



**MEDIBANK PRIVATE LIMITED
FINANCIAL REPORT 2011-12
AUDITOR'S INDEPENDENCE DECLARATION**

In relation to my audit of the financial report of Medibank Private Limited and its consolidated entities for the year ended 30 June 2012, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) no contravention of any applicable code of professional conduct.

Australian National Audit Office

Ian Goodwin
Group Executive Director
Delegate of the Auditor-General
Canberra
31 August 2012

Income Statement

For the financial year ended 30 June 2012

	Note	Consolidated 2012	2011
		\$'000	\$'000
Revenue			
Private health insurance premium revenue	4(a)	5,062,300	4,737,792
Health solutions revenue		278,897	258,397
Other		15,819	12,520
		5,357,016	5,008,709
Expenses			
Claims expense	4(a)	(4,305,240)	(3,965,233)
Employee benefits expense		(445,924)	(377,887)
Office and administration expense		(119,223)	(108,412)
Marketing expense		(91,551)	(88,006)
Information technology expense		(70,732)	(54,310)
Professional service expense		(71,814)	(58,586)
Lease expense	4(b)	(33,313)	(29,555)
Depreciation and software amortisation expense	4(c)	(43,629)	(35,654)
Other expenses		(13,651)	(11,211)
		(5,195,077)	(4,728,854)
Operating profit		161,939	279,855
Investment and other income/(expense)			
Investment income	4(d)	96,036	166,028
Investment expense	4(e)	(52,640)	(4,477)
Other income/(expense)	4(f)	877	(3,055)
Amortisation of acquisition intangibles	4(g)	(8,931)	(9,932)
Total investment and other income/(expense)		35,342	148,564
Profit for the year before income tax		197,281	428,419
Income tax expense	5(a)	(70,686)	(128,773)
Profit for the year		126,595	299,646

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

Statement of comprehensive income

For the financial year ended 30 June 2012

	Consolidated 2012	2011
	\$'000	\$'000
Profit for the year	126,595	299,646
Other comprehensive income, net of tax		
Revaluation of land & buildings	(118)	64
Actuarial [loss]/gain on retirement benefit obligation	(1,398)	(10)
Exchange differences on translation of foreign operations	115	(93)
	(1,401)	(39)
Total comprehensive income for the year	125,194	299,607

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

Balance Sheet

As at 30 June 2012

	Note	Consolidated 2012 \$'000	2011 \$'000
Current assets			
Cash and cash equivalents	6	613,713	647,357
Trade and other receivables	7	352,040	232,493
Inventories	8	1,588	1,418
Investments	9	1,672,868	1,536,076
Tax Receivable		20,842	–
Other assets	10	8,294	11,781
Total current assets		2,669,345	2,429,125
Non-current assets			
Property, plant and equipment	11	77,442	83,678
Deferred tax assets	12	48,302	42,041
Intangible assets	13	350,354	348,497
Other assets	10	236	293
Total non-current assets		476,334	474,509
Total assets		3,145,679	2,903,634
Current liabilities			
Trade and other payables	14	924,628	704,586
Financial liabilities at fair value through profit or loss	15	4,949	2,265
Claims liabilities	16	357,798	351,702
Tax liability		–	123,607
Provisions	17	44,664	50,621
Total current liabilities		1,332,039	1,232,781
Non-current liabilities			
Trade and other payables	14	117,301	24,424
Claims liabilities	16	13,224	18,790
Deferred tax liabilities	18	31,291	18,487
Provisions	17	32,660	23,941
Total non-current liabilities		194,476	85,642
Total liabilities		1,526,515	1,318,423
Net assets		1,619,164	1,585,211
Equity			
Contributed equity	19	85,000	85,000
Reserves	20	18,189	18,192
Retained earnings	21	1,515,975	1,482,019
Total equity		1,619,164	1,585,211

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

Statement of Changes in Equity

For the financial year ended 30 June 2012

Consolidated	Contributed equity	Reserves	Retained earnings	Total equity
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2010	85,000	18,221	1,616,766	1,719,987
Profit for the year	–	–	299,646	299,646
Other comprehensive income	–	(29)	(10)	(39)
Total comprehensive income for the year	–	(29)	299,636	299,607
Transactions with owners in their capacity as owners:				
Dividends paid	–	–	(434,383)	(434,383)
Balance at 30 June 2011	85,000	18,192	1,482,019	1,585,211
Profit for the year	–	–	126,595	126,595
Other comprehensive income	–	(3)	(1,398)	(1,401)
Total comprehensive income for the year	–	(3)	125,197	125,194
Transactions with owners in their capacity as owners:				
Dividends paid	–	–	(91,241)	(91,241)
Balance at 30 June 2012	85,000	18,189	1,515,975	1,619,164

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

Statement of Cash Flows

For the financial year ended 30 June 2012

	Note	Consolidated 2012 \$'000	2011 \$'000
Cash flows from operating activities			
Premium receipts		5,270,431	4,774,439
Health Solutions receipts		282,618	251,374
Other receipts		17,974	13,591
Payments for claims and levies		(4,311,580)	(3,989,419)
Payments to suppliers and employees		(846,018)	(698,718)
Income taxes paid		(207,970)	(87,827)
Dividends paid		(91,241)	(434,383)
Net cash (outflow)/inflow from operating activities	31	114,214	(170,943)
Cash flows from investing activities			
Payment for purchase of subsidiaries, net of cash acquired	25	–	(139,011)
Interest received		73,718	96,267
Investment expenses		(5,995)	(4,477)
Proceeds from sale of financial assets		956,570	365,524
Purchase of financial assets		(1,119,524)	(708,865)
Proceeds from sale of plant and equipment		599	136
Purchase of plant and equipment		(14,519)	(19,625)
Purchase of intangible assets		(38,707)	(28,074)
Net cash (outflow)/inflow from investing activities		(147,858)	(438,125)
Net (decrease)/increase in cash and cash equivalents		(33,644)	(609,068)
Cash and cash equivalents at beginning of period		647,357	1,256,425
Cash and cash equivalents at end of period	6	613,713	647,357

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

Notes to the Financial Statements

Note 1: Summary of significant accounting policies

The financial statements of Medibank Private Limited ("Medibank Private" or "the Company") for the financial year ended 30 June 2012 ("2012") were authorised for issue in accordance with a resolution of the Directors on 31 August 2012. Medibank Private is an unlisted public company incorporated in Australia. It is a company limited by shares and is wholly-owned by the Commonwealth of Australia.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Medibank Private and its subsidiaries.

a) Basis of preparation

These general-purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*. Medibank Private is a for-profit entity for the purpose of preparing the financial statement.

The consolidated financial statements of the Medibank Private group ("the Group") also comply with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Group has elected to apply the following pronouncement to the annual reporting period beginning 1 July 2011:

- AASB 1054 *Australian Additional Disclosures*, AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project*

This includes applying the revised pronouncement to the comparatives in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. None of the items in the financial statements had to be restated as the result of applying these standards.

The group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2011.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss, land and buildings, intangibles, and claims liabilities.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Medibank Private ("parent entity") as at 30 June 2012 and the results of all subsidiaries for the year then ended. Medibank Private and its subsidiaries together are referred to in this financial report as the Group or the Consolidated Entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to Note 1(k)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

c) Segment reporting

AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 require segment information to be reported based on the information that is provided internally to the chief operating decision maker. The standards are applicable to annual reporting periods beginning on or after 1 January 2009. These standards apply to for-profit entities whose debt or equity instruments are traded in a public market or that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market. As the Group does not fall under this definition, segment information is not required.

The Group carries out business primarily in the provision of private health insurance and health services. The Group operates within Australia, New Zealand and the United Kingdom.

d) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Medibank Private's functional and presentation currency.

Note 1: Summary of significant accounting policies (continued)

d) Foreign currency translation (continued)

Foreign currency transactions are translated into Australian currency at the rates of exchange prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are attributable to part of the net investment in a foreign operation.

Net foreign exchange gains or losses are presented in the income statement within investment income or investment expense.

The Group entered into derivative contracts in the financial year including foreign exchange forward and swap contracts. These transactions are used to minimise exposure as per the protection strategy on financial assets at fair value through profit or loss as outlined in Note 1(p).

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transaction), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment repaid, a proportionate share of such exchange difference is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, trade rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

Revenue is recognised for the major business activities as follows:

(i) Private health insurance premium revenue (premium revenue)

Premium revenue comprises premiums received inclusive of any Federal Government Rebate.

Premium revenue is recognised in the income statement from the commencement date of the current period of insurance cover, in accordance with the pattern of the incidence of risk expected to match the seasonality of claims over the term of the insurance cover. Premium revenue includes the movement in the contributions in arrears which is assessed based on the likelihood of collection established from past experience. Premium revenue relating to future financial periods is classified as unearned premium liability in the balance sheet.

The Australian Government provides a rebate in respect of the premium paid for resident private health insurance. The rebate is 30% for persons aged under 65, 35% for persons aged from 65 to 69, and 40% for persons aged 70 and above. For certain categories of policyholders, the premium received by the Group is net of this Government rebate. In such instances, the Group receives the rebate directly from the Government. This rebate is recognised in the income statement as premium revenue. Rebates due from the Government but not received at balance date are recognised as receivables.

(ii) Health solutions revenue

Health solutions revenue includes the provision of face-to-face injury management, rehabilitation, allied health and specialist clinical services (including travel health and dental and eyecare products and services), telephone triage, chronic disease management, web-based health and wellness advice and the provision of clinical decision support software to companies, government and consumers. Revenue from these services is recognised in the period in which the service is provided, having regard to the proportion of completion of the service at the end of each reporting period. The Group recognises as a liability any amounts received for which it has not provided the service at reporting date.

(iii) Investment income

Unit trust distribution income and income arising from investments in direct mandates is recognised when the right to receive is established. Interest income accrues using the effective interest method. Refer to Note 1(p) for details on the measurement of gains and losses on financial assets measured at fair value through profit or loss and derivative financial instruments.

(iv) Sale of non-current assets

The gain or loss on disposal of non-current assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

(v) Travel, pet and life insurance commission

Travel, pet and life insurance commission is recognised as income in the period in which the service is provided based on the commission agreement.

(vi) Dividends

Dividends are recognised as revenue when the right to receive payment is established.

f) Claims expense

Claims expense consist of claims paid, changes in claims liabilities, amounts receivable from and payable to the Risk Equalisation Trust Fund, applicable state levies and costs incurred providing dental, optical and health management services.

g) Health insurance contracts acquisition costs

Costs incurred in obtaining and writing private health insurance contracts are expensed directly in the income statement.

h) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss as a deduction against the related expense over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in the non-current liabilities as deferred income and are credited on a straight line basis over the expected lives of the related assets.

i) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of each reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Medibank Private and its wholly owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

j) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (Note 22). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease incentives

In the event that lease incentives are received to enter into non-cancellable operating leases, such incentives are recognised as a liability. Lease payments are allocated between the rental expense and the reduction of the liability over the term of the lease.

Note 1: Summary of significant accounting policies (continued)

k) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred and the liabilities incurred. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired, is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified as either equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

l) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

m) Cash and cash equivalents

Cash and cash equivalents in the balance sheet are stated at fair value and include cash on hand, short term bank bills and term deposits, commercial paper, negotiable certificate of deposit, and other short-term highly liquid investments with maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant change in value.

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes all cash assets as described above, net of outstanding bank overdrafts.

n) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days, except for premiums in arrears as outlined below. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Objective evidence of impairment for premiums in arrears is 63 days past due. Objective evidence of impairment for trade receivables and sundry debtors is 60 to 90 days past due. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance has been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

o) Inventories

Inventories consist of dental and optical stock and other medical supplies which are valued at the lower of cost and net realisable value. The cost is assigned to individual items of inventories based on the weighted average cost method.

p) Investments and other financial assets

Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, trade and other receivables, and held-to-maturity investments. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held to maturity, re-evaluates this designation at the end of each reporting period.

i) Assets Backing Insurance Liabilities

Financial assets that back insurance liabilities that are within the scope of AASB 139 *Financial Instruments: Recognition and Measurement* and are permitted to be designated as “at fair value through profit or loss”, have been designated as “at fair value through profit or loss” under AASB 139 *Financial Instruments: Recognition and Measurement* on first application of AASB 1023 *General Insurance Contracts* or on initial recognition of the asset.

The Group has determined that the financial assets attributable to its private health insurance funds (Medibank Private and Australian Health Management), that have a quoted market price in an active market or whose fair value can be reliably measured, are financial assets permitted to be designated as assets backing general insurance liabilities of its private health insurance funds.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in fair value are recognised in the profit or loss and are included in investment income or investment expenses. The fair value of these arrangements is determined using valuation techniques, or market price where available. Valuation techniques include the use of option valuation models and require assumptions regarding inputs such as risk-free rates, strike rates, volatility and term to maturity to be made. Derivatives are carried as assets when their fair value is positive. Derivatives are carried as liabilities when their fair value is negative.

ii) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets.

iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

Recognition and derecognition

Purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Trade and other receivables are subsequently carried at amortised cost using the effective interest method. Held to maturity investments accrue at the effective interest method.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are presented in profit or loss within investment income or investment expenses in the period in which they arise. Dividend income through financial assets at fair value through profit or loss is recognised in profit or loss as part of investment income when the Group's right to receive payments is established. Interest income from these financial assets is included in the investment income. Financial assets that are designated at fair value through profit and loss, consist of externally managed equity trusts and direct mandates, and an internally managed fixed income portfolio.

Note 1: Summary of significant accounting policies (continued)

p) Investments and other financial assets (continued)

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date, with the exception of foreign currency positions which are valued at the price sourced from an appropriate external source on the balance sheet date. If quoted market prices are not available, fair values are estimated on the basis of pricing models or other recognised valuation techniques. The assumptions used as inputs into these models include the value of variables such as risk-free rates, volatility, strike rates, time to expiry, credit-default swap levels, and correlations.

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Assets carried at amortised cost

For trade and other receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

Impairment testing of trade receivables is described in Note 1(n).

(q) Property, plant and equipment

Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated as historical cost less depreciation, except for purchases costing less than \$1,000 which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total). Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Increases in the carrying amounts arising on revaluation of land and buildings are recognised, net of tax, in other comprehensive income and accumulated in reserves in equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same assets are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss.

Assets under construction are not depreciated until in use.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their costs or revalued amounts, net of any residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

Leasehold improvements:	the lease term
Buildings	40 years
Plant and equipment	3 – 15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(l)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is Group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

r) Intangibles

(i) Goodwill

Goodwill is measured as described in Note 1(k). Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(ii) Software

Costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software intangibles. Costs capitalised include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis over periods generally ranging from 2.5 to 5 years, the only exception being certain software acquired as part of the acquisition of Medibank Health Solutions Telehealth Pty Ltd which is amortised over 10 years.

(iii) Customer contracts and relationships

Customer contracts and relationships acquired as part of a business combination are recognised separately from goodwill. The customer contracts and relationships are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation of customer contracts and relationships is calculated on a straight-line basis over the expected useful lives, which range from 10 to 12 years.

(iv) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new systems or services) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which varies from 3 to 5 years.

s) Net Risk Equalisation Trust Fund levies

Under the provisions of the Private Health Insurance legislation, all private health insurers must participate in the Risk Equalisation Trust Fund. Through the Risk Equalisation Trust Fund, all private health insurers share the cost of proportions of the eligible claims of all persons aged 55 years and over, and claims meeting the high cost claim criteria.

The amount payable to or receivable from the Risk Equalisation Trust Fund is determined by the Private Health Insurance Administration Council after the end of each quarter. Estimated provisions for amounts payable or receivable are provided for periods for which determinations have not yet been made, including an estimate of risk equalisation for unrepresented and outstanding claims.

t) Claims liabilities and unexpired risk liability

(i) Claims liabilities

The liability for outstanding claims provides for claims received but not assessed and claims incurred but not received. The liability is based on an actuarial assessment taking into account historical patterns of claim incidence and processing. It is measured as the central estimate of the present value of expected future payments arising from claims incurred at the end of each reporting period under insurance cover issued by Medibank Private and Australian Health Management, plus a risk margin reflecting the inherent uncertainty in the central estimate. The expected future payments are discounted to present value using a risk-free rate.

The liability also allows for an estimate of claims handling costs, which include internal and external costs incurred in connection with the negotiation and settlement of claims. Claims handling costs comprise all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Medibank Private's PackagePlus product range includes a benefit category, PackageBonus, covering additional health related services. A feature of this benefit category is that any unused PackageBonus in a calendar year is carried forward to future calendar years subject to a maximum limit. Accordingly, 95% (2011: 94%) of the PackageBonus entitlements, less the amount paid in relation to these entitlements, has been included in claims liabilities to reflect the expected future utilisation of this benefit in respect of membership up to 30 June 2012. A risk margin has also been added to reflect the inherent uncertainty in the central estimate.

Note 1: Summary of significant accounting policies (continued)

t) Claims liabilities and unexpired risk liability (continued)

Medibank Private's Ultra Health Cover includes a benefit category, Ultra Bonus, covering additional health related services. A feature of this benefit category is that any unused Ultra Bonus in a calendar year is carried forward to future calendar years without limit. Accordingly, 100% (2011: 100%) of the Ultra Bonus entitlements, less the amount paid in relation to these entitlements, has been included in claims liabilities to reflect the expected future utilisation of this benefit in respect of membership up to 30 June 2012. Since the benefit has been provisioned assuming 100% utilisation, no risk margin has been added to the central estimate.

(iii) Unexpired risk liability

The liability adequacy test is required to be performed to determine whether the insurance liability in respect of unearned premium liability (contributions in advance) and insurance contracts renewable before the next pricing review (constructive obligation) is adequate to cover the present value of expected cash flows relating to future claims arising from rights and obligations under current insurance coverage, plus an additional risk margin to reflect the inherent uncertainty in the central estimate.

The liability adequacy test is performed at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs then the unearned premium liability is deemed to be deficient. Liability adequacy testing did not result in any deficiency as at 30 June 2012 and 2011 for Medibank Private and Australian Health Management.

u) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition, except for unearned premium liability. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Unearned premium liability

The proportion of premium received or receivable that has not been earned at the end of each reporting period is recognised in the balance sheet as unearned premium liability. The liability for unearned premiums is taken to the income statement over the term of the insurance cover. Refer also to Note 14 for details of the split between the current and non-current portion of this balance.

v) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

w) Employee entitlements

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service, are recognised in respect of employee's services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee entitlements. All other short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service, is recognised in the provision for employee entitlements and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period using Commonwealth Government Bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(iii) Bonus plans

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the performance of the employee against targeted and stretch objectives, and the profit of the company. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(iv) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or to providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(v) Retirement benefit obligations

All employees of the Group are entitled to benefits from either of the defined benefit superannuation funds (refer to Note 1(x)), Commonwealth Superannuation scheme (CSS), and the Public Sector Superannuation Scheme (PSS), or other funds as nominated by the individual employees. The CSS and PSS are defined benefit schemes for the Australian Government and provide defined lump sum benefits based on years of service and final average salary. All other funds are defined contribution which receive fixed contributions from Group companies, and the Group's legal or constructive obligation is limited to these contributions.

The liability or asset recognised in respect of the defined benefit superannuation plans is presented in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability or asset is reported by the Department of Finance and Deregulation as an administered item.

The Group makes employer contributions to the employees superannuation schemes at rates determined by an actuary to be sufficient to meet the current cost to the Australian Government for the superannuation entitlements of the Group's employees. The Group accounts for the contributions as if they were contributions to defined contribution plans.

Contributions to the defined contribution fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

x) Defined benefit fund

One of the Group's subsidiaries, Australian Health Management makes contributions to two defined benefit superannuation funds that provide defined benefit amounts for employees on retirement. These funds are now closed to new members.

The net obligation in respect of these defined benefit funds is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. The benefit is discounted in order to determine its present value and the fair value of any plan assets is deducted. All actuarial gains and losses are recognised directly in equity.

Management do not consider the net obligation in respect of these defined benefit funds to be material to the Group as at 30 June 2012.

y) Contributed equity

Fully paid ordinary shares are classified as contributed equity.

z) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

aa) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST component of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

ab) Equity Reserve

The parent entity has previously entered into a restructure of administrative arrangements, which gave rise to an equity reserve (refer Note 20) representing the difference between the book value of the net assets acquired from Medibank Health Solutions Pty Ltd (formerly Health Services Australia Pty Ltd) and the total purchase consideration.

Note 1: Summary of significant accounting policies (continued)

ac) Rounding of amounts

The Group is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars.

ad) Insurance contracts

Insurance contracts are defined as a contract under which the Group accepts significant insurance risk from another party by agreeing to compensate those

insured from the adverse effects of a specified uncertain future event. The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect.

Once insurance cover has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period. The Group has determined that all insurance cover provided (excluding those insurance contracts for travel, life and pet

insurance where the Group does not act as underwriter) are insurance contracts. The insurance risk assumptions are detailed in Note 2.

ae) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for the Group
AASB 9 and AASB 2009-11	Financial Instruments and Amendments to Australian Accounting Standards arising from AASB 9	All financial assets and liabilities to be recognised at fair value except debt instruments with basic loan features that are managed on a contracted yield basis. The standard is not applicable until 1 January 2013, therefore the Group is unable to assess its full impact. Based on the existing recognition of financial assets, the Group does not expect a material impact.	1 January 2013	1 July 2013
AASB 1053 and AASB 2010-2	Application of Tiers of Australian Accounting Standards and Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements	Introduction of a revised differential reporting framework in Australia. A two-tier reporting framework will apply to all entities preparing general purpose financial statements. Medibank Private is not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the entity.	1 July 2013	1 July 2013
Revised AASB 9 and AASB 2010-7	Financial Instruments and Amendments to Australian Accounting Standards arising from AASB 9	Revision to include classification and measurement requirements for financial liabilities, as well as the recognition and derecognition of financial instruments. The Group is currently evaluating the impact of the revision.	1 January 2013	1 July 2013

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for the Group
AASB 2010-8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets	Amendment introduces a practical approach for measuring deferred tax liabilities and assets when investment property is measured using the fair value model. The Group does not own investment property, therefore the amendment will have no impact on the financial statements of the entity.	1 January 2012	1 July 2012
AASB 10, AASB 11, AASB 12, revised AASB 27, AASB 28, and AASB 2011-7	Consolidated Financial Statements, Joint Arrangements, Disclosure of Interests in other entities, Separate financial statements, Investments in associates and Joint Ventures, and Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards	The objective of these standards is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The Group is currently evaluating the impact of the changes.	1 January 2013	1 July 2013
AASB 13 and AASB 2011-8	Fair Value Measurement and Amendments to Australian Accounting Standards arising from AASB 13	AASB 13 and AASB 2011-8 seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The Group is currently evaluating the impact of the standard.	1 January 2013	1 July 2013
AASB119, AASB 2011-10, and AASB 2011-11	Employee Benefits, Amendments to Australian Accounting Standards arising from AASB 119 (September 2011), and Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements	The revised standard requires the recognition of all re-measurements of defined benefit liabilities/assets immediately in other comprehensive income and the calculation of a net income or expense by applying the discount rate to the net defined benefit liability or asset. A number of additional disclosures could also affect the timing and recognition of termination benefits. Based on its existing defined benefit liabilities/assets the Group does not expect a material impact.	1 January 2013	1 July 2013
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income	This Standard requires entities to group items presented in other comprehensive income on the basis of whether they will be recycled to profit or loss in the future. It is a presentation change with minimal impact to the Group.	1 July 2012	1 July 2012
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	The amendment removes the individual key management personnel disclosure requirements from AASB 124 Related Party Disclosures. This will reduce the disclosure required in the notes to the financial statements, but it will not affect any amounts recognised in the financial statements.	1 July 2013	1 July 2013

Note 1: Summary of significant accounting policies (continued)

ae) New accounting standards and interpretations (continued)

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for the Group
AASB 2012-3	Financial Instruments: Presentation	This amendment clarifies some of the requirements for offsetting financial assets and financial liabilities. The Group is currently evaluating the impact of the changes.	1 Jan 2014	1 July 2014
AASB 2012-2	Financial Instruments: Disclosures	These disclosure changes focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements, irrespective of whether they are offset. The Group is currently evaluating the impact of the changes.	1 Jan 2013	1 July 2013

* Application date is for the annual reporting periods beginning on or after the date shown in the above table.

af) Parent entity financial information

The financial information for the parent entity, Medibank Private, disclosed in Note 32 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of Medibank Private.

(iii) Tax consolidation legislation

Medibank Private and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Medibank Private, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Medibank Private also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Medibank Private for any current tax payable assumed and are compensated by Medibank Private for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Medibank Private under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Note 2: Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) Ultimate liability arising from claims made under insurance coverage

Provision is made for the estimated cost of claims incurred but not settled at balance date.

(i) Insurance risk assumptions

The estimation of outstanding claims liabilities is based largely on the assumption that past claims settlement patterns are an appropriate predictor of expected future claims settlement patterns and involves a variety of actuarial techniques that analyse experience, trends and other relevant factors. The process

for establishing the outstanding claims provision involves extensive consultation with internal actuaries, claims managers and other senior management. The process includes monthly internal claims review meetings attended by senior divisional management and the Chief Actuary.

The critical assumption in the determination of the outstanding claims liability is the extent to which claim incidence and development patterns are consistent with past experience.

(ii) Central estimates

The outstanding claims provision comprises the central estimate and a risk margin. The central estimate is an estimate of the level of claims provision that is intended to contain no intentional under or over estimation. The risk margin is added to the central estimate of outstanding claims to achieve a desired probability of adequacy. The outstanding claims provision is discounted at risk-free rates of return to reflect the time value of money.

Central estimates for each class of business are determined based on analysis of historical experience which assumes an underlying pattern of claims development and payment. The final

selected central estimates are based on a judgemental consideration of the results and qualitative information.

Central estimates are calculated excluding the impact of the Risk Equalisation Trust Fund. A separate estimate is made of levies payable to and recoveries from the Risk Equalisation Trust Fund.

An overall risk margin is determined after consideration of the uncertainty of the outstanding claims estimate.

The objective for Medibank Private is to achieve at least a 95% probability of sufficiency (2011: 95%). The risk margin applied at 30 June 2012 is 4.4% which equates to \$13,331,000 as reflected in Note 16 (a) (2011: 4.9%, \$14,338,000).

The objective for Australian Health Management is to achieve at least a 95% probability of sufficiency (2011: 95%). The risk margin applied at 30 June 2012 is 8.9% which equates to \$2,837,000 as reflected in Note 16 (a) (2011: 8.3%, \$2,548,000).

The calculation of the risk margin has been based on an analysis of the past experience of each Fund of the Group. This analysis examined the volatility of past payments in comparison to the central estimate.

(iii) Financial assumptions used to determine outstanding claims provision

The outstanding claims provision is discounted to net present value using a risk-free rate of return.

The risk-free rate applied to the outstanding claims provision of Medibank Private at 30 June 2012 is 3.49% which equates to \$1,678,000 (2011: 5.03%, \$2,095,000).

The risk-free rate applied to the outstanding claims provision of Australian Health Management at 30 June 2012 is 3.49% which equates to a discount of \$149,000 (2011: 5.03%, \$224,000).

(iv) Impact of changes in key variables on the outstanding claims provision

The impact of changes in key outstanding claims variables are summarised below. Each change has been calculated in isolation of the other changes and each change shows the impact on profit and equity assuming that there is no change to another variable.

	Movement in variable	Financial Impact			
		Consolidated			
		2012		2011	
		Profit/(loss) \$'000	Equity \$'000	Profit/(loss) \$'000	Equity \$'000
Central estimate	1%	(3,667)	(3,667)	(3,657)	(3,657)
Central estimate	-1%	3,667	3,667	3,657	3,657
Discount rate	1%	563	563	522	522
Discount rate	-1%	(571)	(571)	(528)	(528)
Risk Margin	1%	(5,847)	(5,847)	(6,001)	(6,001)
Risk Margin	-1%	5,847	5,847	6,001	6,001
Weighted average term to settlement*	+1 month	1,059	1,059	1,524	1,524
Weighted average term to settlement	-1 month	(1,063)	(1,063)	(1,530)	(1,530)

* The weighted average term to settlement reflects the estimate of when outstanding claims are expected to be paid.

Note 2: Critical accounting estimates and judgements (continued)

a) Ultimate liability arising from claims made under insurance coverage (continued)

(v) PackageBonus provision

A provision is included in the accounts to cover expected future utilisation of PackageBonus benefits accrued in respect of past membership. The true cost of the PackageBonus entitlement cannot be known with certainty until any unclaimed entitlements expire, five years after they were credited to the PackageBonus account. The expected ultimate utilisation rate of current PackageBonus entitlements is 95% (2011: 94%) based on a regular analysis of past claims experience.

A risk margin is added to the central estimate to achieve a desired probability of adequacy. The objective for Medibank Private is to achieve at least a 95% probability of sufficiency. The risk margin applied at 30 June 2012 is 1.8% of PackageBonus entitlements which equates to \$4,479,000 (2011: 2.4%, \$6,473,000).

A provision is included in the accounts to cover expected future utilisation of Ultra Bonus benefits accrued in respect of past membership. The expected ultimate utilisation rate of current Ultra Bonus entitlements is 100% (2011: 100%).

A risk margin has not been added to the central estimate of the Ultra Bonus provision since it has been provisioned assuming 100% utilisation.

The PackageBonus and Ultra Bonus provisions are discounted at risk-free rates of return to reflect the time value of money. The risk-free rate applied to these provisions of Medibank Private at 30 June 2012 is 3.49% which equates to \$58,000 (2011: 5.03%, \$181,000).

b) Classification and valuation of investments

Medibank Private and Australian Health Management classify investments in listed and unlisted securities as financial assets that back insurance liabilities and are therefore designated at initial recognition as at fair value through profit or loss. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the end of the reporting period, with the exception of foreign currency positions which are valued at the price sourced from an appropriate external source at the end of the reporting period. If quoted market prices are not available, fair values are estimated on the basis of pricing models or other recognised valuation techniques. The assumptions used as inputs into these models include the value of variables such as risk-free rates, volatility, strike rates, time to expiry, credit-default swap levels, and correlations.

c) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 1(l). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to Note 13 for details of these assumptions and the potential impact of changes to the assumptions.

d) Long service leave provision

As discussed in Note 1(w), the liability for long service leave is recognised and measured as the present value of the estimated future long service leave cash flows to be made in respect of all employees as at the balance date. In determining the present value of the liability, attrition rates and pay increases through inflation have been taken into account.

e) Allowance for impairment loss on trade and other receivables

Collectability of trade receivables is reviewed on an ongoing basis. Receivables that are known to be uncollectible are written off when identified. An allowance for impairment is raised when there is objective evidence that the receivable will not be collected. Due to the large number of debtors, this assessment is based on supportable past history and historical write-offs of bad debts with all receivables greater than 90 days past due being considered. The impairment loss is outlined in Note 7.

f) Useful lives of software

The Group's management determines the estimated useful lives and related amortisation charges for its software and technology. This estimate is based on projected product lifecycles for its high-tech segment. It could change significantly as a result of technical innovations and competitor actions. Where software and technology is purchased or developed to enter new or uncertain but strategically important markets it is expensed as incurred. Medibank Health Solutions Telehealth holds software/technology whose estimated useful life, management estimates as 10 years. All other software is estimated to have a useful life of 2.5 to 5 years.

Note 3: Financial risk management

This note is prepared in accordance with AASB 7 "Financial Instruments: Disclosures" and reflects risk management policies and procedures associated with financial instruments and capital and insurance contracts. The Group's principal financial instruments comprise cash and short term money market instruments (including bank bills, negotiable certificates of deposit, term deposits, and commercial paper), debentures and floating rate notes (both domestic and global), domestic equity trusts, global equity trusts, domestic listed shares, domestic and global property trusts.

The positions in these financial instruments are determined by Board policy in order to achieve appropriate levels of return for risk from the funds available. A strategic asset allocation is set and/or reviewed at least annually by the Board, which establishes the maximum and minimum exposures in each asset class. Transacting in individual instruments is subject to delegated authorities and an approval process which are also established and reviewed by the Investment Committee of the Board. The Group predominantly enters into derivative transactions to principally offset positions in equity and forward currency markets, with the sole purpose of managing its risks to equity market downturns and currency risks arising from its investment operations. Short term derivative contracts are also used to maintain exposures to certain asset classes. It is the Group's policy that at no time throughout the period will trading of these derivative instruments for purposes other than risk management be undertaken, unless explicitly approved by the Board Investment Committee.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, price risk, credit risk and liquidity risk. The Group uses different methods to measure and manage the different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate, price risk and foreign exchange risk. In analysing exposure to these

risks, consideration is given to interest rate expectations, potential renewals of existing positions, and any expected changes in asset allocation. Ageing analyses and monitoring of counter party credit quality are undertaken to manage credit risk, whilst liquidity risk is monitored through the development of future rolling cash flow forecasts. Equity price risk is managed through the use of diversification and limit setting on investments in each country, sector and market. Additionally derivative instruments are used to limit the Group's exposure to downside risks.

Primary responsibility for consideration and control of financial risks rests with the Board Investment Committee under the authority of the Board. The Board Investment Committee reviews and agrees policies for managing each of the risks identified below, including the setting of limits for trading in derivatives, foreign currency contracts and other instruments. Limits are also set for credit exposure and interest rate risk.

(i) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: market interest rates (interest rate risk), foreign exchange rates (currency risk), and market prices (price risk).

The following policies and procedures are in place to mitigate the Group's exposure to market risk:

- Compliance with the investment policy is monitored and exposures and breaches are reported to the Board Investment Committee. The policy is reviewed regularly for changes in the risk environment.
- Strict control over hedging activities.

The Capital Adequacy Standard requires insurance companies to perform "resilience tests" to determine the exposure to market risk and to hold sufficient capital reserves to cover this risk. Medibank Private and Australian Health Management require that additional capital be held at a level in excess of the minimal capital requirement.

(a) Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fixed interest rate instruments expose the Group to fair value interest risk, whilst floating rate instruments expose the Group to cash flow risk and fair value risk.

The Group's exposure to the risk of changes in market interest rates consists of its exposure to cash and cash equivalents, investments in unit trusts and floating rate investments. The Group's current policy is to not hedge against falls in market interest rates.

If interest rates had differed for the entire reporting period by the amounts illustrated in the table below, with all other variables remaining constant, profit and equity would have been affected as follows:

Consolidated	Financial Impact			
	Profit		Equity	
	2012	2011	2012	2011
Judgements of reasonably possible movements	\$'000	\$'000	\$'000	\$'000
+140 bps (2011: +175 bps)	26,538	32,388	26,538	32,388
-140 bps (2011: -175 bps)	(26,538)	(32,388)	(26,538)	(32,388)

The assessment of reasonably possible movements was made with guidance from the Australian Department of Finance and Deregulation (DOFD).

Note 3: Financial risk management (continued)

(i) Market risk (continued)

(a) Interest rate risk (continued)

At balance date, the Group had the following financial assets exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

	Consolidated 2012	2011
	\$'000	\$'000
Assets		
Cash & cash equivalents	613,713	647,357
Financial assets at fair value through profit and loss		
– Debentures and Notes	982,944	852,321
– Unit Trusts	341,683	353,354
	1,938,340	1,853,032

Cash equivalents are short term money market investments primarily incorporating bills, commercial papers, negotiable certificate of deposits, and term deposits. Debentures and notes primarily consist of floating rate notes (FRN's) and other term debt instruments. Both classes of financial assets have variable interest rates and are therefore, exposed to cash flow movements if these interest rates change. The Group constantly analyses its interest rate exposure. The interest rates on longer term investments are reset every 90 days on average.

Assets held to maturity are investments in floating rate notes within one of the Group's subsidiaries. These investments are held at a fixed interest rate for the duration of the investment.

(b) Foreign currency risk

Foreign currency risk is the risk that the fair value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's investments in global equity trusts are exposed to fluctuations in currency exchange rates. Forward rate contracts are entered into between the Australian dollar and the following currencies: US dollar, Canadian dollar, Japanese Yen, the Euro and Pound Sterling, Hong Kong dollar, Singapore dollar and Swiss Franc in order to minimise this exposure. The Group's investment policy states that this foreign currency risk is to be mitigated by using forward currency contracts.

The Group also has transactional currency exposures which arise from purchases in currencies other than the functional currency. These transactions consist of operational costs within trade and other payables which are minimal, and purchases of foreign currency denominated investments.

The Group has exposure to foreign currency translation risk through its subsidiaries located in the UK and New Zealand respectively. The functional currency of these subsidiaries is different from the Group's presentation currency and is translated into the presentation as described in Note 1(d).

At 30 June 2012, the Group had the following net exposure to foreign currency movements:

	Consolidated 2012	2011
	\$'000	\$'000
Assets		
Net Financial assets at fair value through profit and loss		
– Debentures and Notes	73,775	73,655
– Unit Trusts	240,424	252,958
	314,199	326,613

The Group has forward currency contracts that are subject to fair value movements through profit or loss as foreign exchange rates move.

At 30 June 2012, the Group had entered offsetting positions for 90% (2011: 96%) of its foreign currency translation exposure resulting from Global investments.

Had exchange rates moved as illustrated in the table below, with all other variables held constant, profit and equity would have been affected as follows:

Consolidated entity Judgements of reasonably possible movements	Profit		Equity	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
AUD/USD +15% (2011: +15%)	(2,586)	(854)	(2,586)	(854)
AUD/USD -15% (2011: -15%)	2,586	854	2,586	854
AUD/GBP +15% (2011: +15%)	(402)	(157)	(402)	(157)
AUD/GBP -15% (2011: -15%)	402	157	402	157
AUD/EUR +15% (2011: +15%)	(1,035)	(392)	(1,035)	(392)
AUD/EUR -15% (2011: -15%)	1,035	392	1,035	392
AUD/JPY +15% (2011: +15%)	(340)	(165)	(340)	(165)
AUD/JPY -15% (2011: -15%)	340	165	340	165
AUD/NZD +15% (2011: +15%)	(790)	928	(790)	928
AUD/NZD -15% (2011: -15%)	790	(928)	790	(928)

The assessment of reasonably possible movements was made with reference to published consensus forecasts or market expectations of potential movements in the relevant exchange rates and guidance from DOFD.

Management believes the balance date risk exposures are representative of the risk exposure inherent in the financial statements.

(c) Price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's equity price risk arises from investments in equity, absolute return funds and listed property securities. It is managed by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each country, sector and market, and careful planned use of derivative financial instruments.

The Group holds and sells European style put and call options to protect its exposure to Australian and Global equities.

Note 3: Financial risk management (continued)

(i) Market risk (continued)

(c) Price risk (continued)

The following sensitivity analysis is based on the equity price risk exposures in existence at the balance sheet date.

Had the market prices moved, as illustrated in the table below, with all other variables held constant, profit and equity would have been affected as follows:

Consolidated entity Judgements of reasonably possible movements	Profit		Equity	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Australian Equity & Absolute Return Fund +10%	32,764	26,083	32,764	26,083
Australian Equity & Absolute Return Fund -10%	(32,764)	(26,083)	(32,764)	(26,083)
Australian Property Investments +9%	8,812	7,947	8,812	7,947
Australian Property Investments -9%	(8,812)	(7,947)	(8,812)	(7,947)
Global Listed Property Investments +9%	4,720	3,712	4,720	3,712
Global Listed Property Investments -9%	(4,720)	(3,712)	(4,720)	(3,712)
Global Equity Investments +12%	21,997	23,331	21,997	23,331
Global Equity Investments -12%	(21,997)	(23,331)	(21,997)	(23,331)
Emerging Market Investments +20%	2,186	2,484	2,186	2,484
Emerging Market Investments -20%	(2,186)	(2,484)	(2,186)	(2,484)

The assessment of reasonably possible movements was made with reference to published forecasts or market expectations of potential movements in the relevant equity markets.

Management believe the balance date risk exposures are representative of the risk exposure inherent in the financial statements.

(ii) Credit risk

(a) Investments

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables, financial assets at fair value through profit and loss and derivative instruments. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

Credit risk exposure is measured by reference to exposures by ratings bands, country, industry and instrument type.

The Group maintains a counter party exposure policy where the majority of credit exposure is limited to the A- or

higher rated categories for long term investments, and A2 or higher for short term investments. All debt securities are rated investment grade (as measured by external rating agencies such as Standard & Poor's). Departures from this policy require Board approval.

There is a geographical concentration to Australian domiciled banks and corporations, which is managed through the use of exposure limits.

The Group does not have any financial instruments to mitigate exposure against credit risk and all investments are unsecured (except for covered bonds, asset backed securities and mortgage backed securities). However, the impact of default of counter parties is minimised through the use of Board approved limits by counter party and rating, diversification of counter parties, and the conservative policy to maintain investments in investment grade entities only.

(b) Trade and other receivables

Due to the nature of the industry and value of individual policies, the Group does not request any collateral nor is it the policy to secure its premiums in arrears and trade and other receivables. The Group regularly monitors its premiums

in arrears, with the result that exposure to bad debts is not significant. The credit risk in respect to premiums in arrears, incurred on non-payment of premiums, will only persist during the grace period of 63 days as specified in the Fund Rules when the policy may be terminated. The Group is not exposed to claims whilst a membership is in arrears.

Trade and other receivables are monitored regularly and escalated when they fall outside of terms. The use of debt collection agencies are also used to obtain settlement.

There are no significant concentrations of premium credit risk within the Group.

(c) Counter party credit risk ratings

The following table provides information regarding the credit risk exposure of the Group at 30 June 2012 by classifying assets according to credit ratings of the counter parties. AAA is the highest possible rating. Assets that fall outside the range AAA to BBB are classified as non-investment grade. The below table highlights the short term rating as well as the equivalent long term ratings bands as per published Standard & Poor's correlations.

Consolidated							
Short Term	A-1+	A-1+	A-1	A-2	B & below		
Long Term	AAA	AA	A	BBB	BB & below	Not rated	Total
2012	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Assets							
Cash/cash equivalents	35,310	441,511	112,698	38,880	–	(14,686)	613,713
Premiums in arrears	–	–	–	–	–	11,660	11,660
Trade and other Receivables	–	–	–	–	–	340,380	340,380
Financial Assets							
Unit Trusts – Unlisted	–	–	–	–	–	340,653	340,653
Direct Aust Listed & Absolute mandates	–	–	–	–	–	334,076	334,076
Debentures & notes	139,175	571,084	214,751	57,934	–	–	982,944
Private Equity	–	–	–	–	–	1,030	1,030
Derivatives	–	8,556	5,609	–	–	–	14,165
Liabilities							
Derivatives	–	(1,364)	(3,585)	–	–	–	(4,949)
Total	174,485	1,019,787	329,473	96,814	–	1,013,113	2,633,672

Consolidated							
Short Term	A-1+	A-1+	A-1	A-2	B & below		
Long Term	AAA	AA	A	BBB	BB & below	Not rated	Total
2011	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Assets							
Cash/cash equivalents	10,156	485,191	49,038	117,999	–	(15,026)	647,358
FRN's held to maturity	–	–	–	–	–	–	–
Premiums in arrears	–	–	–	–	–	11,274	11,274
Trade and other Receivables	–	–	–	–	–	232,493	232,493
Financial Assets							
Unit Trusts – Unlisted	–	–	–	–	–	350,132	350,132
Direct Aust Listed & Absolute mandates	–	–	–	–	–	321,213	321,213
Debentures & notes	197,481	534,583	101,315	18,942	–	–	852,321
Private Equity	–	–	–	–	–	3,222	3,222
Derivatives	–	6,462	2,726	–	–	–	9,188
Liabilities							
Derivatives	–	(1,152)	(1,113)	–	–	–	(2,265)
Total	207,637	1,025,084	151,966	136,941	–	903,308	2,424,936

The Group's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the balance sheet.

Note 3: Financial risk management (continued)

(iii) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. It may result from either the inability to sell financial assets quickly at their fair values; or counter party failing on repayment of a contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

In order to maintain appropriate levels of liquidity, the Group's policy is to hold at least 40% of its' total investment assets in short term, highly liquid bank bills, tradeable commercial paper and short dated floating rate notes, maturing in 365 days or less.

The table below reflects all contractually fixed pay-offs for settlement and interest resulting from recognised financial liabilities as at 30 June 2012 as well as the respective undiscounted cash flows for the respective upcoming fiscal years are presented. Cash flows for financial liabilities without fixed amount or timing are based on the conditions existing at 30 June 2012.

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Trade payables and other financial liabilities mainly originate from the financing of assets used in our ongoing operations such as property, plant and equipment and investments in working capital. These assets are considered by the Group in the overall liquidity risk. To monitor existing financial liabilities as well as to enable an effective overall controlling of future risks, the Group has established comprehensive risk reporting that reflects expectations of management of expected settlement of financial liabilities.

The remaining contractual maturities of the Group's financial liabilities are:

Consolidated	under 6 months	6 to 12 months	1-2 years	over 2 years	Total contractual cash flows	Carrying amount
2012	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-derivatives						
Trade and other payables	242,417	493	640	1,024	244,574	244,574
Unearned premium liability	511,436	170,282	103,692	11,945	797,355	797,355
Claims liabilities	332,717	26,830	10,638	2,857	373,042	371,022
Total non-derivatives	1,086,570	197,605	114,970	15,826	1,414,971	1,412,951

Consolidated	under 6 months	6 to 12 months	1-2 years	over 2 years	Total contractual cash flows	Carrying amount
2011	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-derivatives						
Trade and other payables	248,150	1,247	825	1,403	251,625	251,625
Unearned premium liability	390,426	63,416	15,703	7,840	477,385	477,385
Claims liabilities	329,706	24,329	12,512	6,660	373,207	370,492
Total non-derivatives	968,282	88,992	29,040	15,903	1,102,217	1,099,502

It is not possible for a company primarily transacting in insurance business to predict the requirements of funding with absolute certainty. The theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturities in respect of insurance liabilities are therefore, based on management's best estimate which incorporates statistical techniques and past experience.

(iv) Fair value measurements

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- i. Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- ii. Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- iii. Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following tables present the Group's assets and liabilities measured and recognised at fair value at 30 June 2012.

Consolidated	Level 1	Level 2	Level 3	Total
Year ended 30 June 2012	\$'000	\$'000	\$'000	\$'000
Financial Assets				
Financial assets at fair value through profit or loss	567,566	1,104,272	1,030	1,672,868
	567,566	1,104,272	1,030	1,672,868
Financial Liabilities				
Financial liabilities at fair value through profit or loss	–	(4,949)	–	(4,949)
	–	(4,949)	–	(4,949)

Consolidated	Level 1	Level 2	Level 3	Total
Year ended 30 June 2011	\$'000	\$'000	\$'000	\$'000
Financial Assets				
Financial assets at fair value through profit or loss	348,856	1,182,420	4,800	1,536,076
	348,856	1,182,420	4,800	1,536,076
Financial Liabilities				
Financial liabilities at fair value through profit or loss	–	(2,265)	–	(2,265)
	–	(2,265)	–	(2,265)

Note 3: Financial risk management (continued)

(iv) Fair value measurements (continued)

The fair value of financial instruments traded in active markets (such as exchange traded equities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined using a variety of valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Valuation methods include quoted market prices or dealer quotes for similar instruments, yield curve calculations using the mid yield, vendor or independent developed models. These instruments are included in level 2 classification.

The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2.

All other investments, where the valuation technique is based on significant unobservable inputs are included in level 3.

There were no significant transfers between level 1 and level 2.

The following tables present the changes in level 3 instruments for the year ended 30 June 2012:

	Consolidated	
	2012	2011
	\$'000	\$'000
Opening balance	4,800	9,991
Transfers into level 3	–	–
Transfers out of level 3	–	–
Purchases	–	356
Sales	(1,431)	(2,643)
Gains/(Losses) recognised in profit or loss	(2,339)	(2,904)
Closing balance	1,030	4,800

The opening value of level 3 holdings in the consolidated entity comprised of investment in one frozen unit trust, various debentures and notes that have been valued using valuation models with unobservable inputs, and a direct investment in two unlisted domestic companies.

The closing value is made up of the investment in the private equity trust and the two direct investments in an unlisted domestic company. Due to the nature of the business the valuations of these investments could not be based on observable market inputs and therefore, are classified as a level 3 investment. The other balance is made up of the continued holding in the frozen unit trust.

(v) Insurance risk

Medibank Private and Australian Health Management provide private health insurance across a range of services, including: hospital insurance for private patients, ancillary or extras cover, and private health insurance for overseas students studying in Australia. The Group also provides private health insurance for overseas visitors to Australia. These services are written as two types of contracts, Hospital and/or Ancillary cover. This business does not result in significant exposure to concentrations of risk because contracts written cover a large volume of members across all states in Australia.

The table below provides an overview of the key variables upon which the cash flows of the insurance contracts are dependant.

Type of contract	Detail of contract workings	Nature of claims	Key variables that affect the timing and uncertainty of future cash flows
Hospital Cover	Defined benefits paid for hospital treatment, including accommodation, medical and prostheses costs	Hospital benefits defined by the insurance contract or relevant Deed	Claims incidence and claims inflation
Ancillary Cover	Defined benefits paid for ancillary treatment, such as dental, optical and physiotherapy	Ancillary benefits defined by the insurance contract or relevant Deed	Claims incidence and claims inflation

Insurance risks are managed through the use of claims management procedures, close monitoring of experience, the holding of capital in excess of prudential requirements, the ability to vary premium rates, and risk equalisation.

Claims management

Strict claims management ensure the timely and correct payment of claims in accordance with policy conditions and provider contracts. Claims are monitored on a monthly basis to track the experience of the portfolios.

Experience monitoring

Monthly financial and operational results, including portfolio profitability and prudential capital requirements, are reported to management committees and the Board. Insurance risks and experience for the industry are also monitored by the Private Health Insurance Administration Council (PHIAC).

Prudential capital requirements

All private health insurers are required to comply with prudential capital requirements providing a buffer against certain levels of adverse experience. In addition, the Board also has a target level of capital in excess of the prudential requirement. Actual capital exceeds these levels, providing a buffer against adverse claims experience.

Ability to vary premium rates

The Group has the ability to vary future premium rates subject to the approval of the Minister for Health and Ageing.

Risk Equalisation

The Private Health Insurance Act requires resident private health insurance contracts to meet community rating requirements, prohibiting health insurers from discriminating between people on the basis of their health status, gender, race, sexual orientation, religious belief, age (except as allowed under Lifetime

Health Cover provisions), increased need for treatment or claims history. To support these restrictions, all private health insurers must participate in the Risk Equalisation Trust Fund under which all private health insurers share the cost of proportions of the eligible claims of all persons aged 55 years and over, and claims meeting the high cost claim criteria.

Concentration of Health Risk

The Group has health insurance contracts covering several classes of health insurance business, including: hospital insurance for private patients, ancillary or extras cover, and private health insurance for overseas students and visitors to Australia. This business does not result in significant exposure to concentrations of risk because contracts written cover a large volume of persons across all states in Australia.

Note 4: Revenue and expenses

	Consolidated	
	2012	2011
	\$'000	\$'000
(a) Insurance underwriting result		
Premium revenue	5,062,300	4,737,792
Claims expense		
Claims incurred	(4,346,340)	(3,954,048)
State levies	(42,003)	(40,435)
Net Risk Equalisation Trust Fund levies	83,103	29,250
	(4,305,240)	(3,965,233)
Other claims expense	(5,716)	(18,939)
Net claims incurred	(4,310,956)	(3,984,172)
Underwriting expenses	(538,594)	(450,392)
Underwriting result after expenses	212,750	303,228
(b) Lease expense		
Operating lease rental expense	33,313	29,555
	33,313	29,555
(c) Depreciation and software amortisation		
Depreciation – land and buildings	802	803
Depreciation – plant and equipment	6,654	6,982
Depreciation – leasehold improvements	8,363	7,239
Amortisation – software	27,810	20,630
	43,629	35,654
(d) Investment income		
Interest	81,359	96,762
Trust distributions	5,807	10,013
Dividend income	8,870	8,429
Net gain on disposal of financial assets	–	13,732
Net gain on fair value movements on financial assets	–	37,092
	96,036	166,028
(e) Investment expense		
Investment management fees	6,052	4,477
Net loss on disposal of financial assets	41,619	–
Net loss on fair value movements on financial assets	4,969	–
	52,640	4,477
(f) Other income/(expense)		
Interest	36	105
Other income	2,342	1,527
Impairment – goodwill	–	(2,523)
Revaluation – land and buildings	(1,501)	(2,164)
	877	(3,055)
(g) Amortisation of acquisition intangibles		
Amortisation – customer contracts & relationships	7,143	8,144
Amortisation – software	1,788	1,788
	8,931	9,932

	Consolidated 2012	2011
	\$'000	\$'000
(h) Government Grants		
Credited against the following expenses		
Employee benefits expense	3,864	–
Professional service expense	2,567	–
Office and administration expense	209	–
Marketing expense	1	–
Information technology expense	177	–
	6,818	–

As part of the Australian Government's Personally Controlled Electronic Health Record (PCEHR) initiative, Medibank received grants totalling \$6,818,000 (2011: nil) excluding GST. In accordance with AASB 120, these grants were credited against the underlying operating expense as detailed above. There are no unfulfilled conditions or other contingencies attaching to these grants.

Note 5: Income tax expense

	Consolidated 2012	2011
	\$'000	\$'000
(a) Income tax expense		
Current tax	64,353	129,991
Deferred tax	7,141	4,058
Adjustment for current tax of prior period	(808)	(5,276)
	70,686	128,773
Deferred income tax (revenue)/expense included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets (Note 12)	(5,637)	(982)
(Decrease)/increase in deferred tax liabilities (Note 18)	12,778	5,040
	7,141	4,058

Note 5: Income tax expense (continued)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	Consolidated	
	2012	2011
	\$'000	\$'000
Profit for the year before income tax expense	197,281	428,419
Tax at the Australian tax rate of 30% (2011 – 30%)	59,184	128,526
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment	496	628
Tax offset for franked dividends	(1,883)	(1,369)
Tax base restatement for investments	(1,274)	1,015
Provision for Uncertain Tax Position ⁽ⁱ⁾	(5,151)	5,151
Adjustment for Rights to Future Income ⁽ⁱⁱ⁾	20,503	(2,461)
Amortisation of Intangibles	1,879	–
Net R&D tax concession ⁽ⁱⁱⁱ⁾	(2,207)	–
Acquisition costs	–	1,302
Impairment	84	719
Sundry items	(137)	538
	71,494	134,049
Adjustment for current tax of prior period	(808)	(5,276)
Income tax expense	70,686	128,773

⁽ⁱ⁾ The Rights to Future Income ("RTFI") amendments recommended in the Board of Taxation Review were substantively enacted on 27 Jun 2012 and the Parent Entity has subsequently reversed its prior year uncertain tax provision for the 2011 RTFI deduction of \$5.1m.

⁽ⁱⁱ⁾ In light of the RTFI amendments the Parent Entity will no longer be eligible for RTFI deductions claimed for the 2010 and 2011 financial years in respect of the private health insurance contracts of Australian Health Management and certain health service contracts of Medibank Health Solutions. The Parent Entity has consequently recognised in the current year the denial of these prior year deductions being \$4.4m for 2010 and \$3.9m for 2011 respectively.

The denial of prior year RTFI deductions in respect of the private health insurance contracts of Australian Health Management has also resulted in the Parent Entity recognising the underlying deferred tax impact in the current year of \$12.2m.

⁽ⁱⁱⁱ⁾ During the 2012 financial year, the Parent Entity recognised its benefit in respect of the Research & Development ("R&D") tax concession lodged during the year for the 2010 and 2011 financial years being \$4.9m and \$4.2m respectively. This benefit is net of any deferred tax impact required to be recognised by the Parent Entity in respect of fixed assets subject to the R&D tax concession.

	Consolidated	
	2012	2011
	\$'000	\$'000
(c) Amounts recognised in other comprehensive income		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to other comprehensive income		
Net deferred tax – (credited)/ debited directly to other comprehensive income	(598)	(60)
	(598)	(60)

(d) Tax consolidation legislation

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Medibank Private.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Medibank Private for any current tax payable assumed and are compensated by Medibank Private for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Medibank Private under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable / payable under tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Note 6: Cash and cash equivalents

	Consolidated 2012	2011
	\$'000	\$'000
Cash and cash equivalents	613,713	647,357

Bank overdraft facility

The Group has an unsecured overdraft facility from the bank which is reviewed annually as follows:

	Consolidated 2012	2011
	\$'000	\$'000
Amount used	1,368	–
Amount unused	3,390	8,217
	4,758	8,217

Note 7: Trade and other receivables

		Consolidated 2012	2011
		\$'000	\$'000
Premiums in arrears		11,660	11,274
Allowance for impairment loss	(i)	(2,496)	(3,037)
		9,164	8,237
Trade Receivables		93,013	69,779
Allowance for impairment loss	(ii)	(1,445)	(1,703)
		91,568	68,076
Goods and services tax		1,623	4,026
Government rebate scheme	(a)	207,490	127,947
Risk Equalisation Trust Fund		42,195	24,207
		251,308	156,180
Total trade and other receivables		352,040	232,493

^(a) Government rebate scheme is non-interest bearing and generally on 15-day terms.

(i) Allowance for impairment loss – Premiums in arrears

Premiums in arrears are non-interest bearing. An allowance for impairment loss is generally recognised when there is objective evidence that a premium in arrears is impaired. An allowance for impairment loss of \$2,496,000 (2011: \$3,037,000) has been recognised by the Group. This amount has been offset against 'premium revenue' in the income statement.

Movements in the allowance for impairment loss for premiums in arrears were as follows:

	Consolidated 2012	2011
	\$'000	\$'000
Balance at 1 July	3,037	2,899
Charge for the year	899	1,576
Amounts recovered	(1,383)	(1,283)
Amounts written-back	(57)	(155)
Balance at 30 June	2,496	3,037

(ii) Allowance for impairment loss – Trade receivables

Trade receivables are non-interest bearing and are generally on 7-30 day terms. An allowance for impairment loss is generally recognised when there is objective evidence that a trade receivable is impaired. An allowance for impairment loss of \$1,445,000 (2011: \$1,703,000) has been recognised by the Group at 30 June 2012. The movement for the period forms part of 'other expenses' in the income statement.

Movements in the allowance for impairment loss for Trade receivables were as follows:

	Consolidated 2012 \$'000	2011 \$'000
Balance at 1 July	1,703	595
Acquisition of subsidiaries	–	181
Charge for the year	186	1,165
Amounts recovered	(388)	(26)
Amounts written-off	(56)	(212)
Balance at 30 June	1,445	1,703

(a) Considered impaired

Consolidated	Total \$'000	0-30 days \$'000	31-60 days \$'000	61-90 days \$'000	+91 days \$'000
2012					
Premiums in arrears	2,496	753	1,111	315	317
Trade receivables	1,445	–	–	–	1,445
	3,941	753	1,111	315	1,762
2011					
Premiums in arrears	3,037	723	1,252	619	443
Trade receivables	1,703	168	–	5	1,530
	4,740	891	1,252	624	1,973

(b) Past due but not considered impaired

Consolidated	Total \$'000	0-30 days \$'000	31-60 days \$'000	61-90 days \$'000	+91 days \$'000
2012					
Premiums in arrears	9,164	6,075	2,944	42	103
Trade receivables	7,845	2,837	1,517	1,387	2,104
	17,009	8,912	4,461	1,429	2,207
2011					
Premiums in arrears	8,237	5,799	1,976	262	200
Trade receivables	5,756	1,856	1,666	938	1,296
	13,993	7,655	3,642	1,200	1,496

Note 7: Trade and other receivables (continued)

(ii) Allowance for impairment loss – Trade receivables

Receivables past due but not considered impaired at 30 June 2012 for the Group are \$24,294,000 (2011: \$13,993,000). Each operating unit has been in contact with the relevant debtor and is satisfied that payment will be received in full. Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

Note 8: Inventories

	Consolidated 2012	2011
	\$'000	\$'000
Medical Supplies	1,588	1,418

Note 9: Investments

	Consolidated 2012	2011
	\$'000	\$'000
Financial assets at fair value through profit and loss		
Unit trusts	340,653	350,132
Australian listed equities	334,076	321,213
Debentures and notes	982,944	852,321
Private Equity	1,030	3,222
Derivatives	14,165	9,188
	1,672,868	1,536,076

Financial assets at fair value through profit or loss consists of investments in unit trusts (whose underlying assets are listed shares or property), direct investment in shares and share related contracts and therefore have no fixed maturity date or coupon rate.

Debentures and notes are interest bearing and are reset either monthly, quarterly or biannually with an average maturity of 2,330 days (2011: 2,338 days).

Floating rate notes are classified as investments in the Group's balance sheet. They are carried at market value.

Note 10: Other assets

		Consolidated 2012	2011
		\$'000	\$'000
Current			
Prepayments	(i)	8,294	11,780
Other current assets		–	1
		8,294	11,781

Terms and conditions relating to other current assets:

(i) Expenses paid in advance.

		Consolidated 2012	2011
		\$'000	\$'000
Non-current			
Defined benefit superannuation fund		–	47
Artworks	(ii)	236	246
		236	293

(iii) These represent works of art displayed at the Medibank Private Head Office and are measured at cost.

All amounts are not considered past due or impaired.

Fair value and credit risk

The carrying value of other assets is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value. Collateral is not held as security.

Note 11: Property, plant and equipment

Consolidated	Land and buildings	Plant and equipment	Leasehold improvements	Assets under construction	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
2012					
Gross carrying amount					
Balance at 1 July 2011	37,717	46,731	50,816	6,320	141,584
Additions	–	4,158	9,192	1,168	14,518
Transfers in/(out)	–	3,330	3,147	(6,477)	–
Disposals	–	(3,608)	(2,185)	(269)	(6,062)
Revaluations	(1,826)	–	–	–	(1,826)
Impairment	–	(336)	(1,409)	–	(1,745)
Balance at 30 June 2012	35,891	50,275	59,561	742	146,469
Accumulated depreciation					
Balance at 1 July 2011	(1,501)	(27,063)	(29,342)	–	(57,906)
Depreciation expense	(802)	(6,654)	(8,363)	–	(15,819)
Disposals	–	2,752	1,794	–	4,546
Revaluations	152	–	–	–	152
Balance at 30 June 2012	(2,151)	(30,965)	(35,911)	–	(69,027)
2011					
Gross carrying amount					
Balance at 1 July 2010	39,892	40,996	43,570	971	125,429
Acquisition of subsidiaries	–	2,292	696	84	3,072
Additions	14	5,631	7,660	6,320	19,625
Transfers in/(out)	–	134	855	(1,007)	(18)
Disposals	–	(2,026)	(1,961)	(48)	(4,035)
Revaluations	(2,189)	–	–	–	(2,189)
Impairment	–	(296)	(4)	–	(300)
Balance at 30 June 2011	37,717	46,731	50,816	6,320	141,584
Accumulated depreciation					
Balance at 1 July 2010	(853)	(21,831)	(23,969)	–	(46,653)
Depreciation expense	(803)	(6,982)	(7,239)	–	(15,024)
Disposals	–	1,750	1,866	–	3,616
Revaluations	155	–	–	–	155
Balance at 30 June 2011	(1,501)	(27,063)	(29,342)	–	(57,906)
Closing net book amount					
As at 30 June 2012	33,740	19,310	23,650	742	77,442
As at 30 June 2011	36,216	19,668	21,474	6,320	83,678

(a) Valuations of land and buildings

The valuation basis of land and buildings is fair value being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction, based on current observable prices in an active market for similar properties in the same location and condition. The revaluations of the land and buildings were made as at 30 June 2012 and were based on independent assessments by external valuation experts who were members of the Australian Property Institute.

(b) Carrying amounts that would have been recognised if land and buildings were stated at cost

If the land and buildings were stated on the historical cost basis, the amounts would be as follows:

	Consolidated 2012 \$'000	2011 \$'000
Land and buildings		
Cost	36,917	36,917
Accumulated depreciation	(4,330)	(3,488)
Net book amount	32,587	33,429

Note 12: Deferred tax assets

	Consolidated 2012	2011
	\$'000	\$'000
Deferred tax balances comprise temporary differences attributable to:		
Financial assets at fair value through profit & loss	3,862	6,774
Property, plant, equipment & software intangibles	15,970	10,134
Employee benefits	18,158	13,297
	37,990	30,205
<i>Other</i>		
Accruals	4,905	5,589
Defined Benefit Fund Deficit	537	–
Accrued income	284	833
Business capital costs	1,223	1,692
Restructure provision	708	1,151
Leases payable	423	549
Make good provision	1,562	1,400
Intangible assets	214	38
Other	456	584
Sub-total Other	10,312	11,836
Total deferred tax assets	48,302	42,041
Deferred tax assets to be recovered within 12 months	31,109	30,215
Deferred tax assets to be recovered after more than 12 months	17,193	11,826
	48,302	42,041

Movements – Consolidated	Financial assets at fair value through profit and loss	Property, plant, equipment & software	Employee Benefits	Other	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2010	11,366	8,664	8,816	9,616	38,462
Acquisition of a subsidiary	–	177	1,344	1,011	2,532
Credited to the income statement	(4,592)	1,228	3,137	1,209	982
Credited directly to other comprehensive income	–	65	–	–	65
At 30 June 2011	6,774	10,134	13,297	11,836	42,041
Credited to the income statement	(2,912)	5,811	4,861	(2,123)	5,637
Credited directly to other comprehensive income	–	25	–	599	624
At 30 June 2012	3,862	15,970	18,158	10,312	48,302

Note 13: Intangible assets

Consolidated	Goodwill	Customer Contracts & Relationships ⁽ⁱ⁾	Software ⁽ⁱⁱ⁾	Assets under construction	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
2012					
Gross carrying amount					
Balance at 1 July 2011	199,480	82,080	155,080	14,181	450,821
Additions	–	–	22,109	16,598	38,707
Transfers in/(out)	–	–	5,212	(5,212)	–
Disposals	–	–	(2,900)	–	(2,900)
Balance at 30 June 2012	199,480	82,080	179,501	25,567	486,628
Accumulated amortisation and impairment					
Balance at 1 July 2011	(2,523)	(15,235)	(84,566)	–	(102,324)
Amortisation expense	–	(7,143)	(29,598)	–	(36,741)
Disposals	–	–	2,791	–	2,791
Balance at 30 June 2012	(2,523)	(22,378)	(111,373)	–	(136,274)
2011					
Gross carrying amount					
Balance at 1 July 2010	100,136	58,347	109,097	12,128	279,708
Acquisition of subsidiaries	99,344	23,733	19,855	636	143,568
Additions	–	–	13,309	14,765	28,074
Transfers in/(out)	–	–	13,366	(13,348)	18
Disposals	–	–	(547)	–	(547)
Balance at 30 June 2011	199,480	82,080	155,080	14,181	450,821
Accumulated amortisation and impairment					
Balance at 1 July 2010	–	(7,091)	(62,554)	–	(69,645)
Amortisation expense	–	(8,144)	(22,418)	–	(30,562)
Disposals	–	–	406	–	406
Impairment	(2,523)	–	–	–	(2,523)
Balance at 30 June 2011	(2,523)	(15,235)	(84,566)	–	(102,324)
As at 30 June 2012	196,957	59,702	68,128	25,567	350,354
As at 30 June 2011	196,957	66,845	70,514	14,181	348,497

⁽ⁱ⁾ Amortisation of customer contracts and relationships of \$7,143,000 (2011: \$8,144,000) is included in amortisation of acquisition intangibles in the income statement.

⁽ⁱⁱ⁾ Software includes capitalised development costs being an internally generated intangible asset and software acquired through the purchase of Medibank Health Solutions Telehealth Pty Ltd. Amortisation of software of \$27,810,000 (2011: \$20,630,000) is included in depreciation and amortisation expense in the income statement. The remaining 1,788,000 (2011: \$1,788,000) is included in amortisation of acquisition intangibles in the income statement.

Note 13: Intangible assets (continued)

(a) Impairment charge

The impairment charge of \$2,523,000 in 2011 arose from the revision in value-in-use impairment calculations for Work Solutions Australia Pty Ltd and The Travel Doctor – TMVC Pty Ltd as a result of the loss of the Job Capacity Assessment Contract. No impairment charge was recognised in 2012.

(b) Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to which CGU is expected to benefit from the synergies of the combination.

A CGU level summary of the goodwill allocation is presented below.

CGU	Total \$'000
2012	
Australian Health Management	96,133
Medibank Health Solutions (including Carepoint)	8,850
Medibank Health Solutions Telehealth	91,974
	196,957
2011	
Australian Health Management	96,133
Medibank Health Solutions	1,480
Carepoint	7,370
Medibank Health Solutions Telehealth	91,974
	196,957

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. The Carepoint business is now included in the MHS CGU for impairment testing of goodwill.

(c) Key assumptions used for value-in-use calculations

CGU	Growth rate	Discount
	%	%
2012		
Australian Health Management	2.5%	16.5%
Medibank Health Solutions (including Carepoint)	2.5%	15.8%
Medibank Health Solutions Telehealth	2.5%	15.7%
2011		
Australian Health Management	2.5%	16.7%
Medibank Health Solutions	2.5%	17.7%
Carepoint	2.5%	18.7%
Medibank Health Solutions Telehealth	2.5%	16.1%

The growth rate disclosed above represents the weighted average growth rate used to extrapolate cash flows beyond the budget period.

In performing the value-in-use calculations for each CGU, the Group has applied post-tax discount rates to discount the forecast future attributable post-tax cash flows. The equivalent pre-tax discount rates are disclosed above.

These assumptions have been used for the analysis of each CGU. The weighted average growth rates used are consistent with forecasts included in industry reports. The discount rates used reflect specific risks relating to the relevant CGU.

Note 14: Trade and other payables

	Note	Consolidated 2012	2011
		\$'000	\$'000
Current			
Trade creditors	(i)	170,354	163,686
Other creditors and accrued expenses	(ii)	62,222	77,480
Unearned premium liability	(iii)(a)	681,717	454,823
Risk Equalisation Trust Fund	(iv)	8,023	7,982
Lease incentives	(v)	521	615
Defined benefit superannuation fund		1,791	–
		924,628	704,586

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

	Note	Consolidated 2012	2011
		\$'000	\$'000
Non-current			
Unearned premium liability	(iii)(a)	115,638	22,562
Lease incentives	(v)	1,663	1,862
		117,301	24,424

Terms and conditions relating to the above financial instruments:

⁽ⁱ⁾ Trade creditors are non-interest bearing and are normally settled up to 30 days.

⁽ⁱⁱ⁾ Other creditors and accrued expenses are non-interest bearing.

⁽ⁱⁱⁱ⁾ Unearned premium liability is non-interest bearing.

^(iv) Amount payable to the Risk Equalisation Trust Fund is non-interest bearing.

^(v) Lease incentives are non-interest bearing and are settled over the term of the lease. The current liability represents 12 months or less of the term of the lease.

(a) Unearned premium liability

	Consolidated 2012	2011
	\$'000	\$'000
Balance at 1 July	477,385	433,407
Deferral of premium on contracts written during the year	775,690	471,647
Earnings of premiums deferred in prior years	(455,720)	(427,669)
Balance at 30 June	797,355	477,385

Note: movement includes both current and non-current provision.

Note 15: Financial liabilities at fair value through profit or loss

	Note	Consolidated 2012	2011
		\$'000	\$'000
Current			
Derivatives	(i)	4,949	2,265
		4,949	2,265

Terms and conditions relating to the above financial instruments:

⁽ⁱ⁾ Derivatives are European structured and fully tradeable on secondary markets. Pay-off is calculated at option expiry.

Note 16: Claims liabilities

(a) Gross claims liability

	Note	Consolidated 2012	2011
		\$'000	\$'000
Current			
Claims liability – central estimate of the expected present value of future payments for claims liabilities	(i), 2(a)(ii)	333,512	326,129
Risk margin	(ii), 2(a)(ii,v)	18,701	20,041
Claims handling costs	(iii)	5,585	5,532
Gross claims liability	16(c)	357,798	351,702
Non-current			
Claims liability – central estimate of the expected present value of future payments for claims liabilities	(i), 2(a)(ii)	11,187	15,402
Risk margin	(ii), 2(a)(ii,v)	1,946	3,317
Claims handling costs	(iii)	91	71
Gross claims liability	16(c)	13,224	18,790

⁽ⁱ⁾ The expected future payments of claims liabilities are discounted to present value using a risk-free rate of 3.49% pa (2011: 5.03% pa).

⁽ⁱⁱ⁾ The risk margin for the Parent entity of 4.4% (2011: 4.9%) of the underlying outstanding claims liabilities and 1.8% (2011: 2.4%) of PackageBonus entitlements for Medibank Private has been estimated to equate to a probability of adequacy of at least 95% (2011: 95%).
The risk margin of 8.9% (2011: 8.3%) of the underlying claims liabilities for Australian Health Management has been estimated to equate to a probability of adequacy of at least 95% (2011: 95%).

⁽ⁱⁱⁱ⁾ The allowance for claims handling costs for Medibank Private at 30 June 2012 is 1.57% of the claims liability (2011: 1.56%).

The allowance for claims handling costs for Australian Health Management at 30 June 2012 is 2.5% of the claims liability (2011: 2.5%).

(b) Claims incurred

Information regarding credit risk is set out in Note 3. Interest rate risk is not applicable as claims liabilities are non-interest bearing.

Current year claims relate to risks borne in the current financial year. The prior year amount represents the difference between the claims liability at the end of the previous financial year and the claims cost recognised in the current financial year for claims incurred in prior financial years, based on claims payments made during the year.

Consolidated	Prior \$'000	Current \$'000	Total \$'000
2012			
Claims incurred			
Undiscounted	7,280	4,338,445	4,345,725
Movement in Discount	–	615	615
	7,280	4,339,060	4,346,340
2011			
Claims incurred			
Undiscounted	(23,769)	3,977,293	3,953,524
Movement in Discount	–	524	524
	(23,769)	3,977,817	3,954,048

(c) Reconciliation of movement in claims liabilities

	Consolidated	
	2012 \$'000	2011 \$'000
Balance at 1 July	370,492	400,277
Additional provision	349,216	342,882
Amounts utilised during the year	(353,943)	(349,693)
Movement in claims handling costs	73	(920)
Movement in risk margin	(2,711)	1,192
Movement in discounting	615	524
Amount under/(over) provided	7,280	(23,770)
Balance at 30 June	371,022	370,492

Note: movement includes both current and non-current

Note 17: Provisions

	Note	Consolidated 2012 \$'000	2011 \$'000
Current			
Restructuring	(i)	8,121	11,468
Make good	(ii)	471	575
Employee Entitlements	(iii)	36,072	38,396
Other	(iv)	–	182
		44,664	50,621
Non-current			
Restructuring	(i)	–	1,647
Make good	(ii)	5,486	3,972
Employee Entitlements	(iii)	27,174	18,322
		32,660	23,941

Movement in provisions

The following movements in provisions include both current and non-current balances.

	Consolidated 2012 \$'000	2011 \$'000
(i) Restructuring		
Balance at 1 July	13,115	6,640
Additional provision	3,355	10,629
Amounts utilised during the year	(6,754)	(3,565)
Reversal of unused provision	(1,595)	(589)
Balance at 30 June	8,121	13,115

The restructuring provision relates to various restructuring programs.

	Consolidated 2012 \$'000	2011 \$'000
(ii) Make good		
Balance at 1 July	4,547	3,797
Additional provision	1,801	1,223
Amounts utilised during the year	(162)	(468)
Reversal of unused provision	(229)	(5)
Balance at 30 June	5,957	4,547

In accordance with certain lease agreements, the Group is obligated to restore leased premises to their original condition at the end of the lease term. Due to the long-term nature of the liability, there is uncertainty in estimating the ultimate amount of these costs. The provision has been discounted to take into account the time value of money throughout the remaining term of the lease.

	Consolidated 2012	2011
	\$'000	\$'000
(iii) Employee Entitlements		
Balance at 1 July	56,718	48,157
Acquisition of subsidiary	–	5,058
Additional provision	52,737	30,694
Amounts utilised during the year	(35,561)	(24,792)
Reversal of unused provision	(10,648)	(2,399)
Balance at 30 June	63,246	56,718

This provision incorporates annual leave, long service leave, termination payments, and profit-sharing and bonus plans. Refer to Note 1(w) for the relevant accounting policy and details of the significant estimations and assumptions applied in the measurement of employee entitlements.

	Consolidated 2012	2011
	\$'000	\$'000
(iv) Other		
Balance at 1 July	182	591
Additional provision	–	182
Amounts utilised during the year	(182)	(534)
Reversal of unused provision	–	(57)
Balance at 30 June	–	182

Note 18: Deferred tax liability

	Consolidated 2012	2011
	\$'000	\$'000
Deferred tax balances comprise temporary differences attributable to:		
Financial assets at fair value through profit and loss	4,009	7,053
Intangibles	24,541	7,672
Property, plant, equipment & software intangibles	2,384	3,405
	30,934	18,130
Other		
Defined benefit fund surplus	–	59
Other	357	298
Sub-total Other	357	357
Total deferred tax liabilities	31,291	18,487
Deferred tax liabilities to be settled within 12 months	4,366	7,410
Deferred tax liabilities to be settled after more than 12 months	26,925	11,077
	31,291	18,487

Movements – Consolidated	Financial assets at fair value through profit and loss	Intangibles	Property, plant, equipment & software	Other	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2010	4,122	–	2,484	514	7,120
Acquisition of subsidiary	–	5,846	471	5	6,322
Charged/(credited) to the income statement	2,931	1,826	450	(167)	5,040
Charged directly to other comprehensive income	–	–	–	5	5
At 30 June 2011	7,053	7,672	3,405	357	18,487
Charged/(credited) to the income statement	(3,044)	16,869	(1,047)	–	12,778
Charged directly to other comprehensive income	–	–	26	–	26
At 30 June 2012	4,009	24,541	2,384	357	31,291

Note 19: Contributed equity

	Consolidated 2012	2011
	\$'000	\$'000
(a) Fully paid ordinary shares		
Ordinary shares fully paid	85,000	85,000

(b) Movements in shares on issue

	2012		2011	
	Number of shares	\$'000	Number of shares	\$'000
Balance at 1 July	85,000,100	85,000	85,000,100	85,000
Issued during the financial year	–	–	–	–
Balance at 30 June	85,000,100	85,000	85,000,100	85,000

(c) Terms and conditions of contributed equity

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company, and in a winding up or reduction of capital, the right to repayment of the capital paid up on the shares.

Ordinary shares have the right to receive dividends and, in the event of winding up the company or reduction of capital, have the right to participate in the distribution of the surplus assets of the company.

(d) Capital management

The two private health insurance funds of the Group (Medibank Private and Australian Health Management) are required to maintain minimum levels of capital to meet both solvency and capital adequacy requirements.

The Solvency Standard sets out the level of capital required to ensure that under a range of adverse circumstances the two private health insurance funds of the Group can meet their existing obligations to members and creditors. This is essentially based on ensuring sufficient capital is available to meet accrued liabilities and obligations if there was an orderly termination of the fund.

The Capital Adequacy Standard sets out the level of capital required based on a going concern basis where the requirement is for the two private health insurance funds of the Group to demonstrate that they have sufficient capital to accept contributions from new and existing members, fund their business plans (including the payment of dividends to the Shareholder), absorb short term adverse experience from time to time, and continue to remain solvent. The Board expects to pay a special dividend totalling \$300 million in the next financial year, subject to maintenance of the Group's capital adequacy target.

The two private health insurance funds of the Group are required to comply with these standards on a continuous basis and report results to PHIAC on a quarterly basis. Both funds have been in compliance with these standards throughout the year.

The Board of the Group has established a capital adequacy target for the two private health insurance funds of the Group in excess of the prudential capital adequacy requirements to cover both investment and non-investment risks. This buffer is required to protect against adverse variations in experience that could reduce retained earnings and/or increase the statutory minimum capital adequacy requirement in order to reduce the likelihood of a breach of the capital adequacy requirements. Capital is managed against this target and performance is reported to the Board.

Refer to Note 29 for details of the Group's excess over the solvency reserve as at 30 June 2012.

Note 20: Reserves

	Consolidated 2012	2011
	\$'000	\$'000
Equity reserve	17,819	17,819
Revaluation reserve	348	466
Foreign currency translation reserve	22	[93]
	18,189	18,192

Movements:	Consolidated 2012	2011
	\$'000	\$'000
<i>Equity reserve⁽ⁱⁱ⁾</i>		
Balance at July 1	17,819	17,819
Contribution to equity	–	–
Balance at 30 June	17,819	17,819
<i>Revaluation reserve⁽ⁱⁱⁱ⁾</i>		
Balance at July 1	466	402
Revaluation of land & buildings – gross	(169)	129
Deferred tax (Note 12)	51	(65)
Balance at 30 June	348	466
<i>Foreign currency translation reserve</i>		
Balance at July 1	[93]	–
Currency translation differences arising during the year	115	[93]
Balance at 30 June	22	[93]

⁽ⁱⁱ⁾ The equity reserve resulted from a restructure of administrative arrangements in 2009.

⁽ⁱⁱⁱ⁾ The revaluation reserve is used to record increments and decrements on the revaluation of non-current assets, as described in Note 1(q).

Note 21: Retained earnings

	Note	Consolidated 2012	2011
		\$'000	\$'000
Balance at 1 July		1,482,019	1,616,766
Net profit for the year		126,595	299,646
Items of other comprehensive income recognised directly in retained earnings			
Actuarial gain/(loss) on retirement benefit obligation, net of tax		(1,398)	(10)
Dividends paid	(a)	(91,241)	(434,383)
Balance at 30 June		1,515,975	1,482,019

(a) Dividends paid

	Consolidated 2012	2011
	\$'000	\$'000
Final unfranked dividend for the year ended 30 June 2011 of \$0.75 (2010: \$0.57) per fully paid share paid on 31 October 2011.	64,271	48,831
Interim unfranked dividend for the year ended 30 June 2012 of \$0.32 (2011: \$1.01) per fully paid share paid on 30 April 2012.	26,970	85,552
Special unfranked dividend for the year ended 30 June 2012 nil (2011: \$3.53 per fully paid share paid on 15 June 2011)	–	300,000
	91,241	434,383

(b) Dividends not recognised at the end of the reporting period

In addition to the above dividends, since year end, the Directors have not yet recommended payment of a final dividend (2011: \$0.75 per fully paid share totalling \$64,271,000 unfranked). The dividend, which is expected to be paid in October 2012 out of retained earnings at 30 June 2012, will be declared in a Director's meeting subsequent to signing these financial statements.

(c) Franking account

Under the tax consolidation regime, the franking credits of each entity within the Medibank Group belong to the head entity, Medibank Private. Since all dividends paid to the Shareholder have been unfranked, the franking credits of the Group relate only to the payment of income tax. However as the Shareholder cannot use the accumulated franking credits, the Group's franking account is not disclosed in this financial report.

Note 22: Commitments

	Consolidated 2012	2011
	\$'000	\$'000
(a) Capital expenditure commitments		
Estimated capital expenditure contracted for at balance date, but not provided for, payable:		
Property, plant & equipment	50	496
Intangible assets	–	525
	50	1,021

Property plant and equipment capital expenditure commitments relate to retail centre refurbishments whilst intangible asset capital commitments are predominantly related to IT projects. In preparing the 2012 commitments disclosure, a reclassification was required from capital to other expenditure commitments for prior year totalling \$3,364,000 to ensure consistency of information provided between the two years.

	Consolidated 2012	2011
	\$'000	\$'000
(b) Operating lease commitments		
Future operating lease rentals not provided for, payable:		
Within one year	42,675	35,771
After one year but not more than five years	91,129	77,078
Longer than five years	207,983	4,195
Total minimum lease payments	341,787	117,044

Note 22: Commitments (continued)

Operating leases are entered into as a means of acquiring access to corporate and retail property, office equipment and motor vehicles. Rental payments are generally fixed, with differing clauses to adjust the rental to reflect increases in market rates. These clauses include fixed incremental increases, market reviews and inflation escalation clauses during a lease on which contingent rentals are determined. For the majority of operating leases for retail property there are renewal options. Purchase options exist in relation to operating leases for motor vehicles at the end of their term. Renewal and purchase options exist in relation to operating leases for office equipment. No operating leases contain restrictions on financing or other leasing activities. The increase in Lease commitments greater than five years relates to the integration of all Melbourne based offices into one location which is expected to occur in 2014.

	Consolidated 2012	2011
	\$'000	\$'000
(c) Other expenditure commitments		
Other commitments not provided for, payable:		
Within one year	35,191	37,521
After one year but not more than five years	28,307	32,727
Longer than five years	–	–
	63,498	70,248

Other commitments consist of IT outsourcing, IT software, sponsorship agreements and property maintenance commitments. In preparing the 2012 commitments note, a reclassification has occurred between capital and other expenditure commitments for prior year totalling \$3,364,000. In addition, a contract in existence that was not disclosed as a commitment last year has also been included in the comparative year. The total value of this contract is \$6,610,000.

Total commitments payable	405,335	188,313
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	Consolidated 2012	2011
	\$'000	\$'000
(d) Lease commitments: Group as lessor		
Operating lease commitments not accrued for, receivable:		
Within one year	321	534
After one year but not more than five years	–	315
Longer than five years	–	–
	321	849

The Group leases unused office space under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights.

Note 23: Key management personnel

The names of persons who were directors and specified executives of the Group at any time during the financial year are disclosed in the Directors' Report. Except where indicated, all of these persons were also directors and specified executives during the year ended 30 June 2012.

	Consolidated	
	2012	2011
	\$'000	\$'000
Short term	6,274,064	7,404,630
Post Employment	350,587	348,169
Long term	164,525	291,833
	6,789,176	8,044,632

Details of key management personnel remuneration are disclosed in the Directors' Report.

Note 24: Related party transactions

Transactions with related parties

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

A number of these entities transacted with the Group in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

Transactions entered into directly by Directors or Director related entities with the Group have been either trivial or domestic in nature.

There have been no loans to Directors or specified executives during the year.

The company is wholly owned by the Commonwealth Government. No director holds shares in the company.

Note 25: Business Combinations

Purchase consideration – cash outflow

On 1 July 2010, the Group satisfied all necessary conditions to acquire 100% of the shares in Medibank Health Solutions Telehealth Pty Ltd ("MHST") through a Share Purchase Agreement. On 30 August 2010, the Group acquired 100% of Carepoint Holdings Pty Ltd ("Carepoint"), with consideration of \$7.2 million being paid in total. Immediately following the acquisition, the assets of the business were transferred to Medibank Health Solutions. Carepoint Holdings Pty Ltd was de-registered on 21 June 2011. The cash outflow associated with these acquisitions are shown below. There were no acquisitions in the financial year ending 30 June 2012.

	Consolidated	
	2012	2011
	\$'000	\$'000
Outflow of cash to acquire subsidiaries, net of cash required	–	153,952
Cash consideration	–	–
Less: Balances acquired	–	–
Cash	–	(14,941)
	–	139,011

Notes to the Financial Statements continued

Note 26: Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(b).

Name of entity	Country of incorporation	Class of Units	Ownership interest	
			2012	2011
			%	%
Australian Health Management Group Pty Ltd	Australia	Ordinary Shares	100	100
– International Health Benefits Pty Ltd *	Australia	Ordinary Shares	100	100
– Dencare Australia Pty Ltd *	Australia	Ordinary Shares	100	100
– Carelink Australia Pty Ltd*	Australia	Ordinary Shares	100	100
– Mercantile Mutual Health Pty Ltd *	Australia	Ordinary Shares	100	100
– Total Health Pty Ltd *	Australia	Ordinary Shares	100	100
Medibank Health Solutions Pty Ltd	Australia	Ordinary Shares	100	100
– Work Solutions Australia Pty Ltd [#]	Australia	Ordinary Shares	100	100
– The Travel Doctor TMVC Pty Ltd [#]	Australia	Ordinary Shares	100	100
– IQ Consultants Pty Ltd ^{**}	Australia	Ordinary Shares	100	100
– Medibank Health Solutions Telehealth Pty Limited [#]	Australia	Ordinary Shares	100	100
– Fitness2Live Pty Ltd [#]	Australia	Ordinary Shares	100	100
– Fitness2Live (UK) Ltd	United Kingdom	Ordinary Shares	100	100
– Medibank Health Solutions New Zealand Limited	New Zealand	Ordinary Shares	100	100

* These entities were non-operating entities during the year ended 30 June 2012.

These subsidiaries are wholly owned by Medibank Health Solutions Pty Ltd and have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information refer to the Medibank Health Solutions Pty Ltd Annual Report for the year ended 30 June 2012.

Note 27: Contingencies

There is no material contingent asset or liability at the end of each reporting period.

Note 28: Auditor's remuneration

Amounts received or due and receivable by the auditor, Australian National Audit Office and its contractor, for:

	Consolidated	
	2012	2011
	\$	\$
Australian National Audit Office		
– Auditing the financial report	655,969	659,651
– Other services – regulatory reporting	98,942	113,041
PricewaterhouseCoopers		
– Auditing the financial report	26,245	24,342
– Audit of regulatory returns	15,980	24,722
– Other assurance services	–	–
– Non audit services	442,347	102,806
	1,239,483	924,562

The Australian National Audit Office sub-contracted the audit of the financial report of the Group to PricewaterhouseCoopers for the year ended 30 June 2012 and 2011.

Note 29: Solvency reserve

The Solvency Reserve of the health benefits fund of Medibank Private, as per the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, as at 30 June 2012 is \$742,430,000. Total Net Assets are \$1,459,048,000 representing an excess of \$716,618,000 over the Solvency Reserve.

The Solvency Reserve of the health benefits fund of Australian Health Management, as per the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, as at 30 June 2012 is \$48,093,000. Total Net Assets are \$201,055,000 representing an excess of \$152,962,000 over the Solvency Reserve.

Refer also to Note 19(d) for details of the Group's strategy regarding its meeting of these requirements.

Note 30: Events occurring after the reporting period

With effect from 1 July 2012, the Group was awarded a four year contract to manage and coordinate the healthcare of entitled personnel within the Australian Defence Force (ADF). Under the contract the Group will be responsible for the healthcare of Australian based serving personnel, from point of injury or illness right through to return to work. The services will include access to on-base medical practitioners, on-and-off-base allied health professionals, radiology, pathology and optometry services and a world-class telehealth service (triage, health advice and referrals).

Note 31: Reconciliation of profit after income tax to net cash flow from operating activities

	Consolidated 2012	2011
	\$'000	\$'000
Profit for the year	126,595	299,646
Depreciation	15,819	15,024
Amortisation of software intangibles	27,810	20,630
Amortisation of acquisition intangibles	8,931	9,932
Loss on disposal of plant and equipment	1,211	199
Net realised (gain)/loss on financial assets	41,619	(13,732)
Net unrealised (gain)/loss on financial assets	4,969	(37,092)
Interest income	(81,395)	(96,867)
Dividend income reinvested	(8,870)	(8,429)
Trust distribution reinvested	(5,807)	(10,013)
Investment expenses	6,052	4,477
Asset impairment	3,125	5,214
Dividends paid included in cash flows from operations	(91,241)	(434,383)
Change in operating assets and liabilities, net of effects from purchase of controlled entities:		
(Increase) in trade and other receivables	(122,594)	(33,257)
(Increase) in inventories	(170)	(32)
(Increase) in other assets	(18,590)	(5,168)
(Increase) in deferred tax assets	(6,261)	(1,047)
Increase in trade and other payables	320,522	91,363
Increase (decrease) in claims liabilities	530	(29,786)
(Decrease) increase in income tax liability	(123,607)	37,013
Increase in deferred tax liabilities	12,804	5,045
Increase in provisions	2,762	10,320
Net cash inflow (outflow) from operating activities	114,214	(170,943)

Note 32: Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	Consolidated 2012 \$'000	2011 \$'000
Balance Sheet		
Current assets	2,304,675	2,038,713
Total assets	2,963,657	2,690,426
Current liabilities	1,156,710	1,076,210
Total liabilities	1,313,846	1,141,842
<i>Shareholder's equity</i>		
Issued capital	85,000	85,000
Reserves		
Equity reserve	17,819	17,819
Retained earnings	1,546,992	1,445,765
	1,649,811	1,548,584
Profit for the year	192,469	288,960
Total comprehensive income	192,469	288,960

(b) Guarantees entered into by parent entity

The parent entity has provided guarantees in respect of service obligations assumed by members of the Group. No liability has been recognised in relation to these guarantees by the parent entity or the consolidated entity as the fair value of the guarantees is immaterial.

(c) Contingent liabilities of the parent entity

The parent entity has no material contingent liabilities at the end of the reporting period.

(d) Contractual commitments for the acquisition of property, plant and equipment

As at 30 June 2012, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling \$50,000 (2011: \$496,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

Director's Declaration

In accordance with a resolution of the directors of Medibank Private Limited, we state that:

In the opinion of the directors:

- (a) the financial statements and notes set out on pages 52 to 106 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2012 and of its performance for the financial year ended on that date; and
 - (ii) complying with *Australian Accounting Standards, the Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the Company and the Group will be able to pay their debts as and when they become due and payable.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration has been made after receiving the declarations required to be made to the directors by the Managing Director and Chief Financial Officer in accordance with section 295A of the *Corporations Act 2001* for the financial period ending 30 June 2012.

This declaration is made in accordance with a resolution of the directors.

On behalf of the Board,



Paul McClintock AO
Chairman

Melbourne, 31 August 2012



George Savvides
Managing Director



INDEPENDENT AUDITOR'S REPORT

To the members of Medibank Private Limited

I have audited the accompanying financial report of Medibank Private Limited for the year ended 30 June 2012, which comprises: the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, Notes to and forming part of the Financial Statements, including a Summary of Significant Accounting Policies, and the Directors' Declaration of the consolidated entity. The consolidated entity comprises Medibank Private Limited and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of Medibank Private Limited are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Medibank Private Limited's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Medibank Private Limited's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting my audit, I have complied with the independence requirements of the *Corporations Act 2001*.

Opinion

In my opinion:

1. the financial report of Medibank Private Limited is in accordance with the *Corporations Act 2001*, including:
 - (a) giving a true and fair view of Medibank Private Limited's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - (b) complying with Australian Accounting Standards and the Corporations Regulations 2001.
2. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(a).

Australian National Audit Office



Ian Goodwin
Group Executive Director
Delegate of the Auditor-General
Canberra
31 August 2012