ARPC

Australian Reinsurance Pool Corporation

Annual Report 2007-08

ISBN 978-0-642-74473-9

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

Printed by CanPrint Communications Pty Ltd

Australian Government

Australian Reinsurance Pool Corporation

2 September 2008

The Hon Chris Bowen, MP
Assistant Treasurer and Minister for
Competition Policy and Consumer Affairs
Parliament House
CANBERRA ACT 2600

Dear Assistant Treasurer

I have pleasure in presenting to you the Annual Report of the Australian Reinsurance Pool Corporation for the year ended 30 June 2008. 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

Table of contents

Report from the Chair

It gives me great pleasure to present ARPC's annual report for 2007-08.

ARPC's financial capacity continued to consolidate during the 2007-08 financial year. Gross written premium increased to $100.659 million and, with the increase in the pool of funds available for investment, investment income increased to $29.495 million. The reserve for claims grew by $124.634 million and, as 30 June 2008, stood at $456.644 million.

ARPC's investment policy ensures that it meets its obligations under the *Commonwealth Authorities and Companies Act 1997* and that its funds are reasonably liquid if a call is made on them.

Treaty numbers continue to grow, with the number of active treaties increasing from 227 as at 30 June 2007 to 241 as at 30 June 2008.

Consistent with the Government's intention that the scheme should operate only while terrorism insurance cover is unavailable commercially on reasonable terms, the *Terrorism Insurance Act 2003* requires a review to be conducted, at least every three years, of the need for the Act to continue in operation. The first review was completed in June 2006 and the next review is scheduled to be completed by 30 June 2009. I look forward to working with Treasury and ARPC to assist ARPC to fulfil its obligation to contribute to the review process by providing information, advice and expertise.

It is vitally important that insurance companies which issue eligible insurance contracts are aware of the scheme and ARPC's role in administering the scheme. To this end, ARPC will continue its educative role, including speaking at industry forums, undertaking individual client visits, publishing articles in appropriate industry journals and publishing its quarterly newsletter.

The Chief Executive and I will continue to maintain contact with industry and Government bodies, both in Australia and overseas. Mr Weeks continues his membership of the High Level Advisory Board to the OECD network on the financial management of large-scale catastrophes. I continue to attend meetings of the Business-Government Group on National Security. Membership of both these groups strengthens ARPC's relationships with industry and Government.

ARPC also continues to monitor international developments in terrorism insurance and reinsurance, including maintaining contact with overseas bodies which perform a function similar to that of ARPC. International developments in the capacity and pricing of terrorism insurance led ARPC to investigate the possibility of purchasing retrocession for the scheme. This is the subject of ongoing consideration by Members and Government.

Ms Rathbone's term of appointment expired on 24 April 2008. I wish to take this opportunity to thank Ms Rathbone for her outstanding contribution to ARPC and to wish her well in her future endeavours.

Ms Patricia Azarias was appointed as a Member on 22 April 2008 for a term which expires on 24 April 2011. Ms Azarias brings to ARPC a wealth of experience in corporate governance, financial management and infrastructure planning. I look forward to working with Ms Azarias to build on ARPC's success to date in establishing sound reinsurance, administrative and governance practices.

Mr James Murphy was re-appointed as a Member on 28 April 2008 for a three year term. I am delighted that ARPC will continue to benefit from Mr Murphy's sound advice and wise counsel.

I also wish to acknowledge the professionalism and dedication of the Chief Executive, Mr Neil Weeks, and his team. I look forward to working with my fellow Members, the Chief Executive and ARPC employees to further develop and enhance ARPC and the scheme it administers.

J I Gersh AM
Chair
2 September 2008

Report from the Chief Executive

It is gratifying to note that ARPC has again enjoyed a successful year, both financially and operationally, and its achievements are highlighted in the annual report.

The overview contained in Chapter 1 of the annual report includes a discussion on ARPC's role and functions, the structure of the scheme and how premiums are calculated. Chapter 2 highlights some income and exposure information. ARPC's commitment to good corporate governance practice is documented in Chapter 3. The general information provided in Chapter 4 includes statutory reporting requirements not published elsewhere in the report.

ARPC continues to work with insurance companies and industry associations to ensure that companies which write eligible insurance contracts are aware of the terrorism reinsurance scheme and ARPC's role in administering the scheme. This includes correspondence with, and personal visits to, insurers, brokers and industry associations both in Australia and overseas, as well as publishing articles in appropriate industry journals. The Client Service Manager and I will continue this work during 2008-09.

ARPC also seeks to keep abreast of international developments in terrorism insurance and reinsurance. The appointment of Guy Carpenter & Company Pty Ltd as ARPC's professional broking adviser has enhanced ARPC's ability in this regard.

ARPC's cedant review program contributes to the collegiate relationship which has developed between ARPC and its clients. ARPC greatly appreciates the co-operation and hospitability afforded to its review team. The program gives ARPC greater insight into the challenges faced by its clients and provides an opportunity for ARPC to inform and educate clients on the scheme and ARPC's role.

No amendments were made to the standard reinsurance agreement in 2007-08. The only variations from the standard agreement are modifications required to suit the particular circumstances of foreign insurers, the dedicated insurance subsidiaries of corporate groups and Lloyd's syndicates.

The reinsurance agreement obliges each client to provide ARPC with an annual aggregate report. The report summarises the client's aggregate exposures to building, contents and business interruption risks at post code level. This information allows ARPC to analyse the distribution of exposure risk across Australia. The electronic submission of this data assists clients in the submission of the report and enhances ARPC's ability to analyse the data.

During 2008-09 ARPC will again approach selected clients seeking the submission of more detailed street level risk information. This will enable ARPC to increase its loss estimation capabilities. To those clients approached with this request, may I take the opportunity to thank them in advance for their co-operation.

In addition to evaluating the annual aggregate reports, ARPC has undertaken considerable work towards developing its loss estimation capabilities with a view to enhancing its ability to estimate its potential exposure in the event of a declared terrorist incident. ARPC will continue to develop its loss estimation capabilities and will also foster alliances with industry bodies and other agencies which are undertaking similar work.

The electronic submission of data by clients was enhanced during 2007-08 with the introduction of the RISe system. RISe enables the electronic submission of annual aggregate reports, premium returns, claims and contact details. It also allows clients to access basic market share information.

ARPC's quarterly newsletter keeps clients and other stakeholders informed on ARPC, its operations and product. The newsletter is posted on ARPC's website to ensure that anyone interested in ARPC has easy access to relevant information.

I feel honoured to have had the opportunity to be involved with ARPC since its inception and to have witnessed its growth into a mature and successful organisation. It has been a challenging and rewarding period for me and I thank the Chair and Members for their support and guidance over this time.

I would also like to thank my staff for their commitment, dedication, professionalism and loyalty. It has been a pleasure to watch as each employee has grown and developed over their time with the organisation. ARPC is committed to providing a workplace which is both challenging and fun. I look forward to seeing the continued implementation of that commitment over the coming years.

N E Weeks
Chief Executive
2 September 2008

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 2008. 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

2 September 2008

A J Lumsden
Member and Chair of the Audit and Compliance Committee
2 September 2008

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.

Before introducing the scheme, the Government considered the broad economic impacts which could result from a large pool of assets uninsured for terrorism risk. The potential impacts included delaying commencement of investment projects and altering portfolio management decisions as banks and commercial property trusts became concerned with the amount of property without adequate cover. The Government was concerned that lack of comprehensive insurance cover for commercial property or infrastructure would lead to a reduction in financing and investment in the Australian property sector and that this would subsequently have wide economic impacts. These considerations led to the Government to conclude that intervention was necessary.

The Government decided that any intervention should be consistent with the need to:

- maintain, to the greatest extent possible, private sector provision of insurance;
- ensure that risk transferred to the Commonwealth is appropriately priced to minimise the impact on the Commonwealth's financial position;

- ensure that the Commonwealth is being compensated by those benefiting from the assistance;

- allow the commercial insurance and reinsurance markets to re-enter the market when they are able (that is, ensuring an appropriate exit strategy for Government); and

- be compatible with global solutions.

Consistent with the Government's intention that the scheme should operate only while terrorism insurance cover is unavailable commercially on reasonable terms, the TI Act includes a requirement for a review to be conducted, at least every three years, for the need for the TI Act to continue.

The first review was completed in June 2006. The review concluded that it appears unlikely that an adequate supply of terrorism risk insurance will return in the short to medium term in either the domestic or global markets at a reasonable price. Consequently, the Government accepted the recommendation that the TI Act continue in operation, subject to a further review in no more than three years. The next review is scheduled to be completed by 30 June 2009.

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.

Mission

ARPC's mission is to ensure that:

- all insurers of eligible insurance contracts have the opportunity to reinsure with ARPC for eligible terrorism losses; and

- the commitments under the reinsurance agreements are met in a timely manner.

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 efficiently in the event of a declared terrorist incident.

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.

During 2007-08 work was undertaken to align ARPC's objectives with the Statement of Expectations issued by the Parliamentary Secretary to the Treasurer on 3 May 2007 and published in ARPC's 2006-07 annual report. This work was presented to, and adopted by, the Board at its meeting on 24 June 2008.

ARPC's objectives are:

- to provide reinsurance cover for eligible terrorism losses;
- to be in a position to advise of the likely costs to ARPC in the event of a declared terrorist incident;
- to keep abreast of key international developments;
- to keep the Government fully informed of its activities and alert the government to any significant events related to ARPC's core business in a timely manner;
- to maintain the highest standards of corporate governance;
- to be in a position to pay claims efficiently in the event of a declared terrorist incident;
- to secure improved efficiency in its operations and demonstrate value for money for the services it delivers;
- to be an employer of choice; and
- to assist in community based activities which employ and develop the professional skills of its staff.

Three of these objectives do not align with the expectations detailed in the Statement of Expectations. These relate to claims payments, maintaining a working environment in which employees are in a position to develop professionally while maintaining a healthy work life balance and to support employees in community based activities. However, these objectives are central to ARPC meeting its obligations under the reinsurance agreement and its ability to attract and retain highly qualified and motivated 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. As a result of the 2006 review the scheme has been extended to include all public authorities which have taken out commercial insurance. 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 continues to build 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 guarantee 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 Minister 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 reinsure their terrorism risks through ARPC retain part of the risk of liability from a declared terrorist incident. Retentions are calculated at 4 per cent of fire and industrial special risk premiums collected by the insurer, with a minimum retention of $100,000 and a maximum retention during 2007-08 of $1 million. The maximum individual insurer retention increased to $5 million on 1 July 2008 and will increase to $10 million on 1 July 2009.

The initial retention is contained in the reinsurance agreement entered into with ARPC and is reviewed annually as at 1 July each year.

In addition to individual insurer retentions, the reinsurance agreement provides for a maximum industry retention. If the retentions of insurers in respect of all eligible terrorism losses caused by a single declared terrorist incidence exceed the maximum industry retention, the individual insurer's retention is reduced proportionately. At present the maximum industry retention is $50 million. This figure will increase to $100 million on 1 July 2009.

The Ministerial direction in relation to retentions is discussed in Chapter 3.

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 of $1 billion funded by the pool of premiums
Fifth layer	Commonwealth guarantee of 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, is Tier C.

Reinsurance premiums are calculated as a percentage of the reinsured's gross base premium in accordance with the following table. At the introduction of the scheme it was acknowledged that reinsurance premiums would be increased in the event of a significant claim on the scheme. This will enable ARPC to finance its 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's premium and investment income is 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.

Premiums on bundled insurance policies

The Ministerial direction in relation to premiums requires ARPC to charge reinsurance premiums only on those sections of a bundled insurance policy that exclude terrorism risks. A bundled insurance policy is one that:

(a) is comprised of two or more distinct covers that have been packaged or bundled together; and

(b) was offered on the basis that the insured must take out one or more of a number of covers offered; and

(c) precisely quantifies the premiums attributable to each cover comprising that contract of insurance; and

(d) contains covers that (if provided individually) would be an eligible insurance contract.

Reporting of premiums and aggregate risk data

During 2007-08 ARPC developed and implemented a system to consolidate and better manage information key to ARPC's operations. The system called RISe enables secure electronic submission by clients of annual aggregate reports, premium returns, claims and contact details. It also allows clients to access basic market share information. The system was released in February 2008 and clients first submitted premium returns using RISe for the March quarter. The system is user friendly and has been readily accepted by clients. The electronic submission of data enhances ARPC's ability to analyse that data.

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 during 2007-08

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 on 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 and the Australia Council.

Ms Patricia Azarias — appointed 22 April 2008

Ms Azarias was appointed to the position of part-time Member commencing on 22 April 2008 for a term expiring on 24 April 2011.

Ms Azarias is an economist with expertise in infrastructure planning and financing, financial management and corporate governance. Recent positions held by Ms Azarias include Regional General Manager, Business and Organisation Performance at the National Australia Bank and Director, Internal Audit Division, United Nations. Ms Azarias has also held senior positions in the NSW Premier's Department and NSW Department of Transport. Ms Azarias is a non-executive director on the SBS Board and co-Chair of the Risk and Audit Committee of the NSW Director of Public Prosecutions.

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 2008.

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. Her term expired on 24 April 2008.

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 re-appointed to the position of part-time Member for a period of three years commencing on 29 August 2008.

Mr Vogt has extensive experience in the financial services and insurance industries. Until recently, he was 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 a member of CPA Australia, an Associate of the Australian and New Zealand Institute of Insurance and Finance and a Fellow of the Australian Institute of Company Directors.

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. He also holds the position of Deputy Chair of the High Level Advisory Board to the OECD network on the financial management of large-scale catastrophes.

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 2008, ARPC had fifteen employees (including the Chief Executive). Fourteen employees work full-time and one works part-time. An organisational chart is attached at Appendix A.

Twelve 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

	2008	2007	2006	2005	2004
	$'000	$'000	$'000	$'000	$'000
Net premium revenue	**99,944**	96,890	102,537	91,321	18,986
Acquisition costs	**(452)**	(412)	(930)	(532)	(198)
Investment income	**29,495**	18,803	10,833	4,790	532
Other income	-	5	15	-	-
Revenues from government	-	-	-	-	222
Other operating expenses	**(4,353)**	(3,973)	(3,034)	(2,467)	(1,378)
Operating result	**124,634**	111,313	109,421	93,112	18,164
Gross written premium	**100,659**	94,729	103,204	102,188	55,801
Expense ratio	**4.55%**	4.53%	3.87%	3.28%	8.30%
Cash and cash equivalents	**42,909**	91,508	67,254	34,511	30,631
Investments	**433,000**	263,000	187,867	100,000	-
Reserve for claims	**456,719**	332,010	220,697	111,276	18,164

ARPC's fifth year of operation has produced another quality result for 2007-08. In summary the current financial year's achievements are:

- gross written premium increased 6 per cent to $100.659 million, with premium revenue increasing by 3 per cent;
- investment income continued to produce positive results with an increase of $10.692 million to $29.495 million; and
- the expense ratio increased slightly to 4.55 per cent.

ARPC continues to prudently manage its financial resources in line with its statutory obligations and the objectives outlined in Chapter 1.

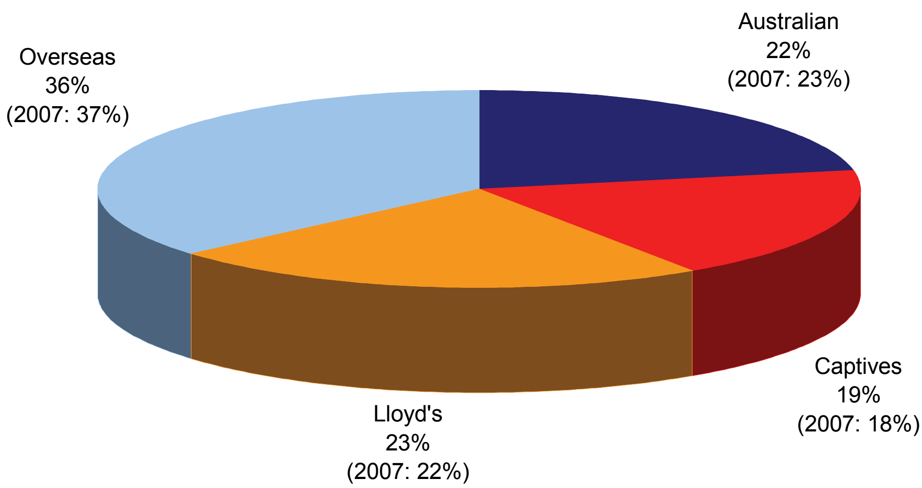
Gross written premium

The 2007-08 gross written premium increased 6 per cent to $100.659 million (2007: $94.729 million). This increase related predominately to the two premium refunds totalling $5.782 million accounted for in the 2006-07 financial result. It is encouraging to note ARPC's underlying gross written premium trend has remained relatively stable in the current industry environment of softening rates across certain lines of business.

The 2007-08 unclosed business estimate was $23.042 million (2007: $22.430 million).

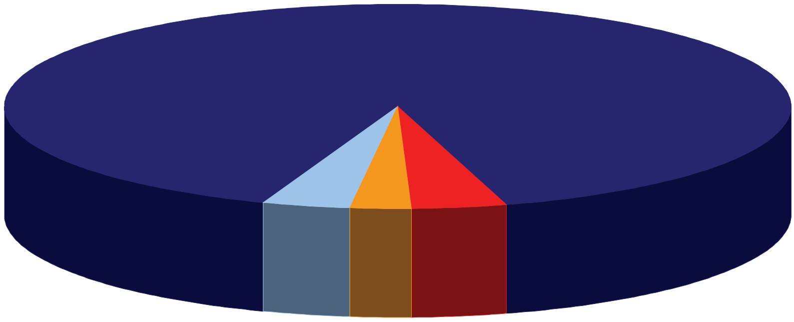
As at 30 June 2008 ARPC had 241 (2007: 227) active treaties in place. The proportion of Australian and oversees clients decreased slightly while the captives and Lloyd's syndicates each increased by 1 percent.

Chart 1: Number of active treaties



There has been a slight increase in the proportion of gross written premium attributable to Australian cedants.

Chart 2: Gross written premium by cedant type



ARPC monitors and analyses the quarterly premium returns to detect any underlying trends. The following three tables provide information in relation to premium by tier, state and business class.

Table 1: Gross written premium by tier

	Actual				
	2008	2007	2006	2005	2004
	$'000	$'000	$'000	$'000	$'000
Tier A	**21%**	21%	24%	25%	25%
Tier B	**56%**	57%	55%	55%	56%
Tier C	**23%**	22%	21%	20%	19%
Total GWP	**100,659**	94,729	103,204	102,188	55,801

The premium split by tier has remained relatively stable since ARPC's inception. The movement from tier A to tier C may reflect the additional infrastructure activity being undertaken in tier C and the improved reporting on these risks.

Table 2: Gross written premium by state

	Actual				
	2008	2007	2006	2005	2004
	$'000	$'000	$'000	$'000	$'000
NSW	**34%**	34%	36%	38%	38%
SA	**8%**	8%	8%	8%	9%
VIC	**23%**	24%	24%	23%	23%
TAS	**2%**	1%	1%	2%	1%
QLD	**19%**	19%	18%	16%	17%
NT	**1%**	1%	1%	1%	1%
WA	**12%**	11%	11%	10%	9%
ACT	**1%**	2%	1%	2%	2%
Total GWP	**100,659**	94,729	103,204	102,188	55,801

The premium split by state reflects gradual increases for Queensland and Western Australia from increased exposure to infrastructure development associated with the resources boom in these states. The New South Wales premium split decreased 4 per cent during 2006 and 2007, however remained constant at 34 per cent in 2008. The remaining states have been stable since inception.

Table 3: Gross written premium by business class

	Actual				
	2008	2007	2006	2005	2004
	$'000	$'000	$'000	$'000	$'000
Fire/ISR/BI	**77%**	77%	81%	81%	81%
Contract Works	**10%**	10%	8%	8%	8%
Burglary	**6%**	6%	5%	5%	5%
Miscellaneous Accident	**3%**	3%	3%	3%	3%
Mobile Plant	**2%**	2%	2%	2%	2%
Glass	**2%**	2%	1%	1%	1%
Farm*	**0%**	0%	0%	0%	0%
Total GWP	**100,659**	94,729	103,204	102,188	55,801

1 Farm cover accounts for 0.02 per cent of gross written premium. This figure has been rounded down for the purposes of this table.

The movement in the premium split by business class has occurred primarily between fire/industrial special risks/business interruption and contract works. This movement occurred in 2007 with a portion of clients having the ability to provide the detailed distribution breakdowns of fire/industrial special risks/business interruption into other classes.

Investment income

The following table provides a breakdown of ARPC's investment income as at 30 June 2008.

Investment income
For the period ended 30 June 2008

	2008 $'000	2007 $'000
Internally managed - Reserve Bank of Australia (RBA)		
Cash at bank	**2,943**	2,546
Fixed interest deposits	**14,916**	9,351
Total RBA income	**17,859**	11,897
External fund manager		
Cash at bank	**1,735**	2,841
Fixed interest deposits	**9,901**	4,046
Governement (guaranteed) securities	**-**	19
Total external fund manager income	**11,636**	6,906
Total invesment income	**29,495**	18,803

Investment income continued to gather pace in 2007-08 with a result of $29.495 million (2007: $18.803 million). The major reasons for the increase were:

- the increasing size of the pool of funds; and
- the four increases in official interest rates during 2007-08. This resulted in ARPC's weighted average interest rate increasing to 7.50 per cent (2007 : 6.30 per cent).

The following table provides a breakdown of ARPC's cash and investment balances as at 30 June 2008.

Cash and investment balances
As at 30 June 2008

	2008 $'000	2007 $'000
Reserve Bank of Australia (RBA)		
Cash at bank	**34,698**	37,583
Fixed interest deposits	**275,000**	160,000
Total RBA cash and investments	**309,698**	197,583
External fund manager		
Cash at bank	**8,211**	53,925
Fixed interest deposits	**158,000**	103,000
Total external fund manager cash and investments	**166,211**	156,925
Total cash and investments	**475,909**	354,508

ARPC manages its investments within a conservative framework. ARPC's objectives are to ensure that:

(a) the investment strategy complies with the *Commonwealth Authorities and Companies Act 1997* in relation to investing ARPC's surplus funds, including all investments being held in ARPC's name;

(b) capital stability of the funds is maintained;

(c) funds are available at short notice; and

(d) the fund is returning a rate of return acceptable to the Members. The benchmark return for ARPC is the official cash rate.

Expenses

ARPC's expense ratio for 2007-08 was 4.55 per cent (2007: 4.53 per cent). The slight increase is attributable to:

- an increase in employee expenses principally represented by additional staff members;
- additional expenses relating to the possible placement of a retrocession program; and
- an increase in the depreciation and amortisation expense.

ARPC continues to tightly control expenses, ensuring it receives value for money from its service providers and is in a position to meet its statutory obligations.

Influences on future performance

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

ARPC relies on its cedants 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 insurance contracts for the purpose of ceding terrorism reinsurance premium to ARPC and premium calculation and remittance.

Any movement in interest rates will have an impact on ARPC's investment income.

Exposure risk management

ARPC objective

One of ARPC's objectives is to be in a position to estimate its likely exposures in the event of a declared terrorist incident (DTI) and to give credible advice in relation to an appropriate reduction percentage.

Background

When ARPC first entered the terrorism reinsurance market in July 2003, it did not have the ability to estimate losses from a potential terrorist attack. To address this issue ARPC implemented a strategy to enable it to develop the capability to estimate its possible exposures in the event of a DTI and provide credible advice to the Government on an appropriate reduction percentage.

Details of the work undertaken by ARPC to meet its objective and fulfil the Government's expectations follow.

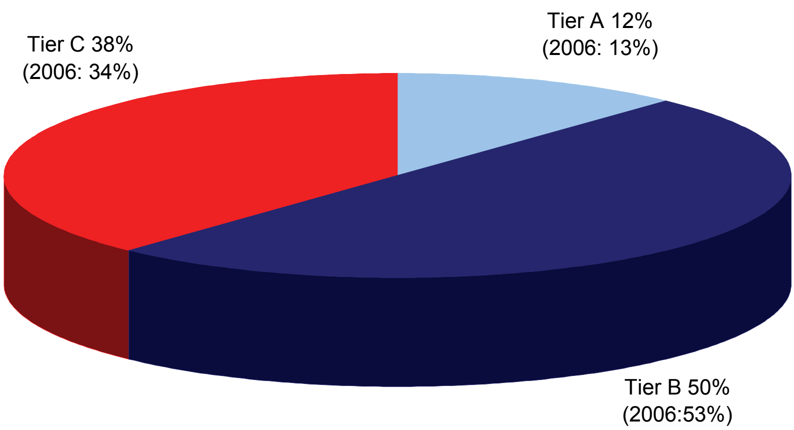
Electronic submission of data

Each client is required under the reinsurance agreement to provide an annual aggregate report. The report summarises the client's aggregate exposure amounts at a post code level and is split into buildings, contents and business interruptions risks. This exposure information is considered important in allowing ARPC to analyse the distribution of exposure risk across Australia.

To facilitate the submission of reports by clients and allow ARPC to quickly obtain various reports based on the large volume of data provided by clients, ARPC has continued to develop its capabilities in the electronic collection of data. In 2004-05 the ARAS system was developed and released. In 2007-08 the ARAS system was incorporated into RISe, further enhancing ARPC's ability to analyse the data submitted by clients.

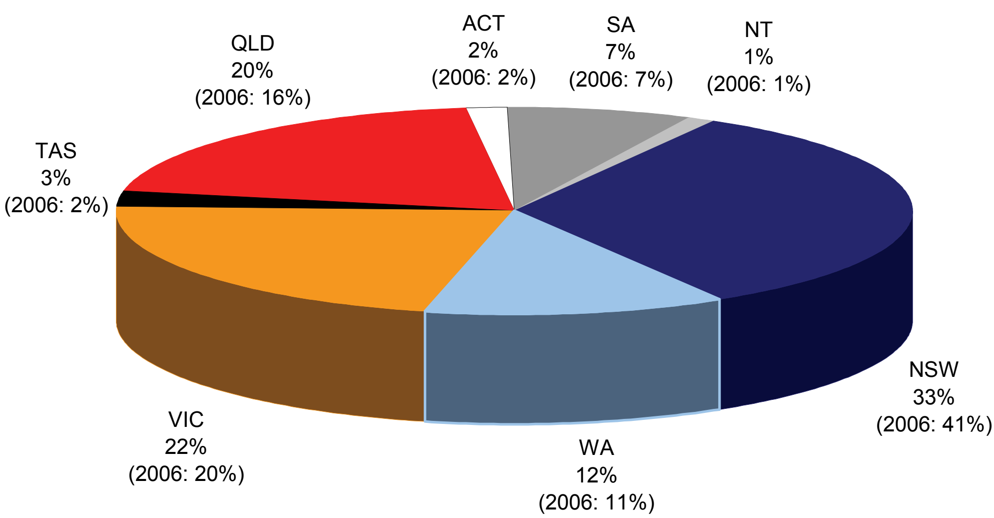
The following charts provide an overview of ARPC's total exposure for 2007 based on information provided by clients. The largest gross exposure is recorded in Tier B at 50 per cent, with Tier A accounting for 12 per cent.

Chart 3: Aggregate exposure by tier as at 30 June 2007



There is a general correlation between the aggregate exposure by State and the premium collection by State. Victoria cedes 23 per cent of premium and represents 22 per cent of aggregate exposure, while NSW cedes 34 per cent of premium and represents 33 per cent of aggregate exposure.

Chart 4: Aggregate exposure by State as at 30 June 2007



Loss estimation modelling

Initial loss estimation model

One of ARPC's first priorities was to build a loss estimation model. The initial modelling work was completed in conjunction with Finity Consulting.

This model uses average floor area values for high rise buildings, the expected contents values by floor, an average business interruption figure and the known maximum public liability sum insured.

No further development is expected to be undertaken on this model.

MapInfo loss estimation model

ARPC progressed from its initial model to the Mapinfo model. The Mapinfo system is a spatial application that captures and graphically displays geographical details and other relevant information.

Through its good relationships with clients, ARPC sought and received detailed information from selected clients. This data has been geo-coded in MapInfo and utilised in scenario tests.

Updated street address exposure information will be incorporated into the MapInfo model as it becomes available.

Continued development

During 2006-07 Risk Frontiers, a commercial arm of Macquarie University, commenced work on enhancing ARPC's loss estimation capabilities. The model incorporates the main characteristics of the MapInfo system and data and will eventually have the capability to model other exposures such as biological and chemical and associated business interruption from major infrastructure losses. The work undertaken by Risk Frontiers is checked for reasonableness by Finity Consulting and reviewed by the Australian Government Actuary.

The development of ARPC's loss estimation capabilities is outlined in a four stage process:

Stage 1 (Completed June 2007) — the model enabled ARPC to estimate losses from conventional terrorist attacks in the Sydney Tier A locations. Loss estimates are split into buildings, contents, business interruption and public liability.

Stage 2 (Completed April 2008) — the model was extended to include the remaining tier A locations in Melbourne, Brisbane, Adelaide and Perth. This work is currently being reviewed by the Australian Government Actuary.

Stage 3 (Ongoing) ARPC is seeking to extend the model to estimate losses from other types of incidents. This stage is expected to be completed in 2009.

ARPC will continue to foster co-operative relationships within the industry and government to fully utilise available expertise and resources in the development of its loss estimation modelling capabilities.

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.

Awareness campaign

Since its inception ARPC has undertaken, and will continue, 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. The cedant review program is a vital tool in ARPC's awareness campaign as it allows for direct discussions between ARPC and its clients.

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 have been made by way of industry advertisements and presentations given to overseas markets and brokers.

ARPC has worked closely with the industry and clients to ensure there is awareness of the 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.

Market coverage

Through the feedback received from the awareness campaign and the cedant review program, 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).

Significant events

As a result of the *Terrorism Insurance Act Review: 2006* ARPC was given the discretion (once the pool had reached $300 million) to determine whether to use premiums to build the pool further, purchase reinsurance for the scheme or undertake a combination of the two. During 2007-08 ARPC investigated the possibility of entering into a retrocession program for the scheme. The introduction of a retrocession program would represent the commencement of a significant business activity by ARPC and, consequently, requires notification to the responsible Minister in accordance with section 15(1)(e) of the *Commonwealth Authorities and Companies Act 1997*. That notification was given to the Assistant Treasurer on 30 July 2008. The issue of purchasing retrocession for the scheme is a matter for further consideration by the Members and Government.

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

No decision has been made in relation to the purchase of retrocession for the scheme. Consequently, there have been no developments since the end of the 2007-08 financial year which has significantly affected or may significantly affect:

(a) ARPC's operations in future financial years;

(b) the results of those operations in future financial years; or

(c) ARPC's state of affairs in future financial years.

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, re-appointed 1 July 2006 (current term expires 30 June 2009);

Ms Patricia Azarias — appointed 22 April 2008 (current term expires 24 April 2011);

Mr Andrew Lumsden — appointed 1 July 2003, re-appointed 1 July 2006 (current term expires 30 June 2009);

Ms Marian Micalizzi — appointed 1 July 2003, re-appointed 1 July 2006 (current term expires 30 June 2009);

Mr James Murphy — appointed 1 July 2003, re-appointed 5 February 2004, 25 April 2004, 25 April 2005 and 25 April 2008 (current term expires 24 April 2011);

Ms Margot Rathbone — appointed 25 April 2005 (term expired 24 April 2008); and

Mr Geoff Vogt — appointed 29 August 2005, re-appointed 29 August 2008 (current term expires 28 August 2011).

Mr Tom Karp — appointed 29 August 2008 (current term expires 28 August 2011).

Standing: Jim Murphy, Geoff Vogt, Andrew Lumsden and Neil Weeks
Seated: Joe Gersh, Patricia Azarias and Miarian Micalizzi

There were six meetings of Members held during 2007-08. 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
Ms Patricia Azarias	2	2
Mr Andrew Lumsden	6	5
Ms Marian Micalizzi	6	6
Mr James Murphy	6	5
Ms Margot Rathbone	4	4
Mr Geoff Vogt	6	6

Corporate governance practices

ARPC is committed to following corporate governance best practice. It monitors developments in corporate governance from a range of sources, including the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission (ASIC), 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 better 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 corporate governance principles, it has used those principles as benchmarks to evaluate its corporate governance practices. The principles below are those contained in the ASX's *Corporate Governance Principles and Recommendations* released on 2 August 2007.

Principle 1 – Lay solid foundations for management and oversight

- The roles and responsibilities of Members have been documented in a board charter.
- The delegation of powers and functions to the Chief Executive has been documented in a delegations authority.
- Certain matters are reserved for Members.
- The board charter and delegations document were reviewed by Members in 2007-08.
- The Chief Executive has designed and implemented objective measures against which the performance of senior executives is evaluated. The Board has designed and implemented objective measures against which the performance of the Chief Executive is evaluated. Performance evaluations of all executives are conducted annually.

Principle 2 – Structure the board to add value

- All Members are independent.
- The Chair is an independent Member.
- Different individuals exercise the roles of Chair and Chief Executive.
- A nominations committee is not appropriate because the TI Act provides that Members are appointed by the responsible Minister.
- The performance of Members is reviewed annually against measures developed by the board in consultation with a corporate governance expert.
- During 2007-08 the Members conducted an internal evaluation of their performance. The evaluation addressed such issues as strategy and planning, board structure and role, meeting effectiveness, quality of information and performance monitoring.
- The results of that review were discussed at the board meeting held on 24 June 2008.

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 allegations 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 members of the audit and compliance committee are all 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, which include a requirement for there to be three committee members.

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).

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

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 mitigate and manage those risks.

- A risk committee has been established.

- 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 — 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.

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 again reviewed by Members during 2007-08.

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 2007-08. The table below sets out the number of meetings attended by each Committee member.

Name	Number of meetings entitled to attend	Number of meetings attended
Mr Andrew Lumsden	4	4
Ms Marian Micalizzi	4	4
Mr James Murphy	4	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 were two meetings of the Committee held during 2007-08. 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	2	2
Ms Patricia Azarias	1	1
Mr Andrew Lumsden	2	1
Ms Marian Micalizzi	2	2
Mr James Murphy	2	2
Ms Margot Rathbone	1	1
Mr Geoff Vogt	2	2

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 outsourced the conduct of the internal audit function to Ernst & Young. During 2005-06, and in consultation with management and the Audit and Compliance Committee, Ernst & Young developed an internal audit program for the three year period 2006-2009. The following audit reviews were conducted during 2007-08:

(a) the preparedness of ARPC to respond to a terrorist incident;

(b) a review of ARPC's fraud control plan (including a review of fraud risk);

(c) a review of the reporting undertaken via ARPC's balanced scorecard;

(d) a review of ARPC's business risk assessments and mitigation strategies;

(e) ARPC's procurement and contracting policies;

(f) ARPC's investment controls;

(g) the premium collection process, including IT security; and

(h) a pre-financial statement review.

In addition to general audit management, the detailed plan for 2008-09 provides for the following audit reviews to be undertaken:

(a) a post-implementation review of the new client information system;

(b) a review of the cedant review program;

(c) a review of ARPC's business continuity planning;

(d) a review of ARPC's investment strategy and controls;

(e) a review of administrative functions; and

(f) the premium collection process.

Risk management

During 2007-08 ARPC further developed its risk management capability with the introduction of a proprietary risk management system. The new system, which is aligned to the AS/NZ 4360 standard, has resulted in improved identification, treatment and monitoring of risks. It has provided the basis for effective devolution of risks to risk owners while allowing for the management and reporting of risk at the enterprise level.

In future years ARPC's risk management system will be regularly upgraded in line with better practice and enterprise needs to reflect ARPC's ongoing commitment to continuous improvement in the management of business risk. This commitment extends to the promotion within the ARPC of a culture of risk awareness in day to day decision-making.

In 2008-09 it is planned to develop a three tier risk hierarchy that will focus on the importance of the risk to the ARPC. This will provide a framework for more effective risk management by allowing risks to be escalated and treated at the appropriate management level.

Business continuity

During 2007-08 the business continuity plan underwent a major review and enhancement with the inclusion of appropriate action plans designed to preserve continuity in relation to core business activities. Ongoing development and desk testing also continued during 2007-08 as the plan was refined and brought into alignment with Treasury's business continuity arrangements.

ARPC will continue to refine and test its business continuity arrangements.

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)*, during 2005-06 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.

The plan was reviewed during 2007-08 and fraud awareness training was conducted. ARPC will continue to offer fraud awareness training to staff.

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. This is achieved by assisting clients to raise their awareness of the processes involved in the identification of eligible insurance contracts, premium calculation, premium remittance, aggregate reporting and claims procedures. ARPC has found all clients to be extremely receptive, helpful and co-operative. In addition to ensuring that the obligations imposed by the reinsurance agreement are met, the program has enhanced the collegiate relationship between ARPC and its clients.

Visits to clients with which agreement had been reached about implementation of recommendations made during the initial review were completed during 2007-08. In 2008-09, as part of internal audit, Ernst & Young will undertake a review of the program. This will form the basis of a review by ARPC and contribute to the design of the program for 2008-09 and beyond.

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 until 24 November 2007 was the then Treasurer, the Hon Peter Costello, MP. The Minister currently responsible for ARPC is the Assistant Treasurer and Minister for Competition Policy and Consumer Affairs, the Hon Chris Bowen, 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 2008.

The two written directions given by the responsible Minister during 2006-07, which were effective from 1 July 2007, 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 the *default figure*, 4 per cent of the gross fire/industrial special risks premium revenue or the *minimum retention*. If all retentions in respect of a single declared terrorist incident would otherwise exceed the *maximum industry retention*, 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 the *maximum industry retention*.

  The *default figure* for the period 1 July 2007 to 30 June 2008 was $1 million. The *default figure* increased to $5 million on 1 July 2008 and will increase to $10 million on 1 July 2009.

  The *minimum retention* is set at $100,000.

  The *maximum industry retention* for the period 1 July 2007 to 30 June 2008 was $25 million. The *maximum industry retention* increased to $50 million on 1 July 2008 and will increase to $100 million on 1 July 2009.

- 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 direction also instructs ARPC to charge reinsurance premiums on only those sections of a bundled insurance policy that exclude terrorism risks.

ARPC has not been notified of any General Policy Orders 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 employees, other than the CEO, are employed under AWAs which have a nominal expiry date of 30 June 2009. The introduction of the Forward with Fairness legislation means that no new AWAs can be entered into. Existing AWAs continue to operate until they are replaced or terminated in accordance with the *Workplace Relations Act 1996*.

On 29 February 2008, the Government released the *Australian Government Employment Bargaining Framework*. The framework provides that non-APS Commonwealth authorities (such as ARPC) should apply the framework as directed by their Minister or, if not so directed, should apply the framework voluntarily. ARPC has not been directed to apply the framework but intends to do so voluntarily.

During 2008-09 ARPC will work with the Australian Government Solicitor, the Treasury and the Department of Education, Employment and Workplace Relations to negotiate a collective agreement with its non-SES employees. ARPC will consult with its SES equivalent staff to determine whether their employment will be governed by individual common law contracts or an SES collective agreement.

The Chief Executive is employed on an individual common law fixed term contract. His term of office is due to expire on 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.

In additional to the formal and informal appraisals, managers assist employees by providing regular feedback and coaching and by identifying and encouraging appropriate career development opportunities.

Training and development

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

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

ARPC provides support, in the form of leave and financial assistance, to employees 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 employee 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 employees 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 employees to use the InSite learning facility to further develop their 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 Health and Safety Management Arrangements are 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 employees is a member of Treasury's Health and Safety Committee. The Health and Safety Committee meets quarterly to discuss occupational health and safety issues and policies, employee wellbeing, health and safety performance reporting, accommodation issues and accident and incident reports. In accordance with the *Occupational Health and Safety Act (Commonwealth Employment) Amendment Act 2006* implemented on 15 March 2007, ARPC will develop its own Health and Safety Management Arrangements with its employees. This work will be completed during 2008-09.

During 2007-08, ARPC received no accident or incident reports which resulted in a compensation claim. ARPC's policy is to thoroughly investigate all reported incidents and to take action to ensure employee health and safety is not compromised.

During 2007-08, 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 employees have access to Treasury's employee assistance program. This program provides confidential counselling on work-related and personal matters to employees 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 a consultative resource for employee management issues including advice on people management.

Free flu vaccinations were offered to employees during 2007-08.

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 employees practise and promote workplace diversity principles and objectives;
- ensure the recruitment process reflects workplace diversity principles;
- promote an environment where all employees are given the opportunity to develop to their full potential;
- create an environment where employees 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 (such as facilitating part-time and work from home arrangements) and leave.

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. The premium paid for the insurance, which includes liability for legal costs, was $64,204.60 (2007: $67,566.43).

Judicial and administrative decisions and reviews

During the year ended 30 June 2008, 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 2008. 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 Minister 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 2007-08 included:

- 2006-07 Annual Report;
- *What is the ARPC?* — a brochure explaining the scheme; 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

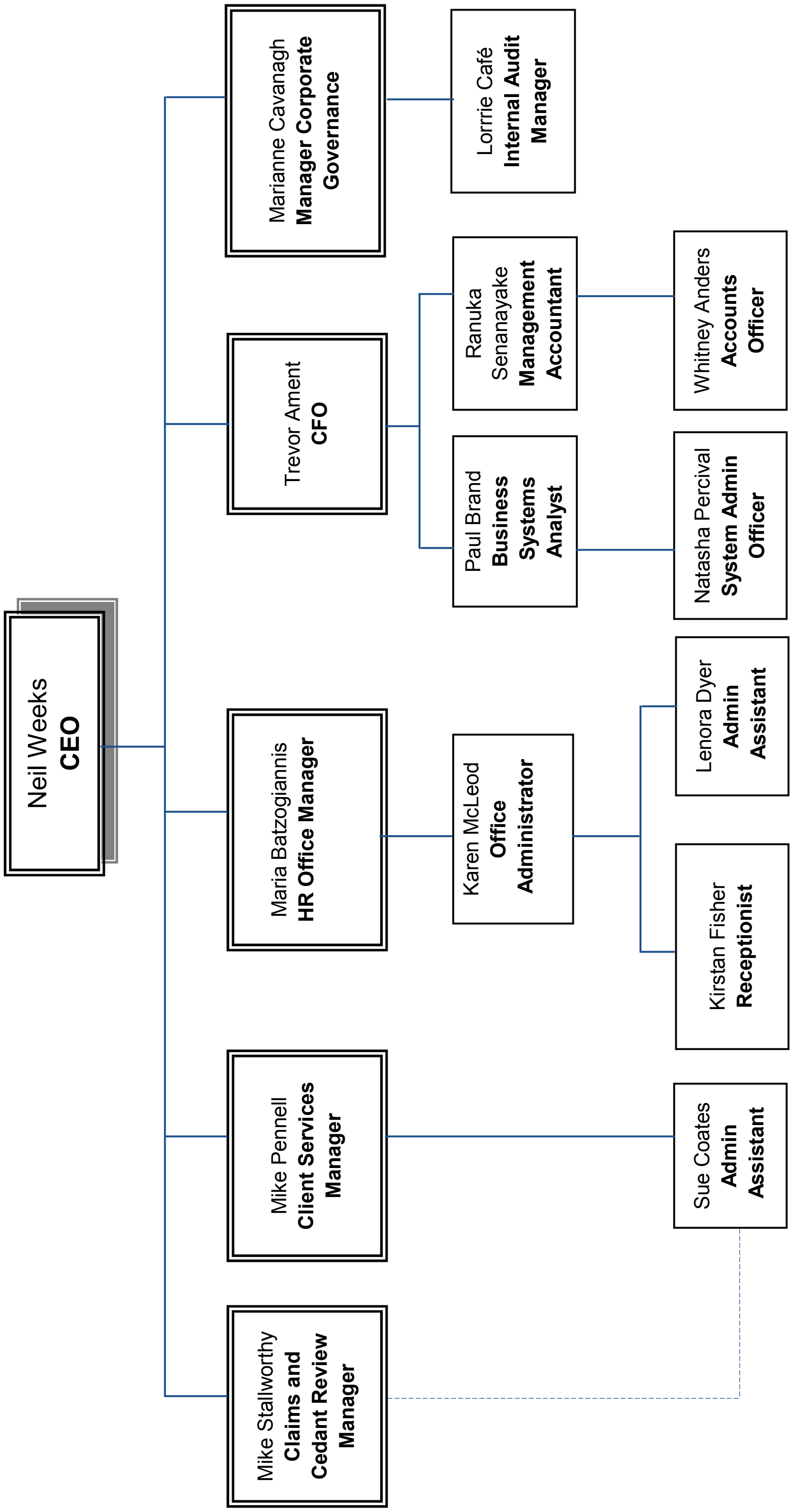
Access may also be given at our Sydney office by prior arrangement.

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 Chart



Chapter 5: Financial statements

Statement by Members and Chief Executive

In our opinion, the attached financial statements for the year ended 30 June 2008 are 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	N E Weeks	T R Ament
Chair	Chief Executive	Chief Financial Officer
2 September 2008	2 September 2008	2 September 2008

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Treasurer

Scope

I have audited the accompanying financial statements of the Australian Reinsurance Pool Corporation for the year ended 30 June 2008, which comprise: a Statement by Members and Chief Executive; Income statement; Balance sheet; Statement of changes in equity; Cash flow statement; Schedule of commitments; and Notes to and forming part of the financial statements, including a summary of significant accounting policies.

The Responsibility of Members for the Financial Statements

The Members of the Australian Reinsurance Pool Corporation are responsible for the preparation and fair presentation of the financial statements in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997,* including the Australian Accounting Standards (which include the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Australian Reinsurance Pool Corporation's

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

preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Australian Reinsurance Pool Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Members, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

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

Auditor's 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* ,including the Australian Accounting Standards; and

(b) give a true and fair view of the matters required by the Finance Minister's Orders including the Australian Reinsurance Pool Corporation's financial position as at 30 June 2008 and its financial performance and cash flows for the year then ended.

Australian National Audit Office

John Jones
Executive Director

Delegate of the Auditor-General

Canberra
5 September 2008

Income statement
for the year ended 30 June 2008

	Notes	2008 $'000	2007 $'000
Premium revenue	5(a)	**99,944**	96,890
Outwards reinsurance expense		**-**	-
Net premium revenue		**99,944**	96,890
Claims expense		**-**	-
Reinsurance and other recoveries revenue		**-**	-
Net claims incurred		**-**	-
Acquisition costs	6(b)	**(452)**	(412)
Underwriting result		**99,492**	96,478
Investment income	5(b)	**29,495**	18,803
Other income	5(c)	**-**	5
Other operating expenses	6(b)	**(4,353)**	(3,973)
Operating result		**124,634**	111,313

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

Balance sheet
as at 30 June 2008

	Notes	2008 $'000	2007 $'000
Assets			
Current assets			
Cash and cash equivalents	7	**42,909**	91,508
Receivables	8	**27,484**	23,492
Investments	9	**433,000**	263,000
Deferred acquisition costs	10	**394**	392
Other non-financial assets	11	**33**	27
Total current assets		**503,820**	378,419
Non-current assets			
Property plant and equipment	12(c)	**304**	338
Intangibles	12(d)	**430**	171
Total non-current assets		**734**	509
Total assets		**504,554**	378,928
Liabilities			
Current liabilities			
Unearned premium liability	13	**46,904**	46,189
Payables	14	**541**	434
Other interest bearing liabilities	15	**-**	6
Employee provisions	16(a)	**183**	139
Total current liabilities		**47,628**	46,768
Non-current liabilities			
Employee provisions	16(a)	**158**	101
Other provisions	16(b)	**49**	49
Total non-current liabilities		**207**	150
Total liabilities		**47,835**	46,918
Net assets		**456,719**	332,010
Equity			
Accumulated reserves		**-**	-
Asset revaluation reserve		**75**	-
Reserve for claims		**456,644**	332,010
Total equity		**456,719**	332,010

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

Statement of changes in equity
as at 30 June 2008

	Notes	Accumulated reserves		Asset revaluation reserve		Reserve for claims		Total equity	
		2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
		$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Opening balance		-	-		-	**332,010**	220,697	**332,010**	220,697
Income and expenses									
Net operating result		**124,634**	111,313	**75**	-	-	-	**124,709**	111,313
Total income and expenses		**124,634**	111,313	**75**	-	-	-	**124,709**	111,313
Transfers between equity components									
Transfer to reserve for claims	1(l)	**(124,634)**	(111,313)	-	-			**(124,634)**	(111,313)
Transfer to reserve for claims from accumulated reserves				-	-	**124,634**	111,313	**124,634**	111,313
Closing balance at 30 June		**-**	**-**	**75**	**-**	**456,644**	332,010	**456,719**	332,010

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

Cash flow statement
for the year ended 30 June 2008

	Notes	2008 $'000	2007 $'000
Operating activities			
Cash received			
Premiums received		**109,136**	105,327
Interest received		**26,062**	18,589
Total cash received		**135,198**	123,916
Cash used			
Creditors and employees		**4,395**	3,658
Interest and other costs of finance paid		**251**	248
Net goods and services tax paid to ATO		**8,780**	8,471
Total cash used		**13,426**	12,377
Net cash from or (used by) operating activities	17	**121,772**	111,539
Investing activities			
Cash used			
Purchase of property, plant and equipment		**6**	19
Purchase of intangibles		**365**	112
Purchase of investments		**170,000**	87,154
Total cash used		**170,371**	87,285
Net cash from or (used by) investing activities		**(170,371)**	(87,285)
Net increase or (decrease) in cash held		**(48,599)**	24,254
Cash and cash equivalents at the beginning of the reporting period		**91,508**	67,254
Cash and cash equivalents at the end of the reporting period	7	**42,909**	91,508

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

Schedule of commitments
as at 30 June 2008

	2008	2007
	$'000	$'000
By type		
Other commitments		
Service level agreements *	**99**	284
Software license agreement**	**-**	30
Software development agreement***	**110**	404
Operating leases ****	**698**	109
Total other commitments	**907**	827
Commitments receivable	**82**	75
Net commitments by type	**825**	752
By maturity		
Service level agreements commitments		
One year or less	**99**	284
From one to five years	**-**	-
Total service level agreements commitments	**99**	284
Software licence agreement commitments		
One year or less	**-**	30
From one to five years	**-**	-
Total software licence agreement commitments	**-**	30
Software support and development agreement commitments		
One year or less	**55**	404
From one to five years	**55**	-
Total software support and development agreement commitments	**110**	404
Operating lease commitments		
One year or less	**279**	109
From one to five years	**419**	-
Total operating lease commitments	**698**	109
Commitments receivable		
One year or less	**39**	75
From one to five years	**43**	-
Total commitments receivable	**82**	75
Net commitments by maturity	**825**	752

NB: Commitments are GST inclusive where relevant.

* Outstanding contractual payments for service level agreements.

** Outstanding contractual payments for software licence agreement.

*** Outstanding contractual payments for software support and develpoment 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.

Notes to and forming part of the financial statements for the year ended 30 June 2008

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

The continued existence of ARPC in its present form and with its present programs is dependent on Government policy.

The financial statements and notes have been prepared in accordance with:

- Finance Minister's Orders (FMOs) for reporting periods ending on or after 1 July 2007; and
- Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements 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 statements are presented in Australian dollars and values are rounded to the nearest thousand dollars unless otherwise specified (Note 1(v)).

Unless alternative treatment is specifically required by an Accounting Standard or the FMOs, assets and liabilities are recognised in the Balance Sheet when and only when it is probable that future economic benefits will flow to ARPC 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 unrealised are reported in the Schedule of Commitments and the Schedule of Contingencies (Note 1(q)).

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, 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

Adoption of new Australian Accounting Standard requirements

No accounting standard has been adopted earlier than the application date as stated in the standard.

The following new standard is applicable to the current reporting period.

Financial instrument disclosure

AASB 7 Financial Instruments: Disclosure is effective for reporting periods beginning on or after 1 January 2007 (the 2007–08 financial year) and amends the disclosure requirements for financial instruments. In general AASB 7 requires greater disclosure than that previously required. Associated with the introduction of AASB 7 a number of accounting standards were amended to reference the new standard or remove the present disclosure requirements through 2005—10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038]. These changes have no financial impact but will affect the disclosure presented in future financial reports.

The following new standards, amendments to standards, amendments to standards or interpretations for the current financial year have no material financial impact on ARPC.

- 2007-4 amendments to Australian Accounting Standards arising from ED 151 and other amendments and erratum: Proportionate consolidation;

- 2007-7 amendments to Australian Accounting Standards [AASB 1 and AASB 139]; and

- UIG interpretation 11 AASB 2 — Group and Treasury share transactions and 2007-01 amendments to Australian Accounting Standards arising from AASB Interpretaion 11.

Future Australian Accounting Standard requirements

The following new standards, amendments to standards or interpretations have been issued by the Australian Accounting Standards Board but are effective for future reporting periods. It is estimated that the impact of adopting these pronouncements when effective will have no material financial impact on future reporting periods.

- AASB Interpretation 12 Service concession arrangements and 2007-02 amendments to Australian Accounting Standards arising from AASB interpretation 12;

- AASB 8 Operating segments and 2007-03 amendments to Australian Accounting Standards arising from AASB 8; and

- 2007-06 amendments to Australian Accounting Standards arising from AASB 123.

Other

The following standards and interpretations have been issued but are not applicable to the operations of ARPC.

AASB 1049 Financial Reporting of General Government Sectors by Governments

AASB 1049 specifies the reporting requirements for the General Government Sector. The FMOs do not refer to this standard as it contains guidance applicable to the consolidated financial statements of the Australian Government, rather than financial reports of individual agencies or authorities.

(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 2008 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 Financial instruments: Recognition and measurement.

(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 (2007: $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 (2007: $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 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 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 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) 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.

(k) 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 (2007: $0).

(l) 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.

(m) Employee benefits

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 at 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 on 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.

(n) 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 straight line basis which is representative of the pattern of benefits derived from the leased assets.

(o) Derecognition of financial assets and liabilities

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, cancelled or expires.

No financial assets or liabilities were derecognised in these financial statements (2007: $0).

(p) 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.

(q) Contingent liabilities and contingent assets

Contingent liabilities and assets are not recognised in the Balance Sheet but are reported 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. Contingent assets are reported when settlement is probable, and contingent liabilities are recognised when settlement is greater than remote.

There are no contingent liabilities or assets noted in these financial statements (2007: $0).

(r) 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.

(s) 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 'make good' 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

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

Following initial recognition at cost, property, plant and equipment are carried at fair value less accumulated depreciation and accumulated impairment losses. 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, Preston Rowe Patterson NSW Pty Limited, to conduct a valuation to determine the fair value of the property, plant and equipment as at 30 November 2007.

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 surplus and deficit. Revaluation decrements for a class of assets are recognised directly through surplus and deficit 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 with the exception of leasehold improvements which are revalued using the gross method.

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:

	2008	**2007**
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 2008. 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.

There has been no impairment adjustment recognised in these financial statements (2007: $0).

(t) Intangibles

ARPC's intangibles comprise externally acquired and internally developed software for internal use. These assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Software is amortised on a straight-line basis over its anticipated useful life. The useful life of ARPC's externally purchased and internally developed software is 4 years (2007: 4 years).

All software assets were assessed for indications of impairment as at 30 June 2008. An impairment write-off of $30,953 has been recognised in these financial statements (2007: $0).

(u) 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).

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); and

- except for receivables and payables.

(v) Rounding of amounts

Amounts in these financial statements have been rounded to the nearest thousand dollars in accordance with policy 13.1(a) of the FMOs with the exception of executive remuneration, Members' remuneration, Auditor's remuneration and transactions with related entities.

Note 2: Events after the Balance Sheet date

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

Note 3: Risk management

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 Risk Management Strategy (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.

The senior management of ARPC have developed, implemented and maintain a sound and prudent RMS. The Board reviews the RMS at least annually and confirms there are systems in place to ensure compliance with legislative and prudential requirements.

The broad risk categories discussed below are:

- insurance risk;
- operational risk; and
- capital risk.

Financial risks are considered in Note 4. Within each of these categories, risks are evaluated before consideration of the impact of mitigating controls. The existence and effectiveness of such mitigating controls are then measured to ensure that residual risks are managed within risk tolerance.

Insurance risk

The following outlines how ARPC manages its insurance risks across the underwriting, claims and actuarial disciplines.

Underwriting risks

Section 8 of the TI Act renders terrorism exclusion clauses in all eligible insurance contracts ineffective. Insurers have the right to reinsure this risk with ARPC.

Key aspects of the process established to mitigate risks include:

- ARPC's underwriting risk is limited to eligible terrorism losses arising in respect of eligible insurance contracts;

- ARPC developed a standard reinsurance agreement for underwriting and accepting insurance risks;

- ARPC undertakes a Cedant review program to verify the premium levels; and

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

Claims risk

A declared terrorist incident has not been announced since the inception of ARPC, however ARPC's mitigation strategies for the claims 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 appointment of a claims manager and the development of claims procedures to ensure that all claims advices are captured and updated on a timely basis;

- an agreement is in place with an actuarial firm;

- the collection of annual aggregate exposure data from clients and the development of a loss estimation model to support advice given regarding a reduction percentage and the ultimate claims cost; and

- the mix of assets in which ARPC invests is regulated by section 18 of the *Commonwealth Authorities and Companies Act 1997*. The management of investments is closely monitored to ensure the liquidity of funds match the potential liabilities.

Operational risk

Operational risk is the risk of loss arising from system failure or inadequacies, human error or external events that does not relate to insurance, capital and financial risks.

ARPC manages these types of risks within the entity's consolidated risk management framework. ARPC's mitigation strategies for operational risk include:

- effective staff recruitment and retention policies;

- the segregation of duties including access controls, delegated authorisation levels and accounting reconciliations controls;

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

- implementation and ongoing management of ARPC's business continuity plan.

Capital risk

ARPC's premium and investment income will build up ARPC's first layer of funds available to cover claims from declared terrorist incidents.

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

	2008	2007
	$'000	$'000
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

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

	2008	2007
	$'000	$'000
Commonwealth indemnity	**9,000,000**	9,000,000
Amount of facility used as at 30 June	**-**	-
Facility available:	**9,000,000**	9,000,000

Note 4: Financial risk management

ARPC is exposed to financial risks such as market risk, credit risk, and liquidity risk. It seeks to minimise potential adverse effects on its financial performance through its risk management framework. The key objectives are to ensure capital stability, accessibility and rate of return.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market factors. Market risk comprises three types of risk:

- foreign currency risk (due to fluctuations in foreign exchange rates);
- interest rate risk (due to fluctuations in market interest rates); and
- price risk (due to fluctuations in market prices).

1) Foreign currency risk

All foreign transactions are converted to Australian dollars at the exchange rate at the date of the transaction. There has been no foreign currency transactions recognised in the financial statements (2007: $0).

2) Interest rate risk

Financial instruments with floating rate interest expose ARPC to cash flow interest rate risk, whereas fixed interest rate instruments expose ARPC to fair value interest rate risk.

ARPC manages the interest rate risk through its investment policy. The policy notes ARPC must comply with the requirements of the CAC Act. Section 18(3) of the CAC Act provides that a Commonwealth authority may invest surplus money:

a) on deposit with a bank;

b) in securities of the Commonwealth or of a State or Territory;

c) in securities guaranteed by the Commonwealth, a State or a Territory; or

d) in any other manner approved by the Finance Minister.

ARPC actively manages the duration of the portfolio.

The maturity profile of ARPC's interest bearing financial assets and hence its exposure to interest rate risk and the effective weighted average interest rate for interest bearing financial assets is listed below.

		Floating interest rate		Fixed interest rate		Total	
		1 year or less		1 year or less			
	Notes	**2008**	2007	**2008**	2007	**2008**	2007
		$'000	$'000	**$'000**	$'000	**$'000**	$'000
Interest bearing financial assets							
Cash and cash equivalents	7	**42,909**	91,508	**-**	-	**42,909**	91,508
Fixed term deposits	9	**-**	-	**433,000**	263,000	**433,000**	263,000
Total		**42,909**	91,508	**433,000**	263,000	**475,909**	354,508
Weighted average interest rate		**7.16%**	6.21%	**7.54%**	6.34%	**7.50%**	6.30%

The table below details the interest rate sensitivity analysis of ARPC at the reporting date, holding all other variables constant. A 50 basis point change is deemed to be a possible change and is used when reporting interest rate risk.

		Financial Impact			
	Movement	Profit / (Loss)		Equity	
	in variable	**2008**	2007	**2008**	2007
	%	**$'000**	$'000	**$'000**	$'000
Interest rate movement - interest bearing	+0.50	**2,380**	1,773	**2,380**	1,773
Financial assets	-0.50	**(2,380)**	(1,773)	**(2,380)**	(1,773)

The method used to arrive at the possible change of 50 basis points was based on the analysis of the absolute nominal change of the Reserve Bank of Australia's monthly issued cash rate. Historical rates indicate that for the past five financial years, there was a bias towards an increase in interest rates ranging between 0 to 50 basis points. It is considered that 50 basis points is a 'reasonably possible' estimate as it accommodates for the maximum variations inherent in the interest rate movement over the last five years.

3) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate or currency risk, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar, financial instruments traded on the market.

The premium charged for reinsurance is determined by Ministerial direction. The premiums have been set having regard to the level of risk. ARPC is not exposed to price risk.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause financial loss to the other party by failing to discharge an obligation. The following policies and procedures are in place to mitigate ARPC's credit risk:

- premium debtors in respect of credit risk is monitored monthly; and
- an approved investment policy document. Compliance with the policy is monitored and reported monthly.

The following table provides information regarding the aggregate credit risk exposure to APRC in respect of financial assets. The table classifies the assets according to Standard and Poor's counterparty credit ratings.

		Credit rating									
		AAA		AA		AA-		A+		Total	
	Notes	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000
ARPC											
Cash and cash equivalents	7	**34,698**	37,583	**629**	52,084	**2,038**	-	**5,544**	1,841	**42,909**	91,508
Fixed term deposits	9	**275,000**	160,000	**-**	-	**53,000**	-	**105,000**	103,000	**433,000**	263,000
Total		**309,698**	197,583	**629**	52,084	**55,038**	-	**110,544**	104,841	**475,909**	354,508

The carrying amount of the relevant asset classes in the Balance Sheet represents the maximum amount of credit exposure.

The following table provides information regarding the carrying value of ARPC's financial assets that have been impaired and the ageing of those that are past due but not impaired at the balance date.

				Past due but not impaired			
		Neither past due not impaired		0 to 3 months		Total	
	Notes	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000
Financial assets							
Premium receivables	8	**-**	-	**23,062**	22,496	**23,062**	22,496
Interest receivable	8	**4,403**	970	**-**	-	**4,403**	970
Total		**4,403**	970	**23,062**	22,496	**27,465**	23,466

Liquidity risk

ARPC's financial liabilities are payables and other interest bearing liabilities. The exposure to liquidity risk is based on the notion that ARPC will encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely due to the internal policies and procedures in place to ensure there are sufficient resources to meet its financial obligations.

The table below summaries the maturity profile of ARPC's financial liabilities. All liabilities are measured on an undiscounted cash flow basis given their short term maturity.

	Notes	1 year or less		Total	
		2008	2007	**2008**	2007
		$'000	$'000	**$'000**	$'000
Financial liabilities					
Payables	14	**541**	434	**541**	434
Other interest bearing liabilities	15	**-**	6	**-**	6
Total		**541**	440	**541**	440

Note 5: Revenue

			2008 $'000	2007 $'000
(a)	**Premium revenue**			
	Gross written premium		**100,659**	94,729
	Movement in unearned premium reserve		**(715)**	2,161
	Total premium revenue		**99,944**	96,890
(b)	**Investment income**			
	Interest income		**29,495**	18,803
	Total investment income		**29,495**	18,803
(c)	**Other income**			
	Realised gain/(losses) recognised through the income statement		**-**	5
	Unrealised gain/(losses) recognised through the income statement		**-**	-
	Total other income		**-**	5
(d)	**Total revenue**		**129,439**	115,698

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)	**1,745**	1,585
	Services from related entities		**175**	177
	Goods from external entities		**40**	29
	Services from external entities		**2,158**	1,998
	Operating lease rentals		**203**	201
	Depreciation and amortisation	12	**190**	134
	Impairment write-off		**31**	-
	Bank fees and charges		**263**	261
	Total expenses by nature		**4,805**	4,385
(b)	**Expenses by function**			
	Acquisition costs		**452**	412
	General and administration expenses		**4,114**	3,855
	Investment expense		**239**	118
	Total expenses by function		**4,805**	4,385
(c)	**Employee expenses**			
	Wages and salaries		**1,418**	1,298
	Superannuation		**128**	118
	Leave and other entitlements		**188**	155
	Workers compensation premiums		**11**	13
	Other employee expenses		**-**	1
	Total employee expenses		**1,745**	1,585

Note 7: Cash and cash equivalents

	2008	2007
	$'000	$'000
Cash at bank	**42,909**	91,508
Total cash and cash equivalents	**42,909**	91,508

Cash and cash equivalents consist of at call deposits held with the Reserve Bank of Australia, Suncorp Metway Ltd, Commonwealth Bank of Australia, St George Bank and Bank of Western Australia Ltd. (2007: Reserve Bank of Australia, Suncorp Metway, Comonwealth Bank of Australia and St George Bank).

Note 8: Receivables

Premium receivable	**23,062**	22,496
Interest receivable	**4,403**	970
GST receivable from the Australian Taxation Office	**19**	26
Total receivables	**27,484**	23,492

All receivables are with entities external to ARPC. Credit terms are net 30 days (2007: 30 days). Trade debtors are non-interest bearing.

Receivables (gross) are aged as follows:

Not overdue	**4,403**	970
Overdue by:		
Less than 30 days	**23,081**	22,522
30 to 60 days	**-**	-
60 to 90 days	**-**	-
More than 90 days	**-**	-
	27,484	23,492

Interest receivable

The interest rate ranges from 6.65% to 8.08% (2007: 5.65% to 6.38%) and the frequency of payment is monthly for cash accounts and on maturity for term deposits.

The classification for not overdue has been included in these financial statements. The 2006-07 comparative split has been amended from what was published last year to reflect this.

Note 9: Investments under s18 of the CAC Act

Term deposits	**433,000**	263,000
Total investments	**433,000**	263,000

Term Deposits

Term deposits are held with the Reserve Bank of Australia, Suncorp Metway Ltd, St George Bank and Bank of Western Australia Ltd and earn an effective rate of interest of 7.54% (2007: 6.34%). Interest is payable on maturity. Terms are between 15 and 180 days (2007:17 and 96 days).

Note 10: Deferred acquisition costs

	2008 $'000	2007 $'000
Deferred acquisition costs as at 1 July	**392**	820
Acquisition costs deferred	**394**	392
Amortisation charged to income	**(392)**	(820)
Deferred acquisition costs as at 30 June	**394**	392

Note 11: Other non-financial assets

Prepayments	**33**	**27**
Total other non-financial assets	**33**	**27**

All other non-financial assets are current assets.

Note 12: Property, plant and equipment and intangibles

(a)	**Buildings**		
	Leasehold improvements		
	- at cost	**49**	306
	- at valuation (fair value)	**408**	47
	- accumulated depreciation	**(217)**	(107)
	Total leasehold improvements	**240**	246
	Total buildings	**240**	246
(b)	**Plant and equipment**		
	- at cost	**-**	75
	- at valuation (fair value)	**85**	110
	- accumulated depreciation	**(21)**	(93)
	Total plant and equipment	**64**	92
(c)	**Total property plant and equipment**	**304**	338
(d)	**Intangibles - computer software**		
	- purchased	**41**	41
	- internally developed - in progress	**-**	112
	- internally developed - in use	**537**	60
	- impairment writedown	**(60)**	-
	- accumulated amortisation	**(88)**	(42)
	Total computer software	**430**	171
	Total intangibles	**430**	171

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

A revaluation was undertaken by an independent valuer, Preston Rowe Paterson NSW Pty Limited on 30 November 2007.

A net revaluation increment of $74,598 (2007: Nil) was credited to the asset revaluation reserve by class of asset and included in the equity section of the balance sheet.

No indications of impairment were found for leasehold improvements or plant and equipment in 2008 (2007: Nil).

Table A: Reconciliation of the opening and closing balances of property, plant and equipment and intangibles (2007-08)

Item	Buildings leasehold improvements $'000	Plant & equipment $'000	Intangibles $'000	Total $'000
As at 1 July 2007				
Gross book value	353	185	213	751
Accumulated depreciation/amortisation	(107)	(93)	(42)	(242)
Net book value 1 July 2007	246	92	171	509
Additions				
- by purchase	-	5	-	5
- internally developed	-	-	366	366
Impairment write-off	-	-	(31)	(31)
Depreciation 1 July 2007 to 30 Nov 2007	(28)	(16)	(19)	(63)
Revaluation increment/(decrement)	71	4	-	75
Depreciation 1 Dec 2007 to 30 Jun 2008	(49)	(21)	(57)	(127)
Net book value 30 June 2008	240	64	430	734
Net book value as of 30 June 2008 represented by:				
Gross book value	457	85	518	1,060
Accumulated depreciation/amortisation	(217)	(21)	(88)	(326)
Net book value 30 June 2008	240	64	430	734

Table A: Reconciliation of the opening and closing balances of property, plant and equipment and intangibles (2006-07)

Item	Buildings leasehold improvements $'000	Plant & equipment $'000	Intangibles $'000	Total $'000
As at 1 July 2006				
Gross book value	345	174	101	620
Accumulated depreciation/amortisation	(37)	(55)	(16)	(108)
Net book value 1 July 2006	308	119	85	512
Additions				
- by purchase	8	11	-	19
- internally developed - in progress	-	-	112	112
Depreciation/amortisation expense	(70)	(38)	(26)	(134)
Net book value 30 June 2007	246	92	171	509
Net book value as of 30 June 2007 represented by:				
Gross book value	353	185	213	751
Accumulated depreciation/amortisation	(107)	(93)	(42)	(242)
Net book value 30 June 2007	246	92	171	509

Note 13: Unearned premium liability

	2008 $'000	2007 $'000
Unearned premium liabiilty as at 1 July	**46,189**	48,350
Deferral of premiums on contracts written in the period	**46,904**	46,189
Earning of premiums written in the previous periods	**(46,189)**	(48,350)
Unearned premium liability as at 30 June	**46,904**	46,189

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	**41**	120
Accruals	**500**	314
Total payables	**541**	434

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

Lease Incentive:

Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the lease liability.

Note 16: Provisions

		2008 $'000	2007 $'000
(a)	**Employee provisions**		
	Salaries and wages	**17**	9
	Leave	**324**	231
	Total employee provisions	**341**	240
	Current	**183**	139
	Non-current	**158**	101
	Total employee provisions	**341**	240
(b)	**Other provisions**		
	Make good provision	**49**	49
	Total other provisions	**49**	49

	Provision for make good $'000	Total $'000
Carrying amount at beginning of period	**49**	41
Additional provisions made	**-**	-
Present value adjustment	**-**	8
Amount owing at end of period	**49**	49

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

	2008 $'000	2007 $'000
Reconciliation of cash and cash equivalents as per Balance Sheet to Cash Flow Statement		
Report cash and cash equivalents as per:		
Cash Flow Statement	**42,909**	91,508
Balance Sheet	**42,909**	91,508
Difference	**-**	-
Reconciliation of operating result to net cash from operating activities:		
Operating result	**124,634**	111,313
Depreciation/amortisation expense	**190**	134
Impairment write-off	**31**	-
(Increase)/decrease in receivables	**(3,992)**	1,721
(Increase)/decrease in other non-financial assets	**(5)**	4
(Increase)/decrease in deferred acquisition costs	**(2)**	428
Increase/(decrease) in premium liability	**714**	(2,161)
Increase/(decrease) in payables	**107**	66
Increase/(decrease) in other interest bearing liabilities	**(6)**	(13)
Increase/(decrease) in provisions	**101**	47
Net cash from/(used by) operating activities	**121,772**	111,539

Note 18: Average staffing levels

	2008	2007
The average staffing levels for ARPC during the year were	**15**	13

Note 19: Executive remuneration

	2008	2007
	$	$
The aggregate amount of total remuneration of executives shown below.	**1,116,635**	1,056,751

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

$130,000 - $144,999	**-**	1
$145,000 - $159,999	**1**	-
$160,000 - $174,999	**1**	1
$190,000 - $204,999	**1**	1
$205,000 - $219,999	**1**	1
$340,000 - $354,999	**-**	1
$370,000 - $384,999	**1**	-
Total number of executives of ARPC	**5**	5

Note 20: Members' remuneration

	2008	2007
	$	$
Total remuneration received or due and receivable by Members of ARPC	**23,498**	21,780
The number of Members of ARPC included in these figures are shown below in the relevant remuneration bands:		
$ Nil - $14,999	**6**	6
Total number of Members of ARPC	**6**	6

Note 21: Auditor's remuneration

	2008	2007
	$	$
The cost of financial statement audit services provided to ARPC was	**110,000**	110,000

The financial statement audit services are provided to ARPC by the Auditor-General. No other services were provided by the Auditor-General during the reporting period.

Note 22: Related party disclosures

Members

The names of persons who were Members of ARPC during the financial year were:
Ms P Azarias, Mr A Lumsden, Ms M Micalizzi, Mr J Murphy, Ms M Rathbone and Mr G Vogt.

Changes in membership during the year:

Ms Rathbone's term expired on 24 April 2008. Ms P Azarias was appointed on 22 April 2008 and Mr Murphy was re-appointed from 25 April 2008. Both terms expire on 24 April 2011. Information on remuneration of Members is disclosed in Note 20.

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 $174,556 (2007: $177,086).

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: Segment reporting

ARPC was established under the TI Act to offer reinsurance for eligible properties within Australia against the risk of terrorism. The geographical segment reports on the gross written premium split between Australian based insurers and overseas insurers operating within Australia.

		2008 $'000	2007 $'000
Gross written premium by geographical market:			
Australia		**90,307**	83,498
Overseas		**10,352**	11,231
Total gross written premium	5(a)	**100,659**	94,729

All risks are located within the Australian market.

Note 24: Financial Instruments

		Note	2008 $'000	2007 $'000
(a)	**Categories of financial instruments**			
	Financial assets			
	Cash and cash equivalents	7	**42,909**	91,508
	Loans and receivables financial assets			
	Receivables (gross)	8	**27,465**	23,466
	Fair value through profit and loss (held to maturity)			
	Fixed term deposits	9	**433,000**	263,000
	Carrying amount of financial assets		**503,374**	377,974
	Financial liabilities			
	At amortised cost			
	Payables	14	**541**	434
	Other interest bearing liabilities	15	**-**	6
	Carrying amount of financial liabilities		**541**	440
(b)	**Net income and expense from financial assets / liabilities**			
	Investment income	5(b)	**29,495**	18,808
	Net gain/(loss) from financial assets		**29,495**	18,808

(c) **Fair value of financial instruments**

	Note	**Carrying amount 2008 $'000**	**Fair value 2008 $'000**	Carrying amount 2007 $'000	Fair value 2007 $'000
Financial assets					
Cash and cash equivalents	7	**42,909**	**42,909**	91,508	91,508
Receivables (gross)	8	**27,465**	**27,465**	23,466	23,466
Fixed term deposits	9	**433,000**	**433,000**	263,000	263,000
Total financial assets		**503,374**	**503,374**	377,974	377,974
Financial liabilities					
Payables	14	**541**	**541**	434	434
Other interest bearing liabilities	15	**-**	**-**	6	6
Total financial liabilities		**541**	**541**	440	440

The classification other interest bearing liabilities has been included in this note. The 2006-07 comparative split has been amended from what was published last year to reflect this.