ARPC

AUSTRALIAN REINSURANCE POOL CORPORATION

ANNUAL REPORT 2005-06

ISBN 0 642 74358 4

A copy of this document appears on the Australian Reinsurance Pool Corporation website (www.arpc.gov.au)

Printed by National Capital Printing

Australian Government

Australian Reinsurance Pool Corporation

26 September 2006

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 2006. 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 AM
Chair

Correspondence to: GPO Box 3024, CANBERRA ACT 2601
13 London Circuit, CANBERRA ACT 2600
Telephone: (02) 6279 2100 Facsimile: (02) 6279 2111 Email: arpc@treasury.gov.au
ABN 74807136872
www.arpc.gov.au

CONTENTS

Report from the Chair

It gives me great pleasure to present ARPC's third annual report.

ARPC continues to go from strength to strength. During 2005-06 ARPC recorded $103.204 million in gross written premium. As at 30 June 2006 the reserve for claims stood at $220.697 million and ARPC had 221 active treaties.

I am also pleased to report that the Treasurer re-appointed myself as part-time Chair and Mr Lumsden and Ms Micalizzi as part-time Members for further three year terms from 1 July 2006.

On 30 June 2006 ARPC completed three years of operations. Section 41 of the *Terrorism Insurance Act 2003* requires the Minister to prepare a report that reviews the need for the Act to continue in operation. During the first half of 2006, Treasury conducted a review of the Act and the scheme established by it. As part of its review Treasury consulted directly with key stakeholders, including representatives of insureds, brokers, banks, insurers, reinsurers and relevant Government agencies. It is pleasing to note that the review found that ARPC is well regarded by stakeholders and is considered to be efficient and prudent.

Following the Treasury review, the Treasurer (as responsible Minister) prepared the report required by section 41 of the Act. The report recommended that the Act continue in operation, subject to a further review in no more than three years. This recommendation, and all other recommendations contained in the report, have been accepted by Government. The report was released on 15 September 2006.

The term of office of Mr Neil Weeks as Chief Executive was due to expire on 30 June 2007. By agreement between the Members and Mr Weeks, this term has been extended to 31 March 2009. I am pleased that ARPC will continue to benefit from Mr Weeks' professionalism, enthusiasm and commitment to excellence.

Mr Weeks and I continue to work together to ensure that contact is maintained with industry and Government bodies in Australia and with various bodies overseas which perform a function similar to that of ARPC.

My appointment as a member of the Business-Government Advisory Group on National Security will strengthen ARPC's relationships with industry and Government bodies. Mr Weeks has been appointed as a member of the High Level Advisory Board of the OECD Network on the Financial Management of Large-scale Catastrophes. This appointment will ensure that ARPC is a part of a global network pursuing a project on the financial prevention, management and compensation of large-scale disasters, covering natural catastrophes, accidental man-made disasters and terrorist acts.

In addition, ARPC will continue to ensure that insurance companies writing eligible insurance contracts are aware of the scheme established by the Act and ARPC's role in administering the scheme. To this end, ARPC will continue the extensive speaking program undertaken by the Chief Executive Officer and the Client Service Manager as well as continuing client visits, including visits undertaken in conjunction with the cedant review program.

I have enjoyed working with my fellow Members and the Chief Executive for the past three years. Together we have developed ARPC into an organisation with firmly established and sound reinsurance, administrative and governance practices. I look forward to working with Members and staff of ARPC in the coming three years to further develop and enhance ARPC and the scheme it administers.

J I Gersh AM
Chair
26 September 2006

Report from the Chief Executive

ARPC continues to operate successfully. As required by the *Terrorism Insurance Act 2003*, the Treasurer prepared a report on the necessity for the Act to continue. That report is discussed in some detail in Chapter 1. However, it is worth noting that the scheme is considered by the industry to be very successful and ARPC is well regarded by its clients and other stakeholders. This is due, in no small measure, to the calibre of ARPC's staff. I thank all ARPC's staff for their commitment and loyalty, both to ARPC and to me personally.

The Treasurer's report includes a refinement to the scope of the scheme and measures to encourage greater involvement of the commercial market in providing terrorism risk cover. ARPC will work with clients to ensure that the measures are understood and assist where it can in their implementation.

The Client Service Manager and I will 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.

ARPC continues to publish its quarterly newsletter with a view to keeping clients and other stakeholders informed on ARPC, its operations and its product. The newsletter is posted on ARPC's website to ensure ease of access to relevant information to any interested party.

Stage 3 of ARPC's cedant review program has been completed. The program has included reviews of all Australian, New Zealand, Singaporean and Irish cedants as well as many Lloyd's syndicates. 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.

During 2006-07 the cedant review program will focus on revisiting cedants where agreement had been reached about the implementation of recommendations made during the initial review. ARPC's review team will contact those clients to be reviewed to arrange a mutually convenient time for their visit.

This is the second year ARPC's web-based annual aggregate report submission facility has been used. The system was introduced to assist clients in compiling and submitting the annual aggregate reports required by the reinsurance agreement. The system was reviewed and certain features enhanced during 2005-06 and it is pleasing to report that the system has been well received and effectively utilised 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.

It has given me great pleasure to be involved in the establishment of what is a very successful organisation. Implementing a new Act, establishing a new statutory authority, promoting the scheme and introducing a new reinsurance product to the Australian market have made the last three years both challenging and rewarding. The next year will involve working with staff and clients to give effect to the recommendations contained in the Treasurer's report. This, too, will ensure interesting and rewarding times for the organisation and its people.

I also wish to thank the Chair and other Members for their continued support and guidance.

I look forward to continuing my association with a very friendly and professional group of colleagues in ensuring ARPC maintains its high standards in the administration of the scheme and continues to enjoy the confidence of all its stakeholders.

N E Weeks
Chief Executive
26 September 2006

Report of operations

The Members of the Australian Reinsurance Pool Corporation are pleased to present their annual report on the operations of the Corporation for the financial year ended 30 June 2006. This report is made in accordance with a resolution of the Members.

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 AM
Chair

26 September 2006

A J Lumsden
Member and Chair of the Audit and Compliance Committee
26 September 2006

Chapter 1: Overview

Role and functions

Background

The *Terrorism Insurance Act 2003* (TI Act) establishes a scheme for replacement terrorism insurance coverage for commercial property and business interruption. The scheme commenced on 1 July 2003.

The TI Act also establishes ARPC as a statutory authority to administer the scheme. ARPC 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 by virtue of the operation of the TI Act and that, if the exposure is not reinsured with ARPC, the insurer has made a conscious decision not to accept ARPC's offer of reinsurance.

A key objective is to ensure that ARPC is in a position to pay claims in an equitable and timely manner.

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;
- to 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 accurately estimate the likely damage 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 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. Conversely, if a terrorist act involved biological contamination and the underlying insurance policy does not include cover for biological contamination, then the reinsurance provided by the scheme would not respond.

The compulsory application of the scheme 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 uncertainty 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, eligible property that is owned by the insured;
- business interruption and consequential loss arising from:
  - loss of, or damage to, eligible property that is owned or occupied by the insured; or
  - inability to use eligible property, or part of eligible property, that is owned or occupied by the insured; and
- liability of the insured that arises out of the insured being the owner or occupier of eligible property.

The TI Act includes (at section 5) a definition of *terrorist act*. In order to have consistency across Commonwealth legislation, the definition draws on the meaning of terrorist act contained in the Criminal Code. The Minister, in consultation with the Attorney-General, determines whether a terrorist act has happened in Australia. Once that determination has been made the Minister will announce a declared terrorist incident under section 6 of the TI Act. Upon that declaration, the provisions of the TI Act in respect of eligible terrorism losses become effective.

The scheme covers eligible terrorism losses for any declared terrorist incident covered by an eligible insurance contract where the insurer has a reinsurance agreement with ARPC. The TI Act excludes from the definition of eligible terrorism losses any loss or liability arising from the hazardous properties (including radioactive, toxic or explosive properties) of nuclear fuel, nuclear material or nuclear waste.

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 which write eligible insurance contracts may reinsure through ARPC the risk of claims for eligible terrorism losses. Premium income will build up ARPC's first layer of funds 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.

Reduction percentage

If the Minister considers that, in the absence of a reduction percentage, the total amounts paid or payable by the Commonwealth under the guarantee contained in section 35 of the TI Act would exceed $10 billion, then the announcement of a declared terrorist incident must be accompanied by the specification of a reduction percentage. The effect of a reduction percentage is to reduce the amounts payable under eligible insurance contracts as a result of eligible terrorism losses. The reduction percentage may be varied, but only by making it smaller.

Retentions

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

The report *Terrorism Insurance Act Review: 2006* contains a recommendation that retentions be progressively raised over the next three years. The proposed increased retentions are discussed later in this chapter.

Layers of the scheme

The scheme effectively provides a six-layer model that operates to spread the cost of any claims.

Layer	Element
First layer	Policyholder's liability for some risk through a possible excess or deductible
Second layer	Retention of some risk by insurers
Third layer	Pool of premiums paid to ARPC for reinsurance
Fourth layer	Commercial line of credit for $1 billion funded by the pool of premiums
Fifth layer	Commonwealth indemnity for up to $9 billion
Sixth layer	Possible liability for some risk by policyholder, through the operation of the reduction percentage or policy limits

As noted above, a commercial policy holder retains some risk. For example:

- there may be an excess or deductible set in the insurance policy;
- a commercial policy holder will not receive a full payout under the insurance policy if a reduction percentage is specified; and
- the actual loss may be greater than the upper limit of cover provided by the policy.

Premiums

The premium charged for reinsurance is determined by Ministerial direction. The premiums have been set having regard to the level of risk. There are three broad tiers based on geographic location and 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 was conducted by Treasury during 2005-06. As a result of this review, the Treasurer (as the responsible Minister) prepared the report required by the TI Act.

The report includes comprehensive coverage of the background to the introduction of the scheme, the scheme itself and international approaches to terrorism insurance schemes. However, the primary purpose of the review was to consider the need for the TI Act to continue in operation. The stakeholders consulted by Treasury during the conduct of the review included insurers, reinsurers, brokers, industry associations and regulators.

After reviewing the Australian terrorism insurance market, considering international terrorism insurance schemes and holding discussions with the stakeholders noted above, the review concluded that there is still a need for the Act to continue in operation. Terrorism risk continues to be excluded from all-risks cover. There appears to be some capacity in the stand alone market, but the capacity is limited and relatively expensive. The report cites the argument put by insurers that terrorism insurance is not widely available or affordable. It notes that it is unlikely that an adequate supply of terrorism risk insurance will return in the short to medium term. For these reasons, the report recommends that the TI Act continue in operation, subject to a further review in no more than three years as required by the TI Act.

As noted above, the Government's intention is to continue the scheme only while terrorism insurance is unavailable commercially on reasonable terms. Consequently, there is concern to ensure that the scheme does not crowd out the commercial market.

The report recommends that private sector involvement is to be encouraged to the greatest extent possible. However, it is not a question of a complete withdrawal by the Government versus the continued operation of the scheme in its present form. There may be options for a staged reduction in Government involvement. Methods of reducing Government intervention are likely to be considered during the next review of the scheme.

Because the reinsurance industry is focused on accurately pricing its products and quantifying aggregate exposures, it is important for ARPC to develop the capability to understand its overall risks and to accurately report on aggregate exposure within each premium tier. This information would be useful in encouraging reinsurers back into the terrorism reinsurance market.

The Government has accepted the report's recommendation that the Act continue in operation, subject to a further review in no more than three years.

After reaching the conclusion that the Act should continue in operation, the review then considered refinements which could be made to enhance the scheme and means by which commercial involvement could be encouraged.

Possible refinements considered

Insurance for public authorities

The report notes the concern that the scheme covers commercial insurance relating to some, but not all, public authorities. After analysis of the issues, it was considered that the scheme did not treat all commercial property and infrastructure consistently. To rectify this inconsistency and assist ARPC to further diversify its risks the report recommends that the scheme be extended to all public authorities which have taken out commercial insurance.

Recommendation 1

That the scope of the scheme be extended to cover commercial insurance provided in relation to all public authorities.

Insurance for high-rise residential buildings

The Government considers that the withdrawal of terrorism insurance is a market failure. However, it is the effect of the market failure that will determine whether Government intervention is warranted. The scheme was established to ensure that terrorism cover is available for commercial property because the withdrawal of terrorism cover was having a negative impact on the commercial property market. The report concludes that there is no such detrimental impact on the Australian economy by the lack of terrorism cover for residential high rise buildings. Consequently, the report did not recommend extending the scheme to cover high-rise residential buildings.

Access to the scheme by non-insurers

The report considered access to the scheme by discretionary mutual funds (DMFs). DMFs structure their business to avoid insurance regulation and it is this choice of structure which excludes them from the scheme. Allowing DMFs access to the scheme would require legislative amendments which would be complex and costly. The costs associated with allowing DMFs access to the scheme are considered to outweigh the benefits. Consequently, the report did not recommend extending the scheme to cover DMF products.

Possible means of encouraging commercial involvements

Continued collection of reinsurance premiums

If ARPC ceased collecting premiums for the reinsurance cover it provides, it would be assuming risk at no cost to insurers. This is inconsistent with two key principles of the scheme. Firstly, it would not encourage involvement of the commercial market because it would be impossible for commercial reinsurers to compete with the product offered by ARPC. Secondly, the Government would not be compensated by those benefiting from the scheme. To ensure that the principles of the scheme are not compromised, the value of the scheme is not eroded by the pool not keeping pace with the value of the risk covered and to encourage commercial market involvement, the report recommended that ARPC continue to collect premiums.

Recommendation 2

That the ARPC continues collecting premiums at the current rates, subject to further review in (no more than) three years. Once the pool reaches $300 million, the ARPC should be able to use its discretion to determine whether to use premiums to build the pool further, purchase reinsurance for the scheme or undertake a combination of the two.

Increase scheme retentions

By industry and international standards, the insurance retentions set by the scheme are low. Increasing scheme retentions will encourage commercial market involvement, bring scheme retentions more into line with commercial reinsurance retentions and is consistent with the actions of comparable schemes overseas. The report recommended that retentions be increased incrementally.

Recommendation 3

That insurer retentions under the scheme be increased in three increments (with effect, respectively, from 1 July 2007, 1 July 2008 and 1 July 2009), as follows:

Date	Annual insurer retention		Maximum industry retention per incident
	Minimum	Maximum	
Current	Nil	The lesser of $1 million or 4 per cent of fire and ISR premiums collected	$10 million
1 July 2007	$100,000	The lesser of $1 million or 4 per cent of fire and ISR premiums collected	$25 million
1 July 2008	$100,000	The lesser of $5 million or 4 per cent of fire and ISR premiums collected	$50 million
1 July 2009	$100,000	The lesser of $10 million or 4 per cent of fire and ISR premiums collected	$100 million

Premiums on bundled insurance products

Some insurers have structured their commercial insurance policies with many policy sections from which insureds select those sections which suit their needs. Each section is separately rated and some exclude terrorism cover and some do not. The policy sections chosen become one bundled insurance policy. Under the current legislation, regulations and Ministerial directions, a bundled insurance policy is one eligible insurance contract for the purposes of the TI Act and the reinsurance premium is calculated on the base written premium for the entire policy. This pricing structure discourages the commercial market from retaining some terrorism insurance risk. This is not consistent with the policy intent of encouraging greater commercial insurance market involvement.

Recommendation 4

That the ARPC be required to charge reinsurance premiums on only those sections of a bundled policy that exclude terrorism risks.

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 AM, Chair — appointed 1 July 2003

Mr Gersh was re-appointed to the position of part-time Chair for a period of three years commencing 1 July 2006.

Mr Gersh 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 Executive Chairman of Gersh Investment Partners Limited and currently has a range of directorships, including the Payments System Board of the Reserve Bank of Australia.

Mr Andrew Lumsden — appointed 1 July 2003

Mr Lumsden was re-appointed to the position of part-time Member for a period of three years commencing on 1 July 2006.

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 was re-appointed to the position of part-time Member for a period of three years commencing on 1 July 2006.

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 was re-appointed to the position of part-time Member for a period of three years commencing on 25 April 2005.

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 was appointed to the position of part-time Member for a period of three years commencing on 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 was appointed to the position of part-time Member for a period of three years commencing on 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 three part-time and ten full-time employees (including the Chief Executive). An organisational chart is attached at Appendix 1.

Ten 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

	2006 $'000	2005 $'000
Net premium revenue	**102,537**	91,321
Acquisition costs	**(930)**	(532)
Investment income	**10,833**	4,790
Other income	**15**	
Other operating expenses	**(3,034)**	(2,467)
Operating result	**109,421**	93,112
Gross written premium	**103,204**	102,188
Expense ratio	**3.87%**	3.28%
Cash and cash equivalents	**67,254**	34,511
Investments	**187,867**	100,000
Reserve for claims	**220,697**	111,276

This is ARPC's third financial year and significant progress continues to be made in building the reserve for claims. During 2005-06 the reserve for claims increased to $220.697 million after the operating result of $109.421 million was transferred to the reserve.

The gross written premium for the financial year recorded an increase of 1 per cent to $103.204 million. Included in this total is the estimate for unclosed business of $24.294 million (2005: $24.056 million). The premium collection patterns for 2005-06 have been consistent with those recorded in 2004-05 and in the latter half of 2003-04 when premium collections commenced.

Investment income increased significantly over last year's result to $10.833 million (2005: $4,790 million). The main reason for the increase is the growing size of the pool of funds. In addition, ARPC has increased its use of fixed term deposits with the Reserve Bank of Australia. On 15 May 2006, ARPC appointed a professional funds manager to manage a portion of its portfolio.

ARPC's expense ratio for 2005-06 is 3.87 per cent (2005: 3.28 per cent). This result continues to reflect the efforts made to control expenses whilst ensuring ARPC is in a position to meet its statutory obligations.

During 2005-06, ARPC invited proposals from selected investment specialists for an investment strategy which would allow ARPC to appoint a professional funds manager, while ensuring that all funds are invested in accordance with section 18 of the *Commonwealth Authorities and Companies Act 1997* (CAC Act). A panel consisting of the Chief Executive Officer, the Chief Financial Officer and a member of the Audit and Compliance Committee reviewed all the submissions. The panel considered that only one submission attempted to comply with the CAC Act in such a way that would not required the approval of the Finance Minister under section 18(3)(d) of the CAC Act. The only area of non-compliance was that the proposal included the appointment of a custodian, which is industry standard practice. Custodial arrangements do not comply with the CAC Act because there is no direct relationship between the investor and the vehicle in which the funds are invested. This issue was resolved through an arrangement which does not involve the appointment of a custodian and which provides for investments being held directly by ARPC.

ARPC sought advice from the Department of Finance and Administration, the Department of the Treasury, the Australian National Audit Office and the Australian Government Solicitor in relation to the investment proposal. ARPC was advised that the investment proposal complied with section 18 of the CAC Act and that there were no legislative or policy impediments to ARPC investing in the manner proposed.

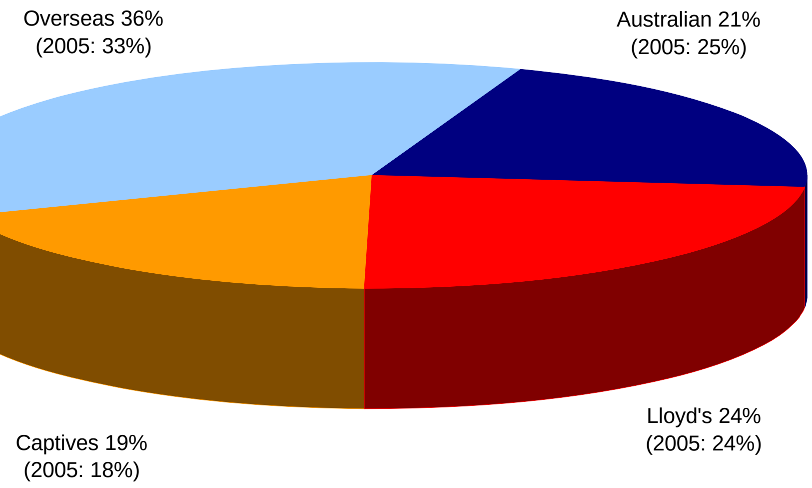
A formal investment management agreement was drafted by the funds manager and reviewed on behalf of ARPC by the Australian Government Solicitor. That agreement was entered into between ARPC and Suncorp Metway Investment Management Limited on 15 May 2006.

To date, $100 million has been allocated to the funds manager. The balance of ARPC's funds is held with the Reserve Bank of Australia in a mixture of term deposits and cash.

Cedant and premium income information

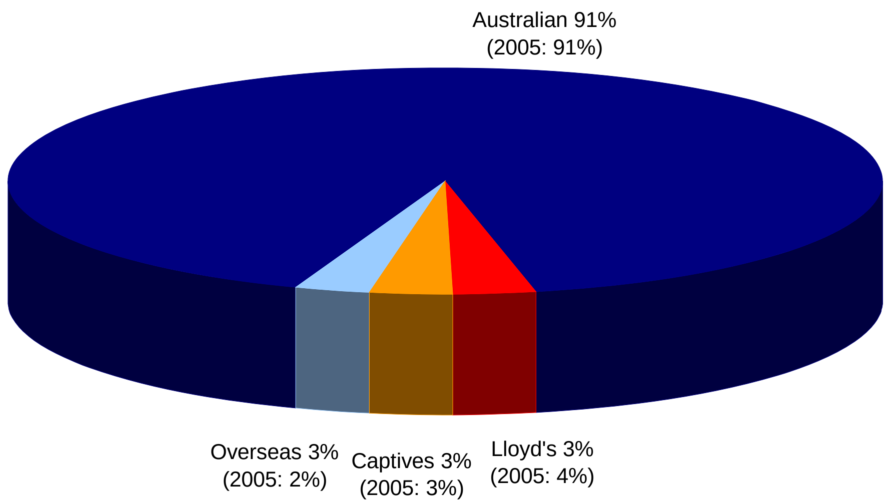
As at 30 June 2006 ARPC had 221 (2005: 219) active treaties in place. The proportion of Australian cedants reduced slightly to 21 per cent while oversees cedants increased to 36 per cent.

Chart 1: Number of cedants



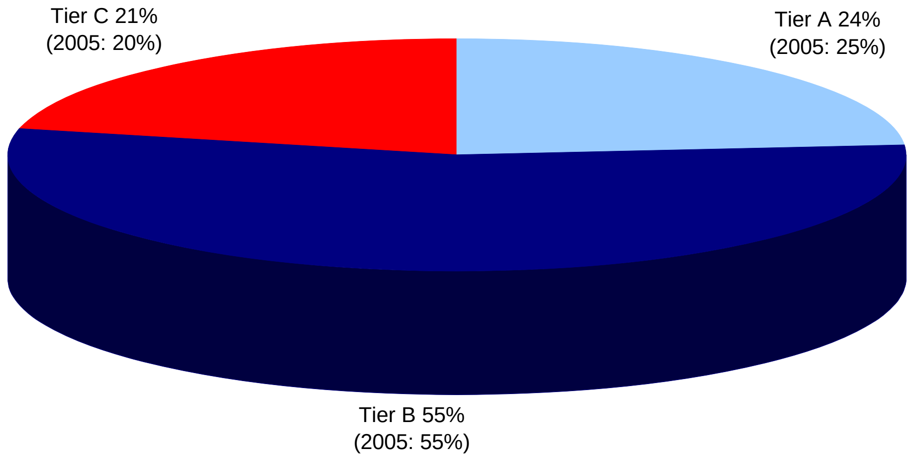
While the percentage of Australian cedants reduced slightly, they continue to account for 91 per cent of gross written premium.

Chart 2: Gross written premium by cedant type



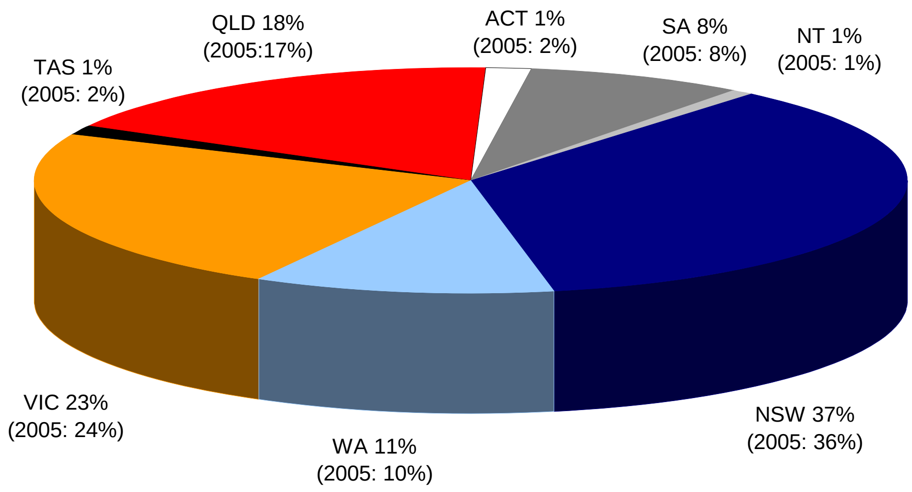
The collection pattern for tiers A, B and C for 2005-06 maintained its consistency with prior years.

Chart 3: Gross written premium by tier



This consistent trend is also apparent in the gross written premium collections by State. ARPC will continue to monitor collection trends.

Chart 4: Gross written premium by State



Loss information

Work is being undertaken to ensure that ARPC will be in a position to estimate the magnitude of its probable losses in the event of a declared terrorist incident.

To this end, ARPC engaged Finity Consulting Pty Ltd to assist it in estimating losses using average floor area values for high profile buildings, the expected contents values by floor and an average business interruption figure. This work resulted in a high level estimate of damage if a particular building was completely destroyed.

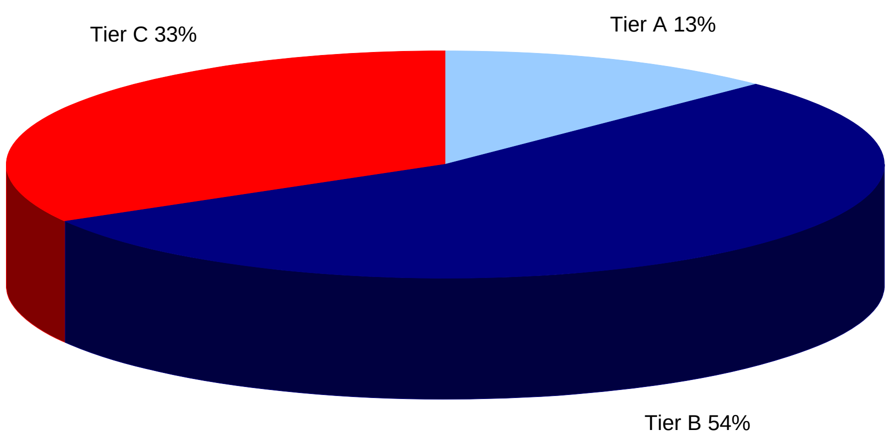
The standard reinsurance agreement requires clients to provide to ARPC an annual report on the total sums insured by the client under the relevant eligible insurance contracts by reference to postcode. This annual aggregate report is delivered to ARPC via a secure link on its website and provides the information required to produce the graphs shown at Chart 5 and Chart 6.

ARPC is seeking to supplement the aggregate information with more detailed street address information and is working with selected clients to achieve this outcome. ARPC appreciates the co-operation and assistance afforded to it by clients in the provision of this information.

ARPC will continue to investigate methods to more accurately estimate its exposures.

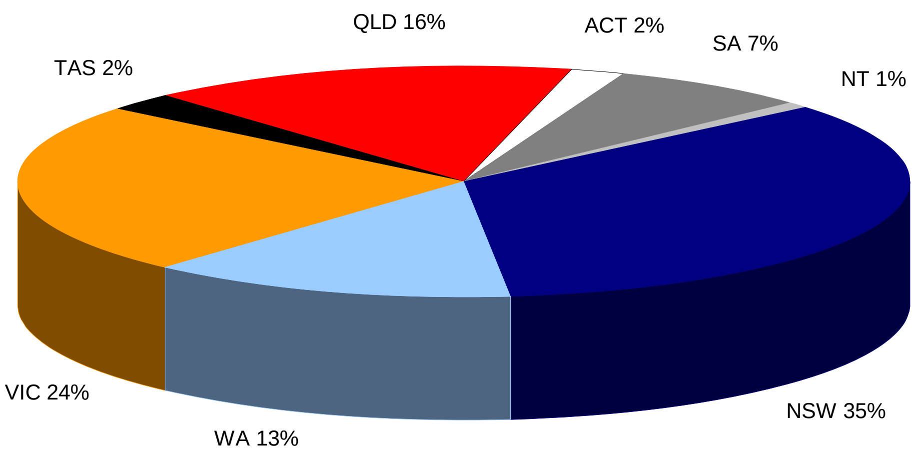
ARPC's largest gross exposure is in Tier B, with Tier A accounting for only 13 per cent.

Chart 5: Aggregate exposure by tier as at 30 June 2005



There is a correlation between the aggregate exposure by State and the premium collection by State. Victoria cedes 23 per cent of premium and represents 24 per cent of aggregate exposure, while NSW cedes 37 per cent of premium and represents 35 per cent of aggregate exposure.

Chart 5: Aggregate exposure by State as at 30 June 2005



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. The incorrect calculation of premiums could have a negative effect on ARPC's premium income. ARPC's cedant review program addresses, inter alia, the identification of eligible policies for the purpose of ceding terrorism reinsurance premium to ARPC and premium calculation and remittance.

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 financial 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

Because of the substantial market penetration which was achieved in its first two years of operation, ARPC is confident that all insurers which write eligible insurance contracts have had the opportunity to reinsure their terrorism risk with 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 industry 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 which write eligible insurance contracts. The awareness campaign includes initiating and maintaining contact with industry bodies, delivering presentations and addresses to industry bodies and individual insurers and conducting an 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.

ARPC will work closely with the industry and clients to ensure there is awareness of any changes made to the scheme as a result of the *Terrorism Insurance Act Review: 2006*. ARPC will do as much as it can to assist clients in their understanding of the impact any changes may have on their business.

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 AM, Chair — appointed 1 July 2003;

Mr Andrew Lumsden — appointed 1 July 2003;

Ms Marian Micalizzi — appointed 1 July 2003;

Mr James Murphy — appointed 1 July 2003;

Ms Margot Rathbone — appointed 25 April 2005; and

Mr Geoff Vogt — appointed 29 August 2005;

Back row: Joe Gersh (Chair), Geoff Vogt, Andrew Lumsden, Jim Murphy
Seated: Neil Weeks (CEO), Margot Rathbone, Marian Micalizzi

There were six meetings of Members held during 2005-06. 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 AM	6	6
Mr Andrew Lumsden	6	6
Ms Marian Micalizzi	6	6
Mr James Murphy	6	6
Ms Margot Rathbone	6	5
Mr Geoff Vogt	5	5

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 charter was reviewed by Members in 2005-06.
- The delegation of powers and functions to the Chief Executive has been documented in a delegations authority.
- Certain matters are reserved for Members.

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

- During 2005-06 the Members commissioned an external evaluation of their performance. The evaluation addressed such issues as culture, values, skills and diversity, structure, information flows and conduct of meetings. The consultant conducted interviews with each Member, the Chief Executive and senior staff members.
- The consultant's report was presented to and discussed at the Members' meeting held on 28 February 2006.

- 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 and private sectors.

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. The terms of reference of each committee were reviewed by Members during 2005-06.

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.

Miarian Micalizzi, Andrew Lumsden, Jim Murphy

There were three meetings of the Committee held during 2005-06. 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	3	3
Ms Marian Micalizzi	3	3
Mr James Murphy	3	3

Risk Committee

The purpose of the Committee is to:

(a) review and endorse ARPC's risk management framework to ensure that appropriate strategies are in place for identification, assessment and mitigation of risk;

(b) identify and understand the risks faced by ARPC in meeting its goals;

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

(d) encourage the adoption of an effective risk management culture within ARPC.

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.

There was one meetings of the committee held during 2005-06. 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 Joseph Gersh AM	1	1
Mr Andrew Lumsden	1	1
Ms Marian Micalizzi	1	1
Mr James Murphy	1	1
Ms Margot Rathbone	1	1
Mr Geoff Vogt	1	1

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) exercise the powers and discharge the duties of office:

(i) with due care and diligence;

(ii) in good faith in the best interests of ARPC; and

(iii) for a proper purpose;

(b) not improperly use their position;

(c) not improperly use information gained as a result of holding the position;

(d) act honestly and ethically;

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

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

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

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

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

Internal audit

ARPC has appointed Ernst & Young as its internal auditors. During 2005-06 Ernst & Young reviewed:

(a) ARPC's premium collection process, including IT security;

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

(c) ARPC's financial statements and notes to the accounts.

In consultation with management and the Audit and Compliance Committee, an internal audit program for 2006-2009 has been developed. In addition to general audit management and a review of the financial statements, the plan provides for the following audit reviews to be undertaken during 2006-07:

(a) business continuity planning;

(b) ARPC's investment strategy;

(c) the premium collection process; and

(d) administrative functions, including management of ARPC's service level agreement with Treasury.

Risk management

During 2005-06 ARPC reviewed its risk management policy and strategy and conducted a comprehensive risk management assessment and analysis. The mitigation strategies and risk treatment plans were reconsidered and revised as necessary and the risk registered updated. ARPC will continue to monitor its risk management strategies and treatment plans to ensure that its risks are being managed appropriately.

Business continuity

During 2005-6 ARPC documented its business processes to ensure that all processes can be recovered within the timeframes ARPC considers acceptable for its business continuity purposes. This work was incorporated into ARPC's business continuity plan. The plan will be reviewed and tested during 2006-07 as part of Ernst & Young's internal audit program.

Promoting an ethical working environment

Employees are bound by ARPC's code of conduct and values which have been formally documented.

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.

With assistance from Ernst & Young, and in accordance with the *Commonwealth Fraud Control Guidelines (2002)*, ARPC developed a fraud control plan. The plan includes policies, procedures and guidelines to advise staff of the steps to be taken if a fraud is suspected or a breach of ARPC's code of conduct is alleged. The policies include whistleblower protection.

Cedant review program

ARPC's cedant review program was introduced with the intention of assisting 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. We do this by assisting clients to raise their awareness of the processes involved in premium calculation, premium remittance, aggregate reporting and claims procedures. ARPC has found all clients to be extremely receptive, helpful and co-operative. The program has achieved its objective of enhancing the collegiate relationship between ARPC and its clients.

To date, the program has included reviews of all Australian, New Zealand, Singaporean and Irish cedants as well as many Lloyd's syndicates. The results of the reviews revealed few systemic problems. The issues raised in the reviews mainly revolved around:

(a) correctly allocating policies to postcode locations and, consequently, calculating premium in the correct tier band; and

(b) inability to reconcile the terrorism insurance premium with gross written premium.

Recommendations were made to clients to rectify these issues and, in the vast majority of cases, all recommendations were accepted.

Because a large percentage of clients have been visited during the review program with few systemic problems emerging, ARPC is changing the focus of the cedant review program. During 2006-07 the program will concentrate on revisiting cedants where agreement has been reached about the implementation of recommendations made during the initial review.

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 2006.

The two written directions given by the responsible Minister on 30 September 2003 remain in force. Those directions are in respect of retained risk and premiums.

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/industrial special 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*.

Chapter 4: General information

Human resource management

All staff, except the Chief Executive, are employed on fixed term contracts that expire on 30 June 2009. This date coincides with the date on which the next review of ARPC and its legislation is likely to occur. Each staff member also benefits from an individual Australian workplace agreement which sets out the employee's terms and conditions of employment.

The Chief Executive's second term of office was due to expire on 30 June 2007. By mutual agreement between the Members and the Chief Executive, this term has been extended to 31 March 2009.

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

There is one formal appraisal in each year. An informal discussion is conducted between formal appraisals. The purpose of this discussion is to consider how the employee is performing against the benchmarks agreed at the formal appraisal, to identify any impediments to performance and means to overcome those impediments.

Training and development

ARPC recognises the value of investing in staff and career development to maximise the performance of the ARPC and its attractiveness as an employer.

ARPC is committed to staff training and development including leadership development, skills development training and relevant technical training and support. It also supports staff attendance at industry conferences, seminars and external courses.

ARPC provides support, in the form of leave and financial assistance, to staff undertaking part time courses of study that will enhance their contribution to ARPC.

Studies assistance is an integral part of ARPC's human resources strategy, as it responds to the staff development needs identified through such means as corporate planning, performance management and career development processes.

ARPC has an agreement with the Australian and New Zealand Institute of Insurance and Finance, a leading provider of insurance education, training and professional services, to provide staff with an online learning facility *InSite*. The InSite Continuing Education and Learning Management System has been developed specifically to address the ongoing education and training requirements in the financial services reform environment. ARPC encourages staff to use the InSite learning facility to further develop knowledge in insurance and finance.

Occupational health and safety

ARPC is committed to providing a safe and healthy workplace for all its employees. It will take all reasonable, practical, effective and efficient steps to do so.

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 2005-06, ARPC received one accident or incident report which resulted 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 2005-06, no directions were given under section 45 and no notices were given under sections 29, 46 or 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 during 2005-06.

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; and
- 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 2005-06, three of ARPC's 13 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.

Indemnities and insurance premiums for officers

ARPC has entered into a deed of indemnity with each of its Members. 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. ARPC decided to align the terms of all its insurance policies to provide for a common expiry date. Consequently, the directors' and officers' insurance policy was short termed to expire on 30 June 2006. The premium paid for the insurance, which includes liability for legal costs, was $26,691.58 (2005: $88,770).

Judicial and administrative decisions and reviews

During the year ended 30 June 2006, 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 implements strategies designed 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 2006. 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 2005-06 included:

- 2004-05 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 and other stakeholders.

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.

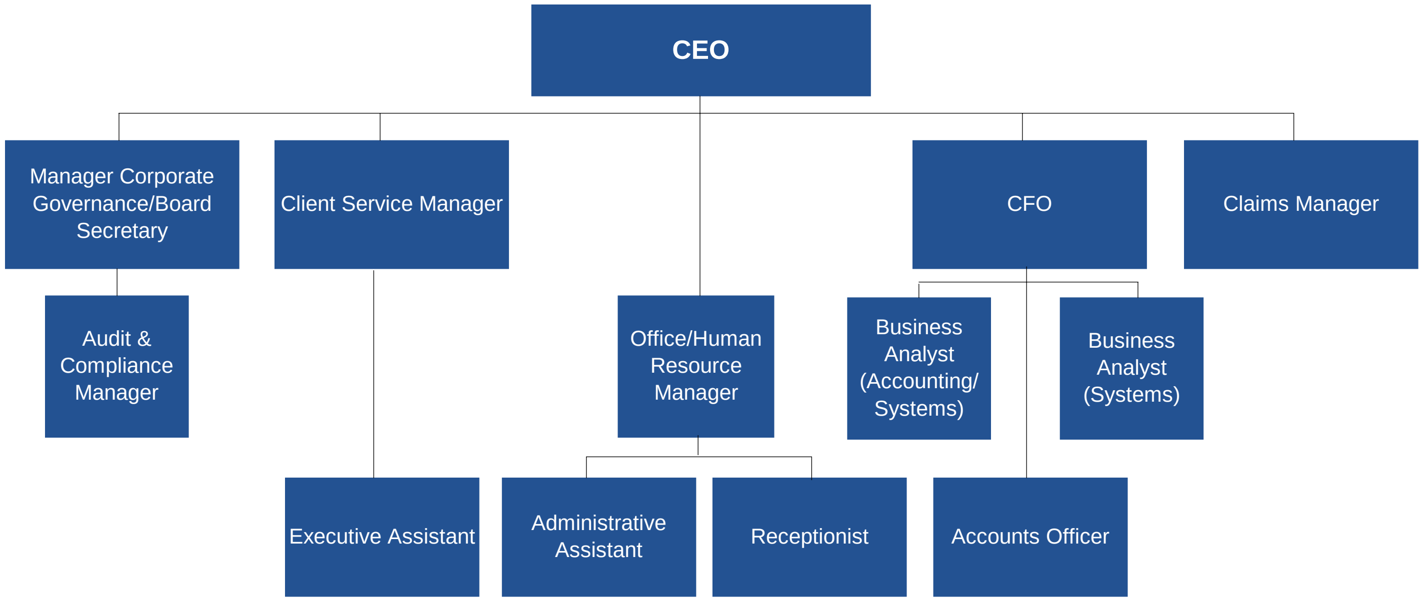
Freedom of information procedures and initial contact point

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

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 2006 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 Orders 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 the Australian Reinsurance Pool Corporation 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 AM	N E Weeks	T R Ament
Chair	Chief Executive	Chief Financial Officer
26 September 2006	26 September 2006	26 September 2006

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 2006. 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 Authority's annual report.

Scope

The financial statements and Members' responsibility

The financial statements comprise:

- Statement by Members;
- Income Statement, Balance Sheet and Cash Flow Statement;
- Statement of Changes in Equity;
- 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 2006.

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 the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, Accounting Standards and mandatory financial reporting requirements in Australia. 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 the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the Authority's financial position, and of its 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 2006 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

Warren Cochrane
Group Executive Director

Delegate of the Auditor-General

Canberra
26 September 2006

Income statement
as at 30 June 2006

	Notes	2006 $'000	2005 $'000
Premium revenue	5(a)	**102,537**	91,321
Outwards reinsurance expense		**-**	-
Net premium revenue		**102,537**	91,321
Claims expense		**-**	-
Reinsurance and other recoveries revenue		**-**	-
Net claims incurred		**-**	-
Acquisition costs	6(b)	**(930)**	(532)
Underwriting result		**101,607**	90,789
Investment income	5(b)	**10,833**	4,790
Other income	5(c)	**15**	-
Other operating expenses	6(b)	**(3,034)**	(2,467)
Operating result		**109,421**	93,112

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

Balance sheet
as at 30 June 2006

	Notes	2006 $'000	2005 $'000
Current assets			
Cash and cash equivalents	7	**67,254**	34,511
Receivables	8	**25,213**	24,176
Investments	9	**187,867**	100,000
Deferred acquisition costs	10	**820**	466
Other non-financial assets	11	**31**	66
Total current assets		**281,185**	159,219
Non-current assets			
Property plant and equipment	12(c)	**427**	152
Intangibles	12(d)	**85**	79
Total non-current assets		**512**	231
Total assets		**281,697**	159,450
Current liabilities			
Unearned premium liability	13	**48,350**	47,683
Payables	14	**12,389**	396
Other interest bearing liabilities	15	**13**	-
Employee provisions	16(a)	**133**	65
Total current liabilities		**60,885**	48,144
Non-current liabilities			
Other interest bearing liabilities	15	**6**	-
Employee provisions	16(a)	**68**	30
Other provisions	16(b)	**41**	-
Total non-current liabilities		**115**	30
Total liabilities		**61,000**	48,174
Net assets		**220,697**	111,276
Equity			
Accumulated reserves		**-**	-
Reserve for claims		**220,697**	111,276
Total equity		**220,697**	111,276

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

Statement of cash flows
for the year ended 30 June 2006

	Notes	2006 $'000	2005 $'000
Cash flows from operating activities			
Cash received			
Premiums received		**112,161**	111,391
Interest received		**10,257**	4,767
Total cash received		**122,418**	116,158
Cash used			
Creditors and employees		**4,043**	2,913
Interest and other costs of finance paid		**252**	250
Net goods and services tax paid to ATO		**9,180**	8,998
Total cash used		**13,475**	12,161
Net cash from or (used by) operating activities		**108,943**	103,997
Cash flows from investing activities			
Cash used			
Purchase of plant and equipment		**326**	36
Purchase of intangibles		**20**	81
Purchase of investments		**75,854**	100,000
Total cash used		**76,200**	100,117
Net cash from or (used by) investing activities		**(76,200)**	(100,117)
Net increase/(decrease) in cash held		**32,743**	3,880
Cash at the beginning of the reporting period		**34,511**	30,631
Cash at the end of the reporting period	7	**67,254**	34,511

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

Statement of changes in equity
for the year ended 30 June 2006

	Notes	Accumulated results		Reserve for claims		Total equity	
		2006	2005	**2006**	2005	**2006**	2005
		$'000	$'000	**$'000**	$'000	**$'000**	$'000
Opening balance		**-**	-	**111,276**	18,164	**111,276**	18,164
Income and expenses							
Net operating result		**109,421**	93,112	-	-	**109,421**	93,112
Total income and expenses		**109,421**	93,112	**-**	-	**109,421**	93,112
Transfers between equity components							
Transfer to reserve for claims	1(m)	**(109,421)**	(93,112)			**(109,421)**	(93,112)
Transfer to reserve for claims from accumulated results				**109,421**	93,112	**109,421**	93,112
Closing balance at 30 June		**-**	**-**	**220,697**	111,276	**220,697**	111,276

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

Schedule of commitments
as at 30 June 2006

	2006 $'000	2005 $'000
By type		
Other commitments		
Service level agreements *	**474**	609
Software license agreement**	**60**	-
Operating leases ***	**326**	651
Total other commitments	**860**	1,260
Commitments receivable	**78**	115
Net commitments by type	**782**	1,145
By maturity		
Service level agreements commitments		
One year or less	**284**	265
From one to five years	**190**	344
Total service level agreements commitments	**474**	609
Software licence agreement commitments		
One year or less	**30**	-
From one to five years	**30**	-
Total software licence agreement commitments	**60**	-
Operating lease commitments		
One year or less	**217**	217
From one to five years	**109**	434
Total operating lease commitments	**326**	651
Commitments receivable	**78**	115
Net commitments by maturity	**782**	1,145

NB: Commitments are GST inclusive where relevant.
* Outstanding contractual payments for service level agreements.
** Outstanding contractual payments for software licence agreement.
*** Operating leases included are effectively non-cancellable and comprise:

Nature of lease	*General description of leasing agreement*
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 2006

ARPC has no contingent assets or liabilities.

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

Notes to and forming part of the financial statements for the year ended 30 June 2006

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 TI Act effectively deems terrorism risk cover into eligible insurance contracts by rendering terrorism exclusions void. Insurance companies may reinsure this additional risk with ARPC.

ARPC has the power to do all things necessary in connection with the performance of its functions.

The following accounting policies have been adopted in the financial statements.

(a) Basis of preparation of the financial statements

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 (or FMOs, being the Financial Management and Accountability Orders (Financial Statements for reporting periods ending on or after 1 July 2005));

- Australian Accounting Standards issued by the Australian Accounting Standards Board that apply for the reporting period; and

- Interpretations issued by the AASB and UIG that apply for the reporting period.

This is the first financial report to be prepared under Australian Equivalents to International Financial Reporting Standards (AEIFRS). The impacts of adopting AEIFRS are disclosed in Note 2.

The Income Statement, Balance Sheet and Statement of Changes in Equity have been prepared on an accrual basis and are in accordance with historical cost convention, except for certain assets and liabilities, which as noted, are at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial report is presented in Australian dollars and values are rounded to the nearest thousand dollars unless disclosure of the full amount is specifically required.

Unless alternative treatment is specifically required by an accounting standard, assets and liabilities are recognised in the Balance Sheet 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. However, assets and liabilities arising under agreements equally proportionately unperformed are 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).

Unless alternative treatment is specifically required by an accounting standard, revenues and expenses are recognised in the Income Statement when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

(b) Going concern

These financial statements have been prepared on the basis that ARPC is a going concern.

(c) Significant accounting judgements and estimates

In the process of applying the accounting policies listed in this note, ARPC has made the following estimate based on historical experience and other factors that have the most significant impact on the amounts recorded in the financial statements:

- the unclosed business estimate required by note 1(e) for premium revenue was based on the previous year's actual unclosed business with due allowance made for any changes in the pattern of new business and renewals.

No accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next accounting period.

(d) Statement of compliance

The financial report complies with Australian Accounting Standards, which include AEIFRS.

Australian Accounting Standards require ARPC to disclose Australian Accounting Standards that have not been applied, for standards that have been issued but are not yet effective.

The AASB has issued amendments to existing standards, these amendments are denoted by year and then number, for example 2005-1 indicates amendment 1 issued in 2005.

The table below illustrates standards and amendments that will become effective for ARPC in the future. The nature of the impending change within the table, has been out of necessity abbreviated and users should consult the full version available on the AASB's website to identify the full impact of the change. The expected impact on the financial report of adoption of these standards is based on ARPC's initial assessment at this date, but may change. ARPC intends to adopt all of standards upon their application date.

Title	Standard affected	Application date*	Nature of impending change	Impact expected on financial report
2005-1	AASB 139	1 Jan 2006	Amends hedging requirements for foreign currency risk of a highly probable intra-group transaction.	No expected impact.
2005-4	AASB 139, AASB 132, AASB 1, AASB 1023 and AASB 1038	1 Jan 2006	Amends AASB 139, AASB 1023 and AASB 1038 to restrict the option to fair value through profit or loss and makes consequential amendments to AASB 1 and AASB 132.	No expected impact.
2005-5	AASB 1 and AASB 139	1 Jan 2006	Amends AASB 1 to allow an entity to determine whether an arrangement is, or contains, a lease. Amends AASB 139 to scope out a contractual right to receive reimbursement (in accordance with AASB 137) in the form of cash.	No expected impact.
2005-6	AASB 3	1 Jan 2006	Amends the scope to exclude business combinations involving entities or businesses under common control.	No expected impact.
2005-9	AASB 4, AASB 1023, AASB 139 and AASB 132	1 Jan 2006	Amended standards in regards to financial guarantee contracts.	No expected impact.
2005-10	AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038	1 Jan 2007	Amended requirements subsequent to the issuing of AASB 7.	No expected impact.

Title	Standard affected	Application date*	Nature of impending change	Impact expected on financial report
2006-1	AASB 121	31 Dec 2006	Changes in requirements for net investments in foreign subsidiaries depending on denominated currency.	No expected impact.
	AASB 7 Financial Instruments: Disclosures	1 Jan 2007	Revise the disclosure requirements for financial instruments from AASB132 requirements.	No expected impact.

* Application date is for annual reporting periods beginning on or after the date shown.

(e) 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 in the Income Statement. 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 2006 are recognised as premiums receivable in the Balance Sheet.

The proportion of premium received or receivable not earned in the Income Statement at the reporting date is recognised in the Balance Sheet as unearned premium.

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.

Premiums on unclosed business are brought to account using estimates based on the previous year's actual unclosed business with due allowance made for any changes in the pattern of new business and renewals.

Investment revenue

Interest revenue is recognised using the effective interest method as set out in AASB 139.

(f) 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 (2005: $0). Accordingly, there has been no write down in ARPC's deferred acquisition costs.

(g) Outstanding claims liability

The financial statements have not included a provision for outstanding claims (2005: $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 considers that there are no significant inherent uncertainties in respect of the liability estimate. Accordingly, ARPC has not applied a central estimate to the provision and has not, therefore, applied a prudential or safety margin in respect of the provision.

(h) Net claims incurred

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

(i) Assets backing general insurance liabilities

With the exception of property plant and equipment and intangibles, ARPC has determined that all assets are held to back general insurance liabilities and their accounting treatment is described below.

Financial assets

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

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

Cash

- 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.

Investments

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

- Government (guaranteed) securities are initially recognised at cost and the subsequent fair value is taken as the quoted bid price of the security at the Balance Sheet date. All Government securities are classified as available for sale.

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 Income Statement.

(j) Impairment of financial assets

As prescribed in the Finance Minister's Orders, ARPC has applied the option available under AASB 1 of adopting AASB 132 and 139 from 1 July 2005 rather than 1 July 2004.

Financial assets are assessed for impairment at each balance date.

Financial assets held at amortised cost

If there is objective evidence that an impairment loss has been incurred for receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount is reduced by way of an allowance account. The loss is recognised in profit and loss.

Available for sale financial assets

If there is objective evidence that an impairment loss on an available for sale financial asset has been incurred, the amount of the difference between its cost, less principal repayments and amortisation, and its current fair value, less any impairment loss previously recognised in profit and loss, is transferred from equity to the profit and loss.

Comparative year

The above policies were not applied for the comparative year. For receivables, amounts were recognised and carried at original invoice amount less a provision for doubtful debts based on an estimate made when collection of the full amount was no longer probable. Bad debts were written off as incurred.

Other financial assets carried at cost which were not held to generate net cash inflows, were assessed for indicators of impairment. Where such indicators were found to exist, the recoverable amount of the assets was estimated and compared to the assets carrying amount and, if less, reduced to the carrying amount. The reduction was shown as an impairment loss.

(k) Deferred acquisition costs

Acquisition costs are incurred in obtaining and recording policies of insurance. They include legal, advertising, risk assessment 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 where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the Income Statement in subsequent reporting periods. 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 corresponding premium revenue.

(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 (2005: $0).

(m) Reserves

The intention of the Government in establishing ARPC was that premiums would be used to fund a 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.

(n) Foreign currency

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

(o) Employee benefits

As required by the Finance Minister's Orders, ARPC has early adopted AASB 119 Employee Benefits as issued in December 2004.

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

Liabilities for 'short-term employee benefits' (as defined in AASB 119) and termination benefits due within twelve months of balance date are 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 2006. 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.

(p) 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 rewards incidental to ownership of leased non-current assets. An operating lease is a lease that is not a finance lease. In operating leases, the lessor effectively retains substantially all such risks and benefits.

ARPC entered into an operating lease agreement for office accommodation. Operating lease payments are expensed on a basis which is representative of the pattern of benefits derived from the leased assets.

(q) Financial risk management

ARPC's activities expose it to normal commercial financial risks. As a result of the nature of ARPC's business and internal and Australian Government policies, dealing with the management of financial risk, ARPC's exposure to credit, liquidity and cash flow and fair value interest rate risk is considered to be low.

(r) Derecognition of financial assets and liabilities

As prescribed in the Finance Minister's Orders, ARPC has applied the option available under AASB 1 of adopting AASB 132 and 139 from 1 July 2005 rather than 1 July 2004.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or the asset is transferred to another entity. In the case of a transfer to another entity, it is necessary that the risks and rewards of ownership are also transferred.

Financial liabilities are derecognised when the obligation under the contract is discharged or cancelled or expires.

No financial assets or liabilities were derecognised in these financial statements (2005:$0).

(s) Trade creditors

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 (irrespective of having been invoiced).

All payables are unsecured and are paid within credit terms.

(t) Contingent liabilities and contingent assets

Contingent liabilities and assets are not recognised in the Balance Sheet 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. A liability or asset is recognised when its existence is confirmed by a future event, settlement becomes probable (virtually certain for assets) or reliable measurement becomes possible.

There are no contingent liabilities or assets noted in these financial statements (2005: $0).

(u) Acquisition of assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor authority's accounts immediately prior to the restructuring.

(v) Property, plant and equipment

Asset recognition and threshold

Purchases of property, plant and equipment are recognised initially at cost in the Balance Sheet, 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).

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is particularly relevant to 'makegood' provisions in property leases taken up by ARPC where there exists an obligation to restore the property to its original condition. These costs are included in the value of ARPC's leasehold improvements with a corresponding provision for the 'makegood' taken up.

Revaluations

Basis

Plant and equipment are carried at fair value. Following initial recognition at cost, independent valuations are conducted with sufficient frequency to ensure that the carrying amount of assets do not differ materially from the asset's fair value at the reporting date. The regularity of independent valuation depends upon the volatility of movements in market values for the relevant assets. 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.

Fair values for each class of asset are determined as shown below:

Asset class	Fair value measured at
Leasehold improvements	Depreciated replacement cost
Plant & equipment	Market selling price

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised through profit and loss. Revaluation decrements for a class of assets are recognised directly through profit and loss except to the extent that they reverse a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the revalued amount.

Depreciation

Depreciable property plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to ARPC using, in all cases, the straight-line method of depreciation. Leasehold improvements are depreciated on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation rates (useful lives), residual values 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 the following useful lives:

	2006	2005
Leasehold Improvements	**Lease term**	Lease term
Plant and equipment	**3 to 7 years**	3 to 7 years

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 12.

Impairment

All assets were assessed for impairment at 30 June 2006. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if ARPC were deprived of the asset, its value in use is taken to be its depreciated replacement cost.

All property plant and equipment assets were assessed for indications of impairment as at 30 June 2006. There has been no impairment adjustment recognised in these financial statements (2005: $0).

(w) Intangibles

ARPC's intangibles comprise externally acquired and internally developed 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 4 years (2005: 4 years).

All software assets were assessed for indications of impairment as at 30 June 2006. There has been no impairment adjustment recognised in these financial statements (2005: $0).

(x) Taxation

Income tax

ARPC is exempt from income tax by virtue of section 36 of the TI Act. ARPC is subject to fringe benefits tax and the goods and services tax (GST).

Goods and services tax

Revenues, expenses and assets are recognised net of the amount of 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 Balance Sheet. 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.

(y) Rounding of amounts

Amounts in these financial statements 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: The impact of the transition to AEIFRS from previous AGAAP 2005-06

	2005	2004
	$'000	$'000
Reconciliation of total equity as presented under previous AGAAP to that under AEIFRS		
Total equity under previous AGAAP	111,276	18,164
Adjustments to accmulated results	-	-
Adjustments to reserves for claims *	-	(16)
Total equity translated to AEIFRS	111,276	18,148
Reconciliation of operating result as presented under previous AGAAP to AEIFRS		
Prior year operating result as previously reported	93,112	
Nil adjustments	-	
Prior year operating result translated to AEIFRS	93,112	

The Statement of Cash Flows presented under previous AGAAP is equivalent to that prepared under AEIFRS.

* The Finance Minister's Orders 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.

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: Insurance contracts — risk management

The financial condition and operation of ARPC is affected by a number of key risks including insurance risk, liquidity risk, compliance risk, operational risk, interest rate risk and credit risk. Notes on ARPC's policies and procedures in respect of managing these risks are set out in this note.

Objectives in managing risks arising from insurance contracts and policies for mitigating those risks.

Section 8 of the TI Act renders terrorism exclusion clauses in eligible insurance contracts ineffective. Insurers have the right to reinsure this risk with ARPC. ARPC's insurance risk is limited to eligible terrorism losses arising in respect of eligible insurance contracts.

ARPC's approach to managing risk is consistent with the Australian/New Zealand Standard for Risk Management (AS/NZS 4360:2004) and the Australian Prudential Regulation Authority's Prudential Standard GPS 220. The Board and senior management of ARPC have developed, implemented and maintain a sound and prudent Risk Management Strategy (RMS).

The RMS identifies ARPC's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by ARPC. Annually, the Board reviews the RMS and confirms there are systems in place to ensure compliance with legislative and prudential requirements and that the Board has satisfied itself as to the compliance with the RMS. The RMS has been approved by the Board.

Key aspects of the process established to mitigate risks include:

- the capping of ARPC's liabilities at $10 billion plus the amount of the reserve for claims as a result 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);
- 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;

- the maintenance and use of sophisticated management information systems, which provide up to date, reliable data on the risk to which the business is exposed at any point in time;

- the development of a standard reinsurance agreement for underwriting and accepting insurance risks;

- the collection of annual aggregate exposure data from clients to support advice given regarding a reduction percentage;

- the TI Act applies to all eligible insurance contracts. The wording of the TI Act was designed to ensure that ARPC's risk was diversified both geographically and by type of risk; and

- the mix of assets in which ARPC invests is regulated by section 18 of the Commonwealth Authorities and Companies Act. The management of investments is closely monitored to ensure the liquidity of funds match the potential liabilities.

Interest rate risk

No financial assets or liabilities arising from insurance contracts entered into by ARPC are directly exposed to interest rate risk.

Credit risk

Financial assets and liabilities arising from insurance contracts are stated in the Balance Sheet at the amount that best represents the maximum credit risk exposure at balance date.

There are no significant concentrations of credit risk.

Terms and conditions of insurance

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by ARPC. All insurance contracts are entered into in a standard form basis. There are no special terms and conditions in any contracts that have an impact on the financial statements.

Insurance contracts are reviewed annually.

Note 5: Revenue

			2006 $'000	2005 $'000
(a)	**Premium revenue**			
	Gross written premium		**103,204**	102,188
	Movement in unearned premium reserve		**(667)**	(10,867)
	Total premium revenue		**102,537**	91,321
(b)	**Investment income**			
	Interest income		**10,833**	4,790
	Total investment income		**10,833**	4,790
(c)	**Other income**			
	Realised gain/(losses) recognised through the income statement		**23**	-
	Unrealised gain/(losses) recognised through the income statement		**(8)**	-
	Total other income		**15**	-

Note 6: Other operating expenses

The presentation of general and administration expenses in the income statement is by function. This note presents expenses according to their nature:

(a)	**Expenses by nature**			
	Employee expenses	6(c)	**1,430**	1,095
	Services from related entities		**177**	128
	Goods from external entities		**31**	25
	Services from external entities		**1,776**	1,313
	Operating lease rentals		**217**	138
	Depreciation and amortisation		**65**	43
	Bank fees and charges		**268**	257
	Total expenses by nature		**3,964**	2,999
(b)	**Expenses by function**			
	Acquisition cost		**930**	532
	General and administration expenses		**3,034**	2,467
	Total expenses by function		**3,964**	2,999
(c)	**Employee expenses**			
	Wages and salaries		**1,150**	906
	Superannuation		**112**	74
	Leave and other entitlements		**139**	88
	Workers compensation premiums and claims		**12**	8
	Other employee expenses		**17**	19
	Total employee expenses		**1,430**	1,095

Note 7: Cash and cash equivalents

Cash at bank	**67,254**	34,511
Total cash and cash equivalents	**67,254**	34,511

Cash and cash equivalents consists of at call deposits held with the Reserve Bank of Australia and Suncorp Metway Investment Management Ltd. (2005: Reserve Bank of Australia).

Note 8: Receivables

	2006 $'000	2005 $'000
Premium receivable	**24,461**	24,011
Interest receivable	**750**	151
GST receivable from ATO	**2**	14
Total receivables	**25,213**	24,176

All receivables are with entities external to ARPC. Credit terms are net 30 days (2005: 30 days). Trade debtors are non interest bearing.

Receivables (gross) are aged as follows:

Current

		2006	2005
	Less than 30 days	**25,213**	24,176
	30 to 60 days	**-**	-
	60 to 90 days	**-**	-
	More than 90 days	**-**	-
		25,213	24,176

Interest receivable

The interest rate ranges from 4.5% to 5.75% (2005: 4.9% to 5.4%) and the frequency of payment is monthly.

Note 9: Investments under s18 of the CAC Act

Government securities	**11,867**	-
Term deposits	**176,000**	100,000
Total investments	**187,867**	100,000

Government Securities

Securities have terms of up to 3 years. They are guaranteed by the issuing Government and are traded in active markets. The effective interest rate is 5.99% (2005: N/a).

Term Deposits

Term deposits are held with the Reserve Bank of Australia and Suncorp Metway Investment Management Ltd, and earn an effective rate of interest of 5.89% (2005: 5.52%). Interest is payable on maturity. Terms are between 14 and 95 days.

Note 10: Deferred acquisition costs

Deferred acquisition costs as at 1 July	**466**	383
Acquisition costs deferred	**820**	466
Amortisation charged to income	**(466)**	(383)
Deferred acquisition costs as at 30 June	**820**	466

Note 11: Other non-financial assets

Prepayments	**31**	66
Total other non-financial assets	**31**	66

Note 12: Property plant and equipment and intangibles

		2006	2005
		$'000	$'000
(a)	**Buildings**		
	Leasehold improvements		
	- at cost	**298**	29
	- at valuation (fair value)	**47**	47
	- accumulated amortisation	**(37)**	(14)
	Total leasehold improvements	**308**	62
	Total buildings	**308**	62
(b)	**Plant and equipment**		
	- at cost	**64**	7
	- at valuation (fair value)	**110**	110
	- accumulated depreciation	**(55)**	(27)
	Total plant and equipment	**119**	90
(c)	**Total property plant and equipment**	**427**	152
(d)	**Intangibles - computer software**		
	- purchased	**41**	33
	- internally developed	**60**	48
	- accumulated amortisation	**(16)**	(2)
	Total computer software	**85**	79
	Total intangibles	**85**	79

All valuations are independent and are conducted in accordance with the revaluation policy stated at Note 1(v).

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

No revaluation adjustment were made in the 2006 financial statements (2005: $15,829).

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

Item	Buildings leasehold improvements $'000	Plant & equipment $'000	Intangibles $'000	Total $'000
As at 1 July 2005				
Gross book value	76	117	81	274
Accumulated depreciation/amortisation	(14)	(27)	(2)	(43)
Opening net book value	62	90	79	231
Additions				
- by purchase	269	57	8	334
- internally developed in use	-	-	12	12
Depreciation/amortisation expense	(23)	(28)	(14)	(65)
As at 30 June 2006				
Gross book value	345	174	101	620
Accumulated depreciation/amortisation	(37)	(55)	(16)	(108)
Closing net book value	308	119	85	512

Note 13: Unearned premium liability

	2006 $'000	2005 $'000
Unearned premium liabiilty as at 1 July	**47,683**	36,816
Deferral of premiums on contracts written in the period	**48,350**	47,683
Earning of premiums written in the previous periods	**(47,683)**	(36,816)
Unearned premium liability as at 30 June	**48,350**	47,683

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.

Note 14: Payables

Trade creditors	**62**	175
Unsettled investment transaction	**12,021**	-
Accruals	**306**	221
Total payables	**12,389**	396

Trade creditors:
Settlement is usually made net 30 days.

All of ARPC's liabilities are guaranteed by the Commonwealth by virtue of section 35 of the TI Act.

Note 15: Other interest bearing liabilities

Lease incentive	**19**	-
Other interest bearing liabilities are represented by:		
Current	**13**	-
Non-current	**6**	-
Total other interest bearing liabilities	**19**	-

Note 16: Provisions

	2006	2005
	$'000	$'000
(a) **Employee provisions**		
Salaries and wages	**17**	3
Leave	**184**	92
Total employee provisions	**201**	95
Current	**133**	65
Non-current	**68**	30
Total employee provisions	**201**	95
(b) **Other provisions**		
Make good provision	**41**	-
Total other provisions	**41**	-

	Provision for make good	**Total**
	$'000	**$'000**
Carrying amount at beginning of period	**-**	**-**
Additional provisions made	**41**	**41**
Amount owing at end of period	**41**	**41**

ARPC currently has an agreement for the leasing of premises which has a provision requiring ARPC to restore the premises to its original condition at the conclusion of the lease. ARPC has made provision to reflect the present value of this obligation.

All other provisions are non-current liabilities.

Note 17: Cash flow reconciliation

Reconciliation of cash per Income Statement to Statement of Cash Flows		
Cash at year end per Statement of Cash Flows	**67,254**	34,511
Balance Sheet items comprising cash: 'Cash and cash equivalents'	**67,254**	34,511

Reconciliation of operating result to net cash from operating activities		
Operating result	**109,421**	93,112
Depreciation / amortisation expense	**65**	43
Unrealised gains / (loss)	**8**	-
Net write down of non-current assets	**-**	16
(Increase) / decrease in receivables	**(1,037)**	21
(Increase) / decrease in other non-financial assets	**35**	24
(Increase) / decrease in deferred acquisition costs	**(354)**	(83)
Increase / (decrease) in premium liability	**667**	10,867
Increase / (decrease) in payables	**(28)**	(44)
Increase / (decrease) in other interest bearing liabilities	**19**	-
Increase / (decrease) in provisions	**147**	41
Net cash from / (use by) operating activities	**108,943**	103,997

Note 18: Average staffing levels

	2006	2005
The average staffing levels during the year were:	**12**	10

Note 19: Executive remuneration

	2006	2005
	$	$
The aggregate amount of total remuneration of executives shown below.	**1,006,716**	640,901

The number of executives who received or were due to receive total remuneration of $130,000 or more:

$130,000 - $144,999	**2**	-
$145,000 - $159,999	**-**	1
$160,000 - $174,999	**1**	-
$175,000 - $189,999	**-**	1
$205,000 - $219,999	**1**	-
$295,000 - $309,999	**-**	1
$340,000 - $354,999	**1**	-
Total number of executives	**5**	3

Note 20: Remuneration of Auditors

	2006	2005
	$	$
The cost of financial statement audit services provided to ARPC was:	**110,000**	98,500

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

Note 21: Remuneration of Members

Total remuneration receivable or due and receivable by Members of ARPC	**40,128**	18,740

The number of Members of ARPC included in these figures are shown below in the relevant remuneration bands

$ Nil - $14,999	**5**	6
$15,000 - $24,999	**1**	-
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 are:
Mr J Gersh, Mr A Lumsden, Ms M Micalizzi, Mr J Murphy, Ms M Rathbone and Mr G Vogt.

Changes in membership during the year:

Mr G Vogt was appointed on 29 August 2005.

Mr Gersh, Mr Lumsden, Ms Micalizzi were re-appointed for a further three year term from 1 July 2006.
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 $176,512 (2005: $128,129).

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 by virtue of 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

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

	2006 $'000	2005 $'000
Revenue by geographical market:		
Australia	**93,903**	93,013
Overseas	**9,301**	9,175
Total revenue	**103,204**	102,188

All risks are located within the Australian market.

Note 25: Financial instruments

	Notes	Floating interest rate		Fixed interest rate maturing in: 1 year or less		Fixed interest rate maturing in: 1 to 5 years		Non-interest bearing		Total		Weighted average effective interest rate	
		2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
		$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
(a) **Interest rate risk**													
Financial assets													
Cash at bank	7	**67,254**	34,511	**-**	-	**-**	-	**-**	-	**67,254**	34,511	**5.70%**	5.39%
Receivables (gross)	8	**-**	-	**-**	-	**-**	-	**25,213**	24,176	**25,213**	24,176	**n/a**	n/a
Government securities	9	**-**	-	**-**	-	**11,867**	-	**-**	-	**11,867**	-	**5.99%**	n/a
Fixed term deposits	9	**-**	-	**176,000**	100,000	**-**	-	**-**	-	**176,000**	100,000	**5.89%**	5.52%
Total		**67,254**	34,511	**176,000**	100,000	**11,867**	-	**25,213**	24,176	**280,334**	158,687		
Total assets										**281,697**	159,450		
Financial liabilities													
Payables	14	**-**	-	**-**	-	**-**	-	**12,389**	396	**12,389**	396	**n/a**	n/a
Total		**-**	-	**-**	**-**	**-**	**-**	**12,389**	396	**12,389**	396		
Total liabilities										**61,000**	48,174		

Note 25: Financial instruments (continued)

	Notes	Total carrying amount 2006 $'000	Aggregate net fair value 2006 $'000	Total carrying amount 2005 $'000	Aggregate net fair value 2005 $'000
(b) **Fair value of financial assets and liabilities**					
Financial assets					
Cash at bank	7	**67,254**	**67,254**	34,511	34,511
Receivables (net)	8	**25,213**	**25,213**	24,176	24,176
Government securities	9	**11,867**	**11,867**	-	-
Fixed term deposits	9	**176,000**	**176,000**	100,000	100,000
Total finanical assets		**280,334**	**280,334**	158,687	158,687
Financial liabilities					
Payables	14	**12,389**	**12,389**	396	396
Total financial liabilities		**12,389**	**12,389**	396	396

Financial assets

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

The net fair values of Government securities is its market value.

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 Balance Sheet.

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

(d) **Other disclosures**	2006 $'000	2005 $'000

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

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

Any payment which becomes due under the facility agreement is guaranteed by the Commonwealth by virtue of section 35 of the TI Act.

In the event of a declared terrorist incident ARPC has access to the following Commonwealth indemnity:

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