South Australian Government Financing Authority 2016-17 Annual Report

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To:

The Hon Tom Koutsantonis MP
Treasurer
Minister for Finance

This annual report is presented to Parliament to meet the statutory reporting requirements of *Section 26 of the Government Financing Authority Act 1982* and meets the requirements of Premier and Cabinet Circular *PC013 Annual Reporting*.

This report is verified to be accurate for the purposes of annual reporting to the Parliament of South Australia.

Submitted on behalf of the South Australian Government Financing Authority by:

David Reynolds
Chief Executive
Under Treasurer

Signature | Date

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Section A: Reporting required under the *Public Sector Act* 2009, the *Public Sector Regulations 2010* and the *Public Finance and Audit Act* 1987

Agency purpose or role

The South Australian Government Financing Authority *(*SAFA) is a statutory authority constituted as the Under Treasurer under the *Government Financing Authority Act, 1982* and commenced operations in January 1983.

SAFA is subject to the control and direction of the Treasurer of South Australia who in turn, is responsible to the Parliament of South Australia for the proper administration of the Act.

SAFA functions as the central financing authority, captive insurer and manager of the passenger and light commercial vehicle fleet operations for the Government of South Australia. It plays an integral role in the overall management of the State's finances and risks, harnessing economies of scale and relevant expertise to provide a range of treasury, insurance and fleet services to public sector clients.

SAFA's borrowings and general financial obligations are guaranteed by the Treasurer.

The Treasurer has delegated responsibility for SAFA's insurance and fleet operations to the Minister for Finance in accordance with Section 9 of the *Administrative Arrangements Act 1994.* Notwithstanding the transfer of responsibilities to the Minister for Finance of these functions, the Treasurer retains overall responsibility for the functions.

Treasury services provided by SAFA include raising funds from domestic and international financial markets and on-lending the proceeds to clients as well as providing clients with investment, portfolio management and financial and risk advisory services.

Insurance services are provided to clients through SAFA's insurance division which uses the trading name SAicorp. Insurance services include the provision of whole-of-government catastrophe reinsurance, claims management, insurance cover and risk management advice and assistance to government agencies.

Vehicle fleet services are provided to clients through SAFA's fleet division which uses the trading name FleetSA. Services provided by FleetSA include vehicle leasing and disposal, short-term hire and accident management.

SAFA is also responsible for providing support services to the State's electricity entities and for the administration on behalf of the Treasurer and Minister for Finance of contracts associated with a number of industry assistance programs.

The Under Treasurer is the Chief Executive of SAFA. The Under Treasurer has delegated responsibility for the day-to-day managerial oversight of SAFA's operations to the General Manager, SAFA. Operationally, SAFA is organised into the following four functional areas:

Treasury Services;
Finance;
Insurance; and
Commercial Operations (includes the Fleet Division).

The South Australian Government Financing Advisory Board (Advisory Board) is a body created by SAFA's Act charged with the responsibility of providing advice to the Under Treasurer (in his role as SAFA), Treasurer of South Australia and the Minister for Finance on issues pertaining to SAFA's operations. The Advisory Board has two functions under SAFA's Act:

(i) at the request of the Treasurer or the Under Treasurer it will provide advice to the Treasurer (in writing) or the Under Treasurer (orally or in writing) on any question relating to the exercise by SAFA of its powers, functions or duties under SAFA's Act; and

(ii) if it believes it should provide advice to the Treasurer or the Under Treasurer on any matter relating to the exercise by SAFA of its powers, functions or duties under SAFA's Act, it may provide that advice even though a special request has not been made.

SAFA Advisory Board

SAFA's Act specifies that the Advisory Board must consist of not less than five and not more than seven members, one of which must be employed by a semi-government authority and one of which must have insurance expertise. The current members of the Advisory Board and details of members' attendance for 2016-17 are provided in the table below:

Member	Meetings Eligible to Attend	Meetings Attended	Term Expiry Date
Mr David Reynolds Under Treasurer, Presiding Member	5	5	Ex-officio
Ms Juliet Brown Company Director	5	5	13 August 2017
Mr Mark Day Company Director	5	5	15 July 2018
Ms Joan Fitzpatrick Company Director Member with insurance expertise	5	4	13 August 2017
Mr Paul Holloway Company Director	5	5	15 July 2018
Mr Jamie Hollamby General Manager, Business Services, SA Water Corporation Member employed by a semi-government authority	5	5	13 August 2017
Ms Kathryn Presser Company Director	5	4	15 July 2018
Ms Nicolle Rantanen Chief Operations Officer, Department of Treasury and Finance Deputy Member to Mr Reynolds	0	0	20 April 2019
Ms Kelly Rowlands General Manager, Consumer Affairs, SA Water Corporation Deputy Member to Mr Hollamby	0	0	13 August 2017

Objectives

The objectives of SAFA are to:

- manage the government's financial assets and liabilities and provide certainty of funding to the state of South Australia;
- provide insurance cover to government agencies through the insurance and reinsurance of government risks;
- provide advice to the government on issues relating to insurance and the management of risks; and
- provide fleet management services to government agencies and vehicle disposal services to government.

Key strategies and their relationship to SA Government objectives

Key strategy	SA Government objective
Maintain and enhance SAFA's access to financial and insurance markets.	Management of the government's financial assets and liabilities and provision of certainty of funding for the State. Provision of insurance cover to government agencies through the insurance and reinsurance of government risks.
Provide treasury and insurance services to internal and external clients.	Management of the government's financial assets and liabilities and provision of certainty of funding for the State. Provision of insurance cover to government agencies through the insurance and reinsurance of government risks.
Implement treasury industry best practice.	Management of the government's financial assets and liabilities and provision of certainty of funding for the State.
Provide centralised across government insurance claims and risk management services.	Provision of insurance cover to government agencies through the insurance and reinsurance of government risks.
Lead the vehicle related carbon neutrality goals of the government	Provision of fleet management services to agencies.
Be recognised as a key valued service provider by providing excellent, accurate, evidence-based commercial and financial advice.	Management of the government's financial assets and liabilities.

Agency programs and initiatives and their effectiveness and efficiency

Program name	Indicators of performance/effectiveness/ efficiency	Comments
SAFA's 2016-17 borrowing program.	100% of SAFA's borrowing requirements are met. The funding task for 2016-17 was $5.5 billion with 100% of the funds successfully being raised.	In order to reduce balance sheet risk, SAFA accessed markets and raised $5.75 billion during 2016-17. The funding was raised through the issue of a mixture of short and long-term debt from both domestic and offshore financial markets. Further details on SAFA's debt issuance and total volume of debt outstanding can be found by opening the following hyperlink: http://www.safa.sa.gov.au/treasury-and-client-lending/safa-financial-markets
Placement of commercial catastrophe reinsurance program	Reinsurance contracts are successfully placed at competitive market premiums. The reinsurance program is designed to protect the State against the financial consequences of a catastrophic event, a very large property loss or civil liability claim or a series of large losses or claims in a particular year. The States' catastrophe reinsurance program was successfully renewed as at 31 October 2016 for the period 1 November 2016 to 30 October 2017.	The total cost of reinsurance for the year ended 30 June 2017 was $7.70 million, compared to $8.43 million for the year ended 30 June 2016. Further details on the State's catastrophe reinsurance program including the categories of cover and current limits are available on SAFA's website. http://www.safa.sa.gov.au/SAicorp/underwriting
Alignment of SAFA's liquidity policy with policies of the credit rating agencies and the Australian Prudential Regulatory Authority (APRA).	During 2016-17, SAFA reviewed its liquidity management policies and guidelines to align SAFA's practices with the liquidity assessment criteria of the major credit rating agencies and to improve SAFA's liquidity position with respect to the requirements of APRA. SAFA's (and the state of South Australia's) current credit rating from Standard's & Poor's is AA/Positive. The main driver of the review was to preserve or enhance SAFA's and the State's credit rating.	SAFA's liquidity management policies and guidelines were amended during 2016-17 so that: 1. SAFA's Select Line maturities are fully funded 12 months in advance. 2. SAFA's base liquidity buffer was increased from A$350 million to A$1,500 million. 3. Introduction of liquidity guidelines that require SAFA to demonstrate that it can meet 100% of its commitments under normal operating conditions for a future period of at least 12 months on a rolling basis, and at least 80% on a 15 month rolling basis.

Program name	Indicators of performance/effectiveness/ efficiency	Comments
Implement the government's strategy for the introduction of low or zero emission vehicles in the government fleet.	A target has been set by the government of South Australia to have 30% of the passenger vehicle fleet as low emission vehicles by December 2019.	As at 30 June 2017, the fleet comprised of 11.6% low emission vehicles. It is expected that the target of 30% will be reached by December 2019.
School Loans Program	The 2016-17 State Budget included $500 million to upgrade the State's public and non-government schools. The Budget measures included: 1. $250 million to build new science, technology, engineering and maths facilities in 139 of the state's public schools; and 2. $250 million to be made available through a loan scheme, at the government borrowing rate, to the State's non-government schools for investment in infrastructure upgrades. SAFA is administering this loan scheme. Non-government schools are able to apply for loans for the construction of new and updated learning facilities where there is a clear need for facilities to improve the education and care outcomes for children and improve the longevity of school infrastructure.	Round 1 of the non-government school loans scheme closed on 31 October 2016 with 21 applications received from 20 schools. 10 loans were approved under Round 1, totalling $38.5 million. Round 2 of the scheme closed on 10 April 2017 with 9 schools applying for loans totalling $48.8 million. 6 loans were approved under Round 2, totalling $32.3 million. Further information on the School Loans Program and to check when the next round of loans will open for applications can be found by opening the following hyperlink: http://www.safa.sa.gov.au/what-we-do/services-for-business-and-community/industry-assistance
South Australian Venture Capital Fund	The 2016-17 State Budget included $50 million to establish the South Australian Venture Capital Fund (SAVCF). The broad objectives of the SAVCF are to: 1. Assist early-stage South Australian companies to attract private sources of co-investment from national and international investors; 2. Enable innovative South Australian companies to accelerate growth into national and international markets; and 3. Earn a commercial rate of return for investors (including the State) commensurate with industry standards for early-stage venture capital funds. During 2016-17, the State Government sought Expressions of Interest from prospective private sector fund managers with a strong track record and extensive networks to manage the SAVCF. SAFA is managing the SAVCF on behalf of the State Government.	SAFA has finalised arrangements for the management and operation of the SAVCF. As at 30 June 2017, there have been no investments in early-stage companies by the SAVCF.

Legislation administered by the agency

South Australian Government Financing Authority Act, 1982

Organisation of the agency

Treasury Services

Insurance Services

Commercial Operations

- Fleet Services
- Industry Assistance

Finance

- Reporting
- Operations
- Systems and Business Improvement
- Corporate Governance

Support Services

- Audit & Compliance
- Records Management
- Executive Support

Other agencies related to this agency (within the Minister's area/s of responsibility)

On behalf of the Minister for Finance, SAFA is responsible for the management of the electricity lessor corporations (Generation Lessor Corporation, Transmission Lessor Corporation and Distribution Lessor Corporation) that own South Australia's generation, transmission and distribution infrastructure. SAFA's role includes the provision of legal, accounting, financial, corporate governance and transaction management services. Information pertaining to the lessor corporations can be found in their respective annual reports.

Consultants

The following is a summary of external consultants that have been engaged by the agency, the nature of work undertaken and the total cost of the work undertaken.

Consultants	Purpose	Value
All consultancies below $10,000 each	Purpose (combined)	$ Value
Nil		
Consultancies above $10,000 each		
Technology One	Financial Management System Upgrades and Improvements	$11,256
Mr Andrew Bollen	RHS advice and finalisation	$10,000
Price Waterhouse Coopers	Professional Taxation Services	$110,000
AON	SAICORP Hazard Profiling Analysis	$45,000
Total all consultancies		$176,256

See also https://www.tenders.sa.gov.au/tenders/index.do for a list of all external consultancies, including nature of work and value. See also the Consolidated Financial Report of the Department of Treasury and Finance http://treasury.sa.gov.au/ for total value of consultancy contracts across the SA Public Sector.

Financial performance of the agency

The following is a brief summary of the overall financial position of the agency. The information is unaudited. Full audited financial statements for 2016-17 are attached to this report.

SAFA recorded an operating profit before tax of $91.5 million ($16.5 million in 2015-16) comprising:

- $17.7 million profit from its treasury activities;
- $8 million profit from its fleet activities; and
- $38.4 million profit from its insurance activities.

This compared to a budget of $34.5 million, contributing factors to the $57 million favourable to budget profit variance for the year were:

Insurance $38.4 million – Fund 1 above budget investment returns of $30.7 million (actual investment returns of 11.55% compared to budgeted returns of 6.5%) and lower than budget claims expenses of $6 million (mainly due to the positive impact of an increase in discount rates used in claims liability actuarial estimates).

Fleet $8.0 million – Auction related above budget net gains on the sale of motor vehicles of $5 million (mainly due to favourable market demand for some four wheel drive and light commercial vehicles as well as gains on the sale of a large volume of Holden Commodores) and leasing related above budget other revenue of $2 million (due to the true-up of servicing at the termination of vehicle leases).

Treasury $17.7 million – Higher liquidity positions as a result in a change of SAFA's liquidity management policy, was a large contributing factor to favourable profit to budget of $5.1 million.

Total equity increased from $327 million to $368 million reflecting SAFA's operating result after tax for the year, offset by a dividend distribution of $23.1 million to the Treasurer. The dividend was paid to the Treasurer on 19 June 2017. SAFA also made an interim tax payment of $16.9 million effective 30 June 2016.

Figure A – SAFA's five-year financial summary as at 30 June

	2016-17	2015-16	2014-15	2013-14	2012-13
Total Assets $m*	27 451	24 009	23 096	22 012	20 306
Total Liabilities $m*	27 083	23 682	22 742	21 672	19 996
Retained Earnings $m*	368	327	354	340	310
Operating Profit Before Tax $m	91.5	16.5	33.1	89.5	102.1
Average Number of Employees (FTE)	71.9	71.3	70.7	74.0	84.3

* amounts reported at market value.

Further details on SAFA's financial performance relating to its individual treasury, insurance and fleet operations are available on SAFA's website.

Citizen's Guide to SAFA's Financial Performance

SAFA's three main functions are as financier and insurer of the State Government and manager of the government's fleet of passenger and light commercial vehicles.

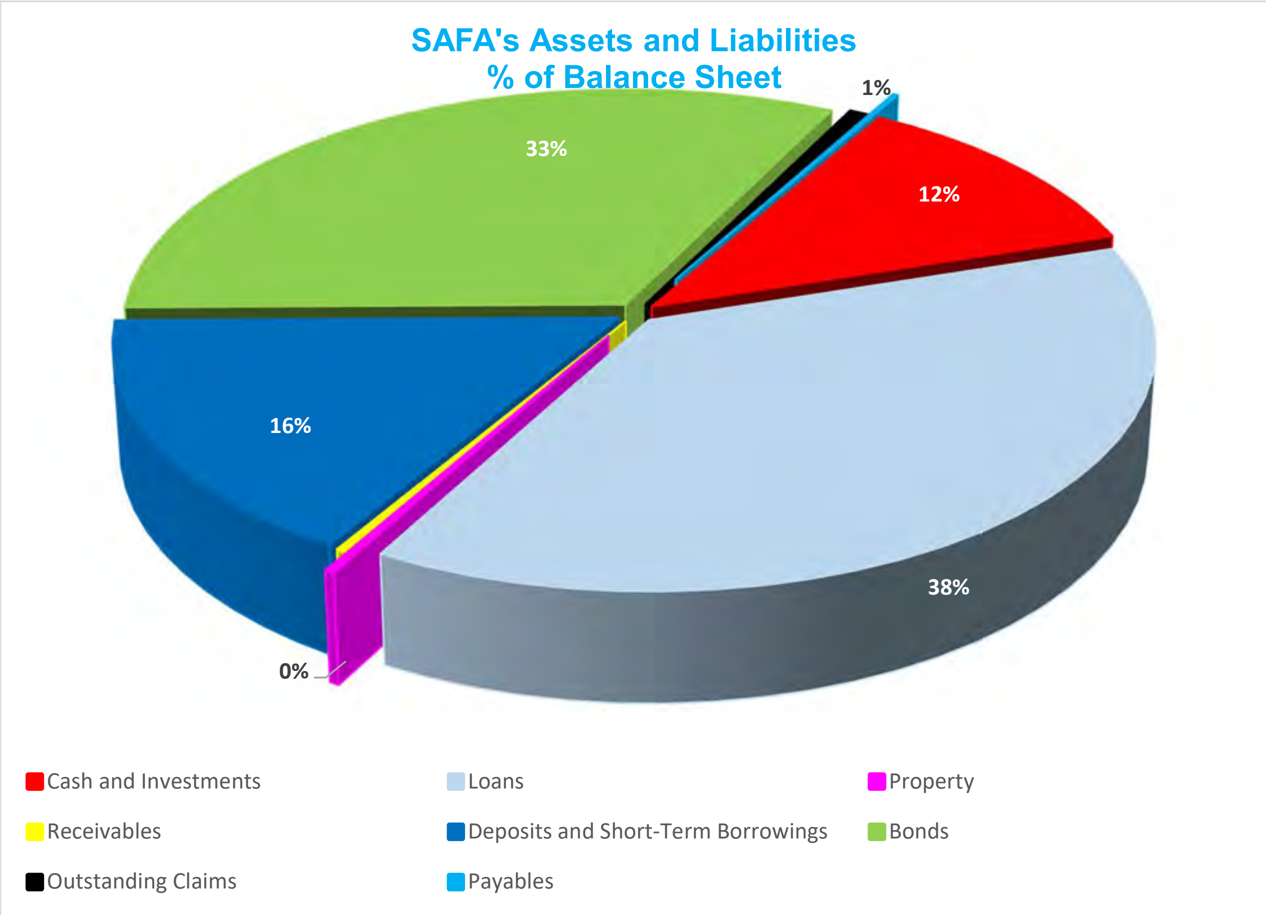
The financing role of SAFA can best be described as like the Government's banker. Much like a normal commercial bank, it lends money and accepts deposits from its customers, with those customers being state government departments and agencies. SAFA's major customers are the Treasurer of South Australia, SA Water Corporation and HomeStart Finance.

Where does SAFA get its money from? SAFA raises money by issuing bonds and other securities to Australian and international banks and financial institutions.

The loans that SAFA provides to its customers and the bonds and securities that SAFA issues make up the majority of SAFA's assets and liabilities.

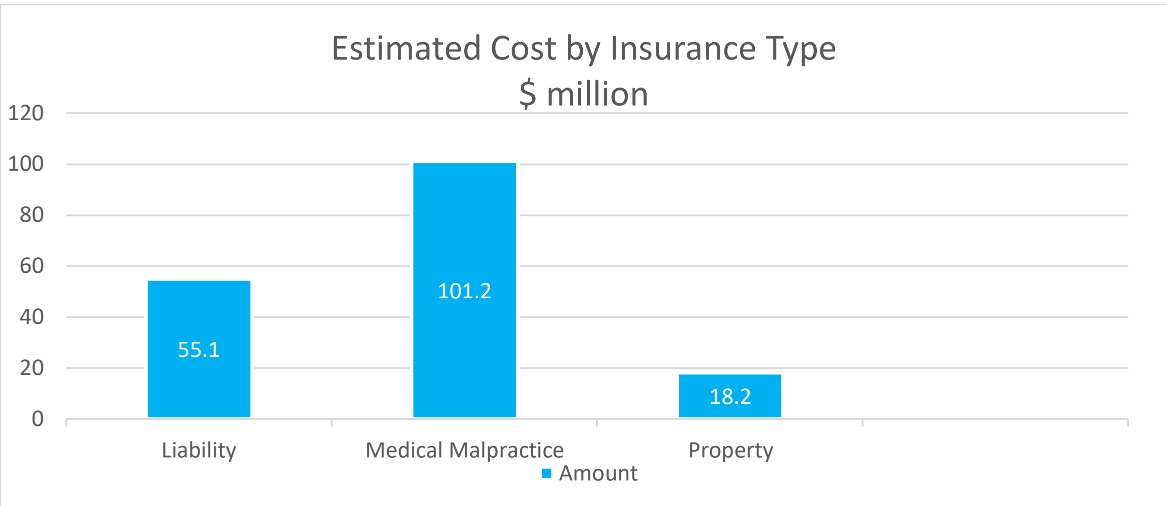
The chart overleaf summarises what SAFA owns in assets and what it owes to others in liabilities.

Total assets owned by SAFA as at 30 June 2017 were $27 451 million.



SAFA, through its insurance division SAicorp, also provides property and liability cover to government departments and agencies and handles all of the insurance claims made. As at 30 June 2017, $72.8 billion of government assets such as schools, hospitals and other public infrastructure were insured by SAicorp.

As at 30 June 2017, SAicorp was managing a total of 489 claims with a total estimated cost of $174.5 million. The chart below summaries the total estimated cost by insurance type.



The Government of South Australia is fundamentally a self-insurer of most of its own risks, however, in order to protect the State against the financial consequences of a catastrophic event, a very large property loss or civil liability claim, a commercial catastrophe reinsurance program is placed in the Australian and international insurance markets.

The total cost of reinsurance for the year ended 30 June 2017 was $7.7 million.

SAFA also owns and manages the Government's motor vehicle fleet. The vehicles are leased to government agencies for operational use.

As at 30 June 2017, SAFA owned 7151 vehicles comprising 50% of passenger vehicles, 27% of light commercial vehicles and 23% of sports utility vehicles.

Details of the manufacturers, models and fuel type of the vehicles owned by SAFA are available on SAFA's website. Open the following hyperlink: http://www.safa.sa.gov.au/fleetsa/fleet-snapshot

Section B: Reporting required under any other act or regulation

Name and date of act or regulation Section 26 - Government Financing Authority Act 1982
Section 26 of the Act requires SAFA to include in its Annual Report, details of any advice given by the Advisory Board to the Under Treasurer, Minister for Finance or the Treasurer that was not followed by the Authority, together with sufficient reasoning as to why that advice was not followed. There were no occurrences of such advice in 2016-17.

Section C: Reporting of public complaints as requested by the Ombudsman

Summary of complaints by subject

Public Complaints Received by South Australian Government Financing Authority for 2016-17	
Category of Complaint	**Number of Complaints**
Fleet Division -	
• Driving related	8
• Unauthorised use of motor vehicle	4
• Smoking in Vehicle	1

Complaint Outcome

All complaints were advised to the Chief Executive of the relevant government agency and followed up with the employee involved. A letter of response was also sent to the complainant, advising of the outcome.

Appendix 1: Audited financial statements 2016-17

South Australian Government Financing Authority

Financial Statements

For the year ended 30 June 2017

South Australian Government Financing Authority

Government of South Australia

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Statement of Financial Position

as at 30 June 2017

	Note	2017 $m	2016 $m
Assets			
Cash and Short Term Assets	4	1,766.1	1,927.9
Assets Held for Sale	5	3.4	2.9
Investments	6	4,675.3	1,736.3
Loans	7	20,665.3	19,857.6
Property, Plant and Equipment	8	162.5	169.4
Intangible Assets	9	3.0	3.4
Derivatives Receivable	10	125.4	254.9
Receivables and Other Assets	11	50.0	57.0
Total Assets		**27,451.0**	**24,009.4**
Liabilities			
Deposits and Short Term Borrowings	12	8,680.9	8,048.9
Bonds, Notes and Debentures	13	17,913.0	15,068.9
Outstanding Claims	14	382.9	375.0
Derivatives Payable	15	51.6	115.7
Payables and Other Liabilities	16	54.7	74.0
Total Liabilities		**27,083.1**	**23,682.5**
NET ASSETS		**367.9**	**326.9**
Equity			
Retained Earnings		367.9	326.9
TOTAL EQUITY		**367.9**	**326.9**

Total equity is attributable to the SA Government as owner

	Note
Contingent Assets and Liabilities	21
Unrecognised Contractual Commitments	26

The above statement should be read in conjunction with the accompanying Notes to the Financial Statements.

Statement of Comprehensive Income

for the year ended 30 June 2017

	Note	2017 $m	2016 $m
Income			
Revenue			
Interest Revenue	17	957.2	971.5
Less Interest Expense	17	968.9	970.3
Net Interest Revenue		(11.7)	1.2
Insurance Premium	17	52.0	48.4
Leasing and Hire	17	57.8	60.6
Recoveries	17	20.3	22.8
Other	17	3.7	3.7
Total Revenue		**122.1**	**136.7**
Other Gains/(Losses)			
Net Gain on Financial Instruments and Derivatives	18	108.7	39.8
Net Gain on Sale of Property, Plant and Equipment	18	4.8	1.4
Total Other Gains/(Losses)		**113.5**	**41.2**
Total Income		**235.6**	**177.9**
Expenses			
Depreciation and Impairment	19	38.6	39.4
Insurance Claims	19	54.6	64.7
Motor Vehicle	19	27.5	28.8
Outward Reinsurance	19	7.7	8.4
Operating	19	15.7	20.1
Total Expenses		**144.1**	**161.4**
Profit before income tax equivalents		**91.5**	**16.5**
Income Tax Equivalent Expense with SA Government	2 (u)	27.4	4.9
Profit after income tax equivalents		**64.1**	**11.6**
Other Comprehensive Income		-	-
Total comprehensive result		**64.1**	**11.6**

The profit after income tax equivalents and total comprehensive result are attributable to the SA Government as owner.

The above statement should be read in conjunction with the accompanying Notes to the Financial Statements.

Statement of Changes in Equity

for the year ended 30 June 2017

	Note	Retained Earnings $m
Balance at 30 June 2015		**354.2**
Profit after income tax equivalents for 2015-16	2(u)	11.6
Total comprehensive result for 2015-16		11.6
Transactions with SA Government as owner		
Dividends paid		(38.9)
Balance at 30 June 2016		**326.9**
Profit after income tax equivalents for 2016-17	2(u)	64.1
Total comprehensive result for 2016-17		64.1
Transactions with SA Government as owner		
Dividends paid		(23.1)
Balance at 30 June 2017		**367.9**

All changes in equity are attributable to the SA Government as owner.

The above statement should be read in conjunction with the accompanying Notes to the Financial Statements.

Statement of Cash Flows

for the year ended 30 June 2017

	Note	2017 $m	2016 $m
Cash flows from operating activities			
Proceeds from:			
Interest on loans and investments		849.8	941.1
Derivatives net interest		40.2	5.7
Insurance Premiums		52.2	63.9
Leasing and Motor Vehicle		63.0	68.3
Recoveries		22.9	24.3
Direct Insurance Placement		9.9	4.7
Stamp duty received from agencies		4.4	5.6
Other receipts		13.1	21.2
Commissions		0.8	0.4
Guarantee Fees received from agencies		114.5	-
Indemnity from Treasurer		2.3	3.8
Payments for:			
Interest on borrowings and deposits		(1,025.6)	(929.9)
Insurance Claims		(43.4)	(57.2)
Motor Vehicle costs		(30.4)	(32.2)
Outwards reinsurance premiums		(8.0)	(8.6)
Direct Insurance Placement		(9.5)	(5.3)
Stamp duty paid to RevenueSA		(5.1)	(4.9)
Operating expenses		(21.8)	(20.7)
Guarantee Fees paid to Treasurer		(128.2)	-
Net GST paid to the ATO		(7.0)	(6.6)
Income Tax Equivalent (TER) paid to Treasurer		(13.8)	(3.9)
Indemnity paid to Treasurer		(7.2)	-
Net GST relating to Investing/Financing activities		(2.2)	(2.9)
Net cash provided by/(used in) operating activities	(22.b)	**(129.1)**	**66.8**
Cash flows from investing activities			
Net advances of Client Loans		(477.9)	(129.6)
Purchase of Investments		(7,103.9)	(9,627.8)
Proceeds from Investments		4,252.0	10,356.9
Purchase of Property, Plant and Equipment		(63.8)	(81.8)
Purchase of Intangible Assets		(0.4)	(0.8)
Proceeds from the Sale of Property, Plant and Equipment		38.0	53.3
Net cash provided by/(used in) investing activities		**(3,356.0)**	**570.2**
Cash flows from financing activities			
Net Borrowings proceeds/(advances)		3,375.1	(723.5)
Net payments for Swaps		(0.4)	-
Dividends paid to Government		(23.1)	(38.9)
Net cash provided by/(used in) financing activities		**3,351.6**	**(762.4)**
Net (decrease) in cash held		**(133.5)**	**(125.5)**
Cash at the beginning of the financial year		319.0	444.2
Net effect of exchange rate changes		(0.1)	0.3
Cash at the end of the financial year	(22.a)	**185.4**	**319.0**

The above statement should be read in conjunction with the accompanying Notes to the Financial Statements.

Notes to the Financial Statements

for the year ended 30 June 2017

1 Objectives

The South Australian Government Financing Authority (SAFA) is a statutory authority of the Government of South Australia ('SA Government') constituted as the Under Treasurer under the *Government Financing Authority Act 1982.* SAFA's registered address is Level 5, State Administration Centre, 200 Victoria Square, Adelaide, South Australia 5000.

SAFA's business objectives are to:

- achieve and maintain certainty of funding for South Australia in the most cost-effective manner and on-lend such funding to public sector entities;
- ensure the efficient and effective delivery of a comprehensive range of funding, asset and liability management, and financial risk management advisory services that meet the needs of clients;
- provide comprehensive insurance protection for SA Government portfolio groups, agencies and all statutory authorities (except those specifically exempted by the Treasurer) at competitive and stable premiums;
- protect the State's finances from a very large property loss or civil liability claim, or a series of large losses or claims in a particular year;
- provide reinsurance to the private insurance market for South Australian building indemnity insurance risks;
- manage SAFA's assets and liabilities and operational infrastructure and risks in a prudent manner to ensure SAFA's ongoing performance capability and financial viability; and
- provide fleet services to public sector entities including policy advice, vehicle leasing, maintenance, accident and fuel management, vehicle fit out and disposal preparation.

2 Significant Accounting Policies

a. Statement of Compliance

The Financial Statements have been prepared in compliance with section 23 of the *Public Finance and Audit Act 1987.*

The Financial Statements are general purpose financial statements which comply with relevant Australian Accounting Standards, as issued by the Australian Accounting Standards Board. The Financial Statements also comply with the requirements of the Treasurer's Instructions and Accounting Policy Statements relating to financial statements by statutory authorities that are issued pursuant to the *Public Finance and Audit Act 1987.*

SAFA has applied Australian Accounting Standards that are applicable to for-profit entities, as it is a for-profit entity for financial reporting purposes.

Australian Accounting Standards that have recently been issued or amended but are not yet effective, which have not been adopted by SAFA for the reporting period ending 30 June 2017, are detailed in Note 2(x).

b. Basis of Preparation

These Financial Statements have been prepared in accordance with accounting policy statements issued pursuant to section 41 of the *Public Finance and Audit Act 1987*, by authority of Treasurer's Instruction 19 *Financial Reporting*. In the interest of public accountability and transparency the accounting policy statements require the following note disclosures, which have been included in these Financial Statements:

i) revenues, expenses, financial assets and liabilities where the counterparty/transaction is with an entity within the SA Government as at the reporting date, are classified according to their nature (a threshold of $100,000 for separate identification of these items applies); and

ii) expenses incurred as a result of engaging consultants (as reported in the Statement of Comprehensive Income).

The Financial Statements have been prepared on the basis of fair value measurement of assets and liabilities except where otherwise indicated.

The Financial Statements have been prepared based on a 12 month period and the presentation currency is Australian dollars. All values are rounded to the nearest hundred thousand unless otherwise stated. Zero represents amounts less than fifty thousand dollars, whilst a dash represents a nil balance.

2 Significant Accounting Policies (continued)

c. Reporting Entity

The financial report covers SAFA as an individual reporting entity. As SAFA does not have any controlled entities there are no consolidated financial statements.

d. Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Financial Statements to conform with Australian Accounting Standards requires the use of critical accounting estimates. It also requires Management to exercise its judgement in the process of applying SAFA's accounting policies. Management has made the following judgements which have the most significant effect on the amounts recognised in the Financial Statements:

(i) Measurement of Outstanding Claims

Outstanding insurance claims liabilities are calculated using statistical and/or mathematical methods. The calculations are made by an actuary on the basis of recognised actuarial methods, with due regard to relevant actuarial principles (refer Note 30).

(ii) Measurement of Fair Value

When measuring fair values of financial assets and liabilities, SAFA maximises the use of relevant market-based data. The fair values of financial assets and liabilities that are traded in active markets are determined with reference to quoted market prices or quotations. For financial assets and liabilities where market-based data are not readily available (or transparent) SAFA determines fair values using standard valuation techniques incorporating discounted cash flows on appropriate yield curves of similar traded securities, taking into account their risk characteristics.

e. Income and Expense Recognition

SAFA recognises income and expenses when the amounts can be reliably measured, it is probable that the future economic benefits will flow to or from SAFA and when specific recognition criteria have been met for each of the activities described below.

(i) Interest

Interest revenue and expense is accrued in accordance with the terms and conditions of the underlying financial instrument. Premiums and discounts are amortised over the life of the associated investments and borrowings.

Net realised gains or losses and unrealised gains or losses are included in the Statement of Comprehensive Income (refer Note 18).

(ii) Insurance Premium Revenue

Premium revenue includes amounts charged to policy holders but excludes stamp duty and Goods and Services Tax. Premium revenue is recognised in the Statement of Comprehensive Income as earned from the date of attachment of risk and is recognised evenly over the policy or indemnity period, which is considered to closely approximate the pattern of risks underwritten.

All South Australian Government agencies are required to insure with SAFA unless exempted by the Treasurer. In those circumstances where SAFA considers it more appropriate for some of the risks of a government agency to be placed with other insurers, SAFA will arrange for such insurance and will recover the insurance premium from the agency concerned. For the purposes of the Financial Statements, these arrangements are referred to as Direct Insurance Placements.

The *Building Work Contractors Act 1995 (SA)* and Regulations is compulsory in South Australia and requires builders to hold building indemnity insurance (BII) to protect home owners against losses arising from the insolvency, death or disappearance of their builder up to a maximum sum insured of $80,000 per building project or such other amount prescribed under the *Building Work Contractors Act 1995 (SA)*. From 1 July 2013 SAFA began offering BII cover to builders in South Australia. The premium for BII provides insurance cover for periods of up to five years, commencing from the date of the insurance contract.

2 Significant Accounting Policies (continued)

e. Income and Expense Recognition (continued)

(iii) Leasing and Hire Revenue

SAFA leases motor vehicles to South Australian Government agencies for a standard lease period of three years or 60,000 kilometres, whichever occurs first. By arrangement, some vehicle leases can be extended to five years or 100,000 kilometres, due to the nature of the lessee's business requirements. The lease to agencies covers registration, compulsory third party and property damage insurance, property insurance, scheduled servicing, depreciation, interest costs and a management fee. Leasing and Hire revenue is recognised on a straight line basis over the term of the lease. The property insurance component of the lease is recognised under Insurance Premium in the Statement of Comprehensive Income (refer Note 17).

(iv) Revenue Recoveries

Vehicle recoveries include fuel and any unscheduled maintenance of the vehicle over the period of the lease. Any excessive wear and tear costs are recovered from agencies at the end of the lease. Other vehicle recoveries include parking costs, miscellaneous charges and commission on disposal of vehicles.

Insurance recoveries comprise any recoveries from third parties. Recoveries receivable on paid claims, reported claims not yet paid, claims incurred but not reported and unexpired risk liabilities are recognised as revenue.

(v) Other Revenue

Fee revenue in respect of services provided is recognised in the period in which the service is provided.

(vi) Insurance Claims Expense

Insurance claims expense includes the direct and indirect costs of settling claims, claim payments, deductible receipts and movements in underlying claim estimates.

(vii) Motor Vehicle Expenses

Direct costs associated with the ownership of the motor vehicle fleet including registration, compulsory third party insurance, all maintenance and repair costs, fuel and disposal costs.

(viii) Outwards Reinsurance

Premiums ceded to reinsurers are recognised as an expense in accordance with the pattern of reinsurance services received. Accordingly, a portion of the outwards reinsurance premiums may be treated at the end of the reporting period as a prepayment. This program includes the catastrophe reinsurance program which has been effected to safeguard the State's finances against very large losses or claims, or a series of large losses or claims in any year under the Government's insurance and risk management arrangements.

(ix) Indemnity from/(to) the Treasurer

Insurance activities are segregated into three Funds. The Treasurer has indemnified SAFA for any operating profit or loss before tax for any activities relating to Fund 2 and Fund 3 (refer Note 21(c)). Under these arrangements any profit/loss on these Funds are recognised as payables to/receivables from the Treasurer. Any payables to the Treasurer are carried forward to offset future operating losses.

f. Cash and Short Term Assets

Cash and short term assets in the Statement of Financial Position include Cash, Short Term Money Market Deposits, Overdraft Facilities and Negotiable Certificates of Deposit that are held for liquidity and short term investment purposes (refer Note 4).

For the purposes of the Statement of Cash Flows, cash consist of Cash and Deposits from Financial Institutions and Short Term Money Market Deposits as defined above, but exclude Negotiable Certificates of Deposit and the Overdraft Facility where the securities are for investment purposes and not for the purpose of meeting short term cash commitments.

2 Significant Accounting Policies (continued)

g. Assets Held for Sale

Assets are classified as held for sale, and stated at the lower of their carrying amount or fair value less costs to sell, if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset's sale is expected to be completed within one year from the date of classification (refer Note 5).

h. Financial Instruments

Financial assets and liabilities designated at fair value through profit or loss

All financial assets and liabilities, on recognition, are designated at fair value through profit or loss. This designation is determined on the basis that SAFA manages and evaluates the performance of its financial assets and liabilities on a fair value basis in accordance with documented risk management strategies.

Financial assets and liabilities (including derivatives) are recorded at fair value in the Statement of Financial Position. All financial assets and liabilities are revalued to reflect market movements with gains or losses, whether realised or unrealised, being recognised immediately in the Statement of Comprehensive Income (refer Note 18). Financial assets and liabilities are revalued regularly either at their quoted market price, or their cash flows are discounted against the relevant yield curve.

(i) Investments

Investments are assets which are purchased as part of SAFA's liquidity and interest rate risk management and may be sold prior to maturity in response to various factors including changes in interest rates and funding requirements of the South Australian public sector. Additionally, SAFA may hold investments it has purchased at the direction of the South Australian Government and/or as may be determined by the Treasurer to be in the interests of the State of South Australia (refer Note 6).

(ii) Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market (refer Note 7).

(iii) Deposits and Short Term Borrowings

Deposits and Short Term Borrowings include At Call Deposits, Collateral Deposits from Financial Institutions and Term Deposits. SAFA also raises short term funds through the issue of Commercial Paper both in the domestic and overseas markets (refer Note 12).

(iv) Repurchase Agreements

Securities sold under an agreement to repurchase remain as an investment whilst the obligation to repurchase is recorded as a liability in Deposits and Short Term Borrowings (refer Note 12). At 30 June 2017 SAFA had no repurchase agreements.

(v) Bonds, Notes and Debentures

Funds are raised through various instruments including bonds, notes and debentures. All borrowings are raised on an unsecured basis (refer Note 13).

(vi) Derivative Instruments

SAFA utilises derivative instruments (including futures, foreign exchange contracts, forward rate arrangements, foreign exchange swaps and interest rate swaps) in fundraising, debt management and client activities. Derivative instruments are used to convert funding costs, facilitate diversification of funding sources, reconfigure interest rate risk profiles and manage foreign currency exposures. Interest receipts and interest payments are accrued on a gross basis and classified as interest revenue and interest expense in the Statement of Comprehensive Income (refer Notes 10 and 15).

2 Significant Accounting Policies (continued)

i. Assets backing general insurance liabilities

Assets which back SAFA's insurance liabilities are those generated through premium revenue. These assets are invested to reflect the nature of the policy liabilities, and are comprised of operating cash, cash held on deposit and units invested with Funds SA (refer Notes 4 and 6). In accordance with AASB 1023 *General Insurance Contracts,* SAFA's longer-term insurance investments with Funds SA are measured at fair value, based on quoted market prices as advised by the fund manager. Subsequent measurement is at fair value with any resultant unrealised gains or losses recognised in the Statement of Comprehensive Income (refer Note 18).

j. Reinsurance and Other Recoveries

Recoveries receivable on paid claims, reported claims not yet paid, claims incurred but not reported and unexpired risk liabilities are recognised as revenue. Recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims. The details of inflation and discount rates used are set out in Note 30.

Collectability of recoveries is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Statement of Comprehensive Income for the amount by which the asset's carrying amount exceeds its recoverable amount.

k. Property, Plant and Equipment

Property, Plant and Equipment is stated at cost less accumulated depreciation.

(i) Depreciation

Depreciation of Property, Plant and Equipment is calculated on a straight line basis using rates designated to allocate the depreciable cost over the expected useful life of the asset. Motor Vehicles are depreciated on a straight line basis for a period of up to five years (refer Note 8).

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, during each financial year. Changes in the residual value or expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the time period or method, as appropriate, which is a change in accounting estimate.

(ii) Impairment

The carrying values of Property, Plant and Equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Statement of Comprehensive Income for the amount by which the asset's carrying amount exceeds its recoverable amount.

l. Intangible Assets

Intangible assets represent purchased software licenses, which are carried at the cost to acquire and install the specific software less any accumulated amortisation and any accumulated impairment losses.

Expenditure on purchased software assets is capitalised when it is probable that future economic benefits attributable to the assets will flow to SAFA, and if the cost of the asset can be measured reliably. Subsequent expenditure on the maintenance of purchased software is expensed as incurred.

(i) Amortisation

Amortisation of intangible assets is calculated on a straight line basis using rates designated to allocate the cost over the expected useful life of the asset. Software costs are amortised on a straight line basis for a period of five to ten years (refer Note 9). Amortisation has been included in Depreciation and Impairment expense within the Statement of Comprehensive Income.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, each financial year. Where a change to the residual value or useful life of an asset has been identified any impact that may result from this change is recognised in the Statement of Comprehensive Income in the year in which it arises.

2 Significant Accounting Policies (continued)

l. Intangible Assets (continued)

(ii) Impairment

The carrying values of intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Depreciation and Impairment Expense within the Statement of Comprehensive Income for the amount by which the asset's carrying amount exceeds its recoverable amount.

m. Outstanding Claims Liability

Insurance activities are segregated into three Funds. Liabilities for outstanding claims for Fund 1 are measured as the central estimate of the present value of the expected future payments for claims incurred, plus an additional risk margin to allow for inherent uncertainty in the central estimate.

The liability for outstanding claims at balance date comprises:

- claims that have been incurred but not paid;
- claims incurred but not reported (IBNR);
- claims incurred but not enough reported (IBNER);
- risk margins; and
- claims handling costs, which includes anticipated direct and indirect costs of settling those claims.

Liabilities for outstanding claims for Fund 2 are recognised in respect of reported incidents including the anticipated costs of settling these claims and a risk margin. Details of risk margin rates are disclosed in Note 30.

Liabilities for outstanding claims for Fund 3 are determined by applying an earning pattern to the written premium and then combining a loss ratio to the development pattern of emerging claims costs. Details of risk margin rates are disclosed in Note 30.

The expected future payments are discounted to present value using a risk-free rate, derived from the interest rates on Commonwealth Government fixed interest securities with terms to maturity that match, as close as possible, the estimated future claim payments. Details of the inflation and discount rates and other actuarial assumptions are disclosed in Note 30.

n. Receivables and Other Assets / Payables and Other Liabilities

Receivables include amounts receivable from goods and services, GST input tax credits recoverable, other assets including debtors and fee accruals. Payables include accounts payable representing amounts owing for goods and services received prior to the end of the reporting period that are unpaid, GST payable, other liabilities including interest paid in advance, creditors, expense accruals and provisions. They are all stated at book value, which is the best estimate of fair value as they are typically settled within a short period of time (refer Notes 11 and 16).

Collectability of receivables is reviewed on an ongoing basis. An allowance for impairment loss (doubtful debt) is raised when there is objective evidence that SAFA will not be able to collect the debt. Bad debts are written off when identified.

o. Government Guarantee Fees

Loans advanced by SAFA to government agencies are guaranteed by the SA Government. In return for this guarantee a market based fee is due by the individual government agencies to the Treasurer. These fees are not revenue or expenses of SAFA. SAFA collects these fees from the government agencies and remits them to the Treasurer on a periodic basis. Due to timing differences between the collection of these fees from the government agencies and remittance of these fees to the Treasurer, SAFA recognises receivables and payables in relation to these fees (refer Note 17).

p. Dividends

Under governing legislation and SAFA policy, dividends are payable by SAFA to the Treasurer on an annual basis dependent on a range of factors including SAFA's profitability and solvency of its insurance business. Where a dividend is payable, an interim dividend is required to be paid prior to the end of the financial year based on estimates of the full financial year profit. The final dividend due is determined following finalisation of the financial year results, with any difference between the interim dividend payment and the final dividend due either deducted from, or added to, the interim dividend payment for the following financial year. The payment of dividends is subject to the approval of the Treasurer.

2 Significant Accounting Policies (continued)

q. Deferred Acquisition Costs

Costs directly attributable to the acquisition of the BII premium revenue (Fund 3) are deferred by recognising these costs as an asset in the Statement of Financial Position when they can be reliably measured. Deferred acquisition costs are amortised systematically over the life of the insurance policy in line with the expected pattern of the incidence of risk.

r. Unearned Premium Liability

The Liability Adequacy Test (LAT) is performed on the BII liabilities less deferred acquisition costs to ensure the carrying value of the unearned premium liability is adequate, using current estimates of the present value of future cash flows relating to future claims.

The need for an additional risk margin is assessed, taking into account the inherent uncertainty in the central claims estimate. If the assessment shows the carrying amount of the liabilities is inadequate, any deficiency is recognised as an expense in the Statement of Comprehensive Income by firstly writing down the deferred acquisition cost. If an additional liability is required, this is recognised in the Statement of Financial Position as an unexpired risk liability.

s. Foreign Currency Translation

Foreign currency assets and liabilities are recognised in the Financial Statements at the prevailing exchange rate at the reporting date. Revenue and expense items are translated at the exchange rate current at the date at which those items were recognised in the Financial Statements.

t. Employee Benefits

SAFA does not employ any direct staff, but is assigned staff resources by the Department of Treasury and Finance (DTF) through a Service Level Agreement pursuant to Section 20 of the *Government Financing Authority Act 1982.* The responsibility to provide for employer contributions to superannuation benefits rests with DTF, and for this reason SAFA is not required to establish a provision. DTF meets long service leave liabilities as they fall due.

u. Taxation

(i) Accounting Profits Tax Model

In accordance with Treasurer’s Instruction 22 Tax Equivalent Payments, SAFA is required to pay the Treasurer an income tax equivalent amount. The income tax liability is based on the Taxation Equivalent Regime (TER) which applies the accounting profit method. This requires SAFA to apply the corporate income tax rate to the net profit. The current income tax equivalent liability relates to the income tax expense outstanding for the current period.

(ii) Goods and Services Tax (GST)

SAFA is grouped with DTF for GST purposes. Income, expenses and assets are recognised net of the amount of GST, except:

- where the GST incurred on a purchase of goods or services is not recoverable from the Australian Taxation Office (ATO), it is recognised as part of the cost of acquisition of an asset or as part the expense item; or
- for receivables and payables, which are recognised inclusive of GST.

The net amount of GST recoverable from or payable to the ATO is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a net basis and the GST component of cash flows arising from investing activities, which is recoverable from, or payable to, the ATO is classified as part of operating cash flows.

(iii) Stamp Duty

Stamp duty collected as part of insurance premiums is excluded from premium revenue and paid monthly to RevenueSA.

2 Significant Accounting Policies (continued)

v. Supplementary Information by Line of Business

SAFA is an individual reporting entity which operates in three core lines of business, Treasury, Insurance and Fleet Management (refer to Note 3).

w. Comparatives

The presentation and classification of items in the Financial Statements are consistent with prior periods except where specific accounting standards and/or accounting policy statements have required a change.

Where presentation or classification of items in the Financial Statements have been amended, comparative figures have been adjusted to conform to changes in presentation or classification in these Financial Statements unless impractical.

x. Changes in Accounting Policies

SAFA has adopted the following relevant new accounting standards and amendments to standards, applicable to annual periods commencing on or after 1 January 2016:

(i) AASB 2014-4 *Clarification of Acceptable Method of Depreciation and Amortisation*

This standard clarifies that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. In addition, it also clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This standard has not impacted on SAFA as it depreciates and amortises assets over the expected pattern of future economic benefits or service potential and does not use any revenue based method.

(ii) AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101*

This standard provides clarification regarding the disclosure requirements within AASB 101 *Presentation of Financial Statements* ensuring that preparers can apply judgement when determining what information is to be disclosed. In addition, the standard makes consequential amendments to AASB 7 *Financial Instruments: Disclosures*, AASB 134 *Interim Financial Reporting* and AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. The amendments are designed to ensure that material information is not obscured by immaterial information in the Financial Statements. The application of this amending standard has not resulted in any material changes to SAFA's Financial Statements.

The following accounting standards have been issued but are not yet effective. These accounting standards have not been early adopted by SAFA, but will be relevant upon application. The financial effects of implementing these new standards, where relevant, are yet to be determined.

(i) AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*

This standard amends AASB 107 *Statement of Cash Flows* to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. This standard is applicable to annual reporting periods beginning on or after 1 January 2017. SAFA will apply this standard for the first time in its 2017-18 Financial Statements.

(ii) AASB 9 *Financial Instruments* (and applicable amendments)

AASB 9 supersedes AASB 139 *Financial Instruments: Recognition and Measurement*. The new standard provides the principles for the classification, measurement, recognition, derecognition and disclosure associated with financial assets and financial liabilities. This includes new categories for debt financial instrument classification (amortised cost and fair value) as well as additional requirements in relation to hedge accounting and a new impairment model. While SAFA is currently assessing the potential effects of this standard, it should be noted that SAFA's financial assets and liabilities are already carried at fair value and that SAFA does not currently engage in hedge accounting. This standard is applicable to annual reporting periods commencing on or after 1 January 2018. SAFA will apply this standard for the first time in its 2018-19 Financial Statements.

2 Significant Accounting Policies (continued)

x. Changes in Accounting Policies (continued)

(iii) AASB 15 *Revenue from Contracts with Customers* (and applicable amendments)

AASB 15 has been developed to address a number of deficiencies with existing accounting standards and related interpretations relating to revenue. For SAFA, the impact of the new standard is not likely to be as extensive as would be the case for some reporting entities in other industries. Many of SAFA's core activities are not within the scope of the standard, which specifically excludes: lease contracts; insurance contracts; financial instruments; and some guarantees. Revenue arising from these activities are likely to continue being reported in line with other existing standards specific to leases, insurance and financial instruments. This standard is applicable to annual reporting periods commencing on or after 1 January 2018. SAFA will apply this standard for the first time in its 2018-19 Financial Statements.

(iv) AASB 16 *Leases*

The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments. The standard substantially carries forward the lessor accounting requirements of existing AASB 117 *Leases*. This Standard is applicable to annual reporting periods beginning on or after 1 January 2019. SAFA will apply this standard for the first time in its 2019-20 Financial Statements.

Note 3 Supplementary Information by Line of Business

SAFA operates in the following lines of business:

Treasury - provides funds and financial advice to the South Australian Government, Semi-Government Authorities, South Australian Public Sector Financial Institutions and Government agencies.

Insurance - underwriting several types of general insurance for South Australian Government agencies.

Fleet - provides comprehensive fleet management services to South Australian Government agencies for its passenger and light commercial motor vehicle fleet.

The Insurance activities are designated into three Funds. Fund 1 reflects the normal commercial activities of SAFA while Fund 2 includes all the activities previously conducted through Section 2 of the South Australian Government Insurance and Risk Management Fund. This Fund is used to fund liabilities arising from insurable incidents that occurred prior to 1 July 1994, claims under the building warranty indemnity reinsurance arrangement with QBE Insurance (Australia) Limited (QBE) until 30 June 2013, SGIC residual claims and workers compensation claims previously managed by South Australian Asset Management Corporation. Fund 3 is used to fund liabilities arising from claims under the building indemnity insurance scheme effective from 1 July 2013.

2017	**Treasury $m**	**Insurance $m**	**Fleet $m**	**Eliminations $m**	**Total $m**
Income	38.0	115.8	85.7	(3.9)	**235.6**
Expenses	12.7	61.0	74.3	(3.9)	**144.1**
Profit before income tax equivalents	25.3	54.8	11.4	-	**91.5**
Income tax equivalent expense	7.6	16.4	3.4	-	**27.4**
Comprehensive result	17.7	38.4	8.0	-	**64.1**
Business Line assets	26,948.6	601.3	205.0	(303.9)	**27,451.0**
Business Line liabilities	(26,810.4)	(409.3)	(167.3)	303.9	**(27,083.1)**
Net Assets	**138.2**	**192.0**	**37.7**	**-**	**367.9**

2016	**Treasury $m**	**Insurance $m**	**Fleet $m**	**Eliminations $m**	**Total $m**
Income	30.8	67.6	83.7	(4.2)	**177.9**
Expenses	12.0	77.7	75.9	(4.2)	**161.4**
Profit before income tax equivalents	18.8	(10.1)	7.8	-	**16.5**
Income tax equivalent expense	5.6	(3.0)	2.3	-	**4.9**
Comprehensive result	13.2	(7.1)	5.5	-	**11.6**
Business Line assets	23,500.7	603.1	212.0	(306.4)	**24,009.4**
Business Line liabilities	(23,370.3)	(441.9)	(176.7)	306.4	**(23,682.5)**
Net Assets	**130.4**	**161.2**	**35.3**	**-**	**326.9**

Note 4 Cash and Short Term Assets

	2017 $m	2016 $m
Cash at Bank	25.4	17.6
Deposits with the Treasurer	29.7	45.9
Short Term Money Market Deposits	150.6	325.5
Negotiable Certificates of Deposit	1,339.2	1,339.2
Overdraft Facility	221.2	199.7
Total Cash and Short Term Assets	**1,766.1**	**1,927.9**

Note 5 Assets Held for Sale

	2017 $m	2016 $m
Motor Vehicles	3.4	2.9
Total Assets Held for Sale	**3.4**	**2.9**

The Fleet segment of SAFA leases motor vehicles to agencies of the South Australian Government. At the end of each lease the motor vehicles are classified as held for sale as preparations are made for their sale. Pickles Auctions Pty Ltd provide the motor vehicle disposal management services for SAFA. As at 30 June 2017, no impairment losses on assets sold or held for sale have been recorded in the Statement of Comprehensive Income (2015-16: Nil).

Note 6 Investments

	2017 $m	2016 $m
Semi-Government Securities	614.1	283.6
Local Government Securities	0.1	1.3
Bank and Corporate Securities	3,483.2	912.0
Funds SA	577.9	539.2
Listed Shares	-	0.2
Equity Investments	-	0.0
Total Investments	**4,675.3**	**1,736.3**

Note 7 Loans

	2017 $m	2016 $m
Loans to the Treasurer at Market Rates	11.6	15.5
Loans to the Treasurer at Non Market Rates	20.2	20.5
Loans to the Treasurer at Cost of Funds (COF)	4,894.6	5,392.7
Loans to the Treasurer at Cash	6,121.4	5,101.3
Loans to Public Non Financial Corporations	7,930.2	7,586.1
Loans to Public Financial Corporations	1,653.2	1,712.8
Loans to Local Government	25.0	28.7
Loans to Non Government Schools	7.2	-
Loans to Other Government Entities	1.9	-
Total Loans	**20,665.3**	**19,857.6**

The COF loan to the Treasurer is funded through a range of financial assets and liabilities within the Treasurer's Portfolio. Any gains or losses, whether realised or unrealised, on the assets and liabilities in the Treasurer's Portfolio that fund the loan are equally offset by a gain or loss on the COF loan to the Treasurer.

Note 8 Property, Plant and Equipment

	2017 $m	2016 $m
Motor Vehicles		
At cost	229.1	227.8
Accumulated depreciation	(66.6)	(58.4)
Impairment	-	0.0
Total Property, Plant and Equipment	**162.5**	**169.4**

Reconciliation of Property, Plant and Equipment	2017 $m	2016 $m
Motor Vehicles		
Carrying amount at the beginning of the period	169.4	177.6
Additions	65.7	80.3
Assets classified as held for sale	(3.4)	(2.9)
Disposals	(31.1)	(46.5)
Depreciation expense	(38.1)	(39.1)
Carrying amount at the end of the period	**162.5**	**169.4**

Note 9 Intangible Assets

	2017 $m	2016 $m
Software Purchased		
At cost	4.0	4.0
Work in Progress	0.1	-
Accumulated amortisation	(1.1)	(0.6)
Total Intangible Assets	**3.0**	**3.4**

Reconciliation of Software Purchased	2017 $m	2016 $m
Carrying amount at the beginning of the period	3.4	2.6
Additions	0.1	1.1
Amortisation expense	(0.5)	(0.3)
Carrying amount at the end of the period	**3.0**	**3.4**

Note 10 Derivatives Receivable

	2017 $m	2016 $m
Foreign Currency Swaps	-	66.7
Interest Rate Swaps - South Australian Government	4.1	7.1
Interest Rate Swaps	121.3	181.1
Total Derivatives Receivable	**125.4**	**254.9**

Note 11 Receivables and Other Assets

	2017 $m	2016 $m
Receivables	5.7	4.7
Receivables - South Australian Government	31.0	36.1
Recoveries	2.7	2.8
Less: Allowance for Impairment loss	(0.1)	(0.1)
Receivables from the Treasurer	3.7	2.3
Prepayments - South Australian Government	2.2	2.1
Prepayments	2.9	3.1
Sundry Debtors - South Australian Government	0.0	0.1
Deferred Acquisition Costs	1.9	2.8
Income Tax Equivalent	-	3.1
Total Receivables and Other Assets	**50.0**	**57.0**

Movement in the allowance for Impairment loss

The allowance for impairment loss is recognised when there is objective evidence that a receivable is impaired. An allowance for impairment loss has been recognised in the Statement of Comprehensive Income.

	2017 $m	2016 $m
Carrying amount at the beginning of the period	0.1	0.1
Allowance for impairment loss recognised during the year	0.0	-
Carrying amount at the end of the period	**0.1**	**0.1**

Note 12 Deposits and Short Term Borrowings

	2017 $m	2016 $m
At Call Deposits	14.8	26.2
Collateral Deposits from Financial Institutions	19.5	69.5
Deposits from the Treasurer	6,449.4	5,169.6
Deposits from South Australian Government agencies	219.5	448.9
Commercial Paper	1,977.7	2,334.7
Total Deposits and Short Term Borrowings	**8,680.9**	**8,048.9**

Note 13 Bonds, Notes and Debentures

	2017 $m	2016 $m
Floating Rate Notes	4,013.9	4,014.1
Select Lines	13,539.2	10,674.6
Retail Stock	100.0	94.3
Inflation Linked Bonds and Securities	2.1	3.1
Obligation to the Commonwealth Government	257.8	282.8
Total Bonds, Notes and Debentures	**17,913.0**	**15,068.9**

Note 14 Outstanding Claims

	2017 $m	2016 $m
Outstanding Claims - South Australian Government	21.0	10.4
Outstanding Claims	361.9	364.6
Total Outstanding Claims	**382.9**	**375.0**

Reconciliation of Movements in Outstanding Claims

	Property $m	Liability $m	Medical Malpractice $m
2016 Balance	10.4	73.1	291.4
Paid	(5.4)	(15.5)	(23.2)
Reported Claims	13.9	21.1	11.5
IBNR/IBNER Reserve	(0.1)	(1.3)	5.6
Risk Margin	1.8	1.3	(2.2)
Indirect Claims Settlement Reserve	0.4	0.4	(0.3)
2017 Balance	**21.0**	**79.1**	**282.8**
30 June 2017 Outstanding Claims balance by:			
Fund 1	20.0	55.0	279.8
Fund 2	1.0	13.4	3.0
Fund 3	-	10.7	-
	21.0	**79.1**	**282.8**

Note 15 Derivatives Payable

	2017 $m	2016 $m
Foreign Currency Swaps	-	66.4
Interest Rate Swaps - South Australian Government	0.1	0.1
Interest Rate Swaps	51.5	49.2
Total Derivatives Payable	**51.6**	**115.7**

Note 16 Payables and Other Liabilities

	2017 $m	2016 $m
Sundry Creditors - South Australian Government	0.2	0.3
Sundry Creditors	0.5	2.6
Payables	8.6	7.6
Payables - South Australian Government	11.2	4.0
Payables to the Treasurer	4.8	14.2
Unearned Revenue	18.8	45.3
Income Tax Equivalent	10.6	-
Total Payables and Other Liabilities	**54.7**	**74.0**

Note 17 Revenue

	Note	2017 $m	2016 $m
Interest Revenue			
External to South Australian Government:			
Cash and Short Term Assets		28.5	45.2
Investments		56.8	52.8
Loans		0.6	0.5
Receivables and Other Assets		333.9	311.3
Internal to South Australian Government:			
Cash and Short Term Assets		4.1	0.9
Loans		529.0	555.9
Receivables and Other Assets		4.3	4.9
		957.2	**971.5**
Less Interest Expense			
External to South Australian Government:			
Deposits and Short Term Borrowings		38.9	49.7
Bonds, Notes and Debentures		547.7	560.5
Payables and Other Liabilities		296.8	281.0
Internal to South Australian Government:			
Deposits and Short Term Borrowings		83.4	76.6
Payables and Other Liabilities		2.1	2.5
		968.9	**970.3**
Net Interest Revenue		**(11.7)**	**1.2**
Insurance Premium			
External to South Australian Government		8.7	6.6
Internal to South Australian Government		43.3	41.8
	20	**52.0**	**48.4**
Leasing and Hire			
Internal to South Australian Government		57.8	60.6
		57.8	**60.6**
Recoveries			
External to South Australian Government		1.0	2.9
Internal to South Australian Government		19.3	19.9
		20.3	**22.8**
Other			
External to South Australian Government:			
Other Revenue		2.0	1.8
Commissions		1.3	1.2
Dividend		-	0.0
Internal to South Australian Government:			
Other Revenue		0.0	0.0
Management Fees		0.4	0.7
Guarantee Fees		0.0	-
		3.7	**3.7**
Total Revenue		**122.1**	**136.7**

Note 18 Other Gains/(Losses)

	Note	2017 $m	2016 $m
Net Gain/(Loss) on Financial Instruments and Derivatives			
External to South Australian Government:			
Realised		(40.2)	14.0
Unrealised		385.0	(303.1)
Internal to South Australian Government:			
Realised		100.2	1.8
Unrealised		(336.3)	327.1
		108.7	**39.8**
Net Gain on Sale of Property, Plant and Equipment			
External to South Australian Government		4.8	1.4
		4.8	**1.4**
Total Other Gains/(Losses)		**113.5**	**41.2**

Note 19 Expenses

	Note	2017 $m	2016 $m
Insurance Claims			
External to South Australian Government		55.8	62.5
Internal to South Australian Government		(1.2)	2.2
	20	**54.6**	**64.7**
Motor Vehicle			
External to South Australian Government		22.4	23.6
Internal to South Australian Government		5.1	5.2
		27.5	**28.8**
Reinsurance			
External to South Australian Government		7.7	8.4
	20	**7.7**	**8.4**
Depreciation and Impairment			
Internal to South Australian Government		38.6	39.4
		38.6	**39.4**
Operating			
External to South Australian Government:			
Program and Debt Management fees		1.4	1.1
Direct Insurance Placement costs		0.1	0.0
Bad Debts written off		0.0	0.1
Management Fees		6.1	3.9
Consultants/Contractors	25	0.4	0.0
Rent		0.6	0.6
Systems		0.6	0.5
Other		0.4	0.1
Internal to South Australian Government:			
Indemnity to/(from) the Treasurer		(5.8)	2.2
Service Level Agreement		11.9	11.6
		15.7	**20.1**
Total Expenses		**144.1**	**161.4**

A Service Level Agreement (SLA) operates between SAFA and DTF. DTF provides services to SAFA to enable SAFA to undertake its business activities in a manner so that SAFA may achieve its key outcomes. DTF provides SAFA with appropriately trained and skilled staff along with infrastructure support. The majority of the fee covers staffing, accommodation, audit and network systems expenditure.

SLA costs of $1,266,661 (2015-16: $1,318,978) relating to SAFA's insurance business activities have been allocated directly to claims expense.

Note 20 Net Claims Incurred and Underwriting Result

The following table provides detail in relation to the net claims incurred cost. Current year claims relate to risks borne in the current reporting period. Prior period claims relate to a reassessment of the risks borne in previous reporting periods.

2017	In respect of Current Year $000	In respect of Prior Years $000	Total $000
Gross Claims Incurred and Related Expenses Undiscounted	73,731	(9,618)	64,113
Other Recoveries Undiscounted	(333)	(571)	(904)
Net Claims Incurred - Undiscounted	73,398	(10,189)	63,209
Discount and Discount Movement - Gross Claims Incurred	(10,329)	(1,250)	(11,579)
Discount and Discount Movement - Other Recoveries	25	43	68
Net Discount Movement	(10,304)	(1,207)	(11,511)
Net Claims Incurred	**63,094**	**(11,396)**	**51,698**

Net claims incurred during 2016-17 in respect of claims incurred prior to 30 June 2016 was $11.4 million, resulting from:

	$m
Interest on the 30 June 2016 provision, less payments during 2016-17	7.1
Release of administration allowance and risk margin in respect of payments during 2016-17	(16.8)
Changes in actuarial assumptions and experience deviation from expected	(1.7)
	(11.4)

2016	In respect of Current Year $000	In respect of Prior Years $000	Total $000
Gross Claims Incurred and Related Expenses Undiscounted	58,949	(5,633)	53,316
Other Recoveries Undiscounted	(1,079)	(1,278)	(2,357)
Net Claims Incurred - Undiscounted	57,870	(6,911)	50,959
Discount and Discount Movement - Gross Claims Incurred	(7,323)	16,962	9,639
Discount and Discount Movement - Other Recoveries	76	(24)	52
Net Discount Movement	(7,247)	16,938	9,691
Net Claims Incurred	**50,623**	**10,027**	**60,650**

Net claims incurred during 2015-16 in respect of claims incurred prior to 30 June 2015 was $10.1 million, resulting from:

	$m
Interest on the 30 June 2015 provision, less payments during 2015-16	9.8
Release of administration allowance and risk margin in respect of payments during 2015-16	(20.3)
Changes in actuarial assumptions and experience deviation from expected	20.6
	10.1

Note 20 Net Claims Incurred and Underwriting Result (continued)

	2017 $m	2016 $m
Net Earned Premium		
Insurance Premium Revenue	52.0	48.4
Outwards Reinsurance Expense	(7.7)	(8.4)
	44.3	40.0
Net Claims Incurred		
Claims Expense	(54.6)	(64.7)
Recoveries Income	1.8	3.0
	(52.8)	(61.7)
Net Underwriting Result	**(8.5)**	**(21.7)**

Note 21 Contingent Assets and Liabilities

Contingent Assets

Under Section 15 of the *Government Financing Authority Act, 1982*, all financial obligations incurred or assumed by SAFA are guaranteed by the Treasurer on behalf of the State of South Australia.

Origin Energy has indemnified SAFA if SAFA's guarantee to Osborne Cogeneration Pty Ltd in respect of the obligations of two subsidiaries of Origin Energy Ltd is called upon by Osborne Cogeneration Pty Ltd under arrangements for the generation of electricity at the Osborne Generation Plant. The exposure of the guarantee is estimated at $150 million to $200 million until December 2018.

Contingent Liabilities

(a) General

Indemnities provided by SAFA have been primarily issued to third parties involved in financing arrangements with SAFA either directly or indirectly, other statutory authorities and financial institutions of the State, and relate to financial advantages which are expected to be available to those parties or to preserve existing financial advantages.

By its nature insurance underwriting has liabilities contingent upon certain events occurring that give rise to a claim under the policy of insurance. All known and expected claims in respect of events that have occurred up to the end of the reporting period have been accounted for in the preparation of these Financial Statements plus an allowance for claims incurred but not reported and incurred but not enough reported using IBNR and IBNER calculations. Many claims require legal input to negotiate suitable settlements. The results of such negotiations may result in liabilities different to those recognised in the Financial Statements.

(b) Guarantees

Under arrangements for the generation of electricity at the Osborne Generation Plant, SAFA has provided a guarantee to Osborne Cogeneration Pty Ltd in respect of the obligations of two subsidiaries of Origin Energy Ltd. The exposure of the guarantee is estimated at $150 million to $200 million until December 2018.

On 1 June 2017 a guarantee of $4 million for five years was provided to SA Water to enable registration in the National Electricity Market.

(c) Treasurer's Indemnity

The Treasurer has indemnified SAFA against any profit or loss as a result of activities in the Insurance Funds 2 and 3. Given the nature of activities in these Funds, the Treasurer has approved that any operating profit or loss before tax will be nil. This is achieved by negating the operating profit or loss with either a payable to or receivable from the Treasurer. This policy resulted in a payable to the Treasurer of $1.1 million as at 30 June 2017 (payable to the Treasurer of $11.9 million as at 30 June 2016).

Note 21 Contingent Assets and Liabilities (continued)

(d) Unused Loan Facilities

As at 30 June 2017, SAFA had extended loan facilities that were unutilised totalling $1,157.0 million (2015-16: $1,220.0 million), this is reviewed annually.

Note 22 Cash Flow Information

	Note	2017 $m	2016 $m
a. Reconciliation of Cash:			
Cash disclosed in the Statement of Financial Position	4	205.7	389.0
Collateral Deposits from Financial Institutions in the Statement of Financial Position	12	(19.5)	(69.5)
Less accrued income		(0.8)	(0.5)
Balance per Statement of Cash Flows		**185.4**	**319.0**
b. Reconciliation of Comprehensive Result to net cash provided by/(used in) operating activities:			
Comprehensive result		64.1	11.6
Non-cash items			
Change in net market value of Financial instruments		(48.5)	(11.9)
Amortisation of Financial instruments		(123.7)	(13.3)
Depreciation and Impairment		38.6	39.4
(Gain)/Loss on Sale of Property, Plant and Equipment		(4.1)	(1.4)
Bad Debts written off		0.0	(0.1)
Capitalised Interest/Gains and Losses		(72.9)	14.7
Loss on sale of Investment		6.8	-
Movement in operating assets and liabilities			
(Increase)/Decrease in accrued interest receivable		(17.3)	(7.4)
(Increase)/Decrease in recoveries receivable		0.2	(1.8)
(Increase)/Decrease in sundry debtors and other assets		13.8	(33.9)
Increase/(Decrease) in accrued interest payable		31.5	13.6
Increase/(Decrease) in outstanding claims		7.9	8.7
Increase/(Decrease) in sundry creditors and other liabilities		(25.5)	48.6
Foreign Currency movement		(0.0)	(0.0)
Net cash provided by/(used in) operating activities		**(129.1)**	**66.8**

c. Non Cash Financing and Investing Activities

During 2016-17, $82.0 million (2015-16: $1.3 million) was adjusted against the Treasurer's debt for book gains arising from debt management activity.

Note 23 Auditor's Remuneration

	2017 $000	2016 $000
Audit fees payable to the Auditor-General's Department relating to work performed under the *Public Finance Audit Act 1987.*	205	220
	205	**220**

No other services were provided by the Auditor-General's Department. All fees are paid through SAFA's SLA with DTF.

Note 24 Related Parties

Key management personnel (KMP) of SAFA include the Treasurer, Under Treasurer, General Manager and Directors, who have responsibility for the strategic direction and management of the authority. Compensation commentary detailed below excludes salaries and other benefits the Treasurer receives. The Treasurer's remuneration and allowances are set by the *Parliamentary Remuneration Act 1990* and the Remuneration Tribunal of SA respectively and are payable from the Consolidated Account (via the DTF) under section 6 of the *Parliamentary Remuneration Act 1990*.

SAFA's KMP are employed by DTF and provided to SAFA through an SLA.

(a) Key Management Personnel

The following persons held authority and responsibility for planning, directing and controlling the activities of SAFA, directly or indirectly during the financial year:

Mr T Koutsantonis	Treasurer
Mr D Reynolds	Under Treasurer
Mr A Blaskett	General Manager
Mr T Burfield	Director Insurance
Mr C Fowler	Director Finance
Mr A Kennedy	Director Treasury Services
Mr D Posaner	Director Corporate Governance and Planning
Ms H Watts	Director Commercial Operations (from April 2017)
Mr G Gaisford	Acting Director Fleet (July 2016-April 2017)

(b) Key Management Personnel Compensation

	2017 $000
Short-term employee benefits	1,745.1
Post-employment benefits	211.5
Long-term benefits	-
Termination benefits	-
	1,956.6

(c) Related party transactions

SAFA is a statutory authority constituted as the Under Treasurer under the *Government Financing Authority Act 1982*. SAFA is subject to the control and direction of the Treasurer of South Australia who in turn, is responsible to the Parliament of South Australia for the proper administration of the Act.

Related parties include the Government of South Australia and South Australian state public sector organisations, as well as the Treasurer of South Australia and SAFA KMP and their close family members.

(i) Individually significant transactions

SAFA provides a number of loans to, and accepts deposits from, the Treasurer of South Australia. This is one of the primary functions of SAFA.

	Note	2017 $m	2016 $m
Deposits with the Treasurer	4	29.7	45.9
Loans to the Treasurer	7	11,047.8	10,530.0
Deposits from the Treasurer	12	6,449.4	5,169.6
Interest Revenue	17	226.9	249.2
Interest Expense	17	(74.7)	(68.7)
Net Gain/(Loss) on Financial Instruments and Derivatives	18	(96.0)	112.8

Note 24 Related Parties Continued

(ii) Collectively significant transactions

SAFA functions as the central financing authority, captive insurer and manager of the passenger and light commercial vehicle fleet operations for the Government of South Australia. Balances and transactions related to these services are reported in various notes to the financial statements, as amounts "internal to the South Australian Government".

Note 25 Consultants and Contractors

	2017 Consultants	2016 Consultants
Above $10,000	4	1
	4	**1**
Total Consultants expense	$ 176,256	$ 25,480

In addition to the amounts shown in the table above, $404,283.34 (2015-16: $297,175) in consultants fees were paid through SAFA's SLA with DTF. These consultants are disclosed in DTF's Financial Statements.

	2017 Contractors	2016 Contractors
Below $10,000	-	1
Above $10,000	2	-
	2	**1**
Total Contractors expense	$ 190,631	$ 5,064

In addition to the amounts shown in the table above, $293,902.72 (2015-16: $465,307) in contractor fees were paid through SAFA's SLA with DTF. These contractors are disclosed in DTF's Financial Statements.

Note 26 Unrecognised Contractual Commitments

(a) Operating Lease Commitments Receivable

SAFA as a Lessor

Leases in which SAFA retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Agencies have entered into commercial leases on motor vehicles owned by SAFA. These leases are for terms up to three years, with an option, subject to approval, to extend in six monthly intervals to a maximum term of four years for passenger vehicles and a maximum term of five years for light commercial vehicles.

Future minimum rentals receivable (excluding GST) under non-cancellable operating leases are as follows:

	2017 $m	2016 $m
Motor Vehicle Hire:		
Not later than one year	46.1	49.5
Later than one year but not later than five years	32.1	37.2
Total Non-Cancellable Operating Lease Receivables	**78.2**	**86.7**

b) Other Commitments

SAFA's other commitments relate to software licences and maintenance. These amounts relate to vendors which are external to the South Australian Government.

	2017 $m	2016 $m
Software:		
Not later than one year	0.4	0.5
Later than one year but not later than five years	0.1	0.3
Total Software Commitments	**0.5**	**0.8**

Note 27 Capital Management

SAFA's objective is to maintain capital that allows it to continue as a going concern while exposing its stakeholders to an acceptable level of risk. SAFA's capital comprises Retained Earnings ($367.9m in 2016-17; $326.9m in 2015-16). The capital position is reviewed periodically by Management to ensure its adequacy is commensurate with the level of risk. Among others, Management considers the following factors when managing capital requirements:

- The overall risk position of the business;
- Dividend policy;
- The requirements of the *Government Financing Authority Act 1982* ; and
- The guarantee provided to SAFA by the Treasurer on behalf of the State of South Australia (refer Note 21).

Note 28 Financial Risk Management

SAFA's activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk (including interest rate risk, price risk and currency risk) and insurance risk. SAFA's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of SAFA. SAFA uses derivative financial instruments such as futures, foreign exchange contracts, forward rate agreements and interest rate swaps to reduce certain risk exposures.

The guidelines within which these risks are undertaken and managed are established under policies and guidelines approved by the Advisory Board, Treasurer and Management. SAFA monitors compliance with these policies and constraints by appropriately segregating the monitoring from the operating business unit. Information is summarised and reported daily to Management and reported monthly to the Advisory Board.

(a) Credit Risk

Credit risk is the risk of financial loss and associated costs resulting from the failure of a counterparty to meet its financial obligations as and when they fall due. SAFA incurs credit risk through undertaking its core functions of fundraising, debt management, liquidity management and the Government's reinsurance program.

SAFA’s dealings in physical securities and other financial contracts, including derivatives, are transacted only with counterparties possessing strong to extremely strong safety characteristics regarding timely payment of principal and interest.

Should a participant in the Government's reinsurance program become insolvent or cease trading, the recoveries to which SAFA may be entitled could be jeopardised in full or in part, or the timing of any recovery may be subject to an insolvency action.

To minimise the potential for credit loss, SAFA complies with stringent credit guidelines. The guidelines are designed to promote diversification of credit risk amongst counterparties while limiting exposure only to highly rated institutions worldwide. The credit guidelines do not apply to loans to South Australian Government entities.

AASB 7 *Financial Instruments: Disclosures* , requires the disclosure of the amount of change in fair value that is attributable to the change in SAFA's credit risk. The following table shows the amount of change in fair value of Liabilities and Loans as at the end of the reporting period that is considered to have contributed to SAFA's credit risk for the period and cumulative.

	2017		2016	
	Period $m	Cumulative $m	Period $m	Cumulative $m
Loans change in fair value profit/(loss)	13.0	19.0	67.6	16.6
Liabilities change in fair value profit/(loss)	(16.4)	(24.0)	(76.7)	(18.8)

The change in fair values attributable to credit risk have been calculated by determining the change in the spread between SAFA and Swap yield curves at the issue date and period end dates. This spread movement is then applied to the delta of each transaction to calculate the considered credit component. Spreads for the period ending 30 June 2017 have moved by between 0-40 basis points (2015-16: 1-40 basis points).

Note 28 Financial Risk Management (continued)

(i) Credit Quality

The following table sets out the credit quality of financial assets. The ratings have been presented based on credit ratings from Standard and Poors.

The below disclosure measures credit risk for physical securities at face value, and the credit risk of derivative transactions using a mark-to-market methodology that includes an additional factor to cover potential future adverse market movements less any collateral held.

The majority of SAFA's lending is to agencies and corporations of the South Australian Government. In respect to the repayment of loans by authorities (which are fully guaranteed by the Treasurer) the ultimate credit risk is to the Treasurer. The principal focus for SAFA is therefore with risk that arises through investment of funds in financial assets and through derivative transactions with market counterparties.

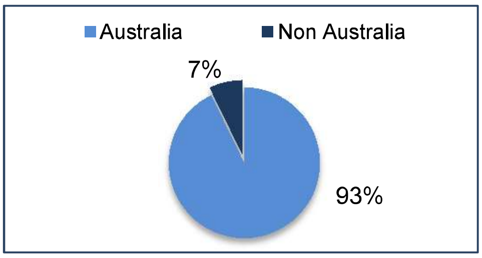
Concentration of Credit Risk by credit rating:

	Rating								
2017 Asset Class	**AAA $m**	**AA+ $m**	**AA- $m**	**A+ $m**	**A $m**	**A- $m**	**BBB+ $m**	**NR* $m**	**Total $m**
Loans/Investments	190.0	649.6	2,560.9	833.7	1,011.0	124.0	140.0	20,662.5	**26,171.7**
Interest Rate Swaps	-	-	140.4	18.7	-	4.7	-	4.8	**168.6**
Foreign Exchange	-	-	0.1	-	-	-	-	0.7	**0.8**
Total	**190.0**	**649.6**	**2,701.4**	**852.4**	**1,011.0**	**128.7**	**140.0**	**20,668.0**	**26,341.1**

	Rating								
2016 Asset Class	**AAA $m**	**AA+ $m**	**AA- $m**	**A+ $m**	**A $m**	**A- $m**	**BBB+ $m**	**NR* $m**	**Total $m**
Loans/Investments	250.7	197.0	1,157.0	289.7	595.9	325.0	89.0	19,263.6	**22,167.9**
Interest Rate Swaps	-	-	420.3	47.6	1.6	-	15.7	10.3	**495.5**
Foreign Exchange	-	-	0.1	-	-	-	-	0.8	**0.9**
Total	**250.7**	**197.0**	**1,577.4**	**337.3**	**597.5**	**325.0**	**104.7**	**19,274.7**	**22,664.3**

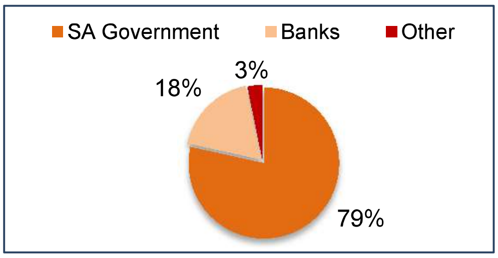
* NR - not classified under particular ratings. Includes loans to SA Government of $20,478 million (2015-16: $19,264 million).

2016-17 Credit Risk: Country



2015-16 (Aust 96% Non Aus 4%)

2016-17 Credit Risk: Counterparty



2015-16 (SAG 84% Bank 13% Other 3%)

Note 28 Financial Risk Management (continued)

(ii) Offsetting Financial Assets and Financial Liabilities

Financial assets and liabilities subject to offsetting and/or master netting agreements:

SAFA enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. Derivative asset and liability positions are accounted for at the transaction level, and are not offset at the counterparty level in the Statement of Financial Position. SAFA does not currently have a legally enforceable right to offset these positions in the usual course of business; the right to offset is enforceable only on the occurrence of future credit events, such as default. Furthermore, SAFA does not intend to settle these transactions on a net basis. In April 2016 SAFA entered into collateral agreements with the major Australian Banks.

The analysis presented below sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

2017	Gross Amounts of Financial Assets and Liabilities	Gross amounts offset in the Statement of Financial Position	Net amounts presented in the Statement of Financial Position	Related amounts not offset: Subject to master netting or other agreements	Related amounts not offset: Financial collateral (incl. cash collateral)	Net
	$m	$m	$m	$m	$m	$m
Assets						
Interest Rate Swaps	125.4	0.0	125.4	(25.8)	(49.2)	50.4
Total	**125.4**	**0.0**	**125.4**	**(25.8)**	**(49.2)**	**50.4**
Liabilities						
Interest Rate Swaps	(51.6)	0.0	(51.6)	25.8	29.7	3.9
Total	**(51.6)**	**0.0**	**(51.6)**	**25.8**	**29.7**	**3.9**

2016	Gross Amounts of Financial Assets and Liabilities	Gross amounts offset in the Statement of Financial Position	Net amounts presented in the Statement of Financial Position	Related amounts not offset: Subject to master netting or other agreements	Related amounts not offset: Financial collateral (incl. cash collateral)	Net
	$m	$m	$m	$m	$m	$m
Assets						
Interest Rate Swaps	188.2	0.0	188.2	(26.8)	(98.4)	70.0
Foreign Currency Swaps	66.7	0.0	66.7	0.0	0.0	66.7
Total	**254.9**	**0.0**	**254.9**	**(26.8)**	**(98.4)**	**136.7**
Liabilities						
Interest Rate Swaps	(49.3)	0.0	(49.3)	26.8	28.9	(0.6)
Foreign Currency Swaps	(66.4)	0.0	(66.4)	0.0	0.0	(66.4)
Total	**(115.7)**	**0.0**	**(115.7)**	**26.8**	**28.9**	**(67.0)**

Note 28 Financial Risk Management (continued)

Reconciliation to the Statement of Financial Position

The 'Net amounts presented in the Statement of Financial Position', as set out above, are reflected in the Statement of Financial Position as such (refer Note 10 and 15).

(iii) Ageing Analysis

As at 30 June 2017 the amount of Receivables including Impaired Assets that were past due was $849,109 (2015-16: $1,016,248).

Past due but not impaired receivables are South Australian Government debts considered recoverable regardless of their age. Impaired receivables are long outstanding debts with non South Australian Government entities where funds are deemed irrecoverable.

	Past due by				
	1 - 30 days $m	31 - 60 days $m	61 - 90 days $m	+90 days $m	Total $m
2017					
Past due but not impaired					
Receivables	0.6	0.0	0.1	0.0	**0.7**
Impaired					
Receivables	0.0	0.0	0.0	0.1	**0.1**
	0.6	**0.0**	**0.1**	**0.1**	**0.8**

	Past due by				
	1 - 30 days $m	31 - 60 days $m	61 - 90 days $m	+90 days $m	Total $m
2016					
Past due but not impaired					
Receivables	0.8	0.1	0.0	0.0	**0.9**
Impaired					
Receivables	0.0	0.0	0.0	0.1	**0.1**
	0.8	**0.1**	**0.0**	**0.1**	**1.0**

Note 28 Financial Risk Management (continued)

(b) Liquidity Risk

In order to manage liquidity risk, SAFA has in place liquidity management guidelines, which require SAFA to hold a base level of liquidity comprising highly marketable liquid financial assets. Liquid assets include cash, promissory notes, Commonwealth bonds, floating rate notes and negotiable certificates of deposit. The level of liquid financial asset holdings by SAFA on any given day must be sufficient to cover the higher of a base liquidity buffer of $1,500 million or the sum of debt maturities in the next 60 days on a rolling days basis. Adherence to these guidelines enables SAFA to be in a position to meet the forecasted cash demands and any unanticipated funding requirements of the South Australian public sector.

SAFA has chosen an approach to minimise medium-term refinancing risks, which involves diversification of physical borrowings across the maturity spectrum, diversification of funding sources and the holding of liquid assets to assist in the management of refinancing and liquidity risk. These strategies result in SAFA facing manageable funding demands from financial markets in any given period. This approach assists the maintenance of an orderly market place for SAFA's securities when refinancing maturing debt obligations.

The liquidity analysis below has been presented on a contractual basis, representing the repayment of undiscounted principal and interest amounts for financial assets and liabilities, and the estimated discounted settlement amount for outstanding claims.

2017	< 3 Months $m	3 to 12 Months $m	1 to 2 Years $m	2 to 3 Years $m	3 to 4 Years $m	4 to 5 Years $m	Over 5 Years $m	Total $m
Assets								
Cash and Short Term Assets	1,261.0	140.0	350.0	-	-	-	-	1,751.0
Investments	2,092.4	379.8	1,533.4	169.5	365.1	12.5	258.4	4,811.1
Loans	6,602.1	316.3	1,702.3	2,755.2	1,937.1	164.6	8,989.9	22,467.5
Receivables and Other Assets	36.6	-	-	-	-	-	-	36.6
Total	**9,992.1**	**836.1**	**3,585.7**	**2,924.7**	**2,302.2**	**177.1**	**9,248.3**	**29,066.2**
Liabilities								
Deposits and Short Term	(8,034.6)	(650.0)	-	-	-	-	-	(8,684.6)
Bonds, Notes and Debentures	(2,174.7)	(406.7)	(2,512.5)	(4,437.8)	(2,432.5)	(207.4)	(7,908.2)	(20,079.8)
Outstanding Claims	(12.0)	(36.1)	(42.4)	(38.4)	(34.8)	(31.5)	(187.6)	(382.9)
Payables and Other Liabilities	(25.3)	-	-	-	-	-	-	(25.3)
Total	**(10,246.6)**	**(1,092.8)**	**(2,554.9)**	**(4,476.2)**	**(2,467.3)**	**(238.9)**	**(8,095.8)**	**(29,172.6)**
Net	**(254.5)**	**(256.7)**	**1,030.8**	**(1,551.5)**	**(165.1)**	**(61.8)**	**1,152.5**	**(106.4)**
Net Derivatives	17.9	15.8	3.8	7.4	7.8	(9.2)	29.6	73.1

Note 28 Financial Risk Management (continued)

2016	< 3 Months $m	3 to 12 Months $m	1 to 2 Years $m	2 to 3 Years $m	3 to 4 Years $m	4 to 5 Years $m	Over 5 Years $m	Total $m
Assets								
Cash and Short Term Assets	1,493.4	424.0	-	-	-	-	-	1,917.4
Investments	672.8	188.1	202.0	244.9	216.1	248.3	38.7	1,810.9
Loans	5,577.9	464.8	1,895.8	1,677.3	2,684.9	1,218.5	7,741.7	21,260.9
Receivables and Other Assets	43.9	-	-	-	-	-	-	43.9
Total	**7,788.0**	**1,076.9**	**2,097.8**	**1,922.2**	**2,901.0**	**1,466.8**	**7,780.4**	**25,033.1**
Liabilities								
Deposits and Short Term Borrowings	(6,755.8)	(1,302.3)	-	-	-	-	-	(8,058.1)
Bonds, Notes and Debentures	(148.8)	(415.7)	(2,905.9)	(2,418.7)	(4,345.6)	(2,308.1)	(3,909.0)	(16,451.8)
Outstanding Claims	(10.7)	(32.4)	(38.1)	(36.2)	(34.2)	(31.7)	(191.7)	(375.0)
Payables and Other Liabilities	(28.7)	-	-	-	-	-	-	(28.7)
Total	**(6,944.0)**	**(1,750.4)**	**(2,944.0)**	**(2,454.9)**	**(4,379.8)**	**(2,339.8)**	**(4,100.7)**	**(24,913.6)**
Net	**844.0**	**(673.5)**	**(846.2)**	**(532.7)**	**(1,478.8)**	**(873.0)**	**3,679.7**	**119.5**
Net Derivatives	19.3	23.2	28.6	19.3	22.1	26.7	5.6	144.8

(c) Market risk

Market risk is the risk that changes in market prices will result in gains or losses on SAFA's financial instruments. SAFA has a range of policies in place to manage market risk, including counterparty exposure limits, risk limits and liquidity and maturity limits. The main tool used to measure and assess market risks within each of SAFA's trading portfolios is Value at Risk (VaR).

(i) Price Risk

Treasury Operations

SAFA manages the sensitivity of its treasury portfolios for changes in market risk variables by calculating VaR daily and monitoring the calculated VaR against pre-determined exposure limits. VaR is the calculation of the potential loss due to interest rate movements for any one day.

SAFA calculates VaR using the Historical Simulation method and a two year interest rate horizon. The daily VaR is assessed at the 95% confidence level.

The following table shows the computed VaR on SAFA’s principal portfolios:

	2017 Actual $000	2017 Working Limit $000	2016 Actual $000	2016 Working Limit $000
Funding Portfolio	355.8	500.0	559.9	1,000.0
Liquidity Portfolio	1,105.8	6,500.0	0.1	250.0
Reinvestment Portfolio	N/A	N/A	0.1	N/A
Cash Management Facility	N/A	N/A	14.0	N/A

SAFA's treasury portfolio that reflects SAFA's position with the Treasurer of South Australia is not reported above, as all risk in this portfolio is borne directly by the Treasurer. Transactions previously captured in Reinvestment and Cash Management Facility are now reported within the Liquidity Portfolio.

As SAFA’s VaR model relies on historical data and assumes recent historic market conditions, it may not always accurately predict the size of potential losses. SAFA therefore uses other controls such as limits on exposures based on factor sensitivity measurements covering interest rate, yield curve and basis spread movement scenarios and monitors exposures to plausible extreme market movements through stress testing.

Note 28 Financial Risk Management (continued)

Insurance Operations

The insurance portfolio is exposed to price risk arising from investments held with Funds SA. SAFA maintains policies outlining the strategies for investment of funds and these policies are reviewed every three years.

The following table shows the impact of a positive or negative 10% movement in the value of investment funds held with Funds SA:

2017		Profit (Post tax)		Equity	
	Investments	-10%	10%	-10%	10%
	$000	$000	$000	$000	$000
Fund 1	537,145	(37,600)	37,600	(37,600)	37,600
Fund 2*	19,481	(1,364)	1,364	(1,364)	1,364
Fund 3*	21,236	(1,487)	1,487	(1,487)	1,487
Total	**577,862**	**(40,451)**	**40,451**	**(40,451)**	**40,451**
2016		**Profit (Post tax)**		**Equity**	
	Investments	**-10%**	**10%**	**-10%**	**10%**
	$000	**$000**	**$000**	**$000**	**$000**
Fund 1	495,216	(34,665)	34,665	(34,665)	34,665
Fund 2*	27,944	(1,956)	1,956	(1,956)	1,956
Fund 3*	15,996	(1,120)	1,120	(1,120)	1,120
Total	**539,156**	**(37,741)**	**37,741**	**(37,741)**	**37,741**

* Due to the nature of activities undertaken by Fund 2 and Fund 3, the Treasurer has approved that any operating profit or loss before tax will be nil for each of these funds. Therefore, any movement in the value of investments with Funds SA for Fund 2 or Fund 3 would effectively be offset by the Treasurer's Indemnity (Refer Note 21).

(ii) Interest Rate Risk

SAFA uses a variety of methods to measure interest rate risk, including basis point sensitivity, duration and VaR. The Treasurer and Under Treasurer approve interest rate risk limits for SAFA's portfolios.

SAFA uses interest rate derivatives to manage the sensitivity of investment portfolios to interest rate fluctuations to be within strict limits, without requiring transactions in physical securities. SAFA utilises futures contracts, interest rate swaps and forward rate agreements to manage interest rate risk.

The following table shows the computed Price Value per basis point (PV01) of SAFA's principal portfolios, reflecting changes in portfolio value relative to interest rate movements:

	2017 Actual $	2017 Working Limit $	2016 Actual $	2016 Working Limit $
Funding Portfolio	1,104	± 5,000	(584)	± 10,000
Liquidity Portfolio	(440)	± 10,000	(165)	± 10,000
Reinvestment Portfolio	N/A	N/A	109	N/A
Cash Management Facility	N/A	N/A	9,558	N/A

SAFA's treasury portfolio that reflects SAFA's position with the Treasurer of South Australia is not reported above, as all risk in this portfolio is borne directly by the Treasurer.

Note 28 Financial Risk Management (continued)

(iii) Foreign Currency Risk

SAFA has a policy of limiting its foreign currency risk, and has limits in place to protect against movements in foreign currency exchange rates. SAFA utilises foreign exchange swaps, foreign exchange and forward exchange contracts to manage the foreign currency exposures associated with foreign currency borrowings.

The following table summarises SAFA's exposure to exchange rate risk. The value to be received under the currency contracts is undertaken to net any foreign currency liabilities:

2017	USD A$000	EUR A$000	NZD A$000
Less than 1 year			
Net Foreign Currency Assets/(Liab)	26.2	(2.0)	10.9
Net Derivatives	-	-	-
Total Exposure	**26.2**	**(2.0)**	**10.9**
Sensitivity			
Profit impact (in AUD) of +1% change in foreign currency	0.3	(0.0)	0.1

2016	USD A$000	EUR A$000	NZD A$000
Less than 1 year			
Net Foreign Currency Assets/(Liab)	(66,967.7)	5.8	8.4
Net Derivatives	66,998.5	-	-
Total Exposure	**30.8**	**5.8**	**8.4**
Sensitivity			
Profit impact (in AUD) of +1% change in foreign currency	0.3	0.1	0.1

SAFA's total exposure to exchange rate risk (on a net basis) is $17,358 for the year ended 30 June 2017 (2015-16: $44,876). Had the Australian Dollar weakened by 10 per cent against the foreign currencies listed above, the direct impact to SAFA would be a loss of approximately $1,736 (2015-16: gain $4,488).

(d) Insurance Risk

SAFA uses a range of policies to manage risk associated with its insurance activities. The most relevant methods include:

- the continual monitoring of the experience and development of claims;
- premium setting methodologies that reflect the latest development in the risks SAFA's Insurance division is insuring;
- placing reinsurance to protect the capital base against a severe adverse event or a series of severe adverse events; and
- regular review of the investment strategy for assets backing insurance liabilities.

Note 28 Financial Risk Management (continued)

(i) Claim Development

The following tables show the development of incurred cost on net undiscounted outstanding claims (Medical Malpractice, Liability, Property and Builders Indemnity) relative to the ultimate expected estimate over the ten most recent financial years. Figures provided are net of reinsurance and relate to Fund 1 and Fund 3. This information is not disclosed for Fund 2 as it is not considered appropriate for its activities.

Medical Malpractice

Loss	Cumulative Payments Plus Undiscounted Outstanding Liability											Undiscounted	Discount
Year	Measurement as at 30 June										Paid to	Liability	Present
Ending	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Date	Jun-17	Value
30-Jun	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Prior	246,093	153,806	125,501	128,220	127,733	127,496	136,251	150,000	148,981	144,638	100,366	44,272	39,687
2008	22,947	20,345	13,923	11,993	16,582	14,848	13,648	13,936	13,474	10,537	939	9,598	8,298
2009		49,922	36,167	29,248	27,700	31,564	23,206	26,348	30,193	28,099	1,138	26,960	23,109
2010			24,134	15,725	13,002	11,367	8,197	15,197	14,273	16,940	4,030	12,910	10,959
2011				17,486	15,471	15,742	14,662	13,242	13,819	20,558	5,697	14,862	12,469
2012					18,749	17,802	13,584	17,235	15,702	14,411	75	14,336	11,857
2013						21,967	17,274	15,654	14,082	14,901	29	14,872	12,099
2014							21,702	22,124	20,434	18,715	9	18,705	14,925
2015								20,569	27,417	25,704	10	25,694	20,049
2016									24,613	26,061	14	26,047	19,820
2017										28,856	28	28,827	21,360
								Total		349,420	112,336	237,084	194,631

Liability

Loss	Cumulative Payments Plus Undiscounted Outstanding Liability											Undiscounted	Discount
Year	Measurement as at 30 June										Paid to	Liability	Present
Ending	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Date	Jun-17	Value
30-Jun	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Prior	67,028	80,219	83,717	90,533	91,731	91,741	84,356	85,466	85,910	88,698	83,628	5,070	4,770
2008	6,359	3,610	2,137	2,114	1,936	2,907	7,741	7,857	6,869	6,720	6,517	203	188
2009		5,784	2,766	7,445	5,644	4,907	5,000	5,671	5,760	5,775	4,662	1,112	1,036
2010			6,705	4,365	3,663	11,386	10,904	11,640	15,170	15,232	13,517	1,716	1,598
2011				7,173	5,982	5,158	5,266	7,309	8,300	9,440	5,333	4,107	3,886
2012					8,038	6,749	5,621	5,297	7,088	8,127	2,993	5,134	4,754
2013						6,683	5,455	4,336	3,855	3,246	699	2,547	2,352
2014							6,478	6,128	5,425	5,322	927	4,395	4,032
2015								7,540	6,516	6,266	484	5,782	5,244
2016									8,584	8,201	300	7,902	7,046
2017										6,080	47	6,033	5,280
								Total		163,107	119,106	44,001	40,188

Property

Loss	Cumulative Payments Plus Undiscounted Outstanding Liability											Undiscounted	Discount
Year	Measurement as at 30 June										Paid to	Liability	Present
Ending	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Date	Jun-17	Value
30-Jun	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Prior	22,355	21,860	22,565	21,675	19,681	19,519	19,519	19,655	18,851	19,609	19,609	0	0
2008	2,347	2,265	2,390	1,762	1,555	1,543	1,540	1,547	1,547	1,547	1,547	0	0
2009		2,777	2,116	1,599	1,689	1,666	1,672	1,665	1,665	1,665	1,665	0	0
2010			3,255	1,779	1,543	1,479	1,577	1,577	1,622	1,618	1,613	6	5
2011				4,568	3,270	3,060	2,940	2,893	2,894	2,887	2,883	4	4
2012					2,683	2,046	2,314	2,680	2,539	2,502	2,489	13	12
2013						1,996	1,989	2,185	2,216	2,253	1,131	1,122	1,073
2014							3,223	3,399	3,512	3,395	3,348	47	44
2015								3,978	4,500	3,232	2,929	302	287
2016									3,081	3,822	2,615	1,207	1,150
2017										14,833	777	14,056	13,451
								Total		57,363	40,606	16,757	16,026

Note 28 Financial Risk Management (continued)

(i) Claim Development (continued)

Building Indemnity

Loss Year Ending 30-Jun	Cumulative Payments Plus Undiscounted Outstanding Liability Measurement as at 30 June 2014 $000	2015 $000	2016 $000	2017 $000	Paid to Date $000	Undiscounted Liability Jun-17 $000	Unearned Liabilities Jun-17 $000	Earned Liabilities Jun-17 $000	Discount Present Value $000
2014	6,755	7,824	7,132	5,655	2,429	3,226	(765)	2,461	2,362
2015		6,504	7,121	7,218	2,241	4,977	(2,137)	2,840	2,703
2016			7,241	10,523	2,055	8,468	(6,212)	2,257	2,126
2017				8,450	360	8,090	(7,409)	681	632
			Total	31,846	7,085	24,762	(16,522)	8,239	7,823

(ii) Unexpired Risk Liability

The LAT (Note 2 (r)) was completed by the independent actuary for Building Indemnity Insurance offered by SAFA. The actuary has compared the unearned premium and the expected cost of claims arising from this premium, including associated expenses and a risk margin. The result of the LAT was a $1.8 million premium deficiency which has been written off against deferred acquisition costs.

(a) Calculation of Premium Deficiencies

2017	$000
Net unearned premium liability	18,558
Net present value of future policy costs	16,703
Gross deferred acquisition costs recognised	6,031
Gross premium (deficiency)	**(4,176)**
Gross premium deficiency	**(4,176)**
Gross deferred acquisition costs written down	4,176
Net premium deficiency	**-**
Gross deferred acquisition costs recognised in Balance Sheet (i)	1,855

2016	$000
Net unearned premium liability	15,105
Net present value of future policy costs	12,328
Gross deferred acquisition costs recognised	2,936
Gross premium (deficiency)	**(159)**
Gross premium deficiency	**(159)**
Gross deferred acquisition costs written down	159
Net premium deficiency	**-**
Gross deferred acquisition costs recognised in Balance Sheet (i)	2,777

(i) The increase in deferred acquisition costs recognised in the Statement of Comprehensive Income during the financial year amount to $4.271 million (2015-16 $1.793 million).

(b) Reconciliation of Premium Liabilities, Reinsurance Assets and related Deferred Acquisition Costs

	Gross $000	Reinsurance $000	Acquisition cost $000	Net $000
Unearned premium liability/(asset) at 30 June 2015	**11,522.2**	**(2,728.2)**	**(1,771.6)**	**7,022.4**
Premium written	79,311.2	(8,229.8)	(2,798.9)	68,282.5
Premium (earned)/incurred	(45,580.3)	8,434.5	1,793.3	(35,352.5)
Unearned premium liability/(asset) at 30 June 2016	**45,253.1**	**(2,523.5)**	**(2,777.2)**	**39,952.4**
Premium written	22,618.6	(7,579.0)	(3,350.1)	11,689.5
Premium (earned)/incurred	(49,312.9)	7,732.2	4,271.5	(37,309.2)
Unearned premium liability/(asset) at 30 June 2017	**18,558.8**	**(2,370.3)**	**(1,855.8)**	**14,332.7**

Note 28 Financial Risk Management (continued)

(iii) Concentration Risk

While investments in the Insurance portfolio contain some diversity, by its nature it is geographically concentrated in Adelaide and as such is exposed to the risk of potentially material property catastrophes of the State, being earthquake, bushfires, storms, floods and cyber attack. The reinsurance program is purchased to provide protection in excess of the retention level, which is $15 million for property, $0.5 million for cyber risk, $15 million for medical malpractice per event and $20 million for liability classes. The Advisory Board annually reviews the appropriateness of the retention level.

SAFA provides the medical indemnity insurance for all public hospitals in South Australia and as such is exposed to the consequences of any factor which increases the cost of such cover for example, legal precedents.

(iv) Sensitivity Analysis

SAFA has tested the sensitivity of the results to a change in the key assumptions used in the valuation of outstanding claims liabilities. These include changes to the discount and superimposed inflation rates and changes in expected average claim costs and incurred cost development patterns. The following table sets out the tests carried out and the results:

2017	**Present Value of Outstanding Liability**			**Change in Liability**		
Insurance Fund	**Fund 1 $m**	**Fund 2 $m**	**Fund 3 $m**	**Fund 1 %**	**Fund 2 %**	**Fund 3 %**
1. Discount Rate						
(a) Increase by 1%	334.2	16.8	10.4	(5.8)	(2.9)	(2.7)
(b) Decrease by 1%	377.9	17.9	11.0	6.5	3.1	2.9
2. Inflation/Superimposed Inflation Rate						
(a) Increase by 1%	377.5	17.9	10.7	6.4	3.0	0.0
(b) Decrease by 1%	334.1	16.8	10.7	(5.9)	(2.9)	0.0
3. Other Assumptions						
(a) Increase Medical Malpractice and Liability expected 'a prior' cost by 10%	373.9	17.3	10.7	5.4	0.0	0.0
(b) Longer Medical Malpractice and Liability tail	367.1	18.4	10.7	3.5	6.0	0.0
(c) Increase Building Indemnity expected 'a prior' cost by 5%	354.9	17.3	11.2	0.0	0.0	4.8

Note 29 Fair Values of Assets and Liabilities

(a) Contractual Obligations and Financial Assets and Liabilities at Fair Value

The difference between financial assets and liabilities carrying amount (fair value) and the amount contractually required to be paid at maturity is detailed below.

	2017			**2016**		
	Carrying Amount $m	**Principal Outstanding $m**	**Diff $m**	**Carrying Amount $m**	**Principal Outstanding $m**	**Diff $m**
Investments	4,675.3	4,387.4	287.9	1,736.3	1,558.6	177.7
Loans	20,665.3	20,241.6	423.7	19,857.6	19,062.8	794.8
Deposits and Short Term Borrowings	8,680.9	8,658.9	22.0	8,048.9	7,983.0	65.9
Bonds, Notes and Debentures	17,913.0	17,405.2	507.8	15,068.9	14,061.8	1,007.1

Notes:

(1) Fair value is inclusive of interest due at financial year-end.

(2) Principal outstanding at maturity is the amount SAFA is contractually required to pay at maturity, to the holder of the obligation, exclusive of interest due.

(3) Bonds, Notes and Debentures – includes indexed linked securities. For the purposes of this note, the principal owing for indexed linked securities is assumed to equal the principal owing at financial year-end.

Note 29 Fair Values of Assets and Liabilities (continued)

This section explains the judgements and estimates made in determining the fair values of the assets and liabilities that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, SAFA has classified its assets and liabilities into the three levels prescribed under Australian Accounting Standards. An explanation of each level follows below.

(b) Financial Assets and Liabilities

(i) Fair Value Hierarchy

2017	Note	Quoted market price (Level 1) $m	Market observable inputs (Level 2) $m	Non-market observable inputs (Level 3) $m	Total $m
Financial Assets					
Cash and Short Term Assets	4	426.9	1,339.2	-	**1,766.1**
Investments	6	614.1	4,061.2	-	**4,675.3**
Loans	7	6,121.4	9,629.1	4,914.8	**20,665.3**
Derivatives Receivable	10	-	125.4	-	**125.4**
Total		**7,162.4**	**15,154.9**	**4,914.8**	**27,232.1**
Financial Liabilities					
Deposits and Short Term Borrowings	12	(6,703.2)	(1,977.7)	-	**(8,680.9)**
Bonds, Notes and Debentures	13	(17,532.2)	(100.0)	(280.8)	**(17,913.0)**
Derivatives Payable	15	-	(51.6)	-	**(51.6)**
Total		**(24,235.4)**	**(2,129.3)**	**(280.8)**	**(26,645.5)**

2016	Note	Quoted market price (Level 1) $m	Market observable inputs (Level 2) $m	Non-market observable inputs (Level 3) $m	Total $m
Financial Assets					
Cash and Short Term Assets	4	588.7	1,339.2	-	**1,927.9**
Investments	6	283.1	1,453.2	-	**1,736.3**
Loans	7	5,101.3	9,343.1	5,413.2	**19,857.6**
Derivatives Receivable	10	-	254.9	-	**254.9**
Total		**5,973.1**	**12,390.4**	**5,413.2**	**23,776.7**
Financial Liabilities					
Deposits and Short Term Borrowings	12	(5,714.2)	(2,334.7)	-	**(8,048.9)**
Bonds, Notes and Debentures	13	(14,666.1)	(94.4)	(308.4)	**(15,068.9)**
Derivatives Payable	15	-	(115.7)	-	**(115.7)**
Total		**(20,380.3)**	**(2,544.8)**	**(308.4)**	**(23,233.5)**

Note 29 Fair Values of Assets and Liabilities (continued)

SAFA generally recognises transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period, unless specified otherwise.

Financial Assets and Liabilities are categorised in levels of the fair value hierarchy based on the following:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities that are accessible at the measurement date.

- Level 2: Inputs other than quoted prices included within Level 1, which are observable for assets or liabilities, either directly or indirectly.

- Level 3: Inputs to asset or liability valuation that are not based on observable market data (unobservable inputs). This category includes instruments that are valued using quoted prices, but where material adjustments are required as a result of relevant unobservable inputs or assumptions.

(ii) Valuation Techniques Used to Determine Fair Values

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments;
- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- the fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date; and
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis.

All of the resulting fair value estimates are included in Level 2. All valuation methods remain unchanged compared to the previous reporting period.

(iii) Level 3 Financial Instruments Reconciliation

The following table presents the changes in Level 3 items for the periods 30 June 2017 and 30 June 2016:

2017	**Assets**	**Liabilities**	
	Loans $m	**Bonds, Notes and Debentures $m**	**Total $m**
Balance at 30 June 2016	5,413.2	(308.4)	**5,104.8**
Total gain/(loss) included:			
in Profit or Loss	44.5	9.7	**54.2**
Purchases	15.0	-	**15.0**
Sales	(557.9)	-	**(557.9)**
Issues	-	(15.0)	**(15.0)**
Settlements	-	32.9	**32.9**
Balance at 30 June 2017	**4,914.8**	**(280.8)**	**4,634.0**

Total gains or losses in the above table are presented within the Statement of Comprehensive Income as follows:

Interest Revenue	141.9	(11.7)	**130.2**
Net Gain/(Loss) on Financial Instruments and Derivatives - Unrealised	(179.4)	21.6	**(157.8)**
Net Gain/(Loss) on Financial Instruments and Derivatives - Realised	82.0	-	**82.0**
Total	**44.5**	**9.9**	**54.4**

Note 29 Fair Values of Assets and Liabilities (continued)

2016	Assets	Liabilities	
	Loans $m	Bonds, Notes and Debentures $m	Total $m
Balance at 30 June 2015	5,902.0	(508.9)	**5,393.1**
Total gain/(loss) included:			
in Profit or Loss	288.0	(33.5)	**254.5**
Purchases	20.0	-	**20.0**
Sales	(796.8)	-	**(796.8)**
Issues	-	(20.0)	**(20.0)**
Settlements	-	254.0	**254.0**
Balance at 30 June 2016	**5,413.2**	**(308.4)**	**5,104.8**

Total gains or losses in the above table are presented in the Statement of Comprehensive Income as follows:

Interest Revenue	177.0	(15.1)	**161.9**
Net Gain/(Loss) on Financial Instruments and Derivatives - Unrealised	109.7	(18.4)	**91.3**
Net Gain/(Loss) on Financial Instruments and Derivatives - Realised	1.3	0.0	**1.3**
Total	**288.0**	**(33.5)**	**254.5**

(iv) Level 3 Financial Instruments: Unobservable inputs used in measuring fair value

The following table summarises the quantitative information about the significant unobservable inputs used in Level 3 fair value measurement:

Type of Financial Instrument	Fair value at 30 June 2017 $m	Valuation Technique	Significant Unobservable Input	Estimate of Unobservable Input	Fair value measurement sensitivity to unobservable inputs
Loans:					
Loan to Treasurer Cost of Funds	4,894.6	Reflects the market value of borrowings used to fund the loan	Discount rates/market yields	N/A	Market value change is directly proportional to the market value change of instruments used to fund the loan.
Loan to Treasurer Non-Market	20.2	Loan with no applicable interest rate or discount rate	Discount rates/market yields	0% IRR	Instrument value will not change with respect to market/discount rates.

Note 29 Fair Values of Assets and Liabilities (continued)

(iv) Level 3 Financial Instruments: Unobservable Inputs Used in Measuring Fair Value (continued)

Type of Financial Instrument	Fair value at 30 June 2017 ($m)	Valuation Technique	Significant Unobservable Input	Estimate of Unobservable Input	Fair value measurement sensitivity to unobservable inputs
Bond, Notes and Debentures:					
Principal and Interest Borrowing	(237.6)	Discounted Cash Flow	Discount rates/market yields	1.70% - 3.10% IRR	Discount rate based on internally-constructed yield curve. A 1 basis point shift in rates results in a $223,104 change in market value.
Obligation to the Commonwealth Government	(20.2)	Borrowing with no applicable interest rate or discount rate.	Discount rates/market yields	0% IRR	Instrument value will not change with respect to market/discount rates.
Bond	(20.9)	Discounted Cash Flow	Discount rates/market yields	2.24% IRR	Discount rate based on internally-constructed yield curve. A 1 basis point shift in rates results in a $6,452 change in market value.
Retail Indexed Annuity	(2.1)	Discounted Cash Flow	Real discount rates (annuity rates)	1.25%	Market rates are observed for annuity instruments. A 1 basis point shift in real rates results in a $246 change in market value.

(v) Valuation Processes

Level 3 fair values valuation processes are consistent with all other valuation processes and are reviewed as part of SAFA's valuation techniques review.

SAFA considers that its estimates of fair value are appropriate, and while alternative assumptions in relation to unobservable inputs could be used when determining fair value, these alternative assumptions would not result in any significant changes to measured fair values.

Note 29 Fair Values of Assets and Liabilities (continued)

(c) Non-Financial Assets and Liabilities

(i) Fair Value Hierarchy

2017	Note	Quoted market price (Level 1) $m	Market observable inputs (Level 2) $m	Non-market observable inputs (Level 3) $m	Total $m
Assets					
Assets Held For Sale	5	-	3.4	-	3.4
Property, Plant and Equipment	8	-	162.5	-	162.5
Total		**-**	**165.9**	**-**	**165.9**

2016	Note	Quoted market price (Level 1) $m	Market observable inputs (Level 2) $m	Non-market observable inputs (Level 3) $m	Total $m
Assets					
Assets Held For Sale	5	-	2.9	-	2.9
Property, Plant and Equipment	8	-	169.4	-	169.4
Total		**-**	**172.3**	**-**	**172.3**

Non-financial assets are valued at cost less accumulated depreciation which is deemed to represent approximate fair value. Valuation techniques used to derive residual value of non-financial assets include:

- the use of quoted market prices or dealer quotes for similar assets;
- the use of RedBook and Glass's valuations for similar motor vehicle assets; and
- the cost less accumulated depreciation over the useful life to a residual value.

SAFA undertook a fair value exercise at the end of the 2016-17 financial year to ensure there were no major differences between the stated residual value and the expected sales value of the fleet for vehicles scheduled to be sold in the 2017-18 year.

All of the resulting fair value estimates are included in Level 2.

All valuation methods remain unchanged compared to the previous reporting period.

Note 30 Actuarial Assumptions and Methods

SAFA writes four broad classes of general insurance: Property, Liability, Medical Malpractice and Other Liability. Products included in these broad classes are detailed below:

Property (Short Tail)	Liability (Long Tail)	Medical Malpractice	Other (Long Tail)
Aviation Property	Aviation Liability	Medical Malpractice	Building Indemnity
Buildings and Contents	General Liability		Volunteers
Consequential Loss	Marine Liability		
Cyber	Professional Indemnity		
Fidelity Guarantee	Personal Accident		
General Property			
Machinery Breakdown			
Marine Property			
Motor Vehicle			

Total Outstanding Claims

2017	Central Estimate $m	Risk Margin $m	Indirect Claims Settlement Margin $m	Total $m
Expected Future Claims Payments (Inflated/Undiscounted)	320.8	114.8	16.3	451.9
Discount to Present Value	(49.0)	(17.5)	(2.5)	(69.0)
Total Outstanding Claims	**271.8**	**97.3**	**13.8**	**382.9**

2016	Central Estimate $m	Risk Margin $m	Indirect Claims Settlement Margin $m	Total $m
Expected Future Claims Payments (Inflated/Undiscounted)	302.4	109.8	15.3	427.5
Discount to Present Value	(37.1)	(13.5)	(1.9)	(52.5)
Total Outstanding Claims	**265.3**	**96.3**	**13.4**	**375.0**

Assumptions

SAFA used the following assumptions in the measurement of its outstanding claims.

2017	Property	Liability	Medical Malpractice	Building Indemnity
Average weighted term to settlement - Fund 1	2.19	4.12	7.75	-
Average weighted term to settlement - Fund 2	1.00	3.86	2.19	-
Average weighted term to settlement - Fund 3	-	-	-	2.99
Percentage risk margin adopted - Fund 1	21.0%	32.0%	37.0%	-
Percentage risk margin adopted - Fund 2	18.8%	23.0%	25.0%	-
Percentage risk margin adopted - Fund 3	-	-	-	26.1%
Claims handling expense	5.0%	5.0%	5.0%	8.0%
Inflation rate (includes superimposed inflation)*	-	3.0%	3.0%	-
Discount rate - Fund 1	2.1%	2.3%	2.7%	-
Discount rate - Fund 2	2.0%	2.3%	2.1%	-
Discount rate - Fund 3	-	-	-	2.1%

Note 30 Actuarial Assumptions and Methods (continued)

2016	Property	Liability	Medical Malpractice	Building Indemnity
Average weighted term to settlement - Fund 1	2.37	4.27	7.56	-
Average weighted term to settlement - Fund 2	0.52	3.86	2.25	-
Average weighted term to settlement - Fund 3	-	-	-	3.15
Percentage risk margin adopted - Fund 1	21.0%	32.0%	37.0%	-
Percentage risk margin adopted - Fund 2	18.8%	23.0%	25.0%	-
Percentage risk margin adopted - Fund 3	-	-	-	26.1%
Claims handling expense	5.0%	5.0%	5.0%	8.0%
Inflation rate (includes superimposed inflation)*	-	3.0%	3.0%	-
Discount rate - Fund 1	1.7%	1.8%	2.1%	-
Discount rate - Fund 2	1.6%	1.9%	1.7%	-
Discount rate - Fund 3	-	-	-	1.7%

* The valuation methods adopted do not have an explicit inflation assumption, although allowance is made for superimposed inflation (3%) for both Medical Malpractice and Long Tail Classes.

The overall risk margin is determined allowing for the uncertainty of the outstanding claims estimate. Uncertainty is analysed taking into account potential uncertainties relating to the actuarial models and assumptions, the quality of the underlying data used in the models, the general insurance environment, and the impact of legislative reform.

AASB1023 *General Insurance Contracts* does not prescribe a fixed risk margin or probability of sufficiency. However, it is a requirement of the Australian Prudential Regulation Authority guidelines for private sector insurers that a minimum of 75% probability of sufficiency be satisfied through the application of the risk margin. Taking into account the nature of the risks underwritten by SAFA and distributions regarded as relevant by the industry for those risks, the application of the above risk margins by class result in a 75% probability that the provision for outstanding claims will be sufficient.

Note 31 Events After the End of the Reporting Period

On 1 July 2017 SAFA entered into an agreement for the establishment of a $50 million Venture Capital Fund with the objective of assisting early-stage South Australian companies of attracting private sources of co-investment from national and international investors. The operations of the Fund are unlikely to materially affect the operations or the state of affairs of SAFA.

Certification of the Financial Statements

We certify that the attached General Purpose Financial Statements for SAFA:

- are in accordance with the accounts and records of SAFA; and

- comply with relevant Treasurer's Instructions issued under section 41 of the *Public Finance and Audit Act 1987*, and relevant Australian Accounting Standards; and

- present a true and fair view of the financial position of SAFA as at 30 June 2017 and the results of its operations and cash flows for the financial year.

We certify that the internal controls employed by SAFA for the financial year over its financial reporting and its preparation of the general purpose financial statements have been effective throughout the reporting period and there are reasonable grounds to believe the authority will be able to pay its debts as and when they become due and payable.

C L Fowler

Craig Fowler
DIRECTOR FINANCE, SAFA

Andrew Blaskett
GENERAL MANAGER, SAFA

Stuart Hocking
ACTING CHIEF EXECUTIVE
ACTING UNDER TREASURER

Date: 15-09-2017

INDEPENDENT AUDITOR'S REPORT

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To the Under Treasurer
South Australian Government Financing Authority

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 25(2) of the *Government Financing Authority Act 1982*, I have audited the financial report of the South Australian Government Financing Authority for the financial year ended 30 June 2017.

Opinion

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the South Australian Government Financing Authority as at 30 June 2017, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The financial report comprises:

- a Statement of Financial Position as at 30 June 2017
- a Statement of Comprehensive Income for the year ended 30 June 2017
- a Statement of Changes in Equity for the year ended 30 June 2017
- a Statement of Cash Flows for the year ended 30 June 2017
- notes to the financial statements, comprising significant accounting policies and other explanatory information
- a Certificate from the acting Under Treasurer, the General Manager (SAFA) and the Director, Finance (SAFA).

Basis for opinion

I conducted the audit in accordance with the *Public Finance and Audit Act 1987* and Australian Auditing Standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of my report. I am independent of the South Australian Government Financing Authority. The *Public Finance and Audit Act 1987* establishes the independence of the Auditor-General. In conducting the audit, the relevant ethical requirements of APES 110 Code of Ethics for Professional Accountants have been met.

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

Responsibilities of the Under Treasurer for the financial report

The Under Treasurer is responsible for the preparation of the financial report that gives a true and fair view in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and the Australian Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Under Treasurer is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the entity is to be liquidated or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Under Treasurer

- conclude on the appropriateness of the entity's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern

- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

My report refers only to the financial report described above and does not provide assurance over the integrity of electronic publication by the entity on any website nor does it provide an opinion on other information which may have been hyperlinked to/from the report.

I communicate with the General Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during the audit.

Andrew Richardson
Auditor-General
19 September 2017