ARPC

Annual Report
2010 — 11

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Australian Government

Australian Reinsurance Pool Corporation

20 September 2011

The Hon Bill Shorten, MP
Assistant Treasurer
Minister for Financial Services and Superannuation
Parliament House
CANBERRA ACT 2600

Dear Minister

I have pleasure in presenting to you the annual report of the Australian Reinsurance Pool Corporation for the year ended 30 June 2011. 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.

Yours sincerely

J I Gersh AM
Chair

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Report from the Chair

It gives me a great deal of pleasure to present ARPC's 2010-11 annual report.

During the year ARPC continued to build on the solid financial, operational and organisational foundations it has established since its inception.

Mr David Matcham joined ARPC at the end of the first quarter as CEO and the Board is pleased with the way in which he has settled into the role.

ARPC's 2010-11 operating result of $61.386 million reflects a 15.4 per cent increase over the previous year. The main influences in this growth were a strong lift in investment income coming from rising interest rates, the overall growth in the fund and more active investment management. ARPC's investment income was $36.180 million. Retrocession commission income contributed $8.004 million towards the operating result.

The gross written premium for 2010-11 was $112.555 million, which represents a 7.3 per cent increase on last year. Net written premium of $24.534 was flat as ARPC increased spending on retrocession in line with an increase in cover. ARPC continues to transfer the operating result to the reserves, which have increased to $665.846 million as at 30 June 2011.

ARPC's retrocession program was renewed on 31 December 2010. At renewal the capacity was increased to $2.75 billion (2009: $2.6 billion). The retrocession program continues to place the Government further from the risk of the Commonwealth guarantee being called on in the event of a declared terrorist incident and lessens the likelihood that a reduction percentage will be required. It is also aimed at encouraging the return of the commercial terrorism insurance market. The program is discussed in more detail in Chapter 2.

ARPC maintains its commitment to developing its loss estimation capabilities and will continue its collaboration with the Attorney-General's Department and Geoscience Australia to further enhance ARPC's capabilities in this area.

A high level of cooperation with the insurance industry has enabled ARPC to develop a good understanding of its aggregate exposures and this information has assisted in placing the retrocession program.

As in past years, my fellow Members and I have benefited from the professional support provided by all the staff at ARPC. ARPC continues to enjoy the confidence of both government and industry. I look forward to working with my fellow Members, the CEO and the staff of ARPC to ensure that the regard in which ARPC is held is maintained and developed further. We are committed to working towards achieving the Government's aim of encouraging the return of the commercial terrorism insurance market.

ARPC has enjoyed a very successful year and I look forward to working with my fellow Members, the CEO and staff of ARPC to ensure 2011-12 is equally successful.

J I Gersh
Chair
20 September 2011

Report from the Chief Executive

After nine months in the role I am happy to be able to frame my first report in a positive light.

As the rest of this report will show, ARPC has posted a strong result this year and has a growing reserve to meet claims.

After seven years of operation the organisation is very well positioned to respond effectively to a terrorism event.

I can attest to its strong governance and risk management systems. In the past year the risk management systems have been reviewed and upgraded with the assistance of expert advice.

While placement of terrorism risk with ARPC is optional, active promotion of the scheme has resulted in a very high level of participation and it would appear likely that the available risk has, in fact, been transferred to the pool, giving ARPC maximum size.

In 2011 ARPC implemented a more focused investment strategy and has embarked on a program to improve operational efficiency by capitalising on its core systems and the replacement of outsourcing arrangements.

ARPC continues to pursue a conservative strategy, buying retrocession cover to boost the size of the pool. We are continually told by international reinsurers that ARPC has accumulated the best suite of exposure data of any pool and this is supported by a growing appetite for our risk.

The quality of ARPC data is a testament to the cooperation and support of general insurers using the scheme.

In January 2011, ARPC appointed Laurence Daly to the role of Chief Financial Officer. He has brought with him a wealth of knowledge and experience from holding similar roles with large government agencies and from the private sector. Laurence's first task was to steer ARPC through its 2010-11 financial statements audit. I am extremely pleased with the professionalism that he displayed and I look forward to further developing our close working relationship.

ARPC was pleased to assist the natural disaster insurance review with the secondment of one of its most experienced staff members. Michael Pennell, ARPC's Client Services Manager, is currently seconded to the review secretariat until the end of September 2011.

I take this opportunity to put on record the achievements of my predecessor and the ARPC team who have welcomed me into the role. I also thank the Chair and Members for their support through my short induction.

D M Matcham
Chief Executive
20 September 2011

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 2011. 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 the resolution of the Members.

J I Gersh
Chair

20 September 2011

Ms Marian Micalizzi
Member and Chair of the Audit and Compliance Committee
20 September 2011

Glossary

AASB	Australian Accounting Standards Board
AGD	Attorney General's Department
ANAO	Australian National Audit Office
ANZIIF	Australian and New Zealand Institute of Insurance and Finance
APRA	Australia Prudential Regulation Authority
ARPC	Australian Reinsurance Pool Corporation
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange
ATO	Australian Taxation Office
BCM	Business continuity management
BCP	Business continuity plan
CAC Act	*Commonwealth Authorities and Companies Act 1997*
CBD	Central business district
CEO	Chief Executive Officer
CIPMA	Critical Infrastructure Protection Modelling and Analysis program
DTI	Declared terrorist incident
FMOs	Finance Minister's Orders
GST	Goods and services tax
NABERS	National Australian built environment rating system
OH&S Act	*Occupational Health and Safety Act 1991*
OH&S	Occupational health and safety
RISe	Reinsurance information system, ARPC's client information management system
S&P	Standard and Poor's
SES	Senior executive staff
TI Act	*Terrorism Insurance Act 2003*

2010-11 Highlights

Financial	Outcome
Operating results	$61.386 million
Gross written premiums	$112.555 million
Investment income	$36.180 million
Retrocession expense	$84.185 million
Retrocession program	Capacity increased to $2.75 billion
Loss estimation model	ARPC's loss estimation capabilities continue to be developed and refined
Corporate Governance	**Result**
Internal audit	No issues were identified which would have a material impact on ARPC's processes.
Risk management	ARPC undertook a major review of its risk management and realigned its risk register with key processes to assist with the monitoring and reporting of risks to management and the Board.
Human resource management	**Result**
Employment agreements	The nominal expiry date of ARPC's enterprise agreement is 30 June 2012.
Client satisfaction	**Result**
Cedant review program	The program continues to meet its objective of ensuring cedants comply with the reinsurance agreements.
Social/community	**Result**
Carbon footprint	ARPC implements strategies designed to minimise waste and conserve energy.

Chapter 1: Overview

Role and functions

Background

The TI Act establishes a scheme for terrorism insurance coverage for commercial property and associated business interruption. The Act also establishes ARPC as a statutory authority to administer the scheme. Both the scheme and 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 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 the 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 have wide economic impacts. These considerations led 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.

The Act overrides terrorism exclusion clauses in eligible insurance contracts to the extent the losses excluded are eligible terrorism losses arising from a DTI. Insurers may reinsure this additional risk with ARPC.

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.

Organisation 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.

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 2011, ARPC had 20 employees (including the Chief Executive). Eighteen employees work full-time and two work part-time.

Sixteen employees are located in ARPC's Canberra office and four employees are located in the Sydney office.

An organisational chart illustrating functional responsibilities is attached (Diagram 2).

Mission and Vision

Mission: To provide financial protection to the Australian economy in the event of a terrorist incident.

Vision: To be the world’s leading terrorism reinsurance pool.

Objectives

- 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 DTI;
- to keep abreast of key international developments;
- to keep the Government fully informed of its activities and alert the Government of 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 DTI;
- 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.

The scheme

The TI Act effectively deems terrorism risk cover into eligible insurance contracts by rendering terrorism exclusion clauses void. Insurance companies are able to reinsure the risk of claims for eligible terrorism losses through the ARPC. If they choose to do so, premiums are payable to ARPC.

More specifically, the Act operates by overriding terrorism exclusion clauses in eligible insurance contracts to the extent the losses excluded are eligible terrorism losses arising from a DTI. It makes these clauses ineffective for all classes of insurance included in the scheme, for those risks covered by the policyholder’s insurance. This requires insurers to meet eligible claims in accordance with the other terms and conditions of their policies.

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 DTI.

Review of the scheme

The scheme was established as an interim measure and is intended to operate only while terrorism insurance cover is unavailable commercially on reasonable terms. At the time it was established, the Government also considered that uncertainty in the market made it impossible to stipulate the details or timing of its windup. As a result the Act requires that, at least once every three years after the start-up time, the Minister must prepare a report that reviews the need for the Act to continue in operation.

Reviews were completed in June 2006 and June 2009. The third review is due to report by 30 June 2012.

The 2006 review

After consulting with stakeholders and considering international experience, the review concluded that there was still a need for the Act to continue in operation, subject to a further review in no more than three years. The review considered that, while the market for terrorism insurance had recovered somewhat since the scheme was introduced, insufficient terrorism insurance was available commercially on reasonable terms.

The review identified a need to encourage private sector involvement, to the greatest extent possible, to avoid crowding out the market and allow the Government to withdraw once terrorism insurance is commercially available on reasonable terms. It noted that it is important for ARPC to develop its exposure modelling capability to encourage greater private sector involvement in terrorism cover. It also concluded that high rise residential property and discretionary mutual funds should not be included in the scheme.

The review recommended that:

- ARPC be required to continue charging premiums for reinsurance at the current rates, subject to further review in no more than three years;
- once the pool reaches $300 million, ARPC have discretion to determine whether to use premiums to build the pool further, purchase reinsurance for the scheme or undertake a combination of the two;

- insurer retentions under the scheme be increased in three increments (with effect, respectively, from 1 July 2007, 1 July 2008 and 1 July 2009); and
- in relation to bundled insurance policies, ARPC be required to only charge reinsurance premiums on those sections of the policy that exclude terrorism risk.

All recommendations were accepted by Government and all were implemented by ARPC. Reinsurance premiums are unchanged, a reinsurance program was introduced effective from 31 December 2008, insurer retentions were increased in line with the review recommendation and ARPC has altered the way in which premiums on bundled insurance policies are calculated.

The 2009 review

The 2009 review considered the need for the Act to continue in the context of the international terrorism insurance market which had been characterised by improvements in the availability and affordability of terrorism insurance, subject to certain limitations. Despite these improvements, the review found that there was still insufficient capacity to meet demand for terrorism insurance at commercially affordable rates. While global capacity for reinsurance of terrorism risk had improved for national pooled arrangements, there was insufficient capacity at reasonable prices for individual risks.

The review recommended that the Act continue in operation, subject to further review in no more than three years, at which time further examination of the availability of commercial reinsurance on reasonable terms be undertaken. The review also supported maintaining, to the greatest extent possible, private sector provision of terrorism insurance

The review considered refinements to the operation of the scheme and recommended:

- ARPC continue to collect premiums at current rates and investigate the purchase of further retrocession with funds from the pool, and that the relationship between premiums and the pool, and the impact of retrocession on the pool and the scheme more generally, be further considered in the context of the 2012 review;
- industry retention levels remain at the levels that took effect on 1 July 2009, noting that the appropriateness of the current levels and structure of retentions should be re examined in the course of the 2012 review;
- ARPC not be required to maintain a line of credit facility for the scheme, guaranteed by the Commonwealth, but should investigate purchasing additional retrocession capacity for the scheme;

- ARPC examine the effects of extending the scheme to mixed use high rise buildings that are not predominantly for commercial use;
- property that is wholly for residential use, including defence force and student accommodation involving commercial property financing, continue to be excluded from the scheme;
- Treasury, with the assistance of an outside contractor, update the allocation of individual postcodes to particular tiers to ensure that all postcodes are allocated to the correct tier.

All recommendations were accepted by Government. Premium and retention levels remain unchanged. The line of credit was not renewed on expiry. Residential property continues to be excluded from the scheme.

Mixed use high rise buildings

As recommended by the 2009 review, ARPC examined the effects of extending the scheme to mixed use high rise residential buildings which are not predominantly for commercial use.

ARPC was required to have regard to the need to maintain, to the greatest extent possible, private sector provision of terrorism insurance and to allow the re-emergence of commercial markets for terrorism risk cover.

ARPC consulted widely during the conduct of the enquiry, including industry bodies, insurers, reinsurers, actuaries and insurance law experts.

Finity Consulting Limited (Finity) was engaged to assist in estimating the additional risk to ARPC by including mixed use buildings alongside commercial risks already covered by ARPC.

While Finity's actuarial analysis concluded that there were few mixed use high rise buildings in the CBDs of Sydney and Melbourne and their inclusion in the scheme would not have a material effect of ARPC's exposure, ARPC is of the view that including mixed use high rise buildings in the scheme may restrict the introduction of an industry solution to the unavailability of terrorism insurance. This is unlikely to promote the Government's objective of operating the scheme only while terrorism insurance cover is unavailable commercially on reasonable terms.

The review is available on the ARPC website (www.arpc.gov.au) under 'The Act'.

The report made the following recommendations:

- the existing test of predominance be retained, thus continuing to exclude mixed use buildings in accordance with the existing protocol;
- ARPC conduct an education campaign with its cedants to raise awareness of the protocol contained in the Insurance Council of Australia General Circular No G1573; and
- the existing floor area test be retained.

All recommendations were accepted by Government.

Postcode allocation

As recommended by the 2009 review, Treasury engaged Geoscience Australia to update the allocation of individual postcodes to particular tiers to ensure that all postcodes are allocated to the correct tier.

As a result of the review by Geoscience Australia:

- there were no changes to tier A postcodes; and
- 36 postcodes were reallocated from tier C to tier B.

The Minister responsible for ARPC, the Assistant Treasurer, The Hon Bill Shorten MP, gave a written direction to ARPC in relation to the re-allocation of postcodes. The direction was received on 28 June 2011 and was effective on 1 July 2011.

The effect of the Ministerial direction is discussed in Chapter 3.

ARPC communicated the outcome of the review to its cedants on 20 January 2011. All cedants moved quickly to implement changes to their processes and reporting to enable to submission of accurate information by the implementation date of 1 July 2011.

The 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.

Eligible property is the following property that is located in Australia:

- buildings (including fixtures) or other structures or works on, in or under land;
- tangible property that is located in, or on, such property; and
- property prescribed by regulation.

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 DTI under section 6 of the TI Act. Upon that declaration, the provisions of the TI Act in respect of eligible terrorism losses become effective.

Cover is also available for all Commonwealth and state and territory public authorities. Farms can also obtain cover if they hold insurance against business interruption.

The scheme covers eligible terrorism losses for any DTI covered by an eligible insurance contract where the insurer has a reinsurance agreement with ARPC. Eligible terrorism losses do not include a loss or liability arising from the hazardous properties of nuclear fuel, material or waste. They do, however, include loss or liability arising from incidents caused by biological and chemical agents.

The scheme does not cover residential property or the contents of residential property.

The Regulations also exclude contracts of insurance which provide cover for, inter alia, workers' compensation insurance, 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 with ARPC the risk of claims for eligible terrorism losses. Premium and investment income continue to build ARPC's funds available to cover claims from a DTI. ARPC's reserves are supplemented by a $2.75 billion retrocession program and a Commonwealth guarantee which is capped at $10 billion.

Diagram 1 illustrates the scheme structure.

Diagram 1: Scheme structure

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 DTI 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 which reinsure their terrorism risks with ARPC retain part of the risk of liability from a DTI. 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 of $10 million.

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 maximum industry retention. If the retentions of insurers in respect of all eligible terrorism losses caused by a single DTI exceed the maximum industry retention of $100 million, the individual insurer's retention is reduced proportionately.

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

Layers of the scheme

The scheme effectively provides a layered model that operates from the ground up to spread the cost of any claims. The following illustrates the layers that are now in place.

Table 1: Layers of the scheme

Layer	Element
Layer 7	Possible liability for some risk by policyholder, through the operation of the reduction percentage or policy limits
Layer 6	Commonwealth guarantee
Layer 5	The balance of ARPC's reserves
Layer 4	Retrocession program funded from premium income
Layer 3	ARPC's deductible under its retrocession program
Layer 2	Retention of some risk by insurers
Layer 1	Policyholder's liability for some risk through a possible excess or deductible

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. The table below demonstrates the breakdown of tiers and the geographical location to which they relate.

Table 2: Tier based on geographical location

Tier	Explanation
A	Covering the CBD areas of Australian cities with a population of over one million (Sydney, Melbourne, Brisbane, Perth and Adelaide)
B	Covering the urban areas of all state capital cities and cities with a population over 100,000 (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)
C	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

Reinsurance premiums are calculated as a percentage of the premium written by the reinsured that is attributable to the eligible insurance contract, 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.

Table 3: Premium structure for reinsurance

Class of insurance	Tier	Initial rate from 1 October 2003 per cent
Commercial property	A	12
	B	4
	C	2
Business interruption	A	12
	B	4
	C	2
Public liability		Nil

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) that comprises two or more distinct insurance covers that have been packaged or bundled together; and

b) that is offered on the basis that the insured must take out one or more of the number of insurance covers offered; and

c) in relation to which the premium attributable to each insurance cover the eligible insurance contract comprises is precisely quantifiable; and

a) that contains:

   i) some insurance covers, each of which, if provided individually, would be an eligible insurance contract; and

   ii) other insurance covers, none of which, if provided individually, would be an eligible insurance contract.

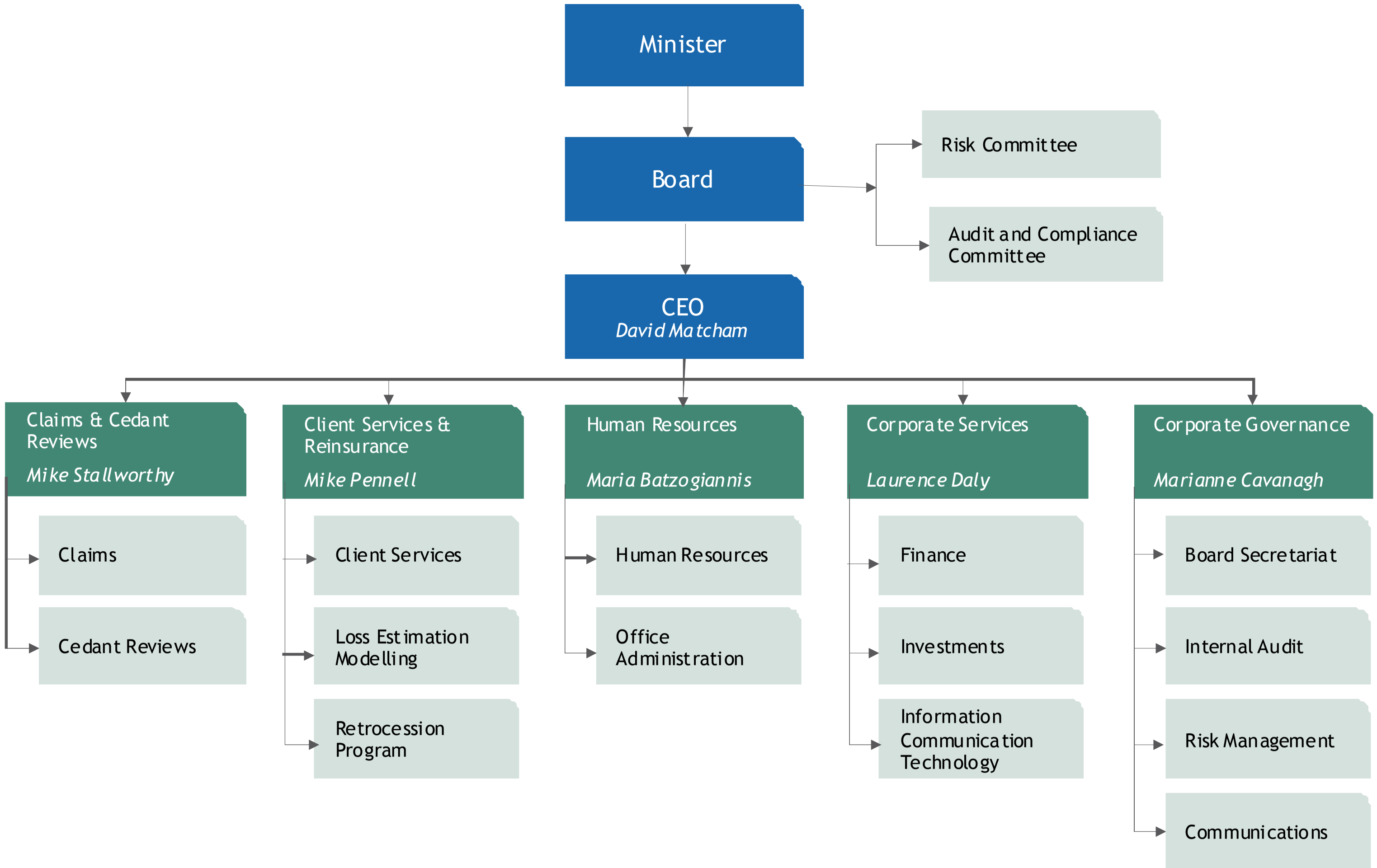
Reporting of premiums and aggregate risk data

ARPC continues to develop and improve its online reporting system, RISe, which enables secure electronic submission by clients of annual aggregate reports, premium returns and claims. It also allows clients to access basic market share information. The electronic submission of data enhances ARPC's ability to analyse that data.

During 2010-11 ARPC continued to improve the functionality and usability of RISe by:

- updating the RISe interface to be consistent with ARPC's website;
- developing a context sensitive dashboard, which displays information relevant to each user (for example when submissions are due);
- allowing for the addition of extra client contacts, including their position;
- increased internal reporting capabilities; and
- testing the database to establish the maximum number of users who can access the database at one time.

Diagram 2: ARPC organisational chart



Chapter 2: Report on performance

Financial review

Summary of financial information

Table 4: Financial highlights

	2011 $'000	2010 $'000	2009 $'000	2008 $'000	2007 $'000
Net premium revenue	**24,534**	25,293	66,931	99,944	96,890
Acquisition costs	**(609)**	(603)	(599)	(452)	(412)
Retrocession commission income	**8,004**	7,551	3,446	-	-
Investment income	**36,180**	28,351	30,416	29,495	18,803
Other income	**(88)**	(596)	(254)	-	5
Revenues from Government	**-**	-	-	-	-
Other operating expenses	**(6,635)**	(6,800)	(5,395)	(4,353)	(3,973)
Operating result	**61,386**	53,196	94,545	124,634	111,313
Gross written premium	**112,555**	104,885	106,270	100,659	94,729
Outwards retrocession premium	**(84,186)**	(80,098)	(37,440)	-	-
Net expense ratio	**20.49%**	26.89%	8.10%	-	-
Gross expense ratio	**4.62%**	6.45%	5.19%	4.55%	4.53%
Cash and cash equivalents	**14,660**	41,668	37,467	42,909	91,508
Investments	**665,648**	576,334	529,938	433,000	263,000
Reserve for claims	**665,846**	604,460	551,189	456,644	332,010

ARPC's financial performance for 2010-11 shows a continued strengthening of the reserve for claims and ARPC's ongoing ability to manage costs within acceptable industry levels. In summary the year's achievements are:

- the gross written premium result of $112.555 million (2010: $104.885 million) is consistent with budget expectations for 2011;

- ARPC renewed its retrocession program in December 2010. The increase in the cost of the program to $84.186 million (2010: $80.098 million) reflects the increase in cover from $2.60 billion to $2.75 billion;

- while ARPC's investments are managed in a conservative manner in compliance with the framework of the CAC Act, the active return achieved over the RBA official cash rate was 116 basis points (2010: 105 basis points);

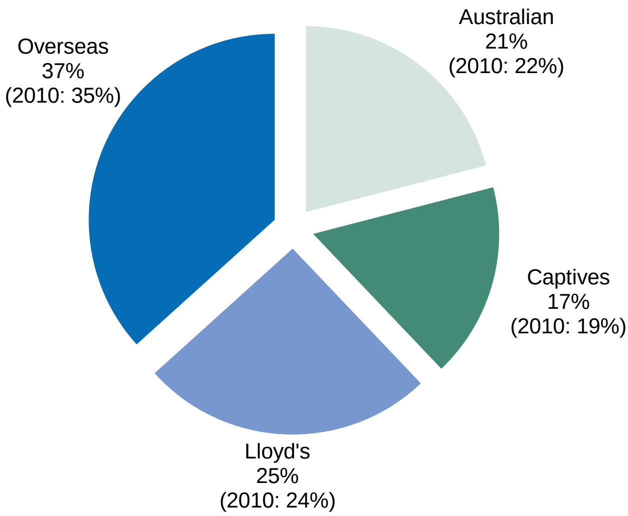
- the net expense ratio of 20.49 per cent (2010: 26.89 per cent) and gross expense ratio of 4.62 per cent (2010: 6.45 per cent) demonstrates the stability of costs in what is only the second full year experience of ARPC's retrocession program and remains within budget expectations; and

- ARPC's number of active treaties is 248 (2010: 252).

Active treaties

ARPC's active treaties decreased during 2010-11 to 248 (2010: 252). The percentage split between each of the categories as outlined in chart 1.

Chart 1: Number of active treaties



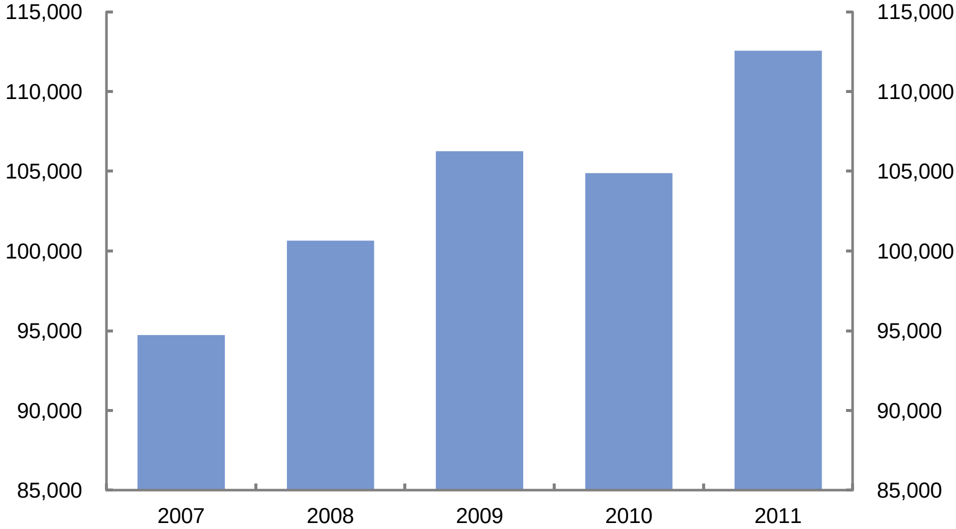
Australian clients represent 21 per cent of the total active treaties and yet continue to represent 87 per cent of the premium received. This has been a consistent outcome over the years of ARPC's operations.

Gross written premium

ARPC's gross written premium result for 2010-11 is $112.555 million which is an increase of 7.31 per cent over the 2010 result of $104.885 million.

The movement in premiums written is a function of mainly two influences. The first is market activity with regard to asset developments and their associated business risks. Assets are continuously coming on line or being decommissioned. The second is the movement of premium rates in the 'insurance cycle'. Due to fluid competitive market forces insurance premium rates tend to move up or down over a period known as a cycle.

Chart 2: Gross written premium



ARPC continually monitors and analyses clients' quarterly premium returns to detect underlying trends. This information is then utilised when making informed judgements on budget and forecast expectations.

Chart 3: Gross written premium by cedant type

The following three tables provide information on the submitted premium by tier, state and business class.

Table 5: Gross written premium by tier

	Actual					
	2011	2010	2009	2008	2007	2006
	%	%	%	%	%	$'000
Tier A	**19%**	19%	21%	21%	21%	24%
Tier B	**56%**	57%	54%	56%	57%	55%
Tier C	**25%**	24%	25%	23%	22%	21%
Total GWP $ '000	**112,555**	104,885	106,270	100,659	94,729	103,204

The premium split by tier highlights the trend over the last five years. The minor movements for 2010-11 are the 1 per cent reduction in tier B and the 1 per cent increase in tier C. Tier C has recorded a slight increase over the year to 25 per cent; however has been very stable for the last three years.

Table 6: Gross written premium by state

	Actual					
	2011	2010	2009	2008	2007	2006
	$'000	$'000	$'000	$'000	$'000	$'000
NSW	**31%**	31%	31%	34%	34%	36%
SA	**9%**	9%	8%	8%	8%	8%
VIC	**23%**	22%	22%	23%	24%	23%
TAS	**2%**	2%	1%	2%	1%	1%
QLD	**20%**	21%	22%	20%	19%	18%
NT	**1%**	1%	1%	1%	1%	1%
WA	**13%**	13%	13%	12%	11%	11%
ACT	**1%**	1%	1%	1%	1%	1%
Total GWP	**112,555**	104,885	106,270	100,659	94,729	103,204
Cumulative Total	**678,103**	565,548	460,663	354,393	253,734	159,005

Table 6 reveals a very stable outcome across the states between 2010 and 2011. The growth experienced in Queensland and Western Australia from 2007 to 2010 appears to have plateaued and stabilised during 2011.

Table 7: Gross written premium by business class

	Actual					
	2011	2010	2009	2008	2007	2006
	$'000	$'000	$'000	$'000	$'000	$'000
Fire/ISR/BI	**80%**	81%	78%	77%	77%	81%
Contract Works	**9%**	7%	10%	10%	10%	8%
Burglary	**5%**	5%	5%	6%	6%	5%
Miscellaneous Accident	**2%**	3%	3%	3%	3%	3%
Mobile Plant	**3%**	3%	3%	2%	2%	2%
Glass	**1%**	1%	1%	2%	2%	1%
Farm*	**0%**	0%	0%	0%	0%	0%
Total GWP	**112,555**	104,885	106,270	100,659	94,729	103,204
Cumulative Total	**678,103**	565,548	460,663	354,393	253,734	159,005

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

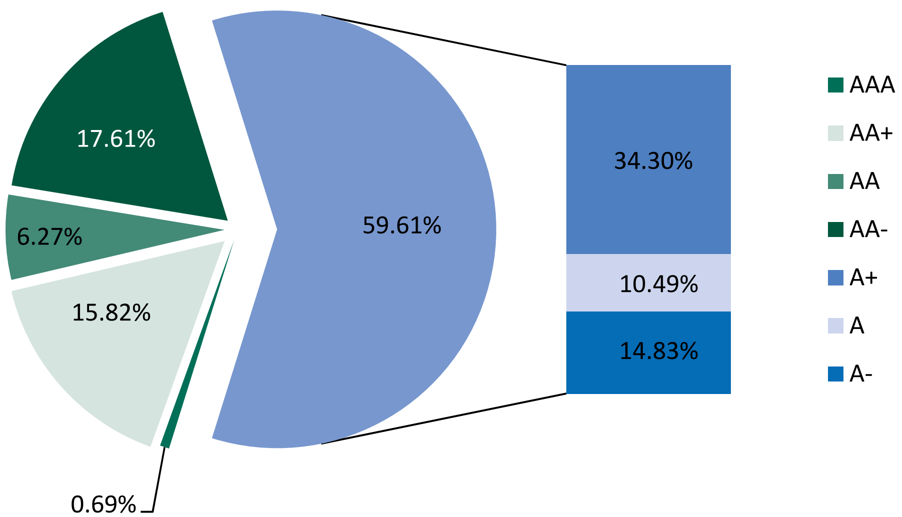
The premium split by business class highlights an upward movement of 2 per cent for the classes of contract works and a downward movement of 1 per cent for fire, industrial special risk and business interruption and miscellaneous accident. All other classes have remained stable between years.

Retrocession placement

ARPC's significant retrocession program was renewed at midnight on 31 December 2010. The placement was for $2.75 billion (2010: $2.60 billion) in terrorism exposure cover and almost 60 reinsurers participate in the program. All of the participants have a credit rating between AAA and A-. Detailed information regarding the retrocession placement is provided later in this chapter.

The retrocession expense is recognised using the 365th method with the expense incurred for the 12 months to 30 June 2011 totalling $84.185 million (2010: $80.098 million). The total retrocession commission income recognised by ARPC was $8.004 million (2010: $7.551 million).

Chart 4: Retrocession program counterparty credit rating 2011



Investment assets

ARPC manages its investments within a conservative framework. ARPC internally manages its cash deposits, while external fund managers have been appointed to manage the balance of the pool funds in medium term investments.

ARPC's objectives are to ensure that:

a) the pool capital is maintained intact;

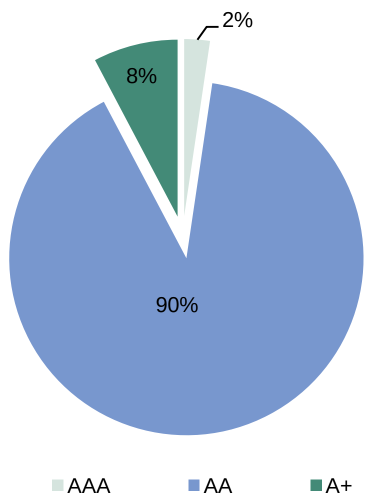
b) funds are available at short notice; and

c) the fund is returning a rate of return acceptable to the Members. The planned benchmark return for ARPC is the RBA official cash rate plus 0.5 per cent for internally managed funds; and the UBS 3 year to 5 year Australian Government Bond Index for funds managed by external fund managers.

The investment strategy complies with the CAC Act, with all investments being held in ARPC's name.

ARPC's investments are predominately held with financial institutions with an S&P credit rating of either AAA (2.00 per cent) or AA (90.00 per cent).

Chart 5: Investments by credit rating 2011



The following table provides a breakdown of ARPC's cash and investment balances as at 30 June 2011.

Table 8: Cash and investment balances
As at 30 June 2011

	2011 $'000	2010 $'000
Internally managed		
Cash at bank	**2,763**	35,120
Fixed interest deposits	**367,000**	288,975
Total internally managed cash and investments	**369,763**	324,095
External fund managers		
Cash at bank	**11,897**	6,548
Fixed interest deposits	**285,500**	267,000
Government (guaranteed) securities	**13,148**	20,359
Total external fund manager cash and investments	**310,545**	293,907
Total cash and investments	**680,308**	618,002

Investment income

The investment income return for 2010-11 is an excellent result given the low interest rate environment experienced for most of the financial year.

The following table provides a breakdown between internally and externally generated investment income as at 30 June 2011.

Table 9: Investment income
For the period ended 30 June 2011

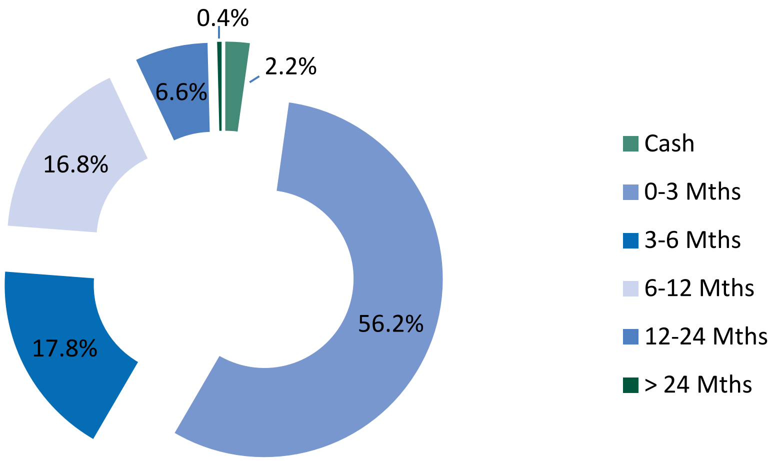
	2011 $'000	2010 $'000
Internally managed		
Cash at bank	**1,319**	1,709
Fixed interest deposits	**18,119**	13,414
Total internally managed income	**19,438**	15,123
External fund managers		
Cash at bank	**377**	340
Fixed interest deposits	**15,212**	10,716
Government (guaranteed) securities	**1,153**	2,172
Total external fund managers income	**16,742**	13,228
Total cash and investments	**36,180**	28,351

ARPC manages the interest rate yields through actively supervising the duration of its portfolio; internally by management and externally by the fund managers. As at 30 June 2011 ARPC held 7 per cent of its funds at call (floating rates), 83 per cent of funds are maturing in one year or less and 10 per cent of funds are maturing between one and five years.

The maturity spreads contributed to ARPC achieving an active return on the total portfolio for the 2010-11 year of 116 basis points (2009-10: 105 basis points) over the weighted average RBA official cash rate.

The weighted average interest rate for 2010-11 has increased to 5.82 per cent (2009-10: 5.39 per cent).

Chart 6: Funds held at 30 June 2011 by maturity



Expenses

ARPC's expense ratio for 2010-11 has reduced to 20.49 per cent (2010: 26.89 per cent) due to a decrease in underwriting expenses to $5.026 million (2010: $6.800 million).

ARPC's gross expense ratio (which excludes the retrocession program) is 4.62 per cent (2010: 6.45 per cent).

The movements in ARPC's expenses are mainly attributable to:

- a decrease in all underwriting costs (which include direct and indirect underwriting costs) resulting from system process improvements implemented during the financial year 2010-11;
- a decrease in the cost of cedant reviews, with the number of reviews undertaken remaining consistent with 2010;
- a rescheduling of actuarial work relating to ARPC's exposure modelling and investment analysis; and
- a decrease in the cost of technical underwriting paid to external service providers.

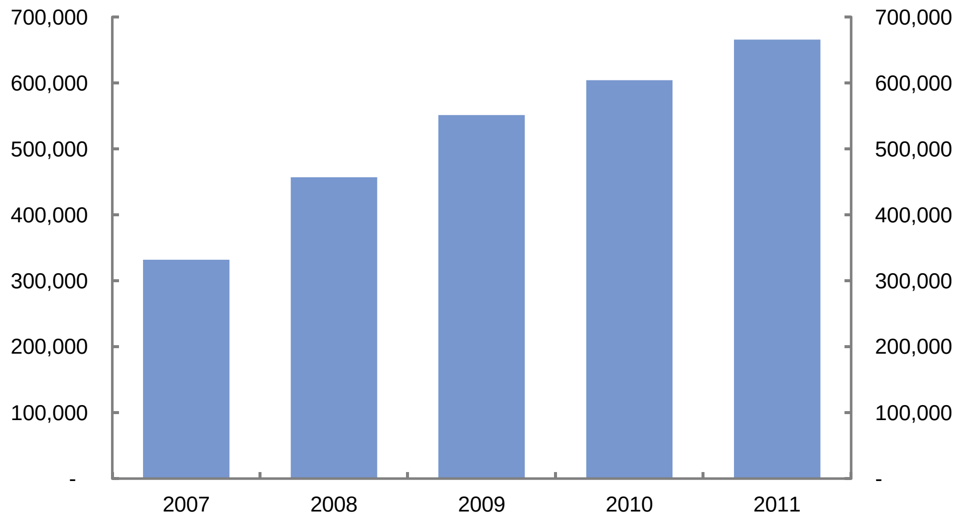
ARPC will continue to ensure it receives value for money from all service providers and that ARPC is in a position to meet its statutory obligations.

Reserves

Net premium income collected plus investment income have increased the pool since the inception of ARPC. The reserves now stand at $665.846 million and will continue to grow while there are no declared terrorist incidents.

This reserve is supplemented by the $2.75 billion retrocession program and the $10 billion Commonwealth guarantee.

Chart 7: Reserves



Influences on future performance

The reinsurance premiums collected by ARPC are a function of not only the underlying premiums charged by its cedants but also the economic development of assets. Any softening of those underlying premiums, along with the addition or decommissioning of assets, will directly affect ARPC's premium income.

ARPC relies on its cedants to return the correct amount in reinsurance premiums through a self assessment process. To ensure the accurate calculation of premiums ARPC undertakes a cedant review program. This 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.

Retrocession

The 2006 review gave the ARPC the discretion, once the pool had reached $300 million, to determine whether to use premiums to build the pool further, purchase retrocession for the scheme or undertake a combination of the two. In 2008, ARPC engaged the services of Guy Carpenter Ltd to investigate the availability of retrocession coverage for the pool, and to determine capacity and pricing. ARPC found that global capacity at a reasonable price was starting to re-emerge, particularly for national, pooled arrangements. In December 2008, ARPC entered into a retrocession program with almost 60 reinsurers. The dual benefits of the program are to encourage the commercial insurance market to offer terrorism cover within Australia and to place the Government further from the risk of the Commonwealth guarantee being called on in the event of a DTI.

The retrocession program was renewed and increased in December 2009 and again in December 2010. The program is supported by the Australian, Lloyd's, European, Bermudan, USA and Asian markets.

The $2.75 billion 2011 retrocession was placed in excess of $350 million in four layers to optimise market capacity and, therefore, participation in the program.

The revised structure of the scheme, as augmented by the retrocession coverage, is detailed in table 10.

Table 10: Structure of the scheme following December 2010 retrocession placement

Layer	Element
Layer 7	Possible liability for some risk by policyholders through the operation of the reduction percentage or policy limits
Layer 6	Commonwealth guarantee for up to $10 billion
Layer 5	The balance of ARPC's reserves: $315 million
Layer 4	Retrocession layer 1: $50 million excess of $350 million Retrocession layer 2: $600 million excess of $400 million Retrocession layer 3: $1.7 billion excess of $1 billion Retrocession layer 4: $400 million excess of $2.7 billion
Layer 3	ARPC deductible: $350 million
Layer 2	Retention of some risk by insurers, up to a maximum industry retention per incident of $100 million as of 1 July 2009
Layer 1	Policyholders' liability for some risk through a possible excess or deductible

The retrocession purchased mirrors the coverage mandated by the scheme; that is, it includes biological and chemical risk.

The wide spread of participants in the program reduces the risk to ARPC in the event of default by any one of the participants. Additionally, program participants must have an S&P rating of A- (or equivalent) or better. A downgrade clause in the retrocession contract gives ARPC the right to reassess its position if a retrocessionaire suffers a ratings downgrade. Guy Carpenter actively monitors the financial stability of ARPC's retrocession counterparties and will advise ARPC of any concerns.

Together, these measures assist in protecting the financial stability of the retrocession program and, therefore, of the scheme overall.

ARPC's purchase of retrocession has moved the Commonwealth further from the risk of losses under the scheme. With the retrocession in place, the Commonwealth will be exposed only if losses to the scheme reach $3.1 billion. ARPC's retrocession placement also reduces the likelihood that a reduction percentage will be required in the event of a DTI.

The retrocession program has the benefit of encouraging the return of the commercial market for terrorism insurance for Australian risks. ARPC intends to continue to encourage this trend through the continued purchase of retrocession for the scheme, subject to market capacity and pricing. The amount of retrocession purchased may vary from year to year, which will subsequently impact on the point at which the Commonwealth, through the guarantee, is exposed to losses under the scheme.

Exposure risk management

Background

A key expectation of Government is that ARPC should seek to be in a position to advise the responsible Minister of the likely costs to ARPC in the event of a DTI. This estimate will, in turn, inform the calculation of an appropriate reduction percentage.

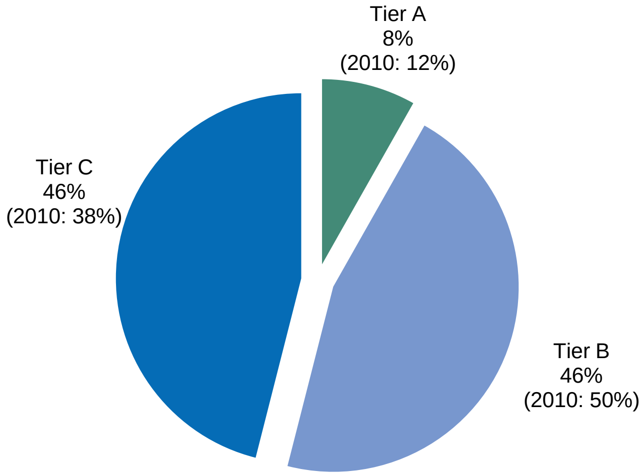
When ARPC first entered the terrorism reinsurance market in July 2003, it did not have the ability to estimate losses from a potential terrorist attack. To address this issue ARPC implemented a strategy to enable it to develop the capability to estimate its possible exposures in the event of a DTI and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

Aggregate exposure reports

ARPC's reinsurance agreement requires each cedant to provide an annual aggregate report. The report summarises the cedant's aggregate exposure amounts at a postcode level by business class. The information is uploaded by cedants directly into ARPC's RISe database. This exposure information enables ARPC to analyse the distribution of exposure risk across Australia.

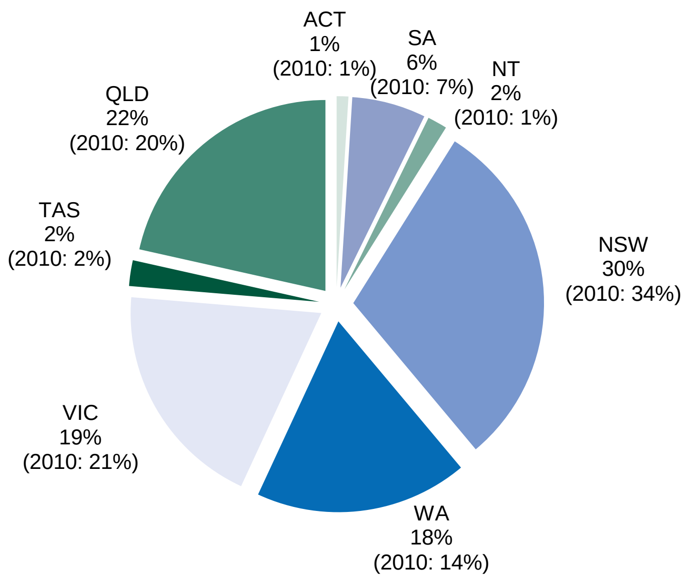
The following charts provide an overview of ARPC's total exposure for 2011 based on information provided by clients.

Chart 8: Aggregate exposure by tier as at 30 June 2011



There is a general correlation between the aggregate exposure by state and the premium collection by state. For example, Victoria cedes 23 per cent of premium and represents 19 per cent of aggregate exposure, while NSW cedes 31 per cent of premium and represents 30 per cent of aggregate exposure.

Chart 9: Aggregate exposure by state as at 30 June 2011



Loss estimation modelling

Development of ARPC's loss estimation capabilities

The aggregate exposure information received from clients allows ARPC to analyse its exposures at a postcode level. ARPC considered that, to meet the Government's expectations, it required a more robust exposure modelling capability. It began by requesting street level information from clients and worked with internal and external resources to map that information into a loss estimation model. Risk Frontiers of Macquarie University was engaged in 2006-07 to assist in further enhancing ARPC's loss estimation capabilities.

The concept of the loss estimation model is to accurately position exposure information by street address. The model also has the ability to customise blast footprints to match actual damage reports. The model enables ARPC to estimate losses from conventional terrorist attacks in all Tier A locations. Loss estimates are split between buildings, contents, business interruption and public liability.

Attorney-General's Department (AGD)

In 2008, ARPC requested AGD to undertake a major review of ARPC's loss estimation model. This review was undertaken through AGD's CIPMA program[*], with Geoscience Australia as the technical provider.

In 2009 a contract was entered into between ARPC and AGD to undertake a three year development program to improve ARPC's loss estimation capabilities. The development program is designed to enhance both the current model and develop a more rigorous underpinning modelling capacity. The program also includes modelling for losses arising from chemical and biological incidents. This work draws on a number of contributions from Australian Government agencies.

The CIPMA project is in its final year with Geoscience Australia expected to complete development of the blast and plume models by 30 June 2012. Work to date has focussed on engineering surveys and the development of blast, plume and ventilation schema and modelling frameworks. The three year program and progress is summarised below.

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* CIPMA is a world-leading modelling program for critical infrastructure. It is a key component of the Australian Government's efforts to enhance critical infrastructure protection and is a major national security initiative. It also supports the work of the Trusted Information Sharing Network for Critical Infrastructure Protection.

Year 1 (completed June 2010)

The development centred on enhancing ARPC's current loss estimation model through a range of measures including further integration and categorisation of data, development of blast damage outcomes to loss translations and development of partial damage cost modules.

Year 2 (completed June 2011)

The development centred on building the tools required to make operational the current CIPMA approach to inform ARPC of probable losses after an event. In the blast area, development has continued in categorising buildings into a number of vulnerability types and mapping those vulnerabilities to the CBDs of Sydney, Brisbane and Adelaide. In the plume area work has involved mapping the building ventilation schema developed in year 1 to the Sydney, Brisbane and Adelaide CBD data. Work has also progressed in plume model preparation and the definition of scenarios to be run in year 3.

Year 3 (in progress 2011-2012)

Development will centre on completing the framework for integrating research work by the Bureau of Meteorology and the Defence Science and Technology Organisation to model the spread of a chemical or biological plume following a CBD release. A key focus in year 3 will centre on making the CIPMA loss model capability operational for blast as well as chemical and biological incidents. The work will include provisional resources for the establishment of a dedicated capability to be hosted by AGD.

Regional loss estimation

ARPC has also engaged AGD to undertake additional work to provide it and reinsurers with a better understanding of risks outside the CBD areas. This work comprises a preliminary threat assessment and economic impact assessment to gain an understanding of the potential losses from possible terrorist threats in regional areas.

General information

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, ANZIIF 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.

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

There have been no developments since the end of the 2010-11 financial year which have 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

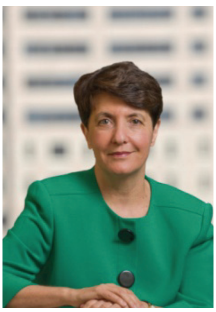
ARPC has a part-time non-executive Chair and six other part-time non-executive Members. All Members are appointed by the Minister.

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

Mr Joseph Gersh AM, Chair

Mr Gersh was appointed to the position of part-time Chair on 1 July 2003. His current term expires on 30 June 2012.

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. He 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.



Ms Patricia Azarias

Ms Azarias was appointed to the position of part-time Member on 22 April 2008. Her current term expires on 24 April 2014.

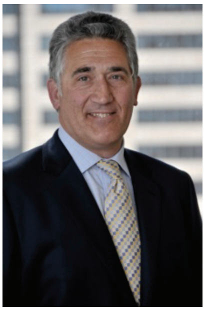
Ms Azarias is an economist with expertise in infrastructure planning and financing, financial management and corporate governance. Recent positions held by Ms Azarias include Regional General Manager, Business and Organisation Performance at the National Australia Bank and Director, Internal Audit Division, United Nations. She 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, Co-Chair of the Risk and Audit Committee of the NSW Director of Public Prosecutions, Deputy Chair of the NSW Community Relations Commission and a member of the Council of the University of Technology, Sydney.

Ms Azarias is a member of the Audit and Compliance Committee.

Ms Jan Bowe

Ms Bowe was appointed to the position of part-time Member on 1 July 2009. Her current term expires on 30 June 2012.

Ms Bowe has held senior positions in the financial services sector in both insurance and banking. She has a strong background in general management and has held a number of senior roles in Suncorp-Metway, the Commonwealth Bank and Rio Tinto. Ms Bowe currently combines her role as a strategy consultant with a portfolio of Board appointments. Ms Bowe holds an MBA from the Melbourne Business School.



Mr Tom Karp

Mr Karp was appointed to the position of part-time Member on 29 August 2008. His current term expires on 28 February 2012.

Mr Karp is an actuary and, in June 2008, retired as the Executive General Manager, Supervisory Support, at APRA. Prior to joining APRA, Mr Karp was with the Insurance and Superannuation Commission and was heavily involved in establishing APRA and its initial infrastructure. From 1999 to 2007 he was active as a senior member of the International Association of Insurance supervisors. Mr Karp is a member of the Institute of Actuaries of Australia's Professional Standards Committee and represents the Institute at the International Actuarial Association.

Ms Marian Micalizzi

Ms Micalizzi was appointed to the position of part-time Member on 1 July 2003. Her current term expires on 30 June 2012.

Ms Micalizzi is a chartered accountant with over 20 years experience, a company director and a consultant in both the public and private sector. She is a former partner of PricewaterhouseCoopers (until 2000) having been admitted as a partner of the predecessor firm in 1986. Ms Micalizzi is a member of the Queensland Treasury Corporation, Public Service Commission and the Corporations and Markets Advisory Committee. She sits on a number of boards, including the Independent Investment Committee of Queensland Development Fund and SunSuper Audit Committee. She has also recently been appointed as a governor of WWF Australia.

Ms Micalizzi is the chair of the Audit and Compliance Committee.

Mr James Murphy

Mr Murphy was appointed to the position of part-time Member on 1 July 2003. His current term expires on 24 April 2014.

Mr Murphy is the Executive Director, Markets Group in the Treasury. He has extensive experience with the Commonwealth Government. He was awarded a Public Service Medal in 2011.

Mr Murphy is a member of the Audit and Compliance Committee.

Mr Geoffrey Vogt

Mr Vogt was appointed to the position of part time Member on 29 August 2005. His current term expires on 28 February 2012.

Mr Vogt has extensive experience in the financial services and insurance industries. He is the inaugural CEO of the Industry Leaders Fund, a private sector fully funded body which provides up to $50,000 for traineeships for potential leaders of industry. He was previously 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 director on a number of boards and is a member of CPA Australia, an Associate of the ANZIIF, a Fellow of the Australian Institute of Company Directors, a Fellow of Chartered Secretaries Australia and a Senior Fellow of the Financial Services Institute of Australasia.

Mr Vogt is a member of the Audit and Compliance Committee.

Chief Executive

Mr David Matcham was appointed to the position of Chief Executive of ARPC on 5 October 2010.

Mr Matcham joined ARPC with over 30 years of experience in the insurance industry. He began his employment at Lumley in 1977 and worked in various positions across all business lines. He was appointed Managing Director in 1999 and Chief Executive Officer in 2003. He held that position until his retirement in 2009. Mr Matcham is currently the Chairman of the CREATE Foundation, the peak body which advocates for children in care, and is a Director of Hollard Insurance. He previously held a position on the Board of the Insurance Council of Australia.

Meetings of Members

There were six meetings of Members held during 2010-11. The table below sets out the number of meetings attended by each Member.

Table 11: Number of meetings attended by each Member of the Board

Name	Number of meetings entitled to attend	Number of meetings attended
Mr Joseph Gersh AM	6	6
Ms Patricia Azarias	6	6
Ms Jan Bowe	6	6
Mr Tom Karp	6	6
Ms Marian Micalizzi	6	6
Mr James Murphy	6	6
Mr Geoffrey 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: APRA, ASIC, ASX and 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.

ARPC uses the ASX's corporate governance principles as benchmarks against which to evaluate its corporate governance practices.

Principle 1 — Lay solid foundations for management and oversight

- The roles and responsibilities of Members have been documented in a board charter.
- The delegation of powers and functions to the Chief Executive has been documented in a delegations authority.
- Certain matters are reserved for Members.
- The board charter and delegations document were reviewed by Members in 2010-11.

- 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.

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 at least 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 CAC Act.

Principle 6 — Respect the rights of shareholders

- ARPC does not have shareholders. However, it maintains good working relationships with its stakeholders (clients, industry associations 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 are reviewed annually.

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; and

   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.

In fulfilling its responsibilities the Committee reviewed and approved the internal audit plan, reviewed all reports received from the internal auditor, monitored the implementation of internal audit recommendations, reviewed and accepted the terms of engagement of ANAO and reviewed the financial statements to assist the Board in making the statements required by the FMOs.

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

Ms Marian Micalizzi (Chair);

Ms Patricia Azarias;

Mr James Murphy; and

Mr Geoffrey Vogt.

There were four meetings of the committee held during 2010-11. The table below sets out the number of meetings attended by each committee member.

Table 12: Number of meetings attended by each member of the Audit and Compliance Committee

Name	Number of meetings entitled to attend	Number of meetings attended
Ms Patricia Azarias	4	4
Ms Marian Micalizzi	4	4
Mr James Murphy	4	4
Mr Geoffrey Vogt	4	4

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.

In fulfilling its responsibilities, the Committee oversaw the review of ARPC's risk management framework including the realignment of the risk register with key business processes.

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 2010-11. The table below sets out the number of meetings attended by each committee member.

Table 13: Number of meetings attended by each member of the Risk Committee

Name	Number of meetings entitled to attend	Number of meetings attended
Mr Joseph Gersh AM	2	2
Ms Patricia Azarias	2	2
Ms Jan Bowe	2	2
Mr Tom Karp	2	2
Ms Marian Micalizzi	2	2
Mr James Murphy	2	2
Mr Geoffrey Vogt	2	2

Promoting an ethical working environment

ARPC is committed to promoting an ethical working environment for all staff. Its commitment can be demonstrated by the formal documentation of its values and a code of conduct to which staff are required to adhere. ARPC's values and code of conduct are reinforced at each staff planning day.

Code of conduct

All employees must abide by ARPC's code of conduct. The consequences of breaching the code are documented and promulgated to staff.

Integrity

ARPC's people must:

- behave honestly and with integrity in the course of ARPC employment; and
- only accept gifts and hospitality in accordance with ARPC's policies.

Accountability

ARPC's people must:

- act with care and diligence in the course of ARPC employment;
- when acting in the course of ARPC employment, comply with all applicable Australian laws;
- comply with any lawful and reasonable direction given by someone in ARPC who has authority to give the direction;
- disclose, and take reasonable steps to avoid, any conflict of interest (real or apparent) in connection with ARPC employment;
- use Commonwealth and ARPC resources in a proper manner; and
- comply with their employment contract or enterprise agreement (whichever applies).

Respect

ARPC's people must:

- when acting in the course of ARPC employment, treat everyone with respect and courtesy, and without harassment; and
- treat every issue reasonably and fairly and without discrimination against any colleague, client or any other person.

Teamwork

ARPC's people must:

- work collaboratively with their own team members and across teams;
- jointly strive to achieve ARPC's goals; and
- cooperate with other staff members by sharing their skills and knowledge.

Professionalism

ARPC's people must:

- maintain appropriate confidentiality of ARPC's information;

- deal with clients without bias;
- at all times behave in a way that upholds ARPC's values and the integrity and good reputation of ARPC;
- while on duty overseas, at all times behave in a way that upholds the good reputation of Australia; and
- not make improper use of:
  - inside information, or
  - the employee's duties, status, power or authority, in order to gain, or seek to gain, a benefit or advantage for the employee or for any other person.

Staff development

ARPC's people must:

- actively seek to update their level of competence and knowledge; and
- undertake relevant training and professional development courses as requested by ARPC.

Internal audit

Ernst & Young provide internal audit services to ARPC under a three year contract from 1 July 2009 to 30 June 2012. The Audit and Compliance Committee review and approve the annual internal audit plan proposed by Ernst & Young and management.

2010-11 program

The following reviews were conducted in 2010-11:

a) mapping key processes, controls and the assurance framework;

b) a review of the retrocession program;

c) a review of business continuity management;

d) a review of administrative functions;

e) a review of procurement and contract management;

f) a review of internal investment management;

g) a review of Littlewoods' financial control structure; and

h) a follow up review of Littlewoods' IT control structure.

The Audit and Compliance Committee actively reviews recommendations made in internal audit reports and monitors their implementation. No issues were identified during any of the reviews which would have a material impact on ARPC's processes.

2011-12 program

The Audit and Compliance Committee has approved the following reviews in 2011-12:

a) a refresh of the assurance mapping work undertaken in 2010-11 to align the assurance map with ARPC's updated risk register;

b) a review of the accounts receivable processes;

c) an examination of the cedant review program;

d) a fraud risk assessment and a review of the fraud control plan; and

e) a compliance review of the RISe software.

Risk management

During 2010-11 ARPC employed a consultant to conduct a major review of the risk management framework. The review's terms of reference were wide ranging and included consideration of:

- ARPC's risk tolerance and risk appetite;
- risk management practice in the ARPC; and
- a comparison with better practice and implementation of the risk management standard AS/NZS/ISO 31000:2009.

The review included several workshops in which ARPC's risks were identified and analysed. This work formed the basis of a refresh of ARPC's risk register.

In conjunction with this major review, ARPC took the opportunity to realign the risk register with key processes and develop an improved format for monitoring risks and reporting to management and the Board.

Business continuity

In 2010-11 ARPC continued to refine its approach to business continuity in accordance with better practice and internal policy guidelines. As part of ARPC's risk—based approach to business continuity, a pandemic plan was developed to ensure ARPC's resilience and business continuity in the event of a pandemic. Component testing of the BCP was undertaken in relation to key systems including the loss estimation model and RISe.

A review of business continuity was undertaken as part of the 2010-11 internal audit plan. The review confirmed the appropriateness of ARPC's BCP and the action taken to improve its responsiveness and capability. The review compared the BCP with the new Australian Business Continuity Standard AS/NZS 5050:2010. The Ernst & Young staff who conducted the review presented a training and awareness session for all staff.

Fraud prevention and control

ARPC has a current fraud control plan which was developed with assistance from Ernst & Young, and in accordance with the *Commonwealth Fraud Control Guidelines (2002)*. 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 protections.

The plan was originally developed in 2005-06 and biennial reviews have been conducted in 2007 and 2009. The current fraud control plan is effective for the period 2009-11.

A fraud risk assessment will be conducted during 2011-12. That assessment will form the basis of the development of an updated fraud control plan. The 2011 fraud control plan will comply with the *Commonwealth Fraud Control Guidelines (2011)* and the Better Practice Guide *Fraud Control in Australia Government Entities* published by ANAO in March 2011.

Ethics and fraud awareness training for staff was conducted in September 2011.

ARPC's management is satisfied that ARPC has appropriate fraud control, prevention, detection, investigation and reporting standards in place.

Cedant review program

ARPC's cedant review program was introduced in 2005. The objective is to assist clients to meet their obligations under the reinsurance agreement. This is achieved by assisting clients to make certain that they have processes in place to:

- accurately identify eligible insurance contracts;
- accurately calculate premium;
- ensure that the correct premium is remitted to ARPC;
- submit accurate aggregate exposure information; and
- process claims in the event of a DTI.

ARPC has found all clients to be extremely receptive, helpful and cooperative. 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.

The cedant review program will remain active as it continues to prove its worth in many ways, for example:

- ARPC is in a position to advise clients on many issues to enable them to comply with the terms of the reinsurance agreement;
- it contributes greatly to maintaining good relationships with clients; and
- it enables clients to provide feedback on various issues which, in turn, will form part of ARPC's input into the triennial review process.

Members' appointment and remuneration

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

a) has suitable qualifications and experience; and

b) is of good character.

Members' remuneration is set by the Remuneration Tribunal.

Role of the responsible Minister

The Minister responsible for ARPC is the Assistant Treasurer and Minister for Financial Services and Superannuation, the Hon Bill Shorten 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 written direction in respect of premiums given by the Minister during 2006-07, which was effective from 1 July 2007, was in force during 2010-11. During the year ended 30 June 2011 the Minister issued a new direction to ARPC in respect of premiums. The direction was effective from 1 July 2011.

The written direction in respect of the risk to be retained by reinsureds given by the Minister during 2006-07, which was effective from 1 July 2007, remains in force.

The directions and their effect are set out below.

- 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 premium written by the reinsured that is attributable to the eligible insurance contract 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.

    The new direction effective from 1 July 2011 has the same effect as the direction in force during 2010-11 in respect of premium, tier rates and bundled insurance policies. The only change to the effect of the direction is to move 36 postcodes from tier C to tier B.

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

    The effect of this direction is that for all DTIs 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 DTI 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 DTI to the maximum industry retention.

The default figure for the period 1 July 2010 to 30 June 2011 was $10 million.

The minimum retention is set at $100,000.

The maximum industry retention for the period 1 July 2010 to 30 June 2011 was $100 million.

ARPC has not been notified of any General Policy Orders that are to apply to ARPC.

Chapter 4: General information

Communication

The communication strategy aims to be proactive and strategic in its approach in managing who, why, how, what and when we communicate.

Communication objectives

ARPC's communication objectives are to:

- ensure ARPC conveys a clear and consistent message to all stakeholders;
- improve industry awareness of the terrorism insurance scheme and what ARPC can offer the insurance industry; and
- educate current clients of their obligations under their contracts and ensure they understand how ARPC's systems work.

Principles of communication

We strive to meet our communication objectives using the following principles:

- communicate openly, honestly and consistently with our stakeholders, and with each other;
- communication will be produced in plain English and written for its intended audience. It will be unambiguous, timely and of an appropriate quality; and
- all communication and promotional material issued by ARPC will be branded and therefore clearly identifiable as having come from ARPC, and will include key contact details.

External communications

During 2010-11 the following external communications have been used to engage stakeholders:

- media releases to keep stakeholders up to date with developments;
- a quarterly external newsletter aimed at cedants and business partners to keep them informed of ARPC movements, submissions and industry news; and
- inclusion of an article and advertisement in the Asia Insurance Review.

Internal communications

ARPC maintains a high level of communication amongst staff and encourages an inclusive workplace. Management meetings are held regularly along with teleconferences between Canberra and Sydney staff. Staff are consulted on projects which are being undertaken in other areas, to encourage staff involvement and the generation of new ideas.

'Lunch and learn' is an information session held every two months where a particular ARPC related subject is covered. Staff from both the Sydney and Canberra offices are involved in the sessions and they have the opportunity to learn about important projects and ask questions. This has proven to be an effective way to discuss projects and engage other teams within ARPC.

'We've got it covered' is a monthly internal newsletter which communicates information relevant to ARPC, its activities in the workplace and upcoming training events.

Other communication activities

During 2010-11 the communications area also:

- published the information publication scheme documents on the website (a requirement of the *Freedom of Information Act 1982*);
- produced ARPC merchandise for marketing purposes;
- compiled a communication plan for the business continuity plan; and
- continued to brand stationary, documents and reports in accordance with ARPC's corporate style guide.

Human resource management

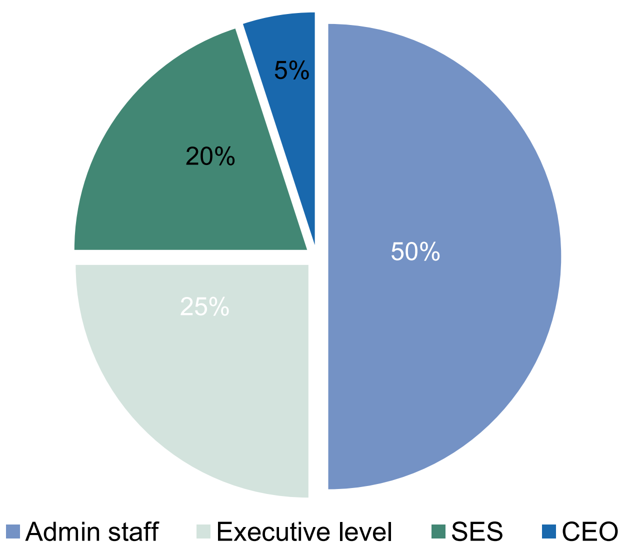
ARPC's human resources area seeks to attract and retain quality staff. We endeavour to providing staff with a workplace culture that promotes performance and commitment.

ARPC's payroll and OH&S functions are managed by Treasury through a service level agreement. ARPC actively manages and monitors the service level agreement.

Staff classifications

As at 30 June 2011, ARPC had 18 full-time permanent employees and two part-time permanent employees. One employee is on maternity leave, one is on secondment to the Office of Financial Management and one is on secondment to the Natural Disaster Insurance Review Secretariat. ARPC's budget factors in two additional employees to be recruited in early 2012; one for Corporate Governance and the other for Corporate Services.

Chart 10: Breakdown of staff classifications



Performance management system

ARPC's performance management system is a tool to assist the organisation to improve its capabilities. It provides the basis for discussion and feedback between employees and their managers. It also provides a fair and equitable way to recognise and reward staff for their performance and achievements, provides a plan to meet

General information

the learning and development needs of staff and assists in the management of cases where performance expectations are not being met.

There is one formal appraisal each year and an informal discussion between formal appraisals. The informal discussion is to consider how the employee is performing against the agreed goals, to identify any impediments to performance and means to overcome those impediments.

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

Learning and development

ARPC recognises the value of investing in employees and career development to maximise the performance of ARPC and its attractiveness as an employer. Staff are required to develop a learning and development plan as part of the performance system management each year. Employees agree on their plan with their manager, who encourages them to engage in continuous learning and to periodically assess their development.

ARPC supports and is committed to a range of suitable training and development opportunities for all employees covering relevant technical skills training, management courses and leadership development.

ARPC supports employee attendance at relevant industry conferences, seminars and external courses. These programs achieved high participation rates and consistently positive feedback from participants.

During 2010-11, employees attended development programs such as:

- insurance accounting course;
- introductory course to reinsurance;
- foundations of human resources;
- communication management; and
- governance and risk management.

ARPC’s employees have access to the training and development programs offered by Treasury and actively participate in those programs.

ARPC has an agreement with ANZIIF to provide employees with an online learning facility: InSite. InSite has been developed specifically to address the ongoing education and training requirements in the insurance and financial services reform environment. ARPC encourages all employees to use the InSite learning facility to further develop their knowledge in the insurance and finance industry.

Studies assistance is an integral part of ARPC's HR strategy, as it responds to the employee development needs identified through such means as corporate planning, performance management and career development processes. 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. ARPC has supported employees undertaking education programs such as an MBA, CPA and leadership courses.

Employment agreements

The terms and conditions of employment for non-SES staff are governed by ARPC's enterprise agreement 2010-12. The agreement came into operation on 1 March 2010 and nominally expires on 30 June 2012.

ARPC's enterprise agreement contains provisions to enhance the working conditions of ARPC's employees covering areas including consultation, representation and dispute resolution; salary and classification structure; allowances; parental leave; and measures to assist staff to balance the demands of work and family life.

The terms and conditions for SES equivalent staff are governed by individual employment agreements. Employment agreements provide ongoing employment for all ARPC employees, other than the CEO who is employed on a fixed term contract.

Occupational health and safety

In 2010-11, ARPC maintained its commitment to ensuring the health and safety of all its employees.

A health and safety committee has been established by Treasury to address matters such as OH&S issues and policies, employee wellbeing, health and safety performance reporting, accommodation issues and accident and incident reports. The committee consists of representatives from each Treasury workplace group and Treasury agencies covered by service level agreements. It also includes members of the Treasury workplace committee and key corporate services staff. ARPC has a representative on the committee, as part of our service level agreement with Treasury.

Treasury’s OH&S policy is designed to foster and maintain a safe and healthy working environment in accordance with the OH&S Act.

When incidents occur, ARPC is committed to supporting employees and assisting them to return to work in a safe and supportive environment. This is undertaken in accordance with Treasury's rehabilitation policy and guidelines.

In recognising the importance of providing and maintaining healthy and safe workplaces, ARPC’s health and safety management arrangements are used in conjunction with the OH&S Act, regulations and approved codes of practice and are integrated into the daily management of the office.

Incidents

No serious personal injuries, prescribed incapacities or dangerous occurrences were reported during 2010-11 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.

Workplace inspections are also conducted four times a year to minimise the risk of injuries to staff.

During 2010-11, no directions were given under section 45 and no notices were given under sections 29, 46 or 47 of the OH&S Act.

Commitment to OH&S

ARPC is committed to providing a safe and healthy workplace for all employees and visitors. To this end it has established and monitors health and safety management arrangements including:

- electing/selecting a health and safety representative;
- providing training for the representative;
- outlining the roles and responsibilities in relation to OH&S; and
- implementing mechanisms to ensure the application of OH&S related matters.

To actively promote a healthy workforce, ARPC:

- developed and reviewed internal policies and procedures and addressed any new or emerging hazards;

- offered influenza vaccinations to all employees;
- placed posters received from Treasury on reducing the spread of coughs and colds in the workplace;
- promoted the use of the employee assistance program; and
- attended training sessions relating to bullying and harassment within the workplace.

These procedures have been developed in consultation with staff and provide a framework and support network designed to foster a healthy and safe workplace. They reinforce the responsibilities that ARPC has in actively promoting these strategies for the wellbeing of all employees, contractors and visitors to our workplaces.

ARPC has an obligation under the OH&S Act to provide a first aid service to staff. The Canberra office has one senior first aid officer and two qualified first aid officers and the Sydney office has one qualified first aid officer. All employees will retain their qualifications by undertaking refresher courses each year.

Workplace diversity

Workplace diversity program

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

ARPC's commitment to workplace diversity is demonstrated by its implementation of the strategies and initiatives of Treasury's workplace diversity program. The program seeks to foster an environment that attracts, develops, values and retains people from varying cultural backgrounds as well as those of different ages, genders, skills, experiences, perspectives and backgrounds.

By implementing the workplace diversity program ARPC seeks 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 part-time and work from home arrangements) and leave.

Disability reporting mechanisms

Since 1994, Commonwealth departments and agencies have reported on their performance as policy adviser, purchaser, employer, regulator and provider under the Commonwealth Disability Strategy. In 2007-08, reporting on the employer role was transferred to the Australian Public Service Commission's State of the Service Report and the APS Statistical Bulletin. These reports are available at www.apsc.gov.au. From 2010-11, departments and agencies are no longer required to report on these functions.

The Commonwealth Disability Strategy has been overtaken by a new National Disability Strategy which sets out a ten year national policy framework for improving life for Australians with disability, their families and carers. A high level report to track progress for people with disability at a national level will be produced by the Standing Council on Community, Housing and Disability Services to the Council of Australian Governments and will be available at www.fahcsia.gov.au. The Social Inclusion Measurement and Reporting Strategy agreed by the Government in December 2009 will also include some reporting on disability matters in its regular How Australia is Faring report and, if appropriate, in strategic change indicators in agency Annual Reports. More detail on social inclusion matters can be found at www.socialinclusion.gov.au.

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 CAC Act 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 $60,670.86 (2010: $60,715.28).

Judicial and administrative decisions and reviews

During the year ended 30 June 2011, 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, conserve energy and minimise its environmental footprint by striving to implement the following:

- shutting down computers outside of work hours;
- utilising double sided printing to reduce the volume of paper used;
- turning off non-essential lights and computers; and
- recycling of paper, cardboard, printer cartridges, plastics, glass and fluorescent tubes.

ARPC's new premises in Sydney have a four star energy rating and the Canberra office has a 4.5 star energy rating. Some of the systems used in our buildings to decrease our carbon footprint are:

- grey water harvesting and re-use system;
- high efficiency magnetic chillers. The chillers used to generate the building cooling are an innovate design that has magnetic bearings rather than the conventional setup. This eliminates friction resulting in higher efficiency chillers;
- air-conditioning system which uses high efficiency pump and fan motors;
- high performance double glazing;
- low energy LED lighting; and
- high efficiency hydraulic fixtures. Water conservation within the building has been optimised via the use of highly efficient taps, shower heads and toilets.

Freedom of information

There were no freedom of information requests during the year ended 30 June 2011. 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 along with an organisation chart.

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 2010-11 included:

- 2009-10 annual report;
- *ARPC … Covering Australian business against terrorist incidents* — a brochure explaining the scheme;
- *Under the Cover* — a quarterly electronic newsletter distributed to clients and other stakeholders; and
- Mixed-use high rise building report.

Facilities for access

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

Level 3
14 Childers Street
CANBERRA ACT 2600

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

Freedom of information procedures and initial contact point

A request for access to documents or other matters relating to freedom of information should be directed to:

Corporate Governance Manager
Australian Reinsurance Pool Corporation
GPO Box 3024
CANBERRA ACT 2601

Tel: +61 2 6279 2100
Fax: +61 2 6279 2111
Email: enquiries@arpc.gov.au

Chapter 5: Financial statements

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Financial Services and Superannuation

Report on the Financial Statements

I have audited the accompanying financial statements of the Australian Reinsurance Pool Corporation for the year ended 30 June 2011, which comprise: a Statement by Members, Chief Executive and Chief Financial Officer; the Statement of Comprehensive Income; 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 Members' Responsibility for the Financial Statements

The Members of the Australian Reinsurance Pool Corporation are responsible for the preparation of the financial statements that give a true and fair view in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997,* including the Australian Accounting Standards, and for such internal control as the Members determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit 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 about 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 preparation of the financial statements that give a true and fair view 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 the

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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 I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

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

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 2011 and of 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

21 September 2011

Statement by Members, Chief Executive and Chief Financial Officer

In our opinion, the attached financial statements for the year ended 30 June 2011 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* as amended.

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
Chair
20 September 2011

D Matcham
Chief Executive Officer
20 September 2011

L Daly
Chief Financial Officer
20 September 2011

Statement of comprehensive income
for the year ended 30 June 2011

	Notes	**2011**	2010
		$'000	$'000
Premium revenue		**108,720**	105,391
Outwards retrocession premium expense		**(84,186)**	(80,098)
Net premium revenue	5(a)	**24,534**	25,293
Claims expense		**-**	-
Retrocession and other recoveries revenue		**-**	-
Net claims incurred		**-**	-
Acquisition costs	6(b)	**(609)**	(603)
Underwriting result		**23,925**	24,690
Retrocession commision revenue	5(b)	**8,004**	7,551
Investment income	5(c)	**36,180**	28,351
Other income	5(d)	**(88)**	(596)
Other operating expenses	6(b)	**(6,635)**	(6,800)
Operating result		**61,386**	53,196

Balance sheet
as at 30 June 2011

		Notes	2011 $'000	2010 $'000
Assets				
	Current assets			
	Cash and cash equivalents	7	**14,660**	41,668
	Receivables	8	**38,961**	38,002
	Investments	9	**665,648**	576,334
	Deferred insurance assets	10(a)	**42,664**	43,249
	Other non-financial assets	11	**327**	39
	Total current assets		**762,260**	699,292
	Non-current assets			
	Property plant and equipment	12	**1,094**	901
	Intangibles	12	**1,769**	799
	Total non-current assets		**2,863**	1,700
Total assets			**765,123**	700,992
Liabilities				
	Current liabilities			
	Unearned liability	13(a)	**56,086**	52,411
	Payables	14(a)	**42,524**	43,274
	Other interest bearing liabilities	15	**45**	45
	Employee provisions	16(a)	**201**	298
	Total current liabilities		**98,856**	96,028
	Non-current liabilities			
	Other interest bearing liabilities	15	**203**	247
	Employee provisions	16(a)	**218**	257
	Total non-current liabilities		**421**	504
Total liabilities			**99,277**	96,532
Net assets			**665,846**	604,460
Equity				
	Accumulated reserves		**-**	-
	Asset revaluation reserve		**-**	-
	Reserve for claims		**665,846**	604,460
Total equity			**665,846**	604,460

Statement of changes in equity
as at 30 June 2011

	Notes	Accumulated reserves		Asset revaluation reserve		Reserve for claims		Total equity	
		2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
		$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Opening balance at 1 July 2010		**-**	-	**-**	75	**604,460**	551,189	**604,460**	551,264
Income and expenses									
Net operating result		**61,386**	53,196	**-**	-	**-**	-	**61,386**	53,196
Total income and expenses		**61,386**	53,196	**-**	-	**-**	-	**61,386**	53,196
Transfers between equity components									
Write back asset revaluation reserve				**-**	(75)	**-**	75	**-**	-
Transfer to reserve for claims	1(m)	**(61,386)**	(53,196)	**-**	-	**-**	-	**(61,386)**	(53,196)
Transfer to reserve for claims from accumulated reserves						**61,386**	53,196	**61,386**	53,196
Closing balance at 30 June 2011		-	-	-	-	**665,846**	604,460	**665,846**	604,460

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

Cash flow statement
for the year ended 30 June 2011

	Notes	2011 $'000	2010 $'000
Operating activities			
Cash received			
Premiums		120,470	114,680
Comission		8,803	8,311
Interest		36,777	26,546
Grant		109	-
Total cash received		166,159	149,537
Cash used			
Retrocession payments		87,278	83,205
Creditors and employees		8,003	7,708
Interest and other costs of finance paid		-	-
Net goods and services tax paid to ATO		7,035	6,538
Total cash used		102,316	97,451
Net cash from or (used by) operating activities	17	63,843	52,086
Investing activities			
Cash used			
Purchase of property, plant and equipment		370	892
Purchase of intangibles		1,167	597
Purchase of investments		89,314	46,396
Total cash used		90,851	47,885
Net cash from or (used by) investing activities		(90,851)	(47,885)
Net increase or (decrease) in cash held		(27,008)	4,201
Cash and cash equivalents at the beginning of the reporting period		41,668	37,467
Cash and cash equivalents at the end of the reporting period	**7**	**14,660**	**41,668**

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

Schedule of commitments
as at 30 June 2011

	2011 **$'000**	2010 $'000
By type		
Other commitments		
Service level agreements *	**708**	1,095
Software license agreement**	**52**	115
Software development agreement***	**787**	1,636
Operating leases ****	**4,280**	4,193
Total other commitments	**5,827**	7,039
Commitments receivable	**525**	640
Net commitments by type	**5,302**	6,399
By maturity		
Service level agreements commitments		
One year or less	**708**	765
From one to five years		330
Total service level agreements commitments	**708**	1,095
Software licence agreement commitments		
One year or less	**52**	63
From one to five years		52
Total software licence agreement commitments	**52**	115
Software support and development agreement commitments		
One year or less	**721**	948
From one to five years	**66**	688
Total software support and development agreement commitments	**787**	1,636
Operating lease commitments		
One year or less	**726**	580
From one to five years	**3,195**	2,550
More than five years	**359**	1,063
Total operating lease commitments	**4,280**	4,193
Commitments receivable		
One year or less	**196**	214
From one to five years	**296**	329
More than five years	**33**	97
Total commitments receivable	**525**	640
Net commitments by maturity	**5,302**	6,399

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

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 development agreement.

**** Operating leases included are effectively non-cancellable and comprise:

Nature of lease	*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 2011

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 2010; and
- Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

In preparing the financial statements, ARPC has applied the exemption provided by the Minister for Finance and Deregulation in Division 17.14 of the FMOs, allowing ARPC to present a financial report in a format consistent with that used in the general insurance industry in place of the prescribed format as outlined in Annexure A to Schedule 1 of the Finance Minister's Orders.

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(w)).

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 (Note 1(r)).

Unless alternative treatment is specifically required by an accounting standard, revenues and expenses are recognised in the Statement of Comprehensive Income 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) New accounting standards

Adoption of new Australian Accounting Standard requirements

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

No new standards, amendments to standards and interpretations issued by the Australian Accounting Standards Board for the current financial year have a material financial impact on ARPC.

Future Australian Accounting Standard requirements

There are no new standards, amendments to standards or interpretations issued by the Australian Accounting Standards Board that are applicable to future periods that have a material financial impact on future reporting periods for ARPC.

(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 Statement of Comprehensive Income. 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 2011 are recognised as premiums receivable in the Balance Sheet.

The proportion of premium received or receivable not earned in the Statement of Comprehensive Income 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.

Retrocession commission revenue

Retrocession commission revenue is recognised in the Statement of Comprehensive Income in accordance with the pattern of revenue earned.

Investment revenue

Interest revenue is recognised using the effective interest method as set out in AASB 139 Financial instruments: Recognition and measurement.

(f) Retrocession premium expense

Amounts paid to retrocessionaires are recorded as an outwards retrocession premium expense and are recognised in the Statement of Comprehensive Income from the attachment date over the period of indemnity of the contract in accordance with the expected pattern of the incidence of risk ceded.

(g) 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 (2010: $0). Accordingly, there has been no write down in ARPC's deferred acquisition costs.

(h) Outstanding claims liability

The financial statements have not included a provision for outstanding claims (2010: $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 margin in respect of the provision.

(i) Net claims incurred

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

(j) 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 Statement of Comprehensive Income. 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 Statement of Comprehensive Income.

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

Cash

Cash assets are carried at the 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 Statement of Comprehensive Income.

(k) Deferred insurance assets

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 Statement of Comprehensive Income 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.

Deferred retrocession premium

Deferred retrocession premiums are recognised as part of deferred insurance assets. The amortisation of deferred retrocession premiums is in accordance with the pattern of retrocession service received. The amount deferred represents the future economic benefit to be received from the retrocession contracts.

(l) Dividends

Pursuant to section 38(3)(b) of the TI Act, the Minister may give written direction to require ARPC to make payments to the Commonwealth in the nature of dividends. No direction has been received for these financial statements (2010: $0).

(m) Reserves

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

(n) Employee benefits

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 at the estimated salary rates that applied at the time the leave is taken, 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 2011. 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 default superannuation scheme is the Australian Government Employees Superannuation Trust.

The liability for superannuation recognised as at 30 June 2011 represents outstanding contributions for the final fortnight of the year.

(o) 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.

(p) 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 (2010: $0).

(q) 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.

(r) 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 (2010: $0).

(s) 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.

(t) 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 'make good' recognised.

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 re-valued amount with the exception of leasehold improvements which are re-valued 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:

	2011	2010
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 2011. 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 (2010: $0).

(u) Intangibles

Software development expenditure that meets the criteria for recognition as an intangible asset is capitalised on the Balance Sheet and amortised over its expected useful life, subject to impairment testing. Costs incurred in researching and evaluating a project up to the point of formal commitment to a project are treated as research costs and are expensed as incurred.

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 four years (2010: 4 years).

All software assets were assessed for indications of impairment as at 30 June 2011. There has been no impairment write-off recognised in these financial statements (2010: $0).

(v) 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.

(w) 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.

(x) Government grants

Government grants that compensate the ARPC for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

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 1S0 31000:2009) 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, which ARPC has identified it might face.

The senior management of ARPC have developed, implemented and maintain a sound and prudent RMS. The Risk Committee 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 is designed to ensure that ARPC's concentration risk is 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.

Retrocession counterparty risk

ARPC purchased retrocession to encourage capacity to return to the terrorism insurance market, control exposure to declared terrorist incident (DTI) losses and protect capital. ARPC's strategy in respect of the selection, approval and monitoring of retrocession arrangements is addressed by the following:

- treaty retrocession is placed in accordance with the requirements of ARPC's retrocession management strategy;

- retrocession arrangements are regularly reassessed based on current exposure information; and

- exposure to the credit quality of the retrocessionaires is actively monitored.

Counterparty exposures and limits are reviewed by management on a regular basis. Retrocession is only placed with counterparties that have a credit rating of A- and above and concentration risk is managed with reference to the counterparty limits. In the event of a DTI ARPC will receive recognised collateral from non-APRA authorised participants in the program.

The following tables provide information about the quality of ARPC's credit risk exposure in respect of its retrocession program. The analysis classifies the counterparty risk according to counterparty credit ratings.

	Retrocession program counter party credit rating			
	AAA	**AA+**	**AA**	**AA-**
	2011	**2011**	**2011**	**2011**
	$'000	**$'000**	**$'000**	**$'000**
ARPC				
Total exposure	**19,000**	**434,600**	**175,120**	**483,680**
	A+	**A**	**A-**	**Total**
	2011	**2011**	**2011**	**2011**
	$'000	**$'000**	**$'000**	**$'000**
ARPC				
Total exposure	**942,230**	**288,050**	**407,320**	**2,750,000**

	Retrocession program counter party credit rating			
	AAA	AA+	AA	AA-
	2010	2010	2010	2010
	$'000	$'000	$'000	$'000
ARPC				
Total exposure	22,650	72,500	127,875	407,375
	A+	A	A-	Total
	2010	2010	2010	2010
	$'000	$'000	$'000	$'000
ARPC				
Total exposure	1,334,915	239,400	395,285	2,600,000

Operational risk

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

ARPC manages these types of risks within the entity's enterprise-wide 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

The following details ARPC's capital structure to cover claims from declared terrorist incidents:

- ARPC has access to its reserve for claims cash and investments of $666 million. In the event of a DTI ARPC would be required to pay $350 million before claiming on its retrocession program;

- ARPC has access to a $2.750 billion retrocession program excess of $350 million; and
- ARPC has unrestricted access to a $10 billion Commonwealth guarantee.

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 (2010: $0).

2) Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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 maturing in**		**Total**
		1 year or less	**1 year or less**	**1-5 years**	
	Notes	**2011 $'000**	**2011 $'000**	**2011 $'000**	**2011 $'000**
Interest bearing financial assets					
Cash and cash equivalents	7	**14,660**	**-**	**-**	**14,660**
Fixed Term Deposits	9	**-**	**607,500**	**45,000**	**652,500**
Government securities	9	**-**	**10,112**	**3,036**	**13,148**
Total		**14,660**	**617,612**	**48,036**	**680,308**
Weighted average interest rate		**4.69%**	**5.82%**	**6.18%**	**5.82%**

		Floating interest rate	Fixed interest rate maturing in		Total
		1 year or less	**1 year or less**	**1-5 years**	
	Notes	2010 $'000	2010 $'000	2010 $'000	2010 $'000
Interest bearing financial assets					
Cash and cash equivalents	7	41,668	-	-	41,668
Fixed Term Deposits	9	-	500,975	55,000	555,975
Government securities	9	-	10,093	10,266	20,359
Total		41,668	511,068	65,266	618,002
Weighted average interest rate		4.40%	5.39%	6.00%	5.39%

The table below details the interest rate sensitivity analysis of ARPC at the reporting date, holding all other variables constant. The Department of Finance and Deregulation deemed a 175 basis point change to be reasonably possible and this was adopted by ARPC when reporting interest rate risk.

	Movement in variable	**Movement in variable**	**Financial Impact**			
			Profit / (Loss)		Equity	
	2011	**2010**	2011	2010	2011	2010
	%	%	**$'000**	$'000	**$'000**	$'000
Interest rate Movement						
- interest bearing	**+1.75**	+1.50	**11,905**	9,270	**11,905**	9,270
Financial assets	**-1.75**	-1.50	**(11,905)**	(9,270)	**(11,905)**	(9,270)

The method used to arrive at the possible change of 175 basis points was based on both statistical and non-statistical analysis. The statistical analysis has been based on the cash rate for the past five years issued by the RBA as the underlying dataset. This information is then revised and adjusted for reasonableness under the current economic circumstances.

The Department of Finance and Deregulation considers 175 basis points is reasonable because it is reasonably possible that there will be greater volatility compared to that which has been experienced in recent 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**
		2011	**2011**	**2011**	**2011**	**2011**
	Notes	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
ARPC						
Cash and cash equivalents	7	2,763	-	5,318	6,579	14,660
Fixed Term Deposits	9	-	-	606,500	46,000	652,500
Government securities	9	13,148	-	-	-	13,148
Total		15,911	-	611,818	52,579	680,308

		Credit Rating				
		AAA	AA+	AA	A+	Total
		2010	2010	2010	2010	2010
	Notes	$'000	$'000	$'000	$'000	$'000
ARPC						
Cash and cash equivalents	7	35,120	-	4,671	1,877	41,668
Fixed Term Deposits	9	70,000	-	441,975	44,000	555,975
Government securities	9	15,204	5,155	-	-	20,359
Total		120,324	5,155	446,646	45,877	618,002

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.

		Neither past due nor impaired		Past due but not impaired 0 to 3 months		Total	
	Notes	**2011 $'000**	2010 $'000	**2011 $'000**	2010 $'000	**2011 $'000**	2010 $'000
Financial assets							
Premium receivables	8	**-**	-	**25,824**	23,935	**25,824**	23,935
Commission receivables	8	**-**	-	**3,922**	4,081	**3,922**	4,081
Interest receivable	8	**9,193**	9,987	**-**	-	**9,193**	9,987
Other receivables	8	**11**	-	**-**	-	**11**	-
Total		**9,204**	9,987	**29,746**	28,016	**38,950**	38,003

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.

		1 year or less		Total	
	Notes	**2011 $'000**	2010 $'000	**2011 $'000**	2010 $'000
Financial liabilities					
Payables	14	**42,524**	43,274	**42,524**	43,274
Other interest bearing liabilities	15	**248**	292	**248**	292
Total		**42,772**	43,566	**42,772**	43,566

Note 5: Revenue

		2011 $'000	2010 $'000
(a)	**Net premium revenue**		
	Gross written premium	**112,555**	104,885
	Movement in unearned premium reserve	**(3,835)**	506
	Total premium revenue	**108,720**	105,391
	Outwards retrocession premium	**(84,186)**	(80,098)
	Net premium revenue	**24,534**	25,293
(b)	**Retrocession commision income**		
	Total retrocession commision income	**8,004**	7,551
(c)	**Investment income**		
	Cash at bank	**1,695**	2,049
	Term deposits	**33,332**	24,130
	Government securities	**1,153**	2,172
	Total investment income	**36,180**	28,351
(d)	**Other income**		
	Grant Income	**109**	
	Realised gain/(losses) recognised through the income statement	**(74)**	(223)
	Unrealised gain/(losses) recognised through the income statement	**(123)**	(373)
	Total other income	**(88)**	(596)
(e)	**Total revenue**	**68,630**	60,599

Note 6: Other operating expenses

		2011 $'000	2010 $'000
(a)	**Expenses by nature**		
	Employee expenses	**2,320**	2,336
	Services from related entities	**250**	197
	Goods from external entities	**35**	45
	Services from external entities	**3,619**	3,739
	Operating lease rentals	**626**	696
	Depreciation and amortisation	**366**	311
	Leasehold write-off	**8**	52
	Bank fees and charges	**20**	27
	Total expenses by nature	**7,244**	7,403
(b)	**Expenses by function**		
	Acquisition costs	**609**	603
	General and administration expenses	**5,945**	6,197
	Investment expense	**690**	603
	Total expenses by function	**7,244**	7,403
(c)	**Employee expenses**		
	Wages and salaries	**1,923**	1,866
	Superannuation	**187**	184
	Leave and other entitlements	**240**	219
	Workers compensation premiums	**13**	10
	Other employee expenses	**(43)**	57
	Total employee expenses	**2,320**	2,336

Note 7: Cash and cash equivalents

	2011	2010
	$'000	$'000
Cash at bank	**14,660**	41,668
Total cash and cash equivalents	**14,660**	41,668

Cash and cash equivalents consist of at call deposits held with the Reserve Bank of Australia, Australian and New Zealand Bank, Commonwealth Bank of Australia, National Australia Bank and Suncorp Metway Ltd.

Note 8: Receivables

	2011	2010
	$'000	$'000
Premium receivable	**25,824**	23,935
Commission receivable	**3,922**	4,081
Interest receivable	**9,193**	9,987
GST receivable from the Australian Taxation Office	**11**	(1)
Other receivables	**11**	-
Total receivables	**38,961**	38,002

All receivables are with entities external to ARPC. Credit terms are net 30 days (2010: 30 days). Trade debtors are non-

Receivables (gross) are aged as follows:

	2011	2010
Not overdue	**9,193**	9,987
Overdue by:		
Less than 30 days	**29,768**	28,015
30 to 60 days	**-**	-
60 to 90 days	**-**	-
More than 90 days	**-**	-
	38,961	38,002

Interest receivable

The interest rate ranges from 4.15% to 6.50% (2010: 3.88% to 7.60%) and the frequency of payment is monthly for cash accounts and on maturity for term deposits.

Note 9: Investments under s18 of the CAC Act

	2011	2010
	$'000	$'000
Term deposits	**652,500**	555,975
Government securities	**13,148**	20,359
Total investments	**665,648**	576,334

Term deposits

Term deposits are held with Australian and New Zealand Bank, Commonwealth Bank of Australia, *National Australia Bank, Westpac Banking Corporation, Bank of Western Australia and Suncorp* Metway Ltd and earn an effective rate of interest of 5.82% (2010: 5.42%). Interest is payable on maturity for deposits with a term of 12 months or less. Where the term exceeds 12 months, interest is paid at 12 months with the balance on maturity. Terms are between 28 and 735 days (2010: 12 and 730 days).

Government (guaranteed) securities

Securities have terms of up to 3 years. They are issued or guaranteed by the Commonwealth, a State or a Territory Government and are traded in active markets. The effective interest rate is 6.13% (2010: 6.62%).

Note 10: Deferred insurance assets

		Notes	2011 $'000	2010 $'000
(a)	**Deferred insurance assets as at 1 July**			
	Deferred retrocession premium	10(b)	**42,139**	42,734
	Deferred acquisition costs	10(c)	**525**	515
	Total deferred insurance assets		**42,664**	43,249
(b)	**Deferred retrocession premium as at 1 July**			
	Deferred retrocession premium as at 1 July		**42,734**	38,060
	Retrocession premium deferred		**42,139**	42,734
	Amortisation charged to income		**(42,734)**	(38,060)
	Deferred retrocession premium as at 30 June		**42,139**	42,734
(c)	**Deferred acquisition costs as at 1 July**			
	Deferred acquisition costs as at 1 July		**515**	509
	Acquisition costs deferred		**525**	515
	Amortisation charged to income		**(515)**	(509)
	Deferred acquisition costs as at 30 June		**525**	515

Note 11: Other non-financial assets

	2011 $'000	2010 $'000
Prepayments	**327**	39
Total other non-financial assets	**327**	39

All other non-financial assets are current assets.

Note 12: Property, plant and equipment and intangibles

	Leasehold improvements $'000	Plant and equipment $'000	Intangibles $'000	Total $'000
Cost or deemed cost				
Balance at 1 July 2009	457	87	598	1,142
Additions				
- by purchase	850	92	-	942
- internally developed - in progress	-	-	493	493
- internally developed	-	-	105	105
Disposals	(457)	(8)	(41)	(506)
Balance at 30 June 2010	850	171	1,155	2,176
Balance at 1 July 2010	850	171	1,155	2,176
Other additions				
- by purchase	350	11	-	361
- internally developed - in progress	-	-	991	991
- internally developed	-	-	176	176
Disposals	-	-	-	-
Balance at 30 June 2011	1,200	182	2,322	3,704

	Leasehold improvements $'000	Plant and equipment $'000	Intangibles $'000	Total $'000
Depreciation/amortisation				
Balance at 1 July 2009	(293)	(41)	(233)	(567)
Depreciation for the year	(124)	(24)	(163)	(311)
Disposals	357	5	40	402
Balance at 30 June 2010	(60)	(60)	(356)	(476)
Balance at 1 July 2010	(60)	(60)	(356)	(476)
Depreciation for the year	(137)	(31)	(197)	(365)
Disposals	-	-	-	-
Balance at 30 June 2011	(197)	(91)	(553)	(841)
Carrying amounts				
At 1 July 2009	164	46	365	575
At 30 June 2010	790	111	799	1,700
At 1 July 2010	790	111	799	1,700
At 30 June 2011	1,003	91	1,769	2,863

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.

Previous financial year revaluation related to leasehold improvements which have been written off due to the short term of the lease for the previous premises. This financial year is nil. (2010:$74,598).

No indications of impairment were found for leasehold improvements or plant and equipment in 2011 (2010: Nil)

Note 13: Unearned liability

		Notes	2011 $'000	2010 $'000
(a)	**Unearned liability**			
	Unearned premium liability	13(b)	**52,132**	48,297
	Unearned commission liability	13(c)	**3,954**	4,114
	Total unearned liability		**56,086**	52,411
(b)	**Unearned premium liabiilty as at 1 July**		**48,297**	48,803
	Deferral of premiums on contracts written in the period		**52,132**	48,297
	Earning of premiums written in the previous periods		**(48,297)**	(48,803)
	Unearned premium liability as at 30 June		**52,132**	48,297
(c)	**Unearned commission liability as at 1 July**		**4,114**	3,504
	Deferral of commissions on contracts written in the period		**3,954**	4,114
	Earning of commissions written in the previous periods		**(4,114)**	(3,504)
	Unearned commission liability as at 30 June		**3,954**	4,114

Note 14: Payables

	2011 $'000	2010 $'000
Retrocessionaire creditors	**41,795**	42,386
Trade creditors	**43**	92
Accruals	**686**	796
Total payables	**42,524**	43,274

Retrocessionaire creditors:
In accordance with ARPC's reinsurance treaty the retrocession premium is paid quarterly in *advance. Settlement is made net 30 days of the start of each quarter.*

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

	2011 $'000	2010 $'000
Lease incentive		
Other interest bearing liabilities are represented by:		
Current	**45**	45
Non-current	**203**	247
Total other interest bearing liabilities	**248**	292

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

Note 16: Provisions

		2011 $'000	2010 $'000
(a)	**Employee provisions**		
	Salaries and wages	**45**	86
	Leave	**370**	466
	Other	**4**	3
	Total employee provisions	**419**	555
	Current / non-current		
	Current	**201**	298
	Non-current	**218**	257
	Total employee provisions	**419**	555

Note 17: Cash flow reconciliation

	2011 $'000	2010 $'000
Reconciliation of cash and cash equivalents as per balance to cash flow statement		
Report cash and cash equivalents as per:		
Cash Flow Statement	**14,660**	41,668
Balance Sheet	**14,660**	41,668
Difference	**-**	-
Reconciliation of operating result to net cash from operating activities:		
Operating result	**61,386**	53,196
Depreciation/amortisation expense	**366**	311
Asset write-off	**8**	52
(Increase)/decrease in receivables	**(959)**	(1,426)
(Increase)/decrease in other non-financial assets	**(288)**	(16)
(Increase)/decrease in deferred insurance assets	**585**	(4,680)
Increase/(decrease) in unearned liability	**3,675**	104
Increase/(decrease) in payables	**(750)**	4,168
Increase/(decrease) in other interest bearing liabilities	**(44)**	292
Increase/(decrease) in provisions	**(136)**	85
Net cash from / (used by) operating activities	**63,843**	52,086

Note 18: Average staffing levels

	2011	2010
The average staffing levels for ARPC during the year were:	20	18

Note 19: Executive remuneration

(a) **Executive remuneration expense for the reporting period**

	2011 $	2010 $
Short-term employee benefits:		
Salary	**768,052**	946,293
Annual leave accrued	**125,867**	204,622
Performance bonuses	**3,000**	108,049
Total short-term employee benefits	**896,919**	1,258,964
Post-employment benefits		
Superannuation	**71,870**	86,410
Total post-employment benefits	**71,870**	86,410
Other long-term benefits		
Long-service leave	**21,447**	24,316
Total other long-term benefits	**21,447**	24,316
Total	**990,236**	1,369,690

Notes:

1. Note 19A was prepared on an accrual basis (so the performance bonus expenses disclosed above differ from the cash 'Bonus paid' in Note 19B).
2. Note 19A excludes acting arrangements and part-year service where remuneration expensed for a senior executive was less than $150,000.

Note 19: Executive remuneration (continued)

(b) **Average annual remuneration packages and bonus paid for substantive Senior Executives as at the end of the reporting period.**

		as at 30 June 2011			
		Salary	Allowances	Total	Bonus paid [2]
Fixed elements and bonus paid [1]	No. SES	$	$	$	$
Total remuneration (including part-time arrangements):					
$150,000 to $179,999	1	170,000	-	170,000	-
$180,000 to $209,999	2	190,130	-	190,130	3,000
$210,000 to $239,999	1	217,000	-	217,000	-
$300,000 to $329,299	1	323,054	-	323,054	-
Total	5				

		as at 30 June 2010			
		Salary	Allowances	Total	Bonus paid [2]
Fixed elements and bonus paid [1]	No. SES	$	$	$	$
Total remuneration (including part-time arrangements):					
$150,000 to $179,999	2	157,135	-	157,135	4,273
$180,000 to $209,999	2	192,790	-	192,790	15,000
$240,000 to $269,999	1	246,440	-	246,440	-
Total	5				

Notes:

1. This table reports substantive senior executives who were employed by the entity at the end of the reporting period. Fixed elements were based on the employment agreement of each individual. Each row represents an average annualised figure (based on headcount) for the individuals in that remuneration package band (i.e. the 'Total' column).

2. This represents average actual bonuses paid during the reporting period in that remuneration package band. The 'Bonus paid' was excluded from the 'Total' calculation, (for the purpose of determining remuneration package bands). The 'Bonus paid' within a particular band may vary between financial years due to various factors such as individuals commencing with or leaving the entity during the financial year.

Note 19: Executive remuneration (continued)

Variable elements

With the exception of bonuses, variable elements were not included in the 'Fixed Elements and Bonus Paid' table above. The following variable elements were available as part of senior executives' remuneration package:

a) Bonuses:

- Bonuses were based on the performance rating of each individual. The maximum bonus that an individual can receive was 10 per cent of his/her base salary.

b) On average senior executives were entitled to the following leave entitlements:

- Annual Leave (AL): entitled to 20 days (2010: 20 days) each full year worked (pro-rata for part-time SES);
- Personal Leave (PL): entitled to 15 days (2010: 15 days) or part-time equivalent; and
- Long Service Leave (LSL): in accordance with Long Service Leave (Commonwealth Employees) Act 1976.

c) Senior executives were members of one of the following superannuation funds:

- Australian Government Employee Superannuation Trust (AGEST): this fund is for senior executives who were employed for a defined period. Employer contributions were set at 9 per cent (2010: 9 per cent).
- Other: there were some senior executives who had their own superannuation arrangements (e.g. self-managed superannuation funds). Their employer contributions were set at 9.0 per cent (2010: 9.0 per cent).

d) Variable allowances:

- nil

e) Various salary sacrifice arrangements were available to senior executives including super, motor vehicle and expense payment fringe benefits.

(c) Other highly paid staff

- During the reporting period, there were nil employees whose salary plus performance bonus were $150,000 or more. These employees did not have a role as senior executive and were therefore not disclosed as senior executives in Note 19A and Note 19B.

Note 20: Members' remuneration

	2011	2010
	$	$
Total remuneration received or due and receivable by Members of ARPC	56,917	50,906
The number of Members of ARPC included in these figures are shown below in the relevant remuneration bands:		
$ Nil - $14,999	**6**	6
$ 15,000 - $29,999	**1**	1
$ 30,000 - $44,999		
Total number of Members of ARPC	**7**	7

Note 21: Auditor's remuneration

	2011	2010
	$	$
The cost of financial statement audit services provided to ARPC was:	**118,000**	114,500

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:

Mr J Gersh, Ms P Azarias, Ms J Bowe, Mr T Karp, Ms M Micalizzi, Mr J Murphy and Mr G Vogt.

Changes in membership during the year

Ms Azarias and Mr Murphy were reappointed for a further three year term on 25 April 2011.

Mr Karp and Mr Vogt were reappointed for a further six month term on 6 September 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 $249,769 (2010: $196,747). These transactions were made on terms equivalent to those that prevail on arms length transactions.

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: Financial instruments

		Notes	2011 $'000	2010 $'000
(a)	**Categories of financial instruments**			
	Financial assets			
	Cash and cash equivalents	7	**14,660**	41,668
	Loans and receivables financial assets			
	Receivables (gross)	8	**38,950**	38,003
	Fair value through profit and loss (held to maturity)			
	Fixed term deposits	9	**652,500**	555,975
	Government securities	9	**13,148**	20,359
	Carrying amount of financial assets		**719,258**	656,005
	Financial liabilities			
	At amortised cost			
	Payables	14	**42,524**	43,274
	Other interest bearing liabilities	15	**248**	292
	Carrying amount of financial liabilities		**42,772**	43,566
(b)	**Net income and expense from financial assets / liabilities**			
	Investment income	5(c)	**36,180**	28,351
	Net gain/(loss) from financial assets		**36,180**	28,351

Note 23: Financial instruments (continued)

(c) Fair value of financial instruments

	Notes	**Carrying amount 2011 $'000**	**Fair value 2011 $'000**	Carrying amount 2010 $'000	Fair value 2010 $'000
Financial assets					
Cash and cash equivalents	7	14,660	14,660	41,668	41,668
Receivables (gross)	8	38,950	38,950	38,003	38,003
Fixed term deposits *	9	652,500	652,500	555,975	555,975
Government securities *	9	13,148	13,148	20,359	20,359
Total financial assets		719,258	719,258	656,005	656,005
Financial liabilities					
Payables	14	42,524	42,524	43,274	43,274
Other interest bearing liabilities	15	248	248	292	292
Total financial liabilities		42,772	42,772	43,566	43,566

* These financial instruments are classified as level 2 in the fair value hierarchy.

Level 1 - fair values measured using quoted prices (unadjusted) in active markets for identical instruments

Level 2 - fair values measured using directly or indirectly obseravable inputs, other than those included in level 1.

Level 3 - fair values measured using inputs that are not based on observeable market data.