithstanding the fact that these EISF Act liabilities have not arisen as a result of the Insurance Commission's underwriting activities.

Actuarially assessed outstanding claims liabilities for these HIH policies, excluding claims administration expenses paid directly by WorkCover WA, are included in the Insurance Commission General Fund's total Outstanding Claims Liability.

In accordance with Section 25(2) of the EISF Act, the Insurance Commission has the right of reimbursement from WorkCover WA for payments made under the EISF Act. A Right of Indemnity asset, equal to the value of the outstanding claims liability, has therefore been brought to account. Refer Note 9.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

17. OUTSTANDING CLAIMS LIABILITY (continued)

(c) Risk Margin

Process for Determining Risk Margin:

The Insurance Commission and Corporation have both adopted a risk margin in accordance with the Australian Prudential Regulation Authority (APRA) guidelines covering private insurers effective from 30 June 2002. Under this regime the central estimate is derived using risk-free rates based on yields from Commonwealth Government fixed-interest securities. The total provision is required to achieve a 75% probability of sufficiency based solely on liability risk (including inflation risk), but with no allowance for asset risk, or asset returns above risk-free rates.

The 75% probability of sufficiency is estimated taking into account potential uncertainties relating to various actuarial assumptions and statistical modelling techniques, the underlying data quality, the general insurance and legal environments, and changes in social attitudes.

Risk Margin Applied:

	2006 %	2005 %
Third Party Insurance Fund	6.0	6.0
Compensation (Industrial Diseases) Fund	18.7	18.7
Government Insurance Fund		
- Workers' Compensation	22.5	22.5
- Liability	16.8	16.8
Insurance Commission General Fund		
- Workers' Compensation and Liability Insurance	25.0	25.0
- EISF Act		
Asbestos-Related Diseases	20.4	20.4
Non Asbestos-Related Diseases	12.1	12.1
Corporation - Inwards Reinsurance	14.3	13.8

(d) Liability for Outstanding Claims (discounted)

The liability for outstanding claims (excluding reinsurance and other recoveries receivable) is set out below by Fund:

	CONSOLIDATED		INSURANCE COMMISSION	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Insurance Commission General Fund				
- Workers' Compensation and Liability Insurance*	71,895	82,474	71,895	82,474
- EISF Act*	17,886	22,993	17,886	22,993
	89,781	105,467	89,781	105,467
Third Party Insurance Fund	1,239,340	1,192,960	1,239,340	1,192,960
Compensation (Industrial Diseases) Fund	7,053	6,932	7,053	6,932
Government Insurance Fund*	65,017	79,829	65,017	79,829
Corporation - Inwards Reinsurance*	4,649	5,233	-	-
Total	1,405,840	1,390,421	1,401,191	1,385,188

* Denotes Funds that are in run-off.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

17. OUTSTANDING CLAIMS LIABILITY (continued)

(e) Outstanding Claims Liability by Funds

Insurance Commission	Notes	Third Party		Compensation (Industrial Diseases)		Government		Insurance Commission	
		Insurance Fund		Fund		Insurance Fund		General Fund	
		2006	2005	2006	2005	2006	2005	2006	2005
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Central Estimate		1,415,990	1,302,690	7,097	6,383	80,071	94,421	113,230	124,548
Discount to present value		(289,060)	(217,940)	(2,491)	(1,860)	(31,128)	(34,129)	(39,593)	(38,942)
Claims Management Expenses (discounted)		1,126,930	1,084,750	4,606	4,523	48,943	60,292	73,637	85,606
Risk Margin		42,260	40,680	1,612	1,583	4,625	5,620	4,648	6,278
		1,169,190	1,125,430	6,218	6,106	53,568	65,912	78,285	91,884
Gross Outstanding Claims Liability		70,150	67,530	835	826	11,449	13,917	11,496	13,583
		1,239,340	1,192,960	7,053	6,932	65,017	79,829	89,781	105,467
Current	29	308,550	302,980	787	824	6,677	9,875	11,219	11,369
Non-Current	29	930,790	889,980	6,266	6,108	58,340	69,954	78,562	94,098
		1,239,340	1,192,960	7,053	6,932	65,017	79,829	89,781	105,467

The Insurance Commission General Fund includes the liabilities arising under the *Employers' Indemnity Supplementation Fund Act 1980* as follows:

	2006	2005
	\$'000	\$'000
Central Estimate	21,822	27,038
Discount to present value	(6,294)	(8,007)
Claims Management Expenses (discounted)	15,528	19,031
Risk Margin	-	952
Gross Outstanding Claims Liability	15,528	19,983
	2,358	3,010
	17,886	22,993
Current	3,355	3,402
Non-Current	14,531	19,591
	17,886	22,993

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

17. OUTSTANDING CLAIMS LIABILITY (continued)

Compensation (Industrial Diseases) Fund

The liability includes an amount of \$6.5 million (2005: \$6.3 million), representing the estimated liability of asbestos mining-related workers' compensation claims, prior to future recoveries, arising from operations at Wittenoom. A recoverable amount of \$1.8 million (2005: \$1.7 million) is included in Reinsurance and Other Recoveries Receivable. Refer Note 9. This produces a net liability for asbestos mining-related claims of \$4.7 million (2005: \$4.6 million).

Insurance Commission General Fund - Workers' Compensation and Public Liability Insurance

The liability for outstanding claims applicable to classes of insurance conducted by the State Government Insurance Office prior to 1 January 1987 is settled through this Fund, which includes Wittenoom asbestos-related common law liability, as detailed below.

The above liability includes an amount of \$52.4 million (2005: \$58.1 million) representing the estimated liability, prior to future recoveries, for the Wittenoom asbestos-related common law claims. A recoverable amount of \$26.2 million (2005: \$29.1 million) is included in Reinsurance and Other Recoveries Receivable. Refer Note 9. This produces a net liability relating to the Wittenoom asbestos-related common law claims of \$26.2 million (2005: \$29.1 million).

Corporation - Inwards Reinsurance

	2006 \$'000	2005 \$'000
Central Estimate	2,822	3,417
Discount to present value	(997)	(1,092)
	1,825	2,325
Claims Management Expenses	1,697	1,631
	3,522	3,956
Risk Margin	491	532
Additional Precautionary Margin	636	745
Gross Outstanding Claims Liability	4,649	5,233
Current	681	747
Non-Current	3,968	4,486
	4,649	5,233

Refer Notes 2 and 3 for the methodologies and assumptions used to calculate the outstanding claims liability of the Corporation.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

17. OUTSTANDING CLAIMS LIABILITY (continued)

(f) Reconciliation of Movement in Discounted Outstanding Claims Liability

		Gross \$'000	Reinsurance and Other Recoveries \$'000	Net \$'000
Third Party Insurance Fund				
Outstanding Claims Liability at 1 July 2005		1,192,960	88,550	1,104,410
Effect of Changes in Assumptions/Experience		(18,130)	16,880	(35,010)
Increase in Expected Claims Incurred/Recoveries During Year		383,250	7,500	375,750
Incurred Claims Recognised in the Income Statement		365,120	24,380	340,740
Claim Payments/Recoveries During Year		(318,740)	(21,138)	(297,602)
Total Outstanding Claims Liability at 30 June 2006		1,239,340	91,792	1,147,548
Compensation (Industrial Diseases) Fund				
Outstanding Claims Liability at 1 July 2005		6,932	1,487	5,445
Effect of Changes in Assumptions/Experience		191	322	(131)
Increase in Expected Claims Incurred/Recoveries During Year		-	-	-
Incurred Claims Recognised in the Income Statement		191	322	(131)
Claim Payments/Recoveries During Year		(70)	(22)	(48)
Total Outstanding Claims Liability at 30 June 2006		7,053	1,787	5,266
Government Insurance Fund				
Workers' Compensation				
Outstanding Claims Liability at 1 July 2005		76,191	1,428	74,763
Effect of Changes in Assumptions/Experience		(10,791)	(89)	(10,702)
Increase in Expected Claims Incurred/Recoveries During Year		1,409	(4)	1,413
Incurred Claims Recognised in the Income Statement		(9,382)	(93)	(9,289)
Claim Payments/Recoveries During Year		(4,121)	(330)	(3,791)
Outstanding Claims Liability at 30 June 2006	(i)	62,688	1,005	61,683
Public Liability				
Outstanding Claims Liability at 1 July 2005		3,638	2,365	1,273
Effect of Changes in Assumptions/Experience		(645)	(744)	99
Increase in Expected Claims Incurred/Recoveries During Year		100	102	(2)
Incurred Claims Recognised in the Income Statement		(545)	(642)	97
Claim Payments/Recoveries During Year		(764)	(226)	(538)
Outstanding Claims Liability at 30 June 2006	(ii)	2,329	1,497	832
Total Outstanding Claims Liability at 30 June 2006	(i)+(ii)	65,017	2,502	62,515

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

17. OUTSTANDING CLAIMS LIABILITY (continued)

(f) Reconciliation of Movement in Discounted Outstanding Claims Liability (continued)

Insurance Commission General Fund

Run-Off Liabilities

Workers' Compensation

	Gross \$'000	Reinsurance and Other Recoveries \$'000	Net \$'000
Outstanding Claims Liability at 1 July 2005	79,436	29,534	49,902
Effect of Changes in Assumptions/Experience	(6,070)	(1,234)	(4,836)
Increase in Expected Claims Incurred/Recoveries During Year	-	-	-
Incurred Claims Recognised in the Income Statement	(6,070)	(1,234)	(4,836)
Claim Payments/Recoveries During Year	(4,381)	(1,700)	(2,681)
Outstanding Claims Liability at 30 June 2006	68,985	26,600	42,385

(iii)

Public Liability

	Gross \$'000	Reinsurance and Other Recoveries \$'000	Net \$'000
Outstanding Claims Liability at 1 July 2005	3,038	72	2,966
Effect of Changes in Assumptions/Experience	(128)	(3)	(125)
Increase in Expected Claims Incurred/Recoveries During Year	-	-	-
Incurred Claims Recognised in the Income Statement	(128)	(3)	(125)
Claim Payments/Recoveries During Year	-	-	-
Outstanding Claims Liability at 30 June 2006	2,910	69	2,841

(iv)

Total Run-off Outstanding Claims Liability at 30 June 2006

(iii)+(iv)

	71,895	26,669	45,226
--	---------------	---------------	---------------

EISF Act

Asbestos-Related Claims

	Gross \$'000	Reinsurance and Other Recoveries \$'000	Net \$'000
Outstanding Claims Liability at 1 July 2005	10,922	81	10,841
Effect of Changes in Assumptions/Experience	(3,792)	(29)	(3,763)
Increase in Expected Claims Incurred/Recoveries During Year	-	-	-
Incurred Claims Recognised in the Income Statement	(3,792)	(29)	(3,763)
Claim Payments During Year	(2)	-	(2)
	7,128	52	7,076
Timing Difference	193	-	193
Removal of Claims Handling Costs	(329)	8	(337)
Outstanding Claims Liability at 30 June 2006	6,992	60	6,932

(v)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

17. OUTSTANDING CLAIMS LIABILITY (continued)

(f) Reconciliation of Movement in Discounted Outstanding Claims Liability (continued)

EISF Act

Non Asbestos-Related Claims

		Gross \$'000	Reinsurance and Other Recoveries \$'000	Net \$'000
Outstanding Claims Liability at 1 July 2005		13,861	110	13,751
Effect of Changes in Assumptions/Experience		3,762	36	3,726
Increase in Expected Claims Incurred/Recoveries During Year		-	-	-
Incurred Claims Recognised in the Income Statement		3,762	36	3,726
Claim Payments During Year		(6,511)	(58)	(6,453)
		11,112	88	11,024
Timing Difference		300	-	300
Removal of Claims Handling Costs		(518)	7	(525)
Outstanding Claims Liability at 30 June 2006	(vi)	10,894	95	10,799
EISF Act Total Outstanding Claims Liability at 30 June 2006	(v) + (vi)	17,886	155	17,731
ICGF Total Outstanding Claims Liability	(iii)+(iv)+ (v)+(vi)	89,781	26,824	62,957

Corporation Inwards Reinsurance

	Gross \$'000	Reinsurance and Other Recoveries \$'000	Net \$'000
Outstanding Claims Liability at 1 July 2005	5,233	93	5,140
Effect of Changes in Assumptions/Experience	(339)	(9)	(330)
Increase in Expected Claims Incurred/Recoveries During Year	(94)	3	(97)
Incurred Claims Recognised in the Income Statement	(433)	(6)	(427)
Claim Payments/Recoveries During Year	(151)	-	(151)
Total Outstanding Claims Liability at 30 June 2006	4,649	87	4,562

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

17. OUTSTANDING CLAIMS LIABILITY (continued)

(g) Claims Development Tables

Third Party Insurance Fund

The following tables shows the development of gross and net undiscounted outstanding claims relative to the ultimate expected claims for the ten most recent years.

Gross Claims Development Table

Accident Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
Estimated Ultimate Gross Claims Cost:	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At End of Accident Year						330,267	329,489	349,864	364,043	359,544	
One Year Later					306,701	298,977	338,860	331,040	341,742		
Two Years Later				279,336	287,766	300,390	314,117	322,762			
Three Years Later			255,058	266,252	295,851	294,932	312,198				
Four Years Later		250,567	250,047	260,653	282,422	329,095					
Five Years Later	240,203	262,062	251,749	259,802	291,546						
Six Years Later	253,991	266,779	254,269	265,488							
Seven Years Later	259,661	260,680	246,538								
Eight Years Later	262,822	268,975									
Nine Years Later	293,149										
Current Estimate of Cumulative Claims Costs	293,149	268,975	246,538	265,488	291,546	329,095	312,198	322,762	341,742	359,544	3,031,037
Cumulative Payments	(230,984)	(230,241)	(219,215)	(208,997)	(230,265)	(222,869)	(171,699)	(118,618)	(67,028)	(34,959)	(1,734,875)
Outstanding Claims Undiscounted	62,165	38,734	27,323	56,491	61,281	106,226	140,499	204,144	274,714	324,585	1,296,162
Discount (on Accident Years 1997 and Later)											(252,698)
Claims Management Expenses (on Accident Years 1997 and Later)											39,130
Claims 1996 and Prior (Discounted)											85,894
Third party Recoveries (Gross Amounts in Table are Net of Third Party Recoveries)											701
Risk Margin											70,151
Gross Outstanding Claims per Fund Balance Sheet (Refer Note 29)											1,239,340

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

17. OUTSTANDING CLAIMS LIABILITY (continued)

(g) Claims Development Tables (continued)

Third Party Insurance Fund										
Net Claims Development Table										
Accident Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Estimated Ultimate Net Claims Cost:										
At End of Accident Year						301,463	308,567	341,800	368,717	378,055
One Year Later					280,074	272,774	316,990	316,000		
Two Years Later				262,805	262,555	273,872	285,863	305,716		
Three Years Later			236,127	249,874	269,780	268,651	281,510			
Four Years Later		202,558	231,586	244,311	257,361	298,065				
Five Years Later	194,229	214,016	232,839	243,450	265,612					
Six Years Later	207,930	218,694	235,335	249,094						
Seven Years Later	213,654	212,646	227,690							
Eight Years Later	216,820	220,899								
Nine Years Later	246,936									
Current Estimate of Cumulative Claims Costs	246,936	220,899	227,690	249,094	265,612	298,065	281,510	305,716	347,655	378,055
Cumulative Payments	(185,209)	(182,437)	(200,554)	(192,982)	(209,701)	(202,723)	(164,020)	(126,575)	(88,959)	(72,502)
Outstanding Claims Undiscounted	61,727	38,462	27,136	56,112	55,911	95,342	117,490	179,141	258,696	305,553
Discount (on Accident Years 1997 and Later)										(234,989)
Claims Management Expenses (on Accident Years 1997 and Later)										36,762
Claims 1996 and Prior (Discounted)										85,249
Risk Margin										64,956
Total Outstanding Claims Net of Reinsurance and Other Recoveries										1,147,548

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

17. OUTSTANDING CLAIMS LIABILITY (continued)

(g) Claims Development Tables (continued)

Compensation (Industrial Diseases) Fund

The long term nature of the expected term to settlement of these claims, as previously explained, results in claims costs developing many years after the initial policy period. In view of this it is considered that provision of a table referenced to accident years is not appropriate. Consequently the table below lists developing claim costs over the past 5 years.

		Gross \$'000	Net \$'000
Estimated Ultimate Claims Cost at 30 June:			
	2002	34,637	22,937
	2003	33,650	22,398
	2004	34,533	23,141
	2005	33,610	22,829
	2006	33,760	22,843
Current Estimate of Cumulative Claims Costs		33,760	22,843
Cumulative Payments		(26,663)	(18,505)
Outstanding Claims Undiscounted		7,097	4,338
Discount		(2,491)	(1,514)
Claims Management Expenses		1,612	1,612
Risk Margin		835	830
Outstanding Claims per Fund Balance Sheet (Refer Note 29)		7,053	5,266

Government Insurance Fund

This fund has now closed and has been in run-off since 1 July 1996. The long-term nature of the expected term to settlement of these claims is also due to the latency associated with asbestos-related diseases and the nature of liability insurance. In view of this it is considered that provision of a table referenced to accident years is not appropriate. Consequently the table below lists developing claim costs over the past 5 years. There are no remaining claims against the fund other than for Workers' Compensation and Liability insurance.

Workers' Compensation

		Gross \$'000	Net \$'000
Estimated Ultimate Claims Cost at 30 June:			
	2002	971,400	897,275
	2003	978,483	904,242
	2004	1,007,421	932,621
	2005	1,014,482	939,398
	2006	1,005,895	930,953
Current Estimate of Cumulative Claims Costs		1,005,895	930,953
Cumulative Payments		(928,367)	(854,807)
Outstanding Claims Undiscounted		77,528	76,146
Discount		(30,748)	(30,371)
Claims Management Expenses		4,578	4,578
Risk Margin		11,330	11,330
Workers' Compensation Outstanding Claims		62,688	61,683

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

17. OUTSTANDING CLAIMS LIABILITY (continued)

(g) Claims Development Tables (continued)

Public Liability

Estimated Ultimate Claims Cost at 30 June:		Gross \$'000	Net \$'000
	2002	37,462	19,403
	2003	38,364	21,234
	2004	35,319	18,495
	2005	35,500	18,599
	2006	34,623	18,703
Current Estimate of Cumulative Claims Costs		34,623	18,703
Cumulative Payments		(32,080)	(17,867)
Outstanding Claims Undiscounted		2,543	836
Discount		(380)	(170)
Claims Management Expenses		47	47
Risk Margin		119	119
Public Liability Outstanding Claims		2,329	832
Total GIF Outstanding Claims per Fund Balance Sheet (Refer Note 29)		65,017	62,515

Insurance Commission General Fund

This fund is responsible for the administration of two claim portfolios:

- Run-off claims for Workers' Compensation and Public Liability claims prior to 1 January 1986; and
- Workers' Compensation claims to be settled in accordance with the EISF Act specifically relating to the HIH Insurance Group.

Run-Off Claims

The long term nature of the expected term to settlement of these claims is due to the latency associated with asbestos-related diseases and the nature of public liability insurance. In view of this, it is considered that provision of a table referenced to accident years is not appropriate. Consequently the tables below list developing claim costs over the past 5 years.

The claims in run-off include an immaterial number of, and values for, potential Public Liability claims reported as a single class of

Workers' Compensation

Estimated Ultimate Claims Cost at 30 June:		Gross \$'000	Net \$'000
	2002	509,916	413,578
	2003	541,015	426,225
	2004	546,221	431,624
	2005	558,405	436,556
	2006	551,937	431,857
Current Estimate of Cumulative Claims Costs		551,937	431,857
Cumulative Payments		(463,965)	(385,700)
Outstanding Claims Undiscounted		87,972	46,157
Discount		(32,019)	(16,682)
Claims Management Expenses		4,476	4,433
Risk Margin		8,556	8,477
Workers' Compensation Outstanding Claims	(i)	68,985	42,385

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

17. OUTSTANDING CLAIMS LIABILITY (continued)

(g) Claims Development Tables (continued)

Public Liability

Estimated Ultimate Claims Cost at 30 June:		Gross \$'000	Net \$'000
	2002	2,269	2,235
	2003	3,267	3,206
	2004	2,650	2,606
	2005	4,395	4,314
	2006	4,408	4,326
Current Estimate of Cumulative Claims Costs		4,408	4,326
Cumulative Payments		(972)	(972)
Outstanding Claims Undiscounted		3,436	3,354
Discount		(1,280)	(1,252)
Claims Management Expenses		172	171
Risk Margin		582	568
Public Liability Outstanding Claims	(ii)	2,910	2,841
Total ICGF Run-Off Outstanding Claims	(i) + (ii)	71,895	45,226

EISF Act - HIH Insurance Group Claims

As previously stated, the Insurance Commission is also required to take up the outstanding liabilities of the HIH Insurance Group. A separate table is provided in relation to these claims which are included in the reported provision for outstanding claims.

The following tables show the development of gross and net undiscounted outstanding claims relative to the ultimate expected claims for the six most recent accident years.

Gross Claims Development Table

Accident year	1996 \$'000	1997 \$'000	1998 \$'000	1999 \$'000	2000 \$'000	2001 \$'000	Total \$'000
Estimate of Ultimate Claims Cost:							
At 30 June 2002	61,426	61,297	63,747	57,616	35,788	21,677	
One Year Later	62,502	61,060	64,905	54,687	31,913	18,141	
Two Years Later		61,323	65,050	54,993	33,274	19,360	
Three Years Later			63,634	53,797	33,649	19,526	
Four Years Later				54,015	33,355	21,106	
Current Estimate of Cumulative Claims Costs				54,015	33,355	21,106	108,476
Cumulative Payments				(52,788)	(31,865)	(18,331)	(102,984)
Outstanding Claims - Undiscounted				1,227	1,490	2,775	5,492
Discount							(1,867)
Claims Management Expenses							472
Claims 1998 and Prior (Discounted)							5,828
Risk Margin							1,187
Outstanding Claims							11,112
Asbestos-Related Disease Claim Liability							7,128
Total Gross Outstanding Claims as per Actuary							18,240
Timing Difference							493
Effect of Removal of Claims Management Expenses							(847)
Total Gross ICGF EISF ACT Outstanding Claims						(iii)	17,886
Total Gross ICGF Outstanding Claims as per Fund Balance Sheet (Refer Note 29)						(i)+(ii)+(iii)	89,781

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

17. OUTSTANDING CLAIMS LIABILITY (continued)

(g) Claims Development Tables (continued)

EISF Act - HIH Insurance Group Claims

Net Claims Development Table

Accident year	1996 \$'000	1997 \$'000	1998 \$'000	1999 \$'000	2000 \$'000	2001 \$'000	Total \$'000
Estimate of Ultimate Claims Cost:							
At 30 June 2002	61,405	61,271	63,693	57,723	35,685	21,577	
One Year Later	62,475	61,041	64,848	54,638	31,868	18,094	
Two Years Later		61,304	65,003	54,953	33,233	19,320	
Three Years Later			63,470	53,710	33,473	19,396	
Four Years Later				54,004	33,341	21,081	
Current Estimate of Cumulative Claims Costs				54,004	33,341	21,081	108,426
Cumulative Payments				(52,787)	(31,865)	(18,331)	(102,983)
Outstanding Claims - Undiscounted				1,217	1,476	2,750	5,443
Discount							(1,850)
Claims Management Expenses							468
Claims 1998 and Prior (Discounted)							5,776
Risk Margin							1,187
Outstanding Claims							11,024
Asbestos-Related Disease Claim Liability							7,076
Total Net Outstanding Claims as per Actuary							18,100
Timing Difference							493
Effect of Removal of Claims Management Expenses							(862)
Total Net ICGF EISF ACT Outstanding Claims						(iv)	17,731
Total ICGF Outstanding Claims Net of Reinsurance and Other Recoveries						(i)+(ii)+(iv)	62,957

Notes:

- The claims development table commences from 30 June 2002 which was the first time this Supplementation Fund liability was actuarially assessed.
- At this valuation the 1998 and earlier accident years are assessed as a combined liability as this is the extent of data availability by accident year.
- This claims development table is provided in respect of total liabilities for HIH claims as assessed by the actuary. It includes an allowance for claims management expenses which are not a liability of the Insurance Commission and these have been excluded.
- Timing differences account for amounts for June not paid by the Insurance Commission until after balance date hence forming part of the Insurance Commission liability at balance date.

EISF Act - HIH Insurance Group - Asbestos-Related Claims

A separate claim development table has not been produced for the asbestos-related disease claims as:

- all claims are for events occurring more than ten years ago; and
- this asbestos-related disease liability has only been separately assessed since 30 June 2004 and there have been very significant data difficulties which have caused the ultimate expected claims cost to vary quite dramatically.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

17. OUTSTANDING CLAIMS LIABILITY (continued)

(g) Claims Development Tables (continued)

Corporation - Inwards Reinsurance

The Corporation has ceased writing insurance business and has been in run-off since August 1992. The long term nature of the expected term to settlement of these claims is also due to the latency associated with reinsurance claims and the nature of liability insurance. In view of this it is considered that provision of a table referenced to accident years is not appropriate. Consequently the tables below list developing claim costs over the past 5 years.

Estimated Ultimate Claims Cost at 30 June:		Gross \$'000	Net \$'000
	2002	55,767	42,915
	2003	55,570	42,719
	2004	54,412	41,367
	2005	53,975	40,930
	2006	53,467	40,422
Current Estimate of Cumulative Claims Costs		53,467	40,422
Cumulative Payments		(50,645)	(37,765)
Outstanding Claims Undiscounted		2,822	2,657
Discount		(997)	(919)
Claims Management Expenses		1,697	1,697
Risk Margin*		1,127	1,127
Total Corporation Outstanding Claims Liability		4,649	4,562

* An additional precautionary margin has been added for two segments of the portfolio which have historically shown significant volatility. The precautionary margin for the Minet Professional Indemnity Scheme in 2006 is \$0.3M (2005: \$0.4M) and Australian Casualty Proportional portfolio in 2006 is \$0.4M (2005: \$0.4M) is derived, based on ultimate loss ratio's of 167% and 190% respectively.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

18. UNEARNED PREMIUM LIABILITY

CURRENT YEAR

Unearned Premium Liability at Start of the Year
Deferral of Premiums on Contracts Written in the Period
Earning of Premiums Written in Previous Periods
Unearned Premium Liability at End of the Year

CONSOLIDATED 2006 (\$'000)		
Third Party Insurance Fund	Compensation (Industrial Diseases) Fund	Total
	(i)	(ii)
(135,762)	(43)	(135,805)
(145,252)	-	(145,252)
135,762	43	135,805
(145,252)	-	(145,252)

PRIOR YEAR

Unearned Premium Liability at Start of the Year
Deferral of Premiums on Contracts Written in the Period
Earning of Premiums Written in Previous Periods
Unearned Premium Liability at End of the Year

CONSOLIDATED 2005 (\$'000)		
Third Party Insurance Fund	Compensation (Industrial Diseases) Fund	Total
(134,969)	(65)	(135,034)
(135,762)	-	(135,762)
134,969	22	134,991
(135,762)	(43)	(135,805)

- (i) The Compensation (Industrial Diseases) Fund issues policies covering a three-year period. All policies in issue ended on 30 June 2006 and therefore there is no unearned premium.
- (ii) Unearned Premium Liability is not applicable to the Government Insurance Fund, the Insurance Commission General Fund or the Corporation.

19. UNEXPIRED RISK LIABILITY

Unearned Premium Liability Adequacy Test

Unearned Premium Liability
Related Deferred Acquisition Costs

Central Estimate of Present Value of Expected Future Cash Flows Arising from Future Claims
Risk Margin
Present Value of Expected Future Cash Inflows Arising from Reinsurance and Other Recoveries on Future Claims

Net Surplus

Less Reinsurance Element of Present Value of Expected Future Cash Flows for Future Claims
--

Gross Deficiency

CONSOLIDATED 2006 \$'000
145,251
-
145,251
138,200
10,800
(10,300)
138,700
6,551
(10,300)
(3,749)

The Consolidated Liability Adequacy Test related exclusively to the Third Party Insurance Fund of the Insurance Commission, and demonstrated a net surplus and as a result no Unexpired Risk Liability is required.

Information prepared under AASB 1023 - General Insurance Contracts is applied from 1 July 2005, restatement of comparatives not required. Refer Note 1(a). The cost of obtaining this information would outweigh the benefit to the users of the Financial Statements.

An Unexpired Risk Liability can only occur in those Funds which carry an Unearned Premium Liability at balance date. Unearned Premium Liability is not applicable to the Government Insurance Fund, the Insurance Commission General Fund or the Corporation. In addition, this year, all Compensation (Industrial Diseases) Fund policies in issue ended at 30 June 2006 and no Liability adequacy test was required.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

20. PROVISIONS

	Notes	CONSOLIDATED		INSURANCE COMMISSION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current					
Employee Benefits	21	3,520	3,343	3,520	3,343
Other Employee Benefits	(i)	159	147	159	147
Sundry		(125)	48	(125)	48
		3,554	3,538	3,554	3,538
Non-Current					
Employee Benefits	21	10,997	11,603	10,997	11,603
Other Employee Benefits	(i)	91	275	91	275
		11,088	11,878	11,088	11,878

- (i) The settlement of annual and long service leave liabilities gives rise to the payment of employment on-costs including superannuation, payroll tax and workers' compensation premiums. The liability for such on-costs is included here. The associated expense is included under Employee Benefits (within Underwriting and Administration Expenses). Refer Note 6.

21. EMPLOYEE BENEFIT LIABILITIES

Current					
Provisions					
Annual Leave		1,449	1,315	1,449	1,315
Long Service Leave		671	622	671	622
Superannuation: Pension Scheme		1,400	1,406	1,400	1,406
	20	3,520	3,343	3,520	3,343
Other Liabilities					
Accrued Salaries		47	-	47	-
Accrued Superannuation:					
- Gold State – West State		31	-	31	-
	22	78	-	78	-
Total Current		3,598	3,343	3,598	3,343
Non-Current					
Provisions					
Long Service Leave		1,209	1,271	1,209	1,271
Superannuation: Pension Scheme		9,788	10,332	9,788	10,332
Total Non-Current	20	10,997	11,603	10,997	11,603
Total Employee Benefit Liabilities		14,595	14,946	14,595	14,946

As explained in Note 1(z), the amounts for non-current long service leave and superannuation are measured at their present values. The following assumptions were adopted in measuring present values:

Long Service Leave					
Weighted Average Rates of Increase in Annual Employee Benefits (%)		3.3	3.3	3.3	3.3
Weighted Average Discount Rates (%)		5.8	5.1	5.8	5.1
Weighted Average Expected Term to Settlement		4yrs 6mths	5 yrs	4yrs 6mths	5 yrs

Superannuation: Pension Scheme

Scheme Information

Pension Scheme members receive pension benefits on retirement, death or invalidity. The Fund share of the pension benefit, which is based on the member's contributions plus investment earnings, may be commuted to a lump sum benefit. The Insurance Commission does not bear the cost associated with indexation of any pension arising from the Fund share. The State Government share of the pension benefit, which is fully employer-financed, cannot be commuted to a lump sum benefit.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

21. EMPLOYEE BENEFIT LIABILITIES (continued)

Some former Pension Scheme members have transferred to Gold State Super. In respect of their transferred benefit the members receive a lump sum benefit on retirement, death or invalidity which is related to their salary during their employment and indexed during their employment during any deferral period after leaving public sector employment.

The following disclosures are in respect of the employer-financed benefits only.

Actuarial gains and losses are recognised immediately in profit and loss in the year which they occur.

(a) Reconciliation of the Present Value of the Defined Benefit Obligation

	Pension Scheme		Pre Transfer Gold State	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Present Value of Defined Benefit Obligations at Start of the Year	7,339	7,233	4,382	4,061
Interest Cost	365	414	216	233
Actuarial (Gains)/Losses	(102)	389	(190)	88
Benefits Paid	(681)	(697)	(141)	-
Present Value of Defined Benefit Obligations at End of the Year	6,921	7,339	4,267	4,382

These defined benefit obligations are wholly unfunded, such that there are no Assets. The employer contributes, as required, to meet the benefits paid.

(b) Reconciliation of the Fair Value of Scheme Assets

Fair value of Scheme Assets at Start of the Year	-	-	-	-
Employer Contributions	681	697	141	-
Benefits Paid	(681)	(697)	(141)	-
Fair Value of Scheme Assets at the End of the Year	-	-	-	-

(c) Reconciliation of the Assets and Liabilities Recognised in the Balance Sheet

Defined Benefit Obligation	6,921	7,339	4,267	4,382
Fair Value Assets	-	-	-	-
Deficit	6,921	7,339	4,267	4,382
Unrecognised Past Service Cost	-	-	-	-
Liability	6,921	7,339	4,267	4,382

(d) Expense Recognised in Income Statement

Interest cost	365	414	216	233
Actuarial (Gain)/Loss	(102)	389	(190)	88
Superannuation Expense	263	803	26	321

(e) Scheme Assets

There are no assets in the Pension Scheme to support the State Government share of the benefit and no assets in the Pension Scheme to support the transferred benefits. Hence, there is :

- No fair value of Scheme assets
- No asset allocation of Scheme assets
- No assets used by the employer
- No expected return of Scheme assets
- No actual return on Scheme assets

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

21. EMPLOYEE BENEFIT LIABILITIES (continued)

(f) Historical Information	Pension Scheme		Pre Transfer Gold State	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Present Value of Defined Benefit Obligation	6,921	7,339	4,267	4,382
Fair value of Scheme Assets	-	-	-	-
Deficit in Scheme	6,921	7,339	4,267	4,382
Experience Adjustments Loss/(Gain) - Scheme Liabilities	155	(60)	(61)	(99)

The experience adjustment for Scheme liabilities represents the actuarial loss (gain) due to a change in the liabilities arising from the Scheme's experience (e.g. membership movements, unit entitlements) and excludes the effect of the changes in assumptions (e.g. movements in the bond rate and changes in pensioner mortality assumptions).

(g) Principal Actuarial Assumptions Used

	2006	2005	2004
Discount Rate (Active Members)	5.81%	5.22%	6.02%
Discount Rate (Pensioners)	5.81%	5.22%	6.02%
Expected Salary Increase Rate	4.50%	4.50%	4.50%
Expected Pension Increase Rate	2.50%	2.50%	2.50%

The discount rate is based on the 10-year Government Bond rate at the relevant date. The decrement rates used (eg mortality and retirement rates) are based on those used at the last actuarial valuation for the Schemes.

(h) Expected Contributions

Expected employer contributions for year ending 30 June 2007:	\$'000
- Pension Scheme	723
- Pre Transfer Gold State	677

(i) Funding Arrangements for Employer Contributions

- Surplus/Deficit

The following is a summary of the most recent available financial position of the Pension Scheme calculated in accordance with AAS 25 - Financial Reporting by Superannuation Plans. Note that the figures below relate to the Pension Scheme as a whole and are therefore not restricted to the Insurance Commission Employees.

Financial Year Ending 30 June 2005:

	Pension Scheme \$'000	Pre Transfer Gold State \$'000
Accrued Benefits	2,465,759	4,256,474
Net Market Value of Scheme Assets	106,688	1,956,022
Net Deficit	2,359,071	2,300,452

- Contribution Recommendations

The Commission is contributing as required to pay benefits, when they fall due.

- Funding

The funding method used by the Insurance Commission (and other agencies, whose employees are members of the Pension Scheme) is the Pay-As-You-Go method. This method effects the timing of the cost to the Insurance Commission.

- Economic

The economic assumptions adopted for the last actuarial review as at 30 June 2005 of the Scheme were:

Expected Rate of Return on Assets (Discount Rate)	7.50% pa
Expected Salary Increase Rate	4.50% pa

- Nature of Asset/Liability

The Insurance Commission has recognised a liability in the Balance Sheet in respect of its defined benefit superannuation arrangements. The Government Employees Superannuation Board does not impose a legal liability on the Insurance Commission to cover any deficit that exists in the Scheme.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

22. OTHER LIABILITIES

	Notes	CONSOLIDATED		INSURANCE COMMISSION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current					
Employee Benefit Liabilities	21	78	-	78	-
Other		74	99	74	99
		152	99	152	99

23. PROPERTY LEASE INCOME

Less than 1 Year	16,225	22,452	16,225	22,452
1 - 5 Years	39,218	41,558	39,218	41,558
Greater than 5 Years	48,404	37,590	48,404	37,590
	103,847	101,600	103,847	101,600

The above amounts represent future minimum lease payments under non-cancellable operating leases.

This note shows future minimum lease payments under non-cancellable operating leases for properties owned by the Insurance Commission. The Insurance Commission has numerous operating leases with tenants for its shopping centres and business district office properties. These leases are of varying terms.

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

	CONSOLIDATED	
	2006 \$'000	2005 \$'000
Receivables		
Current		
United States dollars	2	2
Non-current		
United States dollars	13	14
Total Receivables	15	16
Payables		
Current		
Canadian dollars	1	1
Great British pounds sterling	35	42
United States dollars	307	347
	343	390
Non-current		
Canadian dollars	7	7
Great British pounds sterling	197	221
United States dollars	1,049	1,325
	1,253	1,553
Total Payables	1,596	1,943

The amounts disclosed above for Receivables and Payables for both 2006 and 2005 relate solely to the Corporation. No amounts relate to the Insurance Commission.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

25. NOTES TO THE CASH FLOW STATEMENT

28. NOTES TO THE CASH FLOW STATEMENT

		CONSOLIDATED		INSURANCE COMMISSION	
	Notes	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Reconciliation of Profit After Income Tax Equivalent Expense to Net Cash From Operating Activities					
Profit After Income Tax Equivalent Expense		170,624	155,130	170,624	155,130
Non-Cash Items					
Depreciation		5,781	5,687	5,781	5,687
Impairment of Receivables		9	(73)	(8)	(8)
Foreign Exchange Loss: Corporation		-	32	-	-
Foreign Exchange Gain: Investments		(3,273)	(5,382)	(3,273)	(5,382)
Increase in Net Market Value of Investments		(243,326)	(146,595)	(243,326)	(146,595)
Indemnity for Corporation's Net Liabilities		-	-	(161)	(431)
Other		54	(8)	54	(8)
Amounts Recognised Directly in Equity					
Provision for Deferred Income Tax on Asset Revaluation		(9,601)	-	(9,601)	-
Changes in Assets and Liabilities					
(Increase)/Decrease in Premiums Receivable		(161)	4	(161)	4
Increase in Reinsurance and Other Recoveries		(7,813)	(18,180)	(7,791)	(18,087)
Decrease/(Increase) in Other Assets		15,790	(5,770)	15,696	(5,736)
Increase in Outstanding Claims Liability		15,419	23,213	16,003	24,722
Increase in Unearned Premium Liability		9,447	770	9,447	770
Increase in Deferred Tax Liabilities		74,495	50,677	74,520	50,677
Increase/(Decrease) in Other Liabilities		2,884	(712)	2,530	(755)
Net Cash From Operating Activities		30,329	58,793	30,334	59,988
Reconciliation of Cash					
Cash and Cash Equivalents at the end of the year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:					
- Cash and Cash Equivalents		1,528	1,533	-	-
- Bank Overdraft		(2,910)	(680)	(2,910)	(680)
Investments - Cash and Cash Equivalent Assets	10	51,909	55,969	51,909	55,969
(i)		50,527	56,822	48,999	55,289

(i) The Cash detailed above is available to the economic entity without restriction.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

26. FINANCIAL INSTRUMENTS (continued)

(c) Forward Foreign Exchange Contracts

		CONSOLIDATED			
		Average Exchange Rate		Notional Principal Amount	
Details of forward foreign exchange contracts outstanding at balance date are as follows:		2006	2005	2006 \$'000	2005 \$'000
Sell US Dollars	Up to 3 months	0.7341	0.7720	96,216	4,190
	Over 3 to 12 months	0.7423	0.7558	126,853	191,882
				223,069	196,072
Sell Euros	Up to 3 months	0.5822	0.5973	4,545	17,668
	Over 3 to 12 months	0.5803	0.5741	41,684	30,307
				46,229	47,975
Sell Great British Pounds	Up to 3 months	-	0.4083	-	15,754
	Over 3 to 12 months	0.4047	0.4070	15,946	15,205
				15,946	30,959
Sell Japanese Yen	Up to 3 months	84.9000	81.1449	(2,331)	15,696
	Over 3 to 12 months	81.1744	75.9062	21,045	14,175
				18,714	29,871
Sell Polish Zloty	Up to 3 months	2.3612	-	4,110	-
	Over 3 to 12 months	-	-	-	-
				4,110	-
Sell Mexican Peso	Up to 3 months	8.4075	-	1,665	-
	Over 3 to 12 months	-	-	-	-
				1,665	-
Total				309,733	304,877

The above contracts are marked to market by comparing the contractual rate to the current market rate for a contract with the same remaining period to maturity. Any unrealised gain or loss is taken to the Income Statement immediately. At balance date, a net unrealised gain on these contracts amounted to \$2.53 million (2005: gain of \$5.87 million). Refer Note 10.

All Forward Foreign Exchange Contracts are held within the Insurance Commission General Fund of the Insurance Commission.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

26. FINANCIAL INSTRUMENTS (continued)

(d) Interest Rate Risk Exposure

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

The following tables detail the economic entity's exposure to interest rate risk at balance date:

Current Year	CONSOLIDATED 2006 (\$'000)								Weighted Average Interest Rate (%)	
	Variable Interest Rate	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 to 5 Years	More than 5 Years	Non-Interest Bearing		Total
Financial Assets	-	53,264	15,830	23,284	35,975	19,473	85,736	-	233,562	5.16
	-	-	-	-	-	-	-	170,626	170,626	-
	-	-	174	-	-	9,882	47,901	-	57,957	2.53
	-	-	-	-	-	-	-	962,380	962,380	-
	-	-	-	-	-	-	-	193,646	193,646	-
	-	-	-	-	-	-	-	140,000	140,000	-
	32,684	20,753	-	-	-	-	-	-	53,437	5.39
	-	-	-	-	-	-	-	76,206	76,206	-
	-	-	-	-	-	-	-	2,534	2,534	-
	-	-	-	-	-	-	-	113,772	113,772	-
Total Financial Assets	32,684	74,017	16,004	23,284	35,975	29,355	133,637	1,659,164	2,004,120	
Weighted Average Interest Rate (%)	5.08	5.36	5.13	5.16	5.16	4.27	4.22			
Financial Liabilities										
	2,910	-	-	-	-	-	-	-	2,910	5.25
	387,889	-	-	-	-	-	-	-	387,889	18.88 (i)
	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	19,141	19,141	-
Total Financial Liabilities	390,799	-	-	-	-	-	-	19,141	409,940	
Net Financial Assets/(Liabilities)	(358,115)	74,017	16,004	23,284	35,975	29,355	133,637	1,640,023	1,594,180	
Weighted Average Interest Rate (%)	18.78	-	-	-	-	-	-	-		

The Interest Rate Risk Exposure is the same for both Consolidated and the Insurance Commission with the exception of \$1.528 million relating to Cash and Cash Equivalent Assets of the Corporation, which is only represented in the Consolidated accounts.

- (i) The RiskCover Floating Rate Promissory Note represents RiskCover's share of the investment pool of the economic entity. RiskCover earns an investment return on its share of the investment pool. For the year ended 30 June 2006 this equated to a return of 18.88%.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

26. FINANCIAL INSTRUMENTS (continued)

(d) Interest Rate Risk Exposure (continued)

Previous Year	CONSOLIDATED 2005 (\$'000)					
	Variable Interest Rate	Fixed Interest Rate	Maturing in			Weighted Average Interest Rate (%)
		Less than 1 Year	1 to 5 Years	More than 5 Years	Non-Interest Bearing	Total
Financial Assets						
Fixed Interest Bonds	-	29,321	141,675	88,198	-	259,194
Fixed Interest Unit Trusts	-	-	-	-	150,782	150,782
Indexed Bonds	-	4,250	276	48,889	-	53,415
Shares - Listed	-	-	-	-	863,209	863,209
Equity Unit Trusts	-	-	-	-	137,253	137,253
Cash and Cash Equivalent Assets	47,471	10,030	-	-	-	57,501
Right of Indemnity	-	-	-	-	93,575	93,575
Forward Foreign Exchange Contracts	-	-	-	-	5,872	5,872
Other Financial Assets	-	-	-	-	100,713	100,713
Total Financial Assets	47,471	43,601	141,951	137,087	1,351,404	1,721,514
Weighted Average Interest Rate (%)	4.28	4.48	4.72	3.98	-	
Financial Liabilities						
Bank Overdraft	680	-	-	-	-	680
RiskCover Floating Rate Promissory Note	320,164	-	-	-	-	320,164
Forward Foreign Exchange Contracts	-	-	-	-	-	-
Other Financial Liabilities	-	-	-	-	20,240	20,240
Total Financial Liabilities	320,844	-	-	-	20,240	341,084
Net Financial Assets/(Liabilities)	(273,373)	43,601	141,951	137,087	1,331,164	1,380,430
Weighted Average Interest Rate (%)	13.94	-	-	-	-	

The Interest Rate Risk Exposure is the same for both Consolidated and the Insurance Commission with the exception of \$1.533 million relating to Cash and Cash Equivalent Assets of the Corporation, which is only represented in the Consolidated accounts.

- (i) The RiskCover Floating Rate Promissory Note represents RiskCover's share of the investment pool of the economic entity. RiskCover earns an investment return on its share of the investment pool. For the year ended 30 June 2005 this equated to a return of 13.96%.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

26 FINANCIAL INSTRUMENTS (continued)

26 FINANCIAL INSTRUMENTS (continued)		CONSOLIDATED		INSURANCE COMMISSION	
	Notes	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
(e) Reconciliation of Net Financial Assets to Net Assets					
Net Financial Assets as above	26(d)	1,594,180	1,380,430	1,592,652	1,378,897
Less: Interest Rate Futures		(15,136)	(7,298)	(15,136)	(7,298)
Less: Equity Futures		(1,397)	(1,075)	(1,397)	(1,075)
		1,577,647	1,372,057	1,576,119	1,370,524
Reinsurance and Other Recoveries Receivable	9	126,414	126,948	126,138	126,677
Property Trust - Unlisted	10	124,073	101,905	124,073	101,905
Value of Investment in Subsidiary	10	-	-	15,673	15,512
Property, Plant and Equipment	11	169,938	141,682	169,938	141,682
Investment Properties	12	258,426	219,400	258,426	219,400
Intangible Assets	13	2,316	573	2,316	573
Deferred Acquisition Costs	14	3,279	3,064	3,279	3,064
Other Assets	15	1,122	2,730	1,122	2,730
Outstanding Claims Liability	17	(1,405,840)	(1,390,421)	(1,401,191)	(1,385,188)
Superannuation Liability	21	(11,188)	(11,738)	(11,188)	(11,738)
Unearned Premium Liability	18	(145,252)	(135,805)	(145,252)	(135,805)
Deferred Tax Liabilities	8	(116,039)	(41,544)	(116,553)	(42,033)
Other Liabilities		(7,674)	(4,655)	(25,678)	(23,107)
Net Assets per Balance Sheet		577,222	384,196	577,222	384,196

(f) Credit Risk Exposure

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

The economic entity does not have a significant credit risk exposure to any single counterparty or any group of counterparties with similar characteristics, with the exception of having 73% (2005: 79%) of its recognised financial assets in Australia.

Recognised Financial Assets

The Carrying Amount of the Financial Assets Recorded in the Consolidated Balance Sheet, Net of any Provision for Losses:

Total Maximum Credit Risk Exposure	1,985,053	1,707,269	1,983,525	1,705,736
------------------------------------	-----------	-----------	-----------	-----------

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

26. FINANCIAL INSTRUMENTS (continued)

Credit Risk Exposure by Institutions' Ratings

The economic entity is authorised by its enabling legislation to invest and manage money and other property under its control. The Treasurer of Western Australia has approved and issued Prudential Guidelines for Investment, developed by the economic entity, which controls the type of investments that it can invest in and imposes ratings for credit-risk limits for those investments. The following table relates to the market values of officially rated bonds, short-term discount securities, deposits at call and debtors in respect of unsettled transaction trades as per Standard and Poor's ratings.

	CONSOLIDATED		INSURANCE COMMISSION	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
AAA rating	187,963	192,342	187,963	192,342
AA+ to AA- ratings	31,397	32,687	31,397	32,687
A+ to A- ratings	51,111	82,190	51,111	82,190
BBB+ ratings	6,337	3,064	6,337	3,064
A1 to A2 (short-term) rating	96,055	61,355	96,055	61,355
Credit Risk Exposure	372,863	371,638	372,863	371,638

(g) Fair Value

The recognised financial assets and liabilities are carried at amounts that approximate fair value. The recognised financial assets and liabilities, with the exception of those listed below, are readily traded on organised markets. The following table details the fair value at balance date of each class of recognised financial asset and liability, which are not readily traded on organised markets. Refer Note 1.

Not Readily Traded on Organised Markets

Recognised Financial Assets

Fixed Interest Unit Trusts	170,626	150,782	170,626	150,782
Equity Unit Trusts	193,646	137,253	193,646	137,253
Investment Receivables	1,663	1,240	1,663	1,240
Hedge Funds	140,000	-	140,000	-
Receivables (Current and Non-Current)	112,109	98,348	112,109	98,348
Right of Indemnity (Current and Non-Current)	76,206	93,575	76,206	93,575
	694,250	481,198	694,250	481,198

Recognised Financial Liabilities

Investment Payables	6,033	7,658	6,033	7,658
Payables	13,502	12,805	13,502	12,805
Other Liabilities (Current and Non-Current)	3,606	3,777	3,606	3,777
	23,141	24,240	23,141	24,240

27. SEGMENT REPORTING

The ultimate location of the Corporation's insured risks is not readily identifiable. Other than the geographical segmentation of the Corporation being unknown, the economic entity operates predominantly in the general insurance industry in Australia. A full description of the general insurance services provided by the Insurance Commission is contained in the Report of Operations section of the Annual Report. Financial information in relation to the Third Party Insurance Fund, Compensation (Industrial Diseases) Fund, Government Insurance Fund and the Insurance Commission General Fund is disclosed in Notes 28 and 29.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

28. FUNDS' INCOME STATEMENT

	Third Party Insurance Fund		Compensation (Industrial Diseases) Fund		Government Insurance Fund		Insurance Commission General Fund	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Premium Revenue	356,294	341,204	60	37	-	-	-	-
Outwards Reinsurance Premium Expense	(4,896)	(3,515)	-	-	-	-	-	-
Outwards Reinsurance Commission Revenue	426	343	-	-	-	-	-	-
Net Premium Revenue	351,824	338,032	60	37	-	-	-	-
Claims Expense	(344,119)	(276,998)	(193)	446	9,199	(11,757)	5,994	(15,892)
Reinsurance and Other Recoveries Revenue/(Charge)	3,404	16,601	118	(254)	(6)	266	(940)	6,950
Net Claims Incurred	(340,715)	(260,397)	(75)	192	9,193	(11,491)	5,054	(8,942)
Acquisition Costs	(8,186)	(7,799)	-	-	-	-	-	-
Underwriting and Administration Expenses	(35,954)	(19,519)	(1,003)	(704)	(3,842)	(458)	(21,631)	(41,427)
UNDERWRITING RESULT	(33,031)	50,317	(1,018)	(475)	5,351	(11,949)	(16,577)	(50,369)
Investment Income	305,910	210,903	3,185	2,385	738	744	39,568	27,161
Investment Expenses	(25,978)	(13,456)	(269)	(162)	(61)	(50)	9,404	932
Finance Costs	-	-	-	-	-	-	(62,401)	(43,733)
Other Income	-	-	-	1	(6,028)	11,255	31,363	30,412
Other Expenses	-	-	-	-	-	-	(9,388)	(8,109)
PROFIT/(LOSS) BEFORE RELATED INCOME TAX EQUIVALENT (EXPENSE)/BENEFIT	246,901	247,764	1,898	1,749	-	-	(8,031)	(43,706)
Related Income Tax Equivalent (Expense)/Benefit	(72,190)	(59,020)	(510)	(1,049)	-	-	2,556	9,392
PROFIT/(LOSS) AFTER RELATED INCOME TAX EQUIVALENT (EXPENSE)/BENEFIT ATTRIBUTABLE TO THE STATE GOVERNMENT OF WESTERN AUSTRALIA	174,711	188,744	1,388	700	-	-	(5,475)	(34,314)

(i)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

28. FUNDS' INCOME STATEMENT (continued)

The Compensation (Miscellaneous Risks) Fund is not reported in this note as there were no financial transactions for this account during the financial years ended 30 June 2006 and 30 June 2005.

The above Income Statements for the four Funds are presented without eliminations for inter-fund transactions. The Income Statement for the Insurance Commission represents an aggregation of the Funds taking into account inter-fund eliminations. The main elimination is:

- Investment revenue of \$2.124 million (2005: \$2.053 million) in relation to the Insurance Commission's portion of the rentals incurred as an owner-occupier.
- (i) In 2006, the Insurance Commission General Fund allocated Underwriting and Administration Expenses as follows to the other Insurance Commission Funds: Third Party Insurance Fund, \$17.566 million; Government Insurance Fund, \$3.325 million; and Compensation (Industrial Diseases) Fund, \$0.305 million. These amounts relate to Bell Group debt recovery costs, which in prior years had been retained within the Insurance Commission General Fund. In 2006, the Insurance Commission General Fund retained \$4.188 million of these costs. The methodology used to determine the amounts for each Fund reflects the current intent for allocating the contingent asset across funds in the event of a successful conclusion to the Liquidators' action (Refer Note 34).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

29. FUNDS' BALANCE SHEET

	Third Party Insurance Fund		Compensation (Industrial Diseases) Fund		Government Insurance Fund		Insurance Commission General Fund	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
ASSETS								
Current Assets								
Receivables	26,107	25,560	224	223	6,788	9,849	11,301	10,079
Financial Assets at Fair Value Through Profit or Loss	-	-	-	-	-	-	1,409,129	1,198,367
Deferred Acquisition Costs	3,279	3,064	-	-	-	-	-	-
Other Assets	-	-	1,731	-	-	-	4,094	10,657
Total Current Assets	29,386	28,624	1,955	223	6,788	9,849	1,424,524	1,219,103
Non-Current Assets								
Receivables	68,940	66,050	1,550	1,471	54,300	64,501	145,309	140,868
Financial Assets at Fair Value Through Profit or Loss	-	-	-	-	-	-	140,472	118,570
Property, Plant and Equipment	-	-	-	-	-	-	169,938	141,682
Investment Properties	-	-	-	-	-	-	258,426	219,400
Intangible Assets	-	-	-	-	-	-	2,316	573
Other Assets	-	-	-	-	-	-	428	1,465
Total Non-Current Assets	68,940	66,050	1,550	1,471	54,300	64,501	716,889	622,558
Inter-Fund Investments	1,870,335	1,770,567	19,896	18,974	4,186	5,676	(1,894,417)	(1,795,217)
TOTAL ASSETS	1,968,661	1,865,241	23,401	20,668	65,274	80,026	246,996	46,444

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

29. FUNDS' BALANCE SHEET (continued)

	Third Party Insurance Fund		Compensation (Industrial Diseases) Fund		Government Insurance Fund		Insurance Commission General Fund	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
LIABILITIES								
Current Liabilities								
Bank Overdraft	-	-	-	-	-	-	2,910	680
Payables	12,561	11,576	151	75	257	197	3,809	5,160
Current Tax Payable	2,033	-	-	-	-	-	-	-
Outstanding Claims Liability	308,550	302,980	787	824	6,677	9,875	11,219	11,369
Unearned Premium Liability	145,253	135,762	-	43	-	-	-	-
Provisions	-	-	-	-	-	-	3,554	3,538
Other Liabilities	3,690	8,344	-	1,049	-	-	1,593	98
Total Current Liabilities	472,087	458,662	938	1,991	6,934	10,072	23,085	20,845
Non-Current Liabilities								
Payables	18,451	18,545	-	-	-	-	4,016	4,017
Outstanding Claims Liability	930,790	889,980	6,266	6,108	58,340	69,954	78,562	94,098
Provisions	-	-	-	-	-	-	11,088	11,878
Deferred Tax Liabilities	105,330	40,762	2,240	-	-	-	8,983	1,271
Total Non-Current Liabilities	1,054,571	949,287	8,506	6,108	58,340	69,954	102,649	111,264
TOTAL LIABILITIES	1,526,658	1,407,949	9,444	8,099	65,274	80,026	125,734	132,109
NET ASSETS/(LIABILITIES)	442,003	457,292	13,957	12,569	-	-	121,262	(85,665)
EQUITY								
Asset Revaluation Reserve	-	-	-	-	-	-	25,368	2,966
Compensation (Industrial Diseases) Fund Reserve	-	-	13,957	12,569	-	-	-	-
Funds' Retained Earnings	442,003	457,292	-	-	-	-	95,894	(88,631)
TOTAL EQUITY/(EQUITY DEFICIT)	442,003	457,292	13,957	12,569	-	-	121,262	(85,665)

The Compensation (Miscellaneous Risks) Fund is not reported in this note as there were no financial transactions or assets and liabilities for this account during either of the financial years ended 30 June 2006 or 30 June 2005.

The Government Insurance Fund forms part of the financial statements of the Insurance Commission. In accordance with the Cabinet's decision of May 1996, however, the Department of Treasury and Finance has assumed liability for the accumulated deficit in that Fund as from 1 July 1997.

The above Balance Sheets for the four Funds are presented without eliminations for inter-fund transactions.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

30. FUNDS' RETAINED EARNINGS

	Third Party Insurance Fund		Compensation (Industrial Diseases) Fund		Government Insurance Fund		Insurance Commission General Fund	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
AGAAP Balance at Start of the Year	457,292	277,179	-	-	-	-	(88,631)	(83,650)
Net Adjustment Transition to AIFRS	-	(8,631)	-	-	-	-	-	29,333
Balance at Beginning of the Year	457,292	268,548	-	-	-	-	(88,631)	(54,317)
Operating Profit/(Loss) for the Period after Related Income Tax Equivalent (Expense)/Benefit	174,711	188,744	1,388	700	-	-	(5,475)	(34,314)
Inter-Fund Transfer Amount transferred to Compensation (Industrial Diseases) Fund Reserve	(190,000)	-	-	-	-	-	190,000	-
BALANCE AT END OF THE YEAR	442,003	457,292	(1,388)	(700)	-	-	95,894	(88,631)

An internal transfer of \$190 million was made at the year end from the Third Party Insurance Fund to the Insurance Commission General Fund. This transfer was endorsed by the State Government Expenditure Review Committee prior to approval by the State Treasurer as required under s18(2) of the *Insurance Commission of Western Australia Act 1986*.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

31. EXPLANATORY STATEMENT – INSURANCE COMMISSION

31. EXPLANATORY STATEMENT – INSURANCE COMMISSION									
	ACTUAL		BUDGET	ACTUAL		PROFIT INCREASE/(DECREASE) FROM ACTUAL 2006 TO			
	2006	2006		2005	BUDGET 2006	ACTUAL 2005			
	\$'000	\$'000	\$'000	\$'000	\$'000	%	\$'000	%	
Premium Revenue	356,354	351,223		341,241	5,131	1.5	15,113	4.4	
Outwards Reinsurance Premium Expense	(4,896)	(3,500)		(3,515)	(1,396)	(39.9)	(1,381)	(39.3)	
Outwards Reinsurance Commission Revenue	426	350		343	76	21.7	83	24.2	
Net Premium Revenue	351,884	348,073		338,069	3,811	1.1	13,815	4.1	
Claims Expense	(329,119)	(388,432)		(304,201)	59,313	15.3	(24,918)	(8.2)	
Reinsurance and Other Recoveries Revenue	2,576	1,668		23,563	908	54.4	(20,987)	(89.1)	
Net Claims Incurred	(326,543)	(386,764)		(280,638)	60,221	15.6	(45,905)	(16.4)	
Acquisition Costs	(8,186)	(8,160)		(7,799)	(26)	(0.3)	(387)	(5.0)	
Underwriting and Administration Expenses	(59,047)	(58,936)		(58,817)	(111)	(0.2)	(230)	(0.4)	
UNDERWRITING RESULT	(41,892)	(105,787)		(9,185)	63,895	60.4	(32,707)	(356.1)	
Investment Income	347,277	156,371		239,140	190,906	122.1	108,137	45.2	
Investment Expenses	(16,904)	(23,719)		(12,736)	6,815	28.7	(4,168)	(32.7)	
Finance Costs	(62,401)	(25,769)		(43,733)	(36,632)	(142.2)	(18,668)	(42.7)	
Other Income	24,076	19,981		40,430	4,095	20.5	(16,354)	(40.5)	
Other Expenses	(9,388)	57		(8,109)	(9,445)	(16,570.2)	(1,279)	(15.8)	
PROFIT BEFORE INCOME TAX EQUIVALENT EXPENSE	240,768	21,134		205,807	219,634	1,039.2	34,961	17.0	

COMPARISON OF 2006 ACTUAL RESULTS TO 2006 BUDGET AND 2005 ACTUAL

Profit

The Profit before tax for the Insurance Commission of \$240.8 million is \$219.6 million higher than the budgeted Profit of \$21.1 million and \$35.0 million higher than last year's Profit, which was \$205.8 million. The analysis below highlights the key variances.

Claims Expense

Claims Expense at \$329.1 million is \$59.3 million (15.3%) below budget. Following actuarial assessment, there was a positive movement in the provision for net outstanding claims in the Third Party Insurance Fund (\$42.1 million), the Government Insurance Fund (\$10.3 million), and the Insurance Commission General Fund (\$7.0 million). In comparison to 2005, claims expense is \$24.9 million higher. In the Third Party Insurance Fund, claims expense is \$67.1 million higher than 2005, primarily as a result of an increase \$49.6 million in the net outstanding claims provision; claims paid was \$30.7 million higher than 2005; and there was an decrease of \$13.2 million in the provision for recoveries on outstanding claims. This was offset by the Insurance Commission General Fund (ICGF) and Government Insurance Fund (GIF) where claims expense decreased by \$21.9 million and \$20.0 million respectively. This was as a result of a decrease in the net outstanding claims provision of \$13.2 million (ICGF) and \$18.7 million (GIF) following actuarial assessment.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

31. EXPLANATORY STATEMENT – INSURANCE COMMISSION (continued)

Reinsurance and Other Recoveries Revenue

There was a \$21.0 million decrease on 2005 year, which is due mainly to actuarial assessments on Recoveries on Outstanding Claims, producing negative movements of \$13.2 million in the Third Party Insurance Fund and \$7.3 million in the ICGF respectively. Refer Note 28.

Investment Income

Investment Income of \$347.3 million is \$190.9 million (122.1%) above budget and \$108.1 million (45.2%) above 2005. This improvement was due mostly to the performance of Australian shares and property, where the returns exceeded target by 19.6% and 17.0% respectively. Global shares were also above target by 12.3%. All other classes were close to target estimates. (Note: The 2005 result included an AIFRS transfer of \$12.8 million from Investment Property Income to Other Income - Refer Note 40).

Investment Expenses

Investment Expenses of \$16.9 million is \$6.8 million (28.8%) below budget, due mainly to property expenses of \$8.2 million for the Forrest Centre that were budgeted for as Investment Expenses, but were subsequently expensed as Property, Plant and Equipment - Other Expenses, following AIFRS changes in respect to owner occupied properties. Investment Expenses were also \$4.2 million lower than last year as a result of re-classification under AIFRS requirements. Refer Note 40.

Finance Costs

Due to the further improvement in Insurance Commission's investment performance in 2006, the amount of investment income paid to RiskCover has increased to \$62.3 million, \$36.6 million (142.2%) above budget and \$18.7 million (42.7%) above 2005. Refer Note 42.

Other Income

Other Income of \$24.1 million is \$16.4 million (40.5%) below 2005, which was primarily due to the effects of an AIFRS transfer of \$12.8 million from Investment Income to Other Income. Refer Note 40.

Other Expenses

Other Expenses of \$9.3 million is \$9.4 million over budget, is primarily due to property expenses of \$8.2 million for the Forrest Centre that were budgeted for as Investment Expenses, but were subsequently expensed as Property, Plant and Equipment - Other Expenses, following AIFRS changes in respect to owner occupied properties. Refer Note 40.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

32. GROUP ENTITIES

Name	Legal Form	Place of Inc.	2006		2005		2006		2005	
			%		%		\$'000	\$'000	\$'000	\$'000
Parent Entity										
Insurance Commission of Western Australia	Statutory Authority	Western Australia	-		-		-	170,624	-	155,130
Less: Increase/(Deduction) in value of Investment in the Corporation (Refer Note 10)										
								(161)		(431)
Subsidiary										
State Government Insurance Corporation	Statutory Authority	Western Australia	100		100		100,000	161	100,000	431
							100,000	170,624	100,000	155,130

The Insurance Commission would indemnify the Corporation in the event that its liabilities exceed its assets. At 30 June 2006, no such indemnity was required.

The movement in the value of the investment in the Corporation for the year ended 30 June 2006 of \$0.2 million (2005: \$0.4 million) has been credited to the Income Statement. Refer Note 6.

33. ECONOMIC DEPENDENCY

The normal trading activities of the Insurance Commission depend to a significant extent on the Department for Planning and Infrastructure (DPI), an agency of the Government of Western Australia.

DPI is responsible, under the *Motor Vehicle (Third Party Insurance) Act 1943*, for issuing the Insurance Commission's Third Party insurance policies, collecting premiums in relation to those policies and remitting premiums to the Insurance Commission.

Total premium revenue for the Third Party Insurance Fund during the 2006 financial year was \$356.3 million (2005: \$341.2 million), representing virtually all of the Insurance Commission's premium revenue.

DPI received a number of independent audit and quality assurance reports relating to the Transport Executive Licensing Information System (TRELIS) computer system. In a letter to the Insurance Commission dated 28 July 2006, DPI has confirmed that these reports have not indicated that findings which will affect, or have affected, DPI's ability to issue and process Third Party insurance policies on the Insurance Commission's behalf, including the remitting of all monies collected in relation to those policies, in an accurate and complete manner.

DPI's written advice also confirms that:

- Third Party insurance premiums, GST and stamp duty remitted to the Insurance Commission during the financial years 2005 and 2006, completely and accurately reflect all such premiums, GST and stamp duty the Insurance Commission was entitled to receive as collected on its behalf by DPI; and
- The procedures and internal controls for the collection and processing of premium receipts are considered to be adequate. In addition, matters identified by external audits and Quality Assurance have been addressed together with remedial action that has been instigated to ensure the integrity of the systems.

34. CONTINGENT ASSETS AND LIABILITIES

Bell Recovery Action

The Insurance Commission has agreed to fund costs of the liquidators of the Bell Group in the liquidators' action against a syndicate of banks. Contingent upon the outcome of this litigation, the Insurance Commission is likely at a future point in time to realise either an asset or a liability.

The contingent asset relates to the amount which the Insurance Commission will receive from the liquidators, if the liquidators' court action against the syndicate of banks is successful.

The contingent liability relates to the Insurance Commission's share of any amounts that would be required to be paid in respect of any future costs ordered by the court, in the event that the liquidators' action is unsuccessful. Insurance cover has been put in place in relation to the contingent liability and the Insurance Commission continues to monitor, and where considered appropriate, modify the insurance program in respect of exposure to the funding of the litigation.

Because the court outcome, and the amounts of any resulting contingent asset or liability are subject to inherent uncertainty, it is not practical to estimate the potential financial effect upon the Insurance Commission at balance date.

There are no other contingent assets or liabilities that materially affect the financial statements of the Insurance Commission.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

35. EXPENDITURE COMMITMENTS

(a) Capital Expenditure Commitments

Estimated capital expenditure contracted for at balance date, but not provided for, payable:

	CONSOLIDATED		INSURANCE COMMISSION	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Not Later than One Year:				
- IT Hardware	20	-	20	-
- IT Software	596	-	596	-
	616	-	616	-

(b) Road Safety Commitments

The Board has resolved to provide funding of \$4.5 million for road safety community education programs for the 2007 financial year (2005: was projected at \$4.2 million for the 2006 year).

(c) Medical Research

The Board has committed to provide \$294,000 per annum plus CPI increases until 30 June 2010 to the Foundation for Advanced Medical Research and the University of Western Australia to undertake the "Markers of Mesothelioma" medical research project.

(d) Other Commitments

It is estimated that the Insurance Commission may advance approximately \$12.1 million (2005: was projected at \$21.0 million for the 2006 year) in funding the liquidators' prosecution of the Bell Group recovery action during the 2007 financial year.

36. EVENTS OCCURRING AFTER BALANCE DATE

There were no events after balance date that could materially affect the financial statements of the economic entity.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

37. LOSSES THROUGH THEFT, DEFAULT AND OTHER CAUSES

		CONSOLIDATED		INSURANCE COMMISSION	
		2006	2005	2006	2005
		\$'000	\$'000	\$'000	\$'000
Write-Off of Revenue and Debt	(i)	-	65	-	65
Write-Off of Plant and Equipment	(ii)	-	1	-	1
Recovery of Losses	(iii)	3	-	3	-

(i) Comprises reinsurance debt of \$Nil (2005: \$65,061).

(ii) Comprises plant and equipment of \$Nil (2005: \$994).

(iii) Insurance claims were lodged in relation to plant and equipment stolen and settlement of \$3,110 (2005: \$174) was received.

Claims Recoveries Written Off

In relation to the Third Party Insurance Fund, the Insurance Commission has a statutory obligation to pay a third party claim. Where the negligent driver of a vehicle was in breach of the warranties of the policy or where the vehicle was uninsured, or where a third party was at fault, the Insurance Commission seeks to recover the costs the claim from the driver or the third party.

In accordance with AASB 1023 - General Insurance Contracts, recoveries receivable are assessed with regard to the ability of the debtors to meet their obligations. These recoveries have not been brought to account as revenue because the amount to be recovered could not be reliably measured and consequently the write-off of these debts has not been charged as an expense in the Income Statement. The Third Party Insurance Fund debt write-offs below for the 2006 financial year are net of recoveries received from negligent owners or drivers of \$158,704 (2005: \$192,040). The only loss to the Insurance Commission is the non-payment of Third Party Insurance Fund premiums by uninsured motor vehicle owners, the total of which is estimated at \$3,307 for the year (2005: \$2,004), which is more than offset by the recoveries received.

In accordance with Section 45(3) of the *Financial Administration and Audit Act 1985*, recoveries were written off from the following funds:

	2006	2005
	\$'000	\$'000
Third Party Insurance Fund	10,833	6,952
Insurance Commission General Fund	-	-
Government Insurance Fund	1	-
	10,834	6,952
Amounts Written Off by the responsible Minister	9,718	6,018
Amounts Written Off by the Board	1,116	934
	10,834	6,952

Number of Individual Recovery Write-Offs with Values Between (\$):	2006 No.	2005 No.
100,001 - 250,000	11	14
250,001 - 1,000,000	5	4
1,000,001 - 4,000,000	3	1

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

38. REMUNERATION OF THE BOARD OF COMMISSIONERS AND OTHER KEY MANAGEMENT PERSONNEL

	CONSOLIDATED	
	2006	2005
	\$'000	\$'000
Total fees, salaries, employer's contributions to superannuation and fringe benefits received or due and receivable for the financial year by:		
- Board of Commissioners (Board)	566	533
- Other Key Management Personnel	1,656	1,383

These amounts are based on a Total Employment Cost incorporating fees, salaries, employer's contributions to superannuation and fringe benefits. All employee costs are short-term employment benefits.

The Board consists of six non-executive Commissioners and the Managing Director. The number of Members of the Board whose total fees, salaries, employer's contributions to superannuation and fringe benefits received, fall within each band of income of \$10,000 are as follows:

Income Band (\$)	No. of Members of the Board	
	2006	2005
0 - 10,000	-	1
10,001 - 20,000	1	2
30,001 - 40,000	3	2
40,001 - 50,000	1	1
100,001 - 110,000	-	1
120,001 - 130,000	1	-
280,001 - 290,000	1	1

The number of Key Management Personnel (excluding members of the Board) whose total fees, salaries, employer's contributions to superannuation and fringe benefits received, fall within each band of income of \$10,000 are as follows:

Income Band (\$)	No. of Other Key Management Personnel	
	2006	2005
120,001 - 130,000	-	1
130,001 - 140,000	2	1
140,001 - 150,000	1	2
150,001 - 160,000	2	3
160,001 - 170,000	1	-
170,001 - 180,000	1	1
180,001 - 190,000	-	1
190,001 - 200,000	2	-
200,001 - 210,000	1	-

At 30 June 2006, no members (2005: Nil) of the Board or Other Key Management Personnel were members of the State Pension Scheme (as originally defined in the repealed *Superannuation and Family Benefits Act 1938*, the provisions of which are now continued in force by Section 26 of the *State Superannuation (Transitional and Consequential Provisions) Act 2000*).

All remuneration of the Board of Commissioners and Other Key Management Personnel is contained within the Insurance Commission.

39. REMUNERATION OF AUDITOR

Remuneration payable to the Auditor General for the financial year is as follows:

	CONSOLIDATED		INSURANCE COMMISSION	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Auditing the Accounts, Financial Statements and Performance Indicators	347	345	347	345

Includes an amount of \$13,600 (2005: \$13,000) in respect of amounts paid or due and payable to the Auditor General for auditing the financial statements of the Corporation. This amount is included in the management fee charged by the Insurance Commission to the Corporation.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

40. RECONCILIATION EXPLAINING THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS)

RECONCILIATION OF EQUITY AT THE DATE OF TRANSITION TO AIFRS 1 JULY 2004

CONSOLIDATED		Previous AGAAP 30 June 2004		ADJUSTMENTS						Total Adjustments		AIFRS 1 July 2004			
		40.1(a) Other Reclassification Movements \$'000		40.2(a) AASB 137 Realisation of Equities \$'000		40.2(d) AASB 137 Realisation of Properties \$'000		40.3(a) AASB 116 Transfer of Properties \$'000		40.4(a) AASB 117 Investment Debtor and Set- Up Costs \$'000		40.5(a) AASB 138 Transfer of IT Software \$'000		40.6(a) AASB 112 Deferred Tax \$'000	
ASSETS		\$'000		\$'000		\$'000		\$'000		\$'000		\$'000		\$'000	
Current Assets															
Cash and Cash Equivalents		2,760		-		-		-		-		-		-	
Receivables		43,404		-		-		455		-		-		455	
Other Financial Assets		1,034,261		3,989		-		1,315		850		-		(1,034,261)	
Financial Assets at Fair Value through Profit or Loss		-		-		-		-		-		-		1,040,415	
Deferred Acquisition Costs		-		-		-		-		-		-		2,910	
Other Assets		4,391		-		-		-		852		-		(2,058)	
Total Current Assets		1,084,816		3,989		-		1,770		1,702		-		7,461	
1,092,277															
Non-Current Assets															
Receivables		250,384		-		-		-		-		-		-	
Other Financial Assets		400,235		-		1,000		(167,628)		1,473		-		(400,235)	
Financial Assets at Fair Value through Profit or Loss		-		-		-		-		-		-		89,880	
Deferred Tax Assets		-		-		-		-		-		-		10,370	
Property Plant and Equipment		4,434		-		-		167,628		-		(398)		10,370	
Investment Properties		-		-		-		-		-		-		167,230	
Intangible Assets		-		-		-		-		-		-		149,200	
Other Assets		-		-		-		-		-		398		398	
Total Non-Current Assets		655,053		4,000		-		-		3,642		-		19,012	
674,065															
TOTAL ASSETS		1,739,869		4,000		3,989		1,000		5,344		-		26,473	
1,766,342															
LIABILITIES															
Current Liabilities															
Bank Overdraft		(2,441)		-		-		-		-		-		-	
Payables		(15,021)		-		-		(1,757)		-		-		(1,757)	
Outstanding Claims Liability		(341,069)		-		-		-		-		-		-	
Unearned Premium Liability		(135,034)		-		-		-		-		-		-	
Provisions		(3,387)		-		-		(13)		-		-		(13)	
Other Liabilities		(559)		-		-		-		-		-		-	
Total Current Liabilities		(497,511)		-		-		(1,770)		-		-		(1,770)	
(499,281)															
Non-Current Liabilities															
Payables		(18)		(4,000)		-		-		-		-		(4,000)	
Outstanding Claims Liability		(1,026,139)		-		-		-		-		-		-	
Provisions		(10,804)		-		-		-		-		-		-	
Total Non-Current Liabilities		(1,036,961)		(4,000)		-		-		-		-		(4,000)	
(1,040,961)															
TOTAL LIABILITIES		(1,534,472)		(4,000)		-		(1,770)		-		-		(5,770)	
(1,540,242)															
NET ASSETS		205,397		-		3,989		1,000		5,344		-		20,703	
226,100															

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

40. RECONCILIATION EXPLAINING THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) (continued)

RECONCILIATION OF EQUITY AT THE DATE OF TRANSITION TO AIFRS 1 JULY 2004 (continued)

CONSOLIDATED	Previous AGAAP 30 June 2004	ADJUSTMENTS							Total Adjustments	AIFRS 1 July 2004
		40.1(a)	40.2(a) AASB 137	40.2(d) AASB 137	40.3(a) AASB 116	40.4(a) AASB 117 Investment Up Costs \$'000	40.5(a) AASB 138	40.6(a) AASB 112		
		Other Reclassification Movements \$'000	Realisation of Equities \$'000	Realisation of Properties \$'000	Transfer of Properties \$'000	Debt and Set- Up Costs \$'000	Transfer of IT Software \$'000	Deferred Tax \$'000		
EQUITY										
Compensation (Industrial Diseases) Fund Reserve	11,869	-	-	-	-	-	-	-	-	11,869
Retained Earnings	193,528	-	3,989	1,000	-	5,344	-	10,370	20,703	214,231
TOTAL EQUITY	205,397	-	3,989	1,000	-	5,344	-	10,370	20,703	226,100

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

40. RECONCILIATION EXPLAINING THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) (continued)

RECONCILIATION OF INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2005

CONSOLIDATED	Previous AGAAP 30 June 2005	Note	ADJUSTMENTS										Total Adjustments	AIFRS 30 June 2005
			40.1(c)	40.2(c) AASB 137	40.2(f) AASB 137	40.3(c) AASB 116	40.3(e) AASB 116	40.3(f) AASB 116	40.4(c) AASB 117	40.6(c) AASB 112	Transfer of IT Software \$'000	Investment Debtor and Set- Up Costs \$'000	Deferred Tax \$'000	
Premium Revenue	341,431		-	-	-	-	-	-	-	-	-	-	-	341,431
Outwards Reinsurance Premium Expense	(3,515)		-	-	-	-	-	-	-	-	-	-	-	(3,515)
Outwards Reinsurance Commission Revenue	343		-	-	-	-	-	-	-	-	-	-	-	343
Net Premium Revenue	338,259		-	-	-	-	-	-	-	-	-	-	-	338,259
Claims Expense	(303,891)		-	-	-	-	-	-	-	-	-	-	-	(303,891)
Reinsurance and Other Recoveries Revenue	23,550		-	-	-	-	-	-	-	-	-	-	-	23,550
Net Claims Incurred	(280,341)		-	-	-	-	-	-	-	-	-	-	-	(280,341)
Acquisition Costs	-	(7,812)	-	-	-	-	-	-	-	-	-	-	(7,812)	(7,812)
Underwriting and Administration Expenses	(66,630)	7,812	-	-	-	-	-	-	-	-	-	-	7,812	(58,818)
UNDERWRITING RESULT	(8,712)		-	-	-	-	-	-	-	-	-	-	-	(8,712)
Investment Income	251,429		-	444	650	-	(307)	(12,791)	(285)	-	-	-	(12,289)	239,140
Investment Expenses	(16,949)		-	-	-	-	-	4,213	-	-	-	-	4,213	(12,736)
Finance Costs	(43,733)		-	-	-	-	-	-	-	-	-	-	-	(43,733)
Other Income	28,428	(507)	-	-	-	-	-	13,086	(754)	-	-	-	11,825	40,253
Other Expenses	(508)	507	-	-	-	(3,930)	-	(4,508)	-	-	-	-	(7,931)	(8,439)
PROFIT/(LOSS) BEFORE INCOME TAX EQUIVALENT EXPENSE	209,955		-	444	650	(3,930)	(307)	-	(1,039)	-	-	-	(4,182)	205,773
Income Tax Equivalent Expense	(46,087)		-	-	-	-	-	-	-	(4,556)	-	-	(4,556)	(50,643)
PROFIT/(LOSS) AFTER INCOME TAX EQUIVALENT EXPENSE ATTRIBUTABLE TO THE STATE GOVERNMENT OF WESTERN AUSTRALIA	163,868		-	444	650	(3,930)	(307)	-	(1,039)	-	-	-	(4,556)	155,130

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

40. RECONCILIATION EXPLAINING THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) (continued)

RECONCILIATION OF EQUITY AT THE END OF THE LAST REPORTING PERIOD UNDER PREVIOUS AGAAP 30 JUNE 2005

CONSOLIDATED	AGAAP 30 June 2005	Note	ADJUSTMENTS										Total Adjustments	AIFRS 30 June 2005
			40.1(b)	40.2(b)	40.2(e)	40.3(b)	40.3(e)	40.4(b)	40.5(b)	40.6(b)	40.6(b)	40.6(b)		
			AASB 137	AASB 137	AASB 137	AASB 116	AASB 116	AASB 117	AASB 138	AASB 112				
ASSETS	\$'000		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	Deferred Tax	\$'000	\$'000	\$'000
Current Assets														
Cash and Cash Equivalents	1,533	-	-	-	-	-	-	-	-	-	-	-	-	1,533
Receivables	44,987	-	-	-	-	913	-	-	-	-	-	913	-	45,900
Other Financial Assets	1,190,150	(1,194,679)	4,433	-	-	(788)	-	884	-	-	(1,190,150)	-	-	-
Financial Assets at Fair Value through Profit or Loss	-	1,198,367	-	-	-	-	-	-	-	-	1,198,367	-	-	1,198,367
Deferred Acquisition Costs	-	-	-	-	-	-	-	-	-	-	3,064	-	-	3,064
Other Assets	3,527	(3,064)	-	-	-	-	-	802	-	-	(2,262)	-	-	1,265
Total Current Assets	1,240,197	3,688	4,433	-	-	125	-	1,686	-	-	9,932	-	9,932	1,250,129
Non-Current Assets														
Receivables	272,971	-	-	-	-	-	-	-	-	-	-	-	-	272,971
Other Financial Assets	453,755	(318,459)	-	-	-	(138,100)	-	1,154	-	-	(453,755)	-	-	-
Financial Assets at Fair Value through Profit or Loss	-	103,059	-	-	-	-	-	-	-	-	103,059	-	-	103,059
Property, Plant and Equipment	4,155	-	-	-	-	134,170	3,930	-	(573)	-	137,527	-	-	141,682
Investment Properties	-	219,400	-	-	-	-	-	-	-	-	219,400	-	-	219,400
Intangible Assets	-	-	-	-	-	-	-	-	573	-	-	-	-	573
Other Assets	-	-	-	-	-	-	-	1,465	-	-	1,465	-	-	1,465
Total Non-Current Assets	730,881	4,000	-	1,650	(3,930)	(3,930)	3,930	2,619	-	-	8,269	-	8,269	739,150
TOTAL ASSETS	1,971,078	7,688	4,433	-	1,650	(3,805)	3,930	4,305	-	-	18,201	-	18,201	1,989,279
LIABILITIES														
Current Liabilities														
Bank Overdraft	680	-	-	-	-	-	-	-	-	-	-	-	-	680
Payables	13,336	3,658	-	-	-	107	-	-	-	-	-	-	3,765	17,101
Outstanding Claims Liability	325,795	-	-	-	-	-	-	-	-	-	-	-	-	325,795
Unearned Premium Liability	135,805	-	-	-	-	-	-	-	-	-	-	-	-	135,805
Provisions	3,490	30	-	-	-	18	-	-	-	-	-	-	48	3,538
Other Liabilities	99	-	-	-	-	-	-	-	-	-	-	-	-	99
Total Current Liabilities	479,205	3,688	-	-	-	125	-	-	-	-	3,813	-	3,813	483,018
Non-Current Liabilities														
Payables	17	4,000	-	-	-	-	-	-	-	-	-	-	4,000	4,017
Outstanding Claims Liability	1,064,626	-	-	-	-	-	-	-	-	-	-	-	-	1,064,626
Provisions	11,878	-	-	-	-	-	-	-	-	-	-	-	-	11,878
Deferred Tax Liabilities	46,087	-	-	-	-	-	-	-	-	-	(4,543)	-	-	41,544
Total Non-Current Liabilities	1,122,608	4,000	-	-	-	-	-	-	-	-	(4,543)	-	(543)	1,122,065
TOTAL LIABILITIES	1,601,813	7,688	-	-	-	125	-	-	-	-	(4,543)	-	3,270	1,605,083
NET ASSETS	369,265	-	4,433	1,650	(3,930)	(3,930)	3,930	4,305	-	-	14,931	-	14,931	384,196

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

40. RECONCILIATION EXPLAINING THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) (continued)

RECONCILIATION OF EQUITY AT THE END OF THE LAST REPORTING PERIOD UNDER PREVIOUS AGAAP 30 JUNE 2005 (continued)

CONSOLIDATED	AGAAP	Note	ADJUSTMENTS										Total	AIFRS
	30 June 2005		40.1(b)	40.2(b)	40.2(e)	40.3(b)	40.3(e)	40.4(b)	40.5(b)	40.6(b)	Adjustments	30 June 2005		
			Other	AASB 137	AASB 137	AASB 116	AASB 116	AASB 117	AASB 138	AASB 112				
			Reclassification	Realisation of	Realisation of	Transfer of	Revaluation of	Investment	Transfer of IT					
			Movements	Equities	Properties	Properties and	Properties	Up Costs	Software					
				\$'000	\$'000	Depreciation	\$'000	\$'000	\$'000	\$'000	Deferred Tax	\$'000		
EQUITY														
Revaluation Reserve	-		-	-	-	-	4,237	-	-	(1,271)		2,966		
Compensation (Industrial Diseases) Fund Reserve	12,569		-	-	-	-	-	-	-	-		12,569		
Retained Earnings	356,696		-	4,433	1,650	(3,930)	(307)	4,305	-	5,814		368,661		
TOTAL EQUITY	369,265		-	4,433	1,650	(3,930)	3,930	4,305	-	4,543		384,196		

RECONCILIATION OF THE CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2005

CONSOLIDATED

There are no material differences between the Cash Flow Statement presented under AIFRS and the Cash Flow Statement presented under the previous AGAAP.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

40. RECONCILIATION EXPLAINING THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS)

RECONCILIATION OF EQUITY AT THE DATE OF TRANSITION TO AIFRS 1 JULY 2004

INSURANCE COMMISSION	Previous AGAAP 30 June 2004	ADJUSTMENTS							Total Adjustments	AIFRS 1 July 2004
		40.1(a)	40.2(a) AASB 137	40.2(d) AASB 137	40.3(a) AASB 116	40.4(a) AASB 117 Investment Up Costs	40.5(a) AASB 138	40.6(a) AASB 112		
ASSETS										
Current Assets										
Receivables	43,384	-	-	-	455	-	-	-	455	43,839
Other Financial Assets	1,034,261	(1,040,415)	3,989	-	1,315	850	-	-	(1,034,261)	-
Financial Assets at Fair Value through Profit or Loss	-	1,040,415	-	-	-	-	-	-	1,040,415	1,040,415
Deferred Acquisition Costs	-	2,910	-	-	-	-	-	-	2,910	2,910
Other Assets	4,391	(2,910)	-	-	-	852	-	-	(2,058)	2,333
Total Current Assets	1,082,036	-	3,989	-	1,770	1,702	-	-	7,461	1,089,497
Non-Current Assets										
Receivables	250,291	-	-	-	-	-	-	-	-	250,291
Other Financial Assets	400,235	(235,080)	-	1,000	(167,628)	1,473	-	15,081	(385,154)	15,081
Financial Assets at Fair Value through Profit or Loss	-	89,880	-	-	-	-	-	-	89,880	89,880
Deferred Tax Assets	-	-	-	-	-	-	-	9,967	9,967	9,967
Property Plant and Equipment	4,434	-	-	-	167,628	-	(398)	-	167,230	171,664
Investment Properties	-	149,200	-	-	-	-	-	-	149,200	149,200
Intangible Assets	-	-	-	-	-	-	398	-	398	398
Other Assets	-	-	-	-	-	2,169	-	-	2,169	2,169
Total Non-Current Assets	654,960	4,000	-	1,000	-	3,642	-	25,048	33,690	688,650
TOTAL ASSETS	1,736,996	4,000	3,989	1,000	1,770	5,344	-	25,048	41,151	1,778,147
LIABILITIES										
Current Liabilities										
Bank Overdraft	(2,441)	-	-	-	-	-	-	-	-	(2,441)
Payables	(14,971)	-	-	-	(1,757)	-	-	-	(1,757)	(16,728)
Outstanding Claims Liability	(340,112)	-	-	-	-	-	-	-	-	(340,112)
Unearned Premium Liability	(135,034)	-	-	-	-	-	-	-	-	(135,034)
Provisions	(3,387)	-	-	-	(13)	-	-	-	(13)	(3,400)
Other Liabilities	(4,478)	-	-	-	-	-	-	3,919	3,919	(559)
Total Current Liabilities	(500,423)	-	-	-	(1,770)	-	-	3,919	2,149	(498,274)
Non-Current Liabilities										
Payables	(18)	(4,000)	-	-	-	-	-	(18,597)	(22,597)	(22,615)
Outstanding Claims Liability	(1,020,354)	-	-	-	-	-	-	-	-	(1,020,354)
Provisions	(10,804)	-	-	-	-	-	-	-	-	(10,804)
Total Non-Current Liabilities	(1,031,176)	(4,000)	-	-	-	-	-	(18,597)	(22,597)	(1,053,773)
TOTAL LIABILITIES	(1,531,599)	(4,000)	-	-	(1,770)	-	-	(14,678)	(20,448)	(1,552,047)
NET ASSETS	205,397	-	3,989	1,000	-	5,344	-	10,370	20,703	226,100

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

40. RECONCILIATION EXPLAINING THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) (continued)

RECONCILIATION OF EQUITY AT THE DATE OF TRANSITION TO AIFRS 1 JULY 2004 (continued)

INSURANCE COMMISSION	Previous AGAAP 30 June 2004	ADJUSTMENTS							Total Adjustments	AIFRS 1 July 2004
		40.1(a) Other Reclassification Movements \$'000	40.2(a) AASB 137 Realisation of Equities \$'000	40.2(d) AASB 137 Realisation of Properties \$'000	40.3(a) AASB 116 Transfer of Properties \$'000	40.4(a) AASB 117 Investment Debtor and Set- Up Costs \$'000	40.5(a) AASB 138 Transfer of IT Software \$'000	40.6(a) AASB 112 Deferred Tax \$'000		
EQUITY										
Compensation (Industrial Diseases) Fund Reserve	11,869	-	-	-	-	-	-	-	-	11,869
Retained Earnings	193,528	-	3,989	1,000	-	5,344	-	10,370	20,703	214,231
TOTAL EQUITY	205,397	-	3,989	1,000	-	5,344	-	10,370	20,703	226,100

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

40. RECONCILIATION EXPLAINING THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) (continued)

RECONCILIATION OF INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2005

INSURANCE COMMISSION	Note	Previous AGAAP 30 June 2005	ADJUSTMENTS										Total Adjustments	AIFRS 30 June 2005
			40.1(c)	40.2(c) AASB 137	40.2(f) AASB 137	40.3(c) AASB 116	40.3(c) AASB 116	40.3(c) AASB 116	40.3(f) AASB 116	40.4(c) AASB 117	AASB138	40.6(c) AASB 112		
			Other Reclassification Movements \$'000	Realisation of Equities \$'000	Realisation of Properties \$'000	Transfer of Properties and Depreciation \$'000	Revaluation of Properties \$'000	Property Income & Expense Transfer \$'000	Investment Debtor and Set- Up Costs \$'000	Transfer of IT Software \$'000	Deferred Tax \$'000			
Premium Revenue		341,241	-	-	-	-	-	-	-	-	-	-	-	341,241
Outwards Reinsurance Premium Expense		(3,515)	-	-	-	-	-	-	-	-	-	-	-	(3,515)
Outwards Reinsurance Commission Revenue		343	-	-	-	-	-	-	-	-	-	-	-	343
Net Premium Revenue		338,069	-	-	-	-	-	-	-	-	-	-	-	338,069
Claims Expense		(304,201)	-	-	-	-	-	-	-	-	-	-	-	(304,201)
Reinsurance and Other Recoveries Revenue		23,563	-	-	-	-	-	-	-	-	-	-	-	23,563
Net Claims Incurred		(280,638)	-	-	-	-	-	-	-	-	-	-	-	(280,638)
Acquisition Costs		-	(7,799)	-	-	-	-	-	-	-	-	-	(7,799)	(7,799)
Underwriting and Administration Expenses		(66,616)	7,799	-	-	-	-	-	-	-	-	-	7,799	(58,817)
UNDERWRITING RESULT		(9,185)	-	-	-	-	-	-	-	-	-	-	-	(9,185)
Investment Income		251,429	-	444	650	-	(307)	(12,791)	(285)	-	-	-	(12,289)	239,140
Investment Expenses		(16,949)	-	-	-	-	-	4,213	-	-	-	-	4,213	(12,736)
Finance Costs		(43,733)	-	-	-	-	-	-	-	-	-	-	-	(43,733)
Other Income		28,605	(507)	-	-	-	-	13,086	(754)	-	-	-	11,825	40,430
Other Expenses		(212)	507	-	-	(3,930)	-	(4,508)	-	-	34	(7,897)	(8,109)	
PROFIT/(LOSS) BEFORE INCOME TAX EQUIVALENT EXPENSE		209,955	-	444	650	(3,930)	(307)	-	(1,039)	-	34	(4,148)	(4,148)	205,807
Income Tax Equivalent Expense		(46,087)	-	-	-	-	-	-	-	-	(4,590)	-	(4,590)	(50,677)
PROFIT/(LOSS) AFTER INCOME TAX EQUIVALENT EXPENSE ATTRIBUTABLE TO THE STATE GOVERNMENT OF WESTERN AUSTRALIA		163,868	-	444	650	(3,930)	(307)	-	(1,039)	-	(4,556)	-	(8,738)	155,130

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

40. RECONCILIATION EXPLAINING THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) (continued)

RECONCILIATION OF EQUITY AT THE END OF THE LAST REPORTING PERIOD UNDER PREVIOUS AGAAP 30 JUNE 2005

INSURANCE COMMISSION	Note	ADJUSTMENTS												Total Adjustments	AIFRS 30 June 2005
		AGAAP 30 June 2005													
		40.1(b)	40.2(b) AASB 137	40.2(c) AASB 137	40.3(b) AASB 116	40.3(c) AASB 116	40.4(b) AASB 117	40.5(b) AASB 138	40.6(b) AASB 112						
ASSETS															
Current Assets															
Receivables		44,797	-	-	913	-	-	-	-	-	913	-	-	45,710	-
Other Financial Assets		1,190,150	4,433	-	(788)	-	884	-	-	-	(1,190,150)	-	-	-	-
Financial Assets at Fair Value through Profit or Loss		-	1,198,367	-	-	-	-	-	-	-	1,198,367	-	-	1,198,367	-
Deferred Acquisition Costs		-	-	-	3,064	-	-	-	-	-	3,064	-	-	3,064	-
Other Assets		3,527	(3,064)	-	-	-	802	-	-	-	(2,262)	-	-	1,265	-
Total Current Assets		1,238,474	3,688	4,433	125	-	1,686	-	-	-	9,932	-	-	1,248,406	-
Non-Current Assets															
Receivables		272,890	-	-	-	-	-	-	-	-	-	-	-	272,890	-
Other Financial Assets		453,755	(333,971)	1,650	(138,100)	-	1,154	-	-	-	(453,755)	-	-	118,571	-
Financial Assets at Fair Value through Profit or Loss		-	118,571	-	-	-	-	-	-	-	118,571	-	-	141,682	-
Property, Plant and Equipment		4,155	-	-	134,170	3,930	-	(573)	-	-	137,527	-	-	219,400	-
Investment Properties		-	219,400	-	-	-	-	-	-	-	219,400	-	-	219,400	-
Intangible Assets		-	-	-	-	-	-	573	-	-	573	-	-	573	-
Other Assets		-	-	-	-	-	1,465	-	-	-	1,465	-	-	1,465	-
Total Non-Current Assets		730,800	4,000	1,650	(3,930)	3,930	2,619	-	-	-	23,781	-	-	754,581	-
TOTAL ASSETS		1,969,274	7,688	4,433	(3,805)	3,930	4,305	-	-	-	33,713	-	-	2,002,987	-
LIABILITIES															
Current Liabilities															
Bank Overdraft		680	-	-	-	-	-	-	-	-	-	-	-	680	-
Payables		13,243	3,658	-	107	-	-	-	-	-	3,765	-	-	17,008	-
Outstanding Claims Liability		325,048	-	-	-	-	-	-	-	-	-	-	-	325,048	-
Unearned Premium Liability		135,805	-	-	-	-	-	-	-	-	-	-	-	135,805	-
Provisions		3,490	30	-	18	-	-	-	-	-	48	-	-	3,538	-
Other Liabilities		3,621	-	-	-	-	-	-	-	-	(3,522)	-	-	99	-
Total Current Liabilities		481,887	3,688	-	125	-	-	-	-	-	291	-	-	482,178	-
Non-Current Liabilities															
Payables		17	4,000	-	-	-	-	-	-	-	18,545	-	-	22,562	-
Outstanding Claims Liability		1,060,140	-	-	-	-	-	-	-	-	-	-	-	1,060,140	-
Provisions		11,878	-	-	-	-	-	-	-	-	-	-	-	11,878	-
Deferred Tax Liabilities		46,087	-	-	-	-	-	-	-	-	(4,054)	-	-	42,033	-
Total Non-Current Liabilities		1,118,122	4,000	-	-	-	-	-	-	-	14,491	-	-	1,136,613	-
TOTAL LIABILITIES		1,600,009	7,688	-	125	-	-	-	-	-	18,491	-	-	1,618,791	-
NET ASSETS		369,265	-	4,433	(3,930)	3,930	4,305	-	-	-	14,931	-	-	384,196	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

40. RECONCILIATION EXPLAINING THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) (continued)

RECONCILIATION OF EQUITY AT THE END OF THE LAST REPORTING PERIOD UNDER PREVIOUS AGAAP 30 JUNE 2005 (continued)

INSURANCE COMMISSION		AGAAP 30 June 2005	ADJUSTMENTS										Total Adjustments	AIFRS 30 June 2005
		40.1(b) Other Reclassification Movements \$'000	40.2(b) AASB 137 Realisation of Equities \$'000	40.2(e) AASB 137 Realisation of Properties \$'000	40.3(b) AASB 116 Transfer of Properties and Depreciation \$'000	40.3(e) AASB 116 Revaluation of Properties \$'000	40.4(b) AASB 117 Investment Up Costs \$'000	40.5(b) AASB 138 Transfer of IT Software \$'000	40.6(b) AASB 112 Deferred Tax \$'000					
EQUITY														
Revaluation Reserve		-	-	-	-	4,237	-	-	(1,271)		2,966			
Compensation (Industrial Diseases) Fund Reserve		12,569	-	-	-	-	-	-	-		12,569			
Retained Earnings		356,696	-	4,433	1,650	(3,930)	(307)	4,305	5,814		368,661			
TOTAL EQUITY		369,265	-	4,433	1,650	(3,930)	3,930	4,305	4,543		384,196			

RECONCILIATION OF THE CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2005

INSURANCE COMMISSION

There are no material differences between the Cash Flow Statement presented under AIFRS and the Cash Flow Statement presented under the previous AGAAP.

40. RECONCILIATIONS EXPLAINING THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The following explanatory notes relate to the Income Statements and Balance Sheets reconciliation statements above and describe, for significant items, the differences between the treatment required under AGAAP and the revised treatment of these items under AIFRS.

Unless specifically stated otherwise, the following adjustments apply to both Consolidated and Insurance Commission reports.

Adjustments also specifically relate to the Insurance Commission General Fund unless stated otherwise.

The transitional exemptions applied by the Insurance Commission have been disclosed in Note 1 (a).

All adjustment amounts in the detailed notes below are stated in \$000's

40.1 Other Reclassification Movements

There are instances where the presentation of assets and liabilities has been reclassified under AIFRS necessitating movement from headings previously used under AGAAP. In yet other instances, figures previously set off within an AGAAP category are now presented in a different category.

(a) Adjustments to opening Balance Sheet at 1 July 2004

Under the new AASB 1023, General Insurance Contracts, assets which had previously been presented as Current Other Financial Assets of \$1,040,415 are now presented as Current Financial Assets at Fair Value through Profit or Loss, being assets backing insurance liabilities.

Similarly Non-Current Other Financial Assets have been reduced by \$ 89,880 and Non-Current Financial Assets at Fair Value through Profit or Loss have been increased by a corresponding amount.

Additionally Non-Current Other Financial Assets have also been reduced by \$145,200 in respect of Non-Current Investment Property assets of \$149,200 which will now show separately on the face of the balance sheet and an amount of \$4,000 in respect of a non-current payable previously presented within Non-Current Other Financial Assets which is now reclassified under Non-Current payables.

Current Other Assets have been reduced by \$2,910 and a new category now shown on the face of the balance sheet, Deferred Acquisition Costs, has been increased by this amount.

40. RECONCILIATIONS EXPLAINING THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

(b) Adjustments to 30 June 2005 Balance Sheet

Current Other Current Financial Assets have been reduced by \$1,194,697 of which \$1,198,367 is now presented as Current Financial Assets at Fair Value through Profit or Loss, being assets backing insurance liabilities, an amount of \$30 has been reclassified under Provisions and \$3,658 classified under Payables.

Similarly Non-Current Other Financial Assets have been reduced by \$103,059 and Non-Current Financial Assets at Fair Value through Profit or Loss have been increased by a corresponding amount.

Additionally Non-Current Other Financial Assets have also been reduced by \$215,400 in respect of Non-Current Investment Property assets of \$219,400 now shown separately on the face of the Balance sheet and a payable amount of \$4,000 due at a future date now reclassified under Non-Current Payables.

Current Other Assets have been reduced by \$3,064 and a new category now shown on the face of the Balance sheet, Deferred Acquisition Costs, has been increased by this amount.

(c) Adjustment to the Income Statement period ended 30 June 2005

Consolidated Acquisition costs of \$7,812 previously presented within Underwriting and Administration Expenses are now shown on the face of the Income Statement. This comprises \$7,799 for the Insurance Commission and \$13 for the Corporation.

In both the Insurance Commission and Consolidation, under AGAAP, the proceeds of sale of fixed assets of \$515 were shown under Other Income and the associated cost of \$507 shown within Other Expenses. Under AIFRS the net gain of \$8 is shown within Other Income. As a result, both Other Income and Other Expenses were reduced by \$507.

40.2 Provisions, Contingent Liabilities and Contingent Assets (AASB 137)

AASB137 only allows for the Provision for Costs of Realisation of investment assets if there is a contractual commitment to sell.

Amounts previously provided under AGAAP were more general in nature and not related to a specific contractual arrangement.

40. RECONCILIATIONS EXPLAINING THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Adjustments in relation to provision for Realisation of Equities

(a) Adjustments to opening Balance Sheet at 1 July 2004

The Insurance Commission increased Current Other Financial Assets by \$3,989 and increased Retained Earnings by a corresponding amount.

This amount represented a general provision amount of \$3,989 for estimated expenses for realisation of the equities investment portfolio.

(b) Adjustments to 30 June 2005 Balance Sheet

The Insurance Commission increased Current Other Financial Assets by \$4,433 and increased Retained Earnings by a corresponding amount of \$4,433.

This amount represents de-recognition of a general provisions amount of \$4,433 for estimated expenses of realisation of the equities investment portfolio.

(c) Adjustment to the Income Statement period ended 30 June 2005

Investment Income was increased by \$444 with a corresponding increase in the Retained Earnings for the year.

This amount represents the reversal of additional general provision amounts for the estimated cost of realisation of the equities investment portfolio previously recognised under AGAAP.

Adjustments in relation to provision for Realisation of Property

(d) Adjustments to opening Balance Sheet at 1 July 2004

The Insurance Commission increased Non-Current Other Financial Assets by \$1,000 and increased Retained Earnings by a corresponding amount of \$1,000.

This amount represented a general provision for estimated expenses for realisation of owner occupied and investment properties.

(e) Adjustments to 30 June 2005 Balance Sheet

The Insurance Commission increased Non-Current Other Financial Assets by \$1,650 and increased Retained Earnings by a corresponding amount of \$1,650. This amount represents de-recognition of a general provisions amount of \$1,650 for estimated expenses of realisation of owner occupied and investment properties.

40. RECONCILIATIONS EXPLAINING THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

(f) Adjustment to the Income Statement period ended 30 June 2005

Investment Income was increased by \$650 with a corresponding increase in the Retained Earnings for the year.

This amount represents the reversal of additional general provision amounts for the estimated cost of realisation of owner occupied and investment properties previously recognised under AGAAP.

40.3 Property, Plant and Equipment (AASB 116)

AASB 116 requires property with a not “insignificant” degree of owner occupation to be presented within Property, Plant and Equipment (PPE) at fair value.

It also requires “property under construction or development” to be recorded as PPE until such time as it commences generating investment income.

Consequently income and expenses in respect of PPE property should not be classified as “investment income and expenses” but as other income and other expenses.

Similarly debtors and creditors in respect of PPE property should no longer be classified as investment debtors and creditors.

Adjustments in relation to transfer of Investment Property values to PPE.

(a) Adjustments to opening Balance Sheet at 1 July 2004

The Insurance Commission has transferred \$167,628 from Non-Current Other Financial Assets to Non-Current Property, Plant and Equipment being Owner Occupied Land and Buildings of \$132,000 and Property under Construction or Development of \$35,628.

Current-Other Financial Assets were increased by \$1,315 being amounts of \$13 transferred to Current-Provisions and \$1,757 to Current Payables and an amount of \$455 transferred to Current Receivables being payables in relation to PPE properties previously classified as investment assets within Current Other Financial Assets.

(b) Adjustments to 30 June 2005 Balance Sheet

The Insurance Commission has transferred a total of \$138,100 from Non-Current Other Financial Assets. Of this amount, \$134,170 was transferred to Non-Current PPE being Owner Occupied Land and Buildings of \$132,500 and Property under Construction or Development of \$5,600. The remaining \$3,930 allowed for a provision for depreciation in respect of owner occupied PPE Land and Buildings previously classified as investment assets with a corresponding reduction in Retained Earnings.

40. RECONCILIATIONS EXPLAINING THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Current Other Financial Assets were reduced by \$788. Of this an amount of \$913 was in respect of receivables previously classified within Current-Other Financial Assets now transferred to Current Receivables and amounts of \$18 transferred to Current Provisions and \$107 to Current Payables, all of which relate to PPE properties transferred as noted above.

(c) Adjustment to the Income Statement period ended 30 June 2005

A number of adjustments arose out of reclassification of income and expenses relating to Investment Properties reclassified as PPE.

Other Expenses were increased by \$3,930 being Depreciation Expense not previously charged under AGAAP for PPE Land and Buildings with a corresponding reduction in profit.

Adjustment in relation to Revaluation of Properties

(d) Adjustments to 30 June 2005 Balance Sheet

An increment in the value of occupied PPE property upon revaluation at 30 June 2005 resulted in an Asset Revaluation Reserve under AIFRS of \$4,237. This resulted from a reversal of the provision for accumulated depreciation of \$3930 under AIFRS and reclassification of the gain previously recognised under

AGAAP of \$307 through the Income Statement and which was previously incorporated in retained earnings.

(e) Adjustment to the Income Statement period ended 30 June 2005

A revaluation gain of \$307 for owner occupied PPE property, previously recognised under AGAAP in Investment Income through the Income Statement was reversed as AIFRS requires this to be recognised through Equity. There was a corresponding adjustment reducing profit.

40. RECONCILIATIONS EXPLAINING THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**Adjustments to Investment Income and Expenses arising from reclassification of Investment Properties to PPE****(f) Adjustment to the Income Statement period ended 30 June 2005**

Investment income and expenses relating to Investment Properties which were reclassified for AIFRS as PPE Properties, is now presented as Other Income and Expenses. Accordingly, Investment Income was reduced by \$12,791 and Investment Expenses reduced by \$4,213. Related to this, Other Income increased by \$13,086 and Other Expenses increased by \$4,508.

The difference between these movements of income and expense amounts is accounted for by a valuation reduction of \$294, which under AGAAP was set against other valuation gains within investment income and which related to property reclassified as PPE property under AIFRS.

Upon reclassification as PPE, the revaluation reduction became an Other Expense as there were no longer Other Income revaluation gains available against which this amount would otherwise have been offset.

The overall impact upon profit of these movements is \$Nil.

40.4 Leases (AASB 117)

AASB 117 requires amounts in respect of the costs of lease set ups and lease incentives to be spread over the period of the lease.

As a result in the transition to A- IFRS, these expenditures and incentives such as rent free periods resulted in recognition of debtors, which are then reduced progressively over the periods of the leases.

(a) Adjustments to opening Balance Sheet at 1 July 2004

The Insurance Commission has recognised Current Other Financial Assets \$850 and Non-Current Other Financial Assets of \$1,473 in respect of Investment Property lease incentive and set up cost debtors. Similarly amounts were recognised in respect of owner occupied PPE property, being Current Other Assets of \$852 and Non-Current Other Assets of \$2,169. A corresponding increase of \$5,344 in Retained Earnings has been brought to account.

40. RECONCILIATIONS EXPLAINING THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

(b) Adjustments to 30 June 2005 Balance Sheet

The Insurance Commission has recognised Current Other Financial Assets \$884 and Non-Current Other Financial Assets of \$1,154 in respect of Investment Property lease incentive and set up cost debtors. Similarly amounts were recognised in respect of owner occupied PPE property, being Current Other Assets of \$802 and Non-Current Other Assets of \$1,465. A corresponding increase of \$4,305 in Retained Earnings has been brought to account.

(c) Adjustment to the Income Statement period ended 30 June 2005

The spread of past lease incentives and set-up costs together with new lease tenancy adjustments during the year resulted in a “net” reduction in Investment Income of \$285 and Other Income was similarly reduced by \$754. There was a corresponding reduction in Retained Earning of \$1,039.

40.5 Intangible Assets (AASB 138)

AASB 138 requires certain computer software be disclosed as Intangible Assets in the Balance Sheet. Software previously classified within Computer Hardware and Software under PPE has therefore been reclassified.

(a) Adjustments to opening Balance Sheet at 1 July 2004

The Insurance Commission transferred \$398 in relation to software from Property, PPE to Intangible Assets.

(b) Adjustments to 30 June 2005 Balance Sheet

The Insurance Commission transferred \$573 in relation to Software from PPE to Intangible Assets. This amount incorporates additional software assets acquired during the year of an Intangible Asset nature.

40.6 Income Taxes (AASB 112)

Deferred Tax

The recognition criteria for deferred tax assets and liabilities under AIFRS AASB 112 “Income Taxes” has resulted in the consolidated entity, the Third Party Insurance Fund of the Insurance Commission and the Corporation bringing to account Non-Current Deferred Tax Assets and Liabilities. One significant change compared to AGAAP was the recognition past tax losses as Deferred Tax Assets based upon the balance of probability of usage.

40. RECONCILIATIONS EXPLAINING THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

In addition, the Third Party Insurance Fund of the Insurance Commission has recognised significant Deferred Tax Assets and Liabilities arising from differences between the fair value of assets which back its insurance liabilities and their corresponding tax bases.

Urgent Issues Group Interpretation 1052 “Tax Consolidation Accounting” 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. This resulted in the Corporation booking a Non-Current Deferred Tax asset under AIFRS

(a) Adjustments to opening Balance Sheet at 1 July 2004

Impact of Deferred Tax on the Corporation Opening Balance Sheet at 1 July 2004

At 1 July 2004, the Corporation brought to account a Non-Current Deferred Tax Asset of \$403 under AIFRS and a non-current receivable of \$18,597, due from the consolidated tax group head entity, the Insurance Commission, in recognition of past tax losses of the Corporation required to be accounted for by the head entity. As a result of these adjustments, the Corporations’ Total Equity deficit position of \$3,919 was transformed into an Equity surplus position of \$15,081.

Impact of Deferred Tax on the Insurance Commission Opening Balance Sheet at 1 July 2004

The recognition of the \$403 Non-Current Deferred Tax Asset in the Corporation, together with its receivable from the Insurance Commission of \$18,597 in respect of past tax losses resulted in impacts on the Insurance Commission Balance Sheet whereby its liability for the Indemnity of the Corporation’s net liabilities of \$3,919 presented within Current – Other Liabilities at 30 June 2004 was reduced to \$Nil and its “Investment in Subsidiary” asset, presented under AGAAP within Current-Other Financial Assets and previously fully written down to \$Nil was reinstated to \$15,081.

In addition, the Insurance Commission brought to account net Non-Current Deferred Tax Liabilities of \$8,630 not previously recognised, against which was set the deferred tax asset resulting from the Corporations losses of \$18,597 resulting in a net deferred tax asset of \$9,967. The Insurance Commission also recognised a Non-Current Payable amount of \$18,597 as a result if taking up the deferred tax asset resulting from the Corporation’ past tax losses.

Together these adjustments resulted in the Retained Earnings of the Insurance Commission increasing by \$10,370.

40. RECONCILIATIONS EXPLAINING THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Impact of Deferred Tax on the Consolidated Opening Balance Sheet at 1 July 2004

The combined effect of the creation of a Non-Current Deferred Tax Asset of \$403 in the Corporations and a Non-Current Deferred Tax Liability of \$9,967 in the Insurance Commission resulted in a Consolidated Non-Current Deferred Tax Asset position of \$10,370 and a corresponding increase in Consolidated Retained Earnings of \$10,370.

(b) Adjustments to 30 June 2005 Balance Sheet

Impact of Deferred Tax on the Corporation Balance Sheet at 30 June 2005.

The Non-Current Deferred Tax Asset position in the Corporation was increased by \$86 to \$489. The Non-Current Receivable, due from the Insurance Commission, in recognition of tax losses, was reduced by \$52 to \$18,545 resulting in a net movement of \$34 and a corresponding increase in Retained Earnings of \$34.

Impact of Deferred Tax on the Insurance Commission Balance Sheet at 30 June 2005.

The recognition by the Corporation of the \$489 Non-Current Deferred Tax Asset, together with the Non-Current Receivable of \$18,545 due from the Insurance Commission in respect of past tax losses, brought about corresponding impacts in the Insurance Commission Balance Sheet whereby its liability for the Indemnity of the Corporation's net liabilities of \$3,522 presented within Current-Other Liabilities at 30 June 2005 under AGAAP was reduced to \$Nil and its "Investment in Subsidiary" asset, presented under AGAAP within Current-Other Financial Assets and previously fully written down to \$Nil was reinstated to \$15,512.

In addition, the Insurance Commission brought to account net Non-Current Deferred Tax Liabilities of \$14,491 over and above the \$46,087 recognised under AGAAP against which was set off the tax asset resulting from the Corporations past tax losses of \$18,545. This resulted in a net total Non-Current Deferred Tax Liability under AIFRS at 30 June 2005 of \$42,033, a reduction of \$4,054 compared to AGAAP. Of this amount \$1,271 related to the deferred tax liability in respect of the Revaluation Reserve increment which was recognised directly in equity.

Together the adjustments resulted in a net increase of \$4,543 in the Insurance Commissions Net Assets.

Retained Earnings of the Insurance Commission increased by \$5,814 and the Revaluation Reserve was reduced by \$1,271 being deferred tax resulting in a Net change to Total equity of \$4,543 corresponding to the movement in Net Assets

40. RECONCILIATIONS EXPLAINING THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Impact of Deferred Tax on the Consolidated Balance Sheet at 30 June 2005

The combined effect of the creation of a Non-Current Deferred Tax Asset of \$489 in the Corporation and an additional Non-Current Deferred Tax Liability of \$4,054 in the Insurance Commission resulted in a reduction of the Consolidated Non-Current Deferred Tax Liability Asset position of \$4,543 and a corresponding increase in Net Assets of \$4,543.

Retained Earnings of the Insurance Commission increased by \$5,814 and the Revaluation Reserve was reduced by \$1,271 being deferred tax resulting in a Net change to Total Equity of \$4,543 corresponding to the movement in Net Assets.

Combined with the AGAAP Non-Current Deferred Tax Liability position of \$46,087, the reducing adjustment of Deferred Tax Liability under AIFRS creates an AIFRS Non-Current Deferred Tax Liability position at 30 June 2005 of \$41,544.

(c) Adjustment to the Income Statement period ended 30 June 2005

Impact of Deferred Tax on the Income Statement of the Corporation for the period ended 30 June 2005.

The Corporation recognised an additional Income Tax Equivalent Income amount of \$34.

Impact of Deferred Tax on the Income Statement of the Insurance Commission for the period ended 30 June 2005.

The Insurance Commission General Fund of the Insurance Commission further reduced its Other Expenses by \$34 resulting from the Income Tax Equivalent Income Tax Benefit of the Corporation.

The Third Party Insurance Fund of Insurance Commission also recognised an additional Income Tax Equivalent Expense under AIFRS of \$4,590.

AIFRS Insurance Commission

Deferred Tax Asset 1 July 2004	9,967
Deferred Tax Liability 30 June 2005	42,033
Deferred tax Movement for the year	<u>\$ 52,000</u>

40. RECONCILIATIONS EXPLAINING THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

This Movement was comprised of:

Movement in respect of change in indebtedness to Corporation in respect of past tax losses	52
Deferred Tax Liability recognised directly in Equity resulting from increase in Revaluation Reserve	1,271
Expense Amount required to be recognised via the Income Statement under AIFRS	50,677
Deferred Tax Movement for the year	<u>\$ 52,000</u>

Reconciliation of charge via the AIFRS Income Statement

Amount previously recognised under AGAAP	46,087
Additional Expense recognised under AIFRS	4,590
	<u>\$ 50,677</u>

Total impact of Deferred Tax adjustment for AIFRS on the Income Statement of the Insurance Commission is therefore a reduction in profit of \$4,556.

Impact of Deferred Tax on the Consolidated Income Statement for the period ended 30 June 2005.

On consolidation, the impact of Deferred Tax upon the Income Statement was an additional expense of \$4,556, being the result of the Income Tax Equivalent Expense in the Insurance Commission of \$4,590 less the Income Tax Equivalent Income in the Corporation of \$34.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

41. RELATED PARTY DISCLOSURES

The Consolidated Financial Statements include the financial statement of the Insurance Commission and its subsidiary, the State Government Insurance Corporation (Corporation).

The following table details the Insurance Commission's interest in its subsidiary:

Name	Country of Incorporation	Equity Interest (%)		Cost of Investment (\$,000)	
		2006	2005	2006	2005
State Government Insurance Corporation	Australia	100	100	100,000	100,000

The following table provides the amounts of transactions that were entered into with the Corporation:

		CONSOLIDATED		INSURANCE COMMISSION	
		2006	2005	2006	2005
		\$'000	\$'000	\$'000	\$'000
Subsidiary:					
State Government Insurance Corporation					
Interest Paid to Corporation	(i)	-	-	(88)	(101)
Management Fees Paid By Corporation	(ii)	-	-	149	158
Non-Current Payable to Corporation	(iii)	-	-	18,451	18,545

- (i) The Insurance Commission pays interest earned to the Corporation in proportion to its share of the cash on hand and in banks.
- (ii) The Insurance Commission charges the Corporation a management fee in proportion to its usage of the Insurance Commission's services.
- (iii) Non-Current Payable to the Corporation relates to amounts in respect of deferred tax assets arising from past losses presented as an intercompany payable in accordance with UIG 1052.

Terms and Conditions of Transactions with Related Parties

- Transaction with the Corporation are made on an arm's length basis under normal commercial terms.
- Outstanding balances at year end are unsecured, interest free and settlement occurs in cash.
- There are no guarantees provided to or received from the Corporation.
- No allowance for impairment is required for amounts owing to or from the Corporation.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

42. RISKCOVER FUND FINANCIAL STATEMENTS

The Government of Western Australia has adopted a Managed Fund approach to administer all insurable risks of its participating public authorities on a self-insurance basis. The RiskCover Fund is underwritten by the State Government of Western Australia, and was initially managed by the Insurance Commission on behalf of the Government and its participating public authorities for a term of five years, commencing July 1996 under the supervision of the Department of Treasury and Finance. On 18 July 2001, the Department of Treasury and Finance confirmed the re-appointment of the Insurance Commission to manage the RiskCover Fund on the basis of a rolling three-year notice period.

The Insurance Commission earns a management fee from this activity representing the proportion of the Insurance Commission's services used by RiskCover.

Except as stated below, the significant accounting policies adopted in preparing RiskCover's financial statements are consistent with both those used in preparing the economic entity's financial statements, refer Note 1, and with those adopted in 2005.

As RiskCover is classified as self-insurance it is not covered by the requirements of AASB1023 - General Insurance Contracts, but rather falls within the requirements of AASB137 - Provisions, Contingent Liabilities and Contingent Assets. RiskCover has applied a risk-free discount factor in its estimation of the outstanding claims liability.

RiskCover's assets are not owned by the economic entity and are therefore not consolidated. The Investment assets of RiskCover are, however, included in the investment pool of the economic entity, represented by a Floating Rate Promissory Note. Refer Note 10. RiskCover earns an investment return on its share of the investment pool of the Insurance Commission. Refer Note 6.

Any retained earnings in RiskCover represents an asset of the State Government of Western Australia and not of the economic entity.

RiskCover the Managed Fund, is not liable to pay Income Tax Equivalents under current arrangements with the Department of Treasury and Finance.

INCOME STATEMENT		2006	2005
for the year ended 30 June 2006		\$'000	\$'000
	References		
Premium Revenue	(a)	120,196	122,705
Premium Adjustment	(b)	(7,310)	3,788
Outwards Reinsurance Premium Expense		(29,387)	(36,263)
Outwards Reinsurance Commission Revenue		3,873	5,201
Net Premium Revenue		87,372	95,431
Claims Expense		(91,105)	(112,397)
Reinsurance and Other Recoveries Revenue		17,175	22,568
Net Claims Incurred		(73,930)	(89,829)
Underwriting and Administration Expenses		(16,569)	(15,644)
UNDERWRITING RESULT		(3,127)	(10,042)
Investment Income		62,324	43,683
PROFIT		59,197	33,641

The Income Statement should be read in conjunction with the references to and forming part of RiskCover's financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

42. RISKCOVER FUND FINANCIAL STATEMENTS (continued)

BALANCE SHEET at 30 June 2006	References	2006 \$'000	2005 \$'000
ASSETS			
Current Assets			
Cash Assets		415	-
Receivables		20,246	24,628
Financial Assets at Fair Value Through Profit or Loss	(c)	387,889	320,164
Total Current Assets		408,550	344,792
Non-Current Assets			
Receivables		16,357	14,528
TOTAL ASSETS		424,907	359,320
LIABILITIES			
Current Liabilities			
Bank Overdraft		-	2,008
Payables		27,690	28,028
Outstanding Claims Liability	(d)	85,164	84,796
Total Current Liabilities		112,854	114,832
Non-Current Liabilities			
Payables		23,267	16,016
Outstanding Claims Liability	(d)	171,641	170,524
Total Non-Current Liabilities		194,908	186,540
TOTAL LIABILITIES		307,762	301,372
NET ASSETS		117,145	57,948
EQUITY			
Retained Earnings		90,672	57,948
Prudential Reserve	(i)	26,473	-
TOTAL EQUITY	(ii)	117,145	57,948

The Balance Sheet should be read in conjunction with the references to and forming part of RiskCover's financial statements.

- (i) The State Government Expenditure Review Committee gave approval for the RiskCover Fund to maintain a minimum surplus approximately equal to the value of a Prudential Margin, calculated as if it were required to comply with the APRA/AIFRS requirements in respect of Prudential Margin. This amount of \$26,473,000 was calculated by an independent Actuary and should achieve a 75% likelihood of adequacy with respect to the provision for outstanding claims.
- (ii) The State Government Expenditure Review Committee gave approval to the RiskCover Fund introducing a Fund Experience Allowance (return of capital) whereby surplus funds in excess of the approved "Prudential Surplus" will be returned to participating agencies over a four year period (subject to annual review).

The Fund Experience Allowance for the 2007 year is based on the accumulated surplus at 30 June 2005 of \$57,948,000, less the surpluses for the Motor Vehicle class (\$260,539) and the Workers' Compensation class (\$934,948) at that date (which result in contribution adjustment provisions for these classes). The resulting net amount of \$56,752,513 is then further reduced by the Prudential Surplus of \$26,473,000, leaving an amount of \$30,279,513 available for consideration for the Fund Experience Allowance.

The Fund Experience Allowance (return of capital), equating to 25% of this amount available for consideration is \$7,569,878. This amount will be apportioned amongst fund members, based on each members' proportion of the total contributions received for the Property and Liability classes over the past 5 years.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

42. RISKCOVER FUND FINANCIAL STATEMENTS (continued)

STATEMENT OF CHANGES IN EQUITY for the year ended 30 June 2006

	2006 \$'000	2005 \$'000
BALANCE OF EQUITY AT START OF THE PERIOD	57,948	24,307
PRUDENTIAL RESERVE		
Balance at Start of the Period	-	-
Transfer from Retained Earnings	26,473	-
Balance at End of the Period	26,473	-
RETAINED EARNINGS		
Balance at Start of the Period	57,948	24,307
Profit for the Period	59,197	33,641
Transfer to Prudential Reserve	(26,473)	-
Balance at End of the Period	90,672	57,948
BALANCE OF EQUITY AT END OF THE PERIOD	117,145	57,948

The Statement of Changes in Equity should be read in conjunction with the references to and forming part of RiskCover's Financial Statements.

CASH FLOW STATEMENT for the year ended 30 June 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Premium Received	133,247	134,472
Reinsurance and Other Recoveries Received	18,740	12,970
Outwards Reinsurance Commission Received	4,171	5,632
Interest Received	62,324	43,683
Outwards Reinsurance Paid	(32,354)	(39,821)
Claims Paid	(89,919)	(89,361)
Underwriting and Administration Expenses Paid	(17,077)	(16,298)
Goods and Services Tax Paid	(8,984)	(8,253)
Net Cash From Operating Activities (f)	70,148	43,024

CASH FLOWS USED IN INVESTING ACTIVITIES

Payments for Investments	(67,725)	(44,422)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	2,423	(1,398)

CASH AND CASH EQUIVALENTS AT THE START OF THE YEAR

	(2,008)	(610)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (f)	415	(2,008)

The Cash Flow Statement should be read in conjunction with the references to and forming part of RiskCover's Financial Statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

42. RISKCOVER FUND FINANCIAL STATEMENTS (continued)

REFERENCES TO THE RISKCOVER FINANCIAL STATEMENTS

(a) Premium Revenue

When determining the deposit contributions for the Workers' Compensation and Motor Vehicle classes, RiskCover relies on claims costs, which have been actuarially assessed at the net central estimate. A prudential margin on the outstanding claims cost is not included.

(b) Premium Adjustment

The contributions levied for the Workers' Compensation and Motor Vehicle classes are deposit contributions and are subject to adjustment at a future date (three years after the close of the risk period for Workers' Compensation and one year for Motor Vehicle) to take into account the actual claims experience of the public authority. This process reflects the conceptual design of the funding mechanism for these classes and enables sanctions to apply to performance.

The amount provided for includes the estimated contributions to be called-up or refunded based on the current claims trend of the 2006, 2005, 2004 and 2003 risk periods. An additional provision of \$21.1 million (2005: \$19.7 million) has been brought to account at balance date, reflecting surplus funds held in the workers' compensation class for closed cover periods 1998 to 2002 inclusive. It is anticipated that this amount will be refunded to the relevant public authorities at a future date.

(c) **Financial Assets at Fair Value Through Profit or Loss** - Represented by a **Floating Rate Promissory Note** owed to RiskCover by the Insurance Commission. Refer Note 10.

(d) Outstanding Claims Liability

	2006 \$'000	2005 \$'000
Central Estimate	289,642	281,755
Discount to Present Value	(51,212)	(44,496)
	238,430	237,259
Claims Handling Costs	18,375	18,061
Liability for Outstanding Claims (discounted)	256,805	255,320
Current	85,164	84,796
Non-Current	171,641	170,524
	256,805	255,320

Weighted Average Expected Term to Settlement:

Workers' Compensation	2 yrs 6 mths	2 yrs 5 mths
Liability Classes	5 yrs 6 mths	4 yrs 5 mths

In addition to the long-tail classes of Workers' Compensation and Liability, RiskCover also has short-tail liabilities for Property and Business Interruption, Motor Vehicle and Personal Accident, and Travel risks. These short-tail liabilities are internally assessed and total \$19.4 million at balance date (2005: \$18.8 million).

Inflation and Discount Rates

The following rates were used in measuring the liability for long-tail outstanding claims, reinsurance and other recoveries at 30 June 2006 for RiskCover:

	% Rates Used - 2006		% Rates Used - 2005	
	Year Ending 30 June 2007	Subsequent Years	Year Ending 30 June 2006	Subsequent Years
Workers' Compensation				
Inflation Rate (Wage)	5.50	5.40	5.00	4.40
Total Inflation*	5.50	5.40	5.00	4.40
Discount Rate	5.90	5.90	5.30	5.10
Liability				
Inflation Rate (Wage)	5.50	5.30	5.00	4.30
Superimposed Inflation	4.00	4.00	4.00	4.00
Total Inflation*	9.72	9.51	9.20	8.47
Discount Rate	5.90	5.90	5.30	5.20

* The total inflation rate is determined by compounding the wage and superimposed inflation rates.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

42. RISKCOVER FUND FINANCIAL STATEMENTS (continued)

REFERENCES TO THE RISKCOVER FINANCIAL STATEMENTS (continued)

The actual future discount and wage inflation rates used in the actuarial projections are the same for both long-tail outstanding claims and reinsurance and other recoveries in each of the 2006 and 2005 financial years. For the "Subsequent Years" column, a single equivalent discount and wage inflation rate is shown for each class of business in place of the actual rates for each year. The minor variations between the classes arise due to the different weighted average expected terms to settlement for each class.

(e) Claims Recoveries Written Off

Recoveries arise from instances where RiskCover seeks to recover the costs of a claim paid from a third party or the insured.

In accordance with Australian Accounting Standards, recoveries receivable are assessed with regard to the ability of the debtor to meet their obligations. These recoveries have not been brought to account as revenue because the amount to be recovered could not be reliably measured and consequently the write-off of these debts has not been charged as an expense in the Income Statement.

The amount written off in relation to RiskCover claims totalled \$122,051 (2005: \$91,447) arising out of one property claim and seven individual claims.

(f) Reconciliation of Profit to Net Cash From Operating Activities	2006 \$'000	2005 \$'000
Profit	59,197	33,641
Changes in Assets and Liabilities		
Decrease/(Increase) in Reinsurance and Other Recoveries Receivable	2,625	(11,399)
Increase in Outstanding Claims Liability	1,485	23,686
Increase/(Decrease) in Contribution Adjustment Liability	7,311	(3,789)
(Decrease)/Increase in Other Liabilities	(470)	885
Net Cash From Operating Activities	70,148	43,024
Reconciliation of Cash		
Cash and Cash Equivalents at the end of the year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:		
Bank Overdraft	415	(2,008)

(g) Reconciliation Explaining the Transition to Australian Equivalents to International Financial Reporting Standards (AIFRS)

The transition to AIFRS had no material effect on RiskCover's Financial Statements and therefore no adjustments were made.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

43. COMMUNITY INSURANCE FUND FINANCIAL STATEMENTS

The Community Insurance Fund (CIF) was established by the Government of Western Australia to assist incorporated not-for-profit community organisations, based in Western Australia, to obtain affordable insurance cover. The CIF is backed by the Crown and is managed by the Insurance Commission.

The CIF's assets are not owned by the economic entity and are therefore not consolidated.

Any retained earnings in the CIF represents an asset of the State Government of Western Australia and not of the economic entity.

The CIF is not liable to pay income tax equivalents under current arrangements with the Department of Treasury and Finance.

The significant accounting policies adopted in preparing the CIF's financial statements are, where relevant, consistent with those used in preparing the economic entity's financial statements, refer Note 1 and with those adopted in 2005, except as stated below.

As stated previously, the CIF is administrated on behalf of the State Government of Western Australia. The disclosures presented here meet the disclosure requirements required by the Department of Treasury and Finance for Administrated Funds, but do not however meet the full level of disclosure which would be required under AASB 1023 General Insurance Contracts. The information presented here is restricted to a level of disclosure commensurate with the materiality of this Fund. This level of disclosure will be subject to annual review.

INCOME STATEMENT		2006	2005
for the year ended 30 June 2006		\$'000	\$'000
	References		
Premium Revenue	(a)	514	936
Outwards Reinsurance Premium Expense		(74)	(142)
Outwards Reinsurance Commission Revenue		-	14
Net Premium Revenue		440	808
Claims Expense		(23)	(65)
Reinsurance and Other Recoveries Revenue		1	2
Net Claims Incurred		(22)	(63)
Underwriting and Administration Expenses		(121)	(118)
UNDERWRITING RESULT		297	627
Other Income	(b)	77	50
PROFIT		374	677

The Income Statement should be read in conjunction with the references to and forming part of the Community Insurance Fund's financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

43. COMMUNITY INSURANCE FUND FINANCIAL STATEMENTS (continued)

BALANCE SHEET at 30 June 2006	References	2006 \$'000	2005 \$'000
ASSETS			
Current Assets			
Cash and Cash Equivalents		1,574	1,239
Receivables		21	42
Other Assets		-	74
Total Current Assets		1,595	1,355
TOTAL ASSETS		1,595	1,355
LIABILITIES			
Current Liabilities			
Payables		1	1
Outstanding Claims Liability	(c)	10	9
Unearned Premium Liability		182	317
Total Current Liabilities		193	327
Non-Current Liabilities			
Outstanding Claims Liability	(c)	142	142
Total Non-Current Liabilities		142	142
TOTAL LIABILITIES		335	469
NET ASSETS		1,260	886
EQUITY			
Retained Earnings		1,260	886
TOTAL EQUITY		1,260	886

The Balance Sheet should be read in conjunction with the references to and forming part of the Community Insurance Fund's financial statements.

STATEMENT OF CHANGES IN EQUITY for the year ended 30 June 2006

BALANCE OF EQUITY AT START OF THE PERIOD	886	209
RETAINED EARNINGS		
Balance at Start of the Period	886	209
Profit for the Period	374	677
Balance at End of the Period	1,260	886
BALANCE OF EQUITY AT END OF THE PERIOD	1,260	886

The Statement of Changes in Equity should be read in conjunction with the references to and forming part of the Community Insurance Fund's financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

43. COMMUNITY INSURANCE FUND FINANCIAL STATEMENTS (continued)

CASH FLOW STATEMENT		2006	2005
for the year ended 30 June 2006		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums Received		446	978
Interest Received		77	50
Other Receipts		(7)	18
Outwards Reinsurance Paid		(2)	(152)
Claims Paid		(20)	(23)
Underwriting and Administration Expenses Paid		(121)	(118)
Goods and Services Tax Paid		(38)	(79)
Net Cash From Operating Activities	(d)	335	674
CASH AND CASH EQUIVALENTS AT THE START OF THE YEAR		1,239	565
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	(d)	1,574	1,239

The Cash Flow Statement should be read in conjunction with the references to and forming part of the Community Insurance Fund's Financial Statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

43. COMMUNITY INSURANCE FUND FINANCIAL STATEMENTS (continued)

REFERENCES TO THE COMMUNITY INSURANCE FUND FINANCIAL STATEMENTS

(a) Premium Revenue

Premiums for the CIF are determined by assessing individual risk exposures and loss potential. Previous claims history and risk management practices of the organisation are important considerations when setting premiums. Due to the size of CIF actuarial involvement in assessing claims costs is not practical at this time. Claims are currently estimated internally.

(b) Other Income

Other income relates to interest earned on monies held at bank.

(c) Outstanding Claims Liabilities

	2006 \$'000	2005 \$'000
Liability for Outstanding Claims (undiscounted)	152	151
Discount to Present Value	-	-
Liability for Outstanding Claims (discounted)	152	151
Current	10	9
Non-Current	142	142
	152	151

The above outstanding claims provision includes an internally assessed estimate of the claims incurred but not yet reported (IBNR).

(d) Reconciliation of Profit to Net Cash From Operating Activities

Profit	374	677
Changes in Assets and Liabilities		
Decrease in Receivables	21	14
Decrease/(Increase) in Other Assets	74	(1)
Increase in Outstanding Claims Liability	1	43
Decrease in Other Liabilities	(135)	(59)
Net Cash From Operating Activities	335	674

Reconciliation of Cash

Cash and Cash Equivalents at the end of the year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

Cash and Cash Equivalents	1,574	1,239
---------------------------	-------	-------

(e) Reconciliation Explaining the Transition to Australian Equivalents to International Financial Reporting Standards (AIFRS)

The transition to AIFRS had no material effect on CIF's Financial Statements and therefore no adjustments were made.

Insurance Commission of Western Australia Performance Indicators

CERTIFICATION OF PERFORMANCE INDICATORS

We hereby certify that the Performance Indicators of the Insurance Commission of Western Australia (Insurance Commission) for the financial year ended 30 June 2006:

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



MICHAEL E WRIGHT
CHAIRMAN
12 September 2006



VIC EVANS
MANAGING DIRECTOR
12 September 2006

In accordance with a resolution of the Board of Commissioners of the Insurance Commission of Western Australia passed on 12 September 2006.



AUDITOR GENERAL

INDEPENDENT AUDIT OPINION

To the Parliament of Western Australia

INSURANCE COMMISSION OF WESTERN AUSTRALIA FINANCIAL STATEMENTS AND PERFORMANCE INDICATORS FOR THE YEAR ENDED 30 JUNE 2006

Audit Opinion

In my opinion,

- (i) the financial statements are based on proper accounts and present fairly the financial position of the Insurance Commission of Western Australia at 30 June 2006 and its financial performance and cash flows for the year ended on that date. They are in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the Treasurer's Instructions;
- (ii) the controls exercised by the Commission 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
- (iii) the key effectiveness and efficiency performance indicators of the Commission are relevant and appropriate to help users assess the Commission's performance and fairly represent the indicated performance for the year ended 30 June 2006.

Scope

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

The financial statements consist of the Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and the Notes to the Financial Statements.

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

Summary of my Role

As required by the Act, I have independently audited the accounts, financial statements and performance indicators to express an opinion on the financial statements, controls and performance indicators. This was done by testing selected samples of the evidence. Further information on my audit approach is provided in my audit practice statement. Refer "<http://www.audit.wa.gov.au/pubs/Audit-Practice-Statement.pdf>".

An audit does not guarantee that every amount and disclosure in the financial statements and performance indicators 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 and performance indicators.

JOHN DOYLE
ACTING AUDITOR GENERAL
12 September 2006

Performance Indicators

INSURANCE COMMISSION OF WESTERN AUSTRALIA

The **Performance Indicators** in this report are produced to assist users in evaluating the performance of the Insurance Commission of Western Australia (Insurance Commission) in achieving its stated mission (see below). This report includes our '**Key Outcomes**' which are expressed in the form of key *Effectiveness* and *Efficiency* Performance Indicators. The Performance Indicators are shown for the Insurance Commission overall and then each business area:

- **Insurance Commission**
- **Third Party Insurance Fund**
- **RiskCover**
- **Compensation (Industrial Diseases) Fund**

MISSION STATEMENT

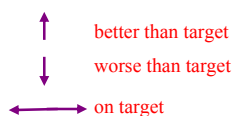
To excel in the delivery of high quality insurance and risk management services, specifically:

- Provide insurance for motor vehicle personal injury and industrial diseases compensation;
- Manage and administer self-insurance and risk management services on behalf of Western Australian public authorities and eligible community groups;
- Provide advice to government on matters relating to insurance and risk management;

in accordance with the *Insurance Commission of Western Australia Act (1986)*.

The Performance Indicators relating to the Insurance Commission's outcomes are audited by the Office of the Auditor General. The Performance Indicators of the Insurance Commission's subsidiary, the State Government Insurance Corporation, are disclosed in its Annual Report. Other important indicators providing a broader perspective of the Insurance Commission's performance are included in the Review of Operations section of the Annual Report. Where appropriate, prior years' figures have been re-stated in order to enhance comparability with those of the current year. Both current year and last year figures have been re-stated for AIFRS, amounts prior to 2005 are not re-stated and are based on AGAAP.

The Performance Indicator's on the following pages include an indication as to whether the actual result was better or worse than the target set, as follows:-



Performance Indicators

INSURANCE COMMISSION

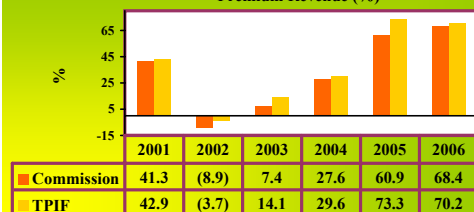
That The Insurance Commission's Revenue Is Sufficient To Meet Its Expenditure

Effectiveness Performance Indicators

Profit/(Loss) Before Income Tax Expense to Net Premium Revenue indicates the return the Insurance Commission has earned on its premium revenue.

	2006		
	Target	Actual	
Insurance Commission	6.1%	68.4%	↑
Third Party Insurance Fund	7.3%	70.2%	↑

Profit/(Loss) Before Income Tax Expense to Net Premium Revenue (%)

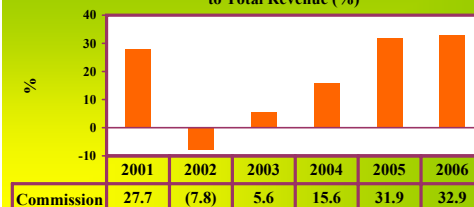


Comments: The Insurance Commission indicator exceeded target, due to a higher than expected Profit of \$240.8 million, being \$219.6 million (1039.2%) above target. This was due to a higher net investment income return of \$197.7 million (149.1%) above target and lower net claims incurred which were \$60.2 million (15.6%) below target. The Third Party Insurance Fund for the same reasons, exceeded target due to net investment income, being \$172.9 million (161.6%) above target and net claims incurred being \$44.6 million (11.6%) below target.

Profit/(Loss) Before Income Tax Expense to Total Revenue indicates the return the Insurance Commission has earned on its total revenue (including investment revenue).

	2006		
	Target	Actual	
Insurance Commission	3.9%	32.9%	↑

Profit/(Loss) Before Income Tax Expense to Total Revenue (%)



Comments: This indicator is above target due to the Profit being \$219.6 million (1039.2%) above target. This was due to a higher net investment income return of \$197.7 million (149.1%) above target and a reduction in net claims incurred of \$60.2 million (15.6%) against target. Total Revenue was \$194.4 million (36.2%) above the target of \$536.3 million.

Net Operating Cash Inflow equals receipts less payments from the operating activities of the Insurance Commission. It excludes cash flows from investing activities. Refer to the *Statement of Cash Flows - Net Cash Inflow from Operating Activities*.

	2006		
	Target	Actual	
Insurance Commission (\$M)	60.7	30.3	↓

Net Operating Cash Inflow (\$M)



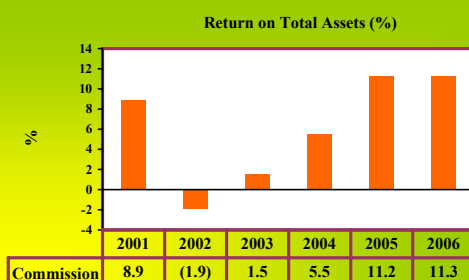
Comments: The "net operating cash inflow" is below target due to higher than expected interest paid to RiskCover of \$62.3 million (\$36.6 million above target). Also, security of costs for \$12.5 million was paid in respect to the Bell Group recovery actions, which was not included in the original target. These increases were offset by claims payments being \$14.2 million below target.

Performance Indicators

Effectiveness Performance Indicators (continued)

Return on Total Assets is calculated as the Insurance Commission's operating profit/loss before income tax expense divided by its average total assets and is expressed as a percentage (total assets excludes the Right of Indemnity asset from WorkCover WA (Refer Note 9 to the Financial Statements) .

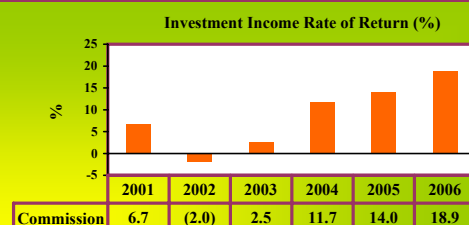
	2006	
	Target	Actual
Insurance Commission	1.1%	11.3%



Comments: The "return on total assets" is well above target due to the Profit of \$240.8 million, being \$219.6 million (1039.2%) above target. Average Total Assets (less the WorkCover WA indemnity) were \$2.137 billion, which was 7.9% above the target of \$1.981 billion, which also contributed to the positive result.

Investment Income Rate of Return for the Insurance Commission provides the percentage rate of return (excluding income received from investments previously written off) on its weighted average investment assets.

	2006	
	Target	Actual
Insurance Commission	7.3%	18.9%

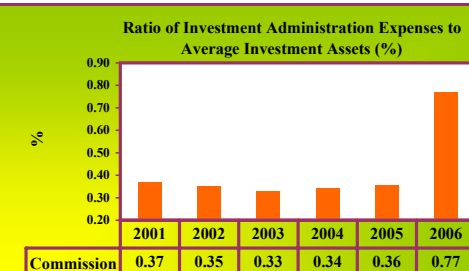


Comments: The "investment income rate of return" for the was 18.9% exceeding the target by 11.6 percentage points. This exceptionally strong result was mostly due to Australian shares and property, where the returns exceeded target by 19.6% and 17.0% respectively. Global shares were also above target by 13.3%. All other classes were close to target estimates. The result includes property, plant and equipment income in relation to the Forrest Centre (Owner occupied building) to allow comparison against last year and accepted industry benchmarks.

Efficiency Performance Indicators

Ratio of Investment Administration Expenses to Average Investment Assets is a useful measure of the Insurance Commission's efficiency in managing its investments.

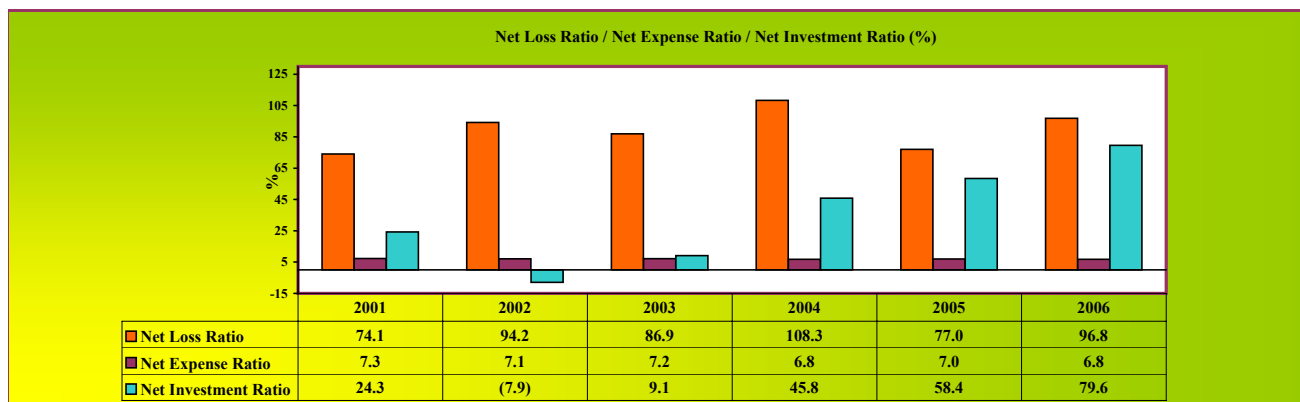
	2006	
	Target	Actual
Insurance Commission	0.32%	0.77%



Comments: The "ratio of investment administration expenses to average investment assets" of 0.77% for the year was above target due to the impact of fees for various unlisted trusts being brought to account on a "grossed up" basis to reflect a consistent approach in calculating the overall gross investment return. Investments in Alternative Asset Class Trusts were not in place at the time of preparing the 2005/2006 budget and the fees for these types of investments attract a much higher fee than traditional equity and fixed interest portfolios. The actual expense ratio of 0.77% is reduced to 0.72% after inclusion of the Forrest Centre building as part of the overall investment asset base. In the accounts this property is classified as Property Plant and Equipment. For investment performance purposes the property is considered to be an integral part of the Insurance Commission's total property investment portfolio.

Performance Indicators

Efficiency Performance Indicators (continued)



Net Loss Ratio indicates whether or not net premium revenue is sufficient to meet net claims incurred. Where net claims incurred is greater than net premium revenue the ratio will be higher than 100%. Net claims incurred equals claims expense, less reinsurance and other recoveries revenue.

2006		
	Target	Actual
Third Party Insurance Fund	110.7%	96.8%



Comment on Result:

The "net loss ratio" is favourable to target due to lower than expected net claims incurred being \$44.6 million (11.6%) below target (this included a positive movement of \$34.7 million in the outstanding claims provision and claims paid was also \$10.1 million below target).

Net Expense Ratio shows the percentage of underwriting and administration expenses against net premium revenue. Total administration expenses include amounts relating to claims management as well as non-claims administration tasks, such as policy processing and corporate overheads, but does not include sponsorship of road safety-crash prevention.

2006		
	Target	Actual
Third Party Insurance Fund	7.2%	6.8%



Comment on Result:

The "net expense ratio" is favourable to target due to net premium revenue exceeding target by \$3.8 million and underwriting and administration expenses remaining on target.

Net Investment Ratio represents net investment income as a percentage of net earned premium.

2006		
	Target	Actual
Third Party Insurance Fund	30.7%	79.6%



Comment on Result:

The "net investment ratio" is significantly above target due to investment income being \$172.9 million (161.6%) over the expected target. The strong result was mostly due to Australian shares and property, where the returns exceeded target by 19.6% and 17.0% respectively. Global shares were also above target by 13.3%.

Performance Indicators

THIRD PARTY INSURANCE FUND

The **Third Party Insurance Fund** issues and undertakes liability under policies of insurance as required by the *Motor Vehicle (Third Party Insurance) Act 1943*. In accordance with this Act, the owners and drivers of 2.0 million Western Australian registered vehicles (which includes caravans and trailers) are provided with unlimited indemnity against injury claims resulting from motor vehicle accidents under the Compulsory Third Party (Personal Injury) Insurance scheme.

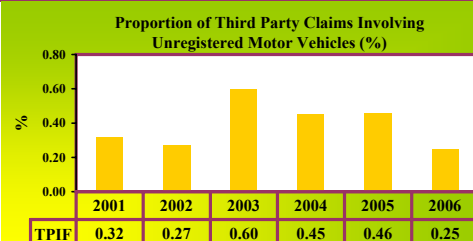
(a) That The Funds Revenue Is Sufficient To Meet Its Expenditure (*Refer Insurance Commission Indicators for this outcome*).

(b) Ensure That All Western Australian Motor Vehicles Using Public Roads Are Registered And Insured

Effectiveness Performance Indicators

The **Proportion of Third Party Claims Involving Unregistered Motor Vehicles** measures the number of claims received involving unregistered motor vehicles compared to the total number of claims received.

	2006	
	Target	Actual
Third Party Insurance Fund	0.00%	0.25%

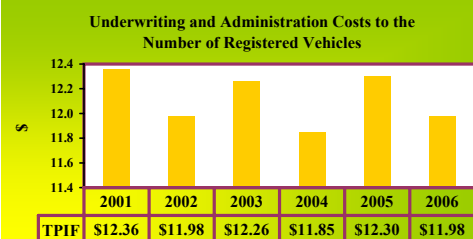


Comments: The "proportion of third party claims involving unregistered motor vehicles" is unfavourable compared to target although improved in 2005/06. The number of claims involving unregistered motor vehicles actually reduced in 2006 (8) compared to 2005 (16) however this reduction was offset by a lower number of new claims received. (3,211 in 2006 compared to 3,481 in 2005).

Efficiency Performance Indicators

Underwriting and Administration Costs to the Number of Registered Vehicles measures the cost of administering the TPIF per registered vehicle in Western Australia. Accident prevention costs are excluded from this calculation.

	2006	
	Target	Actual
Third Party Insurance Fund	\$12.84	\$11.98



Comments: "Underwriting and administration costs to the number of registered vehicles" in 2006 is favourable compared to target as underwriting and administration costs were \$1.2 million (4.9%) less than budget whilst vehicle growth was higher than forecast (4.1% compared to forecast 2.75%).

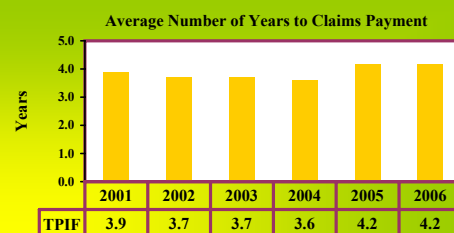
Performance Indicators

(c) Minimise The Financial Hardship Of Motor Vehicle Personal Injury Claimants.

Effectiveness Performance Indicators

The **Average Number of Years to Claims Payment** represents the payments made on claims in a year multiplied by the weighted average time since the accident year. This Performance Indicator relates to long-tail classes of insurance. It is calculated exclusive of payments made during a year in respect of claims incurred during the current accident year.

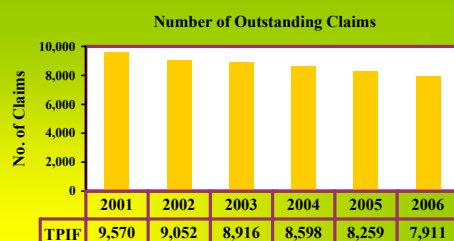
	2006	
	Target	Actual
Third Party Insurance Fund	4.1	4.2



Comments: The "average number of years to claims payment" is marginally higher than target (actual 4.17) due to the 2005/06 claims payments distribution by accident year being slightly different than forecast (higher payments on claims 14 or more years old than forecast and less on claims from most recent years, than forecast)

The **Number of Outstanding Claims** as at year-end (accidents from all years).

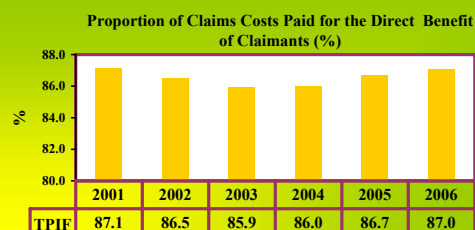
	2006	
	Target	Actual
Third Party Insurance Fund	8,055	7,911



Comments: The "number of outstanding claims" is better than target and is also 4.2% lower than the previous year's actuals, due primarily to the continuation of the decreasing claim frequency trend (ratio of claims reported to the number of registered vehicles) experienced over the last 12 years. New claims reported in 2006 were 4,503 (7.6% less than budget) and there were 4,851 (3.9% below budget) claim closures.

The **Proportion of Claims Costs Paid for The Direct Benefit of Claimants** reflects the TPIF's effectiveness in minimising the financial hardship of claimants. This measure excludes costs such as Legal and Investigation costs ordinarily incurred in the management of a claim.

	2006	
	Target	Actual
Third Party Insurance Fund	85.0%	87.0%



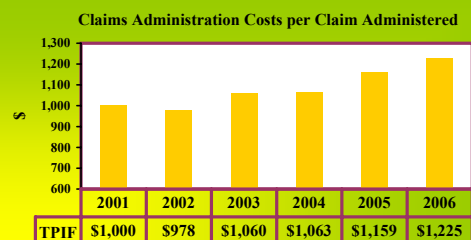
Comments: The "proportion of claims costs paid for the direct benefit of claimants" is favourable compared to target. Of the total claims payments made of \$297.7 million, \$259.0 million (87%) was paid for the direct benefit of the claimant by way of pecuniary and non-pecuniary losses. Of this amount, \$167.7 million (64.75%) was paid for general damages, past and future economic loss and future care.

Performance Indicators

Efficiency Performance Indicators

The **Claims Administration Costs per Claim Administered** indicates the efficiency of claims administration as an average of the total Administration Costs divided by the number of claims administered in the period. Accident prevention and commissions paid for premium collection are excluded from this calculation.

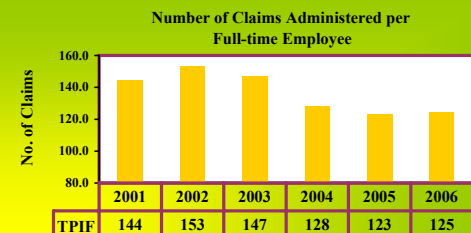
	2006	
	Target	Actual
Third Party Insurance Fund	\$1,278	\$1,225



Comments: "Claims administration costs per claim administered" is better than target even though the number of claims administered was less than expected (12,762 actual compared to 13,225 forecast), due to claims administration costs being \$1.3 million less than budget

The **Number of Claims Administered per Full-time Employee** provides a measure of efficiency of the operation of the Fund, by measuring the volume of claims handled by all staff directly and indirectly involved in the claim management activities.

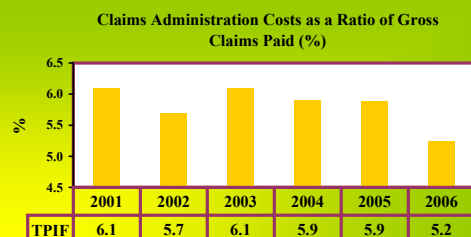
	2006	
	Target	Actual
Third Party Insurance Fund	116	125



Comments: "Number of claims administered per full-time employee" is better than target, due to a lower number of full time equivalent employees (FTE) than forecast, which offset a lower than forecast number of claims administered.

Claims Administration Costs As A Ratio Of Gross Claims Paid indicates how efficient the TPIF is in administering claims compared to the overall claims cost. Accident prevention and commissions paid for premium collection are excluded from this calculation.

	2006	
	Target	Actual
Third Party Insurance Fund	5.5%	5.2%



Comments: "Claim administration costs as a ratio of gross claims paid" is better than target due to lower than expected claims payments (actual gross claim payments for 2005/06 was \$297.7 million compared to budget of \$307.8 million) and lower than budget claim administration costs (\$1.3 million below budget).

Performance Indicators

RISKCOVER

As from 1 July 1997 the Government of Western Australia adopted a Managed Fund approach to administer all insurable risks of its public authorities on a self-insurance basis. The RiskCover Fund is underwritten by the Crown and is managed by the Insurance Commission on behalf of the State Government and its participating public authorities. The Department of Treasury and Finance supervises the activities and performance of the Insurance Commission in the management of the RiskCover Fund. The Insurance Commission earns a management fee from this activity, equivalent to the proportion of the Insurance Commission's services used by RiskCover.

RiskCover's assets are not owned by the Insurance Commission and are therefore not consolidated. The investment assets of RiskCover are, however, included in the investment pool of the Insurance Commission represented by a Floating Rate Promissory Note (refer Note 10 to the Financial Statements). Any accumulated deficit in RiskCover represents a liability of the Government of Western Australia and not of the Insurance Commission.

(a) Meet customer risk management and self insurance needs.

Effectiveness Performance Indicator

Each year RiskCover conducts a survey of Public Authorities which were its clients. The **Customer Satisfaction Survey Score** is the percentage of those respondents to the survey who rated their overall impression of RiskCover's performance as an organisation as either good, very good or excellent. This indicator provides the average customer satisfaction result from the survey.

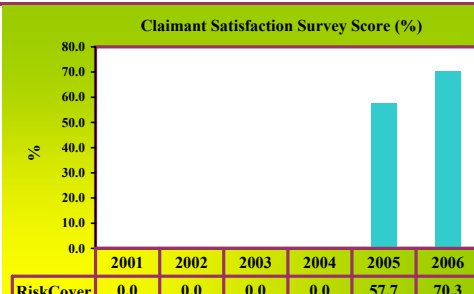
	2006	
	Target	Actual
RiskCover	90.0%	99.3%



Comments: This years result has increased by three percentage points from the previous year, the RiskCover Division has significantly exceeded the targeted result and continues to rate highly in customer satisfaction.

RiskCover conducts a survey of claimants who received services from RiskCover. The **Claimant Satisfaction Survey Score** is the proportion of claimants, that dealt directly with RiskCover, that were satisfied or very satisfied with the service RiskCover provided as per the independent survey conducted.

	2006	
	Target	Actual
RiskCover	65.0%	70.3%



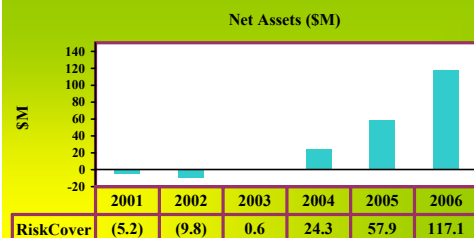
Comments: This years result has seen an increase in claimant satisfaction from 57.7% in 2005 to 70.3 %. This result reflects RiskCover's efforts to promote injury management and outcomes that are beneficial to all stakeholders. RiskCover will continue to build on this good result by working in partnership with client agencies and using feedback from the survey.

Performance Indicators

Efficiency Performance Indicators

Net Assets reflects the financial position of RiskCover at the end of the period and its ability to maintain a suitable reserve for future use.

		2006		
		Target	Actual	
RiskCover	(\$M)	57.3	117.1	↑

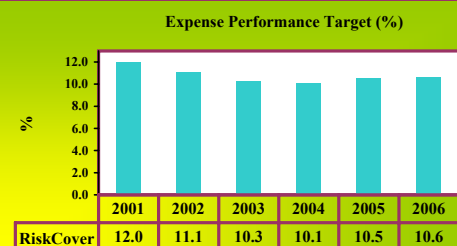


Comments: The favourable performance against target for this year is a direct result of the strong performance of investment returns, which far exceeded budget estimates. The RiskCover Fund has undertaken to return assets in excess of an agreed prudential reserve to the Government of Western Australia in the form of Fund Performance Adjustments to the annual contributions charged to member agencies over the course of the next four financial years.

Efficiency Performance Indicators (continued)

The **Expense Performance Target** compares the total RiskCover Management Fee to that benchmarked by the WA Treasury. It compares the management cost of RiskCover as a percentage of total Fund Contributions.

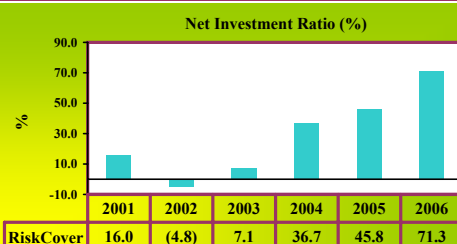
		2006		
		Target	Actual	
RiskCover		11.1%	10.6%	↑



Comments: A target of 11.1% was based on planned investment in significant IS&T infrastructure and systems improvements incorporating an independent business process review. The planned investment was delayed due to a combination of the Division undergoing a planned restructure during the 2005/06 year and competition within the Insurance Commission for IS&T resources due to the ongoing upgrade of the Insurance Commission's financial systems.

Net Investment Ratio represents net investment income as a percentage of contributions collected.

		2006		
		Target	Actual	
RiskCover		23.5%	71.3%	↑



Comments: The "net investment ratio" is significantly above target due to the Insurance Commission's better than expected return. Investment Income was \$36.6 million (142.5%) over target. This strong result was mostly due to Australian shares and property, where the returns exceeded target by 19.6% and 17.0% respectively. Global shares were also above target by 13.3%. All other classes were close to target estimates.

Performance Indicators

(b) Promote and support the growth of risk management practice to minimise the cost of risk to Government.

Effectiveness Performance Indicator

The **Risk Management Performance Score** indicates the average score resulting from the risk management practices survey which is conducted annually. The maximum score achievable is 20.

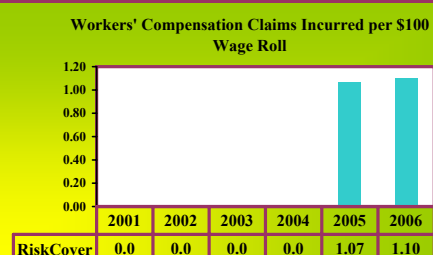
	2006	
	Target	Actual
RiskCover	14	14



Comments: Targeted result of 14 out of 20 was achieved, which continues a trend established over the last 6 years.

The **Workers' Compensation Claims Incurred per \$100 Wage Roll** indicator shows how effective the RiskCover Division is in keeping the cost of Workers' Compensation claims to a minimum. The ratio is expressed as the cost per \$100 of wage roll declared by the Government agencies included in the RiskCover Scheme.

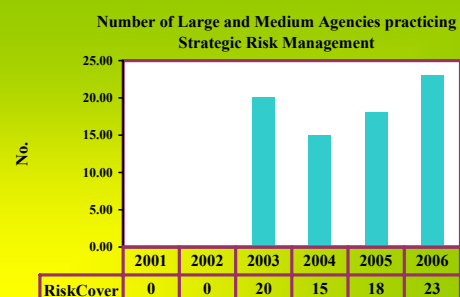
	2006	
	Target	Actual
RiskCover	1.07	1.10



Comments: The result for this year has seen an increase of 0.03 over the 2005 result this was caused by an increase in the projected claims incurred of 8% as opposed to increases in declared government agency wage roll of 5%.

This indicator demonstrates RiskCover's success rate in introducing and implementing the principles and benefits of Strategic Risk Management practices in the larger WA State Government Agencies.

	2006	
	Target	Actual
RiskCover	20	23



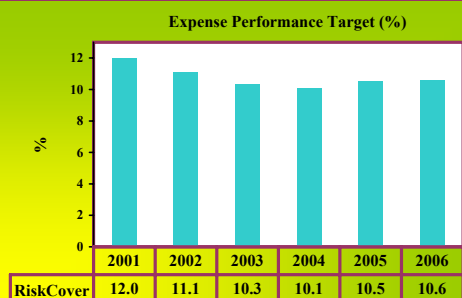
Comments: The 2006 result shows an increase in the number of targeted agencies practicing strategic risk management. The result is pleasing in that it also exceeded the targeted increase by three additional agencies.

Performance Indicators

Efficiency Performance Indicators

The **Expense Performance Target** compares the total RiskCover Management Fee to that benchmarked by the WA Treasury. It compares the management cost of RiskCover as a percentage of total Fund Contributions.

	2006	
	Target	Actual
RiskCover	11.1%	10.6%



Comments: A target of 11.1% was based on planned investment in significant IS&T infrastructure and systems improvements incorporating an independent business process review. The planned investment was delayed due to a combination of the Division undergoing a planned restructure during the 2005/06 year and competition within the Commission for IS&T resources due to the ongoing upgrade of the Commissions financial systems.

Performance Indicators

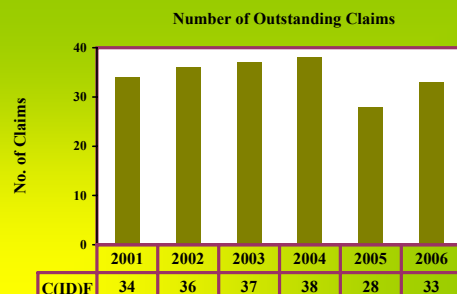
COMPENSATION (INDUSTRIAL DISEASES) FUND

To Minimise the Financial Hardship of Industrial Disease Claimants.

Effectiveness Performance Indicators

The **Number of Outstanding Claims** as at year-end (accidents from all years).

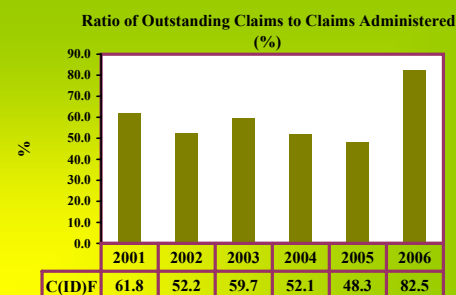
C(ID)F	2006	
	Target	Actual
	32	33



Comments: As the latency of development of Industrial Disease claims is over a number of decades and the number of incidents being relatively small an accurate prediction of the number of outstanding claims at the end of any one year is problematic. The variation in the result from that of the 2005 is therefore within expected tolerances.

The **Ratio of Outstanding Claims to Claims Administered** show how effectively claims are managed and finalised for the best outcome for all parties.

C(ID)F	2006	
	Target	Actual
	61.5%	82.5%

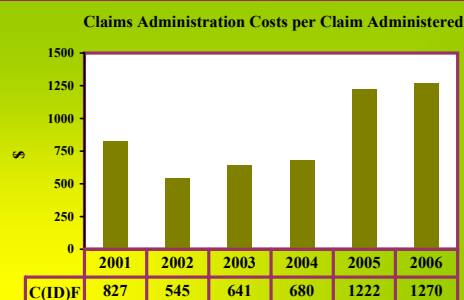


Comments: As the latency of development of Industrial Disease claims is over a number of decades and the number of incidents being relatively small an accurate prediction of the number of claims administered during the course of any one year is problematic. The 2006 result is due to fewer new claims being reported and also fewer claims being finalised during the 2006 year.

Efficiency Performance Indicator

The **Claims Administration Costs per Claim Administered** indicates the efficiency of claims administration as an average of the total Administration Costs divided by the number of claims administered in the period.

C(ID)F	2006	
	Target	Actual
	\$1,173	\$1,270



Comments: The result for the 2006 financial year is within the acceptable tolerances for this indicator.

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

1. CIF – COMMUNITY INSURANCE FUND

The CIF was established by the Government of Western Australia to assist eligible incorporated not-for-profit community organisations, based in Western Australia, to obtain affordable insurance cover. The CIF is underwritten by the Crown and managed by the RiskCover Division.

2. CLAIMS

Average Term to Settlement

The term from notification of claim to its settlement date.

Case Estimate

An assessment of the amount outstanding for an individual claim made by the insurer for each claim reported.

Case Estimate Payment Factors

Used in determining the estimate amount of claims payments, may for example include, size of court awards, and changes in claimant attitudes.

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.

Claims expense also includes direct expenses such as legal and medical costs and assessors' fees.

Claims Handling/Management Expenses

The costs incurred in relation to the administration and processing of claims.

Discount Rate

The rate used to adjust expected future payments for the time value of money.

IBNR and IBNER Claims

Incurred But Not Reported (IBNR) claims arise from events which have occurred but have not been reported as at balance date. Incurred But Not Enough Reported (IBNER) claims arise from events which have occurred and been reported as 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.

Inflation Rates

Expected future payments are inflated to take account of increases in the general economy.

Liability Adequacy Test

An assessment of whether the Unearned Premium Liability (less any deferred acquisition costs) recognised in the Balance Sheet, is sufficient to meet the estimated present value of future cashflows, plus an additional risk margin, related to future claims, that arise under current general insurance obligations.

If the Unearned Premium Liability is assessed to be insufficient to meet these future claims costs, then a deficiency is recognised in the Income Statement and an additional liability presented in the Balance Sheet as “Unexpired Risk Liability”.

Liability for Outstanding Claims

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

Long –Tail Claims

Claims which are typically not settled within one year of the occurrence of the events giving rise to those claims.

Loss Ratio for Australian Casualty Proportional

Used as a basis for projecting the ultimate incurred cost in relation to the Australian Casualty Proportional portfolio of the Corporation.

Net Claims Incurred

Net Claims Incurred comprises claims paid (including claims’ settlement costs) 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.

Short – Tail Claims

Claims which are typically settled within one year of the occurrence of the events giving rise to those claims.

Superimposed Inflation Rate

In addition to the general economic inflation rate an amount is superimposed to take account of non-economic inflationary factors, such as increases in court awards.

Third Party Recoveries

May includes amounts recovered from other insurers or private parties.

Unexpired Risk Liability

Arises as a result of an assessed deficiency in the “Liability Adequacy Test”.

3. INSURANCE COMMISSION'S FUNDS

TPIF	-	Third Party Insurance Fund
CIDF	-	Compensation (Industrial Diseases) Fund
GIF	-	Government Insurance Fund
ICGF	-	Insurance Commission General Fund

4. PREMIUMS**Compulsory Third Party Insurance**

Premiums received in respect of insurance covering bodily injury to or death of third parties as a result of a road accident. All owners of motor vehicles using public roads in Western Australia are required to have compulsory third party cover.

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 as at balance date.

Premium Revenue

Premium revenue comprises amounts charged to policyholders and in relation to Inwards Reinsurance, amounts charged to other insurers. It includes workers' compensation insurance levies, but excludes stamp duties and other amounts collected on behalf of third parties. Premium revenue is adjusted for unearned premium as at balance date.

Unearned Premium

The portion of premium written, which relates to risks for periods of insurance subsequent to balance date.

5. 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.

6. RISKCOVER

RiskCover is a Managed Fund established to administer the self-insurance arrangements of public authorities of the State Government. RiskCover is underwritten by the Government of Western Australia and managed by the Insurance Commission.

7. OTHER**Run-off**

Run-off refers to closed insurance portfolios where the applicable claims' liabilities are being progressively extinguished to their final liquidation. The Government Insurance Fund, Insurance Commission General Fund and the State Government Insurance Corporation are in run-off.

	<u>Page</u>	<u>Note</u>
Actuarial Assumptions and Methods	95	3
Amounts Receivable and Payable Denominated in Foreign Currencies	138	24
Annual Estimates		
- Insurance Commission of Western Australia	59	
- RiskCover Fund	60	
- Community Insurance Fund	60	
Auditor General's Opinion – Financial Statements	65	
Balance Sheet	67	
Board of Commissioners, The	40	
Board of Commissioners Structure and Corporate Governance	39	
Cash Flow Statement	69	
Certification of Financial Statements by the Members of the Board and Chief Financial Officer	64	
Chairman and Managing Director's Joint Review	4	
Community Focus	34	
Community Insurance Fund (CIF)	26	
Community Insurance Fund Financial Statements	185	43
Compensation (Industrial Diseases) Fund (CIDF)	26	
Complaints and Compliments	36	
Compliance with Public Sector Standards and Ethical Codes	53	
Contingent Assets and Liabilities	154	34
Corporate Governance	37	
Critical Accounting Judgements and Estimates	94	2
Deferred Acquisition Costs	119	14
Disclosure of interest in an existing or proposed contract	43	
Economic Dependency	154	33
Employee Benefit Liabilities	135	21
Employers' Indemnity Supplementation Fund (EISF)	26	
Events Occurring After Balance Date	155	36
Executive Committee	43	
Expenditure Commitments	155	35
Expenses	110	6
Explanatory Statement – Insurance Commission	151	31
Financial Assets at Fair Value Through Profit or Loss	115	10
Financial Overview	8	
Financial Instruments	140	26
Financial Statements Index	62	
Funds' Balance Sheet	148	29
Funds' Income Statement	146	28
Funds' Retained Profits	150	30
Government Insurance Fund (GIF)	26	
Group Entities	153	32
Highlights	7	
Income Statement	66	
Income Tax Equivalent	112	8
Insurance Commission General Fund (ICGF)	26	
Insurance Contracts – Risk Management Policies and Procedures	104	4
Intangible Assets	118	13
Internal Audit Service	44	
Investment Properties	118	12
Investments	30	
Legislation & Legislative Compliance	38	
Losses through Theft, Default and Other Causes	156	37
Medical Research into Mesothelioma	35	

	<u>Page</u>	<u>Note</u>
Motor Vehicle Third Party (Personal Injury) Insurance	16	
Net Claims Incurred	111	7
Notes to the Cash Flow Statement	139	25
Organisation Chart	12	
Other Assets	119	15
Other Liabilities	138	22
Our Customer	13	
Our Key Stakeholders	13	
Our Mission	11	
Our Outcome Statements	13	
Our People	27	
Our Structure	11	
Our Values	11	
Our Vision	11	
Outstanding Claims Liability	120	17
Payables	119	16
Performance Indicators	189	
- Certification of Performance Indicators	190	
- Auditor General's Opinion	191	
- Insurance Commission Key Outcomes	192	
- Compensation (Industrial Diseases) Fund	203	
- RiskCover	199	
- Third Party Insurance Fund	196	
Property Lease Income	138	23
Property, Plant and Equipment	116	11
Provisions	135	20
Publications	44	
Receivables	114	9
Reconciliation Explaining the Transition Australian Equivalents to International Financial Reporting Standards (AIFRS)	158	40
Remuneration of Auditor	157	39
Remuneration of the Board of Commissioners and Senior Officers	157	38
Revenue and Income	109	5
Related Party Disclosures	179	41
RiskCover	20	
RiskCover Fund Financial Statements	180	42
Road Safety Partnerships	34	
Segment Reporting	145	27
Statement of Changes in Equity	68	
Statement of Compliance to the Minister	3	
Statement of Significant Accounting Policies	70	1
Strategic Business Planning for 2007	56	
Unearned Premium Liability	134	18
Unexpired Risk Liability	134	19
APPENDIX		
Glossary	204	