



Ms Geniere Aplin
General Manager - Operations
Workers Compensation Division
Nominal Insurer
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LISAROW NSW 2252

16 May 2012

Dear Geniere

Nominal Insurer - Observation on bond rates since the December 2011 valuation of insurance liabilities

This memo contains the change in bond rates since December 2011 and the subsequent impact on the insurance liability.

This memo supersedes all previous versions of this memo since December 2011.

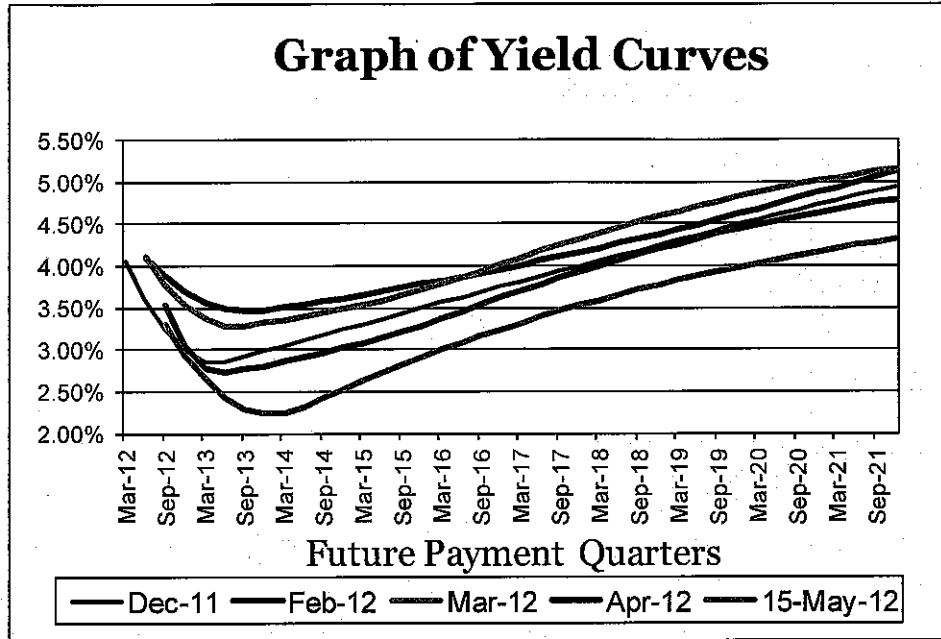
The outstanding claims liability is required by accounting and actuarial standards to be discounted to a present value based on the observable market yields from Commonwealth Government securities.

As a generalisation, a reduction in government security yields increases the present value of the outstanding claims liability.

Yields on Commonwealth Government securities vary from day to day based on the supply of and demand for government securities. Since the commencement of the Global Financial Crisis, government security yields have been much lower and more volatile from day-to-day compared with longer term experience.

Since the December 2011 valuation, yields on government securities have increased and subsequently decreased at April 2012. The yields have further decreased at 15th May 2012.

The following graph shows the observed yields available on Commonwealth Government securities at the last day of various months between December 2011 and 15th May 2012.



If the December 2011 valuation of insurance liabilities was discounted using the February 2012 or March 2012 yields curves, the reported liability would have been lower than reported at December 2011. However, if the April 2012 or 15th May 2012 yield curve was used then the reported liability would increase. The quantum the changes are shown in the following table:

Yield curve:	31-Dec-11	29-Feb-12	31-Mar-12	30-Apr-12	15-May-12
	\$M	\$M	\$M	\$M	\$M
Net inflated and discounted outstanding claims @ 31 Dec 11 (excl CHE)	13,246	13,039	13,047	13,294	13,522
Change in NCE (due to change in yield curve) - Compared to Dec11		-207	-199	48	275
Claim Handling Expense (CHE)	1,132	1,114	1,115	1,136	1,155
Risk Margin	1,725	1,698	1,699	1,732	1,761
Total Provision @ 31 Dec 2011	16,104	15,852	15,861	16,161	16,438
Total Change in Provision - Compared to Dec11		-251	-242	58	335

Should you wish to discuss this letter in more detail, please call me on (02) 8266 5478.

Yours sincerely

Michael Playford FIAA
Partner