09

ANNUAL REPORT

State Government Insurance Corporation

Insurance Commission of Western Australia

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Please note that in this Annual Report:

References to the year 2009 mean the 2008-2009 financial year ended 30 June 2009.
References to the year 2008 mean the 2007-2008 financial year ended 30 June 2008.
References to the year 2007 mean the 2006-2007 financial year ended 30 June 2007.

STATEMENT OF COMPLIANCE TO THE MINISTER

To the Hon. Troy Buswell MLA
Treasurer

In accordance with Section 63 of the *Financial Management Act 2006,* 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 2009.

The Annual Report has been prepared in accordance with the provisions of the *Financial Management Act 2006* and the *Insurance Commission of Western Australia Act 1986.*

Vic Evans
Chairman of State Government Insurance Corporation
1 September 2009

Michael E Wright
Deputy Chairman of State Government Insurance Corporation
1 September 2009

In accordance with a resolution of the Board of Directors of the State Government Insurance Corporation, passed on 1 September 2009.

CONTACT DETAILS

State Government Insurance Corporation

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1.0 OVERVIEW

1.1 CHAIRMAN'S REVIEW

I am pleased to report that for the 2009 financial year, the State Government Insurance Corporation posted an operating profit before tax of $2.13 million.

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.

During the 2009 year, the Insurance Commission engaged a specialist consultant to establish the current status and estimated cost of reported outstanding claims and to prepare a commutation plan for the remaining portfolio. This has resulted in a greater degree of certainty regarding the likely cost of outstanding claims and a clear plan for the future management of the run-off portfolio. It has also allowed the Insurance Commission to forecast its expected future expenses more accurately.

The Insurance Commission has authorised the consultant to actively pursue the commutation of contracts which have outstanding claims, with the expectation that the bulk of such contracts will be commuted during 2010. Commutation of only those contracts with outstanding claims will not eliminate the prospect of future claims being received on the remaining contracts, but given the age of the portfolio and the reporting requirements within the contracts, few new claims are expected.

A degree of uncertainty nevertheless remains with regard to the final outcome of the run-off due to the small portfolio 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 75% level of adequacy is incorporated in the outstanding claims provision and an additional risk margin is retained for Australian Casualty. The Insurance Commission has been able to dispense with the additional margin previously held for Professional Indemnity, as the few remaining claims for this class are fully provisioned.

Based on the Actuarial Report, there has been a reduction in the outstanding claims provision at 30 June 2009. The reduction is mainly due to the abovementioned factors, although depreciation of the Australian dollar relative to the United States and Canadian currencies and the general reduction in the discount rates since 2008, have resulted in a small offsetting increase in liability.

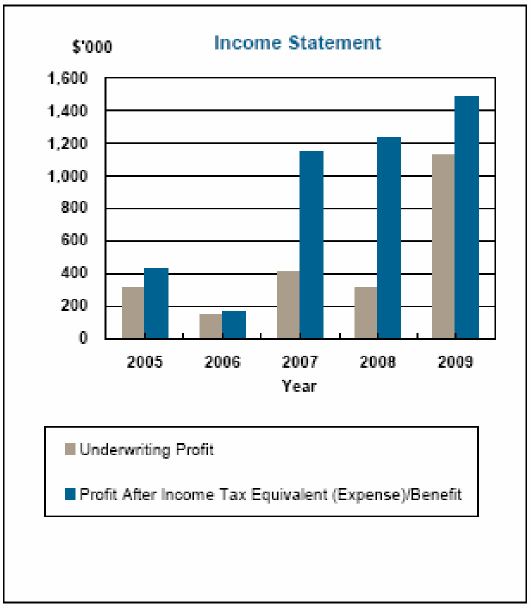
Amendments to the *Insurance Commission of Western Australia Act 1996*, included legislation which, whenever proclaimed, will dissolve the Corporation with its residuary assets, rights and liabilities vested in the Insurance Commission.

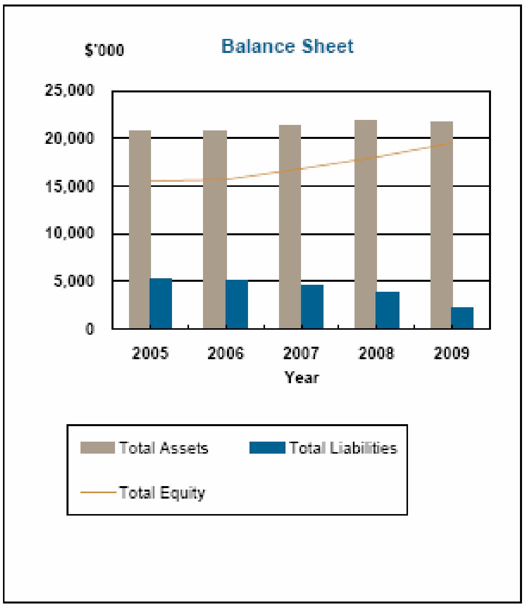
Once the commutation process has been completed, the Board and the Executive will consider the most appropriate strategy for the Corporation's future.

VIC EVANS
CHAIRMAN

1.2 FINANCIAL OVERVIEW

INCOME STATEMENT	2005 $'000	2006 $'000	2007 $'000	2008 $'000	2009 $'000
Net Premium Revenue	190	(128)	150	84	-
Claims Incurred Credit	310	433	415	565	1,337
Reinsurance and Other Recoveries	(13)	(6)	(4)	(145)	(25)
Net Claims Incurred Credit	**297**	**427**	**411**	**420**	**1,312**
Acquisition (Costs)/Benefits	(13)	10	(10)	-	-
Underwriting and Administration Expenses	(159)	(167)	(147)	(191)	(188)
Underwriting Profit	**315**	**142**	**404**	**313**	**1,124**
Other Income	82	88	1,238	1,440	1,002
Profit Before Income Tax Equivalent (Expense)/Benefit	**397**	**230**	**1,642**	**1,753**	**2,126**
Income Tax Equivalent (Expense)/Benefit	34	(69)	(493)	(526)	(638)
Profit After Income Tax Equivalent (Expense)/Benefit	**431**	**161**	**1,149**	**1,227**	**1,488**
BALANCE SHEET					
Other Assets	20,838	20,769	21,384	21,868	21,720
Total Assets	**20,838**	**20,769**	**21,384**	**21,868**	**21,720**
Outstanding Claims Liability	5,233	4,649	4,059	3,287	1,857
Other Liabilities	93	447	503	532	326
Total Liabilities	**5,326**	**5,096**	**4,562**	**3,819**	**2,183**
Net Assets	**15,512**	**15,673**	**16,822**	**18,049**	**19,537**
Share Capital	100,000	100,000	100,000	100,000	100,000
Retained Earnings	(84,488)	(84,327)	(83,178)	(81,951)	(80,463)
Total Equity	**15,512**	**15,673**	**16,822**	**18,049**	**19,537**





1.3 OPERATIONAL STRUCTURE

About the State Government Insurance Corporation

The State Government Insurance Corporation (Corporation) is a wholly owned subsidiary of the Insurance Commission of Western Australia.

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.

History

In 1987, the State Government Insurance Commission (SGIC) and the State Government Insurance Corporation, trading as SGIO, were established following the merging of the Motor Vehicle Insurance Trust and the State Government Insurance Office, and the passage of enabling legislation. The combined organisation grew to approximately 1,100 employees.

In 1989, the segregation of government and motor vehicle third party, and non-government business, began. The SGIO took on the non-government business and was privatised in 1994.

Enabling Legislation

The State Government Insurance Corporation was established as a statutory authority under Section 4 of the *Insurance Commission of Western Australia Act 1986* on 5 August 1986 and operates in accordance with this Act.

Responsible Minister

The Hon. Troy Buswell, MLA, Treasurer, is the Minister responsible for the State Government Insurance Corporation.

Relationship with Government of Western Australia

As a wholly-owned subsidiary of the Insurance Commission, the State Government Insurance Corporation 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.*

Organisational Structure

The Corporation is managed by the RiskCover Division of the Insurance Commission as RiskCover manages a number of smaller Funds on behalf of the Insurance Commission.

1.4 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 2009, comprised:

Vic Evans Dip Bus Mgt
Chairman of the Board of Directors
Managing Director, Insurance Commission of Western Australia

Expiry of present term: 30 September 2011

Michael E Wright FAICD
Deputy Chairman
Chairman, Insurance Commission of Western Australia
Director, CCK Financial Services Limited
Director, Wesbeam Holdings Limited Group

Expiry of present term: 30 November 2010

Peter D Eastwood FCA FAICD
Director
Commissioner, Insurance Commission of Western Australia
Director, Unimutual Limited
Director, Unimutual Insurance (NZ) Limited
Director, Unimutual (Isle of Man) Limited.

Expiry of present term: 30 September 2008

Director Eastwood's present term expired on 30 September 2008 and continues in accordance with Section 5 of the *Insurance Commission of Western Australia Act 1986*.

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 2009

Sharon Brown
Director
Commissioner, Insurance Commission of Western Australia
Director, Rottnest Island Authority
Director, Federal Industry Research and Development Board
Councillor, Technology and Industry Advisory Council WA
Councillor, Defence Reserves Support Council

Expiry of present term: 30 November 2009

Directors' Attendance at Meetings in 2009

Board of Directors (Total of 12 Meetings)	
Director	**Number of Meetings Attended**
Vic Evans	9
Michael E Wright	9
Peter D Eastwood	8
Sharon Brown	7
Annemie McAuliffe	9

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

2.0 AGENCY PERFORMANCE – REPORT ON OPERATIONS

The Corporation inwards reinsurance business has now been in run-off for 17 years and claims activity has dropped to such an extent that the costs incurred in the general administration of the Corporation now exceed the cost of claim payments.

During 2009, the Corporation engaged the services of a consultant specialising in the management of reinsurance portfolios in run-off for the purpose of establishing the current status and the estimated cost of all outstanding claims, and to prepare a commutation plan. As a result of this activity, a number of redundant claims were identified and finalised and the outstanding claim estimates were revised, resulting in a significant reduction in the actuarial provision for outstanding claims. The Corporation also arranged the commutation of contracts with one insurance company. The consultant has been re-appointed by the Corporation to actively pursue the commutation of all contracts with current active claims during 2010.

3.0 SIGNIFICANT ISSUES IMPACTING THE AGENCY

Changes in Written Law
There were no changes in written law during the year that impacted on the core business and operations of the State Government Insurance Corporation.

4.0 DISCLOSURES AND LEGAL COMPLIANCE

4.1 MINISTERIAL DIRECTIVES

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 and/or any of its Statutory Corporations with respect to its functions, powers and duties, either generally or with respect to a particular matter. The Insurance Commission and/or its subsidiaries are then required to give effect to those directions and to include the text of any direction received in its Annual Report.

The State Government Insurance Corporation did not receive any ministerial directives during 2009.

4.2 GOVERNANCE DISCLOSURES

Disclosure of Interest
There were no disclosures of pecuniary interest by a Director during 2009.

Shares Held by Senior Officers
The State Government Insurance Corporation is not a private or publicly listed company with share capital and therefore does not issue shares.

4.3 OTHER FINANCIAL DISCLOSURES; OTHER LEGAL REQUIREMENTS AND GOVERNMENT POLICY REQUIREMENTS

As a wholly-owned subsidiary of the Insurance Commission of Western Australia, the Corporation's 'Other Financial Disclosures'; 'Other Legal Requirements' and 'Government Policy Requirements' are stated in the Insurance Commission of Western Australia Annual Report 2009.

State Government Insurance Corporation
Financial Statements 2009

FINANCIAL STATEMENTS 2008 INDEX

CERTIFICATION OF FINANCIAL STATEMENTS BY THE MEMBERS OF THE BOARD AND CHIEF FINANCE 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 Management Act 2006* from proper accounts and records to present fairly the financial transactions for the financial year ended 30 June 2009 and the financial position at 30 June 2009.

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
1 September 2009

MICHAEL E WRIGHT
DEPUTY CHAIRMAN
1 September 2009

ERNIE COWELL
CHIEF FINANCE OFFICER
1 September 2009

In accordance with a resolution of the Board of Directors of the State Government Insurance Corporation passed on 1 September 2009.

Auditor General

INDEPENDENT AUDIT OPINION

To the Parliament of Western Australia

**STATE GOVERNMENT INSURANCE CORPORATION
FINANCIAL STATEMENTS AND KEY PERFORMANCE INDICATORS
FOR THE YEAR ENDED 30 JUNE 2009**

I have audited the accounts, financial statements, controls and key performance indicators of the State Government Insurance Corporation.

The financial statements comprise the Balance Sheet as at 30 June 2009, and the Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year then ended, a summary of significant accounting policies and other explanatory Notes.

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

Corporation's Responsibility for the Financial Statements and Key Performance Indicators
The Corporation is responsible for keeping proper accounts, and the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Treasurer's Instructions, and the key performance indicators. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements and key performance indicators that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; making accounting estimates that are reasonable in the circumstances; and complying with the Financial Management Act 2006 and other relevant written law.

Summary of my Role
As required by the Auditor General Act 2006, my responsibility is to express an opinion on the financial statements, controls and key performance indicators based on my audit. This was done by testing selected samples of the audit evidence. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion. Further information on my audit approach is provided in my audit practice statement. Refer www.audit.wa.gov.au/pubs/AuditPracStatement_Feb09.pdf.

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

4th Floor Dumas House 2 Havelock Street West Perth 6005 Western Australia Tel: 08 9222 7500 Fax: 08 9322 5664

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 2009 and its financial performance and cash flows for the year ended on that date. They are in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Treasurer's Instructions;

(ii) the controls exercised by the Corporation provide reasonable assurance that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions; and

(iii) the key 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 2009.

COLIN MURPHY
AUDITOR GENERAL
4 September 2009

INCOME STATEMENT

for the year ended 30 June 2009

	Notes	2009 $'000	2008 $'000
Premium Revenue	5	-	5
Outwards Reinsurance Premium Benefit	6	-	79
Net Premium Revenue		-	84
Claims Incurred Credit	6	1,337	565
Reinsurance and Other Recoveries Expenses	5	(25)	(145)
Net Claims Incurred Credit	7	1,312	420
Underwriting and Administration Expenses	6	(188)	(191)
UNDERWRITING PROFIT		1,124	313
Other Income	5	1,002	1,440
PROFIT BEFORE INCOME TAX EQUIVALENT EXPENSE		2,126	1,753
Income Tax Equivalent Expense	8	(638)	(526)
PROFIT AFTER INCOME TAX EQUIVALENT EXPENSE		1,488	1,227

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

BALANCE SHEET

at 30 June 2009

	Notes	2009 $'000	2008 $'000
ASSETS			
Current Assets			
Cash and Cash Equivalents	13,21	3,052	2,836
Receivables	9	19	26
Total Current Assets		3,071	2,862
Non-Current Assets			
Receivables	9	18,457	18,497
Deferred Tax Assets	8	192	509
Total Non-Current Assets		18,649	19,006
TOTAL ASSETS		21,720	21,868
LIABILITIES			
Current Liabilities			
Payables	10	326	532
Outstanding Claims Liability	12	525	509
Total Current Liabilities		851	1,041
Non-Current Liabilities			
Outstanding Claims Liability	12	1,332	2,778
Total Non-Current Liabilities		1,332	2,778
TOTAL LIABILITIES		2,183	3,819
NET ASSETS		19,537	18,049
EQUITY			
Share Capital	11	100,000	100,000
Accumulated Losses		(80,463)	(81,951)
TOTAL EQUITY		19,537	18,049

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 2009

	Notes	2009 $'000	2008 $'000
SHARE CAPITAL			
Balance at Start of the Year		100,000	100,000
Balance at End of the Year	11	100,000	100,000
ACCUMULATED LOSSES			
Balance at Start of the Year		(81,951)	(83,178)
Profit for the Year		1,488	1,227
Balance at End of the Year		(80,463)	(81,951)
BALANCE OF EQUITY AT END OF THE YEAR		19,537	18,049
SUMMARY OF CHANGES IN EQUITY			
BALANCE OF EQUITY AT START OF THE YEAR		18,049	16,822
Profit / Total Recognised Income for the Year		1,488	1,227
BALANCE OF EQUITY AT END OF THE YEAR		19,537	18,049

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 2009

	Notes	2009 $'000	2008 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums Received		-	5
Reinsurance and Other Recoveries Received/(Paid)		17	(135)
Interest Received		1,002	1,440
Claims Paid		(93)	(218)
Outwards Reinsurance Received		-	79
Underwriting and Administration Expenses Paid		(183)	(191)
Income Tax Equivalent Paid		(527)	(487)
Net Cash Flow From Operating Activities	21	216	493
NET INCREASE IN CASH AND CASH EQUIVALENTS HELD		216	493
CASH AND CASH EQUIVALENTS AT THE START OF THE YEAR		2,836	2,343
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	21	3,052	2,836

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

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 preparing the financial statements.

(a) Statement of Compliance

The financial statements for the year ended 30 June 2009 have been prepared in accordance with Australian Accounting Standards as issued by the Australian Accounting Standards Board (AASB) as modified by the Treasurer's Instructions.

In preparing these financial statements the Corporation has adopted where relevant to its operations, new and revised Standards and Interpretations from their operative dates as issued by the AASB.

(b) Early Adoption of Standards

The Corporation cannot early adopt an Australian Accounting Standard or Interpretation unless specifically permitted by *Treasurer's Instruction 1101*, Application of Australian Accounting Standards and Other Pronouncements. No Standards and Interpretations that have been issued or amended but are not yet effective have been early adopted by the Corporation for the annual reporting period ended 30 June 2009.

(c) General Statement

These financial statements to 30 June 2009 constitute a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, a Framework for the Preparation and Presentation of Financial Statements (the Framework), Statements of Accounting Concepts and other authoritative pronouncements of the AASB 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.

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 the notes to the financial statements.

The *Financial Management Act 2006* 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 AASB.

(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 judgements that have been made in the process of applying the Corporation's accounting policies that have the most significant effect on the amounts recognised in the financial statements are disclosed at Note 2, Critical Accounting Judgements 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 Corporation is a 'going concern', will continue its business operations in the normal manner and that it will be able to meet its liabilities as and when they fall due.

The 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*.

(e) Disclosure of changes in accounting policy

There are no mandatory or voluntary changes in accounting policies which impact on the financial statements of the Corporation.

Initial Application of an Australian Accounting Standard

There are no changes in Australian Accounting Standards and Interpretations which impact on the financial statements of the Corporation for the annual reporting period ended 30 June 2009.

Future Impact of Australian Accounting Standards Not Yet Operative

The Corporation cannot early adopt an Australian Accounting Standard or Interpretation unless specifically permitted by TI 1101, Application of Australian Accounting Standards and Other Pronouncements. TI 1101 has not mandated the early adoption of any Australian Accounting Standards or Interpretations. Consequently, the Corporation has not applied Australian

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Standards and Interpretations that have been issued but are not yet effective. These will be applied from their application date, where applicable to 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.

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 Corporation operates within the National Tax Equivalent Regime (NTER).

The purpose of the NTER is to achieve competitive neutrality between government and privately owned trading enterprises by ensuring 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 the State 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 State Department of Treasury and Finance as calculated under the rules of the NTER. These rules (with limited exceptions) follow the Income Tax legislation and utilise tax rates 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.

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 the Income Statement.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

offset 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 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 equivalent expense/benefit, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the "separate taxpayer within group" approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by each member of the group in relation to the tax contribution amounts paid or payable between the Insurance Commission and Corporation in accordance with the arrangement.

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 Taxation 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 and Income Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Corporation 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 3.

- **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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Foreign Currencies

- The functional and presentation currency of the Corporation is Australian dollars ($AUD).

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

- Assets and liabilities of the Corporation denominated in foreign currencies at balance date were, where appropriate, converted to Australian currency using rates of exchange current 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 nor 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. 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-free 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% (2008 - 75%) level of confidence. Refer Note 12.

(q) Receivables

Receivables are reviewed as to their collectability, in regard to the appropriate terms and conditions, on an ongoing basis. Debts which are known to be not collectable are written off. Where objective evidence of impairment exists such as where there is doubt as to whether a debt is collectable, an appropriate provision is made. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence for impairment.

(r) Payables

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

  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.

(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

Postal Address
GPO Box U1908
PERTH WA 6845

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

Corporate Secretary
Mr Ken McAullay

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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 are 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 as Receivables), claims management expenses and a risk margin. Refer Note 9.

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.

During 2009, a specialist consultant was engaged to create and implement a commutation plan for the remaining Corporation portfolio. This has resulted in a clear plan for the future management of the run-off portfolio and has enabled a more accurate forecast of future expenses. As a result, a significant decrease in the allowance for claims administration expenses has been made.

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 decrease 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, superimposed inflation and discount rates;
- Estimates of Reinsurance Recoveries; and
- An applied Risk Margin.

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 and outcomes of recent review.

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:

	2009	2008
Inflation Rate	Varies from 3.1% for 2010 down to 2.1% for 2011 and up to 4.1% for 2012 and later	Varies from 5.1% for 2009 down to 4.9% for 2011 and later
Discount Rate	AUD – varies from 3.4% for 2010 and up to 6.2% for 2013 and later GBP – varies from 1.2% for 2010 up to 5.2% for 2018 and later USD – varies from 0.6% for 2010 up to 5.1% for 2016 and later	AUD – varies from 7.0% for 2009 and down to 6.4% for 2012 and later GBP – varies from 5.2% for 2009 up to 5.3% for 2011 and down to 4.2% for 2029 and later USD – varies from 2.4% for 2009 up to 5.1% for 2017 and later
Claims Management Expenses	87% of gross claim payments	161% of gross claim payments
Reinsurance Recoveries	1.2% of gross claim payments	7.5% of gross claim payments
Risk Margin	15.9% has been added which is intended to give a 75% probability of sufficiency. An additional precautionary margin has been added for one segment of the portfolio which has historically shown significant volatility	15.8% of net claims outstanding. An additional precautionary margin has been added for two segments of the portfolio which have historically shown significant volatility
Average Term to Settlement	4.8 years	5.5 years

Sensitivity Analysis

The table below illustrates how changes in key assumptions would impact upon 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	(10)	(10)
Inflation	-1	9	9
Discount	+1	51	52
Discount	-1	(58)	(58)
Claims Management Expenses continue +5 years	n/a	(132)	(132)
Claims Management Expenses continue -5 years	n/a	165	165
Savings from run-off plan and commutations do not occur	n/a	(864)	(864)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

4. 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

As the majority of insurance contracts under management of the Corporation 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 Corporation 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.

The following tables detail the maturity profile of the Corporation's gross discounted outstanding claims liability and other key financial liabilities, at balance date:

	2009 ($'000)				
	Maturity in				
	Less than 1 Year	1 to 2 Years	2 to 5 Years	More than 5 Years	Total
Outstanding Claims Liability	525	296	424	612	1,857
Payables	326	-	-	-	326
Total	851	296	424	612	2,183

	2008 ($'000)				
	Maturity in				
	Less than 1 Year	1 to 2 Years	2 to 5 Years	More than 5 Years	Total
Outstanding Claims Liability	509	414	953	1,411	3,287
Payables	532	-	-	-	532
Total	1,041	414	953	1,411	3,819

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

4. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

(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. An increase/decrease of 1% in the interest rate will result in an increase/decrease in profit and equity of $21,503.

(g) Credit Risk

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

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.

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+.

	2009 $'000	2008 $'000
Credit Risk Exposure	3,052	2,836

The following tables provide information about the quality of the Corporation's credit risk exposure in respect of reinsurance and other recoveries on claims already paid and on claims which remained outstanding at balance date, but not yet "invoiced" or claimed from the relevant party. The analysis classifies the assets according to Standard & Poor's counterparty credit ratings. AAA is the highest possible rating. Ratings that fall outside of the range AAA to BBB and those which cannot be reliably rated, such as estimates of unknown third party recoveries are classified as speculative grade.

	2009 ($'000)					
	AAA	AA	A	BBB	Speculative Grade	Total
Reinsurance and Other Recoveries	-	-	-	-	7	7

	2008 ($'000)					
	AAA	AA	A	BBB	Speculative Grade	Total
Reinsurance and Other Recoveries	-	-	-	-	52	52

The following table provides further information regarding the ageing of amounts receivable for reinsurance and other recoveries on paid claims at the balance date.

	2009 ($'000)						
		Past Due but Not Impaired					
	Neither Past Due nor Impaired	0 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than 1 Year	Impaired *	Total
Corporation - Inwards Reinsurance	-	-	3	-	14	6	23

* Corporation impaired receivables are both less than 1 year overdue ($1,849) and greater than 1 year past due ($3,636)

	2008 ($'000)						
		Past Due but Not Impaired					
	Neither Past Due nor Impaired	0 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than 1 Year	Impaired	Total
Corporation - Inwards Reinsurance	-	11	7	2	-	-	20

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

5. REVENUE AND INCOME

	Notes	2009 $'000	2008 $'000
Premium Revenue	(i)	-	5
Reinsurance and Other Recoveries Expenses		(25)	(145)
Other Income			
Interest Received from the Insurance Commission	(ii)	1,002	1,440
Total Revenue and Income		977	1,300

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

(ii) Interest received from the Insurance Commission in respect of the Non-Current Other Receivables (refer Note 9).

6. EXPENSES

	Notes	2009 $'000	2008 $'000
Claims Incurred Credit		(1,337)	(565)
Outwards Reinsurance Premium Benefit		-	(79)
Underwriting and Administration			
Impairment of Receivables		5	-
Other	(i)	183	191
		188	191
Total Expenses/(Benefits)		(1,149)	(453)

(i) Includes management fee charged by the Insurance Commission which takes into account an amount of $14,000 (2008: $14,000) in respect of amounts due or payable to the Auditor General for auditing the financial statements.

7. NET CLAIMS INCURRED

	2009 $'000	2008 $'000
Inwards Reinsurance		
Gross Claims Incurred and Related Expenses - Undiscounted	(2,203)	(1,036)
Reinsurance and Other Recoveries - Undiscounted	74	169
Net Claims Incurred - Undiscounted	(2,129)	(867)
Discount and Discount Movement - Gross Claims Incurred	866	471
Discount and Discount Movement - Reinsurance and Other Recoveries	(49)	(24)
Net Discount Movement	817	447
Net Claims Incurred	(1,312)	(420)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

8. INCOME TAX EQUIVALENT

	2009 $'000	2008 $'000
INCOME TAX EQUIVALENT EXPENSE		
Current Income Tax		
Current Income Tax Equivalent Expense	382	527
Adjustments in Respect of Current Income Tax of Previous Years	(61)	-
Deferred Income Tax		
Relating to Origination and Reversal of Temporary Differences	317	(1)
Income Tax Equivalent Expense Reported in the Income Statement	638	526
AMOUNT RECOGNISED DIRECTLY IN EQUITY		
Deferred Income Tax Related to Items Charged or Credited Directly to Equity: Other	-	-
Income Tax Equivalent Expense Reported in Equity	-	-
RECONCILIATION OF INCOME TAX TO PRIMA FACIE TAX PAYABLE		
Profit Before Income Tax Equivalent Expense	2,126	1,753
Tax at the Statutory Income Tax Rate of 30% (2008: 30%)	638	526
Recognition of Losses	-	-
Adjustments Recognised in the Current Year in Relation to the Current Tax of Prior Years	-	-
Income Tax Equivalent Expense	638	526

	Balance Sheet 2009 $'000	Balance Sheet 2008 $'000	Income Statement 2009 $'000	Income Statement 2008 $'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	-	-		
Sundry	192	509	317	(1)
	192	509		
Deferred Income Tax Equivalent Benefit/(Expense)			317	(1)

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 "separate taxpayer within group" 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	2009 $'000	2008 $'000
Current			
Reinsurance and Other Recoveries Receivable		24	26
Less: Provision for Impairment		(5)	-
		19	26
Non-Current			
Reinsurance and Other Recoveries Receivable		6	46
Other Receivables	(i)	18,451	18,451
		18,457	18,497
Movement in Provision for Impairment			
Balance at Start of the Year		-	-
Impairment Provision No Longer Required		-	-
New Provision Made During the Year		5	-
Balance at End of the Year		5	-

No amounts were required to be written off in 2009 in relation to Section 48 of the *Financial Management Act 2006*.

(i) Other Receivables relate 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 the Tax Sharing Agreement and Interpretation 1052. Interest is received at current market rates. There is no designated repayment date.

10. PAYABLES

	2009 $'000	2008 $'000
Current		
Sundry Creditors	321	527
Reinsurance Creditors	5	5
	326	532

11. SHARE CAPITAL

	2009 SHARES	2009 $'000	2008 SHARES	2008 $'000
Authorised Shares of $100 each	1,000,000	100,000	1,000,000	100,000
Issued and Paid-Up Share Capital				
Balance at Beginning and End of the Period	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. The Insurance Commission monitors and manages the capital of the Corporation.

12. OUTSTANDING CLAIMS LIABILITY

	2009 $'000	2008 $'000
Central Estimate	1,037	1,416
Discount to Present Value	(304)	(488)
	733	928
Claims Handlings Costs (discounted)	637	1,494
	1,370	2,422
Risk Margin	217	375
Additional Precautionary Margin	270	490
Gross Outstanding Claims Liability	1,857	3,287
Current	525	509
Non-Current	1,332	2,778
	1,857	3,287

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 the Australian Casualty Proportional segment of the portfolio which has historically shown significant volatility. The precautionary margin for the Australian Casualty Proportional portfolio in 2009 is $270,000 (2008: $340,000) based on an ultimate loss ratio of 174%. No precautionary margin has been added for the Minet Professional Indemnity Scheme in 2009 (2008: $150,000) as there are currently no outstanding claims which require an additional provision.

Risk Margin Applied:	2009 %	2008 %
	15.9	15.8

Reconciliation of Movement in Discounted Outstanding Claims Liability

Corporation - Inwards Reinsurance	Gross $'000	Reinsurance and Other Recoveries $'000	Net $'000
Outstanding Claims Liability at 1 July 2008	3,287	52	3,235
Effect of Changes in Assumptions/Experience	(1,210)	(28)	(1,182)
Decrease in Expected Claims Incurred/Recoveries During Year	(128)	3	(131)
Incurred Claims Recognised in the Income Statement	(1,338)	(25)	(1,313)
Claim Payments/Recoveries During Year	(92)	(20)	(72)
Outstanding Claims Liability at 30 June 2009	1,857	7	1,850

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 five years.

		Gross $'000	Net $'000
Estimated Ultimate Claims Cost at 30 June:			
	2005	49,857	37,522
	2006	49,362	37,026
	2007	49,053	36,717
	2008	44,342	32,776
	2009	47,907	35,586
Current Estimate of Cumulative Claims Costs		47,907	35,586
Cumulative Payments		(46,870)	(34,561)
Outstanding Claims Undiscounted		1,037	1,025
Discount		(304)	(299)
Claims Management Expenses		637	637
Risk Margin		487	487
Total Outstanding Claims per Balance Sheet		**1,857**	**1,850**

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

	2009 ($'000)			
	Variable Interest Rate	Non-Interest Bearing	Total	Weighted Average Interest Rate (%)
Financial Assets				
Cash and Cash Equivalent Assets	3,052	-	3,052	4.48
Other Receivables	18,451	-	18,451	4.48
Total Financial Assets	21,503	-	21,503	

Previous Year

	2008 ($'000)			
	Variable Interest Rate	Non-Interest Bearing	Total	Weighted Average Interest Rate (%)
Financial Assets				
Cash and Cash Equivalent Assets	2,836	-	2,836	6.33
Other Receivables	18,451	-	18,451	6.33
Total Financial Assets	21,287	-	21,287	

(b) Reconciliation of Net Financial Assets to Net Assets

	Notes	2009 $'000	2008 $'000
Net Financial Assets as above	13(a)	21,503	21,287
Receivables (Current and Non-Current)	9	25	72
Deferred Tax Assets	8	192	509
Payables	10	(326)	(532)
Outstanding Claims Liability (Current and Non-Current)	12	(1,857)	(3,287)
Net Assets per Balance Sheet		19,537	18,049

(c) 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.

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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 at balance date in the respective currencies:

	Currency of Exposure (in Australian dollars equivalent)				
30 June 2009	**AUD $'000**	**CAD $'000**	**GBP $'000**	**USD $'000**	**Total $'000**
Net Liability	**1,325**	**3**	**41**	**481**	**1,850**
Amount of Assets Held	**3,052**	-	-	-	**3,052**
Funding Surplus/(Deficit)	**1,727**	**(3)**	**(41)**	**(481)**	**1,202**

	Currency of Exposure (in Australian dollars equivalent)				
30 June 2008	**AUD $'000**	**CAD $'000**	**GBP $'000**	**USD $'000**	**Total $'000**
Net Liability	2,362	7	126	740	3,235
Amount of Assets Held	2,836	-	-	-	2,836
Funding Surplus/(Deficit)	474	(7)	(126)	(740)	(399)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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

	2009 $'000	2008 $'000
Receivables		
Non-Current		
United States dollars	2	2
Total Receivables	2	2
Payables		
Current		
Canadian dollars	-	1
Great British pounds sterling	6	18
United States dollars	156	187
	162	206
Non-Current		
Canadian dollars	3	6
Great British pounds sterling	35	109
United States dollars	328	555
	366	670
Total Payables	528	876

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

17. EXPLANATORY STATEMENT

	ACTUAL	BUDGET	ACTUAL	PROFIT INCREASE/(DECREASE) FROM ACTUAL 2009 TO			
	2009	2009	2008	BUDGET 2009		ACTUAL 2008	
	$'000	$'000	$'000	$'000	%	$'000	%
Premium Revenue	-	-	5	-	-	(5)	(100.0)
Outwards Reinsurance Premium Benefit	-	-	79	-	-	(79)	(100.0)
Net Premium Revenue	-	-	84	-	-	(84)	(100.0)
Claims Incurred Credit	1,337	100	565	1,237	1,237.0	772	136.6
Reinsurance and Other Recoveries (Expense)/Revenue	(25)	9	(145)	(34)	(377.8)	120	82.8
Net Claims Incurred Credit	1,312	109	420	1,203	1,103.7	892	212.4
Underwriting and Administration Expenses	(188)	(183)	(191)	(5)	(2.7)	3	1.6
UNDERWRITING PROFIT/(LOSS)	1,124	(74)	313	1,198	1,618.9	811	259.1
Other Income	1,002	1,517	1,440	(515)	(33.9)	(438)	(30.4)
PROFIT BEFORE INCOME TAX EQUIVALENT EXPENSE	2,126	1,443	1,753	683	47.3	373	21.3

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 2009 and 2008 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 or 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 SHEET DATE

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

21. NOTES TO THE CASH FLOW STATEMENT

	2009 $'000	2008 $'000
Reconciliation of Profit After Income Tax Equivalent Expense to Net Cash Flow from Operating Activities:		
Profit after Income Tax Equivalent Expense	1,488	1,227
Non-Cash Items		
Impairment of Receivables	5	-
Decrease/(Increase) in Assets		
Current Receivables	2	(16)
Non-Current Receivables	40	26
Non-Current Deferred Tax Assets	317	(1)
Increase/(Decrease) in Liabilities		
Current Payables	(206)	29
Current Outstanding Claims Liability	16	(102)
Non-Current Outstanding Claims Liability	(1,446)	(670)
Net Cash Flow from Operating Activities	216	493

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	3,052	2,836
	3,052	2,836

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 State Government of Western Australia. The cash detailed above is available to the Corporation without restriction.

State Government Insurance Corporation
Key Performance Indicators

CERTIFICATION OF KEY PERFORMANCE INDICATORS

We hereby certify that the Key Performance Indicators of the State Government Insurance Corporation (Corporation) for the financial year ended 30 June 2009:

- 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
1 September 2009

MICHAEL E WRIGHT
DEPUTY CHAIRMAN
1 September 2009

In accordance with a resolution of the Board of Directors of the State Government Insurance Corporation passed on 1 September 2009.

Auditor General

INDEPENDENT AUDIT OPINION

To the Parliament of Western Australia

STATE GOVERNMENT INSURANCE CORPORATION
FINANCIAL STATEMENTS AND KEY PERFORMANCE INDICATORS
FOR THE YEAR ENDED 30 JUNE 2009

I have audited the accounts, financial statements, controls and key performance indicators of the State Government Insurance Corporation.

The financial statements comprise the Balance Sheet as at 30 June 2009, and the Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year then ended, a summary of significant accounting policies and other explanatory Notes.

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

Corporation's Responsibility for the Financial Statements and Key Performance Indicators
The Corporation is responsible for keeping proper accounts, and the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Treasurer's Instructions, and the key performance indicators. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements and key performance indicators that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; making accounting estimates that are reasonable in the circumstances; and complying with the Financial Management Act 2006 and other relevant written law.

Summary of my Role
As required by the Auditor General Act 2006, my responsibility is to express an opinion on the financial statements, controls and key performance indicators based on my audit. This was done by testing selected samples of the audit evidence. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion. Further information on my audit approach is provided in my audit practice statement. Refer www.audit.wa.gov.au/pubs/AuditPracStatement_Feb09.pdf.

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

4th Floor Dumas House 2 Havelock Street West Perth 6005 Western Australia Tel: 08 9222 7500 Fax: 08 9322 5664

State Government Insurance Corporation
Financial Statements and Key Performance Indicators for the year ended 30 June 2009

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 2009 and its financial performance and cash flows for the year ended on that date. They are in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Treasurer's Instructions;

(ii) the controls exercised by the Corporation provide reasonable assurance that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions; and

(iii) the key 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 2009.

COLIN MURPHY
AUDITOR GENERAL
4 September 2009

STATE GOVERNMENT INSURANCE CORPORATION

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

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

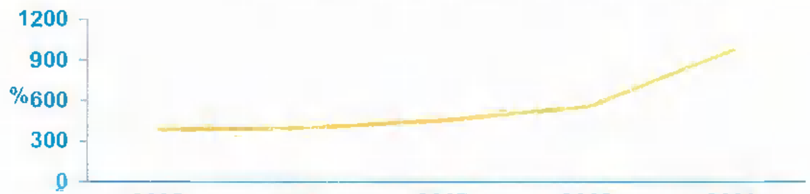
(a) That The Corporation Has Sufficient Assets To Meet Its Liabilities

Effectiveness Performance Indicator

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

	2009 Actual
Corporation	995.0%

Ratio of Total Assets to Total Liabilities (%)



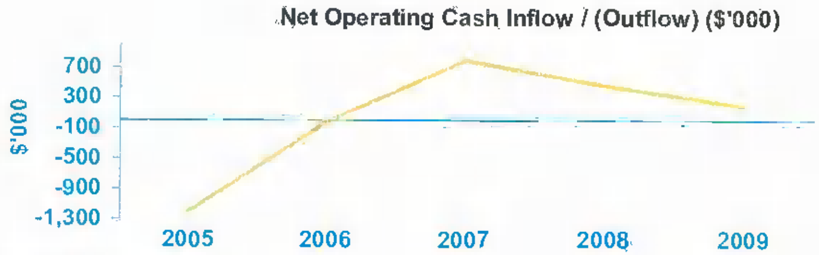
	2005	2006	2007	2008	2009
Corporation	391.3	407.6	468.7	572.6	995.0

Comments The improvement in the ratio is due to an increase in cash assets and a reduction in the provision for outstanding claims arising from a clarification of remaining liabilities owed and reduction of provision for future administration costs due to an ongoing commutation exercise.

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 Flow from Operating Activities.*

	2009 Actual
Corporation ($'000)	216



	2005	2006	2007	2008	2009
Corporation	(1,195)	(5)	815	493	216

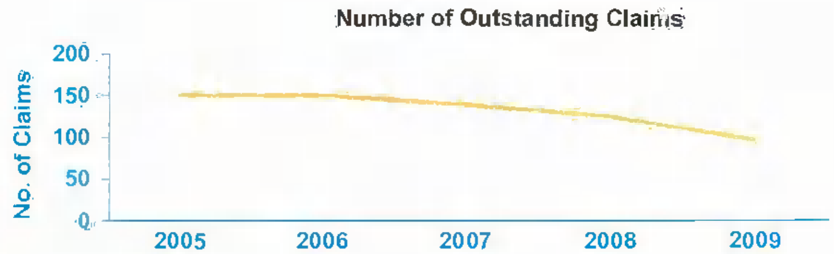
Comments: The small **"net operating cash inflow"** is lower than last year due to a reduced amount of interest received from the Insurance Commission.

(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.

	2009 Actual
Corporation	100



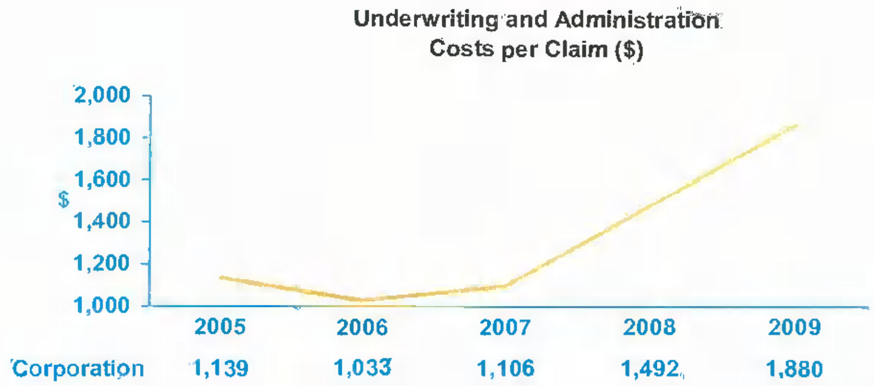
	2005	2006	2007	2008	2009
Corporation	151	152	142	128	100

Comments: The **"number of outstanding claims"** is dependent on the claims settlement activity of reinsured parties and any commutation of contracts with active claims. The reduction in claim numbers was primarily due to an ongoing exercise to establish the status of outstanding claims.

Effectiveness Performance Indicator (Continued)

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

	2009 Actual
Corporation	$1,880



Comments: The underwriting and administration costs allocated to the Corporation remained relatively constant, however there was a reduction in the number of outstanding claims which has resulted in an increase in the ratio.

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); and
- 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 Balance Sheet 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 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.

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.

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.

2. PREMIUMS

Net Premium Revenue

Premium revenue plus the outwards reinsurance commission earned less than the outwards reinsurance expense. Net Premium Revenue has previously been referred to as Net Earned Premium.

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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