ARPC

Australian Reinsurance Pool Corporation

Annual Report 2004-05

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Australian Government
Australian Reinsurance Pool Corporation

20 September 2005

The Hon Peter Costello MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

I have pleasure in presenting to you the Annual Report of the Australian Reinsurance Pool Corporation for the year ended 30 June 2005. The report has been prepared under section 9 of the *Commonwealth Authorities and Companies Act 1997* and in accordance with the Finance Minister's Orders made under that Act.

Subsection 9(3) of the Act provides that the report is to be tabled in each House of the Parliament as soon as practicable.

Yours sincerely

J I Gersh
Chair

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(e) Chapter 3: Management and accountability; and

(f) Chapter 4: Other miscellaneous information.

The Members are responsible under section 9 of the *Commonwealth Authorities and Companies Act 1997* for the preparation and content of the report of operations in accordance with the Finance Minister's Orders.

Signed for and on behalf of Members in accordance with a resolution of the Members.

J I Gersh
Chair

20 September 2005

A J Lumsden
Member and Chair of the Audit and Compliance Committee
20 September 2005

Report from the Chair

ARPC has consolidated its position since presenting its first report in 2004 and it is with a great deal of pleasure that I present ARPC's second annual report.

At the time of presenting ARPC's first annual report, the Members were myself as Chair and Ms Lorraine Allan, Mr Andrew Lumsden, Ms Marian Micalizzi and Mr James Murphy. The appointments of Mr Lumsden, Ms Micalizzi and myself are all for terms of three years from 1 July 2003.

Ms Allan's term of appointment expired on 24 April 2005. I wish to take this opportunity to thank Ms Allan for her outstanding contribution to ARPC. As Australia's representative on the OECD task force on terrorism insurance, Ms Allan played a major role in drafting the *Terrorism Insurance Act 2003* and the design of the terrorism reinsurance scheme administered by ARPC. Her guidance and counsel have been invaluable.

Mr Murphy's term of appointment has been renewed and now expires on 24 April 2008. I am delighted that ARPC will continue to benefit from Mr Murphy's sound advice and wise counsel.

Ms Margot Rathbone was appointed as a Member of ARPC on 25 April 2005 for a three year term. Ms Rathbone has over 20 years' experience in the reinsurance industry. She has held senior positions in the industry, including with Aon Re and the Employers Reinsurance Corporation. Her managerial background, as well as her involvement in the design and delivery of professional development courses for reinsurance practitioners, will assist ARPC in further building on its success to date in administering a sound and financially viable terrorism reinsurance scheme in Australia.

I would like to take this opportunity to welcome Mr Geoff Vogt as a Member of ARPC. Mr Vogt was appointed on 29 August 2005 for a three year term and I look forward to working with him in the years ahead.

Mr Neil Weeks has held the position of Chief Executive since ARPC's inception. His two year term expired on 30 June 2005 and the Members resolved to reappoint him for a further two year term. This ensures that ARPC will continue to benefit from Mr Weeks' extensive experience in the insurance industry and his professionalism in the establishment and operation of ARPC.

As Chair of ARPC, I have attended industry functions hosted by the Insurance Council of Australia and have initiated contact with various bodies overseas which perform a function similar to that of ARPC. In consultation with the Chief Executive and Treasury, we intend to further and consolidate those contacts in the year ahead.

Substantial work has gone into ensuring that the scheme and ARPC are well known in the marketplace. The extensive speaking program by the Chief Executive and Client Service Manager has been maintained at various forums including industry associations, radio, state and Commonwealth authorities and presentations to individual insurers. ARPC has also continued its advertising campaign in industry journals both in Australia and overseas.

As a result, ARPC has substantial industry coverage. As at 30 June 2005 it had received premium from 219 clients.

During 2004-05 ARPC recorded $102.188 million in gross written premium. As at 30 June 2005 the reserve for claims stood at $111.276 million.

I wish to thank my fellow Members and the Chief Executive for their assistance in ensuring that the scheme is well publicised and administered and that we have sound corporate governance structures in place. I look forward to working with the Members and staff of ARPC to ensure that we build on the work done to date in establishing the scheme, growing the pool and developing sound administrative and governance practices.

J I Gersh
Chair
20 September 2005

Report from the Chief Executive

ARPC has now completed its second successful year of operation. A significant amount has been achieved in that short time and client numbers continue to grow steadily. This growth is the result of ARPC's marketing campaign which is designed to alert insurers throughout the world to the implications of the *Terrorism Insurance Act 2003* and the scheme established by it.

It is critical that insurers, both in Australia and overseas, are aware of the scheme and their obligations under it. To this end, ARPC will continue its marketing and advertising campaign. The Client Service Manager and I will also continue to inform insurers, brokers and industry associations of the implications of the Act and developments within ARPC. This will include overseas insurers and industry associations as appropriate.

No amendments have been made to the standard reinsurance agreement for insurers who wish to avail themselves of the reinsurance facilities provided by ARPC, other than the modifications required to suit the particular circumstances of foreign insurers, dedicated insurance subsidiaries of corporate groups (captives) and Lloyd's syndicates.

Information on ARPC's website (www.arpc.gov.au) continues to expand as publications are posted to it and responses to enquiries from cedants are included in the 'frequently asked questions' section.

As part of its client communication strategy, ARPC introduced a newsletter which it publishes quarterly and forwards to clients by email. The intention in 2005-06 is to publish the newsletter on the website. This will give anyone interested in ARPC, its operations or its product easy access to information on relevant issues.

In the first year of the scheme insurance companies invested considerable time and effort to adjust their information technology systems to cater for the three tier premium bands, issue renewal notices and report exposures and premium. During

2004-05 ARPC introduced a cedant review program. ARPC's approach is a collegiate one. Its intention is to assist clients to meet their obligations under the reinsurance agreement. The philosophy behind the program is to further strengthen the relationship between ARPC and its clients by increasing awareness of the processes involved in premium calculation and remittance.

I wish to thank all clients who have been involved in the review program. The co-operation afforded to our review team is greatly appreciated.

The reinsurance agreement provides that clients must report annually on their aggregate exposures by postcode. The second stage of the cedant review program will include a review of the annual aggregate reports.

To assist clients in compiling and submitting the annual aggregate reports, ARPC has introduced a web-based facility by which clients can submit the reports. The spreadsheet is uploaded via ARPC's website and is automatically validated. Any anomalies are notified to the client and must be rectified before the report is accepted for submission to ARPC. All clients have been provided with an identification number and password together with comprehensive instructions on the use of the risk aggregator system. I am gratified that the system has been accepted well and is being used effectively by clients.

In addition to the annual aggregate report, ARPC is investigating other methods by which it can estimate losses in the event of a declared terrorist incident.

ARPC has continued to develop and refine its corporate governance structures, policies and practices. It has sound structures in place which will be tested and refined as necessary during 2005-06.

ARPC's second year has been one of consolidating the work undertaken in its first year and building on that very solid foundation. I thank ARPC's Members and staff for their continued support and look forward to working with them in the coming year.

N E Weeks
Chief Executive
20 September 2005

Chapter 1: Overview

Role and functions

Background

ARPC is a statutory authority established by the *Terrorism Insurance Act 2003* (TI Act). It began operations on 1 July 2003.

The terrorism reinsurance scheme established by the TI Act is the Government's response to the withdrawal of terrorism insurance cover following terrorist attacks around the world, particularly the events of 11 September 2001 in the United States of America. The scheme was introduced as a result of calls from the community for the Government to intervene in an area of clear market failure and after discussions with key industry stakeholders — including insurance and reinsurance companies, banks, representatives of property owners, industry associations, insurance brokers and actuaries.

Legislative function

ARPC's function is to provide insurance cover for eligible terrorism losses (whether by entering into contracts or by other means).

ARPC has the power to do all things necessary or convenient to be done for or in connection with the performance of its functions, including:

- the power to charge premiums in respect of contracts of insurance for which it is the insurer; and
- the power to charge fees for services that it provides in connection with the performance of its functions.

Objectives

ARPC seeks to ensure that all issuers of eligible insurance contracts are aware of their exposure to eligible terrorism losses imposed by the TI Act and that, if that exposure is not reinsured with ARPC, the insurer has made a conscious decision not to accept ARPC's offer of reinsurance.

ARPC also considers that it should be in a position to advise on the magnitude of its probable losses in the event of a declared terrorist incident and, consequently, an appropriate reduction percentage.

With these ends in mind, ARPC has identified its objectives as:

- to promote the objectives of the TI Act;
- to meet the terrorism reinsurance needs of insurers writing eligible insurance contracts and provide advice on current trends in the terrorism insurance market;
- to be in a position to pay claims efficiently in the event of a declared terrorist incident;
- to be in a position to estimate ARPC's probable losses in the event of a declared terrorist incident and to give credible advice in relation to an appropriate reduction percentage;
- to operate successfully and efficiently;
- to be an employer of choice; and
- to assist in community based activities which employ and develop the professional skills of its staff.

The scheme

The TI Act effectively deems terrorism risk cover into eligible insurance contracts by rendering terrorism exclusions clauses void. Insurance companies may reinsure their additional risk with ARPC, as the statutory authority established under the TI Act to administer the scheme.

As terrorism exclusion clauses are rendered ineffective by the TI Act, payouts available to holders of eligible insurance contracts for terrorism losses depend on the underlying coverage in the eligible insurance contract. For example, if a terrorist act caused a fire, then a policyholder would be able to claim for subsequent loss if their insurance policy would normally cover damage from fire.

The compulsory application of the legislation to all eligible insurance contracts is essential to allow the accumulation of a credible pool of funds within a reasonable period. Universal terrorism insurance is also designed to avoid problems of undiversified risk (for example, insuring only high risk buildings) and uncertainly as to who will be eligible for compensation in the event of a declared terrorist incident.

Coverage

Contracts of insurance covered by the scheme are those that provide insurance for:

- loss of or damage to commercial property that is owned by the insured;
- business interruption arising from loss of or damage to or inability to use eligible property; and
- liability of the insured arising from ownership or occupation of eligible property.

The TI Act includes a definition of the term *terrorist act* at section 5. The TI Act requires the Treasurer, after consultation with the Attorney-General, to declare that an act is a terrorist incident for the purposes of the TI Act. Upon that declaration, the provisions of the TI Act in respect of eligible terrorism losses become effective.

Risk cover is for any declared terrorist incident, except events involving damage from nuclear causes.

Coverage is available for Commonwealth and State business enterprises as well as Commonwealth-owned airports leased commercially.

Farms benefit from cover for terrorism risk if they hold insurance against business interruption.

Private residential property is not included in the scheme.

The Regulations also exclude certain other types of insurance coverage, including: marine insurance, aviation insurance, motor vehicle insurance, life insurance, health insurance, private mortgage insurance, medical indemnity insurance, and professional indemnity insurance.

The pool

Insurance companies have the right to reinsure through ARPC the risk of claims for eligible terrorism losses. Premium income will build up ARPC's first layer of funds (an expected pool of $300 million) available to cover claims from declared terrorist incidents. The pool is supplemented by a bank line of credit of $1 billion, underwritten by the Commonwealth, as well as a Commonwealth indemnity of $9 billion.

ARPC's exposure is effectively capped at $10 billion plus the accumulated reserve for claims. This is done by way of the declaration by the Treasurer of a *reduction percentage* under section 6 of the TI Act.

Retentions

Insurers who seek terrorism reinsurance through ARPC retain part of the risk of liability from a declared terrorist incident. Initially, the retention has been set at the lesser of $1 million or four per cent of the gross fire/industry specific risks premium revenue per insurer per annum. However, the retention is limited to $10 million for all reinsureds in relation to a single declared terrorist incident.

Premiums

The premium charged for reinsurance is determined by Ministerial direction. The premiums have been set having regard to the level of risk. The CBDs of the state capital cities have been declared Tier A, other urban areas have been declared Tier B and rural and regional areas have been declared Tier C. The tiers have been identified by postcode. Postcodes allocated to Tier A are those covering the CBD areas of Australian cities with a population of over 1 million, that is, Sydney, Melbourne, Brisbane, Perth and Adelaide. Postcodes allocated to Tier B are those covering the urban areas of all state capital cities and cities with a population of over 100,000, that is, Sydney, Melbourne, Brisbane, Perth, Adelaide, Gold Coast, Canberra, Newcastle, Central Coast of New South Wales, Wollongong, Hobart, Geelong, Sunshine Coast of Queensland, Townsville and Darwin. Postcodes allocated to Tier C are those postcodes not allocated to either Tier A or B.

Any property not on the mainland of Australia or Tasmania, but within the coastal sea of Australia within the definition included in section 3 of the TI Act, is Tier C.

Reinsurance premiums are calculated as a percentage of the reinsured's gross base premium in accordance with the following table. There is also provision to increase the percentage after a declared terrorist incident in order to finance ARPC's liabilities and rebuild the pool.

Premium structure for reinsurance

Class of insurance	Tier	Initial rate from 1 October 2003 per cent	Maximum rate (after an event) per cent
Commercial property	A	12	36
	B	4	12
	C	2	6
Business interruption	A	12	36
	B	4	12
	C	2	6
Public liability		Nil	2

ARPC operates on a commercial basis with premium and investment income used to fund its operations and build the pool available to meet future claims. While the TI Act provides that the Minister may direct ARPC to pay dividends to the Commonwealth, no such payments have been required to date.

Review of the scheme

The Government's objective is to operate the scheme only while terrorism insurance cover is unavailable commercially on reasonable terms. The TI Act requires that, at least once every three years, the Minister must prepare a report that reviews the need for the Act to continue in operation. A review of the scheme will be conducted over the next 12 months and will examine the global terrorism risk reinsurance market to assess the state of the market and the possible wind-up strategy for the scheme. The uncertainty in the market made it impossible to stipulate on establishment the details or timing of the wind-up of the scheme and the use of funds accumulated in the pool. Components of the scheme, including pricing, classes of insurance required to provide terrorism risk cover and level of underwriting available, are not set in legislation. This inbuilt flexibility is designed to encourage the re-emergence of the commercial market.

Organisational structure

The TI Act provides that the Members are the Chair and at least four, but not more than six, other Members. The Members are appointed by the Minister.

Members

Mr Joseph Gersh, Chair — appointed 1 July 2003

Mr Gersh was appointed to the position of part-time Chair for a period of three years commencing 1 July 2003. He has extensive experience in law and commerce, and was a senior partner with Arnold Bloch Leibler from 1982 until his retirement from that position in 1999. Mr Gersh is the Managing Director of Gersh Investment Partners Limited and currently has a range of directorships, including the Payments System Board of the Reserve Bank of Australia.

Ms Lorraine Allan — appointed 5 February 2004, term expired 24 April 2005

Ms Allan is a Senior Adviser with the Systemic Issues Unit of the Treasury. She was Australia's representative on the OECD task force on terrorism insurance and is a delegate to the OECD Insurance and Private Pensions Committee. Ms Allan was involved in the design of the scheme and the drafting of the legislation.

Mr Andrew Lumsden — appointed 1 July 2003

Mr Lumsden is a Partner at Corrs Chambers Westgarth. He specialises in corporate and securities law and mergers and acquisitions. Mr Lumsden is an acknowledged expert in the field of corporate governance issues. From 1998 until 2001 he was Chief of Staff to the Minister for Financial Services & Regulation, the Hon Joe Hockey, MP. Prior to 1998 Mr Lumsden was a partner of Corrs Chambers Westgarth. Mr Lumsden is a member of the Takeovers Panel and a member of the Corporations Committee of both the Law Council of Australia and the Australian Institute of Company Directors. Mr Lumsden is also the Chair of the Audit and Compliance Committee.

Ms Marian Micalizzi — appointed 1 July 2003

Ms Micalizzi is a chartered accountant with over 20 years experience, a company director and a consultant in both the public and private sector. Ms Micalizzi is a former partner of PricewaterhouseCoopers (until 2000) having been admitted as a partner of the predecessor firm in 1986. Ms Micalizzi sits on a number of boards, including the Queensland Investment Corporation and the Queensland Treasury Corporation. She is a member of the Corporations and Markets Advisory Committee and the Takeovers Panel and is a councillor of the Australian Institute of Company Directors (Qld Division). Ms Micalizzi is also a member of the Audit and Compliance Committee.

Mr James Murphy — appointed 1 July 2003

Mr Murphy is the Executive Director, Markets Group in the Treasury. He has extensive experience with the Commonwealth Government, including holding senior positions with the Department of Finance as head of Budget Policy, with the Department of the Treasury as Principal Adviser, Corporations Law and with the Attorney-General's Department as head of the Business Law Division. Mr Murphy is also a member of the Audit and Compliance Committee.

Ms Margot Rathbone — appointed 25 April 2005

Ms Rathbone has more than 20 years experience in the reinsurance industry and has held senior positions with a number of reinsurance companies. Her most recent appointments include Managing Director of Aon Re and General Manager of Employers Reinsurance Corporation. Ms Rathbone has served as President and Committee Member of the Australian and New Zealand Institute of Insurance and Finance (NSW Branch) as well as President of the Reinsurance Discussions Group (NSW). She was also a committee member of the Reinsurance Study Course which designs and presents continuing education courses to insurance professionals.

Mr Geoffrey Vogt — appointed 29 August 2005

Mr Vogt has extensive experience in the financial services and insurance industries. He is Chief Executive Officer of the Motor Accident Commission in South Australia, a statutory authority which has responsibility for the monopoly compulsory third party insurance scheme in that State. Mr Vogt is currently a member of the Centre for Automotive Safety Advisory Board. He is also a Commissioned Officer in the Australian Army Reserve having served for approximately 30 years in a variety of roles. Mr Vogt is a member of CPA Australia and an Associate of the Australian and New Zealand Institute of Insurance and Finance.

Chief Executive

The TI Act provides for the appointment by ARPC of a Chief Executive. The Chief Executive is responsible for the management of the affairs of ARPC subject to the directions of, and in accordance with policies determined by, ARPC.

Mr Neil Weeks has been ARPC's Chief Executive since the scheme was established on 1 July 2003. Mr Weeks has more than 30 years experience in the commercial insurance industry, having held senior positions both in Australia and overseas. He was the Chief Executive Officer of the Territory Insurance Office of the Northern Territory from 1993-2003. Mr Weeks has a degree in economics and a Master of Business Administration from Monash University and is a Fellow of CPA Australia, the Australian Institute of Company Directors and the Australian Institute of Management.

Other staff

ARPC may also employ those people it considers necessary for the performance of its functions and the exercise of its powers. As at 30 June 2005, ARPC had two part-time and nine full-time employees (including the Chief Executive). An organisational chart is attached at Appendix 1.

Eight employees are located in ARPC's Canberra office. Three employees are located in Sydney where ARPC shares premises with the Inspector-General of Taxation.

Chapter 2: Report on performance

Financial

Summary of financial information

Financial highlights

	2005 $'000	2004 $'000
Net premium revenue	**91,321**	18,986
Acquisition costs	**(532)**	(198)
Investment revenue	**4,790**	532
Revenues from government	**-**	222
General and administration expenses	**(2,467)**	(1,378)
Operating profit/(loss)	**93,112**	18,164
Gross written premium	**102,188**	55,801
Expense ratio	**3.28%**	8.30%
Cash at bank	**34,511**	30,631
Investments	**100,000**	-
Reserve for claims	**111,276**	18,164

ARPC has reported a full year operating result of $93.112 million. The 2004-05 financial year represents a significant year for the ARPC. After two years of operation, the 2004-05 financial year represents the first full year of premium collections. The total gross written premium for the financial year is $102.188 million which includes an amount of $24.056 million in unclosed business. This is in line with the original collection estimates of $100 million per year.

Investment revenue was $4.790 million, which is a substantial increase over last financial year. This increase was due mainly to the increasing size of the pool.

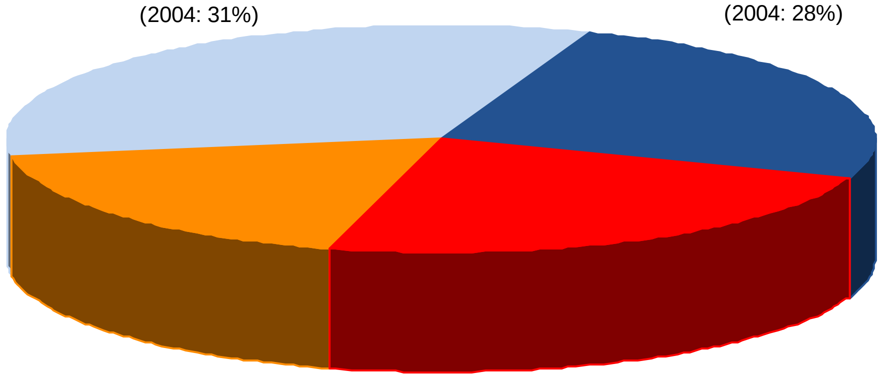
The expense ratio of 3.28 per cent (2004: 8.3 per cent) reflects ARPC's efforts in controlling expenses whilst ensuring ARPC is in a position to meet its obligations.

The reserve for claims has increased by $93.112 million to $111.276 million for 2004-05. The expressed target of building the pool to $300 million after approximately three years of premium collections appears to be attainable.

Premium income

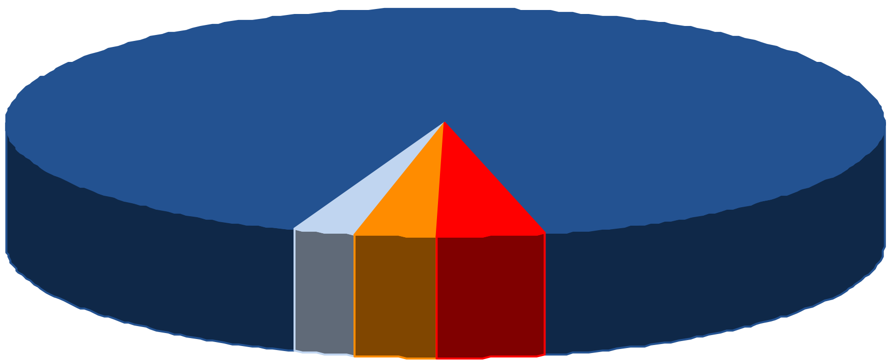
As at 30 June 2005 ARPC had 219 active contracts in place. Australian cedants account for 25 per cent of ARPC's client base.

Chart 1: Number of cedants



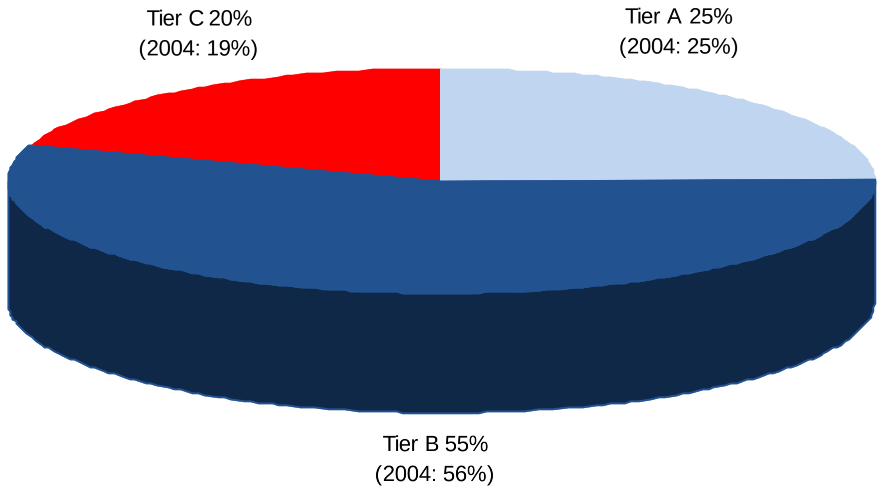
While Australian companies account for 25 per cent of ARPC's cedant numbers, they account for 91 per cent of the recorded gross written premium.

Chart 2: Gross written premium by cedant type



There have been minimal movements in the collection patterns between tiers A, B and C over the 2003-04 and 2004-05 financial years.

Chart 3: Gross written premium by tier



This consistent trend between the two financial years is also apparent for the gross written premium collections by State. It is expected these trends will continue in the foreseeable future.

Chart 4: Gross written premium by State

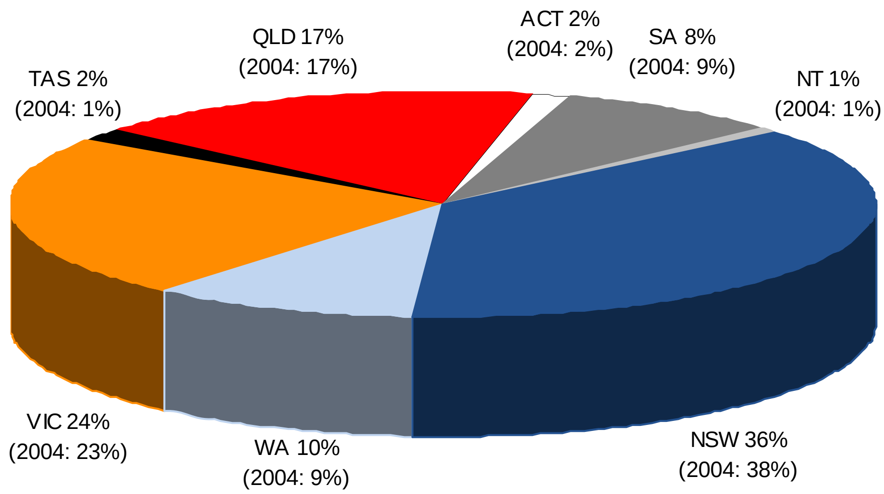
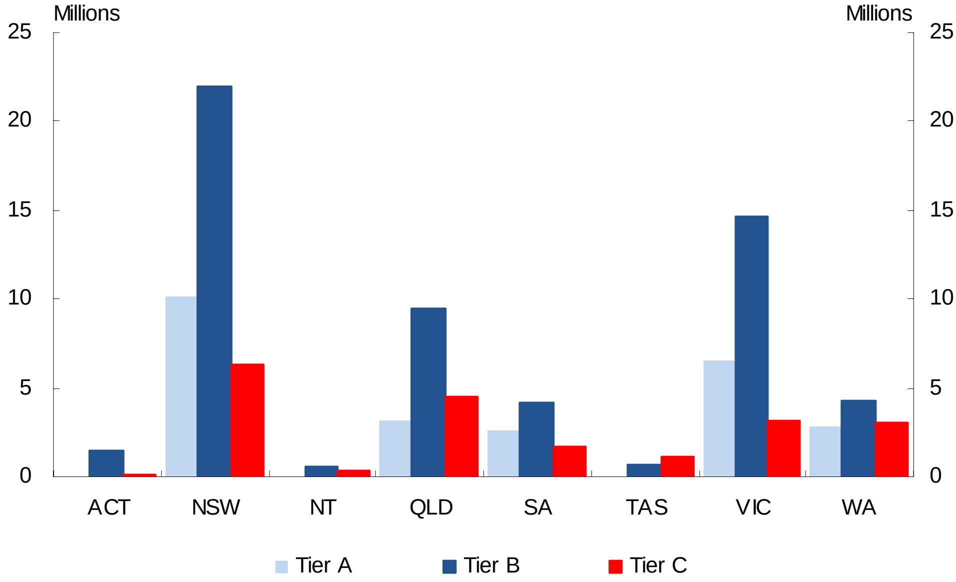


Chart 5: Gross written premium by tier and State



Influences on future performance

The reinsurance premiums collected by ARPC are dependent on the underlying premiums charged by its clients. Any softening of those underlying premiums will have a negative effect on ARPC's premium income.

ARPC relies on its clients to return the correct amount in reinsurance premiums. In its first year of operation ARPC concentrated on educating its clients in the operation of the TI Act and designed a premium calculation template for use by clients to minimise the likelihood of errors occurring in the calculation of the reinsurance premiums due.

During 2004-05 ARPC designed and implemented a cedant review program. The first stage commenced in March 2005 and is aimed at identifying issues that clients may have meeting their obligations under their reinsurance agreements with ARPC. The key areas addressed in the review include:

(a) identification of eligible policies for the purpose of ceding terrorism reinsurance premium to ARPC;

(b) preparation of the quarterly return; and

(c) claims management procedures.

The second stage of the cedant review program will expand the program to include a review of aggregate reporting functionality and issues.

Clients have been selected for review in stages one and two based on factors such as premium levels, ceding history, previous issues raised with ARPC and domicile.

ARPC has engaged consultants to execute the review program on its behalf.

Non-financial

Outcomes and outputs

ARPC measures itself against the objectives (both financial and non-financial) identified in its business plan. The business planning process is conducted towards the end of each financial year and measures the outcomes from the current year and sets targets for the coming financial year. The business plan is presented to the Members for discussion and endorsement at their last meeting in the current financial year, which is usually scheduled for the last week in June.

ARPC has developed a balanced scorecard as a means of measuring its financial and non-financial performance. The components of the balanced scorecard are:

(a) financial;

(b) corporate governance;

(c) growth;

(d) monitoring service level agreements;

(e) human resource management;

(f) client satisfaction; and

(g) social/community

Within each component, key performance indicators measure ARPC's performance against set targets.

The balanced scorecard is produced and issued monthly. It is included in the Chief Executive's report to the Board.

Market coverage

During its first year of operation, 2003-04, ARPC achieved substantial market coverage. The market penetration has continued and as at 30 June 2005, ARPC had

229 clients. Of these, 219 clients (representing 95.6 per cent of the total client base) have remitted premium closings to ARPC.

A number of companies have entered into reinsurance agreements with ARPC but do not remit premium. This is due to an element of retrospectivity in ARPC's standard reinsurance agreement. If a company has a contract of reinsurance with ARPC and incurs a liability solely because of section 8 of the TI Act, it is entitled to cover under the reinsurance agreement provided it complies with the terms of the agreement and pays the relevant premium (whether or not it was obvious or apparent that the contract under which it incurs a liability was an eligible insurance contract under the TI Act).

Awareness campaign

Since its inception ARPC has undertaken an extensive public awareness campaign to ensure that all insurers are aware of the scheme and their obligations under it and to offer reinsurance contracts to all those insurers who write eligible insurance contracts. The public awareness campaign includes initiating and maintaining contact with industry bodies, delivering presentations and addresses to industry bodies and individual insurers and conducting an extensive advertising campaign both in Australia and overseas.

ARPC will continue to communicate its offer of reinsurance to the market by giving presentations to local bodies such as the Insurance Council of Australia, Reinsurance Discussion Group, the Australian and New Zealand Institute of Insurance and Finance and at other forums it considers appropriate. Contact with foreign insurers and captives has been made by way of industry advertisements and presentations given to overseas markets and brokers.

The market will be kept informed of any changes to the scheme and ARPC will seek feedback from clients on the scheme and any improvements the market considers should be implemented.

Miscellaneous

As expected, ARPC's client base stabilised during 2004-05. Its 229 clients represent a relatively even spread of local insurers, foreign insurers, captives and Lloyd's syndicates.

ARPC has one reinsurance agreement with Lloyd's UK which covers those nominated Lloyd's underwriting syndicates writing eligible insurance contracts in Australia from time to time.

ARPC continues to monitor schemes which operate overseas, such as the Pool Re scheme in the UK, the Terrorism Risk Insurance Act in the USA, the Gareat scheme in France, the Consorcio Compensacion de Seguros scheme in Spain, Extremus in Germany and the SASRIA scheme in South Africa.

Significant events

No significant events occurred during the year which required notification to the Minister under section 15 of the *Commonwealth Authorities and Companies Act 1997*.

Chapter 3: Management and accountability

Corporate governance

Members

ARPC has a part-time non-executive Chair and five other part-time non-executive Members. All Members are appointed by the Minister.

The Members who held office at the date of this report, and during the period covered by this report, are:

Mr Joseph Gersh, Chair — appointed 1 July 2003

Ms Lorraine Allan — appointed 5 February 2004, term expired 24 April 2005

Mr Andrew Lumsden — appointed 1 July 2003

Mrs Marian Micalizzi — appointed 1 July 2003

Mr James Murphy — appointed 1 July 2003

Ms Margot Rathbone — appointed 25 April 2005

Mr Geoffrey Vogt — appointed 29 August 2005

There were seven meetings of Members held during 2004-05. The table below sets out the number of meetings attended by each Member.

Name	Number of meetings entitled to attend	Number of meetings attended
Mr Joseph Gersh	7	7
Ms Lorraine Allan	5	4
Mr Andrew Lumsden	7	7
Ms Marian Micalizzi	7	6
Mr James Murphy	7	7
Ms Margot Rathbone	2	2
Mr Geoffrey Vogt[1]	0	0

Corporate governance practices

ARPC is committed to following corporate governance best practice. To this end, it monitors developments in corporate governance from a range of sources, including the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission, the Australian Stock Exchange (ASX) and the Australian National Audit Office (ANAO). While ARPC is not regulated by APRA, it considers that APRA's standards for general insurers represent best practice and benchmarks itself against those standards.

ARPC has documented its corporate governance framework in a board charter, the terms of reference of its committees and the delegations to the Chief Executive.

While ARPC is not bound by the ASX'S *Principles of Good Corporate Governance and Best Practice Recommendations*, it has used those principles as benchmarks to evaluate its corporate governance practices.

Principle 1 — Lay solid foundations for management and oversight

- The roles and responsibilities of Members have been documented in a board charter.
- The delegation of powers and functions to the Chief Executive has been documented in a delegations authority.
- Certain matters are reserved for Members.

1 Mr Vogt was appointed on 29 August 2005 and, consequently, was not entitled to attend any meetings during 2004-05.

Principle 2 — Structure the board to add value

- A majority of Members are independent.
- The Chair is an independent Member.
- Different individuals exercise the roles of Chair and Chief Executive.
- A nominations committee is not necessary because the TI Act provides that Members are appointed by the responsible Minister.

Principle 3 — Promote ethical and responsible decision-making

- The Members have adopted a code of conduct which is documented in the board charter.
- Employees are bound by ARPC's code of conduct and values which have been formally documented.
- ARPC's fraud control plan gives guidance on the responsibility and accountability of employees for reporting and investigating reports of unethical practices.

Principle 4 — Safeguard integrity in financial reporting

- The Chief Executive and Chief Financial Officer state in writing to the Members that the financial reports present a true and fair view, in all material respects, of ARPC's financial condition and operational results and are in accordance with relevant accounting standards.
- An audit and compliance committee has been established.
- The audit and compliance committee consists of a majority of independent Members.
- The chair of the audit and compliance committee is an independent Member who is not the chair of the board.
- The committee has formal terms of reference.

Principle 5 — Make timely and balanced disclosure

- Media releases, announcements and ARPC's annual report are available on its website.
- ARPC's annual report is given to the responsible Minister and tabled in both Houses of Parliament in accordance with the provisions of the *Commonwealth Authorities and Companies Act 1997*.

Principle 6 – Respect the rights of shareholders

- ARPC does not have shareholders. However, it maintains good working relationships with its stakeholders (clients and government).

Principle 7 – Recognise and manage risk

- ARPC has documented its risk management policy and strategy.
- It has identified, assessed and documented its risks and has policies in place to minimise and manage those risks.
- The Chief Executive and the Chief Financial Officer state to the Members in writing that:
  - the statement given by them regarding the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Members; and
  - ARPC's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Principle 8 – Encourage enhanced performance

- The Members conducted an internal evaluation of their performance in September 2004. The evaluation addressed such issues as strategy and planning, board structure and role, meeting effectiveness, quality of information and performance monitoring.
- The results of that review were discussed at the September 2004 board meeting.
- The Members assess the performance of the Chief Executive against key performance indicators.
- The Chief Executive has designed a performance appraisal system for all other staff members, including senior management.

Principle 9 – Remunerate fairly and responsibly

- Members' remuneration is determined by the Remuneration Tribunal.
- Remuneration packages for employees are determined having regard to salaries payable for similar positions within the public sector.

Principle 10 – Recognise the legitimate interests of stakeholders

- ARPC regularly consults those with an interest in its operations, including industry associations, government agencies and clients.

Right to legal advice

With the consent of the Chair, Members have the right to seek independent advice, including legal, accounting and financial advice, at ARPC's expense. The terms of reference of each committee authorises the committee to take whatever independent advice it considers necessary.

Committees

ARPC has established two committees, the Audit and Compliance Committee and the Risk Committee. Both committees have terms of reference which were approved and adopted by Members. The terms of reference govern the powers, composition, duties and responsibilities of each committee and the conduct of committee meetings.

Audit and Compliance Committee

The purpose of the Committee is to:

(a) assist the Board to:

(i) fulfil its responsibilities in relation to ARPC's accounting and financial reporting obligations;

(ii) comply with ARPC's statutory obligations;

(iii) oversee the work of the internal auditors; and

(b) provide a forum for communication between Members, the senior management of ARPC, the internal auditor and ANAO.

The members of the Committee are:

Mr Andrew Lumsden, Chair;

Ms Marian Micalizzi; and

Mr James Murphy.

There were four meetings of the Committee held during 2004-05. The table below sets out the number of meetings attended by each Committee member.

Name	Number of meetings entitled to attend	Number of meetings attended
Mr Andrew Lumsden	4	4
Ms Marian Micalizzi	4	4
Mr James Murphy	4	4

Risk Committee

The purpose of the Committee is to:

(a) identify and understand the risks faced by ARPC;

(b) establish and maintain an appropriate, adequate and effective risk management and control system; and

(c) ensure that management monitors the effectiveness of the risk management and control system.

The Members consider that risk is a matter for the board as a whole. However, a Risk Committee has been established to ensure that risk is considered as a separate issue and not merely as another agenda item at a meeting of Members. All Members are members of the Committee and one of its main tasks is to review (at least annually) ARPC's risk management strategy.

During 2004-05, the identification of the risks facing ARPC and strategies to minimise and manage those risks were considered at meetings of Members. Consequently, the Risk Committee did not sit independently during 2004-05.

Investment Committee

ARPC's funds are held on deposit with the Reserve Bank. Consequently, there was no necessity to convene the Investment Committee during 2004-05.

Code of conduct

The Members have adopted a code of conduct by which they have agreed to be bound. The code provides that Members must:

(a) act honestly and ethically;

(b) not allow personal interests, or the interests of any other person or organisation, to influence their conduct;

(c) bring an independent judgment to bear on all matters considered by the board;

(d) not engage in conduct likely to discredit ARPC;

(e) treat fellow Members and ARPC's employees with courtesy and respect; and

(f) comply with the spirit, as well as the letter, of the law.

Members' appointment and remuneration

Members are appointed in writing by the Minister. All appointments are on a part-time basis and the period of appointment must not exceed four years. The Minister must not appoint a person as a Member unless the Minister is satisfied that the person:

(a) has suitable qualifications and experience; and

(b) is of good character.

Members' remuneration is set by the Remuneration Tribunal.

Role of the responsible Minister

The Minister responsible for ARPC is the Treasurer, the Hon Peter Costello, MP. The Minister appoints ARPC's members.

Members will continue to report formally to the Minister through their annual report of operations.

The TI Act permits the Minister to give written directions to ARPC in relation to the performance of its functions and the exercise of its powers. The Minister has given no directions to ARPC during the year ended 30 June 2005. The two Ministerial directions given to ARPC during the year ended 30 June 2004 remain in force. These directions are in respect of retained risk and premiums. The effect of those directions is explained in Chapter 4.

Chapter 4: Other miscellaneous information

Internal audit

ARPC has appointed Ernst & Young as its internal auditors. In consultation with management and the Audit and Compliance Committee, an internal audit program was developed. During 2004-05 Ernst & Young assisted in the development of ARPC's fraud control plan and its cedant review program, reviewed the premium collection process, reviewed ARPC's administrative functions, assisted with the opening balance sheet under Australian Equivalents to the International Financial Reporting Standards and reviewed ARPC's business continuity management plans.

In addition to general audit management and review of the financial statements, the audit program provides for Ernst & Young to undertake the following audit work on behalf of ARPC during 2005-06:

(a) review of premium collection process, including IT security;

(b) review of the preparedness of ARPC to respond to a claim; and

(c) review of ARPC's risk profile.

Risk management

During 2004-05 ARPC conducted a risk assessment and analysis with the assistance of Deloitte Touche Tohmatsu, including benchmarking ARPC against APRA's prudential standards for general insurers. From this work, a risk management policy and a risk management strategy were produced. From the risk assessment and analysis, mitigation strategies were identified, risk treatment plans developed and a risk register compiled. ARPC will continue to monitor its risk management strategies and treatment plans to ensure that its risks are being managed appropriately.

Business continuity

ARPC has begun the process of documenting its business continuity plan. The plan has been reviewed by Ernst & Young as part of the internal audit program. The plan will be refined and tested during 2005-06.

Human resource management

All staff, except the Chief Executive, are employed on fixed term contracts that expire on 30 June 2006. This date coincides with the date on which the first review of ARPC and its legislation is likely to occur.

The Chief Executive's first two year term expired on 30 June 2005. The option in the Chief Executive's contract was exercised by the Members and his appointment has been renewed for a further two year term expiring on 30 June 2007.

ARPC has outsourced many of its human resource management functions to Treasury through a service level agreement. The functions outsourced include payroll, occupational health and safety and recruitment procedures.

ARPC has introduced a performance management system to assist ARPC to improve its organisation capability. It provides a mechanism for performance review and feedback, coaching, skills development, reward and recognition.

ARPC promotes an ethical work environment by which it encourages staff to:

- strive for excellence;
- value teamwork, consultation and sharing ideas;
- value diversity among its people;
- treat everyone with respect;
- exhibit honesty in all their dealings; and
- treat colleagues with fairness.

Occupational health and safety

ARPC's occupational health and safety (OH&S) function has been outsourced to Treasury through a service level agreement. Treasury's OH&S policy is designed to foster and maintain a safe and healthy working environment in accordance with the

Occupational Health and Safety (Commonwealth Employment) Act 1991. One of ARPC's staff members is a member of Treasury's OH&S Committee. The OH&S Committee meets quarterly to discuss occupational health and safety issues and policies, staff wellbeing, health and safety performance reporting, accommodation issues and accident and incident reports.

During 2004-05, ARPC received one accident or incident report which did not result in a compensation claim. ARPC's policy is to thoroughly investigate all reported incidents and to take action to ensure staff health and safety is not compromised.

During 2004-05, no directions were given under section 45 and no notices were given under sections 29, 46 and 47 of the *Occupational Health and Safety (Commonwealth Employment) Act 1991*.

ARPC's health and safety representative conducts quarterly workplace inspections to identify and help rectify workplace hazards such as slippery walking surfaces, poor lighting and obstructed passageways. Reports on these inspections are given to Treasury's OH&S Officer.

ARPC staff have access to Treasury's employee assistance program provided by Davidson Trahaire Corpsych. This program provides confidential counselling on work-related and personal matters to staff and their families. Six-monthly reports allow Treasury's OH&S Committee to monitor use and identify workplace issues that need addressing. The employee assistance program also provides managerAssistTM, a consultative resource for staff management issues including advice on people management.

Free flu vaccinations were offered to staff and three staff took advantage of the offer.

Workplace diversity

Workplace diversity program

ARPC's workplace diversity and equal employment opportunity policies are covered by its service level agreement with Treasury.

ARPC is committed to implementing workplace diversity. As part of this commitment, ARPC will implement the strategies and initiatives of Treasury's Workplace Diversity Program which seeks to foster an environment that attracts, develops, values and retains people from varying cultural backgrounds as well as those of different ages, gender, talents, experiences, perspectives and backgrounds.

In implementing the workplace diversity program ARPC will seek to:

- ensure all staff practise and promote workplace diversity principles and objectives;
- ensure the recruitment process reflects workplace diversity principles;
- promote an environment where all staff are given the opportunity to develop to their full potential;
- create an environment where staff have the opportunity to balance their work and personal life style choices;
- encourage and support a safe and healthy working environment.

ARPC has a number of family friendly and work/life balance practices, including flexible working arrangements and leave. In 2004-05, two of ARPC's 11 employees worked part-time.

Disability action plan

ARPC provides reinsurance to insurers writing eligible insurance contracts. Its role requires limited contact with the general public and it does not formulate policy. However, ARPC recognises the necessity of ensuring that people with disabilities have an equal opportunity to access information regarding its activities and to have access to its premises as appropriate.

As an equal employment opportunity employer, ARPC recognises the importance of ensuring that people with disabilities are able to access information about employment opportunities with ARPC, and are able to compete for such opportunities on an equal basis through the merit selection process.

ARPC has adopted and applies the principles contained in Treasury's Disability Action Plan.

Ministerial directions

The two written directions given by the responsible Minister on 30 September 2003 remain in force. The directions and their effect are set out below.

- A direction in respect of the risk to be retained by reinsureds.

  The effect of this direction is that for all declared terrorist incidents which occur during the same financial year, the risk to be retained by a reinsured is an amount equal to the lesser of $1 million or 4 per cent of the gross fire/industry specific risks premium revenue. If all retentions in respect of a single declared terrorist incident would otherwise exceed $10 million, the retentions will be reduced proportionately. The effect of this reduction is to limit the retention for all reinsureds in relation to a single declared terrorist incident to $10 million.

- A direction in respect of premiums.

  The effect of this direction is to set the premium rates to be charged by ARPC under its reinsurance contracts. The rates are set as a percentage of the gross base premium written by a reinsured in respect of eligible insurance contracts according to the postcode tier in which the eligible property is situated.

The responsible Minister has not notified ARPC of any general policies of the Australian Government that are to apply to ARPC by virtue of section 28 of the *Commonwealth Authorities and Companies Act 1997*.

Indemnities and insurance premiums for officers

The deeds of indemnity entered into by ARPC with each of its Members during 2003-04 remain in effect. The indemnity is consistent with the requirements of the *Commonwealth Authorities and Companies Act 1997* in relation to such indemnities.

During the year, ARPC maintained and paid premiums for insurance covering Members and certain employees. The premium paid for the insurance, which includes liability for legal costs, was $88,770 (2004: $68,311).

Judicial and administrative decisions and reviews

During the year ended 30 June 2005, there were no judicial decisions or reviews by outside bodies (other than ANAO's report on the financial statements) affecting ARPC of which it is aware.

Ecologically sustainable development

ARPC pursues measures to minimise waste and conserve energy.

ARPC recycles paper products, cardboard products and used toner cartridges.

Freedom of information

There were no freedom of information requests during the year ended 30 June 2005. The following statements are made as required by section 8 of the *Freedom of Information Act 1982*.

Functions, organisation and powers

ARPC's functions and powers are detailed in Chapter 1. An organisation chart is contained in Appendix 1.

Arrangements for outside participation

People or organisations outside ARPC may participate in policy formulation or the administration of its enactments by making representations to the Treasurer or to ARPC.

In addition, employees of ARPC meet regularly with industry bodies, clients and other interested parties outside the Australian Government for discussions on various matters.

ARPC documents and publications

ARPC produces a number of publications aimed at informing clients and others of ARPC and its functions. Key publications in 2004-05 included:

- 2003-04 Annual Report;
- Terrorism Insurance Scheme — a brochure outlining the basis of the scheme;
- a brochure of frequently asked questions; and
- Under the Cover — a quarterly electronic newsletter distributed to clients.

Facilities for access

Facilities for inspecting documents are provided at ARPC's head office at:

Level 2 London Court
13 London Circuit
Canberra ACT 2600

Access may also be given at our Sydney office by prior arrangements.

Freedom of information procedures and initial contact point

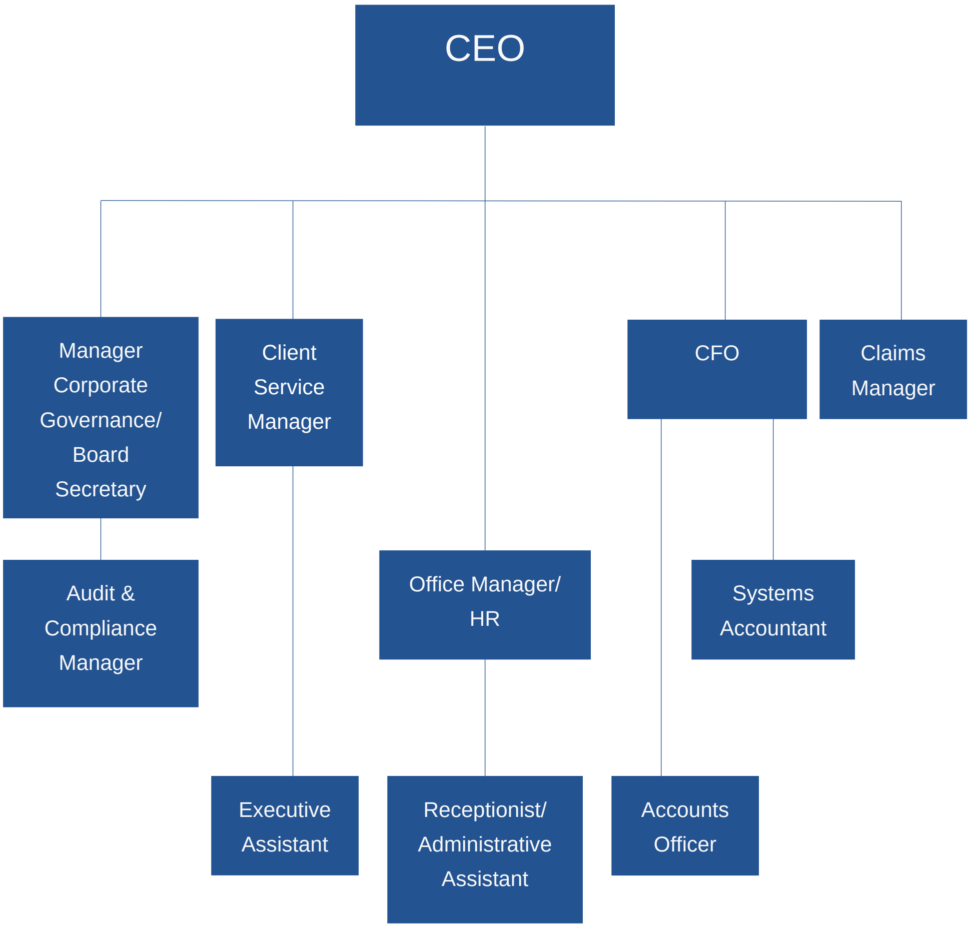
Inquiries concerning access to documents or other matters relating to freedom of information should be directed to:

Chief Executive
Australian Reinsurance Pool Corporation
GPO Box 3024
Canberra ACT 2601
Tel: 02 6279 2100
Fax: 02 6279 2111

Appendix 1

Organisational structure

Australian Reinsurance Pool Corporation



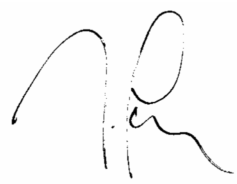
Chapter 5: Financial Statements

Statement by Members

In our opinion, the attached financial statements for the year ended 30 June 2005 have been prepared based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Order made under the *Commonwealth Authorities and Companies Act 1997.*

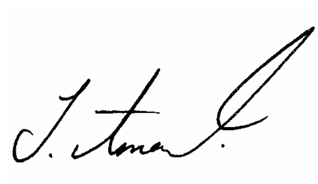
In our opinion, at the date of this statement, there are reasonable grounds to believe that ARPC will be able to pay its debts as and when they become due and payable.

This statement is made in accordance with a resolution of the Members.



J I Gersh
Chair
20 September 2005

N E Weeks
Chief Executive
20 September 2005



T R Ament
Chief Financial Officer
20 September 2005

Australian National
Audit Office

INDEPENDENT AUDIT REPORT

To the Treasurer

Matters relating to the Electronic Presentation of the Audited Financial Statements

This audit report relates to the financial statements published in both the annual report and on the website of Australian Reinsurance Pool Corporation for the year ended 30 June 2005. The Members of the Australian Reinsurance Pool Corporation are responsible for the integrity of both the annual report and the web site.

The audit report refers only to the financial statements, schedules and notes named below. It does not provide an opinion on any other information which may have been hyperlinked to/from the audited financial statements.

If the users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial statements in the Australian Reinsurance Pool Corporation's annual report.

Scope

The financial statements and Member's responsibility

The financial statements comprise:

- Statement by Members;
- Statements of Financial Performance, Financial Position and Cash Flows;
- Schedules of Commitments and Contingencies; and
- Notes to and forming part of the Financial Statements

of the Australian Reinsurance Pool Corporation, for the year ended 30 June 2005.

GPO Box 707 CANBERRA ACT 2601
Centenary House 19 National Circuit
BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

The Members of the Australian Reinsurance Pool Corporation are responsible for preparing the financial statements that give a true and fair view of the financial position and performance of the Australian Reinsurance Pool Corporation, and that comply with accounting standards, other mandatory financial reporting requirements in Australia, and the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*. The Members of the Australian Reinsurance Pool Corporation are also responsible for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial statements.

Audit approach

I have conducted an independent audit of the financial statements in order to express an opinion on them to you. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial statements are free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive, rather than conclusive, evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

While the effectiveness of management's internal controls over financial reporting was considered when determining the nature and extent of audit procedures, the audit was not designed to provide assurance on internal controls.

I have performed procedures to assess whether, in all material respects, the financial statements present fairly, in accordance with accounting standards, other mandatory financial reporting requirements in Australia and the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, a view which is consistent with my understanding of the Australian Reinsurance Pool Corporation's financial position, and of its performance as represented by the statements of financial performance and cash flows.

The audit opinion is formed on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial statements; and
- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by the Members of the Australian Reinsurance Pool Corporation.

Independence

In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the ethical requirements of the Australian accounting profession.

Audit Opinion

In my opinion, the financial statements of the Australian Reinsurance Pool Corporation:

(a) have been prepared in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997;* and

(b) give a true and fair view of the Australian Reinsurance Pool Corporation's financial position as at 30 June 2005 and of its performance and cash flows for the year then ended, in accordance with:

(i) the matters required by the Finance Minister's Orders; and

(ii) applicable accounting standards and other mandatory financial reporting requirements in Australia.

Australian National Audit Office

CRJago

Carla Jago
Executive Director

Delegate of the Auditor-General

Canberra
20 September 2005

Statement of financial performance

for year ended 30 June 2005

	Notes	2005 $'000	2004 $'000
Premium revenue	4(a)	**91,321**	18,986
Outwards reinsurance expense		**-**	-
Net premium revenue		**91,321**	18,986
Claims expense		**-**	-
Reinsurance and other recoveries revenue		**-**	-
Net claims incurred		**-**	-
Acquisition costs	5(b)	**(532)**	(198)
Underwriting result		**90,789**	18,788
Investment revenue	4(b)	**4,790**	532
Revenues from government	4(c)	**-**	222
General and administration expenses	5(b)	**(2,467)**	(1,378)
Operating profit		**93,112**	18,164
Amount transferred to reserve for claims	1(i), 15	**(93,112)**	(18,164)
Retained surplus at the end of the financial year		**-**	-

The above statement should be read in conjunction with the accompanying notes.

Statement of financial position

as at 30 June 2005

	Notes	2005 $'000	2004 $'000
Current assets			
Cash	6	**34,511**	30,631
Receivables	7	**24,176**	24,197
Investments	8	**100,000**	-
Deferred acquisition costs	9	**466**	383
Other assets	10	**66**	90
Total current assets		**159,219**	55,301
Non-current assets			
Property plant and equipment	11	**152**	173
Intangibles	12	**79**	-
Total non-current assets		**231**	173
Total assets		**159,450**	55,474
Current liabilities			
Gross unearned premiums		**47,683**	36,816
Payables	13	**396**	440
Provisions	14(b)	**65**	37
Total current liabilities		**48,144**	37,293
Non-current liabilities			
Provisions	14(b)	**30**	17
Total non-current liabilities		**30**	17
Total liabilities		**48,174**	37,310
Net assets		**111,276**	18,164
Equity			
Accumulated reserves	15	**-**	-
Reserve for claims	15	**111,276**	18,164
Total equity		**111,276**	18,164

The above statement should be read in conjunction with the accompanying notes.

Statement of cash flows

for the year ended 30 June 2005

	Notes	2005 $'000	2004 $'000
Cash flows from operating activities			
Cash inflows			
Premiums received (grossed up for goods and services tax)		**111,391**	34,694
Interest received		**4,767**	403
Total cash inflows		**116,158**	35,097
Cash outflows			
Payment to creditors and employees (grossed up for goods and services tax)		**2,913**	1,344
Interest and other costs of finance paid		**250**	218
Goods and services tax paid to ATO		**8,998**	2,895
Total cash outflows		**12,161**	4,457
Net cash provided by/(used in) operating activities	16	**103,997**	30,640
Cash flows from investing activities			
Cash outflows			
Payment for plant and equipment		**36**	9
Payment for intangibles		**81**	-
Payment for investments		**100,000**	-
Total cash outflows		**100,117**	9
Net cash provided by/(used in) investing activities		**(100,117)**	(9)
Cash flow from financing activities			
Cash inflows			
Receipts from the Commonwealth		**-**	5,000
Total cash inflows		**-**	5,000
Cash outflows			
Payments to the Commonwealth		**-**	5,000
Total cash outflows		**-**	5,000
Net cash provided by/(used in) financing activities		**-**	-
Net increase/(decrease) in cash held		**3,880**	30,631
Cash at the beginning of the financial year		**30,631**	-
Cash at the end of the financial year	6	**34,511**	30,631

The above statement should be read in conjunction with the accompanying notes.

Schedule of commitments

as at 30 June 2005

	2005 $'000	2004 $'000
By type		
Other commitments		
Service level agreements *	**609**	221
Operating leases **	**651**	228
Total other commitments	**1,260**	449
Commitments receivable	**115**	41
Net commitments	**1,145**	408
By maturity		
Service level agreements commitments		
One year or less	**265**	221
From one to five years	**344**	-
Total service level agreement commitments by maturity	**609**	221
Operating lease commitments		
One year or less	**217**	113
From one to five years	**434**	116
Total operating lease commitments by maturity	**651**	229
Commitments receivable	**115**	41
Net commitments by maturity	**1,145**	408

The above schedule should be read in conjunction with the accompanying note.
Note: Commitments are GST inclusive where relevant.
* Outstanding contractual payments for service level agreements.
** Operating leases included are effectively non-cancellable and comprise:

Nature of lease	*General description of leasing arrangement*
Lease for office accommodation	Upon exercising the 3 year lease option the rent will be reviewed in accordance with prevailing market conditions.

Schedule of contingencies

as at 30 June 2005

ARPC has no contingent assets or liabilities.

Notes to and forming part of the financial statements for the year ended 30 June 2005

Note 1: Summary of significant accounting policies

ARPC is a statutory authority that was established as an independent entity wholly owned by the Commonwealth of Australia (Commonwealth) on 1 July 2003 by the *Terrorism Insurance Act 2003* (TI Act). The following accounting policies have been adopted in the financial statements.

(a) Basis of accounting

The financial statements are required by clause 1(b) of Schedule 1 to the *Commonwealth Authorities and Companies Act 1997*. This is a general purpose financial report.

The statements have been prepared in accordance with:

- Finance Minister's Orders (being the Commonwealth Authorities and Companies Orders (Financial Statements for reporting periods ending on or after 30 June 2005));
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board; and
- Consensus Views of the Urgent Issues Group.

The Statements of Financial Performance and Financial Position have been prepared on an accrual basis and are in accordance with historical cost convention, except for certain assets, which, as noted, are at valuation. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

Assets and liabilities are recognised in the Statement of Financial Position when and only when it is probable that future economic benefits will flow and the amounts of the assets or liabilities can be reliably measured. Assets and liabilities arising under agreements equally proportionately unperformed are, however, not recognised unless required by an accounting standard. Liabilities and assets that are unrecognised are reported in the Schedule of Commitments and the Schedule of Contingencies (other than unquantifiable or remote contingencies, which are reported at Note 23).

Revenues and expenses are recognised in the Statement of Financial Performance when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

(b) Going concern

The financial report has been prepared on the basis that ARPC is a going concern.

While ARPC is not in a position to quantify future claims from a declared terrorist incident, it has the benefit of:

- The capping of its liabilities at $10 billion because of the effect of section 6(7) of the TI Act (specification of a reduction percentage if the Minister considers that, in the absence of a reduction percentage, the total amounts paid or payable by the Commonwealth would be more than $10 billion); and

- The guarantee contained in section 35 of the TI Act by which the Commonwealth guarantees the payment of money that may become payable by ARPC to any person other than the Commonwealth. This guarantee would extend to any payments required to be made under the $1 billion commercial line of credit which ARPC has entered into.

(c) Changes in accounting policy

The accounting policies used in the preparation of these financial statements are consistent with those used in 2003-04 except for property, plant and equipment.

The Finance Minister's Orders (FMOs) require all tangible assets, except for specialist military equipment, to be measured at fair value.

ARPC has altered its policy from cost less depreciation to recording these assets at fair value.

(d) Revenue

Premium revenue

Premium revenue comprises amounts charged to insurers excluding taxes collected on behalf of third parties. The earned portion of premiums received and receivable, including unclosed business, is recognised as revenue. Premiums are recognised as earned based on time from the date of attachment of risk. Premiums not received at reporting date and for the quarter ended 30 June 2005 are recognised as premiums receivable.

Unearned premiums are determined using the eighth system, a fractional method of calculation of the balance. This method is driven by the assumption that the risk attached to the revenue ceded expires evenly over each quarter of the financial year.

Investment revenue

Interest revenue is brought to account on an accruals basis.

Resources received free of charge

Contributions of assets at no cost of acquisition or for nominal consideration are recognised as revenue at fair value when the asset qualifies for recognition, unless received from another government agency as a consequence of a restructuring of administrative arrangements.

(e) Unexpired risk liability

ARPC has compared the net present value of the expected future cash flows relating to future claims arising under general insurance contracts with the reported unearned premium liability. There is no deficiency noted or recorded in these financial statements (2004: $0). Accordingly, there has been no write down in ARPC's deferred acquisition costs.

(f) Outstanding claims liability

The financial statements have not included a provision for outstanding claims (2004: $0). ARPC has not engaged an actuarial assessment to independently assess this balance as:

- A declared terrorist incident has not been announced since the inception of ARPC; and
- Any such declaration must be announced by the Treasurer after consultation with the Attorney-General.

ARPC consider that there are no significant inherent uncertainties in respect of the liability estimate. Accordingly, ARPC have not applied a central estimate to the provision and have therefore not applied a prudential or safety margin in respect of the provision.

(g) Net claims incurred

A declared terrorist incident has not been announced since the inception of ARPC.

(h) Assets backing general insurance liabilities

ARPC has determined that all assets are held to back general insurance liabilities on the basis that all assets are valued at fair value in the Statement of Financial Position.

The following policies apply to assets held to back general insurance liabilities.

Financial assets

Financial assets are designated at fair value through the Statement of Financial Performance. Initial recognition is at cost in the Statement of Financial Position and subsequent measurement is at fair value with any resultant unrealised profits and losses recognised in the Statement of Financial Performance.

Details of fair value for the different types of financial assets are listed below:

- Cash assets are carried at face value of the amounts deposited or drawn. The carrying amounts of cash assets are approximate to their fair value. For the purposes of the Statement of Cash Flows, cash includes cash on hand and deposits held at call with banks.

- Fixed interest deposits are carried at face value of the amounts deposited. The carrying amounts are approximate to their fair value.

All purchases and sales of financial assets that require delivery of the asset with the time frame established by regulation or market convention are recognised at trade date, being the date on which the ARPC commits to buy or sell the asset.

In cases where the period between trade and settlement exceeds the time frame, the transaction is recognised at settlement date. Financial assets are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and ARPC has transferred substantially all the risks and rewards of ownership.

Receivables

Amounts due from policyholders and intermediaries are held for trading and are initially recognised at fair value, being the amounts due. They are subsequently measured at fair value which is approximated by taking the initially recognised amount and reducing it for impairment as appropriate.

A provision for impairment of receivables is established when there is objective evidence that ARPC will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The discount is calculated using a risk free rate. The impairment charge is recognised in the Statement of Financial Performance.

(i) Reserves

The intention of the Government in establishing ARPC was that premiums would be used to fund a $300 million pool and to repay any loan required in the event that claims exceed the resources of the pool. The reserve for claims has been created to enable ARPC to build up the required pool.

(j) Acquisition costs

Acquisition costs are incurred in obtaining and recording policies of insurance. They include legal, advertising and other administrative costs.

A portion of acquisition costs relating to unearned premium revenue is deferred in recognition that it represents future benefits to the organisation. Deferred acquisition costs are measured at the lower of cost and recoverable amount. These costs are amortised on the same basis as the earning pattern of the premium.

(k) Taxation

Income tax

ARPC is not subject to income tax by virtue of section 36 of the TI Act.

Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these cases the GST is recognised as part of the cost of the acquisition of the asset or as part of an item of expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from or payable to the ATO is included in the current receivables and payables in the Statement of Financial Position. Cash flows are included in the Statement of Cash Flows on a gross basis. 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.

(l) Dividends

Pursuant to section 38(3)(b) of the TI Act, the Minister may give written direction to require ARPC to make payments to the Commonwealth in the nature of dividends. No direction has been received for these financial statements (2004: $0).

(m) Foreign currency

All foreign transactions are converted to Australian dollars at the exchange rate at the date of the transaction.

(n) Cash

Cash means notes and coins held and any deposits held at call with a bank or financial institution. Cash is recognised at its nominal amount.

(o) Property, plant and equipment

Asset recognition and threshold

Purchases of property, plant and equipment are recognised initially at cost in the Statement of Financial Position, except for purchases costing less than $2,000, which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

Revaluations

The FMOs require all tangible assets, except for specialist military equipment, to be measured at fair value.

Following initial recognition at cost, assets are re-valued to fair value.

Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

Independent valuations are to be performed every three years, which ensures that the fair value reported in the Statement of Financial Position does not differ materially from the asset's fair value at balance date and that the asset is not impaired. ARPC engaged an independent valuer, Herron Todd White, to conduct a valuation to determine the fair value of the property, plant and equipment as at 1 July 2004 and 30 June 2005.

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the Statement of Financial Position unless it reverses a revaluation decrease of the same asset previously recognised in the Statement of Financial Performance.

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

Depreciation

The straight-line method of depreciation is used in all cases. Depreciation rates (useful lives) and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

Depreciation rates applying to each class of depreciable asset are based on those supplied by the valuer or the following categories.

	2005	2004
Computer equipment	**3 years**	3 years
Other IT equipment	**4 years**	4 years
Office equipment	**5 years**	5 years
Furniture	**7 years**	7 years

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 11.

(p) Impairment of assets

ARPC assesses at each reporting date, whether there is any indication that an asset may be impaired. If any such indication exists where the carrying amount exceeds the estimated recoverable amount, the assets are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use.

Impairment losses are recognised in the Statement of Financial Performance in the general and administration expenses.

(q) Intangibles

ARPC's intangibles comprise externally acquired software for internal use. These assets are carried at cost.

Software is amortised on a straight-line basis over its anticipated useful life. The useful live of ARPC's externally purchased software is four years.

All software assets were assessed for indications of impairment as at 30 June 2005. No write down was required (2004: $0).

(r) Payables

ARPC's trade creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received.

All payables are unsecured and are paid within credit terms.

(s) Employee benefits

Benefits

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

Liabilities for wages and salaries (including non-monetary benefits), annual leave and sick leave are measured at their nominal amounts. Other employee benefits expected to be settled within 12 months of the reporting date are also measured at their nominal amounts.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

All other employee benefit liabilities are measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

Leave

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of ARPC is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration, including ARPC's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than being paid out in termination.

The liability for long service leave has been determined by reference to the work of an actuary as at 30 June 2003. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Superannuation

Superannuation guarantee contributions are made by ARPC for employees and certain Members.

The Australian Workplace Agreements between ARPC and its employees allow for choice of superannuation fund. The default superannuation scheme is the Australian Government Employees Superannuation Trust.

The liability for superannuation recognised as at 30 June represents outstanding contributions for the final fortnight of the year.

(t) Leases

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets. In operating leases, the lessor effectively retains substantially all such risks and benefits.

Operating lease payments are expensed on a basis which is representative of the pattern of benefits derived from the leased assets.

ARPC entered into an operating lease agreement for office accommodation. The lease payments are charged to the Statement of Financial Performance in the period they are incurred.

(u) Contingent liabilities and contingent assets

Contingent liabilities and assets are not recognised in the Statement of Financial Position but are disclosed in the relevant schedules and notes. They may arise from uncertainty as to the existence of a liability or asset, or represent an existing liability or asset in respect of which settlement is not probable or the amount cannot be reliably measured. Remote contingencies are part of this disclosure. Where settlement becomes probable, a liability or asset is recognised. There are no contingent liabilities or assets noted in these financial statements (2004: $0).

(v) Rounding of amounts

Amounts in the financial report have been rounded to the nearest thousand dollars in accordance with policy 1E.1(a) of the FMOs with the exception of:

- Executive remuneration;
- Remuneration of Auditors;
- Remuneration of Members; and
- Transactions with related entities.

Note 2: Adoption of Australian Equivalents to International Financial Reporting Standards from 2005-06

The Australian Accounting Standards Board has issued replacement Australian Accounting Standards to apply from 2005-06. The new standards are the Australian Equivalents to International Financial Reporting Standards (AEIFRSs) which are issued by the International Accounting Standards Board. The new standards cannot be adopted early. The standards being replaced are to be withdrawn with effect from 2005-06, but continue to apply in the meantime, including reporting periods ending on 30 June 2005.

The purpose of issuing AEIFRS is to enable Australian reporting entities reporting under the *Corporations Act 2001* to be able to more readily access overseas capital markets by preparing their financial reports according to accounting standards more widely used overseas.

For-profit entities complying with AEIFRS will be able to make an explicit and unreserved statement of compliance with International Financial Reporting Standards (IFRS) as well as a statement that the financial report has been prepared in accordance with Australian Accounting Standards.

AEIFRS contain certain additional provisions that will apply to not-for-profit entities, including not-for-profit Australian Government Authorities. Some of these provisions are in conflict with IFRSs, therefore they will only be able to assert that the financial report has been prepared in accordance with Australian Accounting Standards.

AAS29 *Financial Reporting by Government Departments* will continue to apply under AEIFRS.

Accounting Standard AASB 1047 *Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards* requires that the financial report for 2004-05 disclose:

- An explanation of how the transition to AEIFRS is being managed;
- An explanation of the key policy differences arising from the adoption of AEIFRS;
- Any known or reliably estimable information about the impacts on the financial report had it been prepared using the AEIFRS; and
- If the impacts of the above are not known or reliably estimable, a statement to that effect.

The purpose of this Note is to make these disclosures.

(a) An explanation of how the transition to the AEIFRS is being managed

ARPC has taken the following steps for the preparation towards the implementation of AEIFRS:

(a) a project has been established to achieve transition to AEIFRS reporting. The plan requires the following key steps to be undertaken:

- All major accounting policy differences between current AASB standards and AEIFRS were identified by 30 June 2004;
- Identification of system changes necessary to be able to report under the AEIFRS, including those necessary to enable capture of data under both sets of rules for 2004-05 were completed. This included the testing and implementation of those changes;
- A transitional balance sheet as at 1 July 2004 under AEIFRS was completed and presented to the Audit and Compliance Committee on 21 June 2005;
- An AEIFRS compliant balance sheet was also prepared during the preparation of the 2004-05 statutory financial reports;
- The 2004-05 balance sheet under AEIFRS will be reported to the Department of Finance and Administration in line with their reporting deadlines;
- The plan also addresses the risks to successful achievement of the above objectives and includes strategies to keep implementation on track to meet deadlines.
- Consultants were engaged where necessary to assist with each of the above steps.

(b) An explanation of the key policy differences arising from the adoption of AEIFRS

Major changes in accounting policy

ARPC believes that the first financial report prepared under AEIFRS ie at 30 June 2006, will be prepared on the basis that ARPC will be a first time adopter under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards. Changes in accounting policies under AEIFRS are applied retrospectively ie as if the new policy had always applied except in relation to the exemptions available and prohibitions under AASB 1. This means that an AEIFRS compliant balance sheet has to be prepared as at 1 July 2004.

This will enable the 2005-06 financial statements to report comparatives under AEIFRS.

A first-time adopter of AEIFRS may elect to use exemptions. ARPC has elected to apply the exemptions allowed by AASB 1 on items relating to AASB 132 Financial Instruments: Presentation and Disclosure, AASB 139: Financial Instruments: Recognition and Measurement and AASB 1023: General Insurance Contracts. Opening balances for these items have not been restated.

Changes to major accounting policies are discussed in the following paragraphs.

Management's review of the quantitative impacts of AEIFRS represents the best estimate of the impacts of the changes as at reporting date. The actual effects of the impacts of AEIFRS may differ from these estimates due to:

- Continuing review of the impacts of AEIFRS on ARPC’s operations;
- Potential amendments to the AEIFRS and AEIFRS Interpretations; and
- Emerging interpretation as to the accepted practice in the application of AEIFRS and the AEIFRS Interpretations.

Insurance contracts

In respect of the reinsurance business, the changes to the accounting standards to be effected in 2005 are insignificant. Due to Australia’s current accounting treatments for insurance, the new standard will result in minimal change for ARPC.

Property, plant and equipment

It is expected that the 2005-06 FMOs will continue to require property plant and equipment assets to be valued at fair value in 2005-06.

Intangible assets

ARPC currently recognises externally-developed software assets on the cost basis.

The AEIFRS standard on intangibles does not permit intangibles to be measured at valuation unless there is an active market for the intangible. ARPC’s externally-acquired software is specific to the needs to ARPC and is not traded. Accordingly, ARPC has no adjustment to make.

Impairment of intangibles and property, plant and equipment

ARPC's policy on impairment of non-current assets is at Note 1 (p).

Under AEIFRS these assets will be subject to assessment for impairment and, if there are indications of impairment, measurement of any impairment (impairment measurement must also be performed, irrespective of any indications of impairment, for intangible assets not yet available for use). The impairment test is that the carrying amount of an asset must not exceed the greater of (a) its fair value less costs to sell and (b) its value in use. 'Value in use' is the net present value of net cash inflows for cash generating units assets of ARPC and depreciated replacement cost for other assets that would be replaced if ARPC were deprived of them.

An impairment assessment of ARPC's intangible assets indicated that no adjustments will be required.

Decommissioning, restoration and make-good

When assessing the accommodation arrangement for the preparation of the opening balance sheet, it was noted there was no obligation under the arrangement to make-good. No adjustment was necessary.

Employee benefits

The provision for long service leave is measured at the present value of estimated future cash outflows using market yields as at the reporting date on national government bonds.

The 2003-04 financial report noted that AEIFRS may require the market yield on corporate bonds to be used. The AASB has decided that a deep market in high quality corporate bonds does not exist and therefore national government bonds will be referenced.

AEIFRS also require that annual leave that is not expected to be taken within 12 months of balance date is to be discounted. After assessing the staff leave profile, ARPC expects a minimal amount of the annual leave balance will not be taken in the next 12 months.

Financial instruments

AEIFRS include an option for entities not to restate comparative information in respect of financial instruments in the first AEIFRS report. It is expected that FMOs will require entities to use this option. Therefore, the amounts for financial instruments presented in ARPC's 2004-05 primary financial statements are not expected to change as a result of the adoption of AEIFRS.

(c) Reconciliation of impacts — AGAAP to AEIFRS

	ARPC	
	30 June 2005* $'000	1 July 2004 $'000
Reconciliation of APRC's equity		
Total equity under AGAAP	111,276	18,164
Adjustments to accumulated results	-	-
Adjustments to reserve for claims	-	(16)
Total equity under AEIFRS	111,276	18,148
Reconciliation of APRC's reserve for claims		
Total reserve for claims under AGAAP	111,276	18,164
Adjustments:		
Write back of accumulated depreciation	-	34
Revaluation decrement	-	(50)
Total reserve for claims under AEIFRS	111,276	18,148

	30 June 2005* $'000
Reconciliation of APRC's net profit for the year ended 30 June 2005	
Net profit under AGAAP	93,112
Nil adjustments	-
Net profit under AEIFRS	93,112

* 30 June 2005 total represents the accumulated impacts of AEIFRS from the date of transition.

Note 3: Events occurring after reporting date

There have been no significant events occurring after reporting date that would significantly affect these financial statements.

Note 4: Revenue

		2005 $'000	2004 $'000
Premium revenue			
(a)	Gross written premium	**102,188**	55,801
	Movement in unearned premium reserve	**(10,867)**	(36,815)
	Total premium revenue	**91,321**	18,986
Investment revenue			
(b)	Interest income	**4,790**	532
	Total investment revenue	**4,790**	532
Revenues from government			
(c)	Resources received free of charge from Department of Treasury	**-**	222
	Total revenues from government	**-**	222
Total revenue		**96,111**	19,740

Note 5: Expenses

The presentation of expenses in the Statement of Financial Performance is by function.
This note presents expenses according to their nature:

			2005	2004
(a)	Employee expenses	5(c)	**1,095**	786
	Goods from related entities		**-**	-
	Services from related entities		**128**	100
	Goods from external entities		**25**	44
	Services from external entities		**1,313**	290
	Operating lease rentals		**138**	80
	Depreciation and amortisation		**43**	58
	Bank fees and charges		**257**	218
	Total expenses by nature		**2,999**	1,576
(b)	Acquisition cost		**532**	198
	General and administration expenses		**2,467**	1,378
	Total expenses by function		**2,999**	1,576
(c)	Wages and salaries		**906**	609
	Superannuation		**74**	45
	Leave and other entitlements		**88**	69
	Workers compensation premiums and claims		**8**	7
	Other employee expenses		**19**	56
	Total employee expenses		**1,095**	786

Note 6: Current assets — cash

	2005	2004
Cash at bank	**34,511**	30,631

Note 7: Current assets — receivables

	2005 $'000	2004 $'000
Premium receivable	**24,011**	24,055
Interest receivable	**151**	129
Net GST receivable from ATO	**14**	13
Total receivables	**24,176**	24,197

All receivables are current assets.

Trade debtors

Credit terms are net 30 days. Trade debtors are non interest bearing.

	2005	2004
Less than 30 days	**24,176**	24,197
30 to 60 days	**-**	-
60 to 90 days	**-**	-
More than 90 days	**-**	-
	24,176	24,197

Interest receivable

The interest rate ranges from 4.9% to 5.4% (2004: 4.65% to 5.15%) and the frequency of payment is monthly.

Note 8: Current assets — investments

	2005	2004
Term deposits	**100,000**	-

Term deposits are held with the Reserve Bank of Australia.

Note 9: Current assets — deferred acquisition costs

	2005	2004
Deferred acquisition costs as at 1 July	**383**	-
Acquisition costs deferred	**466**	383
Amortisation charged to income	**(383)**	-
Deferred acquisition costs as at 30 June	**466**	383

Note 10: Current assets — other assets

	2005	2004
Prepayments	**66**	90

Note 11: Non-current assets — property plant and equipment

		2005 $'000	2004 $'000
(a)	Buildings		
	Leasehold improvements		
	Acquired (in progress)	**29**	-
	- at cost	**-**	61
	- at valuation (fair value)	**47**	-
	- accumulated amortisation	**(14)**	(11)
	Total leasehold improvements	**62**	50
	Total buildings	**62**	50
(b)	Plant and equipment		
	- at cost	**7**	170
	- at valuation (fair value)	**110**	-
	- accumulated depreciation	**(27)**	(47)
	Total plant and equipment	**90**	123
	Total property plant and equipment	**152**	173

All valuations are independent and are conducted in accordance w ith the revaluation policy state at Note 1(o).

In 2004-05 the revaluations w ere performed by an independent valuer, Herron Todd and White (Canberra) Pty Limited.

A net revaluation decrement of $15,829 (2004: $0) w as made against the Statement of Financial Performance.

Table A: Reconciliation of the opening and closing balances of property, plant and equipment:

Item	**Buildings leasehold improvements $'000**	**Plant & equipment $'000**	**Total $'000**
As at 1 July 2004			
Gross book value	61	170	231
Accumulated depreciation/amortisation	(11)	(47)	(58)
Net book value	**50**	**123**	**173**
Additions			
Assets received free of charge	-	-	-
By purchase	-	7	7
- (In progress)	29	-	29
Write back of accumulated depreciation	11	47	58
Revaluation increment/(decrement)	(14)	(60)	(74)
Depreciation expense	(14)	(27)	(41)
As at 30 June 2005			
Gross book value	76	117	193
Accumulated depreciation	(14)	(27)	(41)
Net book value	**62**	**90**	**152**

Table B: Assets at valuation:

Item	Buildings leasehold improvements $'000	Plant & equipment $'000	Total $'000
As at 30 June 2005			
Gross book value	47	110	157
Accumulated depreciation/amortisation	(14)	(26)	(40)
Net book value	33	84	117
As at 30 June 2004			
Gross book value	-	-	-
Accumulated depreciation/amortisation	-	-	-
Net book value	-	-	-

Note: This table does not include assets purchased in the 2004-05 financial years as these assets are held at cost.

Note 12: Non-current assets — intangibles

	2005 $'000	2004 $'000
(a) Computer software (externally acquired)		
Externally acquired	**33**	-
- in progress	**48**	-
- accumulated amortisation	**(2)**	-
Total computer software	**79**	-
Total intangibles	**79**	-

Table A: Reconciliation of the opening and closing balances of intangibles

Item	Intangibles $'000	Total $'000
As at 1 July 2004		
Gross book value	-	-
Accumulated amortisation	-	-
Net book value	-	-
Additions		
By purchase	33	33
In progress	48	48
Amortisation expense	(2)	(2)
As at 30 June 2005		
Gross book value	81	81
Accumulated amortisation	(2)	(2)
Net book value	**79**	**79**

Note 13: Current liabilities — payables

	2005 $'000	2004 $'000
Trade creditors	**175**	145
Accruals	**221**	295
Total payables	**396**	440

Trade creditors:

Settlement is usually made net 30 days.

All of ARPC's liabilities are guaranteed by the Commonwealth pursuant to Section 35 of the TI Act.

Note 14: Provisions

		2005 $'000	2004 $'000
(a)	**Employee provisions**		
	Salaries and wages	**3**	-
	Leave	**92**	54
	Aggregate employee entitlement liability	**95**	54
(b)	**Current / non-current**		
	Current	**65**	37
	Non-current	**30**	17
	Total	**95**	54

Note 15: Equity

Item	Accumulated results		Reserve for claims		Total equity	
	2005	2004	**2005**	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Opening balance	**-**	-	**18,164**	-	**18,164**	-
Net surplus/(deficit)	**93,112**	18,164	**-**	-	**93,112**	18,164
Transfer to reserve for claims	**(93,112)**	(18,164)	**-**	-	**(93,112)**	(18,164)
Transfer to reserve for claims from accumulated results	**-**	-	**93,112**	18,164	**93,112**	18,164
Closing balance	**-**	-	**111,276**	18,164	**111,276**	18,164

(a) Nature and purpose of reserve for claims. ARPC has created a reserve for future claims equal to the accumulated surplus after administration costs at the end of each year.

Note 16: Reconciliation of operating surplus to net cash flows from operating activities

	2005 $'000	2004 $'000
Surplus from ordinary activities	**93,112**	18,164
Depreciation/amortisation expense	**43**	58
Assets received free of charge	**-**	(222)
Net w rite dow n of non-current assets	**16**	-
Changes in operating assets and liabilities:		
Decrease/(Increase) in receivables	**21**	(24,197)
Decrease/(Increase) in other assets	**24**	(90)
Decrease/(Increase) in deferred acquisition costs	**(83)**	(383)
(Decrease)/Increase in unearned premiums	**10,867**	36,816
(Decrease)/Increase in payables	**(44)**	440
(Decrease)/Increase in provisions	**41**	54
Net cash inflow from operating activities	**103,997**	30,640

Note 17: External financial arrangements

In the event of a declared terrorist incident ARPC has unrestricted access to the follow ing line of credit:

Bank standby facility	**1,000,000**	1,000,000
Amount of facility used as at 30 June 2005	**-**	-
Facility available:	**1,000,000**	1,000,000

Any payment w hich becomes due under the facility agreement is guaranteed by the Commonw ealth by virtue of section 35 of the TI Act.

In the event of a declared terrorist incident ARPC has access to the follow ing Commonw ealth indemnity:

Commonw ealth indemnity	**9,000,000**	9,000,000
Amount of facility used as at 30 June 2005	**-**	-
Facility available:	**9,000,000**	9,000,000

Note 18: Staffing levels

Number of full-time equivalent employees at 30 June 2005:	**10**	7

Note 19: Executive remuneration

	2005 $	2004 $
The aggregate amount of total remuneration of executives shown below	**744,606**	437,795

The number of executives who received or were due to receive total remuneration of $100,000 or more:

	2005	2004
$100,000 - $109,999	**1**	-
$150,000 - $159,999	**1**	1
$180,000 - $189,999	**1**	-
$270,000 - $279,999	**-**	1
$300,000 - $309,999	**1**	-
Total number of executives	**4**	2

Note 20: Remuneration of Auditors

Remuneration of the Auditor-General for auditing the financial statements for the reporting period.

	2005	2004
The fair value of services provided was:	**98,500**	98,500

No other services were provided by the Auditor-General during the reporting period.

Note 21: Remuneration of Members

	2005 $	2004 $
Remuneration paid or payable to Members of ARPC by ARPC or any related party	**18,740**	17,876

The number of Members whose remuneration from ARPC for the year fell within the following bands are:

	2005	2004
Nil	**2**	3
$1 - $9,999	**4**	3
Total number of Members of ARPC	**6**	6

Note 22: Related party disclosures

Members

The names of persons who were Members of ARPC during the financial year were:
Mr J Gersh, Mr A Lumsden, Ms M Micalizzi, Mr J Murphy, Ms L Allan and Ms M Rathbone.

Changes in membership during the year:

Ms L Allan's term of appointment expired on 24 April 2005. Ms M Rathbone was appointed on 25 April 2005 and Mr G Vogt was appointed on 29 August 2005.

Information on remuneration of Members is disclosed in Note 21.

Transactions with Members and Member related entities

ARPC has not entered into any contract with Members or their related entities.

Transactions with related entities

The service level agreement with the Department of the Treasury is considered a related party transaction. This agreement is for the provision of corporate support services to ARPC at a cost of $128,129 (2004: $99,870).

Controlling entity

ARPC was established by section 9 of the TI Act.

The ultimate controlling entity is the Australian Government. ARPC is only authorised to transact business and carry out functions as provided in the TI Act or as approved or directed by the Minister. ARPC's liabilities are guaranteed by the Commonwealth under section 35 of the TI Act.

Note 23: Contingent assets and contingent liabilities

Contingent assets

ARPC has no contingent assets

Contingent liabilities

ARPC has no contingent liabilities

Note 24: Segment reporting

The ARPC was established under the TI Act to offer reinsurance for eligible properties within Australia against the risk of terrorism.

	2005	2004
	$'000	$'000
Revenue by geographical market:		
Australia	**93,013**	50,366
Overseas	**9,175**	5,435
Total revenue	**102,188**	55,801

All risks are located within the Australian market.

Note 25: Financial instruments

(a) Interest rate risk

Financial instrument	Notes	Floating interest rate		Fixed interest rate maturing in 1 year or less		Non-interest bearing		Total		Weighted average effective interest rate	
		2005 $'000	2004 $'000	**2005 $'000**	2004 $'000	**2005 $'000**	2004 $'000	**2005 $'000**	2004 $'000	**2005 $'000**	2004 $'000
Financial assets											
Cash at bank	6	**34,511**	30,631	**-**	-	**-**	-	**34,511**	30,631	**5.39%**	5.09%
Receivables (gross)	7	**-**	-	**-**	-	**24,176**	24,197	**24,176**	24,197	**n/a**	n/a
Investments	8	**-**	-	**100,000**	-	**-**	-	**100,000**	-	**5.52%**	0.00%
Total		**34,511**	30,631	**100,000**	-	**24,176**	24,197	**158,687**	54,828		
Total Assets								**159,450**	55,474		
Financial liabilities											
Payables	13			**-**	-	**396**	440	**396**	440	**n/a**	n/a
Total		**-**	-	**-**		**396**	440	**396**	440		
Total Liabilities								**48,174**	37,310		

(b) Net fair values of financial assets and liabilities

	Notes	Total carrying amount 2005 $'000	Aggregate net fair value 2005 $'000	Total carrying amount 2004 $'000	Aggregate net fair value 2004 $'000
Financial assets					
Cash at bank and on hand	6	**34,511**	**34,511**	30,631	30,631
Receivables (net)	7	**24,176**	**24,176**	24,197	24,197
Investments	8	**100,000**	**100,000**	-	-
Total		**158,687**	**158,687**	54,828	54,828
Financial liabilities					
Payables	13	**396**	**396**	440	440
Total		**396**	**396**	440	440

Financial assets

The net fair values of cash at bank and non interest bearing monetary financial assets are recognised at their carrying amounts.

Financial liabilities

The net fair value for payables, all of which are short term in nature, are recognised at their carrying amounts.

(c) Credit risk exposures

ARPC's maximum exposures to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position.

ARPC has no significant exposures to any concentration of credit risk.