Financial Report

For the financial year ended 30 June 2011

Royal Automobile Association of South Australia Inc.

ABN 90 020 001 807

Motoring Insurance
Travel Secure Services

RAA

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2011

	Note	Consolidated 2011 $'000	Consolidated 2010 $'000
Continuing operations			
Revenue	3 a)	**187,060**	117,011
Other Income	3 b)	**6,208**	8,872
Unrealised gain on fair value adjustment of equity investment		**-**	34,473
Share of net profits of an associate	12	**258**	3,339
Total Revenue		**193,526**	163,695
Expenses			
Employee benefits		**(53,938)**	(45,677)
Payments to contractors for roadside assistance		**(13,532)**	(13,642)
Depreciation and amortisation	4 a)	**(6,226)**	(6,215)
Finance costs	4 b)	**(1,770)**	-
Other expenses	4 c)	**(103,608)**	(50,540)
Total Expenses		**(179,074)**	(116,074)
Operating profit / (loss) from continuing operations before income tax		**14,452**	47,621
Income tax benefit / (expense)	5 a)	**(1,996)**	(1,609)
Operating profit / (loss) from continuing operations after tax		**12,456**	46,012
Net profit / (loss) after tax for the period		**12,456**	46,012
Other comprehensive income			
Actuarial gain / (loss) on defined benefit plan		**(83)**	72
Fair value adjustments relating to land and buildings		**2,520**	(922)
Net fair value gains on financial assets		**136**	14
Income tax on items of other comprehensive income	5 c)	**(834)**	211
Other comprehensive income for the period net of tax		**1,739**	(625)
Total comprehensive income		**14,195**	45,387
Transfer of unrealised fair value adjustment of equity investment		**-**	(34,473)
Total income for the period attributable to Members		**14,195**	10,914

The Statement of Comprehensive Income is to be read in conjunction with the accompanying Notes to the Financial Statements.

STATEMENT OF FINANCIAL POSITION
As at 30 June 2011

	Note	Consolidated 2011 $'000	Consolidated 2010 $'000
Current Assets			
Cash and cash equivalents	6	**19,919**	23,915
Trade and other receivables	7	**48,683**	40,978
Inventories	8	**1,850**	1,484
Deposits in trust account	9	**393**	708
Other current assets	10	**1,205**	1,216
Financial assets	11	**104,445**	91,888
Deferred acquisition costs	22	**2,892**	2,635
Total Current Assets		**179,387**	162,824
Non-Current Assets			
Other receivables	7	**1,054**	984
Pension Asset	26	**919**	1,001
Investments in associates	12	**3,560**	2,329
Property, plant and equipment	13	**54,572**	48,459
Intangible Assets	14	**22,407**	23,778
Goodwill	15	**58,041**	58,041
Deferred tax asset	5 c)	**7,405**	10,001
Total Non-Current Assets		**147,958**	144,593
Total Assets		**327,345**	307,417
Current Liabilities			
Trade and other payables	16	**9,808**	10,488
Unearned income	17	**88,850**	81,104
Interest bearing loans and borrowings	18	**5,000**	5,000
Deposits in trust account	9	**393**	708
Provisions	19	**8,611**	7,719
Current tax liability		**-**	2,172
Derivative financial instruments	27	**210**	-
Outstanding claims liability	22	**25,278**	22,156
Total Current Liabilities		**138,150**	129,347
Non-Current Liabilities			
Interest bearing loans and borrowings	18	**16,500**	20,000
Provisions	19	**1,404**	1,249
Deferred tax liability	5 c)	**13,058**	12,782
Outstanding claims liability	22	**434**	435
Total Non-Current Liabilities		**31,396**	34,466
Total Liabilities		**169,546**	163,813
Net Assets		**157,799**	143,604
Equity			
Retained earnings	20	**108,081**	95,683
Reserves	21	**49,718**	47,921
Total Equity		**157,799**	143,604

The Statement of Financial Position is to be read in conjunction with the accompanying Notes to the Financial Statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2011

	Consolidated		
	Reserves	Retained Earnings	Total
	$'000	$'000	$'000
At 1 July 2010	47,921	95,683	143,604
Profit for the period	-	12,456	12,456
Other comprehensive income	1,797	(58)	1,739
Total comprehensive income	1,797	12,398	14,195
At 30 June 2011	49,718	108,081	157,799

	Consolidated		
	Reserves	Retained Earnings	Total
	$'000	$'000	$'000
At 1 July 2009	14,123	84,094	98,217
Profit for the period	-	46,012	46,012
Other comprehensive income	(675)	50	(625)
Total comprehensive income	(675)	46,062	45,387
At 30 June 2010	13,448	130,156	143,604
Transfer of gain on acquisition of RAAI	34,473	(34,473)	-
At 30 June 2010	47,921	95,683	143,604

The Statement of Changes in Equity is to be read in conjunction with the accompanying Notes to the Financial Statements.

STATEMENT OF CASH FLOWS
For the year ended 30 June 2011

	Note	Consolidated 2011 $'000	Consolidated 2010 $'000
Cash flows from operating activities			
Receipts from members and customers (inclusive of GST)		**262,947**	165,884
Payments to suppliers and employees (inclusive of GST)		**(245,713)**	(155,078)
Interest paid		**(1,770)**	-
Interest received		**4,224**	653
Dividends received		**1,712**	306
Rental income received		**161**	439
Income tax paid		**(2,129)**	(163)
Net cash from operating activities	23	**19,432**	12,041
Cash flows from investing activities			
Proceeds from sale of fixed assets and intangibles		**500**	5,506
Proceeds from the sale of investments		**75,998**	54,665
Proceeds from held-to-maturity investments		**-**	1,000
Dividends received		**-**	1,315
Purchase of fixed assets and intangibles		**(8,347)**	(5,734)
Purchase of financial assets		**(87,106)**	(30,631)
Acquisition of shares in associate		**(973)**	-
Acquisition of subsidiary		**-**	(46,157)
Net cash used in investing activities		**(19,928)**	(20,036)
Cash flows from financing activities			
Proceeds from borrowings		**2,500**	25,000
Repayment of borrowings		**(6,000)**	-
Net cash used in financing activities		**(3,500)**	25,000
Net increase / (decrease) in cash		**(3,996)**	17,005
Cash and cash equivalents at beginning of the year		**23,915**	6,910
Cash and cash equivalents at the end of the year	6	**19,919**	23,915

The Statement of Cash Flows is to be read in conjunction with the accompanying Notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report of the Royal Automobile Association of South Australia Inc (the Association) for the year ended 30 June 2011 was authorised for issue in accordance with a resolution by the directors on 26 September 2011.

The Association is an incorporated association domiciled in Australia. The address of the Association's registered office is 101 Richmond Road, Mile End, South Australia, 5031.

(a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the *Associations Incorporation Act South Australia 1985,* Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

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

The financial report has been prepared on the basis of historical cost, except for land and buildings, derivative financial instruments and available-for-sale financial assets that have been measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars [$'000], unless otherwise stated. Where appropriate, amounts shown for prior periods have been reclassified to facilitate comparison.

The significant accounting policies adopted are stated in order to assist in a general understanding of the financial report. These policies have been consistently applied, unless otherwise stated.

Accounting policies are applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

(b) Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Association (the Parent) as at 30 June 2011 and the results of all controlled entities for the year then ended (the Group). On 28 February 2010 the Association gained 100% economic interest in the remaining shares in RAA Insurance Holdings.

Subsidiaries are all those entities over which the Group has control with the power to govern the financial and operating policies to obtain benefits from their activities. The existence and effect of potential voting rights are considered when assessing whether the Group has control. Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intragroup transactions have been eliminated in full.

Investments in subsidiaries are accounted for in accordance with AASB 3 (refer note 1 (d)) less any impairment charges. Dividends received from the Subsidiary are recorded as a component of other revenues in the separate income statement of the Parent, and do not impact the recorded cost of the investment. The acquisition of the Subsidiary is accounted for using the acquisition method of accounting by recognising at acquisition date, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree measured at fair value (see note 1(d)). The difference between the above items and the fair value of consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition. A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) New accounting standards and interpretation

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2011. These are outlined below.

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets to improve and simplify the approach.	1 January 2013	These amendments are only expected to affect the presentation and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report.	1 July 2013
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131,	The revised Standard introduces a number of changes to the classification and measurement of financial assets.	1 January 2013	These amendments are only expected to affect the presentation and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report.	1 July 2013
AASB 124 (Revised)	Related Party Disclosures (December 2009)	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition.	1 January 2011	The amendments will be considered in relation to identifying and classifying related parties.	1 July 2011
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139,	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations.	1 January 2011	These amendments will need to be looked at individually when they are issued as to any impact on the Group's financial report.	1 July 2011
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1,	Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments.	1 January 2011	These amendments will need to be looked at individually when they are issued as to any impact on the financial report.	1 July 2011
AASB 2010-8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]	These amendments address the determination of deferred tax on investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that the carrying amount will be recoverable through sale.	1 January 2012	These amendments will need to be looked at individually when they are issued as to any impact on the financial report.	1 July 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) New accounting standards and interpretation (continued)

AASB 2011-8	Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009-11, 2010-7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133,	AASB 13 establishes a new definition of 'fair value' and general requirements when measuring the fair value of assets and liabilities. This Standard replaces the existing definition and fair value guidance in other Australian Accounting Standards and Interpretations.	1 January 2013	These amendments will need to be looked at individually when they are issued as to any impact on the financial report.	1 July 2013
AASB 13	Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009-11, 2010-7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133,	This standard defines fair values, sets out in a single Standard a framework for measuring fair value and requires disclosures about fair value measurement.	1 January 2013	These amendments will need to be looked at individually when they are issued as to any impact on the financial report.	1 July 2013
AASB 2011-9	Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112,	The main change resulting from the amendments is a requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).	1 July 2012	These amendments will need to be looked at individually when they are issued as to any impact on the financial report.	1 July 2012
AASB 119	Employee Benefits	The main changes to accounting for defined benefit plans are (a) to eliminate the option to defer the recognition of gains and losses (the 'corridor method'), (b) requiring remeasurements to be presented in other comprehensive income; and enhancing the disclosure requirements relating to defined benefit plans for Tier 1 entities.	1 January 2013	These amendments will need to be looked at individually when they are issued as to any impact on the financial report.	1 July 2013
AASB 10	Consolidated Financial Statements	AASB 10 establishes a new control model that applies to all entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations.	1 January 2013	These amendments will need to be looked at individually when they are issued as to any impact on the financial report.	1 October 2013
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	These amendments will need to be looked at individually when they are issued as to any impact on the financial report.	1 October 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred and the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial asset and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

(e) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and on hand and short term deposits with a maturity of three months or less. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

(f) Trade and other receivables

Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment. Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate. Due to the short term nature of these receivables, the carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables.

(g) Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs to make the sale. Inventories are accounted for on a first in, first out basis.

(h) Prepayments

Prepayments are recognised as an asset at reporting date as they represent rights to receive services in the future. Common prepayments include software maintenance agreements and subscriptions.

(i) Investments and other financial assets

Investments and other financial assets within the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Recognition and Derecognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or when the Group transfers substantially all of the risks and rewards of the financial assets. If the Group neither retains nor transfers substantially all of the risks and rewards, it derecognises the asset if it has transferred control of the assets. All financial assets held by the Group at 30 June 2011 are classified as 'financial assets at fair value through profit and loss', 'held-to-maturity investments', 'loans and receivables' or 'available for sale financial assets'.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Investments and other financial assets (continued)

Subsequent measurement

(i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss and the related assets are classified as current assets in the statement of financial position.

(ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

The effective interest rate is revised on the cessation of fair value hedge accounting when a financial asset or liability is measured at amortised cost and the carrying amount has been adjusted as a result of applying fair value hedge accounting.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains or losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets, principally equity securities, that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair values 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 reporting date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis; and option pricing models, making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

(i) Deferred acquisition costs

Acquisition costs incurred in obtaining general 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 earned premium revenue that will be recognised in the Statement of Comprehensive Income in subsequent reporting periods.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Investments in associates

The Group's investments in associates are accounted for using the equity method of accounting in the consolidated financial statements and at cost in the Parent. The associates are entities over which the Group has significant influence and that are not subsidiaries. The Group generally deems they have significant influence if they have over 20% of the voting rights.

Under the equity method, investments in the associates are carried in the consolidated Statement of Financial Position at cost plus post-acquisition changes in the Group's share of net assets of the associates. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in associates.

The Group's share of its associates' post-acquisition profits or losses is recognised in the Statement of Comprehensive Income, 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's Statement of Comprehensive Income as a component of other income.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables and loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

(k) Pensions and other post-employment benefits

The defined benefit pension plan requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in retained earnings. Past service costs are recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight line basis over the average period until the benefits become vested.

The defined benefit asset or liability recognised in the Statement of Financial Position represents the present value of the defined benefit obligation, adjusted for unrecognised past service cost, net of the fair value of the plan assets. Any asset resulting from this calculation is limited to past service costs, plus the present value of available refunds and reductions in future contributions to the plan.

(l) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to the ownership of the leased item, are capitalised at the inception of the lease at the lower of fair value of the leased asset or the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term. Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Land and buildings are measured at fair value, based on periodic valuations by external independent valuers who apply the International Valuations Standards Committee International Valuation Standards less accumulated depreciation on buildings and less any impairment losses recognised after the date of the revaluation.

Depreciation is calculated on a straight line basis over the estimated useful life of the specific assets. The depreciation rates used for each class of assets are as follows:

- Land - not depreciated
- Buildings - 2%
- Plant and equipment - 2.5-50%
- Motor vehicles - 15%
- Furniture and fittings - 2.5-50%
- Leasehold improvements - 10-50%

The assets residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Revaluations of land and buildings

Land and buildings are measured on the fair value basis. Fair value is determined on the basis of an independent valuation prepared by external valuation experts, and determined on market based evidence by appraisal, and does not take capital gains tax into account. The fair values are recognised in the financial statements of the Group, and are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings is not materially different from their fair values.

Any revaluation increment is credited to the asset revaluation reserve included in equity, except to the extent that it reverses a revaluation decrement for the same asset previously recognised in profit or loss, in which case the increment is recognised in profit or loss. Any revaluation decrement is recognised in profit or loss, except to the extent that is offsets a previous revaluation increment for the same asset, in which case the decrement is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset. Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the Statement of Comprehensive Income. Upon disposal or derecognition, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Impairment of non-financial assets other than goodwill and indefinite life intangibles

Non-financial assets other than goodwill and indefinite life intangibles are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Group conducts an annual review of asset values to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. 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 that 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 tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(o) Goodwill and intangibles

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the consideration transferred over the fair value of the acquiree's net identifiable assets acquired and liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Upon receipt of dividend payments from Subsidiaries, the Parent will assess whether any indicators of impairment of the carrying value of the investment in the Subsidiaries exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

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, 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 the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units), to which the goodwill relates. The Group performs its impairment testing as at 30 June each year using discounted cash flows under the value in use methodology. Further details on the methodology and assumptions used are outlined in note 15.

When the recoverable amount of the cash-generating unit/s is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (or group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured on the relative values of the operation disposed and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Goodwill and intangibles (continued)

Intangibles

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired (See note 1 (n) for methodology). The amortisation of an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Comprehensive Income.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

(p) Trade and other payables

Trade payables and other payables are carried at amortised cost and due to their short term nature are not discounted. They 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. The amounts are unsecured and are usually paid within 30 days of recognition.

(q) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. The Group does not currently hold qualifying assets but, if it did, the borrowing costs directly associated with this asset would be capitalised (including any other associated costs directly attributable to the borrowing and temporary investment income earned on the borrowing).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Provisions and employee benefits

As at 30 June 2011, the Group had 712 (2010: 683) full time equivalent employees.

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of time value of money and the risks specific to the liability.

Employee leave benefits

(i) Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Workers' compensation

The Group is a self-insurer for workers' compensation claims. A claims incurred expense and a provision for outstanding claims has been recognised in the financial statements. The provision for outstanding claims has been actuarially assessed by reviewing individual claim files and estimating unnotified claims using statistics based on past experience and trends.

Outstanding claims have been discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the timing of claim payments. Refer to note 30 for contingent liability relating to bank guarantee provided as security for outstanding claims.

(s) Outstanding Claims Liability

The liability for outstanding claims is measured as the central estimate of the present value of the expected future payments for claims incurred at the reporting date under general insurance contracts, with an additional risk margin to allow for the inherent uncertainty in the central estimate. The liability is measured based on advice / valuation of the appointed actuary, Finity.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent 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:

Sale of goods

Revenue from the sale of goods is recognised when there has been a transfer of risks and rewards to the customer (through the execution of a sales agreement at the time of delivery to the customer), no further work or processing is required, the quantity and quality of the goods has been determined, the price is fixed and generally title has passed. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid.

Rendering of services

Revenue from rendering of services is recognised by reference to the stage of completion of a contract or contracts at reporting date or at the time of completion of the contract and billing to the customer. When the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

The proportion of revenue not earned in the Statement of Comprehensive Income at the reporting date is recognised as a liability in the Statement of Financial Position.

Interest revenue

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Dividends

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

Rental revenue

Rental revenue is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned. Lease incentives granted are recognised as an integral part of the total rental income.

(u) Income tax and other taxes

The assessable income of the Group for income tax purposes comprises only certain income deemed to be derived from non-member activities. Conversely, allowable deductions for income tax purposes are limited to certain expenses and statutory deductions.

Income tax on the Statement of Comprehensive Income for the year comprises current and deferred tax. Income tax is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Income tax and other taxes (continued)

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- When the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting 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 income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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
- 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 Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

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

2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

(i) Significant accounting judgements

Impairment of non-financial assets other than goodwill and indefinite life intangibles

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product expectations. If an impairment trigger exists the recoverable amount of the asset is determined.

Taxation

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the Statement of Financial Position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future. Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, restoration costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the Statement of Financial Position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the Statement of Comprehensive Income.

(ii) Significant accounting estimates and assumptions

Valuation of investments

The Group's investments in listed and unlisted securities are classified as "available-for-sale" investments with movements in fair value recognised directly in equity and investments at fair value through profit and loss with movements in fair value recognised in the Statement of Comprehensive Income. The fair value of listed shares has been determined by reference to published price quotations in an active market.

Impairment of goodwill and intangibles with indefinite useful lives

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which the goodwill and intangibles with indefinite useful lives are allocated. An impairment loss of $3,000 has been recognised for the 2011 financial year.

	Note	Consolidated 2011 $'000	Consolidated 2010 $'000
3. CONTINUING OPERATIONS			
(a) Revenue			
Subscriptions and entrance fees		**51,583**	47,828
Insurance net premium revenue	22	**108,399**	34,215
Sales of goods		**14,968**	14,849
Rendering of services		**6,275**	7,483
RAA Insurance distribution fee		**-**	6,867
Interest		**1,052**	653
Commission		**3,391**	2,982
Sundry income		**643**	1,057
Advertising revenue from SA Motor		**640**	678
Rental income		**109**	399
		187,060	117,011
(b) Other Income			
Investment fund distributions / realised gains		**5,637**	8,287
Unrealised gain on the market value of investments		**326**	-
Net gain on disposal of non-current assets		**245**	585
		6,208	8,872

4. EXPENSES			
(a) Depreciation and amortisation			
Depreciation of property, plant and equipment		**3,842**	3,315
Amortisation of intangibles		**2,384**	2,900
		6,226	6,215
(b) Finance costs			
Bank loans		**1,741**	-
Option Premiums		**29**	-
		1,770	-
(c) Other expenses			
Bad debts written off, net of recoveries		**141**	106
Banking and credit card charges		**981**	673
Building maintenance		**609**	636
Commission paid to agents		**1,397**	1,296
Consultants & solicitors fees		**835**	701
Cost of sales		**7,537**	7,155
Fleet expenses		**1,105**	1,045
Insurance net claims incurred		**68,603**	22,623
Insurance underwriting expenses		**2,968**	997
Investment fund expenses		**110**	208
Office and computer supplies		**2,462**	1,734
Other expenditure		**2,689**	2,983
Postages and freight		**1,479**	1,280
Promotional and public issues		**5,660**	2,751
Rates, insurance and utility expenses		**1,592**	1,422
Rent paid on operating leases		**1,036**	916
SA Motor magazine production costs		**966**	1,132
Staff related costs		**2,057**	1,558
Telephone charges		**1,381**	1,324
		103,608	50,540

	Consolidated 2011 $'000	Consolidated 2010 $'000
5. INCOME TAX		
(a) Income tax expense / (benefit)		
Current income tax	**-**	1,808
Deferred income tax	**1,775**	(24)
Prior year under / (over) provision	**221**	(175)
	1,996	1,609
Deferred income tax expense / (benefit) included in income tax expense comprises:		
Decrease / (increase) in deferred tax charged directly to equity	**(834)**	211
Decrease / (increase) in goodwill on business combinations	**-**	(3,892)
Decrease / (increase) in deferred tax assets	**2,596**	(2,513)
(Decrease) / increase in deferred tax liabilities	**277**	5,995
	2,038	(199)

(b) Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and the tax expense calculated per the statutory income tax rate

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

	Consolidated 2011 $'000	Consolidated 2010 $'000
Accounting profit / (loss) before income tax	**14,452**	47,621
Income tax expense / (benefit) at 30% (2010: 30%)	**4,336**	14,286
Net income not assessable due to mutual activities	**(1,174)**	(667)
Unrealised gain on fair value adjustment not assessable	**-**	(10,342)
Rebateable dividends	**(123)**	-
Withholding tax remitted	**(12)**	-
Expenditure not allowable for income tax purposes	**18**	11
Rebates	**(114)**	-
Franking credits	**34**	-
Distributions from trusts	**(30)**	-
Movement in booked losses	**(390)**	-
Assessable income not included		
Equity share of associate's profits	**-**	(1,002)
Investment allowance	**-**	(69)
Other items	**(770)**	(20)
Non taxable dividends	**-**	(413)
Prior year over provision	**221**	(175)
Aggregate income tax expense	**1,996**	1,609

	Consolidated 2011 $'000	Consolidated 2010 $'000
5. INCOME TAX (continued)		
(c) Recognised deferred tax assets and liabilities		
(i) Amounts recognised directly in equity		
Aggregate deferred tax arising in the reporting period and not recognised in net profit but directly debited to equity		
Gain on Managed Funds	**104**	(4)
Actuarial loss on defined benefit superannuation fund	**(25)**	(22)
Reversal of previously recognised revaluation	**-**	237
Revaluation of buildings	**755**	-
	834	211
(ii) Amounts recognised directly against goodwill		
Aggregate deferred tax arising in the reporting period and not recognised in net profit but directly in goodwill		
Fair value of intangible assets recognised on consolidation	**-**	(4,392)
Allocation of reset tax bases on consolidation	**-**	500
	-	(3,892)
(iii) Non-current assets - Deferred tax assets		
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Doubtful debts	**2**	2
Audit fee payable	**4**	5
Employee benefits	**1,400**	1,205
Unearned income	**831**	2,397
Outstanding claims	**793**	700
Owing to other persons	**407**	106
Financial assets at fair value	**28**	392
Capital losses	**1,252**	2,288
Revenue losses	**2,688**	2,906
Net deferred tax assets	**7,405**	10,001
Movements		
Opening balance	**10,001**	6,250
Recognition of RAAI balance on acquisition	**-**	1,238
Recognised in income	**(2,596)**	186
Recognised in equity	**-**	-
Tax effect on business combinations	**-**	2,327
Closing balance	**7,405**	10,001

	Consolidated 2011 $'000	RAA of SA 2010 $'000
5. INCOME TAX (continued)		
(c) Recognised deferred tax assets and liabilities (continued)		
(iv) Non-current liabilities - Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Interest receivable	**77**	78
Prepaid salaries and wages	**276**	21
Deferred acquisition costs	**831**	889
Financial assets at fair value	**2,679**	3,158
Intangible assets at fair value	**2,373**	2,479
Revaluation of property, plant and equipment	**6,822**	6,157
Net deferred tax liabilities	**13,058**	12,782
Movements		
Opening balance	**12,781**	6,490
Recognition of RAAI balance on acquisition	**-**	457
Recognised in income	**1,111**	(13)
Recognised in equity	**(834)**	(211)
Tax effect on business combinations	**-**	6,059
Closing balance	**13,058**	12,782

(d) Unrecognised temporary differences

At 30 June 2011, there are no unrecognised temporary differences associated with the Group's investments in subsidiaries and associates, as the Group has no liability for additional taxation should unremitted earnings be remitted (2010: $Nil).

(e) Tax consolidation

Members of the tax consolidated group and the tax sharing arrangement

The Parent and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2003. The Association is the head entity of the tax consolidated group. Members of the Group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

	Consolidated 2011 $'000	Consolidated 2010 $'000
6. CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	**19,919**	23,915

7. TRADE AND OTHER RECEIVABLES

Current		
Trade receivables	**41,523**	35,662
Allowance for impairment loss (a)	**(28)**	(23)
Reinsurance and other recoveries	**7,188**	5,339
	48,683	40,978
Non-Current		
Reinsurance and other recoveries	**1,054**	984
	49,737	41,962

(a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 30-60 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of $141,000 (2010:$106,000) has been recognised by the Group in the current year. These amounts have been included in the other expenses item. No individual amount within the impairment allowance is material.

Movements in the provision for impairment loss were as follows:

Balance at the beginning of the financial year	**23**	28
Charge for year	**146**	101
Amounts written off (included in other expenses)	**(141)**	(106)
Balance at the end of the financial year	**28**	23

At 30 June 2011, the ageing analysis of trade receivables is as follows:

				60-90 days		90-120 days		120+days	
		Total	Current	PDNI*	CI*	PDNI*	CI*	PDNI*	CI*
2011	Consolidated	41,523	41,119	140	-	79	19	157	9
2010	Consolidated	35,662	35,417	74	-	20	22	128	1

* Past due not impaired (PDNI)

* Considered impaired (CI)

Receivables past due but not impaired are $376,000 (2010: $222,000).

	Consolidated 2011 $'000	Consolidated 2010 $'000

8. INVENTORIES

Finished goods at cost	**1,850**	1,484

9. DEPOSITS IN TRUST ACCOUNT

Current Assets		
RAA Travel trust bank balance	**393**	708
Current Liabilities		
RAA Travel trust liabilities	**393**	708

Cash balances held in trust accounts are not available for use by the Group. Cash in the RAA Travel trust account represents funds held on behalf of travel clients and payable to travel service providers.

10. OTHER CURRENT ASSETS

Prepayments	**1,205**	1,216

11. FINANCIAL ASSETS

Current		
Financial assets at fair value through profit and loss		
Funds under management (i)	**67,646**	60,946
Available for sale financial assets at fair value		
Funds under management (i)	**13,611**	4,674
Shares - Australian unlisted (ii)	**174**	174
Short-term deposits held for reinvestment (iii)	**23,014**	26,094
	104,445	91,888

Available for sale investments consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

(i) Listed shares

The fair value of listed available for sale investments has been determined directly by reference to published price quotations in an active market. There are no individually material investments.

(ii) Unlisted shares

The value of Australian unlisted shares is carried at cost.

(iii) Term deposits

Term deposits with a maturity of >3 months have been classified as Short-term deposits held for reinvestment in accordance with Note 1.

12. INVESTMENTS IN ASSOCIATES

	Consolidated 2011 $'000	Consolidated 2010 $'000
Summary of Income		
Club Consortium Pty Ltd	**258**	218
RAA Insurance Holdings Limited	**-**	3,121
	258	3,339

(a) Club Consortium Pty Ltd

(i) Investment details

Principal Activity	Equity Interest 2011	Equity Interest 2010
Investments	25.6%	25.6%

(ii) Movement in the carrying amount of the Group's investment

	Consolidated 2011 $'000	Consolidated 2010 $'000
Equity accounted investment		
Equity accounted amount of investment at the beginning of the financial year	**2,329**	2,326
Purchase of Additional Shares	**1,229**	
Share of operating profits before income tax	**259**	219
Share of income tax	**(1)**	(1)
Share of dividend	**(256)**	(215)
Equity accounted amount of investment	**3,560**	2,329
Carrying amount of Group's investment	**3,560**	2,329
Summarised financial information		
Current assets	**126**	119
Current liabilities	**(4)**	(6)
Non-current assets	**13,800**	9,000
Non-current liabilities	**-**	-
Net assets	**13,922**	9,113
Total revenue	**1,013**	854
Net profit after income tax	**1,009**	850
Share of net profits of associate accounted for using the equity method	**258**	218

12. INVESTMENTS IN ASSOCIATES (continued)

(b) RAA Insurance Holdings Ltd

(i) Investment details

Principal Activity	Equity Interest 2011	Equity Interest 2010
Personal Lines General Insurer	100.0%	100.0%

On 28 February 2010, the Association gained economic control of RAA Insurance Holdings Ltd and its subsidiaries with the power to govern the financial and operating policies and to obtain ultimate benefits from their activities. At this time, the Association's investment was transferred from an equity accounted investment to a 100% owned subsidiary.

(ii) Movement in the carrying amount of the Group's investment

	Note	Consolidated 2011 $'000	Consolidated 2010 $'000
Equity accounted investment			
Equity accounted amount of investment at the beginning of the financial year		-	14,006
Share of operating profits before income tax		-	4,424
Share of income tax		-	(1,303)
Share of dividend		-	(1,100)
Transfer to investment in subsidiary on acquisition of RAAI		-	(16,027)
Equity accounted amount of investment		-	-
Carrying amount of Group's investment		-	-
Summarised financial information			
Current assets		-	-
Current liabilities		-	-
Non-current assets		-	-
Non-current liabilities		-	-
Net assets		-	-
Premium revenue		-	67,340
Outward reinsurance premium expense		-	(2,782)
Net premium revenue		-	64,558
Net profit after income tax		-	6,242
Share of net profits of associate accounted for using the equity method		-	3,121

13. PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amounts at the beginning and end of the period

	Land and Buildings	Plant, Equipment and Motor Vehicles	Furniture, Fittings and Leasehold	Total
	$'000	$'000	$'000	$'000
At 1 July 2009				
Cost or fair value	39,054	13,724	17,830	70,608
Accumulated depreciation	(1,082)	(6,134)	(12,172)	(19,388)
Net book amount	37,972	7,590	5,658	51,220
Year ended 30 June 2010				
Opening net book amount	37,972	7,590	5,658	51,220
Additions on acquisition of RAAI	-	607	29	636
Additions	245	2,832	1,455	4,532
Disposals	(2,159)	(388)	(567)	(3,114)
Transfer out	-	(407)	-	(407)
Depreciation	(509)	(2,285)	(635)	(3,429)
Net revaluation increment / (decrement)	(979)	-	-	(979)
Closing net book amount	34,570	7,949	5,940	48,459
At 30 June 2010				
Cost or fair value	35,940	19,791	18,647	74,378
Accumulated depreciation	(1,370)	(11,842)	(12,707)	(25,919)
Net book amount	34,570	7,949	5,940	48,459
Year ended 30 June 2011				
Opening net book amount	34,570	7,949	5,940	48,459
Additions	199	6,842	635	7,676
Disposals	-	(943)	(1)	(944)
Transfer out	-	706	(3)	703
Depreciation	1,304	(2,569)	(807)	(2,072)
Net revaluation increment / (decrement)	750	-	-	750
Closing net book amount	36,823	11,985	5,764	54,572
At 30 June 2011				
Cost or fair value	36,889	26,396	19,278	82,563
Accumulated depreciation	(66)	(14,411)	(13,514)	(27,991)
Net book amount	36,823	11,985	5,764	54,572

(b) Revaluation of freehold land and freehold buildings

The Group engages McGees National Property Consultants, an accredited independent valuer that uses the International Valuation Standards Committee, International Valuation Standards as a reference, to determine the fair value of its freehold land and buildings. Fair value is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Fair value is determined by direct reference to recent market transactions on arm's length terms for land and buildings comparable in size and location to those held by the Group, and to market based yields for comparable properties. The effective date of the latest revaluation was 30 June 2011.

13. PROPERTY, PLANT AND EQUIPMENT (continued)

(c) Carrying amounts if land and buildings were measured at cost less accumulated depreciation and impairment

	2011		2010	
	Freehold Land $'000	Freehold Buildings $'000	Freehold Land $'000	Freehold Buildings $'000
Cost value	**4,901**	**12,639**	4,901	12,440
Accumulated depreciation	**-**	**(3,388)**	-	(3,139)
Net carrying amount	**4,901**	**9,251**	4,901	9,301

14. INTANGIBLE ASSETS

(a) Reconciliation of carrying amounts at the beginning and end of the period

	Monitored Security Lines $'000	Computer Software $'000	Customer Contracts # $'000	Customer Relation-ships # $'000	Brand # $'000	Total $'000
At 1 July 2009						
Cost or fair value	1,369	7,088	-	-	-	8,457
Accumulated amortisation	(411)	(4,919)	-	-	-	(5,330)
Net book amount	958	2,169	-	-	-	3,127
Year ended 30 June 2010						
Opening net book amount	958	2,169	-	-	-	3,127
Additions	141	551	1,900	5,000	15,400	22,992
Transfer in	-	559	-	-	-	559
Amortisation	-	(680)	(1,270)	(950)	-	(2,900)
Closing net book amount	1,099	2,599	630	4,050	15,400	23,778
At 30 June 2010						
Cost or fair value	1,510	5,274	1,900	5,000	15,400	29,084
Accumulated amortisation	(411)	(2,675)	(1,270)	(950)	-	(5,306)
Net book amount	1,099	2,599	630	4,050	15,400	23,778
Year ended 30 June 2011						
Opening net book amount	1,099	2,599	630	4,050	15,400	23,778
Additions	236	780	-	-	-	1,016
Impairment	(3)	-	-	-	-	(3)
Amortisation	-	(739)	(630)	(1,015)	-	(2,384)
Closing net book amount	1,332	2,640	-	3,035	15,400	22,407
At 30 June 2011						
Cost or fair value	1,743	6,054	1,900	5,000	15,400	30,097
Accumulated amortisation	(411)	(3,414)	(1,900)	(1,965)	-	(7,690)
Net book amount	1,332	2,640	-	3,035	15,400	22,407

Purchased as part of business combinations

14. INTANGIBLE ASSETS (continued)

(b) Description of the Group's intangible assets

(i) Monitored security lines

Monitored security lines are carried at cost less accumulated impairment losses. These intangible assets have been determined to have indefinite useful lives. This determination has been based on the fact that these lines have minimal technical obsolescence, require minimal maintenance, and the Group has control over these assets for the foreseeable future. For the purpose of assessing impairment, Monitored security lines are allocated to the cash generating unit representing the Parent. At 30 June 2011 an impairment of $3,000 has been recognised (2010: nil).

(ii) Computer software

Computer software is carried at cost less accumulated amortisation and accumulated impairment losses. These intangible assets have been assessed as having a finite life and are amortised using the straight line method over a period of 5 years. The amortisation has been recognised in the Statement of Comprehensive Income in the line item "Depreciation and amortisation expense". If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

(iii) Customer contracts

Customer contracts represents the current customers of RAA Insurance Holdings Ltd at acquisition and is carried at cost less accumulated amortisation and accumulated impairment losses. These intangible asset have been assessed as having a finite life of six months based on the average remaining tenure of the contracts and is amortised using the straight line method. The amortisation has been recognised in the Statement of Comprehensive Income in the line item "Depreciation and amortisation expense". If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

(iv) Customer relationships

Customer relationships represents the expected retention of current customers in RAA Insurance Holdings Ltd. These intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. This intangible asset has been assessed as having a finite life and is amortised using the diminishing value method over a period of 10 years. The amortisation has been recognised in the Statement of Comprehensive Income in the line item "Depreciation and amortisation expense". If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

(v) Brand

Brand represents the RAA Insurance brand name and is carried at cost less accumulated impairment losses. This intangible asset has been determined to be an indefinite life asset. This determination has been made based on the Deloitte Valuation of August 2010 and taking into account the history and market position of the RAA Insurance brand name. For the purpose of assessing impairment, the Brand is allocated to the cash generating unit of the RAA Insurance. The impairment test for brand is performed by comparing the CGU's carrying amount with its recoverable amount. The recoverable amount has been determined based on a value in use calculation using net profit projections as at 30 June 2011 from financial budgets approved by the RAA Insurance Board of Directors covering a five year period. The pre-tax discount rate used was 13.3% which has been determined using a weighted average cost of capital calculation. At 30 June 2011 an impairment loss has not been recognised (2010: nil).

(c) Impairment losses recognised

An impairment loss of $3,000 has been recognised for the 2011 financial year.

15. GOODWILL

(a) Reconciliation of carrying amounts at the beginning and end of the period

	Consolidated 2011 $'000	Consolidated 2010 $'000
Opening net book amount	**58,041**	-
Acquisition of RAAI	**-**	58,041
Closing net book amount	**58,041**	58,041

(b) Description of the Group's goodwill

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment (refer to section (d) of this note).

(c) Impairment losses recognised

An impairment loss has not been recognised for the 2011 financial year.

(d) Impairment tests for cash generating units containing goodwill

For the purpose of assessing impairment, goodwill is allocated to the Cash Generating Unit (CGU) of RAA Insurance. The impairment test for goodwill is performed by comparing the CGU's carrying amount with its recoverable amount. The recoverable amount has been determined based on a value in use calculation using net profit projections as at 30 June 2011 from financial budgets approved by the RAA Insurance Board of Directors covering a five year period. The pre-tax discount rate used was 13.3% which has been determined using a weighted average cost of capital calculation.

	Consolidated 2011 $'000	Consolidated 2010 $'000
16. TRADE AND OTHER PAYABLES		
Current		
Trade payables	**3,739**	3,222
Security deposit (i)	**974**	1,218
Deferred payment	**-**	66
Other payables and accruals	**5,095**	5,982
	9,808	10,488

(i) *The Group provides roadside assistance services to Assist Australia Pty Ltd under a Services Agreement. A security deposit received from Assist Australia Pty Ltd secures the performance of the services to be provided under the Services Agreement and Assist Australia Pty Ltd's obligation to pay for those services.*

17. UNEARNED INCOME

Subscriptions in advance	**27,243**	25,345
Unearned insurance premiums	**61,607**	55,759
	88,850	81,104

	Consolidated 2011 $'000	Consolidated 2010 $'000
18. INTEREST BEARING LOANS AND BORROWINGS		
Current		
Bank loan	**5,000**	5,000
	5,000	5,000
Non-Current		
Bank loan	**16,500**	20,000
	16,500	20,000

(a) The carrying amount of the Group's current and non-current borrowings approximate their fair value. Details regarding interest rate and liquidity risk is disclosed in note 30.

(b) Assets pledged as security for current and non-current interest-bearing liabilities is equivalent to 100% of the net assets of the Association only.

(c) During the current year there were no defaults or breaches on any of the loans.

	Consolidated 2011 $'000	Consolidated 2010 $'000
19. PROVISIONS		
Current		
Employee benefits	**8,511**	7,569
Workers' compensation	**100**	150
	8,611	7,719
Non-current		
Employee benefits	**1,254**	1,199
Workers' compensation	**150**	50
	1,404	1,249

(a) Movement in provisions

Movement in the workers' compensation provision during the financial year is set out below:

	2011	2010
Balance at beginning of financial year	**200**	216
Reduction arising from net of payments and recoveries	**-**	(16)
Increase resulting from the re-measurement of the estimated future liability	**50**	-
Balance at end of financial year	**250**	**200**

(b) Nature and timing of provisions

(i) Employee Benefits

Refer to note 1 (r) for the relevant accounting policy and a discussion of the significant estimations and assumptions applied in the measurement of employee benefits.

(ii) Workers' Compensation

The provision for workers' compensation represents the present value of a reasonable estimate of the liabilities for claims incurred up to and including 30 June 2011, net of recoveries.

	Consolidated 2011 $'000	Consolidated 2010 $'000
20. RETAINED EARNINGS		
Balance at beginning of the financial year	**95,683**	84,094
Net profit / (loss) after tax	**12,456**	46,012
Transfer of unrealised gain to reserve	**-**	(34,473)
Actuarial gains from defined benefit superannuation scheme	**(58)**	50
Balance at end of financial year	**108,081**	95,683

21. RESERVES

	Asset Revaluation Reserve $'000	Net Unrealised Gains Reserve $'000	Consolidated Unrealised Capital Reserve on RAAI Acquisition $'000	Cash Flow Hedge Reserve $'000	Total $'000
At 1 July 2010	13,438	10	34,473	-	47,921
Revaluation of land and buildings	1,765	-	-	-	1,765
Net movement on financial assets	-	242	-	(210)	32
At 30 June 2011	15,203	252	34,473	(210)	49,718

	Asset Revaluation Reserve $'000	Net Unrealised Gains Reserve $'000	Consolidated Unrealised Capital Reserve on RAAI Acquisition $'000	Cash Flow Hedge Reserve $'000	Total $'000
At 1 July 2009	14,123	-	-	-	14,123
Revaluation of land and buildings	(685)	-	-	-	(685)
Net movement on financial assets	-	10	-	-	10
Transfer of unrealised gain to reserve	-	-	34,473	-	34,473
At 30 June 2010	13,438	10	34,473	-	47,921

Nature and purpose of reserves

Asset revaluation reserve

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.

Net unrealised gains reserve

The net unrealised gains reserve records movements in the fair value of available-for-sale financial assets.

Unrealised capital reserve on RAAI Acquisition

The unrealised capital reserve on RAAI acquisition is used to recognise the uplift to fair value of the pre-existing investment of the Assocation on the gaining of control of RAA Insurance Holdings Ltd.

Cash flow hedge reserve

This reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

22. INSURANCE DISCLOSURES

(a) Contribution to profit from General Insurance activities

Contribution to profit from General Insurance activities

	2011 $'000	2010 $'000
Net earned premium		
Direct premium revenue	114,389	35,675
Fire service and other levies	212	63
Total premium revenue	114,601	35,738
Outwards reinsurance premium expense	(6,202)	(1,523)
Total net earned premium	108,399	34,215
Net incurred claims		
Claims expense	(93,199)	(27,426)
Reinsurance and other recoveries revenue	18,231	4,803
Total net incurred claims	(74,968)	(22,623)
Underwriting expenses		
Acquisition costs	(5,108)	(606)
Commissions	(10,951)	-
Other underwriting expenses	(4,357)	(391)
Total underwriting expenses	(20,416)	(997)
Underwriting Result	13,015	10,595
Net investment income / (loss) on technical reserves	2,433	662
Insurance trading result	15,448	11,257
Net investment income / (loss) on shareholders funds	2,103	(33)
Contribution to profit before tax	17,551	11,224

22. INSURANCE DISCLOSURES (continued)

(b) Net incurred claims

Details of net incurred claims are as follows:

Direct Business	2011 Current Year $'000	2011 Prior Years $'000	2011 Total $'000	2010 Current Year $'000	2010 Prior Years $'000	2010 Total $'000
Gross claims incurred and related expenses						
Undiscounted	100,147	(6,948)	93,199	26,772	654	27,426
	100,147	(6,948)	93,199	26,772	654	27,426
Reinsurance and other recoveries						
Undiscounted	(14,810)	(3,398)	(18,208)	(4,533)	(508)	(5,041)
Discount and discount movement	70	(93)	(23)	7	231	238
	(14,740)	(3,491)	(18,231)	(4,526)	(277)	(4,803)
Total net claims incurred	85,407	(10,439)	74,968	22,246	377	22,623

Current period claims relate to risks borne in the current financial year while prior period claims relate to a reassessment of the risks borne in all previous financial years.

(c) Deferred Acquisition Costs

Treatment of deferred acquisition costs incurred in obtaining general insurance contracts is detailed in note 1(i).

	Consolidated 2011 $'000	**Consolidated 2010 $'000**
Balance at beginning of the financial year	**2,635**	**-**
Acquisition costs deferred	**8,000**	**5,061**
Amortisation charged to income	**(5,108)**	**(2,426)**
Balance at end of financial year	**2,892**	**2,635**

(d) Outstanding Claims Liability

Measurement of outstanding claims liability is detailed in note 1(s) and part e(i) of this note.

Current	**25,278**	**22,156**
Non-Current	**434**	**435**
	25,712	**22,591**

(e) Critical Accounting Judgements and Estimates

RAA Insurance makes estimates and judgements in respect of certain key assets and liabilities. Estimates and judgements are continually reviewed and are based on past experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates and judgements are applied are described below.

(i) Estimation of outstanding claims liability

Provision is made at year end for the estimated cost of claims incurred but not settled at the balance date, including the cost of claims incurred but not yet reported.

22. INSURANCE DISCLOSURES (continued)

The estimated cost of claims includes direct expenses to be incurred in settling claims gross of the expected reinsurance and other recoveries. The Consolidated Entity takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Consolidated Entity, where more information about the claim is generally available. Personal insurance claims are generally reported within a short time frame following the claim event and therefore tend to display low levels of volatility.

In calculating the estimated cost of unpaid claims the Consolidated Entity uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Where historical experience is not sufficient a combination of actual and industry experience is utilised. A prudential margin is added for changes in uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including; changes in Consolidated Entity processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods

- changes in the legal environment
- the effects of inflation
- the impact of large losses
- movements in industry benchmarks

Provisions are calculated gross of any reinsurance and other recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions. An estimate of other recoveries is made on past patterns of other recoveries. Both reinsurance and other recoveries are stated at present value. Details of specific actuarial assumptions used in deriving the outstanding claims liability at year end are detailed at section (h) of this note.

(ii) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty risk, credit risk and the time value of money.

(iii) *Premium revenue*

Premium revenue comprises premiums from direct business. Direct premium revenue comprises amounts charged to the policyholders, including fire service levies but excluding amounts collected on behalf of third parties, principally stamp duties and GST. Premium revenue, including that on unclosed business, is recognised in the statement of comprehensive income when it has been earned. The proportion of premium received or receivable not earned in the statement of comprehensive income at the reporting date is recognised in the statement of financial position as an unearned premium liability. Premium revenue is treated as beginning to be earned from the date of attachment of risk. The pattern of recognition over the policy or indemnity periods is based on time, which is considered to closely approximate the pattern of risks underwritten using the 365ths method. The unearned premium is recorded in the statement of financial position as unearned premium liability.

(f) Liability adequacy test deficiency

The Liability Adequacy Test (LAT) assesses whether the net earned premium liability less any related intangible assets and deferred acquisition costs is sufficient to cover future claims cost for in-force policies. Future claims costs are calculated as the present value of the expected cash flows relating to future claims, and includes a risk margin to reflect inherent uncertainty in the central estimate for each portfolio of contracts. The test is based on prospective information and so is heavily dependant on assumptions and estimates.

For the purposes of the liability adequacy test there is one portfolio being Personal Insurance. The liability adequacy test has identified a surplus for this portfolio of $3,557,000 (2010: surplus of $3,595,000).

As at 30 June 2011 the net central estimate of the present value of expected future cash flows for future claims (Premium Liabilities) was $42,986,000 (2010: $39,354,000) and a further $2,152,000 (2010: $1,749,000) relating to risk margin has been added when assessing the provision at a 75% probability of sufficiency. The probability of adequacy (POA) adopted in performing the liability adequacy test is set at the 75th percentile compared to the 90th percentile adopted in determining the outstanding claims liabilities.

22. INSURANCE DISCLOSURES (continued)

The POA for outstanding claims liabilities is set at a level that is appropriate and sustainable to cover the claim obligations after having regard to the prevailing market environment and prudent industry practice. Being a test of adequacy, the POA for the liability adequacy test is set to highlight deficiencies in product pricing following an analysis of the profit margins after having regard to regulatory minimum requirements.

(g) General Insurance Risk Management

Objectives in managing risks and policies for mitigating those risks

In accordance with Prudential Standard GPS 220 Risk Management for General Insurers and GPS 230 Reinsurance Arrangements for General Insurers issued by the Australian Prudential Regulation Authority (APRA), the Board and senior management of RAA Insurance have developed a risk management framework that is designed to ensure that risks that may affect the RAA Insurance's abilities to meet obligations to policy holders are identified, assessed, mitigated and monitored. The RAA Insurance's objective is not to eliminate all risk, but to ensure that risk is recognised and maintained at an acceptable level and at an acceptable cost.

The risk management framework is made up of a series of components which, in total, comprise the overall approach RAA Insurance has to managing risk. The main components are the Risk Management Strategy (RMS), Risk Profiles and Reinsurance Management Strategy (REMS).

The RMS and REMS aim to ensure that RAA Insurance has in place policies, procedures, processes and controls that effectively identify, assess, mitigate and monitor the key risks that RAA Insurance faces during the course of its operations.

The Board and senior management of RAA Insurance are responsible for ensuring the assets of RAA Insurance are safeguarded from risk, provide shareholders with assurance that their investment is protected from material claims losses and that RAA Insurance is able to meet obligations to policyholders when they fall due.

The Board of RAA Insurance is responsible for reviewing the RMS and REMS annually to ensure adequate frameworks exist to monitor and evaluate circumstances that may impact the RAA Insurance's risk profiles. Annually, the Board of RAA Insurance certifies to APRA that adequate strategies have been put in place to monitor the risks and that systems are in place to ensure compliance with legislative and prudential requirements. The Board of RAA Insurance also certifies to APRA that it is satisfied as to the adequacy and compliance with RMS and REMS.

An integral part of the RAA Insurance's overall RMS is the governance and management of the risks that impact the amount, timing and uncertainty of cash flows from insurance contracts. RAA Insurance has established internal controls to manage risk in the areas of exposure relevant to its business. The risk categories discussed below are:

- strategic and tactical risk
- reinsurance risk
- operational risk
- insurance risk

The RAA Insurance's RMS also recognises the volatility of financial markets and aims to minimise adverse effects on its financial performance. This is considered in Financial Risk.

Strategic and tactical risk

RAA Insurance considers risk and opportunity simultaneously, with the identification of both internal and external environments leading to actions and projects that form RAA Insurance departmental business plans. Risk is therefore identified as part of the business planning process, during quarterly risk workshops and as an ongoing part of each department's execution of its business plan.

Business planning and risk management are linked to ensure risks arising out of business planning and strategy development are included into, and considered by, the risk management framework, or that significant risks or risks not within tolerance are addressed as part of the business planning and strategy development process of RAA Insurance. Initiatives identified during the business planning and strategy process are noted on the Risk Profiles. Project management includes a process for the identification and management of risks, noting the risks involved with the project and the benefits the project will deliver.

RAA Insurance has determined that its core business will continue to be personal lines insurance offered to South Australian and Broken Hill risks.

22. INSURANCE DISCLOSURES (continued)

Reinsurance risk

The management of reinsurance risk is addressed in the REMS. The REMS is reviewed annually and is approved by the Board of RAA Insurance.

Reinsurance management refers to the selection, monitoring, review and control of reinsurance arrangements – that is where some part of individual or aggregate insurance risks are ceded to other insurers, including from direct writing insurers to reinsurers or other direct writing insurers (cession) as well as from reinsurers to their parent companies or other reinsurers (retrocession). Weaknesses in the controls and management of reinsurance arrangements could result in the inability to meet policyholder liabilities as they fall due and may impair the capital, profitability or liquidity position of RAA Insurance.

The REMS has been developed to ensure that RAA Insurance has in place prudent reinsurance arrangements to provide the necessary security and liquidity to meet its obligations to policyholders and hence provide protection to the assets of RAA Insurance.

Key aspects of RAA Insurance's REMS include:

- The use of a simple reinsurance structure (due to the classes of business underwritten) that facilitates the timely recovery of reinsurance claims;
- The selection of adequate reinsurance programs for each product line to limit exposure to large single claims and catastrophes. In relation to catastrophic losses, actuarial modelling is used to calculate the Probable Maximum Loss (PML) with a return period of 1 in 250 years;
- Spreading the reinsurance program across major reinsurance markets to avoid over dependency on any one market;
- Evaluating reinsurers based upon creditworthiness, the basis of coverage, security, price and a genuine willingness to pay claims;
- Matching the skills, knowledge and experience of each reinsurance counterparty to the type of business ceded;
- Fostering long term relationships with reinsurers to encourage active assistance in establishing the correct price of risk transfer over a period of time; and
- The continuous evaluation of the benefit of multi-year contracts to achieve long term stability to pricing, leading to reduced underwriting expenses.

RAA Insurance has cover for a return period of 1 in 500 years (as modelled by our reinsurance brokers).

Operational risk

Operational risk is the risk of loss resulting from system weaknesses or failure, human error or external events that does not relate to insurance or financial risks.

RAA Insurance manages operational risk by recruiting and retaining high quality employees who have the requisite skills and experience for their positions. Each employee is also given an authority level based on their expertise and position description, with compliance to their authorities actively monitored. Other methods to manage operational risk include segregation of duties, reconciliation procedures and access controls which are regularly reviewed.

Insurance risk

Insurance risk refers to the inherent risk in any insurance contract that the insured event may occur and the uncertainty of the amount of the resulting claim. RAA Insurance manages this risk through the RMS, REMS (as discussed in Reinsurance risk) and the terms and conditions of its insurance contracts. RAA Insurance addresses the concentration of insurance risk by maintaining a balanced diversified portfolio of two main classes of business; discussed below.

Key aspects of the RMS that aim to mitigate risk include:

- Underwriting operations are managed in accordance with documented underwriting guidelines, with regular quality assessments and monitoring of operations conducted.
- Claims operations are managed in accordance with documented claims guidelines, with regular assessment and monitoring of operations conducted.
- Actuarial models utilise information from the management information system to calculate premiums and monitor claims patterns. Past experience and statistical methods form part of this process.

22. INSURANCE DISCLOSURES (continued)

Terms and conditions of insurance contracts

RAA Insurance has adopted a standard insurance contract for each class of insurance policy. The terms and conditions of these insurance contracts are in accordance with legislative requirements as stipulated in the Insurance Contracts Act. These standard contracts are used for all insurance policies entered into between RAA Insurance and its policyholders. No special terms are entered into with any policyholder that has a material impact on the financial statements.

Concentration risk

RAA Insurance is a domestic insurer that only operates in South Australia and Broken Hill. As a result, a concentration risk potentially exists due to the nature and location of the business. As part of the Risk Profiles, RAA Insurance considers and reviews these risks to ensure they are adequately addressed and managed.

This risk is considered and noted in RAA Insurance's risk appetite. RAA Insurance has identified a potential asset concentration risk, related to geographic location, which could impact RAA Insurance should there be a catastrophe and have mitigated this risk through its reinsurance arrangements.

RAA Insurance's exposure to concentration of insurance risk is mitigated by maintaining a diversified portfolio of two main classes of business (Motor - comprehensive and third party, and Home - building and contents, damage and liability). Specific provisions for monitoring identified key concentrations are set out below.

Risk	Source of concentration	Risk management measures
Natural catastrophes	Risk's concentrated in regions that are subject to; - Earthquake - Bushfire - Flood	Underwriting strategies requires individual risk premiums to be differentiated in order to identify the higher loss value. The Consolidated Entity has modelled aggregated risk by postcode using commercially available catastrophe models. Based on the probable maximum loss per the models, the Consolidated Entity purchases catastrophe reinsurance cover to limit exposure to any single event.

The largest potential loss faced by RAA Insurance is an earthquake with a return period of 1 in 250 years. In relation to the lower return periods, the catastrophic event to generate the greatest loss is bushfire induced damage in ICA Zone 28 of Adelaide Hills.

(h) Actuarial assumptions and methods

RAA Insurance writes Personal Insurance which includes the following classes of business; Motor Comprehensive, Motor Third Party, Home (Building and Contents, Damage and Liability) and Boat. The classes are generally short-tail in nature, meaning that claims are typically settled within one year of being reported. The process for determining the value of outstanding claims liabilities in respect of these classes is described below.

Personal Insurance (not including personal injury liability)

For these classes of business, there is not a significant delay between the occurrence of the claim and the claim being reported to, and settled by, RAA Insurance. Therefore, due to the short-tail nature of these classes, no allowance for general economic inflation or superimposed inflation has been incorporated into the resulting projected payments and those payments have not been discounted to allow for the time value of money.

In 2011 RAA Insurance adopted a method based on the Development of Average Incurred Cost times ultimate claim numbers for all classes other than Home Liability to estimate the gross outstanding claims liabilities. This method was unchanged from the previous review (2010). This method assesses the ultimate cost for each accident period as:

- An expected ultimate number of claims per period, allowing explicitly for the impact of things such as 'weekend month-ends', seasonality, etc
- These claim numbers are multiplied by an expected average claim size. The average claim size is assessed as a multiple of the incurred average reported cost to date, based on the expected development pattern of claims.

22. INSURANCE DISCLOSURES (continued)

Home and Boat Personal Injury Liability

The outstanding liability for this class is estimated based on the individual case estimates on each claim at the balance date plus an allowance for claims that have occurred but are yet to be reported (IBNR). This allowance takes into account the expected cost of claims per policy, the number of policies exposed and the proportion of losses yet to be recognised (all of which are derived from the analysis of the portfolio experience with due consideration to other industry statistics). As there can sometimes be a significant delay between the occurrence of the claim and the claim being reported and settled by RAA Insurance, projected payments have been discounted to allow for the time value of money.

Prudential Margin

Risk margins are added to the estimated liabilities to allow for the inherent uncertainties in the estimates and so as to achieve a 90% probability that the amount provided will be sufficient to pay out all claims.

Actuarial Assumptions

The following assumptions have been made in determining the outstanding claims liabilities:

	2011	**2010**
Average weighted term to settlement from reporting date	< 1 yr	< 1 yr
Average claim frequency (claims per policy)	2.4%-15.5%	2.7% - 15.8%
Claims handling expense rate	5.8%-8.5%	5.3% - 10%
Discount rate	4.9%-5.0%	4.70% - 4.85%
Inflation and superimposed inflation	n/a	n/a

Process to Determine Assumptions

A description of the processes used to determine these assumptions is provided below:

Average weighted term to settlement from reporting date

The estimated average weighted term to settlement is based on historical settlement patterns.

Average claim frequency (claims per policy)

Estimated future numbers of claim reports are based on historical patterns of claim reporting.

Average claim size

Estimated average claim sizes are based on historical claim size experience, by type of claim.

Claims handling expense rate

The allowance for claims handling expenses is based on the historical relationship between claims handling expenses and gross claim costs.

The selected discount rate is based on an empirical analysis of the current yield curve for government bonds comparing the yield and the profile of the underlying payments.

Inflation and superimposed inflation

No explicit allowance for normal and superimposed inflation has been made on the grounds of materiality.

Reinsurance and non-reinsurance recoveries

Estimates of recoveries are based on assessment of individual large claims.

Summary

RAA Insurance conducts sensitivity analyses to quantify the exposure to risk changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the performance and equity of RAA Insurance. The tables below describe how a change in each assumption will affect the insurance liabilities and show an analysis of the sensitivity of the profit / (loss) and equity to changes in these assumptions both gross and net of reinsurance.

22. INSURANCE DISCLOSURES (continued)

Variable	*Impact of movement in variable*
Average claim size	Historical claim size information is used in determining the outstanding claims liability. An increase or decrease in the average claim size would have a corresponding increase or decrease on claims expense respectively.
Average claim frequency	Claims frequencies are used in determining the level of claims incurred but not reported (IBNR). An increase or decrease in the assumed average frequency levels would have a corresponding impact on claims expense.
Expense rate	An estimate for the internal costs of handling claims in included in the outstanding claims liability. An increase or decrease in the expense rate assumption would have a corresponding impact on claims expense.

		Net Profit / (Loss)		**Equity**
	Movement in Variable	**Gross of Reinsurance**	**Net of Reinsurance**	
Variable		**$'000**	**$'000**	**$'000**
Average claim size	+10%	(1,195)	(1,195)	(1,195)
	-10%	1,195	1,195	1,195
Claim frequency - most recent accident	+10%	(1,195)	(1,195)	(1,195)
	-10%	1,195	1,195	1,195
Expense rate	+1%	(187)	(187)	(187)
	-1%	187	187	187

23. CASH FLOW STATEMENT RECONCILIATION

(a) Reconciliation of net profit after tax to net cash flows from operations

	Consolidated 2011 $'000	Consolidated 2010 $'000
Net profit / (loss)	**12,456**	46,012
Adjustments for:		
Depreciation and impairment	**3,845**	3,444
Amortisation	**2,384**	2,885
Defined benefit fund expense	**(1)**	31
Net (profit) / loss on disposal of property, plant and equipment	**(245)**	(648)
Net (gain) / loss on disposal of available for sale investments	**(754)**	(5,315)
Share of associates' net (profits) / losses	**(258)**	(3,339)
Net fair value adjustment on RAAI acquisition	**-**	(34,473)
Changes in assets and liabilities:		
(Increase) / decrease in inventories	**(366)**	(203)
(Increase) / decrease in trade and other receivables	**(7,775)**	(1,006)
(Increase) / decrease in prepayments	**11**	(287)
(Increase) / decrease in defined benefit plan	**-**	(41)
(Increase) / decrease in deferred tax assets	**2,596**	(155)
(Increase) / decrease in deferred acquisition costs	**(257)**	(2,635)
(Decrease) / increase in income tax payable	**(2,172)**	1,645
(Decrease) / increase in deferred tax liabilities	**(1,111)**	(182)
(Decrease) / increase in trade and other payables	**(680)**	1,124
(Decrease) / increase in provisions	**892**	345
(Decrease) / increase in unearned income	**7,746**	4,801
(Decrease) / increase in outstanding claims	**3,121**	38
Net cash from / (used in) operating activities	**19,432**	12,041

24. RELATED PARTY DISCLOSURES

(a) Subsidiaries

The consolidated financial statements include the financial statements of Royal Automobile Association of SA Inc and the following subsidiaries:

	% Equity interest		Investment $'000	
	2011	**2010**	**2011**	**2010**
RAA Insurance Holdings Ltd	**100%**	100%	**101,000**	101,000

(b) Ultimate parent

Royal Automobile Association of SA Inc is the ultimate parent entity and the ultimate parent of the Group.

(c) Key management personnel

Details relating to key management personnel, including remuneration paid, are included in note 25.

(d) Transactions with related parties

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year:

	2011 $'000	2010 $'000
Related party		
RAA Insurance Holdings Ltd		
Dividend revenue	**9,000**	**1,100**
Distribution services	**11,346**	**10,555**
Rent, administration and collection of insurance premiums	**1,463**	**984**
	21,809	**12,639**

The terms and conditions of the transactions with RAA Insurance Holdings Limited are largely fixed under distribution and cost sharing agreements with RAA Insurance Limited. The Statement of Financial Position includes outstanding trade and other receivables of $1,128,668 (2010 $1,439,014). Outstanding balances at year end are unsecured, interest free and settlement occurs in cash.

No transactions have been entered into with specified Directors or Executives. During the financial year, specified Directors and Executives purchased goods and services, which were domestic or minor in nature, from the Group on the same terms and conditions available to customers and members.

25. KEY MANAGEMENT PERSONNEL

The Rules of the Group provide for the payment of Directors' fees. The remuneration committee reviews the remuneration packages of all Directors and Executives on an annual basis and makes recommendations to the Board. Employees involved in the management of the Group are remunerated on basis determined by relevant industrial awards or commensurate with the duties, responsibilities and performance required of the individual positions as recommended by independent remuneration consultants.

The specified Directors of the Group during the financial year were:

- RG Grigg (President)
- DA Cross (Vice President)
- IH Stone (Group Managing Director)
- J Brown (Resigned 31 May 2011)
- WS Greiner
- LC Holmes
- RJ Payze
- ED Perry
- RN Robinson
- G Rohrsheim (appointed 1 June 2011)
- JE Sarah
- M Shanahan (Resigned 31 May 2011)
- PR Siebels
- SR Starick
- K Thomas (appointed 1 June 2011)

The aggregate compensation made to the specified Directors during the financial year is set out below, these amounts exclude IH Stone, who is included in the specified Executive table below:

	Consolidated 2011 $	**Consolidated 2010 $**
Short-term employee benefits	**231,493**	187,986
Post-employment benefits	**162,575**	159,067
	394,068	347,053

Some Directors of the RAA are also Directors of related organisations. Remuneration paid to these Directors is paid by those organisations and not by the RAA. Remuneration paid by related organisations to RAA Directors during the year total $140,236.

25. KEY MANAGEMENT PERSONNEL (continued)

The following executives also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year;

- I Stone — Group Managing Director
- D McGown — Group Chief Financial Officer
- P Hurcombe — General Manager Strategy Risk & Investments
- T Griffiths — General Manager Sales and Marketing
- D Jacob — General Manager Automotive Services
- M Butcher — General Manager Human Resources
- J Van Ruth — General Manager Information Services (Resigned 30 September 2010)
- M Walters — General Manager Information Services (Appointed 29 November 2010)
- P Gale — General Manager Public Affairs
- A Thompson — General Manager Commercial Business (Appointed 1 July 2010)
- D Russell — Insurance Chief Executive

The aggregate compensation made to the specified Executives during the financial year is set out below:

	2011 $	2010 $
Short-term employee benefits	**2,312,334**	1,854,988
Long-term employee benefits	**3,693**	13,157
Post-employment benefits	**195,656**	187,909
Termination benefits	**12,243**	51,963
	2,523,926	2,108,017

(i) The total compensation paid to I Stone, Managing Director included in the above total is $492,418 (2010 - $438,089) which comprises $477,449 (2010 - $413,089) short-term employee benefits and $14,969 (2010 - $25,000) post-employment benefits.

26. DEFINED BENEFIT PENSION PLAN

The Group contributes to a number of superannuation schemes, which provide benefits on retirement, resignation, disablement or death of members of those schemes. Superannuation guarantee contributions are expensed as they are incurred. The members of the schemes and the Group make contributions as specified in the rules of the respective schemes.

Schemes providing accumulation benefits do not require actuarial assessments. In the event of termination of the schemes, or voluntary or compulsory termination of each employee, the assets of each scheme are sufficient to satisfy all vested benefits.

The last actuarial assessment of the defined benefit scheme in the Group was made at 30 June 2011 by Mercer Investments Nominees Limited. Actuarial assessments are carried out each three years. The conclusion of the actuarial review was that the funds within the scheme were considered adequate to satisfy all benefits payable in the event of termination of the scheme and voluntary or compulsory termination of employment of each employee.

Disclosure in accordance with AASB 119 Employee Benefits and in relation to the defined benefit section of the RAA Staff Superannuation Scheme.

Accounting policy

Actuarial gains and losses are recognised immediately through retained earnings in the year in which they occur.

Scheme information

Defined benefit members receive lump sum benefits on retirement, death, disablement and withdrawal. The defined benefit section of the Scheme is closed to new members. All new members receive accumulation only benefits.

Reconciliation of the present value of the defined benefit obligation

	Consolidated 30 June 2011 $'000	**Consolidated 30 June 2010 $'000**
Opening defined benefit obligation	**3,774**	3,712
Current service cost	**154**	161
Interest cost	**161**	181
Contributions by scheme participants	**58**	60
Actuarial (gains) / losses	**64**	154
Benefits paid	**(383)**	(398)
Taxes, premiums & expenses paid	**(238)**	(96)
Closing defined benefit obligation	**3,590**	3,774

Reconciliation of the fair value of scheme assets

	Consolidated 30 June 2011 $'000	**Consolidated 30 June 2010 $'000**
Opening defined benefit obligation	**4,775**	4,672
Expected return on scheme assets	**316**	311
Actuarial gains / (losses)	**(19)**	226
Contributions by scheme participants	**58**	60
Benefits paid	**(383)**	(398)
Taxes, premiums & expenses paid	**(238)**	(96)
Closing defined benefit obligation	**4,509**	4,775

26. DEFINED BENEFIT PENSION PLAN (continued)

Reconciliation of the assets and liabilities recognised in the Statement of Financial Position

	Consolidated 30 June 2011 $'000	Consolidated 30 June 2010 $'000
Defined benefit obligation *	**3,590**	3,774
Fair value of scheme assets	**4,509**	4,775
Net superannuation liability / (asset)	**(919)**	(1,001)

Expense recognised in the Statement of Comprehensive Income

	Consolidated 30 June 2011 $'000	Consolidated 30 June 2010 $'000
Service cost *	**154**	161
Interest cost	**161**	181
Expected return on assets	**(316)**	(311)
Superannuation expense / (income)	**(1)**	31

* No allowance has been made above for employer contributions for accumulation members or additional employer contributions for defined benefit members.

Amounts recognised in the Statement of Comprehensive Income

	Consolidated 30 June 2011 $'000	Consolidated 30 June 2010 $'000
Actuarial (gains) / losses	**83**	(72)
Adjustment for limit on net asset	**-**	-

Cumulative amount recognised in the Statement of Comprehensive Income

	Consolidated 30 June 2011 $'000	Consolidated 30 June 2010 $'000
Cumulative amount of actuarial (gains) / losses	**2,200**	2,117

Scheme assets

The percentage invested in each asset class at the reporting date:

	Consolidated 30 June 2011	Consolidated 30 June 2010
Australian Equity	**28%**	30%
International Equity	**27%**	26%
Fixed Income	**18%**	20%
Property	**6%**	7%
Alternatives / Other	**18%**	15%
Cash	**3%**	2%

Actual return on scheme assets

	Consolidated 30 June 2011 $'000	Consolidated 30 June 2010 $'000
Actual return on scheme assets	**297**	537

26. DEFINED BENEFIT PENSION PLAN (continued)

Principal actuarial assumptions at the reporting date

	Consolidated 30 June 2011	Consolidated 30 June 2010
Discount rate	**4.6% pa**	4.4% pa
Expected rate of return on scheme assets	**7.0% pa**	7.0% pa
Expected salary increase rate	**4.0% pa**	4.0% pa

Fair value of scheme assets

The fair value of Scheme assets includes no amounts relating to:

- any of the Employer's own financial instruments
- any property occupied by, or other assets used by, the Employer.

Expected rate of return on scheme assets

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each asset class and allowing for the correlations of the investment returns between asset classes. The returns used for each asset class are net of investment tax and investment fees.

Historical information

Financial year ending	Consolidated 30 June 2011 $'000	Consolidated 30 June 2010 $'000	RAA of SA 30 June 2009 $'000	RAA of SA 30 June 2008 $'000
Present value of defined benefit obligation	**3,590**	3,774	3,712	4,432
Fair value of scheme assets	**4,509**	4,775	4,672	7,292
(Surplus)/deficit in scheme	**(919)**	(1,001)	(960)	(2,860)
Experience adjustments				
Scheme assets - (gain)/loss	**19**	(226)	1,382	1,767
Scheme liabilities - (gain)/loss	**100**	9	211	(297)

Expected contributions

	Consolidated 30 June 2011 $'000	Consolidated 30 June 2010 $'000
Expected employer contributions	**-**	-

Nature of asset / liability

The Group has recognised an asset in the Statement of Financial Position in respect of its defined benefit superannuation arrangements. If a surplus exists in the Scheme, the Group may be able to take advantage of it in the form of a reduction in the required contribution rate for both defined benefit (and potentially for defined contribution members), depending on the advice of the Scheme's actuary.

The Employer may at any time by notice to the Trustee terminate its contributions. The Employer has a liability to pay the contributions due prior to the effective date of the notice, but there is no requirement for the Employer to pay any further contributions, irrespective of the financial condition of the Scheme.

27. DERIVATIVE FINANCIAL INSTRUMENTS

(a) Instruments used by the Association

Derivative financial instruments are used by the Association solely to hedge economic exposures to movements in interest rates and foreign exchange rates.

(i) Interest rate swap – cash flow hedge

At reporting date the Association had loans of $21.5m on which variable interest rates at an average of 6.94% were payable. In order to protect against rising interest rates, the Association entered into an interest rate swap contract under which it has a right to receive interest at a variable rate and to pay interest at a fixed rate. The swap in place covers 70% of the principal outstanding. The fixed interest rate payable under the interest swap contract is 7.25%.

The interest rate swap requires settlement of net interest receivable or payable monthly. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The swap is matched directly against the appropriate loan and interest expense and as such is considered highly effective. They are settled on a net basis. The swap is measured at fair value and all gains and losses attributable to the hedged risk are taken directly to equity and re-classified into profit or loss when the interest expense is recognized.

Movement in interest rate cash flow hedge reserve

	2011 $'000
Opening balance	**-**
Charged to comprehensive income	**66**
Closing balance	**66**

(ii) Forward currency contracts – cash flow hedges

During the year, the Association entered into a contract for the development of an insurance software solution with a company based in the UK. The cost of this software has been negotiated in GBP with scheduled payment dates over a period of 16 months. In order to protect against exchange rate volatility, the Association entered into a schedule of Forward Option Floors and Forward Exchange Contracts to purchase GBP. These contracts are hedging highly probably forecast purchases and are timed to mature when payments are scheduled to be made.

The cash flows are expected to occur within 13 months from 1 July 2011. The asset will be recognized on the statement of financial position and amortised over its effective life. At balance date, the details of outstanding contracts are;

	Notional Amount $AUD 2011 $'000	**Average exchange rate 2011**
Buy GBP/Sell AUD		
Forward option floors *	-	0.59
Forward exchange contracts	1,973	0.60

* Forward option floors at balance date spot rates are out of the money, and therefore have no intrinsic value.

27. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The Forward currency contracts are considered to be highly effective hedges as they are matched against forecast payments on the contract of development and any gain or loss on the contracts attributable to the hedged risk is taken directly to equity. When the asset is ready for use, the amount recognized in equity is adjusted to the property, plant and equipment account in the statement of financial position.

Movement in forward currency contract cash flow hedge reserve

	2011 $'000
Opening balance	-
Charged to comprehensive income	144
Closing balance	144

28. BUSINESS COMBINATION

Prior period acquisitions

On 28 February 2010, the Association received a “putting notice” from GIO Insurance Investment Holdings A Pty Ltd to acquire the remaining 50% of shares in RAA Insurance Holdings Ltd, a personal lines general insurer. At this time the Association gained economic control of RAA Insurance Holdings Ltd and its subsidiaries with the power to govern the financial and operating policies and to obtain ultimate benefits from their activities. On 29 June 2010 the purchase was finalised for cash consideration of $50,500,000, at which stage the Association owned 100% of the issued ordinary shares in RAA Insurance Holdings Pty Ltd.

The Group provisionally calculated the deferred tax liabilities arising from the business combination as $6,690,000, however, they have subsequently been determined to be $6,530,000. As a result, the goodwill balance in the comparative period has been adjusted by $160,000 to $58,041,000 at 30 June 2011.

29. COMMITMENTS

(a) Leasing commitments

The Group has entered into commercial property leases. These leases have an average life of between one to twelve years. They generally provide the Group with a right of renewal at which time all terms are renegotiated. There are no restrictions placed upon the Group by entering into these leases.

	Consolidated 2011 $'000	Consolidated 2010 $'000
Future minimum rentals payable under non-cancellable operating leases as at 30 June 2011 are as follows:		
Within one year	**1,158**	1,144
After one year but not more than five years	**1,792**	2,625
Total minimum lease payments	**2,951**	3,769
(b) Property, plant and equipment commitments		
Within one year	**35**	58
	35	58

	Consolidated 2011 $'000	Consolidated 2010 $'000
30. CONTINGENT LIABILITY		
Bank guarantees provided as security for outstanding workers' compensation claims	**730**	720

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, payables, bank loan, available for sale and held-to-maturity investments, cash and short-term deposits.

Risk exposures and responses

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The main risks arising from the Group's financial instruments are interest rate risk, price risk, credit risk and liquidity risk. The Group uses different measures to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate risk and assessments of market forecasts for interest rate and commodity prices. Ageing analysis and monitoring of specific credit allowances are undertaken to manage credit risk, liquidity risk is monitored through the development of future rolling cash flow forecasts.

Primary responsibility for identification and control of financial risk rests with the Investment Committee under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below.

Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's long-term debt obligations. The level of debt is disclosed in note 18.

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

	Consolidated 2011 $'000	Consolidated 2010 $'000
Financial assets		
Cash and cash equivalents	**19,919**	23,915
Deposits in trust account	**393**	708
	20,312	24,623
Financial liabilities		
Loan	**(6,500)**	(25,000)
Deposits in trust account	**(393)**	(708)
	(6,893)	(25,708)
Net exposure	**13,419**	(1,085)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of fixed and variable interest rates.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date;

At 30 June 2011, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

	Post Tax Profit Higher / (Lower)		Equity Higher / (Lower)	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Consolidated				
+1% (100 basis points)	84	164	84	164
-1% (100 basis points)	(84)	(164)	(84)	(164)

The movements in profits and equity are due to higher / lower interest costs from variable rate debt and cash balances. The sensitivity is lower in 2011 than in 2010 due to an decrease in financial liabilities over the twelve month period.

Significant assumptions used in the interest rate sensitivity analysis include:

- The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months from balance date

Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and committed available credit lines.

The Group manages its liquidity risk by monitoring the total cash inflows and outflows expected on a monthly basis. The Group has established comprehensive risk reporting covering its operations that reflect expectations of management of the expected settlement of financial assets and liabilities.

The following liquidity risk disclosures reflect all contractually fixed pay-offs, repayments and interest resulting from recognised financial liabilities as at 30 June 2011. For the other obligations the respective undiscounted cash flows for the respective upcoming fiscal years are presented. The timing of cash flows for liabilities is based on the contractual terms of the underlying contract. However, where the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay. When the Group is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the Group is required to pay.

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows of non-derivative financial instruments. Trade payables and other financial liabilities mainly originate from the financing of assets used in the Group's ongoing operation. Liquid non-derivative assets comprising cash and receivables are considered in the Group's overall liquidity risk. The Group ensures that sufficient liquid assets are available to meet all the required short-term cash payments.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Consolidated	**Less than 1 year** **$'000**	**1-5 years** **$'000**	**Total** **$'000**
Year ended 30 June 2011			
Liquid financial assets			
Cash and cash equivalents	19,919	-	19,919
Trade and other receivables	48,683	1,054	49,737
Deposits in trust account	393	-	393
	68,995	1,054	70,049
Financial liabilities			
Trade and other payables	9,808	-	9,808
Loan and borrowings	5,000	16,500	21,500
Deposits in trust account	393	-	393
	15,202	16,500	31,702
Net inflow / (outflow)	53,793	(15,446)	38,347

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables and available for sale financial assets. The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of the financial assets (as outlined in each applicable note).

The Group does not hold any credit derivatives to offset its credit exposure. The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by the board. These risk limits are regularly monitored.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's experience of bad debts has not been significant. The credit quality is assessed and monitored as follows:

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

	Equivalent S&P Rating (*)		Not Rated	Total
	A+ and above	BBB and below		
	$'000	$'000	$'000	$'000
Year ended 30 June 2011				
Current financial assets				
Cash and cash equivalents	19,622	-	297	19,919
Deposits in trust account	-	-	393	393
Trade and other receivables	-	-	48,683	48,683
Financial assets	44,858	-	59,587	104,445
	64,480	-	108,960	173,440
Non-current financial assets				
Financial assets			919	919
Trade and other receivables	-	-	1,054	1,054
	-	-	1,973	1,973
Year ended 30 June 2010				
Current financial assets				
Cash and cash equivalents	11,103	-	12,812	23,915
Deposits in trust account	-	-	708	708
Trade and other receivables	-	-	41,962	41,962
Financial assets	35,383	-	56,505	91,888
	46,486	-	111,987	158,473
Non-current financial assets				
Financial assets			1,001	1,001
Trade and other receivables	-	-	984	984
	-	-	1,985	1,985

(*) The equivalent S&P rating of the financial assets represents that rating of the counterparty with whom the financial asset is held rather than the rating of the financial asset itself.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value

Fair value of financial instruments can be determined according to the following three methods;

Level 1 – the fair value is calculated using quoted prices in active markets

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data

The Group has determined the fair value of its financial assets by reference to quoted prices on active markets (Level 1).

Consolidated	**2011**	**2010**
	Quoted market price (Level 1) $'000	**Quoted market price (Level 1) $'000**
Financial assets		
Financial assets at fair value through profit and loss		
Listed investments	67,646	60,946
Available for sale investments		
Listed investments	13,611	4,674
	81,257	65,620

Price risk

The Group is exposed to price risk through its investment in equity securities. A downturn in the equities market can have a negative impact on the Group's future financial performance. The impact of any significant movement is managed by ensuring that the investment portfolio consists of a high-quality holding of Australian companies diversified over a wide range of industries.

At 30 June 2011, if equity prices had moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

	Post Tax Profit Higher / (Lower)		**Other Comprehensive Income Higher / (Lower)**	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Consolidated				
+1%	**1,172**	**860**	**1,172**	**860**
-1%	**(1,172)**	**(860)**	**(1,172)**	**(860)**

The sensitivity is higher in 2011 than in 2010 because of an increase in the investment in financial assets over the twelve month period.

Significant assumptions used in the sensitivity analysis include:

- The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months from balance date

32. AUDITORS REMUNERATION

The auditor of the Parent is Ernst & Young.

	Consolidated 2011 $	Consolidated 2010 $
Amounts received or due and receivable by Ernst & Young (Australia) for:		
• An audit or review of the financial report of the entity and any other entity in the consolidated group	**60,000**	61,400
• Other services in relation to the entity and any other entity in the consolidated group		
- Income tax compliance	**35,079**	12,360
- Other tax consulting	**76,094**	28,437
	171,173	102,197

The auditor of RAA Insurance is KPMG.

	Consolidated 2011 $	Consolidated 2010 $
Amounts received or due and receivable by KPMG for:		
• An audit or review of the financial report of the entity	**87,850**	87,000
• Other services in relation to the entity		
- Auditing the APRA Returns	**16,150**	16,000
- Income tax compliance	**4,050**	9,750
- Other Services	**17,063**	44,049
	125,113	156,799

33. EVENTS AFTER THE REPORTING DATE

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Group, to significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group, in future years.

ROYAL AUTOMOBILE ASSOCIATION OF SOUTH AUSTRALIA INC.

Directors' Declaration

In accordance with a resolution of the directors of the Royal Automobile Association of South Australia Incorporated, we state that:

1. In the opinion of the Directors:

   a) The financial statements and notes of the Association and of the consolidated entity are in accordance with the Associations Incorporation Act 1985, including:

      (i) Giving a true and fair view of the Association's and consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date.

      (ii) Complying with Accounting Standards and Rules of the Association.

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

   c) In accordance with Section 35(5) of the Associations Act 1985, the Directors hereby state that during the financial year ended 30 June 2011;

      i) a. No officer of the Association

         b. No firm of which an officer is a member; and

         c. No body corporate in which an officer has a substantial financial interest,

      Has received or become entitled to receive a benefit as a result of a contract between the Officer, firm, or body corporate and the Association except for the following;

      Mr P Siebels, Director of the RAA, is a partner of the firm KPMG, which is the auditor of the subsidiary, RAA Insurance Holdings Limited.

      ii) No officer of the Association has received directly or indirectly from the Association any payment or other benefit of a pecuniary value except for the following;

      Some Directors of the RAA are also Directors of RAA Insurance. This remuneration has been disclosed in note 25 of the preceding Annual Accounts.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with the Associations Incorporation Act 1985 for the financial year ended 30 June 2011.

On behalf of the board

....	....
RG Grigg	**DA Cross**
President	Vice President

Adelaide, 26 September 2011

ERNST & YOUNG

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Independent audit report to members of the Royal Automobile Association of South Australia Incorporated

We have audited the accompanying financial report of the Royal Automobile Association of South Australia Incorporated (the Association), which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended, notes comprising a summary of significant accounting policies and other explanatory information and the Directors' declaration of the consolidated entity comprising the Association and the entities it controlled at the year's end or from time to time during the financial year.

The Directors' Responsibility for the Financial Report

The Association's directors are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and with the Associations Incorporation Act South Australia 1985, and for such internal control as management determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, management also states, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

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. Those 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 complied with the independence requirements of the Australian professional accounting bodies.

ERNST & YOUNG

Opinion

In our opinion:

(a) the financial report presents fairly, in all material respects the financial position of the Royal Automobile Association of South Australia and the consolidated entity as of 30 June 2011 and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards and *Associations Incorporations Act South Australia 1985*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Ernst & Young

Ernst & Young
Adelaide
26 September 2011