

State Government Insurance Corporation

Annual Report 2006

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CONTACT DETAILS

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STATEMENT OF COMPLIANCE TO THE MINISTER

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

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



VIC EVANS
CHAIRMAN
12 September 2006



MICHAEL E WRIGHT
DEPUTY CHAIRMAN
12 September 2006

In accordance with a resolution of the Board of Directors of the State Government Insurance Corporation, passed on 12 September 2006.

FINANCIAL OVERVIEW

INCOME STATEMENT

Net Premium Revenue

Claims Incurred Credit
Reinsurance and Other Recoveries (Expenses)/Revenue

Net Claims Incurred Credit

Acquisition Benefits/(Costs)
Underwriting and Administration Expenses

Underwriting Result

Other Income

**Profit Before Income Tax Equivalent
(Expense)/Benefit**

BALANCE SHEET

Other Assets

Total Assets

Outstanding Claims Liability
Other Liabilities

Total Liabilities

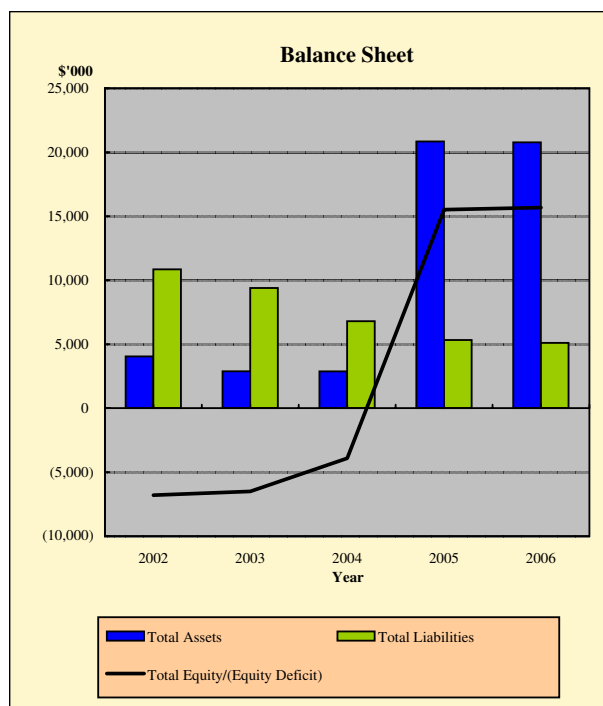
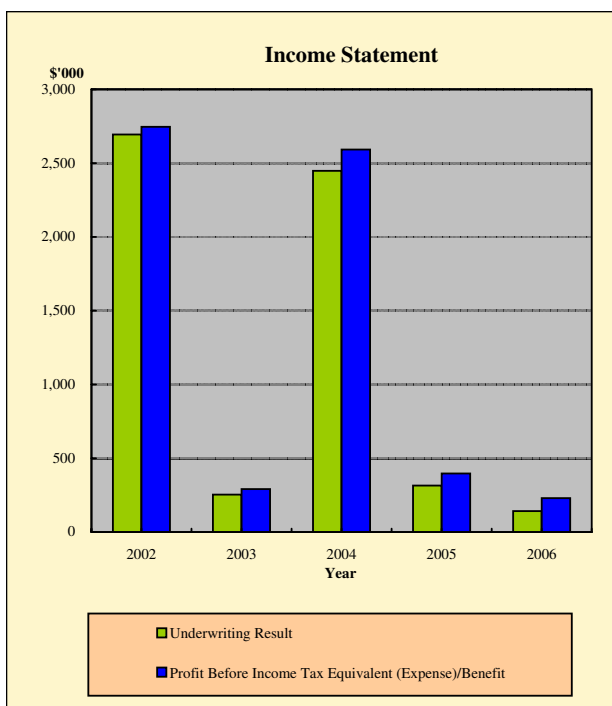
Net Assets/(Liabilities)

Share Capital

Retained Earnings

Total Equity/(Equity Deficit)

	AIFRS		AGAAP (i)		
	2006 \$'000	2005 \$'000	2004 \$'000	2003 \$'000	2002 \$'000
Net Premium Revenue	(128)	190	(105)	307	151
Claims Incurred Credit	433	310	2,525	127	2,684
Reinsurance and Other Recoveries (Expenses)/Revenue	(6)	(13)	192	5	42
Net Claims Incurred Credit	427	297	2,717	132	2,726
Acquisition Benefits/(Costs)	10	(13)	-	-	-
Underwriting and Administration Expenses	(167)	(159)	(164)	(185)	(183)
Underwriting Result	142	315	2,448	254	2,694
Other Income	88	82	144	37	52
Profit Before Income Tax Equivalent (Expense)/Benefit	230	397	2,592	291	2,746
Other Assets	20,769	20,838	2,873	2,875	4,043
Total Assets	20,769	20,838	2,873	2,875	4,043
Outstanding Claims Liability	4,649	5,233	6,742	9,373	10,813
Other Liabilities	447	93	50	13	32
Total Liabilities	5,096	5,326	6,792	9,386	10,845
Net Assets/(Liabilities)	15,673	15,512	(3,919)	(6,511)	(6,802)
Share Capital	100,000	100,000	100,000	100,000	100,000
Retained Earnings	(84,327)	(84,488)	(103,919)	(106,511)	(106,802)
Total Equity/(Equity Deficit)	15,673	15,512	(3,919)	(6,511)	(6,802)



- (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).

CHAIRMAN'S REVIEW

I am pleased to report that for the 2006 financial year, the State Government Insurance Corporation (Corporation) posted an operating profit before tax of \$230,000.

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

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

To cater for this uncertainty, a risk margin providing a 75% level of adequacy is incorporated in the outstanding claims provision. Additional risk margins are also retained for Australian Casualty and Professional Indemnity classes, due to the even greater uncertainty about the run-off costs of these risks.

Based on the actuarial report, there has been a reduction in the outstanding claims provision at 30 June 2006. Factors contributing to the decrease were; incurred claim cost were less than the actuarial model; discount rates based on the Australian, US and UK government bond markets have increased; the incurred costs relating to one of the largest reinsurance contracts reduced following the receipt of updated information relating to the contract. The positive factors were partially offset by; the depreciation of the Australian dollar relative to the US, Canadian and UK currencies; and an increase in the allowance for expenses.

No commutation proposals were offered or pursued during 2005-2006. Amendments to the *Insurance Commission of Western Australia Act 1986*, included legislation which, whenever proclaimed, will dissolve the Corporation with its residuary assets, rights and liabilities vested in the Insurance Commission.

The Board and the Executive will continue to consider all options available in determining the most appropriate strategy for the Corporation's future.



VIC EVANS
CHAIRMAN

BOARD OF DIRECTORS

The Board of Directors of the State Government Insurance Corporation has been appointed in accordance with the *Insurance Commission of Western Australia Act 1986*. The Board as at 30 June 2006 comprised:

VIC EVANS Dip Bus Mgt
Chairman of the Board of Directors

Managing Director, Insurance Commission of Western Australia
Commissioner (ex-officio), Insurance Commission of Western Australia

Expiry of present term: 21 June 2009

MICHAEL E WRIGHT FAICD
Deputy Chairman

Chairman, Insurance Commission of Western Australia
Director, CCK Financial Solutions Limited
Director, Wesbeam Holdings Limited Group

Expiry of present term: 30 November 2007

PETER D EASTWOOD FCA, FAICD
Director

Commissioner, Insurance Commission of Western Australia
Consultant, Grant Thornton Chartered Accountants
Director, Capricorn Mutual Limited
Director, Capricorn New Zealand Insurance Limited
Director, Unimutual Limited
Director Unimutual Insurance (NZ) Limited

Expiry of present term: 30 September 2008

ANNEMIE MCAULIFFE MLS, Dip Ed, CMC
Director

Commissioner, Insurance Commission of Western Australia
Board Member, WA Potato Marketing Corporation
Chair, WA Telecentres Advisory Council

Expiry of present term: 31 December 2007

SHARON BROWN
Director

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

Expiry of present term: 30 November 2007

DIRECTORS' ATTENDANCE AT MEETINGS 2005–2006

Board of Directors (Total of 10 Meetings)	
Director	Number of Meetings Attended
Vic Evans	6
Ken McAullay (Acting Managing Director)	3
Michael E Wright	9
Peter D Eastwood	10
Annemie McAuliffe	9
Sharon Brown	10

REMUNERATION

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

DISCLOSURE OF INTEREST IN AN EXISTING OR PROPOSED CONTRACT

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

ANNUAL ESTIMATES 2006–2007

In accordance with Section 42 of the *Financial Administration and Audit Act 1985*, the State Government Insurance Corporation's Annual Estimates for 2006–2007 have been approved by the Minister.

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

	\$'000
Net Premium Revenue	-
Claims Expense	171
Reinsurance and Other Recoveries Revenue	10
Net Claims Incurred	181
Underwriting and Administration Expenses	(164)
UNDERWRITING RESULT	17
Other Income	71
PROFIT BEFORE INCOME TAX EQUIVALENT EXPENSE	88

**State Government Insurance Corporation
Financial Statements 2006**

FINANCIAL STATEMENTS 2006 INDEX


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

State Government Insurance Corporation

The accompanying financial statements of the State Government Insurance Corporation have been prepared in compliance with the provisions of the *Financial Administration and Audit Act 1985* from proper accounts and records to present fairly the financial transactions for the year ended 30 June 2006 and the financial position as at 30 June 2006.

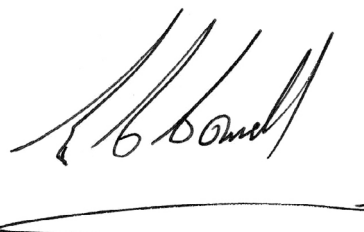
At the date of signing we are not aware of any circumstances which would render the particulars included in the financial statements misleading or inaccurate.



VIC EVANS
CHAIRMAN
12 September 2006



MICHAEL E WRIGHT
DEPUTY CHAIRMAN
12 September 2006



ERNIE COWELL
ACTING CHIEF FINANCIAL OFFICER
12 September 2006

In accordance with a resolution of the Board of Directors of the State Government Insurance Corporation passed on 12 September 2006.



AUDITOR GENERAL

INDEPENDENT AUDIT OPINION

To the Parliament of Western Australia

STATE GOVERNMENT INSURANCE CORPORATION 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 State Government Insurance Corporation 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 Corporation provide reasonable assurance that the receipt, expenditure and investment of moneys, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions; and
- (iii) the key effectiveness and efficiency performance indicators of the Corporation are relevant and appropriate to help users assess the Corporation's performance and fairly represent the indicated performance for the year ended 30 June 2006.

Scope

The Corporation 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

	<u>Notes</u>	2006 \$'000	2005 \$'000
Premium Revenue	5	(128)	190
Net Premium Revenue		(128)	190
Claims Incurred Credit	6	433	310
Reinsurance and Other Recoveries Expenses	5	(6)	(13)
Net Claims Incurred Credit	7	427	297
Acquisition Benefits/(Costs)	6	10	(13)
Underwriting and Administration Expenses	6	(167)	(159)
UNDERWRITING RESULT		142	315
Other Income	5	88	82
PROFIT BEFORE INCOME TAX EQUIVALENT (EXPENSE)/BENEFIT		230	397
Income Tax Equivalent (Expense)/Benefit	8	(69)	34
PROFIT AFTER INCOME TAX EQUIVALENT (EXPENSE)/BENEFIT		161	431

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

BALANCE SHEET

at 30 June 2006

	Notes	2006 \$'000	2005 \$'000
ASSETS			
Current Assets			
Cash and Cash Equivalents	13,21	1,528	1,533
Receivables	9	200	190
Total Current Assets		1,728	1,723
Non-Current Assets			
Receivables	9	18,527	18,626
Deferred Tax Assets	8	514	489
Total Non-Current Assets		19,041	19,115
TOTAL ASSETS		20,769	20,838
LIABILITIES			
Current Liabilities			
Payables	10	447	93
Outstanding Claims Liability	12	681	747
Total Current Liabilities		1,128	840
Non-Current Liabilities			
Outstanding Claims Liability	12	3,968	4,486
Total Non-Current Liabilities		3,968	4,486
TOTAL LIABILITIES		5,096	5,326
NET ASSETS		15,673	15,512
EQUITY			
Share Capital	11	100,000	100,000
Retained Earnings		(84,327)	(84,488)
TOTAL EQUITY		15,673	15,512

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

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2006

		2006 \$'000	2005 \$'000
BALANCE OF EQUITY AT START OF THE YEAR		15,512	15,081
SHARE CAPITAL			
Balance at Start of the Year		100,000	100,000
Balance at End of the Year	11	100,000	100,000
RETAINED EARNINGS			
Balance at Start of the Year		(84,488)	(84,919)
Profit for the Year		161	431
Balance at End of the Year		(84,327)	(84,488)
BALANCE OF EQUITY AT END OF THE PERIOD		15,673	15,512

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

CASH FLOW STATEMENT

for the year ended 30 June 2006

	Notes	2006 \$'000	2005 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums Received		160	84
Reinsurance and Other Recoveries Received		(1)	-
Interest Received		88	114
Claims Paid		(102)	(1,156)
Outwards Reinsurance Paid		-	-
Acquisition Benefits Received/ Costs (Paid)		-	(13)
Underwriting and Administration Expenses Paid		(150)	(224)
Net Cash Used In Operating Activities	21	(5)	(1,195)
NET DECREASE IN CASH AND CASH EQUIVALENTS			
		(5)	(1,195)
CASH AND CASH EQUIVALENTS AT THE START OF THE YEAR			
		1,533	2,760
Effects of Exchange Rate Changes on the Balance of Cash Held in Foreign Currencies		-	(32)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	21	1,528	1,533

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The 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 year ended 30 June 2006 and 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.

AASB 1023 requires the use of risk-free discount rates in the calculation of the present values of outstanding claim liabilities whereas the superceded AGAAP standard required the use of market-determined risk-adjusted rates. This however would have had no impact for the year ended 30 June 2005 as the Corporation has for a number of years adopted risk-free rates in determination of the present value of all outstanding claims.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(b) Early Adoption of Standards

The Corporation 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 22, 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 Concepts and other authoritative pronouncements of the Australian Accounting Standards Board.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(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 noted, 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 recognized 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 significant risks 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 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 Corporation is an Agent of the Crown in the right of the State under Section 4(a) of the *Insurance Commission of Western Australia Act 1986*. Letters have been received from the Premier confirming that the State Government fully supports the financial viability of the Corporation and will continue to support the Corporation and its Board.

(e) Change in Accounting Policy

As indicated above, the Corporation 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 financial statements of the Corporation.

(f) 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.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

(g) Principal Activities

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

(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.

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 accounts taken if 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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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.

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 Insurance Commission of Western Australia (Insurance Commission) and the Board of

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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.

(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.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(j) Revenue Recognition

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

- **Premium Revenue**

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

- **Reinsurance and Other Recoveries Revenue**

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

- **Interest Income**

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

- **Foreign Exchange Revenue**

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

(k) Outwards Reinsurance

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

(l) Foreign Currencies

- The functional and presentation currency of the economic entity and its subsidiary is Australian dollars (A\$).

Transactions of the Corporation denominated in foreign currencies are converted to Australian currency at the rates of exchange ruling at the dates of the transactions.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

(m) Claims

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

(n) Unexpired Risk Liability

The Corporation is in run-off and hence there is no unearned premium. As a result neither a Liability Adequacy Test or Unexpired Risk Liability is required.

(o) Assets Backing General Insurance Liabilities

All assets are held to back general insurance 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.

(p) Outstanding Claims

The liability for outstanding claims at balance date comprises:

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

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

The liability for outstanding claims is the present value of an adjusted "central estimate" of future claim payments (including claims management expenses), which is affected by factors arising during the period to settlement such as normal (e.g. wage) inflation and "superimposed" inflation.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Superimposed inflation refers to factors like trends in court awards and changes in legislation, for example increases in the level and period of compensation for injury. The expected future claims payments are then discounted to a present value at balance date using market-determined risk-adjusted discount rates.

The details of discount and inflation rates used are set out in Note 3.

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

In determining the liability for outstanding claims the Board has added a prudential margin to the central estimate of the discounted future claims payments. The prudential margin provides for a higher degree of certainty that the estimated liability will be adequate to cover possible adverse developments. The degree of certainty required by the Board has been achieved by adding a prudential margin to the central estimates of claims liabilities that allows for a 75% (2005 -75%) level of confidence. Refer Note 12.

(q) Receivables

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

(r) 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.

(s) 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, fair value equates to market value.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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 impairment.

- **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 unrecognized financial assets and liabilities traded in an organized market, fair value equates to market value.

(t) Cash

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 on hand and in banks, which are integral to the Corporation's general insurance activities.

(u) Management Fee

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

(v) Other Corporate Information

The Corporation is an Agent of the Crown in the right of the State under Section 4(a) of the *Insurance Commission of Western Australia Act 1986*.

Principal Place of Business

State Government Insurance
Corporation
The Forrest Centre
221 St George's Terrace
PERTH WA 6000

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GPO Box U1908
PERTH WA 6845

Telephone: +61 (8) 9264 3333

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Email: customer@icwa.wa.gov.au

Websites: www.icwa.wa.gov.au

Corporate Secretary

Mr Ken McAullay

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Corporation 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 area in which critical estimates are applied is the Provisions for Outstanding Claims Liability.

Provisions are made at the year end for the outstanding claims which appear as liabilities in the Balance Sheet. This is the cost of claims incurred but not settled at 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 (which appear in the Balance Sheet at Note 9 as Receivables), claims management expenses, and a 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 IBNR claims is generally subject to a greater degree of uncertainty than the estimation of claims already notified, where generally, more information about the claims is 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 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 unsettled 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 retard 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.

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

3. ACTUARIAL ASSUMPTIONS AND METHODS

To estimate 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 other similar 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 liability at balance date.

Models of the ratio of 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)

Actuarial Assumptions

Processes Used To Determine Assumptions

The following are a brief description of the source information for actuarial assumptions:

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

Discount Rates: risk-free rates derived from the market yields on Government Bonds at balance date.

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

Reinsurance Recoveries: based on expected claims currently estimated to exceed the reinsurance retention.

Risk Margin: based on benchmark studies.

Average Term to Settlement: is calculated as the weighted average duration to payment of the estimated inflated and discounted cash flows.

The following assumptions have been made in determining the outstanding claims liabilities for the State Government Insurance 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 table below illustrates how changes in key assumptions would impact the equity and profit after tax (assumed at a Corporate tax rate of 30%).

Variable	Change in Variable %	Profit/(Loss) Increase/(Decrease)	
		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

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

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

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

- Use of information systems to provide up-to-date, reliable data on the risks to which the Corporation 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.

(b) Terms and Conditions of Insurance Risk

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

The inwards reinsurance contracts in which the Corporation participated 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 Claims

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 12 which details outstanding claims estimates for underwriting years at successive year ends.

(e) 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 Corporation's liquidity is managed by the Insurance Commission. The Insurance Commission has in place policies and procedures to cover unexpected fluctuations in the levels of claims payments.

(f) Interest Rate Risk

The Insurance Commission manages the Corporation's 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 associated with the Corporation's bank account is managed by the Insurance Commission.

(g) 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

5. REVENUE AND INCOME

	<u>Notes</u>	2006 \$'000	2005 \$'000
Premium Revenue	(i)	(128)	190
Reinsurance and Other Recoveries Revenue (Expenses)		(6)	(13)
Other Income			
- Interest Received from the Insurance Commission		88	114
- Foreign Exchange Loss		-	(32)
		88	82
Total Revenue and Income		(46)	259

(i) The premium revenue incorporates premium adjustments from unclosed business.

6. EXPENSES

Claims Incurred Credit		(433)	(310)
Acquisition (Benefits)/Costs		(10)	13
Underwriting and Administration			
Impairment of Receivables		17	-
Other Underwriting and Administration	(i)	150	159
		167	159
Total Expenses/(Benefits)		(276)	(138)

(i) Includes management fee charged by the Insurance Commission which takes into account an amount of \$13,600 (2005 - \$13,000) in respect of amounts due or payable to the Auditor General for auditing the financial statements.

7. NET CLAIMS INCURRED

Inwards Reinsurance

Gross Claims Incurred and Related Expenses			
- Undiscounted		(457)	(856)
Reinsurance and Other Recoveries			
- Undiscounted		(1)	2
Net Claims Incurred - Undiscounted		(458)	(854)
Discount and Discount Movement			
- Gross Claims Incurred		24	546
Discount and Discount Movement			
- Reinsurance and Other Recoveries		7	11
Net Discount Movement		31	557
Net Claims Incurred		(427)	(297)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

8. INCOME TAX EQUIVALENT

	2006 \$'000	2005 \$'000
INCOME TAX EQUIVALENT EXPENSE/(BENEFIT)		
Current Income Tax		
Current Income Tax Equivalent Expense	94	-
Adjustments in Respect of Current Income Tax of Previous Years	-	-
Deferred Income Tax		
Relating to Origination and Reversal of Temporary Differences	(25)	(34)
Income Tax Equivalent Expense/(Benefit) Reported in the Income Statement	69	(34)
AMOUNT RECOGNISED DIRECTLY IN EQUITY		
Deferred Income Tax Related to Items Charged or Credited Directly to Equity:		
Other	-	-
Income Tax Equivalent Expense/(Benefit) Reported in Equity	-	-
RECONCILIATION OF INCOME TAX TO PRIMA FACIE TAX PAYABLE		
Profit Before Income Tax Equivalent Expense/(Benefit)	230	397
Tax at the Statutory Income Tax Rate of 30% (2005: 30%)	69	119
Recognition of Losses	-	(129)
Adjustments Recognised in the Current Year in Relation to the Current Tax of Prior Years	-	(24)
Income Tax Equivalent Expense/(Benefit)	69	(34)

	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:				
Deferred Tax Assets				
Losses Available for Offset Against Future Taxable Income	-	-		52
Sundry	514	489	(25)	(86)
	514	489		
Deferred Income Tax Equivalent Benefit			(25)	(34)

Tax Consolidation

The Insurance Commission and its 100% owned Australian resident subsidiary the Corporation has formed a tax consolidated group with effect 1 from 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

Current

Reinsurance and Other Recoveries Receivable

Less: Provision for Impairment

Non-Current

Reinsurance and Other Recoveries Receivable

Other Receivables

(i)

Movement in Provision for Impairment

Balance at Start of the Year

Impairment Written Off During the Year

New Provision Made During the Year

Balance at End of the Year

2006 \$'000	2005 \$'000
217	190
(17)	-
200	190
76	81
18,451	18,545
18,527	18,626
-	65
-	(65)
17	-
17	-

No amounts were required to be written off in 2006 in relation to Section 45(3) of the *Financial Administration and Audit Act*. In 2005 an amount of \$65,061 relating to a Reinsurance Recovery was written off.

- (i) Other Receivables relates to amounts due from the Insurance Commission in respect of deferred tax assets arising from past losses presented as an intercompany receivable in accordance with UIG 1052.

10. PAYABLES

Current

Reinsurance Creditors

447	93
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11. SHARE CAPITAL

Authorised Shares of \$100 each

Issued and paid-up share capital

Balance at Beginning and End of the Period

2006		2005	
SHARES	\$'000	SHARES	\$'000
1,000,000	100,000	1,000,000	100,000
1,000,000	100,000	1,000,000	100,000

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

12. OUTSTANDING CLAIMS LIABILITY

	2006 \$'000	2005 \$'000
Central Estimate	2,822	3,417
Discount to present value	(997)	(1,092)
	1,825	2,325
Claims Handlings Costs (discounted)	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

Liability for Outstanding Claims

Refer Notes 2 and 3 for the methodologies and assumptions used to calculate the outstanding claims liability.

Risk Margin

Process for Determining Risk Margin:

The Corporation has 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), 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.

An additional precautionary margin has also 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) based on ultimate loss ratio's of 167% and 190% respectively.

Risk Margin Applied:

2006 %	2005 %
14.3	13.8

Reconciliation of Movement in Discounted Outstanding Claims Liability

	Gross \$'000	Reinsurance and Other Recoveries \$'000	Net \$'000
Corporation - Inwards Reinsurance			
Outstanding Claims Liability as 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)
Outstanding Claims Liability as at 30 June 2006	4,649	87	4,562

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

12. OUTSTANDING CLAIMS LIABILITY (continued)

Claims Development Table

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 table below lists developing claim costs over the past 5 years.

		Gross \$'000	Net \$'000
Estimated Ultimate Claims Cost as at 30 June:			
	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 Outstanding Claims as per Balance Sheet		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

13. FINANCIAL INSTRUMENTS

(a) Interest Rate Risk Exposure

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

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

Current Year

Current Year	2006 (\$'000)			Weighted Average Interest Rate (%)
	Fixed Interest Rate Maturing in Less than 1 Year	Non-Interest Bearing	Total	
Financial Assets				
Cash and Cash Equivalent Assets	1,528	-	1,528	5.25
Total Financial Assets	1,528	-	1,528	

Previous Year

Previous Year	2005 (\$'000)			Weighted Average Interest Rate (%)
	Fixed Interest Rate Maturing in Less than 1 Year	Non-Interest Bearing	Total	
Financial Assets				
Cash and Cash Equivalent Assets	1,533	-	1,533	4.66
Total Financial Assets	1,533	-	1,533	

(b) Reconciliation of Net Financial Assets to Net Liabilities

	Notes	2006 \$'000	2005 \$'000
Net Financial Assets	13(a)	1,528	1,533
Receivables (Current and Non-current)	9	18,727	18,816
Deferred Tax Assets	8	514	489
Payables	10	(447)	(93)
Outstanding Claims Liability (Current and Non-current)	12	(4,649)	(5,233)
Net Assets per Balance Sheet		15,673	15,512

(c) Credit Risk Exposure

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

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

Credit Risk Exposure	1,528	1,533
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(d) Fair Value

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

14. SEGMENT REPORTING

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

As the Inwards Reinsurance account is in run-off it is considered that the disclosure of the net claims liabilities, which will be settled in Australian and foreign currencies, and the assets held to meet those net claims liabilities, would provide equivalent relevant information to users. Refer Note 15.

15. FUNDING OF INWARDS REINSURANCE NET CLAIMS LIABILITIES

Claims liabilities are payable in the currency designated by the Reinsurance agreement. The Corporation has a policy to hold assets only in Australian dollars (A\$) to maximise interest earned on its total assets, also recognising the ongoing reduction in its currency liabilities and corresponding reducing exposure to currency fluctuations.

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

30 June 2006	Currency of Exposure (in Australian dollars equivalent)				
	AUD \$'000	CAD \$'000	GBP \$'000	USD \$'000	Total \$'000
Net Liability	2,980	8	232	1,341	4,561
Amount of Assets Held	1,528	-	-	-	1,528
Funding Deficit	(1,452)	(8)	(232)	(1,341)	(3,033)

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

17. EXPLANATORY STATEMENT

	ACTUAL 2006 \$'000	BUDGET 2006 \$'000	ACTUAL 2005 \$'000	PROFIT INCREASE/(DECREASE) FROM ACTUAL 2006 TO	
				BUDGET 2006 \$'000	ACTUAL 2005 \$'000
Premium Revenue	(128)	-	190	(128)	(318)
Net Premium Revenue	(128)	-	190	(128)	(318)
Claims Incurred Credit	433	101	310	332	123
Reinsurance and Other Recoveries (Expense)/Revenue	(6)	10	(13)	(16)	7
Net Claims Incurred Credit	427	111	297	316	130
Acquisition Benefits/(Costs)	10	-	(13)	10	23
Underwriting and Administration Expenses	(167)	(184)	(159)	17	(8)
UNDERWRITING RESULT	142	(73)	315	215	(173)
Other Income	88	65	82	23	6
PROFIT/(LOSS) BEFORE INCOME TAX EQUIVALENT (EXPENSE)/BENEFIT	230	(8)	397	238	(167)
				2,975.0	(42.1)

The Corporation underwrote small lines of Australian and overseas reinsurance between 1988 and 1992. The general insurance activities of the Corporation relate to the run-off of its Inwards Reinsurance business. During the 2006 and 2005 financial years, the Corporation's only activity has been the winding down of this operation.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

18. CONTINGENT ASSETS AND LIABILITIES

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

19. EXPENDITURE COMMITMENTS

There are no material expenditure commitments at balance date.

20. EVENTS OCCURRING AFTER BALANCE DATE

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

21. NOTES TO THE CASH FLOW STATEMENT

	2006 \$'000	2005 \$'000
Reconciliation of Profit After Income Tax Equivalent Benefit to Net Cash Flows Used in Operating Activities		
Profit after Income Tax Equivalent Benefit	161	431
Non-Cash Items		
Impairment of Receivables	17	(65)
Foreign Exchange Loss	-	32
Changes in Assets and Liabilities		
Increase in Reinsurance and Other Recoveries Receivable	(22)	(93)
Decrease in Other Assets	94	-
Decrease in Outstanding Claims Liability	(584)	(1,509)
Increase in Other Liabilities	354	43
Increase in Deferred Tax Assets	(25)	(34)
Net Cash Used In Operating Activities	(5)	(1,195)
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 of the Balance Sheet as follows:		
Cash and Cash Equivalents	1,528	1,533
	1,528	1,533

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

22. 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

		Previous AGAAP 30 June 2004 \$'000	Adjustment AASB Deferred Tax \$'000	AIFRS 1 July 2004 \$'000
ASSETS	Notes			
Current Assets				
Cash and Cash Equivalents		2,760	-	2,760
Receivables		20	-	20
Total Current Assets		2,780	-	2,780
Non-Current Assets				
Receivables	22.1.1	93	18,597	18,690
Deferred Tax Assets	22.1.1	-	403	403
Total Non-Current Assets		93	19,000	19,093
TOTAL ASSETS		2,873	19,000	21,873
LIABILITIES				
Current Liabilities				
Payables		50	-	50
Outstanding Claims Liability		957	-	957
Total Current Liabilities		1,007	-	1,007
Non-Current Liabilities				
Outstanding Claims Liability		5,785	-	5,785
Total Non-Current Liabilities		5,785	-	5,785
TOTAL LIABILITIES		6,792	-	6,792
NET (LIABILITIES)/ASSETS		(3,919)	19,000	15,081
EQUITY				
Share Capital		100,000	-	100,000
Retained Earnings	22.1.1	(103,919)	19,000	(84,919)
TOTAL (EQUITY DEFICIT)/EQUITY		(3,919)	19,000	15,081

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

22. RECONCILIATION EXPLAINING THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) (continued)

RECONCILIATION OF INCOME STATEMENT FOR THE DATE OF TRANSITION TO AIFRS 30 JUNE 2005

		Previous AGAAP 30 June 2005	Adjustment AASB Deferred Tax	AIFRS 1 July 2005
	Notes	\$'000	\$'000	\$'000
Premium Revenue		190	-	190
Net Premium Revenue		190	-	190
Claims Incurred Credit		310	-	310
Reinsurance and Other Recoveries Expenses		(13)	-	(13)
Net Claims Incurred Credit		297	-	297
Acquisition Costs		(13)	-	(13)
Underwriting and Administration Expenses		(159)	-	(159)
UNDERWRITING RESULT		315	-	315
Other Income		82	-	82
PROFIT BEFORE INCOME TAX EQUIVALENT BENEFIT		397	-	397
Related Income Tax Equivalent Benefit	22.1.3	-	34	34
PROFIT AFTER INCOME TAX EQUIVALENT BENEFIT		397	34	431

RECONCILIATION OF EQUITY AT THE DATE OF TRANSITION TO AIFRS 30 JUNE 2005

		Previous AGAAP 30 June 2005	Adjustment AASB 112 Deferred Tax	AIFRS 30 June 2005
	Notes	\$'000	\$'000	\$'000
ASSETS				
Current Assets				
Cash and Cash Equivalents		1,533	-	1,533
Receivables		190	-	190
Total Current Assets		1,723	-	1,723
Non-Current Assets				
Receivables	22.1.2	81	18,545	18,626
Deferred Tax Assets	22.1.2	-	489	489
Total Non-Current Assets		81	19,034	19,115
TOTAL ASSETS		1,804	19,034	20,838
LIABILITIES				
Current Liabilities				
Payables		93	-	93
Outstanding Claims Liability		747	-	747
Total Current Liabilities		840	-	840
Non-Current Liabilities				
Outstanding Claims Liability		4,486	-	4,486
Total Non-Current Liabilities		4,486	-	4,486
TOTAL LIABILITIES		5,326	-	5,326
NET (LIABILITIES)/ASSETS		(3,522)	19,034	15,512
EQUITY				
Share Capital		100,000	-	100,000
Retained Earnings	22.1.2	(103,522)	19,034	(84,488)
TOTAL (EQUITY DEFICIT)/EQUITY		(3,522)	19,034	15,512

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

22. RECONCILIATION EXPLAINING THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) (continued)

RECONCILIATION OF THE CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2005

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 THE AGAAP AND AIFRS IMPACT ADJUSTMENTS

The following explanatory notes relate to the aforementioned Income Statement and Balance Sheets and describe, for significant items, the differences between the treatment required under AGAAP and the revised treatment of these items under AIFRS.

All adjustment amounts in the detailed notes below are stated in \$000's.

22.1 AASB 112 – Income Taxes

Under AIFRS AASB 112 - Income Taxes, recognition of past tax losses as deferred tax assets is based upon the balance of probability of usage. This has resulted in the Corporation recognising a significant deferred tax asset.

Urgent Issues Group Interpretation 1052 - Tax Consolidation Accounting, however requires that deferred tax assets of a subsidiary, resulting from past tax losses be presented in the Tax Consolidation Group head entity, the Insurance Commission. In this case, the Corporation recognises an inter-company receivable from the Insurance Commission. Other deferred tax assets of the Corporation remain in the Corporation and are presented as such in its' Balance Sheet.

22.1.1 Adjustments to Opening Balance Sheet at 1 July 2004

The Corporation brought to account a intercompany Non-Current Receivable of \$18,597 resulting from the recognition of past tax losses presented in the Insurance Commission, and a Non-Current Deferred Tax Asset of \$403 relating to non-loss items. As a result the Corporation's Total Equity deficit position of \$3,919 was transformed into an Equity surplus position of \$15,081.

22.1.2 Adjustment to 30 June 2005 Balance Sheet

The Non-Current Deferred Tax Asset position in the Corporation was increased by \$86 to \$489, and the intercompany Non-Current Receivable resulting from the recognition of past tax losses was reduced by \$52 to \$18,545. A corresponding increase resulted in Retained Earnings of \$34.

22.1.3 Adjustment to the Income Statement for the Period Ended 30 June 2005

The Corporation recognised an additional Income Tax Equivalent Benefit amount of \$34.

State Government Insurance Corporation Performance Indicators

CERTIFICATION OF PERFORMANCE INDICATORS

We hereby certify that the Performance Indicators of the State Government Insurance Corporation (Corporation) for the financial year ended 30 June 2006:

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



VIC EVANS
CHAIRMAN
12 September 2006



MICHAEL E WRIGHT
DEPUTY CHAIRMAN
12 September 2006

In accordance with a resolution of the Board of Directors of the State Government Insurance Corporation passed on 12 September 2006.



AUDITOR GENERAL

INDEPENDENT AUDIT OPINION

To the Parliament of Western Australia

STATE GOVERNMENT INSURANCE CORPORATION 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 State Government Insurance Corporation 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 Corporation provide reasonable assurance that the receipt, expenditure and investment of moneys, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions; and
- (iii) the key effectiveness and efficiency performance indicators of the Corporation are relevant and appropriate to help users assess the Corporation's performance and fairly represent the indicated performance for the year ended 30 June 2006.

Scope

The Corporation 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

STATE GOVERNMENT INSURANCE CORPORATION

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

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

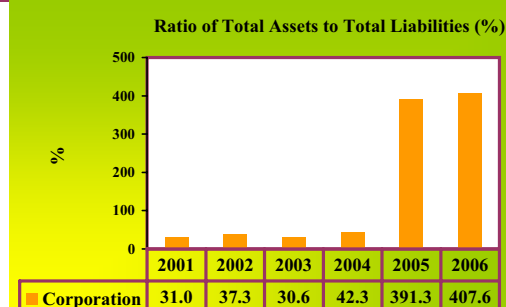
Both current year and last year figures have been re-stated for AIFRS, amounts prior to 2005 are not re-stated and are based on AGAAP.

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

Effectiveness Performance Indicator

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

	2006
	Actual
Corporation	407.6%

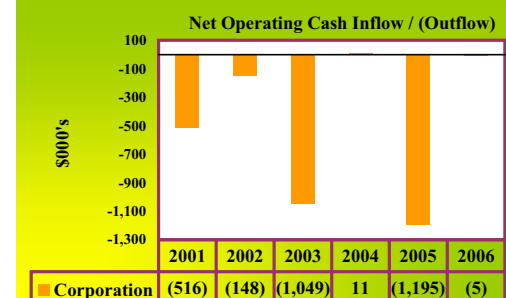


Comments: The improvement in the ratio is due to the Corporation moving to a surplus net assets position as a result of the recognition of a deferred tax asset in respect to future losses, as required by AIFRS requirements applied to the 2005 Year.

Efficiency Performance Indicator

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

	2006
	Actual
Corporation	(5)



Comments: The small net cash outflow position is a result of minimal claim payments or adjustments to premium in the 2006 year.

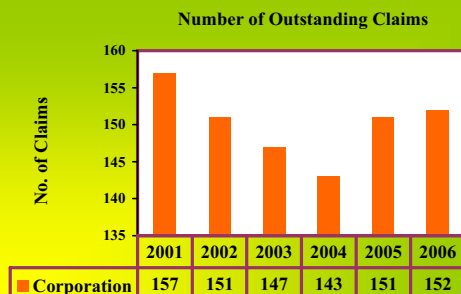
Performance Indicators

b) Minimise The Financial Liability of Insurers And Reinsurers.

Effectiveness Performance Indicator

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

	2006
	Actual
Corporation	152

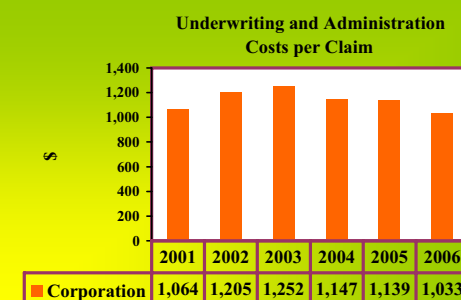


Comments: The number of outstanding claims is dependant on the claims settlement activity of re-insured parties. There was minimal claims activity in 2006 year.

Efficiency Performance Indicator

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

	2006
	Actual
Corporation	1,033



Comments: The result of this indicator remains within expectations with a slight improvement as a result of lower administration costs (8.7% lower than 2005). The cost per claim will largely be dependant on the number of claims under active management.

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

1. CLAIMS

Central Estimate

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

Claims Expense

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

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

together with the anticipated direct and indirect claims settlement costs.

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

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

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

Inflation Rates

Expected future payments are inflated to take account of increases in the general economy.

Liability for Outstanding Claims

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

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 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.

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.

Reinsurance Recoveries

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

2. PREMIUMS

Net Earned Premium

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

Outwards Reinsurance Expense

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

Premium Revenue

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

3. REINSURANCE

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

4. OTHER

Run-Off

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

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