South Australian Government Financing Authority

Financial report
for the year ended
30 June 2019

INDEPENDENT AUDITOR'S REPORT

Government of South Australia
Auditor-General's Department

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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* 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 2019.

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 2019, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions issued 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 2019
- a Statement of Comprehensive Income for the year ended 30 June 2019
- a Statement of Changes in Equity for the year ended 30 June 2019
- a Statement of Cash Flows for the year ended 30 June 2019
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the 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 issued under the provisions of the *Public Finance and Audit Act 1987* and 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 that 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, but not for the purpose of expressing an opinion on the effectiveness of the South Australian Government Financing Authority's internal control

- 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 about, 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
20 September 2019

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SAFA South Australian Government Financing Authority

Statement of Financial Position

as at 30 June 2019

	Note	2019 $m	2018 $m
Assets			
Cash and Short Term Assets	4	2,691.7	1,914.0
Assets Held for Sale	5	4.2	5.0
Investments	6	5,906.2	4,968.7
Loans	7	24,253.2	20,961.6
Derivatives Receivable	8	60.6	199.6
Receivables and Other Assets	9	73.0	53.5
Property, Plant and Equipment	10	178.6	165.1
Intangible Assets	11	2.4	2.7
Total Assets		**33,169.9**	**28,270.2**
Liabilities			
Deposits and Short Term Borrowings	12	11,204.7	9,296.5
Bonds, Notes and Debentures	13	20,826.0	17,781.7
Outstanding Claims	14	586.0	390.0
Derivatives Payable	15	77.4	166.4
Payables and Other Liabilities	16	60.8	215.2
Total Liabilities		**32,754.9**	**27,849.8**
NET ASSETS		**415.0**	**420.4**
Equity			
Retained Earnings		409.0	420.4
Asset Revaluation Surplus		6.0	-
TOTAL EQUITY		**415.0**	**420.4**

Total equity is attributable to the SA Government as owner

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.

SAFA South Australian Government Financing Authority

Statement of Comprehensive Income

for the year ended 30 June 2019

	Note	2019 $m	2018 $m
Income			
Revenue			
Interest Revenue on assets measured at FVPL	17	1,167.4	1,036.1
Less Interest Expense on liabilities measured at FVPL	17	1,174.6	1,034.6
Net Interest Revenue		(7.2)	1.5
Insurance Premium	17	60.3	54.9
Leasing and Hire	17	55.1	57.6
Recoveries	17	4.2	3.3
Other	17	4.8	4.8
Total Revenue		**117.2**	**122.1**
Other Gains/(Losses)			
Net Gain on Financial Instruments and Derivatives	18	75.8	88.5
Net Gain on Sale of Property, Plant and Equipment	18	7.4	7.2
Total Other Gains/(Lossess)		**83.2**	**95.7**
Total Income		**200.4**	**217.8**
Expenses			
Depreciation, Amortisation and Impairment	19	35.2	36.8
Insurance Claims	19	91.3	35.1
Motor Vehicle	19	11.1	11.1
Outward Reinsurance	19	8.9	8.3
Operating	19	(2.0)	13.8
Total Expenses		**144.5**	**105.1**
Profit before income tax equivalents		**55.9**	**112.7**
Income Tax Equivalent Expense with SA Government	2 (u)	16.7	33.8
Profit after income tax equivalents		**39.2**	**78.9**
Other Comprehensive Income			
Items that will not be reclassified to profit or loss			
Changes in Property, Plant and Equipment Asset Revaluation Surplus		6.0	-
Income tax equivalents expense relating to these items		1.8	-
Total Other Comprehensive Income		**4.2**	-
Total comprehensive result		**43.4**	**78.9**

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.

South Australian Government Financing Authority

Statement of Changes in Equity

for the year ended 30 June 2019

	Note	$m
Balance at 30 June 2017		**367.9**
Profit after income tax equivalents for 2017-18	2(u)	78.9
Total comprehensive result for 2017-18		78.9
Transactions with SA Government as owner		
Dividends paid		(26.4)
Balance at 30 June 2018		**420.4**
Profit after income tax equivalents for 2018-19	2(u)	39.2
Total Other Comprehensive Income for 2018-19		4.2
Total comprehensive result for 2018-19		43.4
Transactions with SA Government as owner		
Dividends paid		(48.8)
Balance at 30 June 2019		**415.0**
Equity Represented by:		
Retained Earnings		409.0
Asset Revaluation Reserve		6.0
Total Equity		**415.0**

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.

The Asset Revaluation Reserve is used to record increments and decrements in the fair value of Property, Plant and Equipment to the extent that they offset one another. Relevant amounts are transferred to retained earnings when an asset is derecognised.

SAFA South Australian Government Financing Authority

Statement of Cash Flows

for the year ended 30 June 2019

	Note	2019 $m	2018 $m
Cash flows from operating activities			
Proceeds from:			
Interest on loans and investments		812.7	816.6
Derivatives net interest		15.6	30.7
Insurance Premiums		64.8	63.8
Leasing and Motor Vehicle		61.8	63.2
Recoveries		25.0	24.2
Direct Insurance Placement		6.5	6.7
Stamp duty received from agencies		5.5	5.3
Other receipts		97.6	179.3
Commissions		0.6	0.9
Guarantee Fees received from agencies		154.9	139.0
Indemnity from Treasurer		4.8	3.7
Payments for:			
Interest on borrowings and deposits		(950.2)	(892.8)
Insurance Claims		(29.7)	(29.0)
Motor Vehicle costs		(33.3)	(32.0)
Outwards reinsurance premiums		(9.5)	(9.1)
Direct Insurance Placement		(7.0)	(6.6)
Stamp duty paid to RevenueSA		(5.5)	(5.3)
Operating expenses		(21.9)	(24.8)
Guarantee Fees paid to Treasurer		(142.3)	(139.8)
Net GST paid to the ATO		(19.3)	(5.9)
Income Tax Equivalent (TER) paid to Treasurer		(35.4)	(21.0)
Net GST relating to Investing/Financing activities		(3.3)	(3.4)
Net cash provided by/(used in) operating activities	(23b)	**(7.6)**	**163.7**
Cash flows from investing activities			
Net advances of Client Loans		(2,485.4)	(425.0)
Purchase of Investments		(5,403.2)	(4,907.7)
Proceeds from Investments		5,324.9	4,901.5
Purchase of Property, Plant and Equipment		(82.8)	(79.8)
Purchase of Intangible Assets		-	(0.1)
Proceeds from the Sale of Property, Plant and Equipment		44.8	48.0
Net cash (used in) investing activities		**(2,601.7)**	**(463.1)**
Cash flows from financing activities			
Net proceeds/(repayments) of Client and Bank Deposits		1,793.5	503.0
Proceeds from Borrowings		10,383.9	7,053.1
Repayments of Borrowings		(8,189.6)	(7,015.0)
Net proceeds/(repayments) of Swaps		12.6	(3.9)
Dividends paid to Government		(48.8)	(26.4)
Net cash provided by financing activities		**3,951.6**	**510.8**
Net increase in cash held		**1,342.3**	**211.4**
Cash at the beginning of the financial year		397.0	185.4
Net effect of exchange rate changes		0.2	0.2
Cash at the end of the financial year	(23a)	**1,739.5**	**397.0**

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 2019

Note 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.

Note 2 Significant Accounting Policies

(a) Statement of Compliance

The Financial Statements are general purpose financial statements prepared in compliance with:

- section 23 of the *Public Finance and Audit Act 1987*;
- Treasurer's Instructions and Accounting Policy Statements issued by the Treasurer under the *Public Finance and Audit Act 1987*; and
- relevant Australian Accounting Standards.

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 2019, 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 Instructions. 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) 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 and presented on a liquidity basis.

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 million unless otherwise stated. Zero represents amounts less than fifty thousand dollars, whilst a dash represents a nil balance.

Note 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 estimates and 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 and are recorded on a net basis.

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 $150,000 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.

Note 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 revenue is recognised on a straight line basis over the term of the lease. Any lease penalty income is recognised as event occurs that establishes SAFA's right to collectability. The property insurance component of the lease is recognised under Insurance Premium in the Statement of Comprehensive Income (refer Note 17).

SAFA also hires motor vehicles to South Australian Government agencies on a short-term basis, which is charged to agencies at hourly rates. Hire rates cover all vehicle running costs, including fuel.

(iv) Revenue Recoveries

Vehicle recoveries include excessive wear and tear costs, which are recovered from agencies at the end of the lease.

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 Income

Fee income in respect of services provided is recognised in the period in which the service is provided or commission is received on disposal of vehicles.

(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

Motor vehicles expenses represent direct costs associated with the ownership of the motor vehicle fleet including registration, compulsory third party insurance, scheduled servicing costs and costs of repairing vehicles in preparation for disposal.

Third party suppliers provide fuel and unscheduled vehicle maintenance services to SA Government Agency motor vehicle lessees for the duration of motor vehicle leases. Agencies control their consumption of these goods and services, and reimburse SAFA for the full amount of any costs incurred. In these cases, SAFA is acting as an agent, and consequently fuel expenses and unscheduled maintenance expenses are recorded net of any recoveries from Agencies.

(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 four 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(b)). 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.

Note 2 Significant Accounting Policies (continued)

(e) Income and Expense Recognition (continued)

(x) Operating Lease Expense

Operating lease payments (less any lease incentives) are recognised on a straight-line basis over the lease term, unless another systematic basis is more representative of the pattern of benefits derived from the use of the leased assets.

(f) Cash and Short Term Assets

Cash and short term assets in the Statement of Financial Position include Cash, Deposits with the Treasurer, Short Term Money Market Deposits, Secured Cash Lending, 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, Deposits with the Treasurer and Collateral Deposits from Financial Institutions, Securities Secured Cash Lending 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.

(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 to government and non-government clients comprise of simple interest, fixed interest or floating rate. (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).

Note 2 Significant Accounting Policies (continued)

(h) Financial Instruments (continued)

(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 2019 SAFA held no securities sold under an agreement to repurchase.

Securities purchased under an agreement to resell are not recognised as financial assets as SAFA is not substantially exposed to the risks and rewards of the securities. The repurchase agreement is recognised as a financial asset Secured Cash Lending (refer Note 4) as the obligation to resell remains.

(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 8 and 15).

(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 initially measured at cost.

(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. There may be exceptions to this period for a small number of specific vehicles where a longer period of up to ten years is deemed appropriate by management (refer Note 10).

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.

Note 2 Significant Accounting Policies (continued)

(k) Property, Plant and Equipment (continued)

(ii) Revaluation

After recognition, items of Property, Plant and Equipment are carried at a revalued amount, being fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluation is undertaken on a regular cycle. If at any time management considers that the carrying amount of an asset materially differs from its fair value, then the asset will be revalued regardless of when the last valuation took place. AASB 13 *Fair Value Measurement* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, in the principal or most advantageous market, at the measurement date.

(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 11). 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.

(ii) Impairment

Intangible Assets have not been assessed for impairment as they are non-cash generating assets, that are specialised in nature and held for continual use of their service capacity.

(m) Outstanding Claims Liability

Insurance activities are segregated into four 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.

Liabilities for outstanding claims for Fund 4 are recognised in respect of estimated reported incidents including the anticipated costs of settling these claims.

Note 2 Significant Accounting Policies (continued)

(m) Outstanding Claims Liability (continued)

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 the provision of 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 9 and 16).

A provision for lifetime expected credit losses is made based on a simplified matrix approach, for all receivables from entities that are external to government. No credit loss provision is made for receivables from State, Territory, and Commonwealth Government entities due to the low credit risk of these entities (refer Note 28(a)(i)).

Receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include the failure of a debtor to enter into a payment plan with SAFA and a failure to make contractual payments for a period of greater than 90 days past due (default). Receivables written off during the year are still subject to enforcement activity.

(o) Guarantees

(i) Financial Guarantee Contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and then subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under AASB 9 Financial Instruments; and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of AASB 15 *Revenue from Contracts with Customers.*

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

(ii) SA 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 acts as agent for the Treasurer and 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.

Note 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 and other comprehensive income. 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 of 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 gross basis and the GST component of cash flows arising from investing and financing 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.

Note 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 2018:

(i) 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. The adoption of AASB 9 has not had a significant effect on the recognition, measurement or classification of SAFA's financial assets and liabilities.

SAFA's classification of financial assets and liabilities has not changed under the adoption of AASB 9. Under former AASB 139, SAFA designated its financial assets and liabilities to be measured at fair value through profit or loss. Similarly, under the new AASB 9 SAFA, has designated to measure its financial assets and liabilities at fair value through profit or loss at initial recognition. This irrevocable designation option is available under AASB 9, to eliminate or significantly reduce a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

AASB 9 replaces the 'incurred loss' model in AASB 139 with an 'expected credit loss' model. SAFA trade receivables from the provision of goods and services are the financial assets that are subject to AASB 9's new expected credit loss model. The change generally results in the earlier recognition of credit losses. Under the new impairment requirements a provision is applied to all receivables rather than only on those receivables that are credit impaired. SAFA has adopted the simplified approach under AASB 9 and measures lifetime expected credit losses on all trade receivables using a provision matrix approach as a practical expedient to determine the impairment provision. No loss provision was made as at 1 July 2018 due to the trade receivables from entities external to Government being immaterial, and receivables from State, Territory and Commonwealth Government representing a low credit risk.

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

AASB 15 has been developed to address a number of deficiencies within existing accounting standards and interpretations relating to revenue. For SAFA, the impact of the new standard has been minimal with the main effect being in the presentation of the Financial Statements. 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 continue to be reported in line with other existing standards specific to leases, insurance and financial instruments.

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.

Note 2 Significant Accounting Policies (continued)

(x) Changes in Accounting Policies (continued)

(iii) 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.

The impact of AASB 16 has been determined to relate to assets which SAFA sub-leases to other entities. Based on the application of the transitional approach for SAFA's sub-leases, AASB 16 is expected to have an immaterial impact on the Statement of Financial Position, as at 1 July 2019.

The estimated impact on the Statement of Financial Position is:	**As at 1 July 2019** **$**
Assets	
Right-to-Receive Rentals	236,744
Liabilities	
Lease Liabilities	236,744
Net impact on Equity	**-**

The application of AASB 16 will also impact the Statement of Comprehensive Income with the operating lease expense previously included in operating expenses to be effectively replaced with:

- an amortisation expense relating to the right-to-Receive Rentals; and

- borrowing costs that represent the cost associated with financing the Right-to-Receive Rentals asset.

The estimated impact on the 2019-20 Statement of Comprehensive Income is:	**2020** **$**
Depreciation, Amortisation Impairment Expense	103,353
Operating Expenses:	
- Operating Lease Expense	(105,989)
- Other (Borrowing Costs)	4,061
Net impact on profit before income tax equivalents	**1,425**

(iv) AASB 17 *Insurance Contracts*

AASB 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts issued with discretionary participation features. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of AASB 17 have on the financial position, financial performance and cash flows of the entity. Work has commenced with SAFA's Actuary to consider the impact of this standard on SAFA's Financial Statements, but at this time the estimated effects are yet to be determined. This Standard is applicable to annual reporting periods beginning on or after 1 January 2021.

There are no other standards that are not yet effective and that would be expected to have a material impact on SAFA in the current or future reporting periods and on foreseeable future transactions.

(y) Correction of Error in Accounting

In June 2017 a reconciliation issue was identified within the Treasurer's Financial Statements. During the 2018-19 financial year a detailed review was undertaken and as a result an error was identified in the balance of 'Deposits with SAFA' and 'Borrowing from SAFA', within the Treasurer's Financial Statements. The correction of this error in the Treasurer's Financial Statements has necessitated a consequential adjustment to the corresponding asset and liability in SAFA's Financial Statements to reflect the correct balances.

Note 2 Significant Accounting Policies (continued)

(y) Correction of Error in Accounting (continued)

The error has been corrected within SAFA's Financial Statements by restating each of the affected Financial Statement line items for the prior period, as follows:

	2017-18 ***$m***	***Adjustment*** ***$m***	***2017-18 Restated*** ***$m***
Statement of Financial Position - Loans	20,906.1	55.5	20,961.6
Statement of Financial Position – Deposits and Short Term Borrowings	9,241.0	55.5	9,296.5
Note 3 – Treasury Business Line Assets	27,666.1	55.5	27,721.6
Note 3 – Treasury Business Line Liabilities	(27,525.6)	(55.5)	(27,581.1)
Note 7 - Loans to the Treasurer at Cash	6,240.7	55.5	6,296.2
Note 12 - Deposits and Short Term Borrowings – At Call Deposits - Treasurer	7,029.5	55.5	7,085.0
Note 23 (d) – Deposits from the Treasurer	7,029.5	55.5	7,085.0
Note 25 (i) Loans to the Treasurer	11,222.2	55.5	11,277,7
Note 25 (i) At Call Deposits - Treasurer	7,029.5	55.5	7,085.0
*Note 28 (i) - Credit Quality NR**	20,883.7	55.5	20,939.2
Note 28 (b) - Liquidity Risk Loans <3 Months	6,637.4	55.5	6,692.9
Note 28 (b) - Liquidity Risk Deposits and Short Term Borrowings <3 Months	(8,815.5)	(55.5)	(8,871.0)
Note 29 (a) - Contractual Obligations and Financial Liabilities at Fair Value			
Deposits and Short Term Borrowings - Carrying Amount	9,241.0	55.5	9,296.5
Deposits and Short Term Borrowings - Principal Outstanding	9,229.7	55.5	9,285.2
Note 29 (b) (i) - Financial Assets and Liabilities Fair Value Hierarchy			
Loans (Level 1)	6,240.6	55.5	6,296.1
Deposits and Short Term Borrowings (Level 1)	(7,217.4)	(55.5)	(7,272.9)

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.

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

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

The Insurance activities are designated into four 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. Fund 4 is used to fund liabilities for the South Australian Government's participation in the National Redress Scheme.

2019	Treasury $m	Insurance $m	Fleet $m	Eliminations $m	Total $m
Income	24.9	113.5	65.5	(3.5)	**200.4**
Expenses	12.9	79.3	55.8	(3.5)	**144.5**
Profit before income tax equivalents	12.0	34.2	9.7	-	**55.9**
Income tax equivalent expense	3.6	10.3	2.8	-	**16.7**
Other Comprehensive Income	-	-	4.2	-	**4.2**
Comprehensive result	8.4	23.9	11.1	-	**43.4**
Business Line assets	32,544.4	866.2	210.1	(450.8)	**33,169.9**
Business Line liabilities	(32,416.5)	(621.6)	(167.6)	450.8	**(32,754.9)**
Net Assets	**127.9**	**244.6**	**42.5**	-	**415.0**

2018	Treasury $m	Insurance $m	Fleet $m	Eliminations $m	Total $m
Income	35.9	115.8	68.1	(3.5)	**216.3**
Expenses	14.2	37.8	55.1	(3.5)	**103.6**
Profit before income tax equivalents	21.7	78.0	13.0	-	**112.7**
Income tax equivalent expense	6.5	23.4	3.9	-	**33.8**
Comprehensive result	15.2	54.6	9.1	-	**78.9**
Business Line assets	27,721.6	798.2	211.8	(461.4)	**28,270.2**
Business Line liabilities	(27,581.1)	(561.2)	(168.9)	461.4	**(27,849.8)**
Net Assets	**140.5**	**237.0**	**42.9**	-	**420.4**

Note 4 Cash and Short Term Assets

	2019 $m	2018 $m
Cash at Bank	48.0	19.1
Deposits with the Treasurer	430.5	67.4
Short Term Money Market Deposits	400.4	120.2
Secured Cash Lending	862.1	200.3
Negotiable Certificates of Deposit	456.2	1,088.5
Overdraft Facility	237.6	132.4
Overdraft Facility - South Australian Government	256.9	286.1
Total Cash and Short Term Assets	**2,691.7**	**1,914.0**

Note 5 Assets Held for Sale

	2019 $m	2018 $m
Motor Vehicles	4.2	5.0
Total Assets Held for Sale	**4.2**	**5.0**

Note 6 Investments

	2019 $m	2018 $m
Commonwealth Government Securities	25.9	51.3
Semi-Government Securities	1,904.7	793.9
Bank and Corporate Securities	3,307.6	3,500.3
Units in Unlisted Trust - Funds SA	662.0	618.9
Equity Investments	0.0	0.0
Investments Private Companies	6.0	4.3
Total Investments	**5,906.2**	**4,968.7**

Note 7 Loans

	2019 $m	2018 $m
Loans to the Treasurer at Market Rates	3.1	7.4
Loans to the Treasurer at Non Market Rates	18.8	29.7
Loans to the Treasurer at Cost of Funds (COF)	5,401.5	4,944.4
Loans to the Treasurer at Cash	8,300.8	6,296.2
Loans to Public Non Financial Corporations	8,590.2	7,951.1
Loans to Public Financial Corporations	1,853.3	1,650.7
Loans to Local Government	41.8	49.4
Loans to Non Government Schools	43.7	32.7
Total Loans	**24,253.2**	**20,961.6**

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 matched by a gain or loss on the COF loan to the Treasurer.

Note 8 Derivatives Receivable

	2019 $m	2018 $m
Foreign Currency Swaps	-	94.6
Interest Rate Swaps - South Australian Government	4.4	2.6
Interest Rate Swaps	56.2	102.4
Total Derivatives Receivable	60.6	**199.6**

Note 9 Receivables and Other Assets

	2019 $m	2018 $m
Receivables	3.5	4.8
Receivables - South Australian Government	35.1	32.3
Recoveries	3.4	3.2
Less: Allowance for impairment	(0.2)	(0.1)
Receivables from the Treasurer	21.0	5.0
Prepayments - South Australian Government	2.1	2.1
Prepayments	3.5	3.3
Sundry Debtors - South Australian Government	0.1	-
Deferred Acquisition Costs	4.5	2.9
Total Receivables and Other Assets	73.0	**53.5**

Movement in the allowance for impairment loss

	2019 $m	2018 $m
Carrying amount at the beginning of the period	(0.1)	(0.1)
Increase in Allowance for doubtful debts	(0.1)	0.0
Amounts written off	(0.0)	-
Amounts recovered during the period	0.0	-
Carrying amount at the end of the period	(0.2)	(0.1)

Note 10 Property, Plant and Equipment

	2019 $m	2018 $m
Motor Vehicles		
At Fair value	239.2	229.0
Accumulated depreciation	(60.6)	(63.9)
Total Property, Plant and Equipment	178.6	**165.1**

Reconciliation of Property, Plant and Equipment

	2019 $m	2018 $m
Motor Vehicles		
Carrying amount at the beginning of the period	165.1	162.5
Additions	79.7	81.3
Assets classified as held for sale	(4.2)	(5.0)
Disposals	(33.2)	(37.3)
Revaluation increment	6.0	-
Depreciation expense	(34.8)	(36.4)
Carrying amount at the end of the period	178.6	165.1

Note 11 Intangible Assets

	2019 $m	2018 $m
Software Purchased		
At cost	4.3	4.1
Work in Progress	-	0.1
Accumulated amortisation	(1.9)	(1.5)
Total Intangible Assets	**2.4**	**2.7**

Reconciliation of Software Purchased	2019 $m	2018 $m
Carrying amount at the beginning of the period	2.7	3.0
Additions	0.1	0.1
Amortisation expense	(0.4)	(0.4)
Carrying amount at the end of the period	2.4	2.7

Note 12 Deposits and Short Term Borrowings

	2019 $m	2018 $m
Collateral Deposits from Financial Institutions	-	9.7
At Call Deposits	37.4	45.4
At Call Deposits - South Australian Government agencies	315.9	132.8
At Call Deposits - Treasurer	8,708.8	7,085.0
Commercial Paper	2,142.6	2,023.6
Total Deposits and Short Term Borrowings	**11,204.7**	**9,296.5**

Note 13 Bonds, Notes and Debentures

	2019 $m	2018 $m
Floating Rate Notes	2,478.2	4,010.6
Select Lines	17,993.3	13,420.4
Retail Stock	85.7	88.2
Inflation Linked Bonds and Securities	0.4	1.3
Obligation to the Commonwealth Government	268.4	261.2
Total Bonds, Notes and Debentures	**20,826.0**	**17,781.7**

Note 14 Outstanding Claims

	2019 $m	2018 $m
Outstanding Claims - South Australian Government	15.4	17.0
Outstanding Claims	570.6	373.0
Total Outstanding Claims	**586.0**	**390.0**

Reconciliation of Movements in Outstanding Claims

	Property $m	Liability $m	Medical Malpractice $m
2018 Balance	17.0	88.4	284.7
Paid	(3.2)	(21.7)	(3.9)
Reported Claims	1.7	27.3	16.0
IBNR/IBNER Reserve	0.3	137.2	13.6
Risk Margin	(0.3)	5.5	10.0
Indirect Claims Settlement Reserve	(0.1)	12.2	1.3
2019 Balance	**15.4**	**248.9**	**321.7**
30 June 2019 Outstanding Claims balance by:			
Fund 1	14.5	58.5	316.5
Fund 2	0.9	26.1	5.2
Fund 3	-	27.6	-
Fund 4	-	136.7	-
	15.4	**248.9**	**321.7**

Note 15 Derivatives Payable

	2019 $m	2018 $m
Foreign Currency Swaps	-	91.5
Interest Rate Swaps - South Australian Government	0.1	0.2
Interest Rate Swaps	77.3	74.7
Total Derivatives Payable	**77.4**	**166.4**

Note 16 Payables and Other Liabilities

	2019 $m	2018 $m
Sundry Creditors - South Australian Government	0.1	0.1
Sundry Creditors	2.1	0.9
Payables	20.5	9.4
Payables - South Australian Government	11.9	11.9
Payables to the Treasurer	-	2.0
Contract Liability	19.7	21.1
Income Tax Equivalent	6.5	23.4
Obligation for National Redress Scheme(1)	-	146.4
Total Payables and Other Liabilities	**60.8**	**215.2**

(1) The Governments participation in the National Redress Scheme commenced during 2018-19 and obligations are now shown under Outstanding Claims Note 14.

Note 17 Revenue

	Note	2019 $m	2018 $m
Interest Revenue on assets measured at FVPL			
External to South Australian Government:			
Cash and Short Term Assets		31.2	33.2
Investments		122.9	83.9
Loans		2.2	1.4
Receivables and Other Assets		425.7	362.7
Internal to South Australian Government:			
Cash and Short Term Assets		13.2	11.0
Loans		566.2	538.4
Receivables and Other Assets		6.0	5.5
		1,167.4	1,036.1
Less Interest Expense on liabilities measured at FVPL			
External to South Australian Government:			
Deposits and Short Term Borrowings		43.3	36.2
Bonds, Notes and Debentures		604.3	541.8
Payables and Other Liabilities		415.8	343.1
Internal to South Australian Government:			
Deposits and Short Term Borrowings		106.5	110.0
Payables and Other Liabilities		4.7	3.5
		1,174.6	1,034.6
Net Interest Revenue at FVTPL		(7.2)	1.5
Insurance Premium			
External to South Australian Government		13.6	10.0
Internal to South Australian Government		46.7	44.9
	20	60.3	54.9
Leasing and Hire			
Internal to South Australian Government		55.1	57.6
		55.1	57.6
Recoveries			
External to South Australian Government		1.4	1.3
Internal to South Australian Government		2.8	2.0
		4.2	3.3
Other			
External to South Australian Government:			
Other Revenue		1.8	1.5
Commissions		1.3	1.5
Internal to South Australian Government:			
Other Revenue		0.0	0.2
Management Fees		1.7	1.6
Guarantee Fees		0.0	0.0
		4.8	4.8
Total Revenue		117.2	122.1

Note 18 Other Gains/(Losses)

	Note	2019 $m	2018 $m
Net Gain/(Loss) on Financial Instruments and Derivatives			
External to South Australian Government:			
Realised		71.1	(2.8)
Unrealised		(923.9)	16.7
Internal to South Australian Government:			
Realised		(18.6)	22.4
Unrealised		947.2	52.2
		75.8	**88.5**
Net Gain on Sale of Property, Plant and Equipment			
External to South Australian Government		7.4	7.2
		7.4	**7.2**
Total Other Gains/(Losses)		**83.2**	**95.7**

Note 19 Expenses

	Note	2019 $m	2018 $m
Depreciation, Amortisation and Impairment			
Internal to South Australian Government		35.2	36.8
		35.2	**36.8**
Insurance Claims			
External to South Australian Government		94.0	42.6
Internal to South Australian Government		(2.7)	(7.5)
	20	**91.3**	**35.1**
Motor Vehicle			
External to South Australian Government		24.6	23.7
Internal to South Australian Government		(13.5)	(12.6)
		11.1	**11.1**
Outwards Reinsurance			
External to South Australian Government		8.9	8.3
	20	**8.9**	**8.3**
Operating			
External to South Australian Government:			
Program and Debt Management fees		1.4	1.3
Direct Insurance Placement costs		0.1	0.1
Impairment Loss		(0.1)	0.1
Management Fees		3.4	4.0
Consultants/Contractors	25	0.6	0.4
Operating Leases		0.9	0.8
Systems		0.7	0.7
Other		3.1	0.5
Internal to South Australian Government:			
Indemnity from the Treasurer		(22.9)	(7.8)
Service Level Agreement		10.8	13.7
		(2.0)	**13.8**
Total Expenses		**144.5**	**105.1**

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 technology expenditure.

SLA costs of $1,743,332 (2017-18: $1,441,650) 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.

2019	In respect of Current Year $000	In respect of Prior Years $000	Total $000
Gross Claims Incurred and Related Expenses Undiscounted	226,412	(18,789)	207,623
Other Recoveries Undiscounted	(737)	152	(585)
Net Claims Incurred - Undiscounted	225,675	(18,637)	207,038
Discount and Discount Movement - Gross Claims Incurred	(15,484)	32,619	17,135
Discount and Discount Movement - Other Recoveries	33	(205)	(172)
Net Discount Movement	(15,451)	32,414	16,963
Net Claims Incurred	**210,224**	**13,777**	**224,001**

Net claims incurred during 2018-19 in respect of claims incurred prior to 30 June 2018 was $13.8 million, resulting from:

	$m
Interest on the 30 June 2019 provision, less payments during 2018-19	9.8
Release of administration allowance and risk margin in respect of payments during 2018-19	(8.5)
Changes in actuarial assumptions and experience deviation from expected	12.5
	13.8

2018	In respect of Current Year $000	In respect of Prior Years $000	Total $000
Gross Claims Incurred and Related Expenses Undiscounted	77,624	(38,905)	38,719
Other Recoveries Undiscounted	(592)	(41)	(633)
Net Claims Incurred - Undiscounted	77,032	(38,946)	38,086
Discount and Discount Movement - Gross Claims Incurred	(12,217)	6,312	(5,905)
Discount and Discount Movement - Other Recoveries	63	(7)	56
Net Discount Movement	(12,154)	6,305	(5,849)
Net Claims Incurred	**64,878**	**(32,641)**	**32,237**

Net claims incurred during 2017-18 in respect of claims incurred prior to 30 June 2017 was $32.7 million, resulting from:

	$m
Interest on the 30 June 2018 provision, less payments during 2017-18	9.5
Release of administration allowance and risk margin in respect of payments during 2017-18	(9.4)
Changes in actuarial assumptions and experience deviation from expected	(32.8)
	(32.7)

Note 20 Net Claims Incurred and Underwriting Result (continued)

	2019 $m	2018 $m
Net Earned Premium		
Insurance Premium Revenue	60.3	54.9
Outwards Reinsurance Expense	(8.9)	(8.3)
	51.4	46.6
Net Claims Incurred		
Claims Expense	(91.3)	(35.1)
Recoveries Income	2.1	1.8
	(89.2)	(33.3)
Net Underwriting Result	(37.8)	13.3

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.

Contingent Liabilities

(a) Guarantees

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. SA Water must comply with the prudential requirements set by the Australian Energy Market Operator (AEMO) and provide credit support through a financial guarantee. The guarantee covers both electricity and gas markets. It was subsequently increased to $8 million on 1 May 2018 and $10 million on 28 November 2018 with the increase in value required to continue to be a direct participant in the National Energy Market (NEM), consistent with the prudential requirements of the Australian Energy Market Operator (AEMO) as a result of increase daily power consumption loads. There has been no event to trigger a call on this guarantee. Fair Value of this guarantee is equal to the amount due at reporting date and is included in Receivables - SA Government (Note 9).

(b) 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 net receivable from the Treasurer of $21 million as at 30 June 2019 (receivable from the Treasurer of $3 million as at 30 June 2018).

(c) Unused Loan Facilities

As at 30 June 2019, SAFA had extended loan facilities that were unutilised totalling $1,367.0 million (2017-18: $1,562.3 million), these facilities are reviewed annually.

Note 22 Auditor's Remuneration

	2019 $000	2018 $000
Audit fees payable to the Auditor-General's Department relating to work performed	212	210
	212	210

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

Note 23 Cash Flow Information

	Note	2019 $m	2018 $m
(a) Reconciliation of Cash:			
Cash disclosed in the Statement of Financial Position	4	1,741.0	407.0
Collateral Deposits from Financial Institutions in the Statement of Financial Position	12	-	(9.7)
Less accrued income		(1.5)	(0.3)
Balance per Statement of Cash Flows		**1,739.5**	**397.0**
(b) Reconciliation of comprehensive result to net cash provided by/(used in) from operating activities:			
Comprehensive Result for the Period		43.4	78.9
Non-cash items			
Change in net market value of Financial instruments		(23.4)	(68.9)
Change in net revaluation of non financial assets		(6.0)	-
Amortisation of Financial instruments		(127.5)	(28.7)
Depreciation and Impairment		35.3	36.9
(Gain)/Loss on Sale of Property, Plant and Equipment		(6.9)	(6.8)
Bad Debts written off		(0.1)	(0.1)
Capitalised Interest/Gains and Losses		50.2	8.6
Movement in operating assets and liabilities			
(Increase)/Decrease in accrued interest receivable		(12.1)	(28.4)
(Increase)/Decrease in recoveries receivable		(0.2)	(0.5)
(Increase)/Decrease in sundry debtors and other assets		(19.2)	3.7
Increase/(Decrease) in accrued interest payable		14.1	10.5
Increase/(Decrease) in outstanding claims		196.0	7.1
Increase/(Decrease) in sundry creditors and other liabilities		(151.2)	151.4
Foreign Currency movement		(0.0)	0.0
Net cash provided by/(used in) operating activities		**(7.6)**	**163.7**

(c) Non Cash Financing and Investing activities

During 2018-19, $43.8 million (2017-18: $3.8 million) was adjusted against the Treasurer's debt for book losses arising from debt management activity.

Note 23 Cash Flow Information (continued)

(d) Reconciliation of Liabilities arising from Financing activities

	2018 $m	Cashflows	Foreign exchange movement	Fair value changes	2019 $m
At Call Deposits	45.4	(8.6)	-	0.6	37.4
Deposits from the Treasurer	7,085.0	1,625.2	-	(1.4)	8,708.8
Deposits from South Australian Government agencies	132.8	176.6	0.2	6.3	315.9
Commercial Paper	2,023.6	106.7	9.6	2.7	2,142.6
Floating Rate Notes	4,010.6	(1,528.0)	-	(4.4)	2,478.2
Select Lines	13,420.4	3,639.0	-	933.9	17,993.3
Retail Stock	88.2	(4.0)	-	1.5	85.7
Inflation Linked Bonds and Securities	1.3	(0.8)	-	(0.1)	0.4
Obligation to the Commonwealth Government	261.2	(18.3)	-	25.5	268.4
Total Liabilities from Financing Activities	**27,068.5**	**3,987.8**	**9.8**	**964.6**	**32,030.7**

	2017 $m	Cashflows	Foreign exchange movement	Fair value changes	2018 $m
At Call Deposits	14.8	29.2	-	1.4	45.4
Deposits from the Treasurer	6,504.9	579.0	-	1.1	7,085.0
Deposits from South Australian Government agencies	219.5	(105.6)	0.2	18.7	132.8
Commercial Paper	1,977.7	48.5	(0.9)	(1.7)	2,023.6
Floating Rate Notes	4,013.9	-	-	(3.3)	4,010.6
Select Lines	13,539.2	3.6	-	(122.4)	13,420.4
Retail Stock	100.0	(10.8)	-	(1.0)	88.2
Inflation Linked Bonds and Securities	2.1	(0.8)	-	(0.0)	1.3
Obligation to the Commonwealth Government	257.8	(2.0)	-	5.4	261.2
Total Liabilities from Financing Activities	**26,629.9**	**541.1**	**(0.7)**	**(101.8)**	**27,068.5**

Note 24 Consultants and Contractors

	2019 Consultants	2018 Consultants
Below $10,000	2	4
Above $10,000	6	5
	8	9
Total Consultants expense	$ 534,480	$ 235,690

In addition to the amounts shown in the table above, $95,704 (2017-18: $167,555) in consultants fees were paid through SAFA's SLA with DTF. These consultants are disclosed in DTF's Financial Statements.

	2019 Contractors	2018 Contractors
Below $10,000	2	-
Above $10,000	2	1
	4	1
Total Contractors expense	$ 35,233	$ 169,055

In addition to the amounts shown in the table above, $180,197 (2017-18: $207,416) in contractor fees were paid through SAFA's SLA with DTF. These contractors are disclosed in DTF's Financial Statements.

Note 25 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 R Lucas*	Treasurer
Mr D Reynolds*	Under Treasurer
Mr K Cantley	General Manager
Mr T Burfield	Director, Insurance & Commercial Operations
Mr C Fowler	Director, Finance
Mr A Kennedy	Director, Treasury Services
Ms H Watts	Director, Commercial Operations (until Mar 2019)

** not included in Key Management Personnel Compensation*

(b) Key Management Personnel Compensation

	2019 $000	2018 $000
Short-term employee benefits	924.9	1,057.1
Post-employment benefits	98.6	130.5
	1,023.5	1,187.6

(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	2019 $m	2018 $m
At Call Deposits - Treasurer	4	430.5	67.4
Loans to the Treasurer	7	13,724.2	11,277.7
At Call Deposits - Treasurer	12	8,708.8	7,085.0
Interest Revenue	17	261.3	235.4
Interest Expense	17	(100.5)	(105.8)
Net Gain/(Loss) on Financial Instruments and Derivatives	18	456.0	49.8

(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 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 predominately 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:

	2019 $m	2018 $m
Operating Lease Receipts:		
Not later than one year	43.8	43.8
Later than one year but not later than five years	39.0	35.4
Later than five years	0.4	0.4
Total Non-Cancellable Operating Lease Receivables	**83.2**	**79.6**

(b) Other Commitments

SAFA's other commitments relate to vehicle management fees, software licences and maintenance, and outsourced funds management fees. These amounts relate to vendors that are external to the South Australian Government.

	2019 $m	2018 $m
Expenditure Commitments:		
Not later than one year	2.2	4.7
Later than one year but not later than five years	5.9	6.7
Later than five years	6.2	7.3
Total other commitments	**14.3**	**18.7**

(c) Operating Lease Commitments Payable

SAFA as a Lessee

SAFA's operating leases are for car parking spaces and motor vehicles owned by manufacturers. Vehicle leases are non-cancellable and are for terms of up to 36 months. Car parking spaces are leased on a month-by-month basis, with rent payable one month in advance.

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

	2019 $m	2018 $m
Operating Lease Payments:		
Not later than one year	0.2	0.2
Later than one year but not later than five years	0.1	0.1
Total Non-Cancellable Operating Lease Payables	**0.3**	**0.3**

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 ($409.0m in 2018-19; $420.4m in 2017-18) and Asset Revaluation Reserve ($6m in 2018-19; Nil in 2017-18) . 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 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. These disclosures and the methods used have not changed during the reporting period.

(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.

	2019		2018	
	Period $m	Cumulative $m	Period $m	Cumulative $m
Loans change in fair value profit/(loss)	(0.3)	26.1	9.5	28.1
Liabilities change in fair value profit/(loss)	0.4	(37.7)	(12.6)	(37.2)

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 2019 have moved by between 0-45 basis points (2017-18: 0-32 basis points).

Note 28 Financial Risk Management (continued)

(i) Credit Quality

New impairment requirements result in a provision being applied to all receivables, rather than only on those receivables that are credit impaired. There are no impairment provisions (including expected credit losses), for State, Territory, or Commonwealth Government receivables due to the Government's high quality credit rating, and low risk of loss.

Loss allowances for receivables are measured at an amount equal to lifetime expected credit loss using the simplified approach in AASB 9. SAFA uses an allowance matrix to measure the expected credit loss of receivables from non-government debtors which comprise a large number of small balances.

To measure the expected credit losses, receivables are grouped based on shared risks characteristics and the days past due. When estimating the expected credit loss, SAFA considers reasonable and supportable quantitative and qualitative information that is relevant and available without undue cost or effort. Receivables more than 90 days past due are considered credit impaired, and a provision for the full amount has been established. Accordingly no ECL has been recognised for these debtors.

Loss rates are based on actual history of credit loss. SAFA considers differences between previous economic conditions and forecast economic conditions, though these factors are unlikely to affect loss rates due to the nature of receivables and the debtors. The maximum period considered when estimating expected credit losses is the full contractual period over which SAFA is exposed to credit risk.

The following table provides information about the exposure to credit risk and expected credit loss for non-government debtors. This expected credit loss allowance forms part of the allowance for impairment loss (ref Note 9).

	Debtor gross carrying amount $000	Loss %	Lifetime expected losses $000
Current (not past due)	73.9	6.0%	4.4
1 - 30 days past due	66.1	0.6%	0.4
31 - 60 days past due	22.9	0.2%	0.0
61 - 90 days past due	18.0	2.8%	0.5
More than 90 days past due	160.2	N/A	0.0
Expected Credit Loss allowance			**5.4**

Note 28 Financial Risk Management (continued)

(i) Credit Quality (continued)

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

The disclosure below 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.

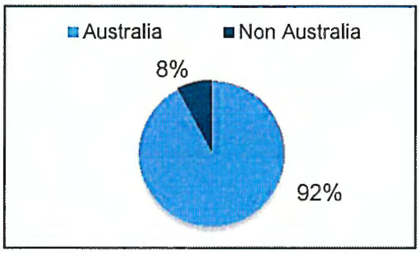
Concentration of Credit Risk by credit rating:

2019 Asset Class	Rating AAA $m	AA+ $m	AA- $m	A+ $m	A $m	A- $m	BBB+ $m	BBB $m	NR* $m	Total $m
Loans/Investments	808.0	897.1	2,537.1	1,447.5	935.0	200.0	41.1	15.0	24,048.7	**30,929.5**
Interest Rate Swaps	-	-	119.5	4.7	-	-	-	-	4.9	**129.1**
Foreign Exchange	-	-	-	0.1	-	-	-	-	0.3	**0.4**
Total	**808.0**	**897.1**	**2,656.6**	**1,452.3**	**935.0**	**200.0**	**41.1**	**15.0**	**24,053.9**	**31,059.0**

2018 Asset Class	Rating AAA $m	AA+ $m	AA- $m	A+ $m	A $m	A- $m	BBB+ $m	BBB $m	NR* $m	Total $m
Loans/Investments	228.2	759.0	2,200.3	1,298.0	866.0	200.0	100.0	55.0	20,939.2	**26,645.7**
Interest Rate Swaps	-	-	114.5	10.8	-	-	-	-	3.5	**128.8**
Foreign Exchange	-	-	-	0.2	-	-	-	-	0.1	**0.3**
Total	**228.2**	**759.0**	**2,314.8**	**1,309.0**	**866.0**	**200.0**	**100.0**	**55.0**	**20,942.8**	**26,774.8**

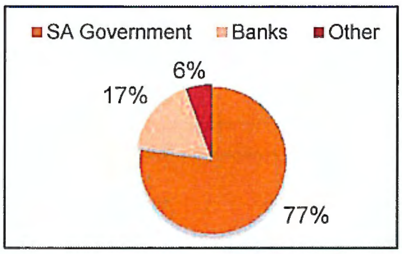
* NR - not classified under particular ratings. Includes loans to SA Government of $22,847 million (2017-18: $20,852 million).

2018-19 Credit Risk: Country



2017-18 (Aust 92% Non Aus 8%)

2018-19 Credit Risk: Counterparty



2017-18 (SAG 78% Bank 18% Other 4%)

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.

2019	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	60.6	0.0	60.6	4.2	(51.7)	13.1
Foreign Currency Swaps	0.0	0.0	0.0	0.0	0.0	0.0
Secured Cash Lending	862.1	0.0	862.1	0.0	(861.7)	0.4
Total	**922.7**	**0.0**	**922.7**	**4.2**	**(913.4)**	**13.5**
Liabilities						
Interest Rate Swaps	(77.4)	0.0	(77.4)	(4.2)	84.5	2.9
Foreign Currency Swaps	0.0	0.0	0.0	0.0	0.0	0.0
Total	**(77.4)**	**0.0**	**(77.4)**	**(4.2)**	**84.5**	**2.9**

2018	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	105.0	0.0	105.0	(47.6)	(39.4)	18.0
Foreign Currency Swaps	94.6	0.0	94.6	0.0	0.0	94.6
Secured Cash Lending	200.3	0.0	200.3	0.0	(200.2)	0.1
Total	**399.9**	**0.0**	**399.9**	**(47.6)**	**(239.6)**	**112.7**
Liabilities						
Interest Rate Swaps	(74.9)	0.0	(74.9)	47.6	29.7	2.4
Foreign Currency Swaps	(91.5)	0.0	(91.5)	0.0	0.0	(91.5)
Total	**(166.4)**	**0.0**	**(166.4)**	**47.6**	**29.7**	**(89.1)**

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 Notes 4, 8 and 15).

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, secured cash lending securities, 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.

2019	< 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	2,528.3	165.0	-	-	-	-	-	2,693.3
Investments	2,264.3	1,941.2	72.1	85.8	354.5	74.3	1,287.6	6,079.8
Loans	9,336.2	1,495.1	2,153.0	399.9	1,274.3	1,049.6	9,372.8	25,080.9
Receivables and Other Assets	59.4	-	-	-	-	-	-	59.4
Total	**14,188.2**	**3,601.3**	**2,225.1**	**485.7**	**1,628.8**	**1,123.9**	**10,660.4**	**33,913.4**
Liabilities								
Deposits and Short Term	(10,643.8)	(565.0)	-	-	-	-	-	(11,208.8)
Bonds, Notes and Debentures	(2,059.9)	(2,900.5)	(2,565.6)	(388.2)	(2,406.6)	(1,794.8)	(10,190.4)	(22,306.0)
Outstanding Claims	(18.8)	(54.1)	(68.4)	(63.3)	(59.0)	(53.0)	(269.4)	(586.0)
Payables and Other Liabilities	(41.1)	-	-	-	-	-	-	(41.1)
Total	**(12,763.6)**	**(3,519.6)**	**(2,634.0)**	**(451.5)**	**(2,465.6)**	**(1,847.8)**	**(10,459.8)**	**(34,141.9)**
Net	**1,424.6**	**81.7**	**(408.9)**	**34.2**	**(836.8)**	**(723.9)**	**200.6**	**(228.5)**
Net Derivatives	(8.3)	17.5	27.5	3.2	(4.3)	6.1	(66.2)	(24.5)

Note 28 Financial Risk Management (continued)

2018	< 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	1,435.9	475.0	-	-	-	-	-	1,910.9
Investments	845.6	2,215.7	1,194.7	196.2	54.0	184.8	453.0	5,144.0
Loans	6,692.9	943.3	2,891.1	2,022.4	367.7	648.5	9,176.6	22,742.5
Receivables and Other Assets	37.0	-	-	-	-	-	-	37.0
Total	**9,011.4**	**3,634.0**	**4,085.8**	**2,218.6**	**421.7**	**833.3**	**9,629.6**	**29,834.4**
Liabilities								
Deposits and Short Term Borrowings	(8,871.0)	(575.0)	-	-	-	-	-	(9,446.0)
Bonds, Notes and Debentures	(152.4)	(2,408.5)	(4,482.7)	(2,464.7)	(311.5)	(1,731.8)	(8,302.6)	(19,854.2)
Outstanding Claims	(12.1)	(36.3)	(37.2)	(35.2)	(33.3)	(30.7)	(205.2)	(390.0)
Payables and Other Liabilities	(170.8)	-	-	-	-	-	-	(170.8)
Total	**(9,206.3)**	**(3,019.8)**	**(4,519.9)**	**(2,499.9)**	**(344.8)**	**(1,762.5)**	**(8,507.8)**	**(29,861.0)**
Net	**(194.9)**	**614.2**	**(434.1)**	**(281.3)**	**76.9**	**(929.2)**	**1,121.8**	**(26.6)**
Net Derivatives	**8.5**	8.2	9.5	11.7	(12.2)	(2.6)	14.5	37.6

(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:

	2019 Actual $000	2019 Working Limit $000	2018 Actual $000	2018 Working Limit $000
Funding Portfolio	22.3	500.0	102.7	500.0
Liquidity Portfolio	965.7	6,500.0	1,674.0	6,500.0

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.

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:

2019		Profit (Post tax)		Equity	
	Investments	-10%	10%	-10%	10%
	$000	$000	$000	$000	$000
Fund 1	614,186	(42,993)	42,993	(42,993)	42,993
Fund 2*	15,105	(1,057)	1,057	(1,057)	1,057
Fund 3*	32,672	(2,287)	2,287	(2,287)	2,287
Total	**661,963**	**(46,337)**	**46,337**	**(46,337)**	**46,337**

2018		Profit (Post tax)		Equity	
	Investments	-10%	10%	-10%	10%
	$000	$000	$000	$000	$000
Fund 1	577,074	(40,395)	40,395	(40,395)	40,395
Fund 2*	17,645	(1,235)	1,235	(1,235)	1,235
Fund 3*	24,131	(1,689)	1,689	(1,689)	1,689
Total	**618,850**	**(43,319)**	**43,319**	**(43,319)**	**43,319**

* 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). Fund 4 does not have any investments with Funds SA.

(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:

	2019	2019	2018	2018
	Actual	Working Limit	Actual	Working Limit
	$	$	$	$
Funding Portfolio	1,302	± 5,000	(1,294)	± 5,000
Liquidity Portfolio	1,729	± 10,000	458	± 10,000

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:

2019	USD A$000	EUR A$000	NZD A$000
Less than 1 year			
Net Foreign Currency Assets/(Liab)	21.8	(28.9)	16.4
Net Derivatives	-	-	-
Total Exposure	**21.8**	**(28.9)**	**16.4**
Sensitivity			
Profit / Equity impact (in AUD) of +1% change in foreign currency	0.2	(0.3)	0.2

2018	USD A$000	EUR A$000	NZD A$000
Less than 1 year			
Net Foreign Currency Assets/(Liab)	(94,562.6)	(21.5)	13.8
Net Derivatives	94,586.5	-	-
Total Exposure	**23.9**	**(21.5)**	**13.8**
Sensitivity			
Profit / Equity impact (in AUD) of +1% change in foreign currency	0.2	(0.2)	0.1

SAFA's total exposure to exchange rate risk (on a net basis) is $9,272 for the year ended 30 June 2019 (2017-18: $16,185). Had the Australian Dollar weakened by 10 per cent against the foreign currencies listed above, the direct impact to SAFA would be a gain of approximately $1,030 (2017-18: gain $162).

(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) Claims Development

The following tables show the development of incurred cost on net undiscounted outstanding claims (Medical Malpractice, Liability, Property and Building 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 (not considered appropriate for the activities of the fund) or for Fund 4 (this is the first year where costs have been estimated for the fund).

Medical Malpractice

Loss Year	Cumulative Payments Plus Undiscounted Outstanding Liability Measurement as at 30 June											Undiscounted	Discount
Ending	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Paid to Date	Liability Jun-19	Present Value
30-Jun	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Prior	175,591	169,461	172,015	173,908	173,105	190,284	192,648	183,274	153,924	162,184	102,466	59,718	56,269
2010	24,134	15,725	13,002	11,367	8,197	15,197	14,273	16,940	13,893	13,185	4,113	9,072	8,359
2011		17,486	15,471	15,742	14,662	13,242	13,819	20,558	16,491	14,698	8,880	5,818	5,333
2012			18,749	17,802	13,584	17,235	15,702	14,411	16,866	19,119	1,051	18,068	16,464
2013				21,967	17,274	15,654	14,082	14,901	17,812	21,096	774	20,321	18,390
2014					21,702	22,124	20,434	18,715	16,910	12,372	22	12,351	11,086
2015						20,569	27,417	25,704	24,802	20,158	429	19,728	17,545
2016							24,613	26,061	31,117	27,674	-102	27,776	24,440
2017								28,856	27,704	22,485	2,737	19,748	17,168
2018									30,288	24,689	162	24,527	21,042
2019										28,429	58	28,371	24,004
								Total		366,089	120,592	245,498	220,100

Liability

Loss Year	Cumulative Payments Plus Undiscounted Outstanding Liability Measurement as at 30 June											Undiscounted	Discount
Ending	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Paid to Date	Liability Jun-19	Present Value
30-Jun	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Prior	88,620	100,092	99,311	99,555	97,097	98,994	98,539	101,192	103,177	104,978	99,483	5,495	5,268
2010	6,705	4,365	3,663	11,386	10,904	11,640	15,170	15,232	10,513	10,396	9,281	1,115	1,070
2011		7,173	5,982	5,158	5,266	7,309	8,300	9,440	13,416	13,328	11,164	2,164	2,078
2012			8,038	6,749	5,621	5,297	7,088	8,127	6,287	6,081	3,606	2,475	2,377
2013				6,683	5,455	4,336	3,855	3,246	4,048	5,254	1,253	4,001	3,835
2014					6,478	6,128	5,425	5,322	5,228	4,734	1,505	3,229	3,091
2015						7,540	6,516	6,266	3,888	2,819	799	2,020	1,930
2016							8,584	8,201	7,176	5,622	1,116	4,506	4,291
2017								6,080	5,363	4,383	1,102	3,281	3,105
2018									10,866	7,777	251	7,526	7,057
2019										9,394	40	9,354	8,684
								Total		174,767	129,600	45,166	42,786

Property

Loss Year	Cumulative Payments Plus Undiscounted Outstanding Liability Measurement as at 30 June											Undiscounted	Discount
Ending	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Paid to Date	Liability Jun-19	Present Value
30-Jun	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Prior	27,071	25,036	22,925	22,728	22,731	22,867	22,063	22,821	22,832	22,834	22,834	0	0
2010	3,255	1,779	1,543	1,479	1,577	1,577	1,622	1,618	1,627	1,627	1,627	0	0
2011		4,568	3,270	3,060	2,940	2,893	2,894	2,887	2,906	2,904	2,904	0	0
2012			2,683	2,046	2,314	2,680	2,539	2,502	2,763	2,758	2,755	3	3
2013				1,996	1,989	2,185	2,216	2,253	2,174	2,164	1,021	1,143	1,122
2014					3,223	3,399	3,512	3,395	3,387	3,380	3,371	9	9
2015						3,978	4,500	3,232	3,188	3,170	3,148	21	21
2016							3,081	3,822	2,996	2,251	2,212	38	37
2017								14,833	13,030	12,453	5,627	6,826	6,651
2018									3,464	1,989	1,434	554	538
2019										3,666	560	3,107	3,032
								Total		59,196	47,493	11,701	11,413

Note 28 Financial Risk Management (continued)

(i) Claims 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	2018 $000	2019 $000	Paid to Date $000	Undiscounted Liability Jun-19 $000	Unearned Liabilities Jun-19 $000	Earned Liabilities Jun-19 $000	Discount Present Value $000
2014	6,755	7,824	7,132	5,655	4,447	4,135	3,088	1,047	103	944	1,034
2015		6,504	7,121	7,218	5,797	5,002	3,509	1,494	296	1,197	1,471
2016			7,241	10,523	9,429	5,894	3,650	2,244	482	1,762	2,210
2017				8,450	9,563	8,615	3,957	4,659	468	4,190	4,584
2018					9,468	13,559	4,255	9,304	2,306	6,997	9,149
2019						14,216	1,731	12,485	7,118	5,367	12,206
					Total	**51,422**	**20,190**	**31,232**	**10,773**	**20,457**	**30,654**

(ii) Unexpired Risk Liability

The LAT (Note 2 (r)) was completed by the independent actuary for Building Indemnity Insurance offered by SAFA. The actuary compares the unearned premium and the expected cost of claims arising from this premium, including associated expenses and a risk margin. Any deficiency is recognised immediately in profit or loss, with the corresponding impact on the balance sheet recognised first through the write down of deferred acquisition costs for Building Indemnity Insurance and then through the establishment of a provision (unexpired risk liability). At 30 June 2019 the result of the LAT was there was no premium deficiency.

a. Calculation of Premium Deficiencies

	2019 $000	2018 $000
Net unearned premium liability	19,527	20,897
Net present value of future policy costs	11,219	18,018
Gross deferred acquisition costs recognised	4,496	5,604
Gross premium deficiency	0	**(2,725)**
Gross deferred acquisition costs written down	0	2,725
Net premium deficiency	-	-
Gross deferred acquisition costs recognised in Balance Sheet	4,496	2,879

The increase in deferred acquisition costs recognised in the Statement of Comprehensive Income during the financial year amount to $1.616 million (2017-18 $1.024 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 2017	**18,558.8**	**(2,370.3)**	**(1,855.8)**	**14,332.7**
Premium written	54,533.5	(8,671.7)	(2,144.1)	43,717.7
Premium (earned)/incurred	(52,194.8)	8,300.2	1,119.9	(42,774.7)
Unearned premium liability/(asset) at 30 June 2018	**20,897.5**	**(2,741.8)**	**(2,880.0)**	**15,275.7**
Premium written	56,440.7	(9,025.1)	(2,090.6)	45,325.0
Premium (earned)/incurred	(57,810.9)	8,908.5	474.5	(48,427.9)
Unearned premium liability/(asset) at 30 June 2019	**19,527.3**	**(2,858.4)**	**(4,496.1)**	**12,172.8**

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 in the annual aggregate for property, $0.5 million per event for cyber risk, $15 million for medical malpractice per event and $20 million in the annual aggregate for liability classes. Management 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:

2019	Present Value of Outstanding Liability				Change in Liability			
Insurance Fund	Fund 1 $m	Fund 2 $m	Fund 3 $m	Fund 4 $m	Fund 1 %	Fund 2 %	Fund 3 %	Fund 4 %
1. Discount Rate								
(a) Increase by 1%	364.1	31.2	27.2	131.8	(6.5)	(3.2)	(1.4)	(4.9)
(b) Decrease by 1%	418.0	33.3	28.2	141.8	7.3	3.5	2.2	5.2
2. Inflation/Superimposed Inflation Rate								
(a) Increase by 1%	416.8	33.3	27.6	136.7	7.0	3.4	0.0	0.0
(b) Decrease by 1%	364.7	31.2	27.6	136.7	(6.4)	(3.2)	0.0	0.0
3. Other Assumptions								
(a) Increase Medical Malpractice and Liability expected 'a prior' cost by 10%	408.8	32.2	27.6	136.7	5.0	0.0	0.0	0.0
(b) Longer Medical Malpractice and Liability tail	402.2	35.4	27.6	136.7	3.3	10.1	0.0	0.0
(c) Increase Building Indemnity expected 'a prior' cost by 5%	389.5	32.2	28.9	136.7	0.0	0.0	4.8	0.0
(d) Greater number of 'lower cost' National Redress claims	389.5	32.2	27.6	158.1	0.0	0.0	0.0	21.5

Note 29 Fair Values of Assets and Liabilities

(a) Contractual Obligations and Financial Liabilities at Fair Value

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

	2019			2018		
	Carrying Amount $m	Principal Outstanding $m	Diff $m	Carrying Amount $m	Principal Outstanding $m	Diff $m
Deposits and Short Term Borrowings	11,204.7	11,201.5	3.2	9,296.5	9,285.2	11.3
Bonds, Notes and Debentures	20,826.0	19,482.6	1,343.4	17,781.7	17,394.7	387.0

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)

(b) Financial Assets and Liabilities

This section explains the judgements and estimates made in determining the fair values of the financial 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.

(i) Fair Value Hierarchy

2019	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	2,235.5	456.2	-	2,691.7
Investments	6	1,936.7	3,969.5	-	5,906.2
Loans	7	8,300.7	10,532.2	5,420.3	24,253.2
Derivatives Receivable	8	-	60.6	-	60.6
Total		12,472.9	15,018.5	5,420.3	32,911.7
Financial Liabilities					
Deposits and Short Term Borrowings	12	(9,062.1)	(2,142.6)	-	(11,204.7)
Bonds, Notes and Debentures	13	(20,453.0)	(85.7)	(287.3)	(20,826.0)
Derivatives Payable	15	-	(77.4)	-	(77.4)
Total		(29,515.1)	(2,305.7)	(287.3)	(32,108.1)

2018	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	825.5	1,088.5	-	**1,914.0**
Investments	6	849.5	4,119.2	-	**4,968.7**
Loans	7	6,296.1	9,691.3	4,974.2	**20,961.6**
Derivatives Receivable	8	-	199.6	-	**199.6**
Total		**7,971.1**	**15,098.6**	**4,974.2**	**28,043.9**
Financial Liabilities					
Deposits and Short Term Borrowings	12	(7,272.9)	(2,023.6)	-	**(9,296.5)**
Bonds, Notes and Debentures	13	(17,411.5)	(88.2)	(282.0)	**(17,781.7)**
Derivatives Payable	15	-	(166.4)	-	**(166.4)**
Total		**(24,684.4)**	**(2,278.2)**	**(282.0)**	**(27,244.6)**

Note 29 Fair Values of Assets and Liabilities (continued)

(i) Fair Value Hierarchy (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 above 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 2019 and 30 June 2018:

2019	Assets	Liabilities	
	Loans $m	Bonds, Notes and Debentures $m	Total $m
Balance at 30 June 2018	4,974.2	(282.0)	4,692.2
Total gain/(loss) included:			
in Profit or Loss	612.4	(35.4)	577.0
Purchases	-	-	-
Sales	(166.3)	-	(166.3)
Issues	-	-	-
Settlements	-	30.1	30.1
Balance at 30 June 2019	5,420.3	(287.3)	5,133.0

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

Interest Revenue	156.2	(11.0)	145.2
Net Gain/(Loss) on Financial Instruments and Derivatives - Unrealised	500.1	(24.4)	475.7
Net Gain/(Loss) on Financial Instruments and Derivatives - Realised	(43.9)	-	(43.9)
Total	612.4	(35.4)	577.0

Note 29 Fair Values of Assets and Liabilities (continued)

(iii) Level 3 Financial Instruments Reconciliation (continued)

2018	Assets	Liabilities	
	Loans $m	Bonds, Notes and Debentures $m	Total $m
Balance at 30 June 2017	4,914.8	(280.8)	**4,634.0**
Total gain/(loss) included:			
in Profit or Loss	188.3	(15.4)	**172.9**
Purchases	10.0	-	**10.0**
Sales	(138.9)	-	**(138.9)**
Issues	-	(10.0)	**(10.0)**
Settlements	-	24.2	**24.2**
Balance at 30 June 2018	**4,974.2**	**(282.0)**	**4,692.2**

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

Interest Revenue	135.9	(11.5)	**124.4**
Net Gain/(Loss) on Financial Instruments and Derivatives - Unrealised	56.2	(3.9)	**52.3**
Net Gain/(Loss) on Financial Instruments and Derivatives - Realised	(3.8)	-	**(3.8)**
Total	**188.3**	**(15.4)**	**172.9**

(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 2019 $m	Valuation Technique	Significant Unobservable Input	Estimate of Unobservable Input	Fair value measurement sensitivity to unobservable inputs
Loans:					
Loan to Treasurer Cost of Funds	5,401.5	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	18.8	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 2019 ($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	(249.6)	Discounted Cash Flow	Discount rates/market yields	0.97% - 1.57% IRR	Discount rate based on internally-constructed yield curve. A 1 basis point shift in rates results in a $241,886 change in market value.
Principal Borrowing	(18.8)	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	(18.5)	Discounted Cash Flow	Discount rates/market yields	1.12% IRR	Discount rate based on internally-constructed yield curve. A 1 basis point shift in rates results in a $3,003 change in market value.
Retail Indexed Annuity	(0.4)	Discounted Cash Flow	Real discount rates (annuity rates)	1.24% IRR	Market rates are observed for annuity instruments. A 1 basis point shift in real rates results in a $20 change in market value.

(v) Valuation Processes

Level 3 fair values valuation processes are consistent with all other valuation processes and are considered 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

2019	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	-	4.2	-	4.2
Property, Plant and Equipment	10	-	178.6	-	178.6
Total		**-**	**182.8**	**-**	**182.8**

2018	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	-	5.0	-	5.0
Property, Plant and Equipment	10	-	165.1	-	165.1
Total		**-**	**170.1**	**-**	**170.1**

Non-financial assets are recorded at cost on acquisition (ref Note 2(k)).

SAFA has revalued its motor vehicles upward as at 30 June 2019. Although independent valuer was not involved, values were determined with reference to market prices for comparable vehicles and represent approximate fair value. Residual values for vehicles subject to revaluation were adjusted. As the depreciable amount has not changed materially, future depreciation expenses will not be affected by the revaluation.

Valuation techniques used to derive the 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.

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. In addition, SAFA provides funding for the costs of the SA Government's participation in the National Redress Scheme. 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

2019	Central Estimate $m	Risk Margin $m	Indirect Claims Settlement Margin $m	Total $m
Expected Future Claims Payments (Inflated/Undiscounted)	482.3	123.8	29.6	635.7
Discount to Present Value	(37.0)	(10.5)	(2.2)	(49.7)
Total Outstanding Claims	**445.3**	**113.3**	**27.4**	**586.0**

2018	Central Estimate $m	Risk Margin $m	Indirect Claims Settlement Margin $m	Total $m
Expected Future Claims Payments (Inflated/Undiscounted)	332.5	117.4	16.8	466.7
Discount to Present Value	(54.6)	(19.3)	(2.8)	(76.7)
Total Outstanding Claims	**277.9**	**98.1**	**14.0**	**390.0**

Assumptions

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

2019	Property	Liability	Medical Malpractice	Building Indemnity
Average weighted term to settlement - Fund 1	2.31	4.62	8.05	-
Average weighted term to settlement - Fund 2	2.00	3.86	2.43	-
Average weighted term to settlement - Fund 3	-	-	-	2.19
Average weighted term to settlement - Fund 4	-	3.80	-	-
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%
Percentage risk margin adopted - Fund 4	-	-	-	-
Claims handling expense	5.0%	6.5%	5.0%	8.0%
Inflation rate (includes superimposed inflation)*	2.2%	5.3%	5.3%	-
Discount rate - Fund 1	1.1%	1.2%	1.4%	-
Discount rate - Fund 2	1.1%	1.2%	1.4%	-
Discount rate - Fund 3	-	-	-	1.0%
Discount rate - Fund 4	-	1.5%	-	-

Note 30 Actuarial Assumptions and Methods (continued)

2018	Property	Liability	Medical Malpractice	Building Indemnity
Average weighted term to settlement - Fund 1	2.12	4.47	8.51	-
Average weighted term to settlement - Fund 2	0.50	3.86	3.06	-
Average weighted term to settlement - Fund 3	-	-	-	2.87
Average weighted term to settlement - Fund 4	-	-	-	-
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%
Percentage risk margin adopted - Fund 4	-	-	-	-
Claims handling expense	5.0%	5.0%	5.0%	8.0%
Inflation rate (includes superimposed inflation)*	0.0%	3.0%	3.0%	-
Discount rate - Fund 1	2.2%	2.4%	2.7%	-
Discount rate - Fund 2	1.9%	2.4%	2.4%	-
Discount rate - Fund 3	-	-	-	2.2%
Discount rate - Fund 4	-	-	-	-

* The valuation methods adopted for Funds 2, 3 and 4 adopted do not have an explicit inflation assumption. Inflation rates shown are the adopted rates for Fund 1. Previous rates shown are the superimposed inflation rates that were applied above the implicit inflation in the (previous) models.

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. The exception is for the liabilitities of Fund 4 where no risk margin is held.

Note 31 Events After the End of the Reporting Period

No event has arisen since 30 June 2019 that would be likely to materially affect the operations or the state of affairs of SAFA.

SAFA South Australian Government Financing Authority

Certification of the Financial Statements

We certify that the:

General Purpose Financial Statements for SAFA:

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

- comply with relevant Treasurer's Instructions; and

- comply with relevant Australian Accounting Standards; and

- present a true and fair view of the financial position of SAFA as at 30 June 2019 and the results of its operations and cash flows for the financial year.

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 financial year.

C Fowler
Craig Fowler
DIRECTOR FINANCE, SAFA

Kevin Cantley
GENERAL MANAGER, SAFA

David Renyolds
CHIEF EXECUTIVE
UNDER TREASURER

Date: 16 SEPTEMBER 2019