Indemnification of Directors and Officers

A Deed of Indemnity, Access and Insurance has been entered into between Medibank and each of its Directors. Under the deed, Medibank agrees to indemnify out of the property of Medibank each Director against any liability the Director may incur to another person (other than Medibank or a related body corporate) as a Director of Medibank.

A Director is not indemnified in respect of any liability arising out of conduct involving a lack of good faith. There have been no claims made pursuant to the deed.

Article 66.1 of Medibank's constitution provides that Medibank indemnifies each officer of Medibank against any liability incurred in his or her capacity as an officer of Medibank (other than a liability to Medibank itself or a related body corporate) unless liability arises out of conduct on the part of the officer which involves a lack of good faith.

Medibank paid a premium in respect of insurance covering each of the Directors, Secretaries and Executive Officers of the Group against liabilities and expenses arising from any claim(s) made against them as a result of work performed in their respective capacities to the extent permitted by law.

Rounding

Medibank is a Company of the kind specified in Australian Securities and Investment Commission class order 98/100. In accordance with that class order, amounts in the Financial Statements and the Directors' Report have been rounded to the nearest thousand dollars, or in certain cases, to the nearest dollar unless specifically stated to be otherwise.

Environmental issues

The Group's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

Auditor independence

A copy of the Auditor's independence declaration as required by section 307C of the *Corporations Act 2001* is set out on the following page.

Resolution of Directors

This report is made in accordance with a resolution of the Directors.

Elizabeth Alexander AM
Chairman

George Savvides
Managing Director

Melbourne, 30 August 2013

Australian National
Audit Office

MEDIBANK PRIVATE LIMITED
FINANCIAL REPORT 2012–13
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 2013, 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
30 August 2013

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT 2600
Phone (02) 6203 7300 Fax (02) 6203 7777

Consolidated income statement

For the financial year ended 30 June 2013

	Note	2013 $'000	2012 $'000
Revenue			
Private health insurance premium revenue	4(a)	5,344,083	5,062,300
Health Solutions revenue		498,403	278,897
Other		18,154	15,819
		5,860,640	5,357,016
Expenses			
Claims expense	4(a)	(4,594,338)	(4,305,240)
Employee benefits expense	4(b)	(461,899)	(445,924)
Medical services expense		(220,190)	(20,964)
Office and administration expense		(111,111)	(119,223)
Marketing expense		(81,721)	(91,551)
Information technology expense		(72,802)	(70,732)
Professional service expense		(41,210)	(50,850)
Lease expense	4(c)	(35,166)	(33,313)
Depreciation and software amortisation expense	4(d)	(43,409)	(43,629)
Other expenses		(13,886)	(13,651)
		(5,675,732)	(5,195,077)
Operating profit		184,908	161,939
Investment and other income/(expenses)			
Net investment income	4(e)	144,382	43,396
Other income	4(f)	2,178	877
Acquisition intangible expenses	4(g)	(16,419)	(8,931)
Total investment and other income		130,141	35,342
Profit for the year before income tax		315,049	197,281
Income tax expense	5(a)	(82,308)	(70,686)
Profit for the year		232,741	126,595

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

Consolidated statement of comprehensive income

For the financial year ended 30 June 2013

	Note	2013 $'000	2012 $'000
Profit for the year		232,741	126,595
Other comprehensive income, net of tax			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	21	322	115
Items that will not be reclassified to profit or loss			
Revaluation of land & buildings	21	80	(118)
Actuarial gain/(loss) on retirement benefit obligation	22	722	(1,398)
		1,124	(1,401)
Total comprehensive income for the year		233,865	125,194

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

Consolidated balance sheet

As at 30 June 2013

	Note	2013 $'000	2012 $'000
Current assets			
Cash and cash equivalents	6	**895,059**	613,713
Trade and other receivables	7	**311,701**	352,040
Inventories	8	**1,534**	1,588
Investments	9	**1,448,428**	1,672,868
Tax receivable		**-**	20,842
Other assets	10	**12,750**	8,294
Total current assets		**2,669,472**	2,669,345
Non-current assets			
Property, plant and equipment	11	**88,628**	77,272
Deferred tax assets	12	**7,771**	17,011
Intangible assets	13	**338,630**	350,524
Other assets	10	**10,431**	236
Total non-current assets		**455,460**	445,043
Total assets		**3,114,932**	3,114,388
Current liabilities			
Trade and other payables	14	**576,799**	242,911
Financial liabilities at fair value through profit or loss	15	**23,448**	4,949
Claims liabilities	16	**395,243**	357,798
Unearned premium liability	17	**559,466**	681,717
Tax liability		**1,187**	-
Provisions	19	**68,817**	44,664
Total current liabilities		**1,624,960**	1,332,039
Non-current liabilities			
Trade and other payables	14	**1,411**	1,663
Claims liabilities	16	**11,390**	13,224
Unearned premium liability	17	**37,469**	115,638
Provisions	19	**37,003**	32,660
Total non-current liabilities		**87,273**	163,185
Total liabilities		**1,712,233**	1,495,224
Net assets		**1,402,699**	1,619,164
Equity			
Contributed equity	20	**85,000**	85,000
Reserves	21	**18,591**	18,189
Retained earnings	22	**1,299,108**	1,515,975
Total equity		**1,402,699**	1,619,164

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

Consolidated statement of changes in equity

For the financial year ended 30 June 2013

	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 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**
Profit for the year	-	-	232,741	**232,741**
Other comprehensive income	-	402	722	**1,124**
Total comprehensive income for the year	-	402	233,463	**233,865**
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	-	-	(450,330)	**(450,330)**
Balance at 30 June 2013	85,000	18,591	1,299,108	**1,402,699**

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

Consolidated statement of cash flows

For the financial year ended 30 June 2013

	Note	2013 $'000	2012 $'000
Cash flows from operating activities			
Premium receipts		**5,256,499**	5,270,431
Health Solutions receipts		**416,964**	282,618
Other receipts		**18,883**	17,974
Payments for claims and levies		**(4,562,263)**	(4,311,580)
Payments to suppliers and employees		**(974,562)**	(846,018)
Income taxes paid		**(51,020)**	(207,970)
Net cash inflow from operating activities	31	**104,501**	205,455
Cash flows from investing activities			
Interest received		**78,040**	73,718
Investment expenses		**(5,738)**	(5,995)
Proceeds from sale of financial assets		**1,247,126**	956,570
Purchase of financial assets		**(931,162)**	(1,119,524)
Proceeds from sale of plant and equipment		**1,064**	599
Purchase of plant and equipment		**(27,532)**	(14,519)
Purchase of intangible assets		**(34,623)**	(38,707)
Net cash inflow/(outflow) from investing activities		**327,175**	(147,858)
Cash flows from financing activities			
Dividends paid		**(150,330)**	(91,241)
Net cash outflow from financing activities		**(150,330)**	(91,241)
Net increase/(decrease) in cash and cash equivalents		**281,346**	(33,644)
Cash and cash equivalents at beginning of period		**613,713**	647,357
Cash and cash equivalents at end of period	6	**895,059**	613,713

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

Notes to 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 2013 ("2013") were authorised for issue in accordance with a resolution of the Directors on 30 August 2013. 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 statements.

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).

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.

Change in accounting policy

During the 2013 financial year, the Group adopted a policy to defer the costs incurred in obtaining health insurance contracts, as described in Note 1(o). These costs were not deferred in prior financial years, as they were not material and as a result, comparative information has not been restated.

New and amended standards adopted

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2012. However, amendments made to AASB 101 *Presentation of Financial Statements* effective 1 July 2012 now require the statement of comprehensive income to show the items of comprehensive income grouped into those that are not permitted to be reclassified to profit or loss in a future period and those that may have to be reclassified if certain conditions are met.

Changes to presentation and comparative information

When the presentation or classification of items in the financial statements is amended, comparative amounts have been reclassified.

On 1 July 2012, the Group merged its former Australian Health Management fund with the Medibank Private health benefit fund. As a result, certain comparatives as presented in Note 2(a) and Note 16(a) have been revised to improve comparability with the amounts presented for the merged health benefit fund, Medibank Private, as at 30 June 2013. Apart from this matter, the merging of the funds had no impact on the Group's consolidated financial statements.

During the financial year ended 30 June 2013, the Group revised the classification of certain items of expense in the income statement, to accurately reflect the substance of the underlying transactions. Expenses relating to healthcare services provided under new customer contracts have been combined with other contracted medical professional expenses, which were previously included within professional service expense, and included within medical services expense. The comparative information has been restated to conform with current year presentation, which resulted in $20,964,000 being reclassified from professional service expense to medical services expense.

The Group also revised the presentation of its deferred tax assets and liabilities to more accurately reflect the net deferred tax position of the Group following the application of offsetting where permitted (refer to Note 1(g)). As a result, the Group's deferred tax position is presented on a net basis in the balance sheet and in Note 12 to the financial statements. Comparative information has been represented to conform with this revised presentation.

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 2013 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(i)).

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) 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)

c) 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(n).

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.

d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. 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 an unearned premium liability in the balance sheet.

The Australian Government provides a rebate in respect of the premium paid for resident private health insurance. Policyholders can elect to receive this entitlement by paying the net amount of the premium, with the rebate being paid directly by the Government to the Group.

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, the provision of clinical decision support software to companies, government and consumers, and the management and co-ordination of healthcare services delivered by third party providers. 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(n) for details on the measurement of gains and losses on financial assets measured at fair value through profit or loss and derivative financial instruments. Dividends are recognised as revenue when the right to receive payment is established.

(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.

e) Claims expense

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

f) 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.

g) Income tax

The income tax expense or revenue for the period is the tax payable or receivable 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 and its 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 offset in the consolidated financial statements.

h) 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 23). 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.

i) 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.

j) 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).

k) 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.

Note 1: Summary of significant accounting policies (continued)

k) Cash and cash equivalents (continued)

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.

l) 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. 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 credited against other expenses in the income statement.

m) Inventories

Inventories consist of 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.

n) 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. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

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 fund (Medibank Private), 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 fund.

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. Derivatives are carried as assets when their fair value is positive and 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.

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 and accrue interest using 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 net investment income in the period in which they arise. Dividend income derived from financial assets at fair value though profit or loss is recognised in profit or loss as part of net investment income when the Group's right to receive payments is established. Interest income from these financial assets is also included in net 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.

o) Deferred acquisition costs

Acquisition costs incurred in obtaining health insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the consolidated income statement in subsequent reporting periods.

Deferred acquisition costs are amortised systematically over the average expected duration of the insurance contracts to which they relate, in accordance with the expected pattern of the incidence of risk under the insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding actual and expected premium revenue. This is subject to the results of liability adequacy testing performed on the unearned premium liability.

The appropriateness of the average expected duration of the insurance contracts is reassessed annually.

p) Property, plant and equipment

Land and buildings (none of which are investment properties) 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. Other property, plant and equipment is stated as historical cost less depreciation. 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 the income statement 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 the income statement, the increase is first recognised in the income statement. 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 the income statement.

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(j)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. 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.

q) Intangibles

(i) Goodwill

Goodwill is measured as described in Note 1(j). 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. Software intangibles are carried at cost less accumulated amortisation and impairment losses (refer Note 1 (j)). Amortisation is calculated on a straight-line basis over periods generally ranging from 1.5 to 5 years (2012: 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 6 years (2012: 10 years). Amortisation relating to internally generated software is recognised in other expenses in the income statement. Amortisation relating to acquired software is recognised in acquisition intangible expenses in the income statement.

(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 for assets currently owned by the Group is 10 years and is recognised in acquisition intangible expenses in the income statement.

r) 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 unpresented and outstanding claims.

s) Claims liabilities and provisions

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, 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.

Note 1: Summary of significant accounting policies (continued)

t) 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.

u) Unearned premium liability

The proportion of premium received 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 17 for details of the split between the current and non-current portion of this balance.

v) Unexpired risk liability

A liability adequacy test is required to be performed to determine whether the insurance liability in respect of the unearned premium liability (contributions in advance) net of deferred acquisition costs 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, the unearned premium liability is deemed to be deficient, with the entire deficiency being recorded immediately in the income statement. The deficiency is recognised first by writing down any related intangible assets and then related deferred acquisition costs, with any excess being recorded in the balance sheet as an unexpired risk liability.

w) 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.

x) Employee entitlements

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, and liabilities for long service leave 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 liabilities for long service leave and annual leave are 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(y)), 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.

y) 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. The net obligation is presented within trade and other payables in the balance sheet. 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 2013.

z) Contributed equity

Fully paid ordinary shares are classified as contributed equity.

aa) 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.

ab) 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.

ac) Equity Reserve

The parent entity previously entered into a restructure of administrative arrangements, which gave rise to an equity reserve (refer Note 21) 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.

ad) 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.

ae) 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.

Note 1: Summary of significant accounting policies (continued)

af) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2013 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
Revised AASB 9, AASB 2010-7 and AASB 2012-6	Financial Instruments, Amendments to Australian Accounting Standards arising from AASB 9, and Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures	The revised standard addresses the classification, measurement and derecognition of financial assets and financial liabilities. All financial assets and liabilities are to be recognised at fair value with the exception of debt instruments with basic loan features that are managed on a contracted yield basis. As the Group currently classifies its investments at fair value through profit and loss, the Group does not expect this to have a material impact. The derecognition rules have been transferred from AASB 139 and have not been changed.	1 January 2015	1 July 2015
AASB 10, AASB 12, AASB 2011-7 and AASB 2012-10	Consolidated Financial Statements, Disclosure of Interests in other entities, Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards, and Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments	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, in particular with regards to whether the parent entity have control over its investees. As the Company is the sole shareholder in its subsidiaries, there is no uncertainty as to whether control exists. The Group therefore does not expect the implementation of these standards to have a material impact.	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 seek to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The standard also provides guidance on the fair value of non-financial assets and introduces the concept of "recurring" and "non-recurring" fair value measurements. As the Group currently classifies its investments at fair value through profit and loss, and measures its properties at fair value, the Group does not expect the application of this standard to have a material impact on the financial statements.	1 January 2013	1 July 2013
AASB 2012-2 and 2012-3	Amendments to Australian Accounting Standard – Offsetting Financial Assets and Financial Liabilities, Amendments to Australian Accounting Standard – Disclosures - Offsetting Financial Assets and Financial Liabilities	These amendments clarify some of the requirements for offsetting financial assets and financial liabilities and focus on the disclosure of 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 does not offset its financial assets and liabilities, therefore the application of these amendments would not have an impact on the measurement and classification of these balances. Under these amendments, the Group will be required to disclose additional information showing the net position of financial assets and liabilities to the extent that there exists a legally enforceable right of set-off.	1 January 2014	1 July 2014

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

ag) 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.

(ii) 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 liability comprises the central estimate and a risk margin. The central estimate is an estimate of the level of claims liability 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.

(iii) Financial assumptions used to determine outstanding claims provision

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

The risk-free rate applied to the outstanding claims central estimate of Medibank Private at 30 June 2013 is 2.82% which equates to a reduction in the central estimate of $1,491,000 (2012: 3.49%, $1,827,000).

(iv) PackageBonus and Ultra Bonus provision

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 expiry after a period of five years.

A claims provision is included in the financial statements to cover expected future utilisation of PackageBonus benefits accrued in respect of current 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 provision.

Accordingly, a claims provision of 96% (2012: 95%) of the accrued PackageBonus entitlements, less the amount paid in relation to these entitlements, has been established to reflect the expected future utilisation of this benefit, based on historical usage, in respect of membership up to 30 June 2013.

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, a claims provision of 100% (2012: 100%) of the accrued Ultra Bonus entitlements, less the amount paid in relation to these entitlements, has been established to reflect the expected future utilisation of this benefit in respect of membership up to 30 June 2013.

The PackageBonus and Ultra Bonus provisions have not been discounted to reflect the time value of money at 30 June 2013, as the impact is not considered to be material. (2012: discount rate of 3.49%, equated to a discount of $58,000).

(v) Risk margins

An overall risk margin is determined after consideration of the uncertainty surrounding the outstanding claims liabilities and claims provisions. The objective for Medibank Private is to achieve at least a 95% probability of sufficiency (2012: 95%). The calculation of the risk margin has been based on an analysis of the past experience. This analysis examined the volatility of past payments in comparison to the central estimate.

The risk margin applied to the central estimate of outstanding claims at 30 June 2013 is 5.0% which equates to $18,534,000 (2012: 4.4% applied to Medibank Private and 8.9% applied to the former Australian Health Management fund, equated to $16,168,000).

The risk margin applied with respect to the PackageBonus provision at 30 June 2013 is 2.0% of entitlements which equates to $4,479,000 (2012: 1.8%, $4,479,000).

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 total risk margin at 30 June 2013 is $23,013,000 (2012: $20,647,000) as reflected in Note 16 (a).

(vi) 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.

		Financial Impact Consolidated			
		2013		2012	
	Movement invariable	Profit/(loss) $'000	Equity $'000	Profit/(loss) $'000	Equity $'000
Central estimate	1%	**(4,022)**	**(4,022)**	(3,667)	(3,667)
Central estimate	-1%	**4,022**	**4,022**	3,667	3,667
Discount rate	1%	**505**	**505**	563	563
Discount rate	-1%	**(512)**	**(512)**	(571)	(571)
Risk margin	1%	**(5,895)**	**(5,895)**	(5,847)	(5,847)
Risk margin	-1%	**5,895**	**5,895**	5,847	5,847
Weighted average term to settlement*	+ 1 month	**812**	**812**	1,059	1,059
Weighted average term to settlement	- 1 month	**(814)**	**(814)**	(1,063)	(1,063)

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

b) Classification and valuation of investments

The Group classifies 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. In determining the fair value of investments, 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. Investments for which valuation is based on significant unobservable inputs as described above are those classified as level 3 in the fair value measurement hierarchy (refer Note 3(iv)).

c) Estimated impairment of goodwill and customer contracts and relationships

On an annual basis, the Group tests whether goodwill and customer contracts and relationships have suffered any impairment, in accordance with the accounting policy stated in Note 1(j). In assessing goodwill for impairment, 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.

A key assumption in testing customer contracts and relationships for impairment is the retention of the underlying contracts.

d) Long service leave provision

As discussed in Note 1(x), 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) 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. Management estimates the useful life of software / technology held by Medibank Health Solutions Telehealth to be 6 years (2012: 10 years). The revision of the estimated useful life of this software resulted in an additional $2,131,000 of amortisation being recognised in the income statement for the 2013 financial year. All other software is estimated to have a useful life of 1.5 to 5 years (2012: 2.5 to 5 years).

f) Provision for medical services and accrued revenue

Provision is made for the estimated cost of sub contracted medical services incurred but not settled or processed at balance date. Accrued revenue comprises unbilled amounts and estimated revenue accrued in relation to sub contract medical services provided. (Note 19(iv)). The provision and accrued revenue calculation utilise a number of inputs including the number of invoices on hand, an estimate of the invoices not yet received, the average past invoice value or contractual price and the mix of medical service providers.

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), asset backed securities, hybrid securities, 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 analysis 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 requires 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	Profit 2013 $'000	Profit 2012 $'000	Equity 2013 $'000	Equity 2012 $'000
Judgements of reasonably possible movements				
+120 bps (2012: +140 bps)	**23,413**	26,538	**23,413**	26,538
120 bps (2012: -140 bps)	**(23,413)**	(26,538)	**(23,413)**	(26,538)

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

At balance date, the Group had the following financial assets exposed to Australian variable interest rate risk that are not designated in a hedging relationship:

	Consolidated 2013 $'000	Consolidated 2012 $'000
Assets		
Cash and cash equivalents	**895,059**	613,713
Financial assest at fair value through profit and loss		
- Debentures and Notes	**782,032**	982,944
- Unit Trusts	**286,790**	341,683
	1,963,881	1,938,340

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.

(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, New Zealand 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(c).

At 30 June 2013, the Group had the following net exposure to foreign currency movements:

	Consolidated 2013 $'000	Consolidated 2012 $'000
Assets		
Financial assest at fair value through profit and loss		
- Debentures and Notes	**-**	73,775
- Unit Trusts	**167,668**	240,424
	167,668	314,199

Note 3: Financial risk management (continued)

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 2013, the Group had entered offsetting positions for 90% (2012: 90%) 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	Profit 2013 $'000	Profit 2012 $'000	Equity 2013 $'000	Equity 2012 $'000
Judgements of reasonably possible movements				
AUD/USD +15% (2012:+15%)	**(1,347)**	(2,586)	**(1,347)**	(2,586)
AUD/USD -15% (2012:-15%)	**1,347**	2,586	**1,347**	2,586
AUD/GBP +15% (2012:+15%)	**(94)**	(402)	**(94)**	(402)
AUD/GBP -15% (2012:-15%)	**94**	402	**94**	402
AUD/EUR +15% (2012:+15%)	**(311)**	(1,035)	**(311)**	(1,035)
AUD/EUR -15% (2012:-15%)	**311**	1,035	**311**	1,035
AUD/JPY +15% (2012:+15%)	**(221)**	(340)	**(221)**	(340)
AUD/JPY -15% (2012:-15%)	**221**	340	**221**	340
AUD/NZD +15% (2012:+15%)	**(690)**	(790)	**(690)**	(790)
AUD/NZD -15% (2012:-15%)	**690**	790	**690**	790

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.

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	Profit 2013 $'000	Profit 2012 $'000	Equity 2013 $'000	Equity 2012 $'000
Judgements of reasonably possible movements				
Australian Equity & Absolute Return Fund +10%	**35,341**	32,764	**35,341**	32,764
Australian Equity & Absolute Return Fund -10%	**(35,341)**	(32,764)	**(35,341)**	(32,764)
Australian Property Investments +9%	**9,215**	8,812	**9,215**	8,812
Australian Property Investments -9%	**(9,215)**	(8,812)	**(9,215)**	(8,812)
Global Listed Property Investments +9%	**3,057**	4,720	**3,057**	4,720
Global Listed Property Investments -9%	**(3,057)**	(4,720)	**(3,057)**	(4,720)
Global Equity Investments +12%	**20,676**	21,997	**20,676**	21,997
Global Equity Investments -12%	**(20,676)**	(21,997)	**(20,676)**	(21,997)
Emerging Market Investments +20%	**909**	2,186	**909**	2,186
Emerging Market Investments -20%	**(909)**	(2,186)	**(909)**	(2,186)

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.

These limits specify that no more than 25% of the cash portfolio can be invested in any one counterparty bank and no more than 10% in any one counterparty corporate entity. In respect of the Group's debentures and notes portfolio, the maximum amounts that can be invested in any one counterparty bank and any one counterparty corporate entity are 50% and 15% of the portfolio respectively. As at 30 June 2013 and 2012, the counterparty exposure of the Group was within these 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

Consolidated Short Term Long Term	A-1+ AAA $'000	A-1+ AA $'000	A-1 A $'000	A-2 BBB $'000	B & below BB & below $'000	Not rated $'000	Total $'000
2013							
Assets							
Cash/cash equivalents	280	640,534	169,312	106,361	-	(21,428)	**895,059**
Premiums in arrears	-	-	-	-	-	12,124	**12,124**
Trade and other receivables	-	-	-	-	-	299,577	**299,577**
Financial Assets							
Unit trusts - Unlisted	-	-	-	-	-	285,760	**285,760**
Direct Mandate - Aust Listed	-	-	-	19,858	-	352,884	**372,742**
Debentures and notes	116,961	456,749	198,934	9,388	-	-	**782,032**
Private Equity	-	-	-	-	-	1,030	**1,030**
Derivatives	-	979	5,885	-	-	-	**6,864**
Liabilities							
Derivatives	-	(8,147)	(15,301)	-	-	-	**(23,448)**
Total	117,241	1,090,115	358,830	135,607	-	929,947	**2,631,740**
2012							
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 Mandate - Aust Listed	-	-	-	-	-	334,076	**334,076**
Debentures and 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**

Note 3: Financial risk management (continued)

(c) Counter-party credit risk ratings continued

The previous table provides information regarding the credit risk exposure of the Group at 30 June 2013 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 table highlights the short-term rating as well as the equivalent long-term ratings bands as per published Standard & Poor's correlations.

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.

(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 45% 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 2013, as well as the respective undiscounted cash flows for the respective upcoming fiscal years.

Cash flows for financial liabilities without fixed amount or timing are based on the conditions existing at 30 June 2013.

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:

	Under 6 months $'000	6 - 12 months $'000	1 - 2 years $'000	Over 2 years $'000	Total contractual cash flows $'000	Carrying amount $'000
2013						
Non-derivatives						
Trade and other payables	576,492	307	595	816	578,210	578,210
Claims liabilities	370,416	26,255	9,080	2,478	408,229	406,633
Total non-derivatives	**946,908**	**26,562**	**9,675**	**3,294**	**986,439**	**984,843**
2012						
Non-derivatives						
Trade and other payables	242,417	493	640	1,024	244,574	244,574
Claims liabilities	332,717	26,830	10,638	2,857	373,042	371,022
Total non-derivatives	**575,134**	**27,323**	**11,278**	**3,881**	**617,616**	**615,596**

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

The Group classifies the fair value measurement of its investments 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 2013.

Consolidated	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Year ended 30 June 2013				
Financial Assets				
Financial assests at fair value through profit or loss	451,503	982,362	14,563	1,448,428
	451,503	**982,362**	**14,563**	**1,448,428**
Financial Liabilities				
Financial liabilities at fair value through profit or loss	-	(23,448)	-	(23,448)
	-	**(23,448)**	**-**	**(23,448)**
Year ended 30 June 2012				
Financial Assets				
Financial assests 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)**

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 table presents the changes in level 3 instruments for the year ended 30 June 2013:

Consolidated	2013 $'000	2012 $'000
Opening balance	**1,030**	4,800
Transfers into level 3	**16,536**	-
Transfers out of level 3	**-**	-
Purchases	**-**	-
Sales	**-**	(1,431)
Losses recognised in profit or loss	**(3,003)**	(2,339)
Closing balance	**14,563**	1,030

The opening value is made up of an investment in a private equity trust and 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 transfer to level 3 relates to a holding in an unlisted unit trust which at 30 June 2013 was illiquid.

Note 3: Financial risk management (continued)

(v) Insurance risk

Medibank Private provides 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 dependent.

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 which exceeds 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 2013 $'000	Consolidated 2012 $'000
(a) Insurance underwriting result		
Private health insurance premium revenue	5,344,083	5,062,300
Claims expense		
Claims incurred	(4,649,050)	(4,346,340)
State levies	(43,484)	(42,003)
Net Risk Equalisation Trust Fund levies	98,196	83,103
	(4,594,338)	(4,305,240)
Other claims expense	(4,041)	(5,716)
Net claims incurred	(4,598,379)	(4,310,956)
Underwriting expenses	(509,090)	(538,594)
Underwriting result after expenses	236,614	212,750
(b) Employee benefits expense		
Defined contribution superannuation expense	30,085	27,866
Other employee benefits expense	431,814	418,058
	461,899	445,924
(c) Lease expense		
Operating lease rental expense	35,166	33,313
	35,166	33,313
(d) Depreciation and software amortisation expense		
Depreciation - land and buildings	748	802
Depreciation - plant and equipment	6,712	6,654
Depreciation - leasehold improvements	8,766	8,363
Amortisation - software	27,183	27,810
	43,409	43,629
(e) Net investment income		
Interest	84,783	81,359
Trust distributions	13,868	5,807
Dividend income	6,901	8,870
Investment management fees	(5,710)	(6,052)
Net gain/(loss) on fair value movements on financial assets	59,279	(4,969)
Net loss on disposal of financial assets	(14,739)	(41,619)
	144,382	43,396
(f) Other income		
Interest	22	36
Other income	1,557	2,342
Revaluation - land and buildings	599	(1,501)
	2,178	877
(g) Acquisition intangible expenses		
Amortisation - customer contracts & relationships	7,146	7,143
Amortisation - acquisition software	3,576	1,788
Impairment - acquisition software	5,697	-
	16,419	8,931

Note 4: Revenue and expenses (continued)

	Consolidated 2013 $'000	2012 $'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

In the 2012 financial year, as part of the Australian Government's Personally Controlled Electronic Health Record (PCEHR) initiative, Medibank received grants totalling $6,818,000 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. No grants were received by the Group during the 2013 financial year.

Note 5: Income tax expense

	Consolidated 2013 $'000	2012 $'000
(a) Income tax expense		
Current tax	80,441	64,353
Deferred tax	8,731	7,141
Adjustment for current tax of prior period	(6,864)	(808)
	82,308	70,686
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit for the year before income tax expense	315,049	197,281
Tax at the Australian tax rate of 30% (2012 - 30%)	94,515	59,184
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment	337	496
Impairment	43	84
Tax offset for franked dividends	(2,062)	(1,883)
Adjustment to deferred tax	-	(1,274)
Provision for Uncertain Tax Position	-	(5,151)
Adjustment for Rights to Future Income	-	20,503
Net research and development tax concession	(2,570)	(2,207)
Sundry items	(1,091)	1,742
	89,172	71,494
Adjustment for current tax of prior period	(6,864)	(808)
Income tax expense	82,308	70,686
(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 - debited/(credited) directly to other comprehensive income relating to:		
Items that will not be reclassified to profit or loss	505	(598)
	505	(598)

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. These balances are eliminated upon consolidation.

Note 6: Cash and cash equivalents

	Consolidated 2013 $'000	2012 $'000
Cash and cash equivalents	895,059	613,713

Bank overdraft facility

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

	Consolidated 2013 $'000	2012 $'000
Amount used	1,023	1,368
Amount unused	582	3,390
	1,605	4,758

Note 7: Trade and other receivables

	Note	Consolidated 2013 $'000	2012 $'000
Premiums in arrears		12,124	11,660
Allowance for impairment loss	(i)	(3,663)	(2,496)
		8,461	9,164
Trade Receivables		103,730	87,989
Allowance for impairment loss	(ii)	(1,303)	(1,445)
		102,427	86,544
Goods and services tax		3,091	1,623
Government rebate scheme	(a)	126,847	207,490
Risk Equalisation Trust Fund		29,802	42,195
Accrued revenue		41,073	5,024
		200,813	256,332
Total trade and other receivables		311,701	352,040

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

Note 7: Trade and other receivables (continued)

(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 $3,663,000 (2012: $2,496,000) 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 2013 $'000	2012 $'000
Balance at 1 July	2,496	3,037
Charge for the year	2,272	899
Amounts recovered	(1,050)	(1,383)
Amounts written-off	(55)	(57)
Balance at 30 June	3,663	2,496

(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 $1,303,000 (2012: $1,445,000) has been recognised by the Group at 30 June 2013. 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 2013 $'000	2012 $'000
Balance at 1 July	1,445	1,703
Charge for the year	426	186
Amounts recovered	(303)	(388)
Amounts written-off	(265)	(56)
Balance at 30 June	1,303	1,445

(a) Considered impaired

Consolidated	Total $'000	0-30 days $'000	31-60 days $'000	61-90 days $'000	+91 days $'000
2013					
Premiums in arrears	3,663	889	1,438	258	1,078
Trade receivables	1,303	-	-	-	1,303
	4,966	889	1,438	258	2,381
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

(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
2013					
Premiums in arrears	8,461	6,833	1,592	9	27
Trade receivables	8,678	4,295	1,746	1,012	1,625
	17,139	11,128	3,338	1,021	1,652
2012					
Premiums in arrears	9,164	6,075	2,944	42	103
Trade receivables	11,150	3,889	2,758	1,523	2,980
	20,314	9,964	5,702	1,565	3,083

Receivables past due but not considered impaired at 30 June 2013 for the Group are $17,139,000 (2012: $20,314,000). Each operating unit has reviewed their individual debtors 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 2013 $'000	2012 $'000
Medical Supplies	1,534	1,588

Note 9: Investments

	Consolidated 2013 $'000	2012 $'000
Financial assets at fair value through profit and loss		
Unit trusts	285,760	340,653
Australian listed equities	372,742	334,076
Debentures and notes	782,032	982,944
Private Equity	1,030	1,030
Derivatives	6,864	14,165
	1,448,428	1,672,868

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 3,116 days (2012: 2,330 days).

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

Note 10: Other assets

	Note	Consolidated 2013 $'000	2012 $'000
Current			
Prepayments	(i)	10,469	8,294
Deferred acquisition costs	(a)	2,281	-
		12,750	8,294
Non-current			
Artworks	(ii)	236	236
Deferred acquisition costs	(a)	10,195	-
		10,431	236

Terms and conditions relating to other current assets:
(i) Expenses paid in advance.
(ii) 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.

	Consolidated 2013 $'000	2012 $'000
(a) Deferred acquisition costs		
Movements in the deferred acquisition costs are as follows:		
Balance at beginning of year	-	-
Acquisition costs deferred during the year	13,410	-
Amortisation expense	(934)	-
	12,476	-

Movement includes both current and non-current.

Costs incurred in prior years were not deferred as they were not material.

The result of liability adequacy testing performed on the unearned premium liability at 30 June 2013 was that there existed a surplus to support recognition of the deferred acquisition cost balance and no write-down of the balance was required.

Note 11: Property, plant and equipment

Consolidated	Land and buildings $'000	Plant and equipment $'000	Leasehold improvements $'000	Assets under construction $'000	Total $'000
2013					
Gross carrying amount					
Balance at 1 July 2012	35,891	50,611	60,970	742	148,214
Additions	-	4,444	12,605	10,863	27,912
Transfers in/(out)	-	591	93	(684)	-
Disposals	-	(5,435)	(5,373)	(481)	(11,289)
Balance at 30 June 2013	35,891	50,211	68,295	10,440	164,837
Accumulated depreciation					
Balance at 1 July 2012	(2,151)	(31,471)	(37,320)	-	(70,942)
Depreciation expense	(748)	(6,712)	(8,766)	-	(16,226)
Disposals	-	5,315	5,219	-	10,534
Revaluations	715	-	-	-	715
Writeback of/(impairment)	-	152	(442)	-	(290)
Balance at 30 June 2013	(2,184)	(32,716)	(41,309)	-	(76,209)
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	-	-	-	-	-
Balance at 30 June 2012	35,891	50,611	60,970	742	148,214
Accumulated depreciation					
Balance at 1 July 2011	(1,501)	(27,233)	(29,342)	-	(58,076)
Depreciation expense	(802)	(6,654)	(8,363)	-	(15,819)
Disposals	-	2,752	1,794	-	4,546
Revaluations	152	-	-	-	152
Impairment	-	(336)	(1,409)	-	(1,745)
Balance at 30 June 2012	(2,151)	(31,471)	(37,320)	-	(70,942)
Closing net book amount					
As at 30 June 2013	**33,707**	**17,495**	**26,986**	**10,440**	88,628
As at 30 June 2012	33,740	19,140	23,650	742	77,272

Note 11: Property, plant and equipment (continued)

(a) Valuation 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 2013 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 2013 $'000	Consolidated 2012 $'000
Land and buildings		
Cost	36,917	36,917
Accumulated depreciation	(5,175)	(4,330)
Net book amount	31,742	32,587

Note 12: Deferred tax assets

	Consolidated 2013 $'000	Consolidated 2012 $'000
Deferred tax balances comprise temporary differences attributable to items:		
Recognised in the income statement		
Trade and other receivables	353	336
Financial assets at fair value through profit and loss	(11,610)	228
Prepayments	-	(20)
Other assets	(3,639)	(1,258)
Property, plant and equipment	12,559	12,444
Intangible assets	(20,057)	(22,512)
Trade and other payables	3,800	1,837
Employee entitlements	20,483	19,835
Provisions	5,597	4,873
Business capital costs	764	1,222
	8,250	16,985
Recognised directly in other comprehensive income relating to:		
Revaluation of land and buildings	(1,102)	(906)
Actuarial loss on retirement benefit obligation	623	932
	(479)	26
Net deferred tax assets	7,771	17,011

Note 13: Intangible assets

Consolidated	Goodwill $'000	Customer Contracts & Relationships (i) $'000	Internally Generated Software (ii) $'000	Acquired Software (ii) $'000	Assets under construction $'000	Total $'000
2013						
Gross carrying amount						
Balance at 1 July 2012	199,480	82,080	161,797	17,874	25,567	486,798
Additions	-	-	13,956	-	20,667	34,623
Transfers in/(out)	-	-	3,679	-	(3,679)	-
Disposals	-	-	(21,246)	-	(426)	(21,672)
Balance at 30 June 2013	199,480	82,080	158,186	17,874	42,129	499,749
Accumulated amortisation and impairment						
Balance at 1 July 2012	(2,523)	(22,378)	(107,798)	(3,575)	-	(136,274)
Amortisation expense	-	(7,146)	(27,183)	(3,576)	-	(37,905)
Disposals	-	-	20,998	-	-	20,998
Impairment	(143)	-	(2,098)	(5,697)	-	(7,938)
Balance at 30 June 2013	(2,666)	(29,524)	(116,081)	(12,848)	-	(161,119)
2012						
Gross carrying amount						
Balance at 1 July 2011	199,480	82,080	137,376	17,874	14,181	450,991
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	161,797	17,874	25,567	486,798
Accumulated amortisation and impairment						
Balance at 1 July 2011	(2,523)	(15,235)	(82,779)	(1,787)	-	(102,324)
Amortisation expense	-	(7,143)	(27,810)	(1,788)	-	(36,741)
Disposals	-	-	2,791	-	-	2,791
Balance at 30 June 2012	(2,523)	(22,378)	(107,798)	(3,575)	-	(136,274)
As at 30 June 2013	196,814	52,556	42,105	5,026	42,129	338,630
As at 30 June 2012	196,957	59,702	53,999	14,299	25,567	350,524

(i) Amortisation of customer contracts and relationships of $7,146,000 (2012: $7,143,000) is included in acquisition intangible expenses 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 internally generated software of $27,183,000 (2012: $27,810,000) is included in depreciation and amortisation expense in the income statement. The remaining $3,576,000 (2012: $1,788,000) is included in acquisition intangible expenses in the income statement.

Note 13: Intangible assets (continued)

(a) Impairment charge

Goodwill

The impairment charge on goodwill of $143,000 (2012: $nil) relates to the writedown of the Group's investment in a non-operating subsidiary during the financial year.

Software

The impairment charge of $7,795,000 in 2013 (2012: $nil) arose as a result of the revision in the estimated useful life of software owned by Medibank Health Solutions Telehealth Pty Ltd. $5,697,000 (2012: $nil) of the impairment is recognised in acquisition intangible expenses in the income statement, to the extent that it relates to the impairment on the revaluation of software upon the Group's acquisition of the subsidiary. The remaining $2,098,000 (2012: $nil) is recognised in other expenses.

(b) Impairment test 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
2013	
Australian Health Management	96,133
Medibank Health Solutions	8,850
Medibank Health Solutions Telehealth	91,831
	196,814
2012	
Australian Health Management	96,133
Medibank Health Solutions	8,850
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 rate %
2013		
Australian Health Management	2.5	15.6
Medibank Health Solutions	2.5	14.7
Medibank Health Solutions Telehealth	2.5	14.3
2012		
Australian Health Management	2.5	16.5
Medibank Health Solutions	2.5	15.8
Medibank Health Solutions Telehealth	2.5	15.7

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 2013 $'000	2012 $'000
Current			
Trade creditors	(i)	195,757	170,354
Other creditors and accrued expenses	(ii)	79,962	62,222
Dividend payable	20(d)	300,000	-
Risk Equalisation Trust Fund	(iii)	-	8,023
Lease incentives	(iv)	638	521
Defined benefit superannuation fund		442	1,791
		576,799	242,911

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

	Note	2013	2012
Non-current			
Lease incentives	(iv)	1,411	1,663
		1,411	1,663

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

(iv) 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.

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

	Note	Consolidated 2013 $'000	2012 $'000
Current			
Derivatives	(i)	23,448	4,949
		23,448	4,949

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 liability

(a) Gross claims liability

	Note	Consolidated 2013 $'000	Consolidated 2012 $'000
Current			
Claims liability - central estimate of the expected present value of future payments for claims liabilities	(i), 2(a)(ii)	**366,969**	333,512
Risk margin	(ii), 2(a)(ii,v)	**21,095**	18,701
Claims handling costs	(iii)	**7,179**	5,585
Gross claims liability	16(c)	**395,243**	357,798
Non-current			
Claims liability - central estimate of the expected present value of future payments for claims liabilities	(i), 2(a)(ii)	**9,382**	11,187
Risk margin	(ii), 2(a)(ii,v)	**1,918**	1,946
Claims handling costs	(iii)	**90**	91
Gross claims liability	16(c)	**11,390**	13,224

(i) The expected future payments of claims liabilities are discounted to present value using a risk-free rate of 2.82% pa (2012: 3.49% pa).

(ii) The risk margin of 5.0% (2012: 4.8%) of the underlying outstanding claims liabilities and 2.0% (2012: 1.8%) of PackageBonus entitlements for Medibank Private has been estimated to equate to a probability of adequacy of at least 95% (2012: 95%).

(iii) The allowance for claims handling costs for Medibank Private at 30 June 2013 is 2.0% of the claims liability (2012: 1.72%).

(b) Claims incurred

Information regarding liquidity 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 2013	Prior $'000	Current $'000	Total $'000
Claims incurred			
Undiscounted	(8,874)	4,657,576	**4,648,702**
Movement in Discount	-	348	**348**
	(8,874)	4,657,924	**4,649,050**

Consolidated 2012	Prior $'000	Current $'000	Total $'000
Claims incurred			
Undiscounted	7,280	4,338,445	4,345,725
Movement in Discount	-	615	615
	7,280	4,339,060	4,346,340

(c) Reconciliation of movement in claims liabilities

	Consolidated 2013 $'000	Consolidated 2012 $'000
Balance at 1 July	**371,022**	370,492
Claims incurred during the year	**4,653,156**	4,340,927
Claims paid during the year	**(4,612,978)**	(4,345,654)
Amount under/(over) provided	**(8,874)**	7,280
Risk Margin	**2,366**	(2,711)
Claims handling costs	**1,593**	73
Movement in discount	**348**	615
Balance at 30 June	**406,633**	371,022

Note: movement includes both current and non-current. Claims incurred and claims paid exclude levies.

Note 17: Unearned premium liability

	Consolidated 2013 $'000	Consolidated 2012 $'000
Current		
Unearned premium liability	**559,466**	681,717
	559,466	681,717
Non-current		
Unearned premium liability	**37,469**	115,638
	37,469	115,638

The unearned premium liability is non-interest bearing.

	Consolidated 2013 $'000	Consolidated 2012 $'000
Balance at 1 July	**797,355**	477,385
Deferral of premium on contracts written during the year	**485,343**	775,690
Earnings of premiums deferred in prior years	**(685,763)**	(455,720)
Balance at 30 June	**596,935**	797,355

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

Note 18: Unexpired risk liability

Liability adequacy testing did not result in the identification of any deficiency as at 30 June 2013 and 2012 which would require the recognition of an unexpired risk liability.

Note 19: Provisions

	Note	Consolidated 2013 $'000	2012 $'000
Current			
Restructuring	(i)	10,224	8,121
Make good	(ii)	1,349	471
Employee entitlements	(iii)	37,257	36,072
Medical services expenses	(iv)	19,940	-
Other	(v)	47	-
		68,817	44,664
Non-current			
Make good	(ii)	7,081	5,486
Employee entitlements	(iii)	29,922	27,174
		37,003	32,660

Movement in provisions

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

	2013 $'000	2012 $'000
(i) Restructuring		
Balance at 1 July	8,121	13,115
Additional provision	7,187	3,355
Amounts utilised during the year	(2,990)	(6,754)
Reversal of unused provision	(2,094)	(1,595)
Balance at 30 June	10,224	8,121

The restructuring provision relates to various restructuring programs.

	2013 $'000	2012 $'000
(ii) Make good		
Balance at 1 July	5,957	4,547
Additional provision	3,258	1,801
Amounts utilised during the year	(280)	(162)
Reversal of unused provision	(505)	(229)
Balance at 30 June	8,430	5,957

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.

	2013 $'000	2012 $'000
(iii) Employee Entitlements		
Balance at 1 July	63,246	56,718
Additional provision	46,401	52,737
Amounts utilised during the year	(42,328)	(35,561)
Reversal of unused provision	(140)	(10,648)
Balance at 30 June	67,179	63,246

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

	Consolidated 2013 $'000	2012 $'000
(iv) Medical services expenses		
Balance at 1 July	-	-
Additional provision	19,940	-
Balance at 30 June	19,940	-

This provision relates to the estimated cost of sub contracted medical services incurred but not settled or processed at balance date.

	2013 $'000	2012 $'000
(v) Other		
Balance at 1 July	-	182
Additional provision	47	-
Amounts utilised during the year	-	(182)
Balance at 30 June	47	-

The other provision at 30 June 2013 relates to warranty expenses.

Note 20: Contributed equity

Consolidated entity	2013 $'000	2012 $'000
(a) Fully paid ordinary shares		
Ordinary shares fully paid	85,000	85,000

(b) Movements in shares on issue

	2013 Number of shares	2013 $'000	2012 Number of shares	2012 $'000
Balance at 1 July	85,000,100	85,000	85,000,100	85,000
Issued during the year	-	-	-	-
Balance at 30 June 2012	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

Medibank Private's health benefits fund is 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 health benefits fund can meet its 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 health benefits fund to demonstrate that it has sufficient capital to accept contributions from new and existing members, fund its business plans (including the payment of dividends to the Shareholder), absorb short-term adverse experience from time to time, and continue to remain solvent. During the financial year, the Board approved payment of a special dividend totalling $300 million, following a review of the Group's capital management plan and as a result of the maintenance of the Group's capital adequacy target. The dividend was paid on 15 August 2013.

Note 20: Contributed equity (continued)

(d) Capital management (continued)

The health benefits fund is required to comply with these standards on a continuous basis and report results to PHIAC on a quarterly basis. The fund has been in compliance with these standards throughout the year.

The Board of the Group has established a capital adequacy target for the health benefits fund which is 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 solvency reserve as at 30 June 2013.

Note 21: Reserves

	Consolidated 2013 $'000	Consolidated 2012 $'000
Equity reserve	17,819	17,819
Revaluation reserve	428	348
Foreign currency translation reserve	344	22
	18,591	18,189
Movements:		
Equity reserve (i)		
Balance at July 1	17,819	17,819
Contribution to equity	-	-
Balance at 30 June	17,819	17,819
Revaluation reserve (ii)		
Balance at July 1	348	466
Revaluation of land & buildings - gross	115	(169)
Deferred tax (Note 12)	(35)	51
Balance at 30 June	428	348
Foreign currency translation reserve		
Balance at July 1	22	(93)
Currency translation differences arising during the year	322	115
Balance at 30 June	344	22

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

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

Note 22: Retained earnings

	Note	Consolidated 2013 $'000	Consolidated 2012 $'000
Balance at 1 July		1,515,975	1,482,019
Net profit for the year		232,741	126,595
Items of other comprehensive income recognised directly in retained earnings			
Actuarial gain/(loss) on retirement benefit obligation, net of tax		722	(1,398)
Dividends provided for or paid	(a)	(450,330)	(91,241)
Balance at 30 June		1,299,108	1,515,975
(a) Dividends provided for or paid			
Final unfranked dividend for the year ended 30 June 2012 of $0.58 (2011: $0.75) per fully paid share paid on 30 October 2012.		48,987	64,271
Special unfranked dividend for the year ended 30 June 2012 of $0.47 (2011: $nil) per fully paid share paid on 7 November 2012.		39,843	-
Interim unfranked dividend for the year ended 30 June 2013 of $0.72 (2012: $0.32) per fully paid share paid on 17 June 2013.		61,500	26,970
Special unfranked dividend for the year ended 30 June 2013 of $3.53 (2012: $nil) per fully paid share payable on 15 August 2013.		300,000	-
		450,330	91,241

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

In addition to the above dividends, the Directors have not yet recommended payment of a final dividend (2012: $0.75 per fully paid share totalling $48,987,000 unfranked). The final dividend, which is expected to be paid in October 2013 out of retained earnings at 30 June 2013, 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 23: Commitments

	Consolidated 2013 $'000	Consolidated 2012 $'000
(a) Capital expenditure commitments		
Estimated capital expenditure contracted for at balance date, but not provided for, payable:		
Property, plant & equipment	1,570	50
	1,570	50

Property, plant and equipment capital expenditure commitments as at 30 June 2013 relate to committed expenditure in respect of the upgrade of an existing retail property outlet and the establishment and relocation of three other retail outlets. All work is expected to be carried out during the 2014 financial year.

	2013	2012
(b) Operating lease commitments		
Future operating lease rentals not provided for, payable:		
Within one year	34,597	42,675
After one year but not more than five years	113,535	91,129
Longer than five years	177,609	207,983
Total minimum lease payments	325,741	341,787
Total commitments payable	327,311	341,837

Note 23: Commitments (continued)

(b) Operating lease 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.

	Consolidated 2013 $'000	Consolidated 2012 $'000
(c) Lease commitments: Group as lessor		
Minimum lease payments not yet recognised in the financial statements are receivable as follows:		
Within one year	607	321
After one year but not more than five years	997	-
	1,604	321

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

Note 24: Key management personnel

	Consolidated 2013 $	Consolidated 2012 $
Short-term	8,698,867	6,274,064
Post-employment	356,972	350,587
Long-term	144,741	164,525
Termination	285,200	-
	9,485,780	6,789,176

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 2013.

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

Note 25: Related party transactions

Transactions with related parties

Certain key management personnel hold Director positions in other entities, some of which transacted with the Group during the 2013 financial year. All transactions that occurred were in the normal course of business. The terms and conditions of the transactions 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.

There have been no loans to Directors or specified executives during the current or prior financial years.

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

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 2013 %	Ownership interest 2012 %
Australian Health Management Group Pty Ltd	Australia	Ordinary Shares	100	100
International Health Benefits Pty Ltd [i]	Australia	Ordinary Shares	100	100
Dencare Australia Pty Ltd [i]	Australia	Ordinary Shares	100	100
Carelink Australia Pty Ltd [i]	Australia	Ordinary Shares	100	100
Mercantile Mutual Health Pty Ltd [i]	Australia	Ordinary Shares	100	100
Total Health Pty Ltd [i] [iii]	Australia	Ordinary Shares	-	100
Medibank Health Solutions Pty Ltd	Australia	Ordinary Shares	100	100
Work Solutions Australia Pty Ltd [ii]	Australia	Ordinary Shares	100	100
The Travel Doctor TMVC Pty Ltd [ii]	Australia	Ordinary Shares	100	100
IQ Consultants Pty Ltd [i] [ii]	Australia	Ordinary Shares	100	100
Medibank Health Solutions Telehealth Pty Ltd [ii]	Australia	Ordinary Shares	100	100
Fitness2Live Pty Ltd [ii]	Australia	Ordinary Shares	100	100
Fitness2Live (UK) Ltd [i]	United Kingdom	Ordinary Shares	100	100
Medibank Health Solutions New Zealand Limited	New Zealand	Ordinary Shares	100	100

[i] These entities were non-operating entities during the financial years ended 30 June 2013 and 2012.

[ii] 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 2013.

[iii] This entity was deregistered during the financial year ended 30 June 2013.

Note 27: Contingencies

There were no material contingent assets or contingent liabilities pertaining to the Group at the end of the current or prior reporting periods.

Note 28: Auditor's remuneration[1]

	Consolidated 2013 $	Consolidated 2012 $
Amounts received or due and receivable by the Company's auditor for:		
An audit or review of the financial report of the Company and any other entity within the consolidated Group.	728,615	655,969
Amounts received or due and receivable by other auditors for:		
Auditing the financial report [2]	36,257	26,245
Other services in relation to the Company and any other entity within the consolidated Group:		
Regulatory reporting	83,600	98,942
Audit of regulatory returns [2]	15,980	15,980
Other non audit services [2]	690,000	442,347
Total auditor's remuneration	1,554,452	1,239,483

[1] The Company's auditor is the Australian National Audit Office who has retained PricewaterhouseCoopers to assist with the assignment.

[2] These services are performed by PricewaterhouseCoopers directly. Other non-audit services include services provided in relation to Medibank strategy facilitation and planning and a cost modelling review.

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 2013 is $671,813,000. The value of the capital of the health benefits fund, as measured by its Total Net Assets, was in excess of the Solvency Reserve at 30 June 2013.

Refer also to Note 20(d) for details of the Group's strategy regarding its meeting of these requirements.

Note 30: Events occurring after the reporting period

There have been no events occurring after the reporting period which would have a material effect on the Group's financial statements at 30 June 2013.

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

	Consolidated	
	2013 $'000	2012 $'000
Profit for the year	232,741	126,595
Depreciation	16,226	15,819
Amortisation of software intangibles	27,183	27,810
Amortisation of acquisition intangibles	10,722	8,931
Loss on disposal of plant and equipment	291	1,211
Net realised loss on financial assets	14,739	41,619
Net unrealised (gain)/loss on financial assets	(59,279)	4,969
Interest income	(84,805)	(81,395)
Dividend income reinvested	(6,901)	(8,870)
Trust distribution reinvested	(13,868)	(5,807)
Investment expenses	5,710	6,052
Asset impairment	7,287	3,125
Deferred acquisition costs	(12,476)	-
Change in operating assets and liabilities, net of effects from purchase of controlled entities:		
Decrease (increase) in trade and other receivables	40,444	(122,594)
Decrease (increase) in inventories	54	(170)
(Increase) in other assets	(1,131)	(18,590)
Decrease in deferred tax assets	9,240	6,543
(Decrease) increase in trade and other payables	(167,812)	320,522
Increase in claims liabilities	35,611	530
Increase (decrease) in income tax liability	22,029	(123,607)
Increase in provisions	28,496	2,762
Net cash inflow from operating activities	104,501	205,455

Note 32: Parent entity financial information

(a) Summary financial information

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

	Consolidated	
	2013 $'000	2012 $'000
Balance Sheet		
Current assets	2,550,390	2,304,675
Total assets	3,032,936	2,963,657
Current liabilities	1,516,577	1,156,710
Total liabilities	1,612,461	1,313,846
Shareholder's equity		
Issued capital	85,000	85,000
Reserves		
Equity reserve	6,626	17,819
Retained earnings	1,328,849	1,546,992
	1,420,475	1,649,811
Profit for the year	232,189	192,469
Total comprehensive income	232,189	192,469

(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 2013, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling $1,570,000 (2012: $50,000). 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 44 to 87 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 2013 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 2013.

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

On behalf of the Board,

Elizabeth Alexander AM
Chairman

George Savvides
Managing Director

Melbourne, 30 August 2013

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the members of Medibank Private Limited

I have audited the accompanying financial report of Medibank Private Limited, which comprises the Consolidated Balance Sheet as at 30 June 2013, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year then ended, Notes to the Financial Statements, including a Summary of Significant Accounting Policies and other explanatory information, and the Directors' Declaration of the consolidated entity comprising 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 the 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 the 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 the Medibank Private Limited's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT 2600
Phone (02) 6203 7300 Fax (02) 6203 7777

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:
   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
2. the consolidated 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
30 August 2013

Contact

Registered office
Level 17, 700 Collins St, Docklands, Victoria 3008

ACN
080 890 259

ABN
47 080 890 259

Auditor
Auditor general

Medibank Contact details
132 331
ask_us@medibank.com.au

www.medibank.com.au
ww.medibankhealth.com.au
www.medibankcf.com.au