

# Income Statement

The Hospitals Contribution Fund of Australia Limited  
For the year ended 30 June 2009

	Notes	Consolidated		Parent	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Gross premium revenue	2(a)	1,326,834	1,098,002	1,192,078	1,081,418
Outwards reinsurance expense	2(a)	(1,304)	(1,152)	—	—
<b>Net premium revenue</b>	2(a), 33	<b>1,325,530</b>	<b>1,096,850</b>	<b>1,192,078</b>	<b>1,081,418</b>
Claims expense		(1,104,148)	(925,831)	(1,015,016)	(923,025)
Reinsurance recoveries		354	754	—	—
Health benefits reinsurance trust fund levies		(29,605)	(21,492)	(19,628)	(21,492)
State levies		(32,656)	(28,891)	(30,508)	(28,891)
<b>Net claims incurred</b>		<b>(1,166,055)</b>	<b>(975,460)</b>	<b>(1,065,152)</b>	<b>(973,408)</b>
<b>Underwriting result before expenses</b>		<b>159,475</b>	<b>121,390</b>	<b>126,926</b>	<b>108,010</b>
Increase in policyholders liabilities	2(b), 20(a), 38	(497)	(446)	—	—
Acquisition costs	2(b)	(59,781)	(54,124)	(55,269)	(54,124)
Other underwriting expenses	2(b)	(61,011)	(33,188)	(34,547)	(28,633)
<b>Underwriting result</b>		<b>38,186</b>	<b>33,632</b>	<b>37,110</b>	<b>25,253</b>
Finance revenue	2(a)	(16,765)	12,035	(20,063)	22,934
Other revenue	2(a)	10,336	1,273	10,934	9,198
		(6,429)	13,308	(9,129)	32,132
Other expenses	2(b)	(8,747)	(4,999)	(4,993)	(5,362)
Donation to The HCF Medical and Health Research Foundation		(1,000)	(5,000)	(1,000)	(5,000)
<b>Profit before income tax</b>		<b>22,010</b>	<b>36,941</b>	<b>21,988</b>	<b>47,023</b>
Income tax benefit/(expense)	4(a)	(480)	375	—	—
<b>Net profit after income tax</b>	5,33	<b>21,530</b>	<b>37,316</b>	<b>21,988</b>	<b>47,023</b>

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

# Balance Sheet

The Hospitals Contribution Fund of Australia Limited  
as at 30 June 2009

	Notes	Consolidated		Parent	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Current assets</b>					
Cash and cash equivalents	21(b)	117,746	35,409	43,166	28,451
Trade receivables and other assets	6	66,295	46,281	49,698	44,778
Financial assets at fair value through profit or loss	7	536,381	655,762	406,275	655,762
Current tax assets	4(c)	—	91	—	—
Inventories	8	630	657	630	657
<b>Total current assets</b>		<b>721,052</b>	<b>738,200</b>	<b>499,769</b>	<b>729,648</b>
<b>Non-current assets</b>					
Deferred tax assets	4(c)	6,086	1,015	—	—
Investments in controlled entities	9	—	—	266,010	10,010
Investments in associated entities	10	1	1	1	1
Property, plant and equipment	11	151,280	96,897	88,157	96,854
Financial assets at fair value through profit or loss	7	6,807	—	—	—
Investment property	12	88,086	—	—	—
Intangible assets	13	115,980	2,241	2,445	2,240
Investments relating to life insurance business	15	49,856	51,026	—	—
Trade receivables and other assets	6	2,695	507	985	507
<b>Total non-current assets</b>		<b>420,791</b>	<b>151,687</b>	<b>357,598</b>	<b>109,612</b>
<b>Total assets</b>		<b>1,141,843</b>	<b>889,887</b>	<b>857,367</b>	<b>839,260</b>
<b>Current liabilities</b>					
Trade and other payables	14	56,147	41,478	44,550	41,357
Unearned premium liabilities	16	172,706	146,927	151,889	145,373
Provisions	17	11,434	8,661	8,856	7,955
Financial liabilities	18	59,991	—	—	—
Current tax liabilities	4(c)	360	—	—	—
Claims liabilities	19	122,222	104,050	95,514	102,692
Life insurance investment linked contract liabilities	20	1,289	1,249	—	—
Life insurance contract liabilities	20	5,068	414	—	—
<b>Total current liabilities</b>		<b>429,217</b>	<b>302,779</b>	<b>300,809</b>	<b>297,377</b>
<b>Non-current liabilities</b>					
Provisions	17	4,617	4,238	4,239	4,178
Deferred tax liabilities	4(c)	5,073	73	—	—
Life insurance investment linked contract liabilities	20	1,966	2,826	—	—
Life insurance contract liabilities	20	10,447	17,383	—	—
Benefit fund policy holder liabilities	38	110,770	—	—	—
<b>Total non-current liabilities</b>		<b>132,873</b>	<b>24,520</b>	<b>4,239</b>	<b>4,178</b>
<b>Total liabilities</b>		<b>562,090</b>	<b>327,299</b>	<b>305,048</b>	<b>301,555</b>
<b>Net assets</b>		<b>579,753</b>	<b>562,588</b>	<b>552,319</b>	<b>537,705</b>
<b>Guarantors' equity</b>					
Reserves	5	61,210	68,222	60,848	68,222
Retained earnings and unallocated funds	5	518,543	494,366	491,471	469,483
<b>Total guarantors' equity</b>		<b>579,753</b>	<b>562,588</b>	<b>552,319</b>	<b>537,705</b>

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

# Statement of Recognised Income and Expenses

The Hospitals Contribution Fund of Australia Limited  
For the year ended 30 June 2009

	Notes	Consolidated		Parent	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Fair value revaluation of land and buildings	5(b)	(6,853)	13,852	(7,374)	13,852
Income tax on items taken directly to or transferred from equity		(159)	—	—	—
<b>Net Income recognised directly in equity</b>		<b>(7,012)</b>	<b>13,852</b>	<b>(7,374)</b>	<b>13,852</b>
Profit for the period	5(a)	21,530	37,316	21,988	47,023
<b>Total recognised income and expenses for the period</b>		<b>14,518</b>	<b>51,168</b>	<b>14,614</b>	<b>60,875</b>
Attributable to:					
Equity holders of the parent		14,518	51,168	14,614	60,875
		14,518	51,168	14,614	60,875

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

# Statement of Cash Flows

The Hospitals Contribution Fund of Australia Limited  
For the year ended 30 June 2009

	Notes	Consolidated		Parent	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Cash flows from operating activities</b>					
Receipts from members and customers		1,341,389	1,112,775	1,201,862	1,092,981
Receipts from government funding for aged care		3,640	—	—	—
Receipts from accommodation fees for aged care		3,367	—	—	—
Benefits and levies paid		(1,153,085)	(954,332)	(1,051,002)	(945,571)
Reinsurance payments		(21,834)	(16,206)	(21,834)	(16,206)
Payments to suppliers and employees		(123,074)	(103,270)	(91,434)	(96,589)
Interest received		11,239	4,770	2,689	2,242
Life company expenses paid		—	—	(424)	100
Income tax paid		(791)	(1,703)	—	—
Property income		2,790	2,423	2,945	2,568
Receipts from other		1,773	1,138	10,682	9,078
<b>Net cash flows from operating activities</b>	21(a)	<b>65,414</b>	<b>45,595</b>	<b>53,484</b>	<b>48,603</b>
<b>Cash flows (used by)/from investing activities</b>					
Proceeds of sale on property plant and equipment		262	135	252	120
Dividend received — other		2,070	1,380	—	—
Dividend received — controlled entities		—	—	25	25
Members capital deposits—benefit funds		611	—	—	—
Members capital withdrawals — benefit funds		(5,285)	—	—	—
Proceeds from sale of investments		500,845	146,520	266,000	10,000
Purchases of investments		(270,642)	(183,790)	(43,000)	(51,000)
Purchases of property, plant and equipment		(7,086)	(11,642)	(6,046)	(11,600)
Acquisition of subsidiary/investment	29	(242,783)	—	(256,000)	—
<b>Net cash flows used for investing activities</b>		<b>(22,008)</b>	<b>(47,397)</b>	<b>(38,769)</b>	<b>(52,455)</b>
<b>Cash flows from financing activities</b>					
Resident contributions received		(1,440)	—	—	—
<b>Net cash flows from financing activities</b>		<b>(1,440)</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>41,966</b>	<b>(1,802)</b>	<b>14,715</b>	<b>(3,852)</b>
<b>Cash and cash equivalents acquired through business combination</b>		<b>40,371</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Cash and cash equivalents at start of period</b>		<b>35,409</b>	<b>37,211</b>	<b>28,451</b>	<b>32,303</b>
<b>Cash and cash equivalents at end of period</b>	21(b)	<b>117,746</b>	<b>35,409</b>	<b>43,166</b>	<b>28,451</b>

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

# Notes to the Financial Statements

The Hospitals Contribution Fund of Australia Limited  
For the year ended 30 June 2009

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all years, unless otherwise stated. The financial report includes separate financial statements for The Hospital Contribution Fund of Australia Limited as the parent entity and the Group consisting of The Hospital Contribution Fund of Australia Limited and its subsidiaries.

### (a) Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for investment properties, land and buildings, derivative financial instruments and investments at fair value through profit and loss, which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$000) unless otherwise stated.

### Statement of Compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

### New accounting standards and interpretations

Amendments to Australian Accounting standards arising from AASB 3 and AASB 127 (effective from 1 July 2009), have been early adopted for this reporting period by the group.

Under the amended AASB 3, if the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. Transaction costs related to the acquisition are expensed. Non controlling interest is valued at share of net assets.

The following standards, interpretations and amendments were available for early adoption and applicable to the Group but have not been applied in these financial statements:

- AASB 8: Operating Segments. This is applicable for annual reporting periods beginning on or after 1 April 2009. The standard requires the Group to adopt the “management approach” to disclosing information about reportable segments.
- AASB 101: Presentation of Financial Statements and AASB 2007-08 Amendments to Australian Accounting Standards arising from AASB 101. This is applicable for annual reporting periods beginning on or after 1 January 2009. This standard requires the presentation of a statement of comprehensive income which replaces the Income Statement and makes changes to the Statement of Changes In Equity. Any changes made with respect to a prior period adjustment or reclassification in the financial statement will require a third Balance Sheet as at the beginning of the comparative periods to be disclosed. The Group will need to reformat its Income Statement and Statement of Changes in Equity for its 30 June 2010 financial statements.

- AASB 2009-2: Amendments to Australian Accounting Standards — Improving Disclosures about Financial Instruments. This is applicable for annual reporting periods beginning on or after 1 January 2009. The main amendment requires fair value measurements to be disclosed by the source of the inputs. This standard is disclosure only and will not have a financial impact on the results of the Company.

### Significant accounting judgements

In the process of applying the Group’s accounting policies, management was not required to make any judgements, apart from those involving estimations, which had a significant effect on the amounts recognised in the financial statements. These are disclosed in note 1(ab).

### (b) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of The Hospital Contribution Fund of Australia Limited (“Company” or “parent entity”) as at 30 June 2009 and the results of all subsidiaries for the year then ended. The Hospital Contribution Fund of Australia Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity. Subsidiaries are all those 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. 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 purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(e)). Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group except where these may be required by accounting standards.

### (i) Investments in associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group’s investment in associates includes goodwill identified on acquisition.

The Group’s share of its associates’ post-acquisition profits or losses is recognised in the income statement, and its share of post acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity’s income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (ii) Life insurance

The Group's life insurance operations are conducted within separate statutory funds as required by the *Life Insurance Act 1995*. The assets, liabilities, revenue and expenses of the life funds are included within the consolidated financial statements. Transactions and outstanding balances between the Life Fund and other entities within the Group are eliminated.

### (iii) Benefit funds

The Group's benefits funds operations are classified as either life insurance business conducted within separate benefit funds as required by the *Life Insurance Act 1995* or health insurance business. The assets, liabilities, revenue and expenses of the benefit funds are included within the consolidated financial statements. Transactions and outstanding balances between the benefit funds and other entities within the Group are eliminated.

### (c) Insurance contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant over time. The significance of insurance risk is dependant on both the probability of an insurance event and the magnitude of its potential effect.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the risk reduces significantly during the period.

The company has determined that all current contracts issued to members are insurance contracts.

### (d) Significant accounting estimates and assumptions

#### Outstanding claims provision

The risk margin has been based on an analysis of the past experience of the company. This analysis examined the volatility of past payments that has not been explained by the model adopted to determine the central estimate. This past unexplained volatility has been assumed to be indicative of the future volatility.

The outstanding claims estimate is derived using all data combined in an aggregate model. As such diversification benefits have been implicitly allowed for in this process.

The outstanding claims provision has been estimated using a modified chain ladder method, based on historical experience and future expectations as to claims. The calculation was determined taking into account two months of actual post balance date claims.

Based on historic experience, approximately 80% of outstanding claims are received within two months of balance date, and accordingly only 20% of the outstanding claims provision requires an estimate. Accordingly, reasonable changes in assumptions would not have a material impact on the outstanding claims balance.

### (e) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given,

shares issued or liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 11 (i)).

### (f) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes: cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months that are readily converted to known amounts of cash and which are subject to insignificant risk of change in value and bank overdrafts.

### (g) Deferred acquisition costs

Acquisition costs incurred in obtaining life and 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 income statement in subsequent reporting periods. Deferred acquisition costs are amortised systematically 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 premium revenue.

### (h) Derivatives and hedging activities

HCF via its investments in unit trusts can have exposure to derivatives if authorised by the constitution governing the Trusts. Conditions of use are set out in the product disclosure statement and risk management statement.

There are rigid guidelines regarding the use of derivatives which are set and monitored by HCF's investment advisor, MLC Investments Limited. These guidelines cover, among other things, liquidity requirements, limits on investment managers' gross exposure and counterparty risk.

The Trusts can invest in derivatives to:

- reduce risk;
- reduce transaction costs;
- take advantage of opportunities to increase returns; and
- create leverage or to short exposures.

Whilst the use of derivatives is allowed, it is the policy that, unless indicated otherwise, derivatives will not be used to:

- increase the level of market risk beyond that required to meet the Trusts' objective;
- create economic leverage. Economic leverage is where the Trusts' exposure to the return on a market is greater than that which could be achieved by investing in that market without using derivatives or borrowed funds; and
- create an uncovered short exposure to an asset or market, i.e. a short exposure without an offsetting long exposure considered a reasonable hedge for that asset or market.

Derivatives will not be used in a way that is contrary to regulatory requirements.

**(i) Employee benefits**

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits cover wages and salaries, annual leave and long service leave. Sick leave is non-vesting and is accounted for as incurred.

The liability for wages and salaries, annual leave and any other employee entitlements expected to be settled within twelve months of the reporting date, is calculated at nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. Provision for annual leave is estimated at anticipated salary rates for the following year.

The liability for long service leave entitlements represents the present value of the estimated future cash outflows to be made. In determining future cash outflows, consideration has been given to future increases in wage and salary rates, and the probability that employees will remain in the economic entity's employ for the period of time necessary to qualify for long service leave. The calculation includes related on-costs. In calculating the present value, the estimates of future cash outflows are discounted using the rates attaching to government guaranteed securities which have terms to maturity approximating the terms of the related liability.

Employee entitlement expenses and contributions made to superannuation funds by entities within the economic entity are recognised against profits when due.

**(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 value in use. 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**(k) Income tax and other taxes****Income tax**

The Hospitals Contribution Fund of Australia Limited is exempt from income tax under the provisions of section 50–30 of the Australian Income Tax Assessment Act 1997. For the other entities in the group income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the income tax rate adjusted by changes in deferred tax asset and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and

assessable temporary differences to measure the deferred tax asset or liability.

The carrying amount of deferred income tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity and not in income statement.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

**Other taxes**

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to the taxation authority.

**(l) Intangible assets****(i) Goodwill**

Goodwill represents the excess of the cost of a business combination over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill acquired in business combinations is not amortised. Instead, goodwill 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. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which goodwill is so allocated represents the lowest level within the Group at which goodwill is monitored for internal management purposes. Impairment is determined by assessing the recoverable amount, based on value in-use calculations, of the cash generating unit to which the goodwill relates. When the recoverable amount of the

cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Impairment losses recognised for goodwill are not subsequently reversed.

**(ii) Aged care bed licences**

Bed licences for aged care facilities are recognised at cost of acquisition. No amortisation has been provided as these licences are perpetual and so the Group considers the useful life of these assets to be indefinite. Intangible assets are reviewed annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

**(iii) Other intangibles**

Other intangibles are initially recognised at cost and amortised over the period of expected benefit, less any adjustments for impairment losses. Other intangibles with a finite life are tested for impairment if events or changes in circumstances indicate that the asset might be impaired. Other intangibles with an indefinite life are not amortised. Instead, they are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired.

Major amortisation period is:

**HCF Australia Limited**

- software — 3 years.
- customer list — 7 years.

**Manchester Unity Limited**

- software — 4 years.

**(m) Interests in wholly-owned subsidiaries**

The parent entity has valued its investment in wholly-owned subsidiaries at cost.

**(n) Investments and other financial assets**

The Group classifies its investments in the following categories: financial assets at fair value through income statement, loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

**(i) Financial assets at fair value through income statement**

Financial assets at fair value through income statement are financial assets designated as fair value through profit and loss, including any assets backing insurance liabilities.

Purchases and sales of investments are recognised on trade date; which is the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs where they are not recognised as fair value through income statement financial assets. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and there has been a transfer of substantially all the risks and rewards of ownership.

The fair value of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance sheet date. Unlisted unit trusts are recorded at fund managers' valuation.

**(ii) Loans and receivables**

Loans and receivables including loan notes and loans to key management personnel are non-derivative financial assets with

fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade receivables and other assets in the balance sheet are measured at amortised cost.

**Manchester Unity benefit fund investments**

Each Benefit Fund has a separate and distinct portfolio of investments and securities, all financial assets within this group have been determined to back either life insurance or health insurance contracts. Investments within these funds are managed and their performance evaluated on a fair value basis in accordance with the investment strategy. After initial recognition all investments are classified as "fair value through income statement".

**Assets backing health insurance liabilities**

As part of its investment strategy HCF actively manages its investment portfolio to ensure that investments mature in accordance with the expected pattern of future cash flows arising from its health insurance liabilities.

With the exception of investments in controlled entities and property, plant and equipment, the Company has determined that all assets are held to back health insurance liabilities and accordingly have been measured at fair value.

**(o) Investment property**

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition investment properties are stated at fair value. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the derecognition of an investment property are recognised in the income statement in the year of derecognition.

**(p) Leases**

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

**Operating leases**

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis.

The cost of improvements to leasehold property are capitalised, recorded as leasehold improvements and amortised over the unexpired portion of the lease or estimated useful life of the improvements, whichever is shorter.

**Finance leases**

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the consolidated entity are capitalised at the present value of the minimum lease payments and included in property, plant and equipment. A lease liability of equal value is also recognised.

**(q) Outstanding claims liability**

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date under general insurance contracts issued by the fund, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not reported ("IBNR"), claims incurred but not enough reported ("IBNER") and anticipated claims handling costs.

Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can only be indirectly associated with individual claims, such as claims administration costs.

A risk margin is applied to the outstanding claims liability, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate of the outstanding claims liability.

**(r) Property, plant and equipment****Cost and valuation**

Freehold land and buildings on freehold land are measured on a fair value basis. At each reporting date, the value of each asset in these classes is reviewed to ensure that it does not materially differ from the asset's fair value at that date. Where necessary, the asset is revalued to reflect its fair value. Increases in the carrying amounts arising on revaluation of land and buildings are credited to the asset revaluation reserve in guarantors' equity. To the extent that the increase reverses a decrease previously recognised in income statement, the increase is first recognised in the Income Statement. Decreases that reverse previous increases of the same asset are first charged against revaluation reserve directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the Income Statement. All other classes of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

**Depreciation**

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each item of property, plant and equipment (excluding land) over its expected useful life to the Group. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

The expected useful lives are as follows:

**HCF Australia Limited**

Category	Useful Life
Freehold buildings	40 – 50 years
Plant and equipment	2.5 – 15 years
Leasehold improvements	5 – 10 years
Computer equipment	3 years

**Manchester Unity Australia Limited**

Category	Useful Life
Freehold buildings	40 years
Plant and equipment	10 – 40 years
Leasehold improvements	14 years
Computer equipment	4 years

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.

**(s) Provisions**

Provisions are recognised when the Group has a legal, equitable or constructive obligation to make future sacrifice of economic benefits as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is represented in the income statement.

**(t) Refundable lease deposits**

Retirement village residents, upon entering certain accommodation types, provide a deposit from which fees are deducted in respect of the provision of certain services and facilities. The actual amount refundable upon departure from the retirement village is determined by the terms of the existing tenancy contracts.

**(u) Resident loans**

Retirement village residents, upon entering certain accommodation types, provide a loan to the village operator, from which deferred management fees are deducted in respect of the provision of certain services and facilities. The actual amount repayable upon departure from the accommodation is determined by the terms of the Residence License Agreement. In certain circumstances the amount repayable includes the residents' share of any increment in the value on the property occupied by the resident during the period of tenancy. As these amounts are payable on demand, they are treated as a current liability and are stated at face value even though they relate to occupancy of the investment properties which are non current assets and on average only a small proportion is repaid in any one year.

**(v) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

**(i) Interest income**

Interest revenue is recognised using the effective interest method.

**(ii) Dividends**

Dividend revenue is recognised when the Group's right to receive the dividend is established.

**(iii) Rental income**

Rental income from investment properties is accounted for on a straight line basis over the lease term.

**(iv) Health insurance premium revenue**

Premium revenue comprises contributions received from members, inclusive of the 30%, 35% or 40% Government rebate. Premium revenue is recognised in the Income Statement from the attachment date, as soon as there is a basis on which it can be reliably measured. Revenue is recognised from the attachment date in accordance with the pattern of the incidence of risk expected over the term of the insurance cover. Premium revenue relating to future financial periods is

classified as unearned premium liability and is measured in accordance with the pattern of the incidence of risk expected over the term of the insurance cover.

The proportion of premium received or receivable not earned in the Income Statement at the reporting date is recognised in the Balance Sheet as an unearned premium liability.

**(v) Life insurance premium revenue**

*Life insurance contracts*

Premium amounts earned by providing services and bearing insurance risks are recognised as revenue. Other premium amounts received, which are akin to deposits, are recognised as an increase in policy liabilities. Premiums due after but received before the end of the financial year are shown as unearned premium liabilities in the Balance Sheet.

*Investment contracts*

The nature of the wealth management business is that HCF Life and Manchester Unity receives deposits from policyholders and these funds are invested on behalf of the policyholders. There is no premium revenue recognised in respect of the life investment contracts.

**(vi) Deferred management fees**

Deferred management fee income on retirement village assets is recognised on an accruals basis and is linked to the resale value of a resident's unit and the resident's length of occupancy of the unit. Deferred management fee income is accrued only when it can be reliably measured.

**(vii) Fair value increments**

Fair value gains on investment properties are recognised when they arise.

**(viii) Aged care income**

Income and government subsidies for the provision of aged care facilities and related services are recognised as the services are provided.

**(ix) Resident levies**

Income from the provision of services to retirement village residents is recognised as the services are provided.

**(w) Risk equalisation trust fund**

Under the provisions of the *Private Health Insurance Act 2007*, stipulated in the Private Health Insurance (Risk Equalisation Administration) Rules 2007, which became effective from 1 April 2007, all health insurers must participate in the Risk Equalisation Trust Fund ("RETF"). These rules charge a levy to all health insurers and share a proportion of the hospital claims on a sliding scale (by age) for all persons aged 55 years and over regardless of their length of stay in hospital. In certain circumstances, these rules also provide for a High Cost Claimants Pool. The amounts receivable from the RETF are determined by the Private Health Insurance Administration Council after the end of each calendar quarter. Estimated provisions for amounts payable and income receivable are recognised on an accruals basis.

**(x) Rounding of amounts**

The Company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

**(y) Trade and other payables**

Trade and other payables, which are generally settled within 30 day terms and are unsecured, are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

**(z) Unearned income and unexpired risk liability**

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is reported as unearned premium. The change in the provision for unearned premium is taken to the income statement in order that revenue is recognised over the period of the risk.

At each reporting date the Group assesses whether the unearned premium liability is sufficient to cover all expected future cash flows relating to future claims against current health insurance contracts. This assessment is referred to as the liability adequacy test and is performed separately for each group of contracts subject to broadly similar risks and managed together as a single portfolio.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs then the unearned premium liability is deemed to be deficient. The Group applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability.

The entire deficiency, net of reinsurance, is recognised 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.

**(aa) Premiums in arrears**

The company recognises premiums in arrears up to two months after the last financial date paid to. Premiums in arrears are adjusted to take into account the probability of receiving the revenue. The probability factor is the company's best estimate of the probability of receiving the funds based upon past experience.

**(ab) Significant accounting policies of life business**

**Principles underlying the conduct of life insurance business**

**Activities of the life insurance operations**

The life insurance operations of the company are conducted within separate statutory funds as required by the *Life Insurance Act 1995* and are reported in aggregate with the shareholders fund in the Income Statement, Balance Sheet, and Statement of Cash Flows of the Company.

The accounting treatment of certain transactions in this financial report varies depending on the nature of the contract underlying the transactions. The major contract classifications relevant to the business of HCF Life are investment contracts and life insurance contracts. For the purposes of this financial report, holders of investment contracts or life insurance contracts are collectively and individually referred to as policyholders.

**Investment contracts**

The investment business of HCF Life relates to products such as savings and investment-linked policies. The nature of this

business is that HCF Life receives deposits from policyholders and those funds are invested on behalf of the policyholders. The liability to the policyholders of the investment contracts is linked to the performance and value of the assets that back those liabilities.

When such contracts are issued by a registered life insurance entity, and administered through Life statutory funds in accordance with the requirements of the *Life Insurance Act 1995*, the underlying contracts are defined as investment contracts.

#### Life insurance contracts

HCF Life also issues contracts that transfer significant insurance risk from the policyholder covering death, disability, or sickness of the insured. When any such contracts are issued by a registered life insurance entity, and administered through separate Life statutory funds in accordance with the requirements of the *Life Insurance Act 1995*, the underlying contracts are defined as life insurance contracts.

#### Assets backing investment contract and life insurance contract liabilities

Assets backing investment contract and life insurance contract liabilities are measured on a basis that is consistent with the measurement of the liabilities, to the extent permitted under accounting standards. As life insurance and investment contract liabilities are measured on the basis of fair value, assets backing such liabilities are measured at fair value wherever this option is available in the relevant accounting standards. Realised and unrealised gains and losses arising from changes in the fair value are recognised in the Income Statement. All assets that back investment contract and life insurance contract liabilities are included within the Life statutory funds and, as such, are separately identifiable.

#### Premiums and claims

##### Premium revenue

##### Life insurance contracts

Premium amounts earned by providing services and bearing insurance risks are recognised as revenue. Other premium amounts received, which are akin to deposits, are recognised as an increase in policy liabilities. Premiums due after but received before the end of the financial year are shown as unearned premium liabilities in the Balance Sheet.

##### Investment contracts

The nature of the wealth management business is that HCF Life receives deposits from policyholders and these funds are invested on behalf of the policyholders. There is no premium revenue recognised in respect of the life investment contracts.

##### Claims expense

##### Life insurance contracts

Claims are recognised when the liability to the policyholder under the policy has been established or upon notification of the insured event, depending on the type of claim. Claims are separated into their expense and liability components. Claims incurred that relate to the provision of services or bearing of risks are treated as expenses and these are recognised on an accruals basis once the liability to the policyowner has been established under the terms of the contract.

##### Investment contracts

There are no claims expenses in respect of investment contracts. Claims incurred in respect of investment contracts represent investment withdrawals and are recognised as a

reduction in policy liabilities.

#### Policy acquisition costs

Policy acquisition costs incurred in relation to life insurance contracts are recorded in the Income Statement and include the fixed and variable costs of acquiring new business. The Appointed Actuary assesses the value and future recovery of these costs in determining the policy liabilities. These costs are deferred to the extent they are deemed recoverable in the premiums or policy charges (as appropriate for each policy class). Acquisition costs deferred are limited to the lesser of the actual costs incurred and the allowance for the recovery of such costs in the premium or policy charges. This has the effect that acquisition costs deferred are amortised over the period that they will be recovered from the premiums or policy charges, the Financial Performance impact of which is reflected in 'increase in policy liabilities' in the Income Statement. For life investment contracts all origination costs are expensed as incurred as HCF Life does not incur incremental costs like advisor fees and commission payments in selling or generating new business.

#### Basis of Life expense apportionment

Apportionment of expenses has been made as follows:

- all expenses have been apportioned between policy acquisition, policy maintenance and investment management with regard to the objective when incurring each expense, and the outcome achieved. Where doubt exists as to the correct allocation of expenses between the disclosure categories, they have been allocated as maintenance expense;
- expenses which are directly attributable to an individual policy or product are allocated directly to the statutory fund within which that class of business is conducted; and
- all indirect expenses charged to the Income Statement are equitably apportioned to each class of business.

The apportionment basis has been made in line with principles set out in the Australian Prudential Regulation Authority (APRA) Prudential Standards and in accordance with Division 2 of Part 6 of the *Life Insurance Act 1995*. Only where expenses derived from outside the normal business activities of the company and are non-recurrent in nature have they been apportioned as one-off expenses.

#### Assets

All financial assets within the life statutory funds have been determined to back either life insurance or life investment contracts. All investments with the statutory and shareholder funds are managed and their performance evaluated on a fair value basis in accordance with the investment strategy. After initial recognition, all investments within the statutory and shareholder funds are classified as fair value through income statement. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. Operating assets comprise fixed assets utilised within the business that are carried at cost and depreciated. Carrying values of such assets have been assessed as equating to market values. Depreciation is provided on a straight line basis at rates calculated to write off cost less estimated residual value over the useful life of the asset. These rates are consistent with those adopted by the parent company.

## Liabilities

### Policyholders' liabilities

Policyholders' liabilities in relation to life insurance contracts are measured at net present values of estimated future cash flows or, where the result would not be materially different, as the accumulated benefits available to policyholders. This is calculated on an actuarial basis. Policyholders' liabilities in relation to life investment contracts are measured at fair value.

### Investment revenue

Dividends are taken to income on an entitlement basis from the date when the shares cease to be quoted 'cum div' on the stock exchange. Dividends on unlisted shares are taken to income on a cash basis. All other investment income is taken to income on an accrual basis. Net realised and unrealised gains and losses are included in the Income Statement.

## Disaggregated Information

As the Shareholders Fund and each of the five Statutory Funds are immaterial on an individual basis to the group, the requirements of AASB 1038 to disclose disaggregated information has not been complied with for the purposes of this report. The financial statements of HCF Life Insurance Company Pty Limited have been prepared in accordance with AASB 1038, (and have been lodged with the relevant Australian regulators) and show all major components of the financial statements disaggregated between the five Statutory Funds, and the Shareholders Fund.

## SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS — LIFE INSURANCE

The effective date of the actuarial report on policyholders' liabilities and solvency reserves is 30 June 2009. The actuarial report was prepared by Mr Paul Murphy, FIAA. The actuarial report indicates that Mr Murphy is satisfied as to the accuracy of the data upon which policyholders' liabilities have been determined. The amount of policyholders' liabilities has been determined in accordance with methods and assumptions disclosed in this financial report and the requirements of the *Life Insurance Act 1995*, which includes the Life Prudential Standards of the Australian Prudential Regulation Authority (APRA).

### Disclosure of assumptions

Policyholders' liabilities have been calculated in accordance with the Prudential Standards issued by APRA. The Prudential Standards require the policyholders' liabilities to be calculated in a way that allows for the systematic release of planned margins as services are provided to policyholders and premiums are received. The profit carriers used for the major product groups in order to achieve the systematic release of planned margins are as follows:

### Actuarial methods

Group or individual carrier	Product classification	Method	Profit
Individual	Investment account	Accumulation	N/A
	Investment linked	Accumulation	N/A
	Lump sum risk	Projection	Premiums
	Disability income	Projection	Claims cost
Group	Lump sum risk	Accumulation	N/A
	Other risk	Accumulation	N/A

### Actuarial assumptions

The Appointed Actuary in accordance with the Life Prudential Standards (LPS) issued by APRA sets the assumptions used in determining the Margin on Services policy liabilities. The assumptions incorporate the expected future operating experience of the company and are based on a detailed analysis of actual past experience of the company and on industry statistics.

### Discount rates

The pre-tax discount rate used for the projection method is the risk free rate of return for the average term of the liabilities. The pre-tax rates were 5.50% (2008: 7.75%). An allowance for tax has been made in determining the after tax earning rates. The allowance is consistent with the current tax legislation applying to HCF Life Insurance Company Pty Limited.

### Investment crediting rates and unit price increases

Policies are assumed to be credited with the after tax earnings rates less the charges specified in the policy documents.

### Maintenance expenses

The assumed maintenance expenses are those expected in the coming year.

### Inflation

A rate of 2.5% (2008: 4.0%) has been assumed being consistent with future expectations.

### Voluntary discontinuances

Rates which vary by product type and policy duration have been based on the experience of the company over the recent past.

### Surrender value

The full account value is paid on surrender of investment account and investment linked policies. The minimum amount required under LPS published by APRA is paid on surrender of conventional policies. No surrender value is paid on risk policies because they are renewable annually.

### Mortality

Rates are based on 80% of IA90-92 (a table published by the Institute of Actuaries of Australia). Appropriate adjustments to the base table have been made for smoker status and duration.

### Morbidity

Trauma rates assumed are based on a published paper by Gratton and Fabrizio. These rates were multiplied by the previous best estimate mortality rates and divided by the mortality rates published by Gratton and Fabrizio. Total and permanent disablement rates are based on industry experience. Rates of accident, health claim and waiver are based on the company's experience. Disability Income assumptions are based on 60% of IAD89-93 (a table published by the Institute of Actuaries of Australia).

### Asset mix

The assumptions regarding asset mix are based on the actual mix of assets as at year end.

### Unit prices and crediting rate

An accumulation approach has been used to determine policy liabilities for investment-linked business and no assumptions are needed about crediting rates growth of unit prices. No changes from last year.

**Solvency requirements**

The solvency requirement in each statutory fund is calculated in accordance with the Prudential Standards issued by APRA LPS2.04. The management capital requirement has been determined in accordance with the LPS6.03.

**Impact of changes in assumptions**

The impact of changes in assumptions on the group are not of a material nature and the details of the HCF Life assumptions can be found in their account details.

	Notes	Consolidated		Parent	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>2. REVENUES AND EXPENSES</b>					
<b>(a) REVENUE</b>					
<b>Health insurance revenue</b>					
Premiums earned	33	1,308,391	1,081,418	1,192,078	1,081,418
<b>Finance and other revenue:</b>					
Interest revenue		5,240	3,086	3,515	3,086
Movements from financial assets at fair value through profit or loss		(27,284)	8,316	(26,487)	8,316
Dividends:					
Controlled entity – HCF Life Insurance Company Pty Limited		—	—	25	25
Controlled entity – HCF No2 Pty Limited		—	—	—	9,017
Rental revenue		4,027	2,345	2,884	2,490
Other revenue		2,462	1,138	10,682	9,078
Proceeds on sale of property, plant and equipment		252	120	252	120
Total finance and other revenue		(15,303)	15,005	(9,129)	32,132
Sub-total health insurance, finance and other revenue		1,293,088	1,096,423	1,182,949	1,113,550
<b>Manchester Unity non health insurance revenue:</b>					
Investment income		1,317	—	—	—
Premiums revenue		163	—	—	—
Retirement villages and aged care retention fees		1,562	—	—	—
Aged care accommodation income		1,804	—	—	—
Aged care government subsidies		3,639	—	—	—
Aged care other incomes		70	—	—	—
Management Fund dividends received		5	—	—	—
Other Income		964	—	—	—
Sub-total other manchester unity revenue		9,524	—	—	—
<b>Life insurance revenue:</b>					
Premiums revenue		18,280	16,584		
Less : Outward reinsurance		1,304	1,152		
		16,976	15,432		
<b>Finance and other revenue:</b>					
Dividends		1,921	1,306		
Interest		2,224	2,790		
Other revenue		20	15		
Movements from financial assets at fair value through profit or loss		(4,652)	(5,808)		
Total Life finance and other revenue		(487)	(1,697)		
Sub-total life insurance revenue		16,489	13,735		
<b>Total revenue</b>	33	<b>1,319,101</b>	<b>1,110,158</b>	<b>1,182,949</b>	<b>1,113,550</b>

	Notes	Consolidated		Parent	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>2. REVENUES AND EXPENSES CONTINUED</b>					
<b>(a) REVENUE CONTINUED</b>					
<b>Income summary</b>					
Health insurance contributions revenue		1,308,391	1,081,418	1,192,078	1,081,418
Life insurance premiums revenue		17,139	15,432	—	—
Other revenue		—	—	—	—
<b>Total premium revenue</b>	33	<b>1,325,530</b>	<b>1,096,850</b>	<b>1,192,078</b>	<b>1,081,418</b>
Health insurance investment and other revenue		(15,303)	15,005	(9,129)	32,132
Life insurance investment and other revenue		8,874	(1,697)	—	—
<b>Total finance and other revenue</b>		<b>(6,429)</b>	<b>13,308</b>	<b>(9,129)</b>	<b>32,132</b>
<b>Total revenue</b>	33	<b>1,319,101</b>	<b>1,110,158</b>	<b>1,182,949</b>	<b>1,113,550</b>
<b>(b) EXPENSES</b>					
<b>Health insurance expenses:</b>					
Movement in deferred acquisition costs		773	1,053	34	1,053
Movement in claims liabilities		(2,466)	16,531	(7,178)	16,531
Movement in provision for leasehold improvements		(36)	(212)	(36)	(212)
Movement in provision for employee entitlements		933	305	1,010	305
<b>Group expenses</b>					
Amortisation and depreciation of					
— buildings	11(b)	2,011	1,159	1,338	1,159
— plant and equipment	11(b)	4,730	3,636	4,140	3,619
— leasehold improvements	11(b)	241	212	241	212
	11(b)	<b>6,982</b>	<b>5,007</b>	<b>5,719</b>	<b>4,990</b>
— Intangible assets-software	13	1,228	1,252	1,178	1,252
— Intangible assets-other	13	472	—	—	—
Net loss on sale of property, plant and equipment		31	42	15	39
Rental-operating leases		9,806	8,791	9,806	8,791
<b>Life Company</b>					
<b>Life insurance expenses:</b>					
Total claims expense		2,836	2,806		
Less : Reinsurance recoveries revenue		354	754		
<b>Net claims incurred</b>		<b>2,482</b>	<b>2,052</b>		
<b>Policy acquisition expenses</b>					
Commission-policy acquisition		940	730		
Other		1,722	1,586		
<b>Policy maintenance expenses</b>					
Commission		8,727	7,343		
Other		2,495	2,176		
<b>Investment management expenses</b>					
		946	790		
<b>Total life insurance operating expenses</b>		<b>14,830</b>	<b>12,625</b>		
Increase in policyholders' liabilities		(1,029)	446		

	Consolidated	
	2009 \$'000	2008 \$'000
<b>2. REVENUES AND EXPENSES CONTINUED</b>		
<b>(b) EXPENSE CONTINUED</b>		
<b>Life insurance expenses include the following items:</b>		
Amortisation and depreciation of		
— property, plant and equipment	25	17
Loss on sale of non-current assets	9	2
Provision for employee entitlements	162	203
Superannuation contributions	329	365
Provision for outstanding claims	(1,211)	(994)

### 3. HEALTH INSURANCE UNDERWRITING RESULT

Net premium revenue	1,308,391	1,081,418
Direct claims expenses	(1,103,778)	(906,494)
Movement in outstanding claims provision	2,466	(16,531)
Net risk equalisation trust fund levies	(29,605)	(21,492)
State levies	(32,656)	(28,891)
Net claims incurred	(1,163,573)	(973,408)
Other underwriting expenses	(50,664)	(28,633)
Acquisition costs	(57,525)	(54,124)
Underwriting result	36,629	25,253
Net claims incurred	(1,166,055)	(975,460)
Gross claims incurred	(1,133,968)	(951,916)
Risk equalisation trust fund and other charges	(29,605)	(21,492)
	(29,605)	(21,492)
Net claims incurred (undiscounted)	(1,163,573)	(973,408)

The net claims amounts are not discounted as in health insurance the majority of material claims are resolved within one year.

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000

### 4. INCOME TAX

#### (a) Income tax (benefit)/expense

As stated in Note 1, The Hospitals Contribution Fund of Australia Limited is exempt from income tax for health insurance business.

HCF Life Insurance Company Pty Limited and Manchester Unity Australia Ltd are subject to income tax and these amounts reflect that expense.

(480)	(375)	—	—
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#### HCF Life Insurance Company Pty Limited

Currently the taxation of life insurance business is not based on the concept of profit but rather different rates of tax are applied to various classes of business.

The current rates of taxation applicable to the taxable income of significant classes of business are as follows:

	2009 %	2008 %
Ordinary life insurance business	30	30
Complying superannuation	15	15
Other business	30	30
Shareholder	30	30

#### 4. INCOME TAX CONTINUED

##### Taxation basis

The principal elements for the calculation of the taxable income for each class of business are as follows:

##### Assessable income:

- Complying superannuation business — specified rollover amounts and investment income
- Other business — accident and disability premiums earned and investment income
- Shareholder funds and ordinary life insurance business — investment income

The gains and losses on sale of investments to the extent referable to the complying superannuation business are determined under the capital gains tax provisions of the Income Tax Assessment Act (ITAA). The exceptions are gains on fixed interest securities and foreign exchange gains or losses referable to the superannuation business which are tax paid primarily under the ordinary income provisions.

The gains and losses on the sale of investments to the extent referable to other taxable classes of business are taxed primarily under the ordinary income provisions, with the capital gains tax provisions potentially applying depending on circumstances.

##### Allowable deductions

The allowable deductions for each taxable class of business in Australia include:

- acquisition costs (such as commissions) in relation to investment related life insurance business, superannuation business and 'other business'
- other expenses referable to the business (such as investment expenses)
- an allocation of the general management expenses of the company

These deductions are then allocated to each class of business in accordance with the basis specified in the ITAA (which may or may not reflect the allocation of the expense for accounting purposes).

##### Basis of income tax apportionment

A notional income tax expense is calculated for each product as if the product were invested within a stand-alone Statutory Fund. The difference between this and the actual tax expense is apportioned to products having regard to their contribution to the difference.

##### Manchester Unity Australia Limited

The income tax expense or revenue is calculated on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and unused tax losses.

The health insurance business of Manchester Unity Limited was acquired by HCF of Australia Limited on 24 December 2008 and became a taxable entity on that date.

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
The composition of the total income tax expense is as follows:				
Total current income tax expense	1,228	1,215		
(Over)/Under provisions for the previous year	38	(68)		
<i>Deferred attributable to future years:</i>				
Deferred income tax	513	—		
Relating to origination and reversal of temporary differences	(1,299)	(1,522)		
<b>Income tax expense/(benefit) reported in the Income Statement</b>	<b>480</b>	<b>(375)</b>	<b>—</b>	<b>—</b>
<b>(b) Amounts charged or credited directly to equity</b>				
Deferred income tax related to items charged (credited) directly to equity	—	—		
Unrealised gain on available-for-sale investments	—	—		
Net gain on revaluation of buildings	—	—		
Tax losses	—	—		
<b>Income tax expense/(benefit) reported in Equity</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>(c) A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the company's applicable income tax rate is as follows:</b>				
Accounting (loss)/profit before income tax	519	(1,404)	—	—

Notes to the Financial Statements continued

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>4. INCOME TAX CONTINUED</b>				
At the company's statutory income tax rate of 30% (2008:30%)	156	(421)	—	—
Less: non-assessable income	(187)	—	—	—
Tax effect of differences between amounts of income and expenses recognised for account and the amounts deductible/assessable in calculating taxable income	(173)	—	—	—
Tax offsets and credits	366	(245)	—	—
Permanent differences due to movement in investment contract liabilities	251	314	—	—
Non deductible items	17	22	—	—
Other items	13	23	—	—
Over/(under) provided in previous years after excluding amounts attributable to policyholders	37	(68)	—	—
<b>Income tax expense/(benefit) reported in the income statement</b>	<b>480</b>	<b>(375)</b>	<b>—</b>	<b>—</b>

	Deferred income tax	Deferred income tax	Deferred income tax	Deferred income tax
Opening balance	942	(580)	—	—
Liabilities acquired through business combination			—	—
Charged to Income	665	1,522	—	—
Charged to Equity	(147)	—	—	—
Other payments	(447)	—	—	—
Closing balance	1,013	942	—	—
Amounts recognised in the balance sheet:				
Deferred tax asset	6,086	1,015	—	—
Deferred tax liability	(5,073)	(73)	—	—
Movement in deferred taxes	1,013	942	—	—

**Balance Sheet**

Deferred income tax at 30 June relates to the following:

**Consolidated**

**(i) Deferred tax liabilities**

Revaluations of financial assets held at fair value	3,673	—	—	—
Temporary timing differences on assessable income	1,116	73	—	—
Entries on consolidation	284	—	—	—
Gross deferred tax liabilities	5,073	73	—	—

**(ii) Deferred tax assets**

Revaluations of financial assets held at fair value	1,837	886	—	—
Temporary timing differences on assessable income	232	129	—	—
Provisions and accruals	3,907	—	—	—
Tax losses	110	—	—	—
Gross deferred tax assets	6,086	1,015	—	—

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>5. RETAINED EARNINGS AND RESERVES</b>				
<b>(a) Movements in retained earnings were as follows:</b>				
Balance 1 July	494,366	457,050	469,483	422,460
Net profit	21,530	37,316	21,988	47,023
Unallocated benefit fund surplus at date of acquisition	2,647	—	—	—
<b>Balance 30 June</b>	<b>518,543</b>	<b>494,366</b>	<b>491,471</b>	<b>469,483</b>
<b>(b) Asset revaluation reserve</b>				
Balance 1 July	68,222	54,370	68,222	54,370
Revaluation of land and buildings	(6,853)	13,852	(7,374)	13,852
Income tax on items taken directly to or transferred from equity	(159)	—	—	—
<b>Asset revaluation reserves</b>	<b>61,210</b>	<b>68,222</b>	<b>60,848</b>	<b>68,222</b>
<b>Total reserve balance 30 June</b>	<b>61,210</b>	<b>68,222</b>	<b>60,848</b>	<b>68,222</b>
<b>(c) Capital reserve</b>				
Balance 1 July	—	—	—	—
Proceeds from demutualisation of Manchester Unity	256,000	—	—	—
Transfer to issued capital	(256,000)	—	—	—
<b>Balance 30 June</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

(b) The asset revaluation reserve is used to record increments and decrements in the fair value of land and buildings to the extent that they offset one another.

(c) The capital reserve was established upon the demutualisation of Manchester Unity Australia Limited on the 24 December 2008. This amount was fully utilised in funding a return of capital to the members of Manchester Unity Australia Limited.

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>6. TRADE RECEIVABLES AND OTHER ASSETS</b>				
<b>CURRENT</b>				
Premiums in arrears	8,336	8,829	7,173	8,829
Other receivables	9,547	3,883	3,164	3,102
Receivables from the Health Insurance Commission	40,189	28,608	31,923	28,608
Intercompany receivables	—	—	2,323	—
Interest receivable	1,036	722	826	—
Deferred acquisition costs	3,345	1,053	1,087	1,053
Prepayments	3,842	3,186	3,202	3,186
<b>Total current trade receivables and other assets</b>	<b>66,295</b>	<b>46,281</b>	<b>49,698</b>	<b>44,778</b>
<b>NON CURRENT</b>				
Receivables from associates	985	507	985	507
Deferred acquisition costs	1,710	—	—	—
<b>Total non current trade receivables and other assets</b>	<b>2,695</b>	<b>507</b>	<b>985</b>	<b>507</b>
<b>Total trade receivables and other assets</b>	<b>68,990</b>	<b>46,788</b>	<b>50,683</b>	<b>45,285</b>

The carrying amount disclosed above is a reasonable approximation of fair value

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>				
<b>CURRENT</b>				
— Short term deposits	130,106	—	—	—
Holdings in Unlisted Trusts at fair value:				
— Cash, bank bills and floating rate notes	78,992	200,092	78,992	200,092
— Government, semi-government and corporate securities	241,818	328,798	241,818	328,798
— Shares	85,465	126,872	85,465	126,872
Sub total	406,275	655,762	406,275	655,762
<b>Total current financial assets at fair value through profit or loss</b>	<b>536,381</b>	<b>655,762</b>	<b>406,275</b>	<b>655,762</b>
<b>NON CURRENT</b>				
— Government and semi-government bonds	6,801	—	—	—
— Shares	6	—	—	—
Sub total	6,807	—	—	—
<b>Total financial assets at fair value through profit or loss</b>	<b>543,188</b>	<b>655,762</b>	<b>406,275</b>	<b>655,762</b>

**8. INVENTORIES**

Consumable stores and goods for resale	630	657	630	657
--	-----	-----	-----	-----

**9. INVESTMENTS IN CONTROLLED ENTITIES**

Shares in controlled entities (see below)	—	—	266,010	10,010
<b>Total investments in controlled entities</b>	<b>—</b>	<b>—</b>	<b>266,010</b>	<b>10,010</b>

	Country of incorporation	Percentage held by the parent of the Consolidated Entity		Parent	
		2009 %	2008 %	2009 \$'000	2008 \$'000
<b>Investments in controlled entities:</b>					
HCF Life Insurance Company Pty Limited	Australia	100	100	10,000	10,000
HCF Nominees Pty Limited	Australia	100	100	10	10
HCF Staff Superannuation Pty Limited <sup>1</sup>	Australia	100	100	—	—
HCF Pty Ltd	Australia	100	100	—	—
HCF Executive Superannuation Pty Limited <sup>1</sup>	Australia	100	100	—	—
Manchester Unity Australia Limited <sup>2</sup>	Australia	100	0	256,000	—
				<b>266,010</b>	<b>10,010</b>

<sup>1</sup> These companies were placed in voluntary liquidation by the members on 26 November 2006.

<sup>2</sup> Manchester Unity Australia Limited was acquired by HCF of Australia Limited on 24 December 2008.

	Country of incorporation	Percentage held by the parent of the Consolidated Entity		Parent	
		2009 %	2008 %	2009 \$'000	2008 \$'000
<b>10. INVESTMENTS IN ASSOCIATES</b>					
Moneytime Health Pty Limited	Australia	50	50	1	1
<b>Total investments in associates</b>				<b>1</b>	<b>1</b>

	Notes	Consolidated		Parent	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>11(a). PROPERTY, PLANT AND EQUIPMENT</b>					
<b>Freehold land:</b>					
At fair value	11(b)	23,740	25,345	23,740	25,345
<b>Buildings on freehold land:</b>					
At fair value	11(b)	48,328	55,299	48,328	55,299
		<b>72,068</b>	<b>80,644</b>	<b>72,068</b>	<b>80,644</b>
<b>Freehold land and buildings (Forum West, Aged Care facilities):</b>					
At fair value	11(b)	56,995	—	—	—
		<b>56,995</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total freehold land and buildings</b>		<b>129,063</b>	<b>80,644</b>	<b>72,068</b>	<b>80,644</b>

#### HCF Limited

Freehold land and buildings were revalued by the Directors at 30 June 2009 at fair value using advice received from independent valuers as at that date. The independent valuations were carried out by Scott Fullarton (FAPI) of Scott Fullarton Valuations Pty Ltd. Revaluations are performed on the basis of sale and leaseback under their existing usage method or under vacant possession under their planned sale method, as appropriate. The change required to the overall carrying value on revaluation was debited directly to the asset revaluation reserve as the buildings are owner occupied.

#### Manchester Unity Australia Limited

Forum West was revalued by the Directors at 30 June 2009 at fair value using advice received from independent valuers as at that date. The independent valuations were carried out by Rushtons Valuers Pty Ltd. Revaluations performed on the basis of a leased investment property. The change required to the overall carrying value on revaluation was debited directly to the asset revaluation reserve. This relates to the owner occupied portion and all other parts are classified as investment properties (note 12.)

Aged care facilities were revalued by the Directors at 30 June 2009 at fair value using advice received from independent valuers as at that date as a basis. The independent valuations were carried out by Colliers International Consultancy and Valuation Pty Limited. Revaluations are performed on a going concern basis. The change required to the overall carrying value on revaluation was debited directly to the asset revaluation reserve.

	Notes	Consolidated		Parent	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Leasehold improvements:</b>					
At cost		3,256	3,274	3,256	3,274
Accumulated amortisation		(2,942)	(2,924)	(2,942)	(2,924)
	11(b)	<b>314</b>	<b>350</b>	<b>314</b>	<b>350</b>
<b>Plant, equipment, furniture and fittings, motor vehicles</b>					
At cost		50,178	42,477	43,192	42,338
Accumulated depreciation		(28,275)	(26,574)	(27,417)	(26,478)
	11(b)	<b>21,903</b>	<b>15,903</b>	<b>15,775</b>	<b>15,860</b>
<b>Total property, plant and equipment, furniture and fittings, motor vehicles</b>					
At fair value		129,063	80,644	72,068	80,644
At cost		53,434	45,751	46,448	45,612
		<b>182,497</b>	<b>126,395</b>	<b>118,516</b>	<b>126,256</b>
Accumulated depreciation and amortisation		(31,217)	(29,498)	(30,359)	(29,402)
<b>Total property, plant and equipment</b>	11(b)	<b>151,280</b>	<b>96,897</b>	<b>88,157</b>	<b>96,854</b>

## 11(b). RECONCILIATIONS OF PROPERTY, PLANT AND EQUIPMENT

	Notes	Consolidated		Parent	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current and previous year.</b>					
<b>Freehold land:</b>					
Carrying amounts at beginning		25,345	19,220	25,345	19,220
Net amount of revaluation increments / (decrements)		(1,605)	6,125	(1,605)	6,125
	11(a)	23,740	25,345	23,740	25,345
<b>Buildings on freehold land:</b>					
Carrying amounts at beginning		55,299	47,202	55,299	47,202
Additions		136	1,529	136	1,529
Depreciation expense	2(b)	(1,338)	(1,159)	(1,338)	(1,159)
Net amount of revaluation increments / (decrements)		(5,769)	7,727	(5,769)	7,727
	11(a)	48,328	55,299	48,328	55,299
<b>Freehold land and buildings (Forum West, Aged Care facilities):</b>					
Assets acquired through business combination	29	57,147	—	—	—
Depreciation expense	2(b)	(673)	—	—	—
Net amount of revaluation increments / (decrements)		521	—	—	—
		56,995	—	—	—
<b>Leasehold improvements:</b>					
Carrying amounts at beginning		350	562	350	562
Additions		206	—	206	—
Disposals		(1)	—	(1)	—
Depreciation expense	2(b)	(241)	(212)	(241)	(212)
	11(a)	314	350	314	350
<b>Plant and equipment:</b>					
Carrying amounts at beginning		15,903	11,257	15,860	11,221
Assets acquired through business combination	29	5,683	—	—	—
Additions		5,313	8,457	4,320	8,416
(Disposals)/adjustments		(266)	(175)	(265)	(158)
Depreciation expense	2(b)	(4,730)	(3,636)	(4,140)	(3,619)
	11(a)	21,903	15,903	15,775	15,860
<b>Total net carrying amount</b>	11(a)	151,280	96,897	88,157	96,854
<b>Total property, plant and equipment</b>					
Carrying amounts at beginning		96,897	78,241	96,854	78,205
Assets acquired through business combination	29	62,830	—	—	—
Additions	33	5,655	9,986	4,662	9,945
(Disposals)/adjustments		(267)	(175)	(266)	(158)
Depreciation expense	2(b)	(6,982)	(5,007)	(5,719)	(4,990)
Net amount of revaluation increments / (decrements)		(6,853)	13,852	(7,374)	13,852
<b>Total net carrying amount</b>		151,280	96,897	88,157	96,854

	Notes	Consolidated		Parent	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>12. INVESTMENT PROPERTY</b>					
<b>Freehold land and Buildings (Forum West, Retirement Villages):</b>					
At fair value		88,086	—	—	—
<b>Total freehold land and buildings</b>		<b>88,086</b>	<b>—</b>	<b>—</b>	<b>—</b>

#### Manchester Unity Australia Limited

Forum West was revalued by the Directors at 30 June 2009 at fair value using advice received from independent valuers as at that date. The independent valuations were carried out by Rushtons Valuers Pty Ltd. Revaluations are performed on the basis of a leased investment property. The change required to the overall carrying value on revaluation was debited directly through the income statement.

Retirement villages were revalued by the Directors at 30 June 2009 at fair value using advice received from independent valuers as at that date. The independent valuations were carried out by Colliers International Consultancy and Valuation Pty Limited. Revaluations are performed on a going concern basis on the basis of a leased investment property. The change required to the overall carrying value on revaluation is brought to account through the Income Statement.

#### (b) Reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of the current and previous year.

	Notes	Consolidated		Parent	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Freehold land and Buildings (Forum West, Retirement Villages):</b>					
Carrying amounts at beginning		—	—	—	—
Assets acquired through business combination	29	86,731	—	—	—
Net amount of revaluation increments / (decrements)		1,355	—	—	—
		<b>88,086</b>	<b>—</b>	<b>—</b>	<b>—</b>

### 13. INTANGIBLE ASSETS

#### Software

At cost		10,535	10,401	10,408	10,392
Accumulated amortisation		(8,020)	(8,160)	(7,963)	(8,152)
<b>Total software</b>		<b>2,515</b>	<b>2,241</b>	<b>2,445</b>	<b>2,240</b>

#### Software

Carrying amounts at beginning of period		2,241	1,838	2,240	1,837
Assets acquired through business combination	29	72	—	—	—
Additions		1,430	1,655	1,383	1,655
Depreciation expense	2(b)	(1,228)	(1,252)	(1,178)	(1,252)
<b>Total net carrying amount</b>		<b>2,515</b>	<b>2,241</b>	<b>2,445</b>	<b>2,240</b>

#### Nursing home bed licenses

At cost		1,660	—	—	—
<b>Total nursing home bed licenses</b>		<b>1,660</b>	<b>—</b>	<b>—</b>	<b>—</b>

#### Nursing home bed licenses

Carrying amounts at beginning of period		—	—	—	—
Assets acquired through business combination	29	1,660	—	—	—
<b>Net carrying amount</b>		<b>1,660</b>	<b>—</b>	<b>—</b>	<b>—</b>

#### Other intangible assets

Brand		4,090	—	—	—
Customer list		6,618	—	—	—
Accumulated amortisation		(472)	—	—	—
<b>Total other intangible assets</b>		<b>10,236</b>	<b>—</b>	<b>—</b>	<b>—</b>

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>13. INTANGIBLE ASSETS CONTINUED</b>				
<b>Other intangible assets</b>				
Carrying amounts at beginning of period	—	—	—	—
On acquisition	10,708	—	—	—
Amortisation	(472)	—	—	—
<b>Net carrying amount</b>	<b>10,236</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Goodwill</b>				
Manchester Unity Australia Ltd	101,569	—	—	—
<b>Total goodwill</b>	<b>101,569</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Goodwill</b>				
Carrying amounts at beginning of period	—	—	—	—
On acquisition	101,569	—	—	—
<b>Net carrying amount</b>	<b>101,569</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total intangible assets</b>	<b>115,980</b>	<b>2,241</b>	<b>2,445</b>	<b>2,240</b>

The Manchester Unity brand has been assigned an indefinite life due to its long history in Australia and HCF's intention to retain the brand for the immediate future.

**Impairment test for goodwill and brand**

Goodwill and brand have been allocated to the following cash generating units (CGUs):

- HCF Australia Limited
- HCF Life
- Manchester Unity Health Fund Limited

The carrying amount of goodwill consists of \$3.35 million allocated to HCF Life, \$92.45 million allocated to HCF Limited, \$5.77 million Manchester Unity Health Fund.

The recoverable amount of the CGUs has been determined on a fair value less cost to sell calculation using cash flow projections at 30 June 2009 based upon financial budgets approved by management covering a 4 year period.

The discount rate applied to the cash flow projections is 15%.

The long term growth rate used to extrapolate the cash flows beyond the 4 year period is HCF 5.0% HCF Life 1.0% and Manchester Unity 0.5%.

In the consolidated entity, based on impairment testing performed for each CGU, there was no charge for impairment of goodwill for the year ended 30 June 2009.

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>14. TRADE AND OTHER PAYABLES (CURRENT)</b>				
Trade creditors and benefits payable	35,840	31,879	36,661	31,324
Other creditors and accruals	20,307	9,599	7,879	9,599
Payable to controlled entities	—	—	10	434
<b>Total current trade and other payables</b>	<b>56,147</b>	<b>41,478</b>	<b>44,550</b>	<b>41,357</b>

**15. INVESTMENTS RELATING TO LIFE INSURANCE BUSINESS**

**Marketable securities — at fair value**

Equity security investments	15,289	18,267		
<b>Debt security investments</b>				
Bank accepted bills of exchange	33,692	31,722		
Floating rate notes	640	681		
Mortgage backed securities	235	356		
	34,567	32,759		
<b>Total investments relating to life insurance business</b>	<b>49,856</b>	<b>51,026</b>		

## 16. UNEARNED PREMIUM LIABILITIES AND UNEXPIRED RISK LIABILITIES

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>(a) Unearned premium liabilities</b>				
Unearned premium liability as at 1 July	146,927	137,242	145,373	135,817
Deferral of premiums on contracts written in the period	172,706	146,927	151,889	145,373
Earning of premiums written in previous periods	(146,927)	(137,242)	(145,373)	(135,817)
<b>Unearned premium liability as at 30 June</b>	<b>172,706</b>	<b>146,927</b>	<b>151,889</b>	<b>145,373</b>

### (b) Unexpired risk liabilities

#### (i) HCF Limited

A review of the adequacy of the unearned premium liabilities was carried out at balance date in accordance with the accounting policy in Note 1. This review being referred to as the liability adequacy test. At balance date there was no need to recognise an unexpired risk liability (2008:nil).

#### (ii) Manchester Unity Health Fund

A review of the adequacy of the unearned premium liabilities was carried out at balance date in accordance with the accounting policy in Note 1. This review being referred to as the liability adequacy test. At balance date there was no need to recognise an unexpired risk liability (2008:nil).

	Notes	Consolidated		Parent	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>17. PROVISIONS</b>					
<b>Current provisions</b>					
Employee entitlements	24(a)	11,004	8,183	8,426	7,477
Provision for makegood on leased premises		430	478	430	478
<b>Total current provisions</b>		<b>11,434</b>	<b>8,661</b>	<b>8,856</b>	<b>7,955</b>
<b>Non current provisions</b>					
Employee entitlements	24(a)	3,014	2,635	2,636	2,575
Provision for makegood on leased premises		1,603	1,603	1,603	1,603
<b>Total non current provisions</b>		<b>4,617</b>	<b>4,238</b>	<b>4,239</b>	<b>4,178</b>
<b>Total provisions</b>		<b>16,051</b>	<b>12,899</b>	<b>13,095</b>	<b>12,133</b>
<b>Employee entitlements</b>					
Opening balance		8,183	7,897	7,477	7,177
Liabilities acquired through business combination	29	1,987	—	—	—
Payments		(4,614)	(4,466)	(3,822)	(4,245)
Provision increase		5,448	4,752	4,771	4,545
<b>Total net carrying amount current</b>		<b>11,004</b>	<b>8,183</b>	<b>8,426</b>	<b>7,477</b>
<b>Provision for makegood on leased premises</b>					
Opening balance		2,081	2,087	2,081	2,087
Write off		(194)	(6)	(194)	(6)
Provision increase		146	—	146	—
<b>Total net carrying amount</b>		<b>2,033</b>	<b>2,081</b>	<b>2,033</b>	<b>2,081</b>
<b>Employee entitlements</b>					
Opening balance		2,635	2,634	2,575	2,570
Liabilities acquired through business combination	29	280	—	—	—
Payments		(12)	—	—	—
Provision increase		111	1	61	5
<b>Total net carrying amount non current</b>		<b>3,014</b>	<b>2,635</b>	<b>2,636</b>	<b>2,575</b>

	Notes	Consolidated		Parent	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>18. FINANCIAL LIABILITIES</b>					
<b>CURRENT</b>					
Resident loans		59,991	—	—	—
<b>Total current financial liabilities</b>		<b>59,991</b>	<b>—</b>	<b>—</b>	<b>—</b>

**19. CLAIMS LIABILITIES**

Claims liabilities-central estimate of expected present value of future payments for claims incurred <sup>1</sup>		116,251	99,491	91,358	98,133
Risk margin <sup>2</sup>		2,433	2,026	1,622	2,026
Claims handling costs		3,538	2,533	2,534	2,533
<b>Total claims liabilities</b>		<b>122,222</b>	<b>104,050</b>	<b>95,514</b>	<b>102,692</b>

Changes in the claims liabilities can be analysed as follows:

At 1 July		104,050	88,512	102,692	86,161
Claims liabilities acquired through business combination	29	21,849	—	—	—
Claims incurred during the year		1,166,055	975,460	1,065,152	973,408
Claims paid during the year		(1,169,732)	(959,922)	(1,072,330)	(956,877)
<b>At 30 June</b>		<b>122,222</b>	<b>104,050</b>	<b>95,514</b>	<b>102,692</b>

**Health Insurance Assumptions**

1 The expected future payments are not discounted to present value due to the short tail nature of the products written by the company where claims are generally settled within 12 months.

**2 HCF Limited**

A risk margin of 2.0% (2008:2.0%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 75% (2008: 75%)

**2 Manchester Unity Health Fund**

A risk margin of 3.5% (2008:2.4%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 75% (2008: 75%)

The outstanding claims provision for both Funds has been estimated using a modified chain ladder method, based on historical experience and future expectation as to claims.

**Life Insurance Assumptions**

1 The amount disclosed is the Gross Claims provision as at 30 June 2009 and is not discounted to present value. There are no expected future payments of MOS liabilities.

**20. LIFE INSURANCE POLICYHOLDERS' LIABILITIES**

	Non Investment-Linked Business		Investment Linked Contracts		Total	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>(a) Policyholders' liabilities</b>						
Gross policyholders' liabilities	16,832	18,890	3,255	4,075	20,087	22,965
Reinsured policyholders' liabilities						
— Gross policyholders' liabilities ceded	(1,317)	(1,093)	—	—	(1,317)	(1,093)
<b>Net policyholders' liabilities</b>	<b>15,515</b>	<b>17,797</b>	<b>3,255</b>	<b>4,075</b>	<b>18,770</b>	<b>21,872</b>
<b>Movements in net policyholders' liabilities</b>						
Opening balance	17,797	20,048	4,075	4,937	21,872	24,985
Add:						
Premiums recognised as change in policy liabilities	2,472	1,843	1,380	784	3,852	2,627
Less:						
Claims recognised as change in policy liabilities	(3,937)	(4,849)	(1,988)	(1,337)	(5,925)	(6,186)
	16,332	17,042	3,467	4,384	19,799	21,426
Increase/(decrease) in policyholders' liabilities as shown in the Income Statement	(817)	755	(212)	(309)	(1,029)	446
<b>Closing balance</b>	<b>15,515</b>	<b>17,797</b>	<b>3,255</b>	<b>4,075</b>	<b>18,770</b>	<b>21,872</b>

	Total	
	2009	2008
	\$'000	\$'000
<b>20. LIFE INSURANCE POLICYHOLDERS' LIABILITIES CONTINUED</b>		
<b>(b) Business valued using the Projection Method</b>		
<b>Best estimate liabilities</b>		
— Value of future policy benefits	36,485	29,628
— Value of future expenses	36,262	29,592
— Value of future policy premiums	(87,401)	(70,896)
<b>Total best estimate liabilities for life insurance contracts</b>	<b>(14,654)</b>	<b>(11,676)</b>
<b>Value of future profits</b>		
For non-investment-linked business		
— Value of future shareholder profit margins	6,914	5,546
For investment-linked business		
— Value of future shareholder profit margins	—	—
<b>Total value of future profits for life insurance contracts</b>	<b>6,914</b>	<b>5,546</b>
<b>Value of policyholders liabilities – other</b>		
For non-investment-linked business		
— Termination value	17,920	23,927
For investment-linked business		
— Termination value	8,590	4,075
<b>Total policyholders' liabilities - other</b>	<b>26,510</b>	<b>28,002</b>
<b>Net policy liabilities</b>	<b>18,770</b>	<b>21,872</b>
<b>Net policyholders' liabilities</b>		
Current	6,357	1,663
Non-current	12,413	20,209
<b>Net policy liabilities</b>	<b>18,770</b>	<b>21,872</b>

**(c) The consolidated financial report includes both the Statutory Funds and Shareholders Fund of HCF Life Insurance Company Pty Limited (“HCF Life”), which is incorporated within Australia.**

Under the *Life Insurance Act 1995*, the parent entity's access to the assets of HCF Life is restricted. Policyholders have a prior right to the assets of HCF Life to satisfy the obligations to policyholders and any surplus attributable to the parent entity is only available after approval from HCF Life's independent actuary.

Guarantors' Equity includes the following amounts which are not presently available for distribution:

Retained earnings	21,096	20,210
<b>Represented by:</b>		
Investments, short term deposits and other assets	43,679	47,239
Less: Other liabilities	3,813	5,157
	39,866	42,082
Less : Net policyholders' liabilities	18,770	21,872
	21,096	20,210

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>21. CASH AND CASH EQUIVALENTS</b>				
<b>(a) RECONCILIATION OF NET PROFIT AFTER TAX TO THE NET CASH FLOWS FROM OPERATIONS</b>				
Net profit after tax	21,530	37,316	21,988	47,023
<b>Adjustments for :</b>				
Depreciation and amortisation	8,495	6,258	6,897	6,241
Member Liability revaluations	1,526	—	—	—
Adjustment of financial transactions	—	(1,380)	(25)	(25)
Loss on sale of non-current assets	1,493	42	15	39
Changes in fair value of financial assets at fair value through profit or loss	26,724	(9,220)	25,661	(9,220)
Change in fair value of Life Company financial assets	3,166	5,808	—	—
Share of associates net loss	—	440	—	440
<b>CHANGES IN ASSETS AND LIABILITIES</b>				
(Increase)/decrease in trade and other receivables	(1,342)	(2,269)	(4,522)	(2,721)
(Increase)/decrease in deferred acquisition costs	734	(1,053)	(34)	(1,053)
(Increase)/decrease in interest and dividend receivable	(2,582)	(263)	—	—
(Increase)/decrease in inventories	27	19	27	19
(Increase)/decrease in prepayments	485	(762)	(16)	(762)
(Increase)/decrease in investments in subsidiaries	—	—	—	367
(Increase)/decrease in investment property revaluation	(1,355)	—	—	—
Increase/(decrease) in trade creditors and benefits payable	(1,152)	(9,254)	5,337	(15,376)
Increase/(decrease) in payables to controlled entities	—	—	(424)	(8,921)
Increase/(decrease) in other creditors and accruals	(1,720)	(380)	(1,720)	6,166
Increase/(decrease) in policyholders' liabilities	(2,878)	(3,113)	—	—
Increase/(decrease) in makegood provisions	(48)	(6)	(48)	(6)
Increase/(decrease) in claims liabilities	(3,677)	15,538	(7,178)	16,531
Increase/(decrease) in unearned premium liability	15,164	9,685	6,516	9,556
Increase/(decrease) in tax liability	(328)	(2,098)	—	—
Increase/(decrease) in employee entitlements	1,152	287	1,010	305
<b>Net cash flow from operating activities</b>	<b>65,414</b>	<b>45,595</b>	<b>53,484</b>	<b>48,603</b>
<b>(b) RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>				
<b>Cash balance comprises:</b>				
— Cash on hand	84,509	13,629	14,744	13,041
— Short term deposits	28,422	15,410	28,422	15,410
	112,931	29,039	43,166	28,451
— Life insurance — cash on deposit	4,815	6,370	—	—
<b>Total cash and cash equivalents</b>	<b>117,746</b>	<b>35,409</b>	<b>43,166</b>	<b>28,451</b>

Cash at bank earns interest at floating rates based on the daily bank deposit rate.

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the company, and earn interest at the respective short-term rates.

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>22. CAPITAL EXPENDITURE COMMITMENTS</b>				
Estimated capital expenditure contracted but not provided for at balance date:				
— payable not later than one year after the end of the financial year.	131	470	131	470
<b>Total capital expenditure commitments</b>	<b>131</b>	<b>470</b>	<b>131</b>	<b>470</b>

### 23. LEASE EXPENDITURE COMMITMENTS

Aggregated lease expenditure contracted for at balance date, but not provided for:

#### Operating leases:

Not later than one year	6,205	5,799	6,113	5,799
Later than one year and not later than five years	14,962	11,323	14,940	11,323
Later than five years	49	360	49	360
<b>Gross operating lease commitments</b>	<b>21,216</b>	<b>17,482</b>	<b>21,102</b>	<b>17,482</b>
<b>Operating leases sub-let to third parties with minimum lease payments expected to be received:</b>				
Not later than one year	2,349	604	711	604
Later than one year and not later than five years	3,343	1,274	882	1,274
Later than five years	—	67	—	67
<b>Gross operating lease recoveries</b>	<b>5,692</b>	<b>1,945</b>	<b>1,593</b>	<b>1,945</b>
<b>Net operating lease commitments</b>	<b>15,524</b>	<b>15,537</b>	<b>19,509</b>	<b>15,537</b>

#### Notes:

- (a) Rental payments for operating leases are determined on a lease by lease basis depending on lease terms and escalation clauses and estimated variable expenses.  
(b) Operating leases generally have a 5 year lease term. Commitments represent payments for property rentals. Some premises have been sub-let to third parties. Future minimum lease payments expected to be received at the reporting date are \$1,593,000 (2008: \$1,945,000).  
(c) The company has granted a number of lessors bank guarantees to support these obligations.

### 24. EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS

	Notes	Consolidated		Parent	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>(a) Employee entitlements</b>					
<b>Current</b>					
Aggregate employee entitlements are comprised of accrued wages, salaries and oncosts and provisions:					
Annual leave		7,224	5,358	5,430	4,872
Long service leave		3,780	2,825	2,996	2,605
<b>Total current employee entitlements</b>	17(a)	<b>11,004</b>	<b>8,183</b>	<b>8,426</b>	<b>7,477</b>
<b>Non current</b>					
Long service leave	17(a)	3,014	2,635	2,636	2,575
<b>Total non current employee entitlements</b>		<b>3,014</b>	<b>2,635</b>	<b>2,636</b>	<b>2,575</b>
<b>Total employee entitlements</b>		<b>14,018</b>	<b>10,818</b>	<b>11,062</b>	<b>10,052</b>

#### (b) Superannuation commitments

Contributions by companies in the economic entity are made at a rate sufficient to meet the entity's superannuation guarantee obligations (9% of salary during the year) or at such higher rate as agreed between the employee and the company.

The entity makes contributions to complying superannuation funds as requested by employees, to meet the requirements of the superannuation guarantee legislation. The entity has no further obligations relating to superannuation commitments.

**25. CONTINGENT ASSETS AND LIABILITIES**

There are no other contingent asset or liabilities for this financial year.

**26. REMUNERATION OF KEY MANAGEMENT PERSONNEL**

The key management personnel includes

- for the Hospitals Contribution Fund
  - 9 Non Executive Directors
  - 1 CEO and 8 General Managers
- for the HCF Life Insurance Company Pty Limited
  - 5 Non Executive Directors
  - 1 Managing Director

	Consolidated		Parent	
	2009 \$	2008 \$	2009 \$	2008 \$
(a) Short term employee benefits				
Cash Salary	5,257,224	4,627,385	4,375,927	3,846,696
Cash Bonus	854,345	61,688	854,345	61,688
Non monetary benefits	41,038	36,862	36,249	32,073
Post-employment				
Superannuation	509,554	450,339	426,850	376,517
	<b>6,662,161</b>	<b>5,176,274</b>	<b>5,693,371</b>	<b>4,316,974</b>

(b) The secured loan of \$333,000 that was made to a key management person has been settled upon completion of the terms of the arrangement. HCF has satisfied any related taxation obligation.

Key management personnel received no other remuneration benefits.

**27. RELATED PARTY DISCLOSURES**

- (a) Details of directors' retirement benefits and remuneration are set out in Note 26.
- (b) During the past year HCF supplied office space and supporting services and other administrative functions to HCF Life on a cost recovery basis. During the financial year the parent entity received commissions under normal terms and conditions totalling \$9,459,869 (2008: \$7,940,331) from HCF Life for sales of life insurance policies.
- (c) From the date of acquisition HCF paid on behalf of Manchester Unity professional fees and salaries and wages totalling \$5,652,631. This amount was recharged to Manchester Unity on a cost recovery basis. The amount outstanding at 30 June 2009 is \$2,107,746.

	Consolidated		Parent	
	2009 \$	2008 \$	2009 \$	2008 \$

**28. AUDITORS' REMUNERATION**

Amounts received or due and receivable by the parent company auditors for:

— an audit of the financial reports of the entity and any other entity in the consolidated entity	590,700	365,329	247,500	240,000
— an audit of other regulatory requirements of the entity and any other entity in the consolidated entity	270,590	90,000	90,000	90,000
— other services in relation to the entity and any other entity in the consolidated entity				
— tax services	488,000	—	470,000	—
— assurance services	520,000	—	338,000	—
— other services	104,000	44,206	—	36,990
<b>Total auditors' remuneration</b>	<b>1,973,290</b>	<b>499,535</b>	<b>1,145,500</b>	<b>366,990</b>

The auditors do not receive any other benefits.

## 29. BUSINESS COMBINATION

### Acquisition of Manchester Unity Limited

On 24 December 2008, Manchester Unity became a wholly owned subsidiary of HCF of Australia Limited. The total cost of the combination was \$256 million paid in cash. At the date of acquisition, HCF of Australia Limited was involved in the provision of private health insurance.

Manchester Unity's principal activities were:

- (a) the provision of private health insurance;
- (b) retirement and aged care accommodation;
- (c) management of investment properties;
- (d) the management of member benefit funds providing benefits for funeral, income protection and life assurance; and
- (e) management of investment products and facilities for members.

The acquired business contributed revenues of \$129.3m and net loss of \$0.03m to the Group for the period from 24 December 2008 to 30 June 2009. If the acquisition had occurred on 1 July 2008, contributed revenues and net loss would have been \$252.8m and \$8.0m for the year ended 30 June 2009 respectively.

The fair value of the identifiable assets and liabilities of Manchester Unity Australia Limited as at the date of acquisition were:

		Consolidated	
	Notes	Recognised on Acquisition \$'000	Carrying Value \$'000
Cash and cash equivalents		13,217	13,217
Investments		69,569	69,569
Receivables		30,710	30,710
Prepayments		206	206
Other current assets		89	89
Deferred acquisition costs		4,707	4,707
Property, plant and equipment		5,683	5,683
Land and Buildings		57,147	57,147
Investment property		86,731	86,731
Intangibles		12,440	1,732
Deferred tax assets		4,905	4,905
Other non-current assets		32	32
<b>Total tangible assets</b>		<b>285,436</b>	<b>274,728</b>
Payables		24,684	24,684
Provisions		17,970	17,970
Other current liabilities		22,127	22,127
Non current financial liabilities — residents loans		61,468	61,468
Deferred tax liabilities		4,011	3,727
Other non-current liabilities		745	745
<b>Total liabilities</b>		<b>131,005</b>	<b>130,721</b>
Fair value of identifiable net assets		154,431	
Goodwill	13	101,569	
		<b>256,000</b>	<b>—</b>
Cost of the combination:			
Cash paid		256,000	
<b>Total cost of the combination</b>		<b>256,000</b>	
The cash outflow on acquisition is as follows:			
Net cash acquired with the subsidiary		13,217	
Cash paid		(256,000)	
		<b>(242,783)</b>	

### 29. BUSINESS COMBINATION CONTINUED

The goodwill of \$101.57 million arising on consolidation is attributable to the Manchester Unity Australia Limited acquisition and includes the synergies expected to be achieved as a result of combining Manchester Unity Australia Limited with the HCF Group and the assembled workforce. The identifiable intangible assets of \$10.42 million include the Manchester Unity brand name and customer relationships.

### 30. OTHER STATUTORY INFORMATION

The Hospitals Contribution Fund of Australia Limited (HCF or Fund) is a company limited by guarantee and is incorporated in Australia in the state of New South Wales. The Hospitals Contribution Fund of Australia Limited is the parent entity and is the ultimate parent entity. The registered address of the company is 403 George Street, Sydney, NSW 2000.

The financial report for the group for the year ended 30 June 2009 was authorised for issue in accordance with a resolution of Directors on 24 September 2009.

### 31. SUBSEQUENT EVENTS

No additional matters have occurred after balance date which should be reflected in the financial reports.

There are no matters which require specific disclosure in respect of events occurring after reporting date until the date of this report.

### 32. RISK MANAGEMENT

The consolidated entities financial condition and operating activities are affected by a number of key financial risks, including interest rate risk, currency risk, credit risk, market risk, liquidity risk, fiscal risk and non financial risks, including insurance risk, compliance risk, regulatory risk and operational risk. The consolidated entity has implemented a Group wide risk management network to mitigate those risks.

#### Group risk management roles and responsibilities

HCF's Board of Directors determines the Group's overall risk appetite and approves the risk management strategies, policies and practices to ensure that risks, including compliance risks, are identified and managed within the context of this appetite.

The Board has delegated the direct review of risk management, to the HCF Audit and Risk and Compliance Committee and HCF Life Audit, Risk and Compliance Committees. Committee members are Non-Executive Directors.

The management team is responsible for implementing and assessing the effectiveness of risk management strategies and internal controls across the Group. The Group has a General Manager Risk Management who has the responsibility for risk compliance and related issues within the group.

The General Manager Risk Management is assisted in this task by the following functions and activities:

**Risk Management** — Which maintains the HCF Risk Management Framework to ensure that the business has in place the appropriate structures, processes and competencies to give due consideration of all strategic and operational risks and assesses the adequacy of their controls.

**Compliance** — Which provides a process and reporting framework to enable all business units to meet their regulatory compliance obligations in accordance with HCF Group Compliance Policies.

**Internal Audit** — Which provides independent assurance to senior management and Directors regarding the adequacy of controls over perceived higher risk activities of the group.

**Risk Reporting** — Recording management's perceptions of risks and controls within individuals business units.

**Investments** — Which establishes and reviews policies and controls and processes in connection with financial risk, including investment risk, credit risk, currency risk and capital management.

**Actuarial** — A separate dedicated actuarial department analyses all claims to monitor the appropriateness of the rates.

### INSURANCE RISK — HEALTH INSURANCE ACTIVITIES

The Group's health insurance activities primarily include prudent pricing, together with claims management and investment management. Because of the specific requirements of health insurance and community rating risks must be accepted at a 'standard' rate. The rates that are proposed are subject to review by the Minister for Health and must ensure the financial viability of the health fund.

While the Group has the ability to determine rates and benefits payable within certain guidelines, there is limited ability to price risk. There is the impact of the Risk Equalisation Scheme which is a government mandated policy which allocates a percentage of all payments to members based upon age cohorts to be paid by all health funds in proportion to overall membership.

The key policies in place to mitigate risks in health insurance include:

- operation of the Health Benefits Reinsurance trust fund;
- the use of Actuarial models based on historical data to calculate premiums;
- monitoring of fund rules and changes as appropriate; and
- industry policies and PHIAC requirements.

#### Concentration of Insurance Risk.

There is concentration of risks into the areas where we have a higher than average membership e.g. NSW. Because of the Community Rating Principle, we are unable to set different prices based on an individuals age or to reflect their previous claims history. As such we are unable to directly mitigate these concentrations of insurance risks.

### INSURANCE RISK — LIFE INSURANCE ACTIVITIES

HCF Life Insurance activities are either non-underwritten products which are sold as 'add on's' to health insurance products or as separate underwritten products.

The underwritten policies are subject to underwriting risks, and due to portfolio size are also subject to volatility of claims.

In compliance with contractual and regulatory requirements, the risks are actively managed to ensure they satisfy policyholder's risk and reward objectives and do not adversely affect ability to pay benefits and claims when due. Compliance and operational risk are controlled and monitored to maintain the efficiency of the group and as well as to manage the risk of non-compliance.

### 32. RISK MANAGEMENT CONTINUED

#### Risk Management objectives and policies for mitigating Risk

**Underwriting policies and procedures** — Policies in place to systematically underwrite policies.

**Risk strategy relating to life insurance products** — Determination of appropriate risk/return ratios for policies.

**Capital allocation and solvency requirements** — Capital requirements are measured using a risk based capital approach and by reference to the various regulatory reporting requirements.

**Solvency margin** — requirements established by local Regulators (APRA) are in place to reinforce safeguards for policyholders' interests, being primarily the ability to meet future claims payments. The solvency margins measure the excess of the values of the insurer's assets over the value of its liabilities, each element being determined in accordance with the applicable valuation rules.

**Monitoring of insurance risk** — The financial and operating results are monitored and detailed annual investigations are performed into the mortality, morbidity and persistence experience of the business.

**Claims Management procedures** — Strict claims management procedures are in place to ensure the timely and correct payment of claims in accordance with policy conditions.

#### ASSET AND LIABILITY RISK — GROUP

##### Asset and liability management techniques

Assets are allocated to different classes of business using a risk based approach. Premiums received and returns obtained from investments provide the liquidity to meet claims payments and

associated expenses as they arise. Furthermore, the terms and conditions of investment products are such that the majority of the investment risk and rewards are borne by the policyholders.

**Methods to limit or transfer life insurance risk exposures** — The group purchases reinsurance to manage the exposure to accepted insurance risk.

**Concentration of risk** — The company writes a mixture of individual and group insurance business providing mortality, morbidity and annuity benefit payments. The mix of business is monitored and managed to avoid inappropriate concentrations of risk.

Concentrations of risk based on individual lives are managed through the use of surplus reinsurance arrangements whereby the group's maximum exposure to any individual life is capped.

Concentrations of risk by product type are managed through the in force life insurance business and the mix of new business written each year.

A product pricing and re-rating process ensures that any cross subsidies between insurance rates for groups of policyholders of different sex and age are minimised such that product profitability is not materially impacted by changes to the age and sex profile of the in force business.

##### Terms and conditions of life insurance contracts

The nature of the terms of the insurance contracts written is such that certain external variables can be identified on which related cash flows for claim payments depend.

The table below provides an overview of the key variables upon which the timing and uncertainty of future cash flows of the various life insurance and investment contracts depend.

Type of contract	Detail of contract workings	Nature of compensation for claims	Key variables affecting future cash flows
Long-term non-participating insurance contracts with fixed and guaranteed terms (Term Life and Disability)	Guaranteed benefits paid on death, ill health or maturity that are fixed	Benefits, defined by the insurance contract, are not directly affected by the performance of underlying assets or the performance of the contracts as a whole.	Mortality, morbidity, market earning interest rates, lapses, expenses.
Long-term insurance contracts (Whole of Life)	These policies include a defined initial guaranteed sum assured which is payable on death.	Benefits dependent on contracts.	Mortality, morbidity, market earning interest rates, lapses, expenses.
Non-discretionary participating investment contracts without guaranteed returns	The gross value of premiums received is vested in units and the investment account is the value of the units. Investment management fees are deducted from policyholders annually based on the average value of funds under management.	The investment return is equal to the earnings on assets backing the investment contracts less an applicable management fees.	Market risk, interest rates.

**Capital Risk**

The Group and parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so they continue to provide benefits for its stakeholders and to maintain an optimal capital structure.

HCF and Manchester Unity Health Fund maintain their compliance with the Solvency and Capital Adequacy Standards under schedule 2 and 3 of the Private Health Insurance (Health Benefits Fund Administration) Rules 2007. Details of solvency coverage are disclosed in note 35(a).

**Financial Risk**

The Group's financial instruments consist mainly of deposits with banks, short term investments, investments in unit trusts, accounts receivable and payable, resident loans and loans to and from subsidiaries.

Senior executives meet on a regular basis and evaluate treasury management strategies in the context of the most recent economic conditions and recommend changes to the Board of Directors when considered prudent. The objective is to assist the Group in meeting its financial target while protecting future financial security.

The Group is exposed to a number of forms of financial risk, the most significant being market risk and liquidity risk. The impact of these risks on the Life Insurance business is discussed in the preceding sections. This section provides an explanation of the other aspects in which the Group is affected by financial risks.

**Market risk**

The group takes on exposure to market risks including currency risk, fair value interest risk and price risk. Market risks arise from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements. The market risks that the Group primarily faces are equity risk and interest rate risk, due to the nature of its investments and liabilities.

With respect to insurance and investment contracts where the Group incurs market risk primarily in the form of interest rate risk, the risk is managed through asset/liability management strategies that seek to match the interest rate sensitivity of the assets to that of the underlying liabilities. The overall objective

in these strategies is to limit the net change in the value of assets and liabilities arising from interest rate movements. While it is more difficult to measure the interest sensitivity of insurance liabilities than that of the related assets, to the extent that it is possible to measure such sensitivities, the Group believes that interest rate movements will generate asset value changes that substantially offset changes in the value of the liabilities relating to the underlying insurance and investment contracts.

For all the assets backing insurance contracts that are not sensitive to interest rate or market risk, the Group has developed investment guidelines to manage the Group's exposure to equity risk primarily by seeking to match the risk profile of equity investments against risk-adjusted equity market benchmarks. The Group measures benchmark risk levels in terms of price volatility in relation to the market in general. For the assets backing such liabilities, the key objective is to ensure that adequate returns in relation to the market in general. For the assets backing such liabilities, the key objective is to ensure that adequate returns are delivered maintaining a sufficient level of liquid assets to fund unexpected cash outflows arising from insurance claims payments. The liquidity risk section below deals with this aspect of the Group risk management in greater detail. Investment activity for the Group is undertaken in accordance with an investment mandate established by the Board of Directors. The mandate stipulates the investment allocation mix, the match of investment assets and liabilities and the use of derivatives.

**Liquidity risk**

The Group is exposed to daily calls on its available cash resources from claims, maturing policies and surrenders. Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover maturities, claims and surrenders at unexpected levels of demand.

The table below summarises the maturity profile of financial liabilities of the consolidated entity and the company based on the remaining undiscounted contractual obligations.

**As at 30 June 2009**

	1 year or less \$000	1 to 5 years \$000	Over 5 years \$000	Investment linked \$000	Total \$000
<b>Consolidated</b>					
Trade and other payables	56,147	—	—	—	56,147
Resident loans	59,991	—	—	—	59,991
	116,138	—	—	—	116,138

**As at 30 June 2008**

	1 year or less \$000	1 to 5 years \$000	Over 5 years \$000	Investment linked \$000	Total \$000
<b>Consolidated</b>					
Trade and other payables	41,478	—	—	—	41,478
	41,478	—	—	—	41,478

### Interest rate risk

The Group manages some of its exposure to interest rate risk by matching assets to the liabilities that they back. Separate asset liability matching analyses are employed for separate categories of products within each business. Although this natural hedging is not reflected in the accounting policies adopted or in the presentation of the results and Balance Sheet included in these financial statements, it does mitigate the Group's exposure to such risk. These matching procedures are not 100% effective. The Group strikes a balance mitigating the most significant exposure to interest rate risk while maximising the return to participating policyholders and shareholders by allowing some flexibility to those who manage the investment of the assets. A number of derivatives may be held to enable the matching of asset and liability to further mitigate exposure to interest rate movements.

### Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables and investments backing insurance liabilities. 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.

Credit risk exposures are calculated regularly and compared to authorised credit limits before further transactions are undertaken with each counterparty and therefore the Group does not require collateral or other security to support credit risk exposure. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

There is no significant concentration of credit risk within the Group and financial instruments are spread amongst a number of financial institutions and fund managers to minimise the risk of default of counterparties.

### Equity price risk

Equity price risk is the risk that the fair value of equities will decrease as a result of changes in levels of equity indices and the value of individual stocks. The company holds all of its equities as fair value through the profit or loss.

The investment policy stipulate the limit of any individual stock in the equity portfolio while asset concentration risks are managed according to the investment objective.

## 33. SEGMENT INFORMATION

Industry segments	Health		Life		RACS		Unallocated		Eliminations		Consolidated		
	Notes	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Operating revenue</b>													
Income from customers outside the consolidated entity		1,308,391	1,081,418	17,139	15,432	—	—	—	—	—	—	1,325,530	1,096,850
Intersegment transactions		9,485	16,982	—	—	—	—	—	—	(9,485)	(16,982)	—	—
<b>Other Segment Revenue</b>													
Investment income		(27,284)	8,316	(3,335)	(5,808)	—	—	—	—	—	—	(30,619)	2,508
Interest income		5,240	3,086	2,224	2,790	—	—	83	—	—	—	7,547	5,876
Dividends other corporations		—	—	1,921	1,306	—	—	5	—	—	—	1,926	1,306
Rental income		4,182	2,490	—	—	—	—	198	—	(155)	(145)	4,225	2,345
All other revenues		2,714	1,258	20	15	7,075	—	683	—	—	—	10,492	1,273
<b>Total revenue</b>	2(a)	<b>1,302,728</b>	<b>1,113,550</b>	<b>17,969</b>	<b>13,735</b>	<b>7,075</b>	<b>—</b>	<b>969</b>	<b>—</b>	<b>(9,640)</b>	<b>(17,127)</b>	<b>1,319,101</b>	<b>1,110,158</b>
<b>Consolidated entity profit before tax</b>													
		24,945	47,023	(1,382)	(1,403)	(1,587)	—	59	—	(25)	(8,679)	22,010	36,941
<b>Consolidated entity tax</b>													
		(1,200)	—	(580)	375	603	—	697	—	—	—	(480)	375
<b>Consolidated entity net operating profit</b>													
		23,745	47,023	(1,962)	(1,028)	(984)	—	756	—	(25)	(8,679)	21,530	37,316
<b>Total assets</b>													
		994,379	839,260	170,809	61,061	112,463	—	132,525	—	(268,333)	(10,434)	1,141,843	889,887
<b>Total liabilities</b>													
		(353,596)	(301,555)	(135,263)	(26,178)	(65,488)	—	(10,076)	—	2,333	434	(562,090)	(327,299)
<b>Other Segment information:</b>													
Acquisition of property, plant and equipment, and other non current assets													
	11(b)	4,615	9,945	96	41	174	—	770	—	—	—	5,655	9,986
Depreciation and amortisation													
		(7,584)	(6,242)	(25)	(17)	(718)	—	(355)	—	—	—	(8,682)	(6,259)
Other non cash expenses													
	17(b)	(5,101)	(4,550)	(162)	(203)	(199)	—	(243)	—	—	—	(5,705)	(4,753)

### Business segments comprise the following:

Healthcare	Provision of private health insurance and dental services.
Life Insurance	Provision of life insurance and investment bonds.
RACS	Provision of aged care facilities and independent living units.
Unallocated	Manchester Unity Management Fund and items recognised on consolidation.

All of the segments operate solely in Australia.

**34. FINANCIAL INSTRUMENTS****(a) Terms, conditions and accounting policies**

Recognised Financial Instrument	Balance Sheet Notes June 2009	Accounting Policies	Information, Terms and Conditions
<b>FINANCIAL ASSETS</b>			
Cash at bank	21(b)	Refer Note 1.	Interest is credited at the bank's negotiated rate.
Short term deposits	15,21(b)	Refer Note 1.	Short term deposits are at 11 am call, with an average interest rate of 4.12% over the year (2008: 6.78%).
Premiums in arrears	6	Refer Note 1.	The collection ratio is based on actual arrears collection data gathered over several years.
Other receivables	6	Refer Note 1.	
Commonwealth Government bonds and semi-government securities	7	Refer Note 1.	Government bonds and semi-government securities holdings facilitated via unlisted pooled trusts. The Manchester Unity government bonds have a weighted interest rate of 6.04% and at maturity range of 14/10/2015 to 14/06/2021
Corporate securities	7	Refer Note 1.	Corporate security holdings facilitated via unlisted pooled trust.
Mortgage-backed securities	7,15	Refer Note 1.	Mortgage-backed securities have a weighted average interest rate of 5.52% (2008: 7.23%) and a maturity date of 12/02/2011 (2008: 12/02/2011). Interest is received at the next reset date.
Bank bills and floating rate notes	7,15	Refer Note 2.	Bank bills have a weighted average interest rate of 3.68% (2008: 7.86%) and a maturity range of 17/04/2009 to 02/11/2009 (2008: 27/03/2008 to 26/09/2008). Interest is received on maturity. Floating rate notes have a weighted average interest rate of 4.51% (2008:5.84%) and a maturity range to perpetuity. (2008: to perpetuity).
Listed shares and convertible notes	7,15	Refer Note 1.	
Unlisted trusts	7	Refer Note 1.	Distributions are paid either quarterly or semi-annually.
<b>FINANCIAL LIABILITIES</b>			
Trade creditors	14	Refer Note 1.	Trade creditors are normally settled on 30 day terms.
Other creditors and accruals	14	Refer Note 1.	Other creditors are normally settled on 30 day terms.

**(b) Interest rate sensitivity analysis**

The following table demonstrates the impact of a 100 basis points change in Australian and International interest rates, with all other variables held constant, on HCF Group's profit and equity. It is assumed that the 100 basis point change occurs at the reporting date (30 June 2009 and 2008) and there are concurrent movements in interest rates and parallel shifts in yields curves.

	30 June, 2009		30 June, 2008	
	Impact on profit	Impact on equity	Impact on profit	Impact on equity
<b>Change in variable</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
+100 basis points	4,581	4,581	6,693	6,693
-100 basis points	(4,581)	(4,581)	(6,694)	(6,694)

**(c) Equity movement sensitivity analysis**

The analysis below demonstrates the impact of a 10% movement in Australian and International equities. This analysis was performed to assess the risk of holding investments linked to equity instruments. It is assumed any change occurs as at the reporting date.

	30 June, 2009		30 June, 2008	
	Impact on profit	Impact on equity	Impact on profit	Impact on equity
<b>Change in variable</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
10% increase in Australian equities	3,655	3,655	5,398	5,398
10% increase in International equities	5,851	5,851	8,421	8,421
10% decrease in Australian equities	(3,655)	(3,655)	(5,399)	(5,399)
10% decrease in International equities	(5,851)	(5,851)	(8,421)	(8,421)

#### (d) Credit Risk Exposure

With regard to the company's investment in unlisted trusts, the controls imposed in managing the underlying credit risk exposures contained therein are set and controlled by our investment manager, MLC Investments Limited, under its multi manager platform. These controls include setting and monitoring minimum and average credit ratings and maximum exposures to individual counter parties and fund managers.(1)

With regard to credit risk exposures presented by counterparties to underlying derivative contracts, the controls imposed, are contained with the Risk Management Statement.

For the remaining investments there are no significant concentrations of risk within the group with the investments spread amongst a number of banks and financial institutions with independent rating between AAA – BBB. Maximum holdings of investments within the ratings is stipulated in the investment strategy and are reviewed before renewing or placing additional investments.(2)

#### (i) Credit Exposure by Type

	2009 \$000	2008 \$000
Investments held as fair value through the profit and loss (1)	460,946	713,158
Other investments at fair value (2)	136,907	—
Due from Government	40,189	28,608
Due from Individuals	8,336	8,829
	646,378	750,595

There are no material amounts of collateral held as security at 30 June 2009.

There are no amounts past due but not impaired.

#### (e) Hedging Instruments

The company via its investments in unlisted unit trusts has exposure to foreign currencies.

In certain instances, the funds chose to fully hedge these exposures using spot foreign exchange contracts to hedge the value of the underlying assets. The objective is to eliminate currency movements on the underlying assets from the performance of the fund. The associated costs and marked to market effect of the spot foreign exchange contracts are reflected in the unit price adopted valuation of assets and measurement of profit or loss.

HCF Life enters into exchange-traded options where it agrees to sell or call for the underlying stock in accordance with the terms of the individual contract. The objective is to economically hedge the underlying portfolio against market movements. Exchange traded options are recognised at the date the contract is entered into. Each option is carried at fair value with gains and losses recognised through profit or loss.

### 35. SOLVENCY REQUIREMENTS OF HEALTH FUND

#### (a) Under the Schedule 2 of Private Health Insurance (Health Benefits Fund Administration) Rules 2007 the solvency reserve for:

##### HCF Health Fund

The Hospitals Contribution Fund of Australia Limited at 30 June, 2009 is \$311,226,000 (2008: \$136,083,000).

##### Manchester Unity Health Fund

Manchester Unity Health Fund at 30 June, 2009 is \$24,065,000 (2008: \$27,136,000).

#### (b) SOLVENCY REQUIREMENTS OF THE STATUTORY FUNDS FOR LIFE COMPANIES

As indicated in Note 1, distribution of the retained profit of HCF Life Insurance Company Pty Limited is limited by the prudential capital requirements of the *Life Insurance Act 1995*, the detailed provisions of which are specified by actuarial standards.

In accordance with Part 5 of the *Life Insurance Act 1995*, Actuarial Standard 2.04; Solvency Standard prescribes a minimum capital requirement — the solvency requirement — for each statutory fund of the company. The Solvency Requirements, and ratios in respect of those requirements' are as follows :

	Statutory Funds Total	Statutory Funds Total
	2009	2008
	\$	\$
SOLVENCY REQUIREMENT (1)	\$33,898,000	\$35,548,000
Solvency Reserve %	3.31%	3.33%
Coverage of Solvency Reserve	10.01	10.24

#### Note:

1) Represents the minimum level of assets required to be held in each statutory fund, prescribed by the Solvency Standard referred to in Part 5 of the *Life Insurance Act 1995*.

**36. INDIVIDUAL BENEFIT FUND INFORMATION**

The parent entity has no Benefit Fund related disclosures. The consolidated entity's Benefit Fund disclosures are set out in the following notes and reflect the operations of the Manchester Unity Benefit Funds managed by the Group from the date of acquisition on 24 December 2008 and forming part of the consolidated Group result.

Balance Sheet		Blue Chip Endowment	Health Fund	Accident Fund	Funeral Bond	Sick and Funeral	Sick and Endowment	Blue Chip WA	Funeral Bond WA	Total Benefit Funds
2009	Note	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
<b>Assets</b>										
Cash and liquid assets	BF1	32,214	8,637	924	8,721	1,122	139	754	156	52,667
Accrued receivables	BF2	—	10,386	—	—	239	15	—	—	10,640
Securities	BF3	49,953	68,147	—	10,197	6,924	996	—	690	136,907
Loans and advances	BF4	—	—	—	—	—	—	—	—	—
Property, plant and equipment	BF5	—	44,275	—	—	—	—	—	—	44,275
Other assets	BF6	20	5,567	15	6	—	2	1	—	5,611
<b>Total Assets</b>		<b>82,187</b>	<b>137,012</b>	<b>939</b>	<b>18,924</b>	<b>8,285</b>	<b>1,152</b>	<b>755</b>	<b>846</b>	<b>250,100</b>
<b>Liabilities</b>										
Borrowings	BF7	—	—	—	—	—	—	—	—	—
Policy liabilities	BF10	81,211	—	17	18,842	8,050	1,071	752	827	110,770
Creditors and other liabilities	BF8	976	48,548	549	82	40	60	3	(9)	50,249
<b>Total Liabilities</b>		<b>82,187</b>	<b>48,548</b>	<b>566</b>	<b>18,924</b>	<b>8,090</b>	<b>1,131</b>	<b>755</b>	<b>818</b>	<b>161,019</b>
<b>Net Assets</b>		<b>—</b>	<b>88,464</b>	<b>373</b>	<b>—</b>	<b>195</b>	<b>21</b>	<b>—</b>	<b>28</b>	<b>89,081</b>
Transfers (To) / From Management Fund										
		—	—	—	—	—	—	—	—	—
Reserves		—	2,464	—	—	—	—	—	—	2,464
Unallocated surplus		—	86,000	373	—	195	21	—	28	86,617
<b>Total Benefit Fund Members Funds</b>		<b>—</b>	<b>88,464</b>	<b>373</b>	<b>—</b>	<b>195</b>	<b>21</b>	<b>—</b>	<b>28</b>	<b>89,081</b>

### 37. INDIVIDUAL BENEFIT FUND INFORMATION

Income Statement		Blue Chip Endowment	Health Fund	Accident Fund	Funeral Bond	Sick and Funeral	Sick and Endowment	Blue Chip WA	Funeral Bond WA	Total Benefit Funds
For the period 24 December 2008 to 30 June 2009	Note	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
<b>Investment Income</b>										
Interest		1,664	1,725	15	367	(1,304)	(173)	10	(56)	2,248
Changes in net market values	BF9	—	—	—	—	768	102	—	39	909
Direct investment expenses		(96)	—	—	(19)	—	—	—	—	(115)
<b>Net Investment Income</b>		<b>1,568</b>	<b>1,725</b>	<b>15</b>	<b>348</b>	<b>(536)</b>	<b>(71)</b>	<b>10</b>	<b>(17)</b>	<b>3,042</b>
Revenue contribution income		5	116,313	129	18	8	3	—	—	116,476
Other income		—	1,741	—	—	—	—	—	—	1,741
<b>Total Income</b>		<b>1,573</b>	<b>119,779</b>	<b>144</b>	<b>366</b>	<b>(528)</b>	<b>(68)</b>	<b>10</b>	<b>(17)</b>	<b>121,259</b>
<b>Operating Expenses</b>										
Fees to management fund		188	—	57	111	83	8	10	9	466
Claims expense		47	98,421	7	—	185	49	—	41	98,750
Members liability revaluation		858	—	(219)	188	444	17	(4)	241	1,525
Other expenses		109	18,401	515	54	44	11	5	10	19,149
<b>Total Operating Expenses</b>		<b>1,202</b>	<b>116,822</b>	<b>360</b>	<b>353</b>	<b>756</b>	<b>85</b>	<b>11</b>	<b>301</b>	<b>119,890</b>
Operating surplus before income tax		371	2,957	(216)	13	(1,284)	(153)	(1)	(318)	1,369
Income tax expense		(371)	(1,200)	(91)	(13)	—	28	2	—	(1,645)
<b>Operating Surplus After Income Tax</b>		<b>—</b>	<b>1,757</b>	<b>(307)</b>	<b>—</b>	<b>(1,284)</b>	<b>(125)</b>	<b>1</b>	<b>(318)</b>	<b>(276)</b>
Unallocated surplus/(deficiency) at the beginning of the reporting period		—	84,243	680	—	1,479	146	(1)	346	86,893
Transfers (To)/From Management Fund		—	—	—	—	—	—	—	—	—
Total available for allocation		—	86,000	373	—	195	21	—	28	86,617
Allocated to members		—	—	—	—	—	—	—	—	—
<b>Unallocated Surplus At The End Of The Period</b>		<b>—</b>	<b>86,000</b>	<b>373</b>	<b>—</b>	<b>195</b>	<b>21</b>	<b>—</b>	<b>28</b>	<b>86,617</b>

**38. INDIVIDUAL BENEFIT FUND INFORMATION**

Value of Member Benefits Entitlement	Blue Chip Endowment	Health Fund	Accident Fund	Funeral Bond	Sick and Funeral	Sick and Endowment	Blue Chip WA	Funeral Bond WA	Total Benefit Funds
<b>BF10 Benefit Fund Allocated Surplus 2009</b>	<b>\$000's</b>	<b>\$000's</b>	<b>\$000's</b>	<b>\$000's</b>	<b>\$000's</b>	<b>\$000's</b>	<b>\$000's</b>	<b>\$000's</b>	<b>\$000's</b>
<b>2009</b>									
Value of Policy Liabilities (beginning of period)	84,771	—	236	18,788	7,606	1,054	879	586	113,920
Transfer of Business	—	—	—	—	—	—	—	—	—
Liability component of contributions	152	—	—	458	—	—	—	—	610
Withdrawals (including bonuses and excluding claims expense)	(4,570)	—	—	(592)	—	—	(123)	—	(5,285)
Allocation of surplus (Interim)	—	—	—	—	—	—	—	—	—
Allocation of surplus (Final)	—	—	—	—	—	—	—	—	—
Value of future bonus	—	—	—	—	—	—	—	—	—
Member liability revaluation	858	—	(219)	188	444	17	(4)	241	1,525
<b>Value of Policy Liabilities (end of period)</b>	<b>81,211</b>	<b>—</b>	<b>17</b>	<b>18,842</b>	<b>8,050</b>	<b>1,071</b>	<b>752</b>	<b>827</b>	<b>110,770</b>
Unallocated surplus (end of period)	—	86,000	373	—	195	21	—	28	86,617
<b>Total Members Funds</b>									
(Value of policy liabilities plus unallocated surplus)	81,211	86,000	390	18,842	8,245	1,092	752	855	197,387
<b>Solvency Requirement</b>	<b>81,862</b>	<b>79,355</b>	<b>116</b>	<b>18,865</b>	<b>7,909</b>	<b>1,145</b>	<b>747</b>	<b>677</b>	
Ratio of SY to gross assets (5)	99.60%	57.92%	12.35%	99.69%	95.46%	99.39%	98.94%	80.02%	

### 39. INDIVIDUAL BENEFIT FUND INFORMATION

	Blue Chip Endowment	Health Fund	Accident Fund	Funeral Bond	Sick and Funeral	Sick and Endowment	Blue Chip WA	Total Funeral Bond WA	Benefit Funds
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
<b>BF1 Cash and Liquid Assets</b>									
<b>2009</b>									
Cash on hand, at banks and societies	437	89	129	—	10	28	754	156	1,603
Deposits at call	31,777	8,548	795	8,721	1,112	111	—	—	51,064
	32,214	8,637	924	8,721	1,122	139	754	156	52,667
<b>BF2 Accrued Receivables</b>									
<b>2009</b>									
Debtors	—	10,386	—	—	239	15	—	—	10,640
<b>BF3 Securities</b>									
<b>2009</b>									
Government securities	—	—	—	—	5,424	696	—	681	6,801
Certificates of deposit	49,953	68,147	—	10,197	1,500	300	—	9	130,106
	49,953	68,147	—	10,197	6,924	996	—	690	136,907
<b>Maturity Analysis</b>									
Not longer than 3 months	33,353	57,420	—	6,797	—	—	—	9	97,579
Longer than 3 months and not longer than 6 months	16,600	10,727	—	3,400	—	100	—	—	30,827
Longer than 6 months and not longer than 12 months	—	—	—	—	—	—	—	—	—
Longer than 12 months and not longer than 2 years	—	—	—	—	1,000	100	—	—	1,100
Longer than 2 years and not longer than 5 years	—	—	—	—	500	100	—	—	600
Longer than 5 years	—	—	—	—	5,424	696	—	681	6,801
	49,953	68,147	—	10,197	6,924	996	—	690	136,907
<b>BF4 Loans and Advancements</b>									
<b>2009</b>									
Term loans	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	—
<b>Maturity Analysis</b>									
Not longer than 3 months	—	—	—	—	—	—	—	—	—
Longer than 3 months and not longer than 6 months	—	—	—	—	—	—	—	—	—
Longer than 6 months and not longer than 12 months	—	—	—	—	—	—	—	—	—
Longer than 12 months and not longer than 2 years	—	—	—	—	—	—	—	—	—
Longer than 2 years and not longer than 5 years	—	—	—	—	—	—	—	—	—
Longer than 5 years	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	—

## 40. INDIVIDUAL BENEFIT FUND INFORMATION

	Blue Chip Endowment	Health Fund	Accident Fund	Funeral Bond	Sick and Funeral	Sick and Endowment	Blue Chip WA	Funeral Bond WA	Total Benefit Funds
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
<b>BF5 Plant, Property and Equipment</b>									
<b>2009</b>									
Property, Plant and Equipment — at net fair value	—	13,443	—	—	—	—	—	—	13,443
Intangibles — software	—	17	—	—	—	—	—	—	17
Investment Properties	—	30,815	—	—	—	—	—	—	30,815
<b>Total Property, Plant and Equipment</b>	<b>—</b>	<b>44,275</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>44,275</b>
<b>BF 6 Other Assets</b>									
<b>2009</b>									
Other current assets	—	—	—	—	—	—	—	—	—
Other non current assets	—	3,495	—	—	—	—	—	—	3,495
Prepayments	—	67	—	—	—	—	—	—	67
Deposit paid	—	—	—	—	—	—	—	—	—
Deferred tax assets	20	2,005	15	6	—	2	1	—	2,049
<b>Total Other Assets</b>	<b>20</b>	<b>5,567</b>	<b>15</b>	<b>6</b>	<b>—</b>	<b>2</b>	<b>1</b>	<b>—</b>	<b>5,611</b>
<b>Total Assets</b>	<b>82,187</b>	<b>137,012</b>	<b>939</b>	<b>18,924</b>	<b>8,285</b>	<b>1,152</b>	<b>755</b>	<b>846</b>	<b>250,100</b>
<b>BF7 Borrowings</b>									
<b>2009</b>									
Overdrafts	—	—	—	—	—	—	—	—	—
<b>Maturity Analysis</b>									
Not longer than 3 months	—	—	—	—	—	—	—	—	—
<b>BF8 Creditors and Other Liabilities</b>									
<b>2009</b>									
Sundry creditors	(370)	20,288	503	22	40	36	1	(9)	20,511
Provision for income tax	1,260	966	46	53	—	8	2	—	2,335
Provision for deferred tax liability	86	733	—	7	—	16	—	—	842
Provision for outstanding claims	—	26,561	—	—	—	—	—	—	26,561
	<b>976</b>	<b>48,548</b>	<b>549</b>	<b>82</b>	<b>40</b>	<b>60</b>	<b>3</b>	<b>(9)</b>	<b>50,249</b>
<b>BF9 Changes in Net Market Values</b>									
<b>2009</b>									
Securities held at reporting date—									
Government securities	—	—	—	—	768	102	—	39	909
Certificates of deposit	—	—	—	—	—	—	—	—	—
	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>768</b>	<b>102</b>	<b>—</b>	<b>39</b>	<b>909</b>
Securities realised during period—									
Certificates of deposit	—	—	—	—	—	—	—	—	—
	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

#### 41. SUMMARY OF SIGNIFICANT ACTUARIAL METHODS AND ASSUMPTIONS RELATING TO MANCHESTER UNITY AUSTRALIA LIMITED BENEFIT FUNDS

The effective date of the actuarial report on policy liabilities and solvency requirement is 30 June 2009. The actuarial report was prepared by the appointed actuary of Manchester Unity Australia Ltd, Mr D Torrance FIAA on 24 September 2009. The actuarial report indicates that Mr Torrance is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

The amount of policy liabilities has been determined in accordance with methods and assumptions disclosed in this financial report and with the requirements of the *Life Insurance Act 1995*.

##### (a) Policy Liabilities

These amounts, together with future premiums and investment earnings, are required to meet the payment of future benefits and expenses.

The policy liabilities have been calculated in accordance with the requirements of Prudential Standard LPS 1.04 "Valuation of Policy Liabilities". The methods for particular benefit funds are as follows:

Benefit Fund	Method (projection or other)
Blue Chip Endowment Assurance Fund	Accumulation
Blue Chip Funeral Fund	Accumulation
Sick and Funeral Fund	Projection
Endowment and Sickness Fund	Projection
Accident Fund	Accumulation
Blue Chip Assurance Fund (WA)	Accumulation
Funeral Benefit Fund (WA)	Projection

The projection method determines a best estimate value of the liabilities being the net present value of the expected future payments and receipts under the policy, based on obligations at the reporting date. Best estimate assumptions are neither deliberately overstated nor deliberately understated.

30 June 2009	Assumption Change	Impact on Policy Liabilities \$'000	Impact on Profit and Equity \$'000
Base Result		110,772	
Mortality	Worsening by 5%	1	(1)
	Improving by 5%	(1)	1
Lapse Rates	Worsening by 5%	—	—
	Improving by 5%	—	—
Morbidity	Worsening by 5%	—	—
	Improving by 5%	—	—
Discount Rates	Reducing by 10%	43	(43)
	Increasing by 10%	(40)	40
Expenses	Worsening by 10%	7	(7)
	Improving by 10%	(7)	7

It should be noted that these sensitivities are often non-linear and larger or smaller impacts may not be easily gleaned from these results.

##### (b) Actuarial Assumptions

###### (i) Investment Earnings / Discount Rate

The assumption is based on the risk free rates of return at the valuation date, taking into account the term structure of the liabilities. The discount rates are reviewed annually for changes in the market environment.

###### (ii) Management Fees

The assumption is based on the requirements of the Benefit Fund Rules.

###### (iii) Voluntary Discontinuances

The current assumption range is 0.0% per annum.

###### (iv) Surrender Values

Current and future surrender values have been calculated using the surrender bases under the products.

###### (v) Mortality

The mortality assumption is based on ALT 00/02 (Australian population mortality tables developed by the Australian Bureau of Statistics based on experience between 2000 and 2002) and adjusted for mortality improvements up to valuation date.

###### (vi) Tax

Tax has been projected in a manner consistent with the requirements of the Income Tax Assessment Act 1997 applicable to friendly societies. The corporate tax rate of 30% has been used.

##### (c) Impact of Assumption Changes

Assumptions were changed this year for the change in discount rate related to market movements over the year, expense levels, and allowance for morbidity risk.

##### (d) Sensitivity Analysis

The table below shows the sensitivity of insurance contract liabilities to changes in variables that have a material impact on insurance risk.

As there is no reinsurance on any of the life insurance products the sensitivities shown are the same both gross and net of reinsurance.

# Directors' Declaration

In accordance with a resolution of the Directors of The Hospitals Contribution Fund of Australia Limited I state that:

(1) In the opinion of the directors:

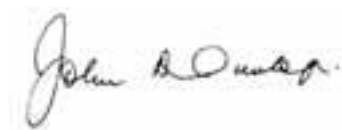
(a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act, 2001 including:

(i) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards and Corporations Regulations, 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



**J. A. B. Dunlop**

Chairman

Sydney, 24 September 2009



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## **Independent auditor's report to the members of The Hospitals Contribution Fund of Australia Limited**

We have audited the accompanying financial report of The Hospitals Contribution Fund of Australia Limited and the consolidated entity, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of recognised income and expense and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company 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 company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Independence***

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

**Auditor's Opinion**

In our opinion:

1. the financial report of The Hospitals Contribution Fund of Australia Limited and the consolidated entity is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the financial position of The Hospitals Contribution Fund of Australia Limited and the consolidated entity at 30 June 2009 and of their performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

*Ernst & Young*  
Ernst & Young

*AP*

Andrew Price  
Partner  
Sydney  
24 September 2009