

AUSTRALIAN FRIENDLY SOCIETY LTD

Annual Report

2010



Australian Friendly Society Ltd

ABN 29 087 648 851 AFSL No. 247028

Registered Office: The Bendigo Centre, Bendigo, Victoria, 3550
Post Office Box: PO Box 480, Bendigo Victoria 3552
Telephone: (03) 5485 7891
1800 803 173 (Australia wide)
Facsimile: (03) 5485 7671
E-mail: australianfriendlysociety@bendigobank.com.au
Website: www.australianfriendlysociety.com.au

AUSTRALIAN FRIENDLY SOCIETY LTD

Annual Report

2010



CONTENTS

Chairman's Report	2-3
Directors' Report	4-8
Financial Statements	9-48
Directors' Declaration	49
Independent Audit Report	50-51

AUSTRALIAN FRIENDLY SOCIETY LTD CHAIRMAN'S REPORT

The 2009/10 year has been another successful one for the Society. The strong growth in new business demonstrated in the last few years continued, and following some improvement in the general economic and financial outlook the consolidated income and profit results also improved, which is reflected in the declared bonus rates.

During the year new business of \$10.8M was received. This was down 6% on the previous year, however the Society believes this is a good result when considering the external economic conditions, and this is still one of the strongest years of growth for the Society.

The continued relationship with Tasmanian Perpetual Trustees Limited ('TPTL') was maintained during the year and contributed with Funeral Bond sales of \$1.1M. We look forward to expanding this relationship, and enhancing it in the coming year by extending the 'Travel Protection Plan' to our Tasmanian customers, this will be available from 1 October 2010.

The good relationships that we have formed with our existing funeral directors and financial planners also assisted this positive result. We were also successful in developing new business relationships with a number of funeral directors and financial planners throughout the year, and we welcome them and thank them for supporting the Society, and also thank those who have been supporting the Society for many years.

Total members' funds increased by \$8.1M or 9.4%, with an increase in the total members' funds in the Funeral Fund of just over 10%. Total members' funds at 30 June 2010 are \$94,162,779.

Like recent years the Board's continuing approach is to build the Society's funds under management, and in doing so, to successfully expand the distribution of its Bendigo Funeral Bond. The Board have also focussed on improving results by reviewing its investment strategy to take advantage of greater returns available from some investment types, whilst maintaining an appropriate conservative approach.

This enabled the Society to increase the consolidated income and profit for the year, with income up by 25% to \$4.55M (2009 \$3.6M), and profit after tax up 50% to \$2.87M (2009 \$1.9M). This was driven in part by the improvement in market values which contributed \$886K to total income, and also by an increase in investment returns. It is hoped that the change in strategy that contributed to the 2009/10 result will also be reflected into the 2010/11 year though this will also be influenced by the market conditions in the year ahead.

The Society has declared the following bonus rates for the financial year just ended:

Capital Growth Fund	2.75% (2009: 1.50%)
Funeral Benefit Fund Non-Assessable	4.00% (2009: 2.75%)
Funeral Benefit Fund Taxable	2.50% (2009: 2.15%)

Members are also reminded that the Taxable Benefit Fund also has a Bond Tax Benefit. This increases the total return for 2010 to 3.57% (2009: 3.07%).

The Society's website www.australianfriendlyandsociety.com.au has been well visited, with numbers continuing to grow throughout the year. It gives potential and existing members another avenue to access information about the society online and you can also access Information about the Society's Funeral Bonds at the Bendigo & Adelaide Bank and Sandhurst Trustees websites. During the year the Society logo was also updated and it can be seen on the website and in this Annual Report.

Whilst the Capital Growth Fund has been closed for a number of years, the Society continues to actively manage the investment portfolio of this fund to assist in providing members with satisfactory returns.

During the year there was a change in the position of the Society's Manager, with Mrs Vicki-Lee Brown resigning and Ms Mandy Cooper joined the Society in February. Ms Cooper is a qualified accountant with considerable experience in accounting and general management in a variety of industries, and we look forward to continuing to work with her in the coming years.

The Board thanks the following parties who have provided significant support to it during the past 12 months: the Society's Actuary, Mr Barry Robertson of Mercer Finance & Risk Consulting, the Society's investment advisers, Mr Remo Greco of Carnbrea & Co and Mr Steve Laszlo from Secure Investments F.I.B. Pty Ltd, the Society's taxation adviser, Mr Tony Jacob and the Society's legal adviser, Mr Stephen Teale of TurksLegal.

With the assistance of our advisors, and our strong relationship and alliance with the Bendigo & Adelaide Bank Group through the service agreement with Sandhurst Trustees Limited, a wholly owned subsidiary of Bendigo and Adelaide Bank Limited, the Society continues to maintain a strong and sound financial position and a well managed operation geared to meet the needs of its members. I also wish to thank those staff at Sandhurst Trustees Limited who are closely involved in the day-to-day running of the Society.

It is encouraging to see a positive increase in the bonus rates declared this year, although it is recognised that they are still below pre-GFC returns. The Society, its Board and management, are endeavouring to continue to improve the returns in the coming year, whilst maintaining the excellent customer service and relationships with our funeral directors and financial planners.

I wish to thank my fellow Directors for their support in my recent tenure as Chairman of the Society. I am pleased to take on this position following the retirement of our long serving Director and Chairman, Mr Ian Cox. On behalf of the Board, management and our members I thank Mr Cox for providing in excess of 20 years of service to the Society and his role in helping drive its development, and we wish him a long and enjoyable retirement.

I also welcome Mr David Loadman who joined the Board subsequent to Mr Cox's retirement in March. Mr Loadman comes to the Board with significant experience, particularly in the legal field and we look forward to his contributions in the coming years.



Robert S. Taylor
Chairman

AUSTRALIAN FRIENDLY SOCIETY LTD DIRECTORS' REPORT

The Directors of Australian Friendly Society Ltd ('the Society') present the following report for the year ended 30 June 2010 together with the financial statements of the Society including the income statement, statement of changes in members' funds and the cash flow statement for the financial year then ended and the balance sheet as at 30 June 2010.

In accordance with a resolution of the Directors and in order to comply with the provisions of the Corporations Act, the Directors report as follows:

DIRECTORS

The names and particulars of the Directors of the Society during the year are:

Name of Director	Qualifications, experience and any special responsibilities
Mr Robert S. Taylor	F.C.A. AFS Director since March 2008 Director Guests Furniture Hire & Guest Commercial Director Robertson Group of Companies Chairman Hepburn Shire Council Audit Committee Founding Partner aCkTiF Group Managing Director AusThai Connections Pty Ltd National President – Australia Thailand Business Council Chairman of Directors since 2 nd March 2010
Mr Ian W. Cox	B.A., LLB. AFS Director since 1989 Retired solicitor Chairman of Directors until retirement on 2 nd March 2010
Mr Ian G. Mansbridge	F.C.I.M., C.P.A., F.C.I.S., D.C.M. AFS Director since 1993 Deputy Chairman Sandhurst Trustees Ltd Director Tasmanian Perpetual Trustees Ltd Chairman Community Enterprise Foundation Chairman Central Victoria Innovation Park Trustee Bendigo Art Gallery Foundation Director MyState Limited
Mr Graeme A. Stevens	F.C.A. AFS Director since 1992 Retired Partner of Deloitte Touche Tohmatsu Chartered Accountant
Mrs Marnie A. Baker	B. Bus., A.S.A., F. Fin., M.A.I.C.D. AFS Director since 2003 Director Sandhurst Trustees Ltd Executive Bendigo and Adelaide Bank Group
Mr David G. Loadman	AFS Director since 2 nd March 2010 Retired Stipendiary Magistrate and Tribunal's head Retired Solicitor Retired Barrister

AUSTRALIAN FRIENDLY SOCIETY LTD DIRECTORS' REPORT (CONTINUED)

BOARD COMMITTEES

Audit Committee

The purpose of the Audit Committee is to provide assistance to the Society's Board in relation to the oversight of the following:

- External audit function (including prudential audit requirements)
- Internal audit function
- Statutory financial reporting
- Internal control framework, including financial controls
- Formulation of the risk strategy of the Society.

The Audit Committee is comprised of: Mr G A Stevens (Chairman), Mr I G Mansbridge, Mrs M A Baker, Mr R S Taylor and Mr D G Loadman.

Investment Committee

The Investment Committee is responsible for monitoring the investment management performance of the Society's Benefit Funds and Management Fund and for providing assistance to the Society's Board in relation to the investment management of these Funds.

The Investment Committee is comprised of: Mr G A Stevens (Chairman) and Mr R S Taylor.

Marketing Committee

The Marketing Committee is responsible for the marketing and branding of the Society's Benefit Funds and Management Fund and for providing assistance to the Society's Board in relation to the promotion and brand protection of these Funds.

The Marketing Committee is comprised of: Mr R S Taylor (Chairman), Mr G A Stevens, Mr I G Mansbridge, Mr D G Loadman and Mrs M A Baker.

MEETINGS OF DIRECTORS

The number of meetings of the Australian Friendly Society's directors (including meetings of committees of directors) held during the year ended 30 June 2010 and the number attended by each director were:

	Board of Directors Meetings		Audit Committee Meetings		Investment Committee Meetings		Marketing Committee Meetings	
	A	B	A	B	A	B	A	B
Attended by								
R Taylor	7	7	7	7	21	21	2	2
I Cox*	5	4	5	4			1	1
I Mansbridge	7	7	7	7			2	2
G Stevens	7	7	7	7	21	21	2	2
M Baker	7	3	7	3			2	1
D Loadman**	2	2	2	2			1	1

* Retired on 2nd March 2010 ** Appointed on 2nd March 2010

A = Number eligible to attend
B = Number attended

**AUSTRALIAN FRIENDLY SOCIETY LTD
DIRECTORS' REPORT (CONTINUED)**

PRINCIPAL ACTIVITIES

The principal activities of the Society during the year were to provide funeral benefits and investment products to members or their dependants.

There has been no significant change in the nature of these activities during the year. The registered office of the Society is The Bendigo Centre, Bendigo, Victoria 3550 and the principal place of business is 18 View Street, Bendigo, Victoria 3550.

CONSOLIDATED SURPLUS AND MOVEMENT IN FUNDS

The Society's total net assets (before policy liabilities) at 30 June 2010 were:

	2010 \$	2009 \$
Funeral Benefit Fund – Non-Assessable	28,797,863	29,206,368
Funeral Benefit Fund – Taxable	56,299,438	47,800,459
Funeral Benefit Fund – Combined	<u>85,097,301</u>	<u>77,006,827</u>
Capital Growth Fund	5,878,916	6,257,604
Management Fund	3,186,562	2,840,515
Total	<u>94,162,779</u>	<u>86,104,946</u>

The total profit after tax of the Society for the financial year ended 30 June 2010 was:

	2010 \$	2009 \$
Benefit Funds	2,523,495	1,791,326
Management Fund	346,047	110,927
Total	<u>2,869,542</u>	<u>1,902,253</u>

REVIEW OF OPERATIONS

For the financial year ended 30 June 2010 the Funds of the Society achieved operating profit after tax as follows:

	2010 \$	2009 \$
Funeral Benefit Fund – Non-Assessable	1,151,548	796,968
Funeral Benefit Fund – Taxable	1,215,240	899,521
Funeral Benefit Fund – Combined	<u>2,366,788</u>	<u>1,696,489</u>
Capital Growth Fund	156,707	94,837
Management Fund	346,047	110,927
Total	<u>2,869,542</u>	<u>1,902,253</u>

For further information on the year's activities refer to the Chairman's Report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Society during the year.

**AUSTRALIAN FRIENDLY SOCIETY LTD
DIRECTORS' REPORT (CONTINUED)**

SIGNIFICANT AFTER BALANCE DATE EVENTS

There are no matters or circumstances that have arisen since the end of the financial year that have significantly affected or may affect the operations of the Society, the results of those operations or the state of affairs of the Society, in future financial years.

LIKELY FUTURE DEVELOPMENTS AND EXPECTED RESULTS

Information regarding likely developments in the operations of the Society and the expected results of those operations in financial years subsequent to the financial year has not been included in this report because, in the opinion of your Directors, its disclosure would prejudice the interests of the Society.

AUDITOR'S INDEPENDENCE DECLARATION

The Directors received the following declaration from the auditor of the Society:

Richmond Sinnott & Delahunty
Chartered Accountants



Partners:
Kenneth J Richmond
Warren J Sinnott
Philip P Delahunty
Brett A Andrews

17 August 2010

The Directors
Australian Friendly Society
PO Box 480
BENDIGO VIC 3552

Dear Sirs

Auditor's Independence Declaration

In relation to our audit of the financial report of Australian Friendly Society for the year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Warren Sinnott
Partner
Richmond Sinnott & Delahunty

AUSTRALIAN FRIENDLY SOCIETY LTD DIRECTORS' REPORT (CONTINUED)

DIRECTORS' BENEFITS

Neither during nor since the financial year has a Director received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the financial statements) because of a contract that the Director, or a firm of which the Director is a member, or an entity in which the Director has a substantial financial interest, has made during that, or any other, financial year with the Society.

In accordance with the Life Insurance Act 1995 the Society maintains a register containing information about the Directors and secretaries. This register is open for inspection by any member of the Society without fee and by any other person, on payment of a fee (if any) prescribed by the Society's rules.

DIRECTORS' INTERESTS IN BENEFIT FUNDS

Mr G A Stevens is entitled to an interest in the Capital Growth Fund as required by the rules of the Society. This interest is that of an ordinary member in the Capital Growth Fund. Mr I W Cox is entitled to an interest in the Funeral Benefit Fund. This interest is that of an ordinary member in the Funeral Benefit Fund.

INSURANCE OF DIRECTORS AND OFFICERS

There is a directors' and officers' insurance policy which indemnifies all the Directors and Officers of the Society against liabilities to persons outside of the Society that arise out of performance of their normal duties.

Signed in accordance with a resolution of the Directors.



Robert S Taylor, Chairman

Dated this day of 17 August 2010

**AUSTRALIAN FRIENDLY SOCIETY LTD
CONSOLIDATED**

**INCOME STATEMENT
for the year ended 30 June 2010**

	June 2010 \$	June 2009 \$
Investment income		
Interest on investments	3,872,757	4,664,548
Changes in net market values	866,473	(787,511)
Insurance commission	3,983	12,574
Realised gain on disposal of investments	(215,154)	(297,943)
Direct investment expenses	(31,457)	(17,418)
Total investment income	4,496,602	3,574,250
Other income	57,425	76,444
Total income	4,554,027	3,650,694
Operating expenses	1,447,840	1,440,339
Total operating expenses	1,447,840	1,440,339
Operating profit before income tax	3,106,187	2,210,355
Income tax expense	236,645	308,102
Operating profit after income tax	2,869,542	1,902,253
Unallocated surplus at the beginning of the year	1,921,178	2,055,492
Total available for allocation	4,790,720	3,957,745
Surplus allocated to Management Fund retained earnings	(346,047)	(110,927)
Surplus allocated to members from prior year operating profit	(1,756,747)	(1,925,640)
Unallocated surplus at the end of the year	2,687,926	1,921,178

**BALANCE SHEET
as at 30 June 2010**

	June 2010 \$	June 2009 \$
Assets		
Cash and liquid assets	4,186,506	5,502,759
Receivables	1,251,911	868,946
Investments	89,533,559	80,577,893
Other assets	30,744	44,889
Total Assets	95,002,720	86,994,487
Liabilities		
Creditors and other liabilities	839,941	889,541
Value of policy liabilities	88,288,291	81,343,253
Total Liabilities	89,128,232	82,232,794
Net Assets	5,874,488	4,761,693
Members' Funds		
Management Fund retained earnings	3,186,562	2,840,515
Unallocated surplus	2,687,926	1,921,178
Total Members' Funds	5,874,488	4,761,693

**AUSTRALIAN FRIENDLY SOCIETY LTD
CONSOLIDATED**

**STATEMENT OF CHANGES IN MEMBERS' FUNDS
for the year ended 30 June 2010**

	Management Fund retained earnings \$	Unallocated surplus \$	Total Members' Funds \$
As at 1 July 2009	2,840,515	1,921,178	4,761,693
Net profit for the year	346,047	2,523,495	2,869,542
Transfers between Management Fund and Benefit Funds	-	-	-
Bonus allocated to members' accounts	-	(1,756,747)	(1,756,747)
As at 30 June 2010	3,186,562	2,687,926	5,874,488

	Management Fund retained earnings \$	Unallocated surplus \$	Total Members' Funds \$
As at 1 July 2008	2,729,588	2,055,492	4,785,080
Net profit for the year	110,927	1,791,326	1,902,253
Transfers between Management Fund and Benefit Funds	-	-	-
Bonus allocated to members' accounts	-	(1,925,640)	(1,925,640)
As at 30 June 2009	2,840,515	1,921,178	4,761,693

**CASH FLOW STATEMENT
for the year ended 30 June 2010**

	June 2010 \$	June 2009 \$
Cashflows from operating activities		
Interest received on investments	3,085,177	4,438,962
Net application monies received and surrender monies paid	5,198,544	6,036,503
Income taxes paid	(284,871)	(456,403)
Direct expenses	(1,475,587)	(1,602,518)
Net cash provided by operating activities	6,523,263	8,416,544
Cashflows from investing activities		
Investment maturities/(purchases)	(7,839,516)	(7,872,173)
Net cash used in investing activities	(7,839,516)	(7,872,173)
Net increase/(decrease) in cash held	(1,316,253)	544,371
Cash at the beginning of the financial year	5,502,759	4,958,388
Cash at the end of the financial year	4,186,506	5,502,759

**AUSTRALIAN FRIENDLY SOCIETY LTD
MANAGEMENT FUND**

INCOME STATEMENT
for the year ended 30 June 2010

	Notes	June 2010 \$	June 2009 \$
Revenue from Ordinary Activities			
Revenue from Benefit Funds	4	1,148,909	1,063,426
Interest on investments	4	133,860	169,596
Insurance commission	4	3,983	12,574
Realised gain/(loss) on disposal of investment		(32,498)	-
Changes in net market values	4	44,324	(174,367)
Total Revenue from Ordinary Activities		1,298,578	1,071,229
Expenses from Ordinary Activities			
	4	1,274,776	1,247,271
Profit/(Loss) from Ordinary Activities before income tax		23,802	(176,042)
Income tax benefit relating to ordinary activities	5	(322,245)	(286,969)
Operating profit after income tax		346,047	110,927
Transfers to Benefit Funds		-	-
Net profit after transfers to Benefit Funds		346,047	110,927

BALANCE SHEET
as at 30 June 2010

	Notes	June 2010 \$	June 2009 \$
Assets			
Cash and liquid assets	6	492,627	229,871
Receivables	7	1,093,073	757,910
Investments	8	1,894,029	2,091,796
Other assets	9	30,744	44,889
Total Assets		3,510,473	3,124,466
Liabilities			
Creditors and other liabilities	10	323,911	283,951
Total Liabilities		323,911	283,951
Net Assets		3,186,562	2,840,515
Equity			
Retained earnings	17	3,186,562	2,840,515
Total Equity		3,186,562	2,840,515

**AUSTRALIAN FRIENDLY SOCIETY LTD
MANAGEMENT FUND**

**STATEMENT OF CHANGES IN MEMBERS' FUNDS
for the year ended 30 June 2010**

	Retained earnings \$	Total Equity \$
As at 1 July 2009	2,840,515	2,840,515
Net profit for the year	346,047	346,047
Transfers to Benefit Funds	-	-
As at 30 June 2010	3,186,562	3,186,562

	Retained earnings \$	Total Equity \$
As at 1 July 2008	2,729,588	2,729,588
Net profit for the year	110,927	110,927
Transfers to Benefit Funds	-	-
As at 30 June 2009	2,840,515	2,840,515

**CASH FLOW STATEMENT
for the year ended 30 June 2010**

	Notes	June 2010 \$	June 2009 \$
Cashflows from operating activities			
Interest received on investments		93,596	173,238
Transfer between funds		1,480,694	352,360
Income tax (payments made)/refunds received		(220,000)	208,226
Direct expenses		(1,333,625)	(1,217,448)
Net cash provided by/(used in) operating activities	18 (b)	20,665	(483,624)
Cashflows from investing activities			
Investment maturities/(purchases)		242,091	(160,850)
Net cash provided by/(used in) investing activities		242,091	(160,850)
Net increase/(decrease) in cash held		262,756	(644,474)
Cash at the beginning of the financial year		229,871	874,345
Cash at the end of the financial year	18 (a)	492,627	229,871

**AUSTRALIAN FRIENDLY SOCIETY LTD
MANAGEMENT FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting and Principles of Consolidation

These general purpose financial statements have been prepared for the year ended 30 June 2010 in accordance with the requirements of the Corporations Act, the Financial Sector (Collection of Data Act) 2001, the Life Insurance Act 1995, applicable Accounting Standards and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

The principal accounting policies adopted by the Fund are stated in order to assist in a general understanding of the financial statements. These policies have been consistently applied except as otherwise indicated.

The financial statements have been prepared on the historical cost basis, except for the valuation of investments in financial assets, which have been measured at fair value or amortised cost.

(b) Statement of Compliance

The financial statements comply with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the financial statements, including the notes thereto, comply with International Financial Reporting Standards ('IFRS'). Australian Accounting Standards that have been recently issued or amended, but are not yet effective, have not been adopted in the preparation of this financial report.

(c) Summary of Significant Accounting Policies

The accounting policies have been consistently applied and are consistent with those applied in the 30 June 2009 financial statements.

(d) Cash and Cash Equivalents

Cash on hand and in banks and short-term deposits are stated at the lower of cost or net realisable value.

For the purposes of the Cash Flow Statement, cash includes cash on hand and in banks at call, net of any outstanding bank overdrafts.

(e) Receivables

Receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

Bills of exchange and promissory notes are measured at the lower of cost and net realisable value.

Sundry debtors and other receivables are non-interest bearing and usually have repayment terms between 30 and 90 days.

(f) Investments

Bank Accepted Bills of Exchange and Negotiable Certificates of Deposit

Under AASB 139 "Financial Instruments: Recognition and Measurement", these assets are classified as "held to maturity" and are accounted for using the effective interest method.

Investment in Managed Funds

Under AASB 139, these assets are classified as "financial assets at fair value through profit or loss" and are to be measured at fair value with any changes in this recognised in the Income Statement.

Market Tradeable Securities

Under AASB 139, these assets are classified as "financial assets at fair value through profit or loss" and are to be measured at fair value with any changes in this recognised in the Income Statement. Fair value is determined by reference to actuarial assessments and relevant market quotations obtained from Australian Stock Exchange final prices as listed in The Australian Financial Review.

**AUSTRALIAN FRIENDLY SOCIETY LTD
MANAGEMENT FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Income Tax

The income tax for the financial year is the tax payable on the financial year's taxable income based on the income tax rate, adjusted for changes in deferred tax assets. The Society has adopted the balance sheet liability method of tax effect accounting, which focuses on the tax effects of transactions and other events that affect amounts recognised in either the Balance Sheet or a tax-based Balance Sheet. Deferred tax assets and liabilities are recognised for temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

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

(h) Employee Benefits

The Fund does not employ any staff, as all staff resources are provided by Sandhurst Trustees Limited and other companies within the Bendigo and Adelaide Bank Group, as part of the service agreement. No disclosure of Employee Benefits is required.

(i) Recoverable Amount

Non Current Assets are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount assets are written down. In determining recoverable amounts, the expected net cash flows have not been discounted to their present values unless otherwise stated.

(j) Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for the goods and services received, whether or not billed to the Fund. Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis. Sundry creditors are non-interest bearing and have repayment terms of between 30 and 90 days.

(k) Intra Fund Borrowing

No borrowings exist between the Management Fund and the Benefit Funds.

(l) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Revenue is recognised for the major business activities as follows:

- Interest income and service fees are brought to account on an accrual basis;
- Changes in net market value of financial assets and liabilities are recognised as revenues or expenses in the Income Statement in the year in which they occur.

**AUSTRALIAN FRIENDLY SOCIETY LTD
MANAGEMENT FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2010**

2. CHANGES IN NET MARKET VALUES

	June 2010 \$	June 2009 \$
Securities held at the reporting date		
Negotiable certificates of deposit	-	856,280
Term deposits	641,639	-
Equity securities and ordinary shares	970,717	971,107
Income securities	281,673	264,409
Total securities held at the reporting date	1,894,029	2,091,796
Securities realised during the financial year		
Negotiable certificates of deposit	875,367	-
Equity securities and ordinary shares	29,812	-
Income securities	-	104,278

3. REVENUE FROM ORDINARY ACTIVITIES

	June 2010 \$	June 2009 \$
Revenue from Benefit Funds	1,148,909	1,063,426
Interest on investments	133,860	169,596
Insurance commission	3,983	12,574
Realised gain/(loss) on disposal of investment	(32,498)	-
Change in net market values	44,324	(174,367)
Total revenue from ordinary activities	1,298,578	1,071,229

4. REVENUE AND EXPENSES

	June 2010 \$	June 2009 \$
Revenue		
Revenue from Benefit Funds	1,148,909	1,063,426
Interest on investments	133,860	169,596
Insurance commission	3,983	12,574
Realised gain/(loss) on disposal of investment	(32,498)	-
Change in net market values	44,324	(174,367)
Total revenue	1,298,578	1,071,229
Expenses		
Service fees	846,846	802,912
Advertising	23,009	7,829
Audit fees	29,500	29,500
Directors' fees	100,000	100,000
Directors' retirement allowance	6,188	29,500
Actuarial fees	52,541	69,392
Bank account charges	1,493	1,559
Commission expense	128,345	127,854
Association fees	16,702	12,708
Legal fees	9,485	15,281
Consultancy fees	14,424	14,202
Other expenses	46,243	36,534
Total expenses	1,274,776	1,247,271

**AUSTRALIAN FRIENDLY SOCIETY LTD
MANAGEMENT FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2010**

5. INCOME TAX

	June 2010 \$	June 2009 \$
The prima facie income tax on the Management Fund's operating profit before tax differs from the income tax provided in the accounts as follows:		
Tax payable on Management Fund's operating profit/(loss) before income tax at 30% (2009 - 30%)	7,141	(52,813)
Management Fund non-assessable income	(344,673)	(319,028)
Management Fund non-allowable expenses	355,444	336,074
Allocation of income tax to Management Fund from Funeral Benefit Fund in relation to policy fees	16,886	22,257
Other Adjustments	(1,195)	(3,772)
Investment (increment) decrement	(13,297)	52,310
Sub-total	20,306	35,028
<i>Less: Tax effect of:</i>		
Apportionment of deductible expenses	(343,151)	(297,779)
Benefits of imputation credits	(12,322)	(16,206)
Total current year income tax benefit	(335,167)	(278,957)
(Over)/under provision in previous years	(1,223)	-
Movement in deferred income tax asset	14,145	(8,012)
Total income tax benefit	(322,245)	(286,969)

6. CASH AND LIQUID ASSETS

	June 2010 \$	June 2009 \$
Cash on hand and at banks	119,543	101,919
Deposits at call	373,084	127,952
Total cash and liquid assets	492,627	229,871

7. RECEIVABLES

	June 2010 \$	June 2009 \$
Accrued interest	35,105	23,356
Amounts receivable from Benefit Funds	708,972	441,031
Sundry debtors	273	1,174
Prepaid expenses	17,748	20,616
Provision for income tax	330,975	271,733
Total receivables	1,093,073	757,910

**AUSTRALIAN FRIENDLY SOCIETY LTD
MANAGEMENT FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2010**

8. INVESTMENTS

	June 2010 \$	June 2009 \$
Negotiable certificates of deposit	-	856,280
Term deposits	641,639	-
Equity securities and Ordinary shares	970,717	971,107
Income securities	281,673	264,409
Total investments	1,894,029	2,091,796
<i>Maturity analysis</i>		
Not longer than 3 months	449,639	856,280
3 months to 12 months	192,000	-
Income securities and equity securities#	1,252,390	1,235,516
Total investments	1,894,029	2,091,796

Income securities and equity securities are readily saleable with no fixed terms.

9. OTHER ASSETS

	June 2010 \$	June 2009 \$
Deferred income tax asset	30,744	44,889
Total other assets	30,744	44,889

10. CREDITORS AND OTHER LIABILITIES

	June 2010 \$	June 2009 \$
Sundry creditors	126,545	118,476
Amounts payable to Benefit Funds	86,340	-
Provision for directors' retirement	60,500	117,000
Other provisions	50,526	48,475
Total creditors and other liabilities	323,911	283,951

11. REMUNERATION OF AUDITORS

	June 2010 \$	June 2009 \$
Amounts received or due and receivable by Richmond Sinnott & Delahunty for:		
- audit or review of the financial report of the Society	22,500	22,300
- other audits required by the regulators	6,000	5,700
Total remuneration of auditors	28,500	28,000

**AUSTRALIAN FRIENDLY SOCIETY LTD
MANAGEMENT FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2010**

12. DIRECTORS' REMUNERATION

	June 2010 \$	June 2009 \$
Income paid or payable or otherwise made available in respect of the financial year to all Directors of the Society, directly or indirectly from the Society.	100,000	100,000
Prescribed benefits given during the financial year by the Society to a prescribed superannuation fund in connection with the retirement of a person from a prescribed office in relation to the Society.	5,915	4,950
The number of Directors of the Society at the reporting date whose income fall within the following bands:		
\$10,000 - \$19,999	3	3
\$20,000 - \$29,999	1	1
\$30,000 - \$39,999	1	1

13. RELATED PARTY TRANSACTIONS

Directors of the Society in office at any time during the year were:

M A Baker
I W Cox (Retired 2 March 2010)
I G Mansbridge
G A Stevens
R S Taylor (Chairman)
D G Loadman (Appointed 2 March 2010)

Transactions with Director related entities

During the year, the Society was party to an agreement with Sandhurst Trustees Limited for which it paid fees for services including access to the Bendigo and Adelaide Bank Group retail branch network, director fees and other general administrative services on normal commercial terms and conditions. Investments were also made by the Society on normal commercial terms and conditions during the period. Commission is paid to Director related entities for new business received on normal commercial terms and conditions.

	June 2010 \$	June 2009 \$
Transactions with Director related entities comprised:		
Service fees	846,846	802,912
Commission	19,015	36,273

As at 30 June 2010, the Society held an investment of \$2,336,742 in the Sandhurst Select Mortgage Fund. This investment was made by the Society on normal commercial terms and conditions.

As at 30 June 2010, the Society held an investment of \$82,152 in Bendigo and Adelaide Bank Preference Shares. This investment was made by the Society on normal commercial terms and conditions.

From time to time the Directors of the Society may purchase or subscribe to the various products offered by the Society. These transactions are on the same terms and conditions as those entered into by customers. Directors of the Society received no other benefits.

Mr I W Cox, Mr I G Mansbridge and Mrs M A Baker are shareholders of Bendigo and Adelaide Bank Limited. Mr I G Mansbridge and Mrs M A Baker are Directors of Sandhurst Trustees Limited and Mrs M A Baker is also an executive of Bendigo and Adelaide Bank Limited.

**AUSTRALIAN FRIENDLY SOCIETY LTD
MANAGEMENT FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2010**

14. SEGMENT INFORMATION

The Fund operates predominantly in one geographical area, being Victoria. It operates predominantly in one industry segment, being the provision of financial services to customers.

15. ECONOMIC DEPENDENCY

The normal trading activities of the Fund depend to a significant extent on Bendigo and Adelaide Bank Limited and Sandhurst Trustees Limited continuing to provide service support.

16. SUBSEQUENT EVENTS

No events have arisen since the end of the financial year which would significantly affect or may significantly affect the operations of the Society, the results of the Management and Benefit Funds on their state of affairs in subsequent financial years.

17. RETAINED EARNINGS

	June 2010 \$	June 2009 \$
Balance at the beginning of the financial year	2,840,515	2,729,588
Net profit before income tax	23,802	(176,042)
Income tax benefit attributable to operating profit	322,245	286,969
Transfers to Benefit Funds	-	-
Balance at the end of the financial year	3,186,562	2,840,515

18. CASH FLOW STATEMENT

	June 2010 \$	June 2009 \$
(a) Reconciliation of cash For the purposes of the Cash Flow Statement, cash includes cash on hand and in banks at call. Cash at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:		
Cash and liquid assets	492,627	229,871
(b) Reconciliation of net profit after tax to net cash flows from operations		
Net profit after income tax	346,047	110,927
Unrealised market valuation decrement (increment)	(44,324)	174,367
<i>Changes in assets and liabilities</i>		
Increase in receivables	(335,163)	(421,268)
(Increase) decrease in deferred income tax asset	14,145	(8,012)
(Increase)/decrease in creditors and other liabilities	39,960	(339,638)
Net cash provided by/(used in) operating activities	20,665	(483,624)

19. CONTINGENT ASSETS AND LIABILITIES

No contingent assets or liabilities existed at, or have arisen since, the end of the financial year.

AUSTRALIAN FRIENDLY SOCIETY LTD
MANAGEMENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2010

20. ADDITIONAL DISCLOSURES

	Capital Growth Fund		Funeral Benefit Fund Non-Assessable		Funeral Benefit Fund Taxable		Funeral Benefit Fund Combined		All Benefit Funds	
	June 2010	June 2009	June 2010	June 2009	June 2010	June 2009	June 2010	June 2009	June 2010	June 2009
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
(a) Benefit Fund Allocated Surplus										
Value of Policy Liabilities (start of financial year prior to surplus allocation)	6,058,302	6,997,142	28,399,327	28,766,083	46,885,624	37,228,358	75,284,951	65,994,441	81,343,253	72,991,583
Liability component of contributions	27,034	20,446	85,758	155,622	11,318,518	12,041,826	11,404,276	12,197,448	11,431,310	12,217,894
Withdrawals (including bonuses, excluding claims expense)	(570,651)	(1,130,990)	(1,661,697)	(1,548,792)	(4,155,019)	(3,278,553)	(5,816,716)	(4,827,345)	(6,387,367)	(5,958,335)
Allocation of surplus to members (final and interim)	99,638	171,704	793,720	1,026,414	1,007,737	893,993	1,801,457	1,920,407	1,901,095	2,092,111
Value of Policy Liability (end of financial year)	5,614,323	6,058,302	27,617,108	28,399,327	55,056,860	46,885,624	82,673,968	75,284,951	88,288,291	81,343,253
(b) Abbreviated Benefit Fund Income Statement										
Net investment income	314,006	284,744	1,483,524	1,122,692	2,580,860	2,176,429	4,064,384	3,299,121	4,378,390	3,583,865
Other income	-	-	1,139	2,254	56,286	74,190	57,425	76,444	57,425	76,444
Fees to Management Fund	(78,785)	(85,753)	(376,351)	(377,201)	(663,629)	(548,714)	(1,039,980)	(925,915)	(1,118,765)	(1,011,668)
Other expenses	(8,389)	(22,472)	(22,412)	(41,396)	(203,864)	(198,376)	(226,276)	(239,772)	(234,665)	(262,244)
Income tax (expense) benefit	(70,125)	(81,682)	65,648	90,619	(554,413)	(604,008)	(488,765)	(513,389)	(558,890)	(595,071)
Profit after income tax	156,707	94,837	1,151,548	796,968	1,215,240	899,521	2,366,788	1,696,489	2,523,495	1,791,326

AUSTRALIAN FRIENDLY SOCIETY LTD
MANAGEMENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2010

20. ADDITIONAL DISCLOSURES (CONTINUED)

	Capital Growth Fund		Funeral Benefit Fund Non-Assessable		Funeral Benefit Fund Taxable		Funeral Benefit Fund Combined		All Benefit Funds	
	June 2010	June 2009	June 2010	June 2009	June 2010	June 2009	June 2010	June 2009	June 2010	June 2009
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
(b) Abbreviated Benefit Fund Income Statement (continued)										
Unallocated surplus at the beginning of the financial year	199,302	255,223	807,041	1,006,370	914,835	793,899	1,721,876	1,800,269	1,921,178	2,055,492
Surplus allocated to members	(91,416)	(150,758)	(777,834)	(996,297)	(887,497)	(778,585)	(1,665,331)	(1,774,882)	(1,756,747)	(1,925,640)
Transfers to (from) benefit fund	-	-	-	-	-	-	-	-	-	-
Unallocated surplus at the end of the financial year	264,593	199,302	1,180,755	807,041	1,242,578	914,835	2,423,333	1,721,876	2,687,926	1,921,178
(c) Total Member Funds										
Total Member Funds (value of policy liabilities plus unallocated surplus)									90,976,217	83,264,431
(d) Benefit Fund Balance Sheet Summary										
Net Assets (total Member Funds)	264,593	199,302	1,180,755	807,041	1,242,578	914,835	2,423,333	1,721,876	2,687,926	1,921,178
Other Liabilities	5,751,216	6,154,621	27,654,714	28,753,747	56,209,590	47,492,915	83,864,304	76,246,662	89,615,520	82,401,283
Total Assets	6,015,809	6,353,923	28,835,469	29,560,788	57,452,168	48,407,750	86,287,637	77,968,538	92,303,446	84,322,461
(e) Solvency Requirement										
Solvency Requirement (SR)	5,965,502	6,297,302	28,835,469	29,534,638	57,452,168	48,390,133	86,287,637	77,924,771	92,253,139	84,222,073
Ratio of SR to Gross Assets	99.16%	99.11%	100.00%	99.91%	100.00%	99.96%	100.00%	99.94%	99.95%	99.88%

AUSTRALIAN FRIENDLY SOCIETY LTD
MANAGEMENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2010

21. ASSETS HELD ON BEHALF OF BENEFIT FUND MEMBERS

	Capital Growth Fund		Funeral Benefit Fund Non-Assessable		Funeral Benefit Fund Taxable		Funeral Benefit Fund Combined		All Benefit Funds	
	June 2010	June 2009	June 2010	June 2009	June 2010	June 2009	June 2010	June 2009	June 2010	June 2009
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Assets										
Cash and liquid assets	721,556	875,291	1,040,304	756,645	1,932,019	3,640,952	2,972,323	4,397,597	3,693,879	5,272,888
Receivables	58,247	41,252	395,543	158,974	516,247	363,250	911,790	522,224	970,037	563,476
Securities	5,236,006	5,437,380	27,399,622	28,645,169	55,003,902	44,403,548	82,403,524	73,048,717	87,639,530	78,486,097
Total Assets	6,015,809	6,353,923	28,835,469	29,560,788	57,452,168	48,407,750	86,287,637	77,968,538	92,303,446	84,322,461

**AUSTRALIAN FRIENDLY SOCIETY LTD
MANAGEMENT FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2010**

22. FINANCIAL RISK MANAGEMENT

The Society has exposure to credit risk, liquidity risk and market risk from its use of financial instruments.

This note presents information about the Society's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established both an Audit Committee and an Investment Committee which report regularly to the Board. The Audit Committee is assisted in the area of risk management by an internal audit function.

(a) Credit Risk

Credit risk is the risk of financial loss to the Society if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The maximum exposure to credit risk at balance date to recognised financial assets is the carrying amount of these assets as disclosed in the Balance Sheet and notes to the financial statements.

The Company's exposure to credit risk is limited to Australia by geographic area. The following table outlines the Society's primary credit risk concentration by credit equivalent:

	June 2010 \$	June 2009 \$
Banks	87,229,726	78,184,261
Other non-banks	6,490,339	7,896,391
Total exposure to credit risk	93,720,065	86,080,652

None of the assets of the Society are past due (2009: nil past due) and based on historic default rates, the Society believes that no impairment allowance is necessary in respect of assets not past due.

The Society limits its exposure to credit risk by having in place approved guidelines in respect of:

- * minimum liquidity requirements
- * asset allocation limits
- * asset holding limits
- * counterparty limits

The Board of Directors review these approved guidelines on a regular basis to ensure they remain effective.

(b) Liquidity Risk

Liquidity risk is the risk that the Society will not be able to meet its financial obligations as they fall due. The Society ensures that it will have enough liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Society's reputation. Liquidity management is carried out within the guidelines set by the Board.

Liquidity risk for Benefit Funds relate to its ability to meet benefit payments. For the Management Fund, liquidity risk relates to the ability of the fund to promptly meet its obligations as they fall due.

Typically, the Society maintains sufficient cash on hand to meet expected day-to-day operational expenses and payments, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

**AUSTRALIAN FRIENDLY SOCIETY LTD
MANAGEMENT FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2010**

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity Risk (continued)

The following are the estimated contractual maturities of financial liabilities, including estimated interest payments:

<i>Management Fund</i>	Carrying amount \$	Contractual cash flows \$	1 year or less \$	Over 1 year to 5 years \$	More than 5 years \$
30 June 2010					
Creditors and other liabilities	323,911	(323,911)	(323,911)	-	-
Total financial liabilities	323,911	(323,911)	(323,911)	-	-
30 June 2009					
Creditors and other liabilities	283,951	(283,951)	(283,951)	-	-
Total financial liabilities	283,951	(283,951)	(283,951)	-	-

<i>Funeral Benefit Fund - Taxable</i>	Carrying amount \$	Contractual cash flows \$	1 year or less \$	Over 1 year to 5 years \$	More than 5 years \$
30 June 2010					
Creditors and other liabilities	1,152,730	(1,152,730)	(1,152,730)	-	-
Total financial liabilities	1,152,730	(1,152,730)	(1,152,730)	-	-
30 June 2009					
Creditors and other liabilities	607,291	(607,291)	(607,291)	-	-
Total financial liabilities	607,291	(607,291)	(607,291)	-	-

<i>Funeral Benefit Fund - Non-Assessable</i>	Carrying amount \$	Contractual cash flows \$	1 year or less \$	Over 1 year to 5 years \$	More than 5 years \$
30 June 2010					
Creditors and other liabilities	37,606	(37,606)	(37,606)	-	-
Total financial liabilities	37,606	(37,606)	(37,606)	-	-
30 June 2009					
Creditors and other liabilities	354,420	(354,420)	(354,420)	-	-
Total financial liabilities	354,420	(354,420)	(354,420)	-	-

<i>Capital Growth Fund</i>	Carrying amount \$	Contractual cash flows \$	1 year or less \$	Over 1 year to 5 years \$	More than 5 years \$
30 June 2010					
Creditors and other liabilities	136,893	(136,893)	(136,893)	-	-
Total financial liabilities	136,893	(136,893)	(136,893)	-	-
30 June 2009					
Creditors and other liabilities	96,319	(96,319)	(96,319)	-	-
Total financial liabilities	96,319	(96,319)	(96,319)	-	-

**AUSTRALIAN FRIENDLY SOCIETY LTD
MANAGEMENT FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2010**

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market Risk

Market risk is the risk that changes in market prices, such as interest rates, property prices and share prices will affect the Society's income or value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

The Society is exposed in the interest rate and equity markets.

Market risks are minimised through the selection of high quality counterparties and financial institutions. The Society does not use derivatives or foreign currency to manage its market risk.

(c) (i) Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Society reviews the exposure to interest rate risk on a regular basis.

At the reporting date the interest rate profile of the Society's *interest bearing* financial instruments was:

Management Fund	June 2010 \$	June 2009 \$
Fixed rate instruments		
Financial assets	1,606,829	1,812,834
Financial liabilities	-	-
Net fixed rate instruments	1,606,829	1,812,834
Variable rate instruments		
Financial assets	779,827	508,833
Financial liabilities	-	-
Net variable rate instruments	779,827	508,833

Funeral Benefit Fund - Taxable	June 2010 \$	June 2009 \$
Fixed rate instruments		
Financial assets	53,694,186	43,403,548
Financial liabilities	-	-
Net fixed rate instruments	53,694,186	43,403,548
Variable rate instruments		
Financial assets	3,241,735	4,234,800
Financial liabilities	-	-
Net variable rate instruments	3,241,735	4,234,800

**AUSTRALIAN FRIENDLY SOCIETY LTD
MANAGEMENT FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2010**

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) (i) Interest Rate Risk (continued)

<i>Funeral Benefit Fund - Non-Assessable</i>	June 2010 \$	June 2009 \$
Fixed rate instruments		
Financial assets	26,716,198	28,043,803
Financial liabilities	-	-
Net fixed rate instruments	26,716,198	28,043,803
Variable rate instruments		
Financial assets	1,723,728	1,358,011
Financial liabilities	-	-
Net variable rate instruments	1,723,728	1,358,011

<i>Capital Growth Fund</i>	June 2010 \$	June 2009 \$
Fixed rate instruments		
Financial assets	5,236,006	5,437,380
Financial liabilities	-	-
Net fixed rate instruments	5,236,006	5,437,380
Variable rate instruments		
Financial assets	721,556	875,291
Financial liabilities	-	-
Net variable rate instruments	721,556	875,291

(c) (ii) Fair value sensitivity analysis for fixed rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2009.

<i>Management Fund</i>	Profit or loss		Equity	
	100bp increase \$	100bp decrease \$	100bp increase \$	100bp decrease \$
	30 June 2010			
Fixed rate instruments - fair value sensitivity	(16,671)	16,671	(16,671)	16,671
30 June 2009				
Fixed rate instruments - fair value sensitivity	(15,727)	15,727	(15,727)	15,727

<i>Funeral Benefit Fund - Taxable</i>	Profit or loss		Equity	
	100bp increase \$	100bp decrease \$	100bp increase \$	100bp decrease \$
	30 June 2010			
Fixed rate instruments - fair value sensitivity	(68,289)	68,289	(68,289)	68,289
30 June 2009				
Fixed rate instruments - fair value sensitivity	(57,786)	57,786	(57,786)	57,786

**AUSTRALIAN FRIENDLY SOCIETY LTD
MANAGEMENT FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2010**

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) (ii) Fair value sensitivity analysis for fixed rate instruments (continued)

<i>Funeral Benefit Fund - Non-Assessable</i>	Profit or loss		Equity	
	100bp increase	100bp decrease	100bp increase	100bp decrease
	\$	\$	\$	\$
30 June 2010				
Fixed rate instruments - fair value sensitivity	(79,822)	79,822	(79,822)	79,822
30 June 2009				
Fixed rate instruments - fair value sensitivity	(47,346)	47,346	(47,346)	47,346

<i>Capital Growth Fund</i>	Profit or loss		Equity	
	100bp increase	100bp decrease	100bp increase	100bp decrease
	\$	\$	\$	\$
30 June 2010				
Fixed rate instruments - fair value sensitivity	(6,420)	6,420	(6,420)	6,420
30 June 2009				
Fixed rate instruments - fair value sensitivity	(1,750)	1,750	(1,750)	1,750

(c) (iii) Fair value sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have had no impact on equity and profit or loss for the current and prior year.

(c) (iv) Equity Price Risk

Equity price risk is the risk that the fair value of market tradeable instruments will fluctuate because of changes in market prices. The Society reviews the exposure to equity price risk on a regular basis.

(c) (v) Fair value sensitivity analysis for market tradeable instruments

A change of 10% in market tradeable instrument prices at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2009.

<i>Management Fund</i>	Profit or loss		Equity	
	10% increase	10% decrease	10% increase	10% decrease
	\$	\$	\$	\$
30 June 2010				
Market tradeable instruments - fair value sensitivity	127,777	(127,777)	127,777	(127,777)
30 June 2009				
Market tradeable instruments - fair value sensitivity	125,816	(125,816)	125,816	(125,816)

**AUSTRALIAN FRIENDLY SOCIETY LTD
MANAGEMENT FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2010**

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) (v) Fair value sensitivity analysis for market tradeable instruments (continued)

<i>Funeral Benefit Fund - Taxable</i>	Profit or loss		Equity	
	10% increase	10% decrease	10% increase	10% decrease
	\$	\$	\$	\$
30 June 2010				
Market tradeable instruments - fair value sensitivity	709,755	(709,755)	709,755	(709,755)
30 June 2009				
Market tradeable instruments - fair value sensitivity	529,787	(529,787)	529,787	(529,787)

<i>Funeral Benefit Fund - Non-Assessable</i>	Profit or loss		Equity	
	10% increase	10% decrease	10% increase	10% decrease
	\$	\$	\$	\$
30 June 2010				
Market tradeable instruments - fair value sensitivity	491,613	(491,613)	491,613	(491,613)
30 June 2009				
Market tradeable instruments - fair value sensitivity	450,671	(450,671)	450,671	(450,671)

<i>Capital Growth Fund</i>	Profit or loss		Equity	
	10% increase	10% decrease	10% increase	10% decrease
	\$	\$	\$	\$
30 June 2010				
Market tradeable instruments - fair value sensitivity	46,092	(46,092)	46,092	(46,092)
30 June 2009				
Market tradeable instruments - fair value sensitivity	40,331	(40,331)	40,331	(40,331)

(d) Net Fair Values

All financial assets and liabilities have been recognised at balance date at their net fair values and approximate total carrying amounts as per the Balance Sheet.

(e) Capital Management

The Society has in place appropriate policies and procedures in regards to the continuous monitoring and management of the Benefit Fund Solvency and Capital Adequacy Requirements. The Society ensures that at all times the gross assets of each of the Benefit Funds exceeds the Solvency and Capital Adequacy Requirements, as defined in Prudential Standards 2.04 and 3.04 respectively. The Society's Appointed Actuary is required to confirm this at 30 June each year as part of the Financial Condition Report.

In regards to the Management Fund, the Society has established a target that assets of the Management Fund shall be approximately 5% of the Benefit Fund assets recognising that this is only a target rather than a minimum requirement and that this will vary over time. The Society is required to ensure that at all times, the gross assets of the Management Fund exceed the Management Capital Requirement (MCR), as defined in Prudential Standard 6.03. As above, the Society's Appointed Actuary is required to confirm this at 30 June each year as part of the Financial Condition Report.

There were no changes in the Company's approach to capital management during the year.

**AUSTRALIAN FRIENDLY SOCIETY LTD
FUNERAL BENEFIT FUND**

**INCOME STATEMENT
for the year ended 30 June 2010**

	Notes	Funeral Benefit Fund Non-Assessable		Funeral Benefit Fund Taxable		Funeral Benefit Fund Combined	
		June 2010 \$	June 2009 \$	June 2010 \$	June 2009 \$	June 2010 \$	June 2009 \$
Investment income							
Interest on investments		1,212,515	1,656,822	2,268,809	2,458,198	3,481,324	4,115,020
Changes in net market values		395,189	(330,071)	370,527	(266,205)	765,716	(596,276)
Realised gain on disposal of investments		(124,180)	(204,059)	(58,476)	(15,564)	(182,656)	(219,623)
Direct investment expenses		(5,359)	(8,969)	(25,931)	(6,923)	(31,290)	(15,892)
Total investment income		1,478,165	1,113,723	2,554,929	2,169,506	4,033,094	3,283,229
Other Income		1,139	2,254	56,286	74,190	57,425	76,444
Total Income		1,479,304	1,115,977	2,611,215	2,243,696	4,090,519	3,359,673
Operating expenses							
Fees to Management Fund		376,351	377,201	663,629	548,714	1,039,980	925,915
Other expenses	3	17,053	32,427	177,933	191,453	194,986	223,880
Total operating expenses		393,404	409,628	841,562	740,167	1,234,966	1,149,795
Operating profit before income tax		1,085,900	706,349	1,769,653	1,503,529	2,855,553	2,209,878
Income tax expense (benefit)	4	(65,648)	(90,619)	554,413	604,008	488,765	513,389
Operating profit after income tax		1,151,548	796,968	1,215,240	899,521	2,366,788	1,696,489
Unallocated surplus at the beginning of the financial year		807,041	1,006,370	914,835	793,899	1,721,876	1,800,269
Transfers from Management Fund		-	-	-	-	-	-
Total available for allocation		1,958,589	1,803,338	2,130,075	1,693,420	4,088,664	3,496,758
Surplus allocated to members from prior year operating profit		(777,834)	(996,297)	(887,497)	(778,585)	(1,665,331)	(1,774,882)
Unallocated surplus at the end of the financial year		1,180,755	807,041	1,242,578	914,835	2,423,333	1,721,876

**AUSTRALIAN FRIENDLY SOCIETY LTD
FUNERAL BENEFIT FUND**

**BALANCE SHEET
as at 30 June 2010**

	Notes	Funeral Benefit Fund Non-Assessable		Funeral Benefit Fund Taxable		Funeral Benefit Fund Combined	
		June 2010 \$	June 2009 \$	June 2010 \$	June 2009 \$	June 2010 \$	June 2009 \$
Assets							
Cash and liquid assets	5	1,040,304	756,645	1,932,019	3,640,952	2,972,323	4,397,597
Receivables	6	395,543	158,974	516,247	363,250	911,790	522,224
Investments	7	27,399,622	28,645,169	55,003,902	44,403,548	82,403,524	73,048,717
Total Assets		28,835,469	29,560,788	57,452,168	48,407,750	86,287,637	77,968,538
Liabilities							
Creditors and other liabilities	8	37,606	354,420	1,152,730	607,291	1,190,336	961,711
Value of policy liabilities	9	27,617,108	28,399,327	55,056,860	46,885,624	82,673,968	75,284,951
Total Liabilities		27,654,714	28,753,747	56,209,590	47,492,915	83,864,304	76,246,662
Net Assets		1,180,755	807,041	1,242,578	914,835	2,423,333	1,721,876
Members' Funds							
Unallocated surplus		1,180,755	807,041	1,242,578	914,835	2,423,333	1,721,876
Total Members' Funds		1,180,755	807,041	1,242,578	914,835	2,423,333	1,721,876

**AUSTRALIAN FRIENDLY SOCIETY LTD
FUNERAL BENEFIT FUND**

**STATEMENT OF CHANGES IN MEMBERS' FUNDS
for the year ended 30 June 2010**

	Funeral Benefit Fund Non-Assessable		Funeral Benefit Fund Taxable		Funeral Benefit Fund Combined	
	Unallocated surplus \$	Total Members' Funds \$	Unallocated surplus \$	Total Members' Funds \$	Unallocated surplus \$	Total Members' Funds \$
	As at 1 July 2009	807,041	807,041	914,835	914,835	1,721,876
Net profit for the year	1,151,548	1,151,548	1,215,240	1,215,240	2,366,788	2,366,788
Transfers from Management Fund	-	-	-	-	-	-
Bonus allocated to members' accounts	(777,834)	(777,834)	(887,497)	(887,497)	(1,665,331)	(1,665,331)
As at 30 June 2010	1,180,755	1,180,755	1,242,578	1,242,578	2,423,333	2,423,333

	Funeral Benefit Fund Non-Assessable		Funeral Benefit Fund Taxable		Funeral Benefit Fund Combined	
	Unallocated surplus \$	Total Members' Funds \$	Unallocated surplus \$	Total Members' Funds \$	Unallocated surplus \$	Total Members' Funds \$
	As at 1 July 2008	1,006,370	1,006,370	793,899	793,899	1,800,269
Net profit for the year	796,968	796,968	899,521	899,521	1,696,489	1,696,489
Transfers from Management Fund	-	-	-	-	-	-
Bonus allocated to members' accounts	(996,297)	(996,297)	(778,585)	(778,585)	(1,774,882)	(1,774,882)
As at 30 June 2009	807,041	807,041	914,835	914,835	1,721,876	1,721,876

**AUSTRALIAN FRIENDLY SOCIETY LTD
FUNERAL BENEFIT FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting and Principles of Consolidation

These general purpose financial statements have been prepared for the year ended 30 June 2010 in accordance with the requirements of the Corporations Act, the Financial Sector (Collection of Data Act) 2001, the Life Insurance Act 1995, applicable Accounting Standards and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

The principal accounting policies adopted by the Fund are stated in order to assist in a general understanding of the financial statements. These policies have been consistently applied except as otherwise indicated.

The financial statements have been prepared on the historical cost basis, except for the valuation of investments in financial assets, which have been measured at fair value or amortised cost.

(b) Statement of Compliance

The financial statements comply with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the financial statements, including the notes thereto, comply with International Financial Reporting Standards ('IFRS'). Australian Accounting Standards that have been recently issued or amended, but are not yet effective, have not been adopted in the preparation of this financial report.

(c) Summary of Significant Accounting Policies

The accounting policies have been consistently applied and are consistent with those applied in the 30 June 2009 financial statements.

(d) Cash and Cash Equivalents

Cash on hand and in banks and short-term deposits are stated at the lower of cost and net realisable value.

(e) Receivables

Receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

Bills of exchange and promissory notes are measured at the lower of cost and net realisable value.

Sundry debtors and other receivables are non interest bearing and usually have repayment terms of between 30 and 90 days.

(f) Investments

Bank Accepted Bills of Exchange and Negotiable Certificates of Deposit

Under AASB 139 "Financial Instruments: Recognition and Measurement", these assets are classified as "held to maturity" and are accounted for using the effective interest method.

Investment in Managed Funds

Under AASB 139, these assets are classified as "financial assets at fair value through profit or loss" and are to be measured at fair value with any changes in this recognised in the Income Statement.

Market Tradeable Securities

Under AASB 139, these assets are classified as "financial assets at fair value through profit or loss" and are to be measured at fair value with any changes in this recognised in the Income Statement. Fair value is determined by reference to actuarial assessments and relevant market quotations obtained from Australian Stock Exchange final prices as listed in The Australian Financial Review.

**AUSTRALIAN FRIENDLY SOCIETY LTD
FUNERAL BENEFIT FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Income Tax

The income tax for the financial year is the tax payable on the financial year's taxable income based on the income tax rate, adjusted for changes in deferred tax assets. The Society has adopted the balance sheet liability method of tax effect accounting, which focuses on the tax effects of transactions and other events that affect amounts recognised in either the Balance Sheet or a tax-based Balance Sheet. Deferred tax assets and liabilities are recognised for temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

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

Effective 1 January 2003, the Government made changes to the income tax treatment of funeral policies issued by friendly societies with the following effect:

- bonds issued before 1 January 2003 - investment income is non-assessable.
 - bonds issued from 1 January 2003 - investment income is subject to tax but benefits paid receive a tax credit.
- Accordingly, the financial statements for the Funeral Benefit Fund disclose separately the Non-Assessable and Taxable business.

(h) Employee Benefits

The Fund does not employ any staff, as all staff resources are provided by Sandhurst Trustees Limited and other companies within the Bendigo and Adelaide Bank Group, as part of the service agreement. No disclosure of Employee Benefits is required.

(i) Recoverable Amount

Non Current Assets are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount assets are written down. In determining recoverable amount, the expected net cash flows have not been discounted to their present value using a market determined risk adjusted discount rate.

(j) Payables

Liabilities for trade creditors and other amounts are carried at a cost which is the fair value of the consideration to be paid in the future for the goods and services received, whether or not billed to the fund. Payables to related parties are carried at the principal amount. Interest when charged by the lender is recognised as an expense on an accrual basis. Sundry creditors are non interest bearing and have repayment terms between 30 and 90 days.

(k) Intra Fund Borrowing

No borrowings exist between the Management Fund and the Funeral Benefit Fund.

(l) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. Revenue is recognised for the major business activities as follows:

- Interest income is brought to account on an accrual basis;
- Changes in net market value of financial assets and liabilities are recognised as revenues or expenses in the Income Statement in the year in which changes occur.

(m) Provision for Impairment

A provision for any impairment is established based on a review of all outstanding amounts at year end. Bad debts are written off against the provision when they are identified.

**AUSTRALIAN FRIENDLY SOCIETY LTD
FUNERAL BENEFIT FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Appointed Actuary Statement

AASB 1038 Section 14.1 states that there must be included in the financial statements of a friendly society a summary of the significant elements of the calculation processes and significant assumptions used in deriving the results of the valuation.

Policy Liability Valuation

The policy liabilities for Benefit Funds are determined in accordance with Prudential Standard LPS 1.04 issued by the Australian Prudential Regulation Authority under the Life Insurance Act 1995.

For the Funeral Funds, the policy liability has been taken to be the value of assets of the fund less accounting liabilities, surplus and the value of the current period bonus. This liability represents the present value of guaranteed benefits (pre bonus) plus the present value of future bonuses. Following declaration of the bonus, there would then be little or no surplus under this arrangement. The Funds currently expect to deduct 1.5% of the Funds' assets from investment earnings for expense allowances. It has been assumed that interest will be earned in future years at rates after tax sufficient at least to meet this level of expense.

There is no provision in the Funds' rules for any surplus to be transferred to the Management Fund. The Management Fund receives specified fee transfers from the funds to cover expenses. All remaining assets are to be used to provide benefits to members and hence there is no profit and consequently, no need for a profit carrier.

Changes in economic conditions and demographics will alter the unallocated surplus. The Capital Requirements are designed to ensure there is sufficient unallocated surplus to cover the effect of these changes.

Expense margin

The expenses of the Benefit Funds are equal to the management allowances transferred to the Management Fund plus other expenses.

Solvency and Capital Adequacy

Friendly Societies are required to hold prudential reserves over and above their policy liabilities, as a buffer against adverse experience and poor investment returns. The minimum level of reserves required to be held is laid down by the Life Insurance Act 1995 and accompanying Prudential Standards. These standards are Prudential Standards LPS 2.04 and LPS 3.04. These standards have been met for the Benefit Funds as at 30 June 2010.

**AUSTRALIAN FRIENDLY SOCIETY LTD
FUNERAL BENEFIT FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2010**

2. CHANGES IN NET MARKET VALUES

	Funeral Benefit Fund Non-Assessable		Funeral Benefit Fund Taxable		Funeral Benefit Fund Combined	
	June 2010	June 2009	June 2010	June 2009	June 2010	June 2009
	\$	\$	\$	\$	\$	\$
Securities held at the reporting date						
Other public securities	876,296	1,051,928	367,371	828,921	1,243,667	1,880,849
Negotiable certificates of deposit	3,988,668	18,733,272	7,466,251	25,917,631	11,454,919	44,650,903
Term deposits	18,559,589	1,000,000	36,560,458	1,000,000	55,120,047	2,000,000
Other debt securities	-	4,449,835	3,988,285	12,013,385	3,988,285	16,463,220
Equity securities	3,975,069	3,410,134	6,621,537	4,643,611	10,596,606	8,053,745
Total securities held at the reporting date	27,399,622	28,645,169	55,003,902	44,403,548	82,403,524	73,048,717
Securities realised during the financial year						
Other public securities	260,849	557,614	513,750	-	774,599	557,614
Negotiable certificates of deposit	10,815,917	11,000,000	25,420,703	10,063,486	36,236,620	21,063,486
Other debt securities	4,500,000	18,500,000	6,100,000	4,000,000	10,600,000	22,500,000
Equity securities and Ordinary shares	344,878	615,231	344,764	1,495,378	689,642	2,110,609

3. OTHER EXPENSES

	Funeral Benefit Fund Non-Assessable		Funeral Benefit Fund Taxable		Funeral Benefit Fund Combined	
	June 2010	June 2009	June 2010	June 2009	June 2010	June 2009
	\$	\$	\$	\$	\$	\$
Termination bonuses	-	-	97,942	79,596	97,942	79,596
Interim bonuses	15,886	30,117	22,298	35,812	38,184	65,929
Policy transfer fee	1,167	2,310	57,693	76,045	58,860	78,355
Total other expenses	17,053	32,427	177,933	191,453	194,986	223,880

**AUSTRALIAN FRIENDLY SOCIETY LTD
FUNERAL BENEFIT FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2010**

4. INCOME TAX

	Funeral Benefit Fund Non-Assessable		Funeral Benefit Fund Taxable		Funeral Benefit Fund Combined	
	June 2010	June 2009	June 2010	June 2009	June 2010	June 2009
	\$	\$	\$	\$	\$	\$
The prima facie tax on the Funeral Benefit Fund's operating profit before income tax differs from the income tax provided in the accounts as follows:						
Tax payable on operating profit before income tax at 30% (2009 - 30%)	-	-	530,896	451,059	530,896	451,059
Benefit Fund non-allowable expenses	-	-	211,119	182,856	211,119	182,856
Allocation of income tax expense to Management Fund in relation to policy fees	-	-	(16,886)	(22,257)	(16,886)	(22,257)
Investment decrement (increment)	-	-	(111,158)	79,861	(111,158)	79,861
Sub-total	-	-	613,971	691,519	613,971	691,519
Less: Tax effect of benefits of imputation credits	(65,648)	(90,619)	(59,558)	(87,511)	(125,206)	(178,130)
Total income tax expense (benefit)	(65,648)	(90,619)	554,413	604,008	488,765	513,389

As referred to in note 1(g), investment income on bonds issued prior to 1 January 2003 is non-assessable. However, the Non-Assessable Funeral Benefit Fund is still entitled to the benefit of imputation credits for franked dividends paid to it.

5. CASH AND LIQUID ASSETS

	Funeral Benefit Fund Non-Assessable		Funeral Benefit Fund Taxable		Funeral Benefit Fund Combined	
	June 2010	June 2009	June 2010	June 2009	June 2010	June 2009
	\$	\$	\$	\$	\$	\$
Cash on hand and at banks	129,424	248,803	355,657	428,314	485,081	677,117
Deposits at call	910,880	507,842	1,576,362	3,212,638	2,487,242	3,720,480
Total cash and liquid assets	1,040,304	756,645	1,932,019	3,640,952	2,972,323	4,397,597

**AUSTRALIAN FRIENDLY SOCIETY LTD
FUNERAL BENEFIT FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2010**

6. RECEIVABLES

	Funeral Benefit Fund Non-Assessable		Funeral Benefit Fund Taxable		Funeral Benefit Fund Combined	
	June 2010	June 2009	June 2010	June 2009	June 2010	June 2009
	\$	\$	\$	\$	\$	\$
Accrued interest	217,118	54,320	487,820	101,607	704,938	155,927
Amount receivable from Management Fund	86,340	-	(150)	-	86,190	-
Amount receivable from Benefit Funds	12,303	10,409	3,586	-	15,889	10,409
Sundry debtors	14,134	7,905	24,991	261,643	39,125	269,548
Provision for income tax	65,648	86,340	-	-	65,648	86,340
Total receivables	395,543	158,974	516,247	363,250	911,790	522,224

7. INVESTMENTS

	Funeral Benefit Fund Non-Assessable		Funeral Benefit Fund Taxable		Funeral Benefit Fund Combined	
	June 2010	June 2009	June 2010	June 2009	June 2010	June 2009
	\$	\$	\$	\$	\$	\$
Bank accepted bills	-	4,449,835	3,988,285	12,013,385	3,988,285	16,463,220
Negotiable certificates of deposit	3,988,668	18,733,272	7,466,251	25,917,631	11,454,919	44,650,903
Term deposits	18,559,589	1,000,000	36,560,458	1,000,000	55,120,047	2,000,000
Equity securities and Ordinary Shares	3,975,069	3,410,134	6,621,537	4,643,611	10,596,606	8,053,745
Income securities	876,296	1,051,928	367,371	828,921	1,243,667	1,880,849
Total investments	27,399,622	28,645,169	55,003,902	44,403,548	82,403,524	73,048,717
<i>Maturity analysis</i>						
Not longer than 3 months	13,248,257	23,183,107	41,414,994	37,931,016	54,663,251	61,114,123
3 months to 12 months	9,300,000	1,000,000	6,600,000	1,000,000	15,900,000	2,000,000
Income securities and equity securities#	4,851,365	4,462,062	6,988,908	5,472,532	11,840,273	9,934,594
Total investments	27,399,622	28,645,169	55,003,902	44,403,548	82,403,524	73,048,717

Income securities and equity securities are readily saleable with no fixed terms.

**AUSTRALIAN FRIENDLY SOCIETY LTD
FUNERAL BENEFIT FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2010**

8. CREDITORS AND OTHER LIABILITIES

	Funeral Benefit Fund Non-Assessable		Funeral Benefit Fund Taxable		Funeral Benefit Fund Combined	
	June 2010	June 2009	June 2010	June 2009	June 2010	June 2009
	\$	\$	\$	\$	\$	\$
Amount payable to Management Fund	33,492	353,969	595,627	59,798	629,119	413,767
Amount payable to Benefit Funds	3,586	-	12,303	10,409	15,889	10,409
Sundry creditors	528	451	27,901	11,377	28,429	11,828
Provision for income tax	-	-	516,899	525,707	516,899	525,707
Total creditors and other liabilities	37,606	354,420	1,152,730	607,291	1,190,336	961,711

9. TRANSFERS TO OR FROM VALUE OF POLICY LIABILITIES (MEMBERS' LIABILITIES)

	Funeral Benefit Fund Non-Assessable		Funeral Benefit Fund Taxable		Funeral Benefit Fund Combined	
	June 2010	June 2009	June 2010	June 2009	June 2010	June 2009
	\$	\$	\$	\$	\$	\$
Balance/liability at the beginning of the financial year (prior to surplus allocation)	28,399,327	28,766,083	46,885,624	37,228,358	75,284,951	65,994,441
Allocation of surplus as at the end of the previous financial year	777,834	996,297	887,497	778,585	1,665,331	1,774,882
Liability component of contributions	85,758	155,622	11,318,518	12,041,826	11,404,276	12,197,448
Allocation of surplus during the year (eg. Interim bonuses)	15,886	30,117	120,240	115,408	136,126	145,525
Withdrawals (including bonuses, excluding claims expenses)	(1,661,697)	(1,548,792)	(4,155,019)	(3,278,553)	(5,816,716)	(4,827,345)
Balance/liability at the end of the financial year	27,617,108	28,399,327	55,056,860	46,885,624	82,673,968	75,284,951
Proposed allocation of surplus (annual)	n/a	n/a	n/a	n/a	n/a	n/a

**AUSTRALIAN FRIENDLY SOCIETY LTD
FUNERAL BENEFIT FUND**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2010

10. COMPONENTS OF LIFE INSURANCE ACT SHAREHOLDERS' OPERATING PROFIT

	Funeral Benefit Fund Non-Assessable		Funeral Benefit Fund Taxable		Funeral Benefit Fund Combined	
	June 2010	June 2009	June 2010	June 2009	June 2010	June 2009
	\$	\$	\$	\$	\$	\$
Life Insurance Act Unallocated Operating Profit in the Benefit Funds						
Investment earnings on assets in excess of policy liabilities	42,074	25,892	31,767	20,248	73,841	46,141
Experience profit (loss)	1,125,360	801,193	1,303,713	994,681	2,429,073	1,795,873
Life insurance act unallocated operating profit after income tax	1,167,434	827,085	1,335,480	1,014,929	2,502,914	1,842,014
Reconciliation to Income Statement						
Life insurance act unallocated operating profit after income tax	1,167,434	827,085	1,335,480	1,014,929	2,502,914	1,842,014
Less interim and termination bonuses	(15,886)	(30,117)	(120,240)	(115,408)	(136,126)	(145,525)
Operating profit after income tax as per Income Statement	1,151,548	796,968	1,215,240	899,521	2,366,788	1,696,489

11. COMPONENTS OF POLICY LIABILITIES

	Funeral Benefit Fund Non-Assessable		Funeral Benefit Fund Taxable		Funeral Benefit Fund Combined	
	June 2010	June 2009	June 2010	June 2009	June 2010	June 2009
	\$	\$	\$	\$	\$	\$
Best Estimate Liability						
Value of Future Policy Benefits	27,617,108	28,399,327	55,056,860	46,885,624	82,673,968	75,284,951
Total Best Estimate Liability	27,617,108	28,399,327	55,056,860	46,885,624	82,673,968	75,284,951
Value of Future Profits						
Total Value of Declared Bonuses	1,105,586	780,892	1,240,453	897,218	2,346,039	1,678,110
Net Policy Liabilities	28,722,694	29,180,219	56,297,313	47,782,842	85,020,007	76,963,061

**AUSTRALIAN FRIENDLY SOCIETY LTD
FUNERAL BENEFIT FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2010**

12. SEGMENT INFORMATION

The Fund operates predominantly in one geographical area, being Victoria and through interstate branches of the Bendigo and Adelaide Bank Group and selected agents throughout Australia. The Fund operates predominantly in one business segment, being the provision of financial services to customers throughout Australia.

13. ECONOMIC DEPENDENCY

The normal trading activities of the Fund depend to a significant extent on Bendigo and Adelaide Bank Limited and Sandhurst Trustees Limited continuing to provide service support.

14. FINANCIAL RISK MANAGEMENT

Details of the financial risk management of this Fund are disclosed on pages 23 to 28 of this annual report.

15. SUBSEQUENT EVENTS

No events have arisen since the end of the financial year which would significantly affect or may significantly affect the operations of the Society, the results of the Management and Benefit Funds or their state of affairs in subsequent financial years.

16. CONTINGENT ASSETS AND LIABILITIES

No contingent assets or liabilities existed at, or have arisen since, the end of the financial year.

**AUSTRALIAN FRIENDLY SOCIETY LTD
CAPITAL GROWTH FUND**

**INCOME STATEMENT
for the year ended 30 June 2010**

Notes	June 2010 \$	June 2009 \$
Income		
Interest on investments	257,573	379,932
Realised gain on disposal of investments	-	(78,320)
Changes in net market values	56,433	(16,868)
Direct investment expenses	(167)	(1,526)
Total income	313,839	283,218
Operating expenses		
Fees to Management Fund	78,785	85,753
Other expenses	8,222	20,946
Total operating expenses	87,007	106,699
Operating profit before income tax	226,832	176,519
Income tax expense	70,125	81,682
Operating profit after income tax	156,707	94,837
Unallocated surplus at the beginning of the financial year	199,302	255,223
Total available for allocation	356,009	350,060
Surplus allocated to members from prior year operating profit	(91,416)	(150,758)
Unallocated surplus at the end of the financial year	264,593	199,302

**BALANCE SHEET
as at 30 June 2010**

Notes	June 2010 \$	June 2009 \$
Assets		
Cash and liquid assets	721,556	875,291
Receivables	58,247	41,252
Investments	5,236,006	5,437,380
Total Assets	6,015,809	6,353,923
Liabilities		
Creditors and other liabilities	136,893	96,319
Value of policy liabilities	5,614,323	6,058,302
Total Liabilities	5,751,216	6,154,621
Net Assets	264,593	199,302
Members' Funds		
Unallocated surplus	264,593	199,302
Total Members' Funds	264,593	199,302

**AUSTRALIAN FRIENDLY SOCIETY LTD
CAPITAL GROWTH FUND**

**STATEMENT OF CHANGES IN MEMBERS' FUNDS
for the year ended 30 June 2010**

	Unallocated surplus	Total Members' Funds
	\$	\$
As at 1 July 2009	199,302	199,302
Net profit for the year	156,707	156,707
Transfers from Management Fund	-	-
Bonus allocated to members' accounts	(91,416)	(91,416)
As at 30 June 2010	264,593	264,593

	Unallocated surplus	Total Members' Funds
	\$	\$
As at 1 July 2008	255,223	255,223
Net profit for the year	94,837	94,837
Transfers from Management Fund	-	-
Bonus allocated to members' accounts	(150,758)	(150,758)
As at 30 June 2009	199,302	199,302

**AUSTRALIAN FRIENDLY SOCIETY LTD
CAPITAL GROWTH FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting and Principles of Consolidation

These general purpose financial statements have been prepared for the year ended 30 June 2010 in accordance with the requirements of the Corporations Act, the Financial Sector (Collection of Data Act) 2001, the Life Insurance Act 1995, applicable Accounting Standards and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

The principal accounting policies adopted by the Fund are stated in order to assist in a general understanding of the financial statements. These policies have been consistently applied except as otherwise indicated.

The financial statements have been prepared on the historical cost basis, except for the valuation of investments in financial assets, which have been measured at fair value or amortised cost.

(b) Statement of Compliance

The financial statements comply with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the financial statements, including the notes thereto, comply with International Financial Reporting Standards ('IFRS'). Australian Accounting Standards that have been recently issued or amended, but are not yet effective, have not been adopted in the preparation of this financial report.

(c) Summary of Significant Accounting Policies

The accounting policies have been consistently applied and are consistent with those applied in the 30 June 2009 financial statements.

(d) Cash and Cash Equivalents

Cash on hand and at banks and deposits at call are stated at the lower of cost and net realisable value.

(e) Receivables

Receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

Sundry debtors and other receivables are non interest bearing and usually have repayment terms between 30 and 90 days.

(f) Investments

Bank Accepted Bills of Exchange and Negotiable Certificates of Deposit

Under AASB 139 "Financial Instruments: Recognition and Measurement", these assets are classified as "held to maturity" and are accounted for using the effective interest method.

Investment in Managed Funds

Under AASB 139, these assets are classified as "financial assets at fair value through profit or loss" and are to be measured at fair value with any changes in this recognised in the Income Statement.

Market Tradeable Securities

Under AASB 139, these assets are classified as "financial assets at fair value through profit or loss" and are to be measured at fair value with any changes in this recognised in the Income Statement. Fair value is determined by reference to actuarial assessments and relevant market quotations obtained from Australian Stock Exchange final prices as listed in The Australian Financial Review.

**AUSTRALIAN FRIENDLY SOCIETY LTD
CAPITAL GROWTH FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Income Tax

The income tax for the financial year is the tax payable on the financial year's taxable income based on the income tax rate, adjusted for changes in deferred tax assets. The Society has adopted the balance sheet liability method of tax effect accounting, which focuses on the tax effects of transactions and other events that affect amounts recognised in either the Balance Sheet or a tax-based Balance Sheet. Deferred tax assets and liabilities are recognised for temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

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

(h) Employee Benefits

The Fund does not employ any staff, as all staff resources are provided by Sandhurst Trustees Limited and other companies within the Bendigo and Adelaide Bank Group, as part of the service agreement. No disclosure of Employee Benefits is required.

(i) Recoverable Amount

Non Current Assets are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount assets are written down. In determining recoverable amount, the expected net cash flows have not been discounted to their present value using a market determined risk adjusted discount rate.

(j) Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for the goods and services received, whether or not billed to the Fund. Payables to related parties are carried at the principal amount. Interest when charged by the lender is recognised as an expense on an accrual basis. Sundry creditors are non interest bearing and have repayment terms of between 30 and 90 days.

(k) Intra Fund Borrowing

No borrowings exist between the Management Fund and the Capital Growth Fund. Amounts payable to the Management Fund include amounts transferred to satisfy seed capital requirements.

(l) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. Revenue is recognised for the major business activities as follows:

- Interest income is brought to account on an accrual basis;
- Changes in net market value of financial assets and liabilities are recognised as revenues or expenses in the Income Statement in the year in which changes occur.

(m) Provision for Impairment

A provision for any impairment is established based on a review of all outstanding amounts at year end. Bad debts are written off against the provision when they are identified.

(n) Appointed Actuary Statement

AASB 1038 Section 14.1 states that there must be included in the financial statements of a friendly society a summary of the significant elements of the calculation processes and significant assumptions used in deriving the results of the valuation.

**AUSTRALIAN FRIENDLY SOCIETY LTD
CAPITAL GROWTH FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Policy Liability Valuation

The policy liabilities for Benefit Funds are determined in accordance with Prudential Standard LPS 1.04 issued by the Australian Prudential Regulation Authority under the Life Insurance Act 1995.

For the Capital Growth Fund, the policy liabilities are valued using the accumulation method. The policy liability is the contributions made by members, net of contribution fees, together with bonus additions to date. The balance of the Fund is accounting liabilities and surplus. The current bonus declaration reduces the surplus and correspondingly increases the policy liabilities. The Fund currently expect to deduct 1.5% of the Fund's assets from investment earnings for expense allowances. It has been assumed that interest will be earned in future years at rates after tax sufficient at least to meet this level of expense.

There is no provision in the Fund's rules for any surplus to be transferred to the Management Fund. The Management Fund receives specified fee transfers from the fund to cover expenses. All remaining assets are to be used to provide benefits to members and hence there is no profit and consequently, no need for a profit carrier.

Changes in economic conditions and demographics will alter the unallocated surplus. The Capital Requirements are designed to ensure there is sufficient unallocated surplus to cover the effect of these changes.

Expense margin

The expenses of the Benefit Funds are equal to the management allowances transferred to the Management Fund plus other expenses.

Solvency and Capital Adequacy

Friendly Societies are required to hold prudential reserves over and above their policy liabilities, as a buffer against adverse experience and poor investment returns. The minimum level of reserves required to be held is laid down by the Life Insurance Act 1995 and accompanying Prudential Standards. These standards are Prudential Standards LPS 2.04 and LPS 3.04. These standards have been met for the Benefit Funds as at 30 June 2010.

2. CHANGES IN NET MARKET VALUES

	June 2010 \$	June 2009 \$
Securities held at the reporting date		
Negotiable certificates of deposit	-	1,532,073
Term Deposits	2,441,403	-
Other debt securities	2,336,742	3,504,174
Equity securities	457,861	401,133
Total securities held at the reporting date	5,236,006	5,437,380
Securities realised during the financial year		
Negotiable certificates of deposit	1,565,132	1,500,000
Term Deposits	578,000	-
Other debt securities	1,263,704	-
Income securities	-	131,616

**AUSTRALIAN FRIENDLY SOCIETY LTD
CAPITAL GROWTH FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2010**

3. OTHER EXPENSES

	June 2010 \$	June 2009 \$
Termination bonuses	4,984	9,309
Interim bonuses	3,238	11,637
Total other expenses	8,222	20,946

4. INCOME TAX

	June 2010 \$	June 2009 \$
The prima facie tax on the Capital Growth Fund's operating profit before tax differs from the income tax provided in the accounts as follows:		
Tax payable on operating profit before income tax at 30% (2009 - 30%)	68,050	52,956
Benefit Fund non-allowable expenses	25,526	31,382
Investment (increment) decrement	(16,930)	5,060
Sub-total	76,646	89,398
Less: Tax effect of benefits of imputation credits	(6,521)	(7,716)
Total income tax expense	70,125	81,682

5. CASH AND LIQUID ASSETS

	June 2010 \$	June 2009 \$
Cash on hand and at banks	150,464	348,653
Deposits at call	571,092	526,638
Total cash and liquid assets	721,556	875,291

6. RECEIVABLES

	June 2010 \$	June 2009 \$
Accrued interest	55,419	39,770
Sundry debtors	2,828	1,482
Total receivables	58,247	41,252

**AUSTRALIAN FRIENDLY SOCIETY LTD
CAPITAL GROWTH FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2010**

7. INVESTMENTS

	June 2010 \$	June 2009 \$
Mortgage common funds	2,336,742	3,504,174
Term Deposits	2,441,403	-
Negotiable certificates of deposit	-	1,532,073
Equity securities	208,502	214,582
Income securities	-	-
Capital convertible notes	249,359	186,551
Total investments	5,236,006	5,437,380
<i>Maturity analysis</i>		
Not longer than 3 months	4,200,145	5,036,247
3 months to 12 months	578,000	-
Income securities, capital convertible notes and equity securities#	457,861	401,133
Total investments	5,236,006	5,437,380
# Income securities, capital convertible notes and equity securities are readily saleable with no fixed terms.		

8. CREDITORS AND OTHER LIABILITIES

	June 2010 \$	June 2009 \$
Sundry creditors	137	137
Amounts payable to Management Fund	79,853	27,264
Provision for income tax	56,903	68,918
Total creditors and other liabilities	136,893	96,319

9. TRANSFERS TO OR FROM VALUE OF POLICY LIABILITIES (MEMBERS' LIABILITIES)

	June 2010 \$	June 2009 \$
Balance/liability at the beginning of the financial year (prior to surplus allocation)	6,058,302	6,997,142
Allocation of surplus as at the end of the previous financial year	91,416	150,758
Liability component of contributions	27,034	20,446
Allocation of surplus during the year (eg. Interim bonuses)	8,222	20,946
Withdrawals (including bonuses, excluding claims expense)	(570,651)	(1,130,990)
Balance/liability at the end of the financial year	5,614,323	6,058,302
Proposed allocation of surplus (annual)	n/a	n/a

**AUSTRALIAN FRIENDLY SOCIETY LTD
CAPITAL GROWTH FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 30 June 2010**

10. COMPONENTS OF LIFE INSURANCE ACT SHAREHOLDERS' OPERATING PROFIT

	June 2010 \$	June 2009 \$
Life Insurance Act Unallocated Operating Profit in the Benefit Funds		
Investment earnings on assets in excess of policy liabilities	7,211	6,557
Experience profit (loss)	157,718	109,226
Life insurance act unallocated operating profit after income tax	164,929	115,783
Reconciliation to Income Statement		
Life insurance act unallocated operating profit after income tax	164,929	115,783
Less interim and termination bonuses	(8,222)	(20,946)
Operating profit after income tax as per Income Statement	156,707	94,837

11. COMPONENTS OF POLICY LIABILITIES

	June 2010 \$	June 2009 \$
Best Estimate Liability		
Value of Future Policy Benefits	5,614,323	6,058,302
Total Best Estimate Liability	5,614,323	6,058,302
Value of Future Profits		
Total Value of Declared Bonuses	154,329	91,612
Net Policy Liabilities	5,768,652	6,149,914

12. SEGMENT INFORMATION

The Fund operates predominantly in one geographical area, being Victoria and through interstate branches of the Bendigo and Adelaide Bank Group and selected agents throughout Australia. The Fund operates predominantly in one industry segment, being the provision of financial services to customers throughout Australia.

13. ECONOMIC DEPENDENCY

The normal trading activities of the Fund depend to a significant extent on Bendigo and Adelaide Bank Limited and Sandhurst Trustees Limited continuing to provide service support.

14. FINANCIAL RISK MANAGEMENT

Details of the financial risk management of this Fund are disclosed on pages 23 to 28 of this annual report.

15. SUBSEQUENT EVENTS

No events have arisen since the end of the financial year which would significantly affect or may significantly affect the operations of the Society, the results of the Management and Benefit Funds or their state of affairs in subsequent financial years.

16. CONTINGENT ASSETS AND LIABILITIES

No contingent assets or liabilities existed at, or have arisen since, the end of the financial year.

AUSTRALIAN FRIENDLY SOCIETY LTD DIRECTORS' DECLARATION

The Directors declare that the financial statements and notes as set out on pages 9 to 48:

- (a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the Consolidated Society, Management Fund and each Benefit Fund's financial position as at 30 June 2010 and of their performance as represented by the results of their operations and their cashflows for the year ended on that date; and

In the Directors' opinion:

- (a) The financial statements and notes of the Consolidated Society, Management Fund and Benefit Funds are properly drawn up in accordance with the requirements of the Life Insurance Act 1995, the Financial Sector (Collection of Data Act) 2001 and the Corporations Act 2001;
- (b) The Income Statement truly represents the profit or loss determined in accordance with the requirements of the Life Insurance Act 1995, the Financial Sector (Collection of Data Act) 2001 and the Corporations Act 2001, for the financial year ended 30 June 2010, of the Friendly Society;
- (c) The Balance Sheet truly represents the financial position consistent with the requirements of the Life Insurance Act 1995, the Financial Sector (Collection of Data Act) 2001 and the Corporations Act 2001, as at 30 June 2010, of the Friendly Society;
- (d) The distribution of the surplus of the Benefit Funds of the Friendly Society has been made in accordance with Divisions 5 and 6 of Part 4 of the Corporations Act 2001 and the approved benefit fund rules of each Benefit Fund;
- (e) Any assets of the Benefit Funds of the Friendly Society have not been applied or invested in contravention of the Corporations Act 2001; and
- (f) There are reasonable grounds to believe that, as at the time this statement is made, the Management Fund of the Friendly Society and each of the Benefit Funds of the Friendly Society will be able to pay all debts or claims that are referable to it.

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



Robert S. Taylor
Chairman

17 August 2010



Graeme A. Stevens
Director

17 August 2010



Independent Audit Report
To the members of the Australian Friendly Society Ltd

Scope

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for Australian Friendly Society Ltd ('the company'), consisting of Capital Growth Fund, Funeral Benefit Fund and Management Fund, for the financial year ended 30 June 2010 as set out on pages 9 to 49.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are established to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly in accordance with the Corporations Act 2001, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Management and each Benefit Fund's financial position, and of their performance as represented by the results of operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant account estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not

include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit Opinion

In our opinion, the financial report of each Benefit Fund and Management Fund of Australian Friendly Society Ltd are in accordance with:

- (a) the Corporations Act 2001 including:
 - (i) giving a true and fair view of each Benefit Fund and Management Fund's financial position as at 30 June 2010 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards, and the Corporations Regulations 2001;
- (b) the Life Insurance Act 1995, Prudential Rules and other mandatory professional reporting requirements;
- (c) the records of the Company on which the financial statements are based record properly the affairs and transactions of the Company;
- (d) the apportionments made under Division 2 of Part 6 of the Act have been made equitably and in accordance with generally accepted accounting principles; and
- (e) no part of the assets of the benefit funds have been applied directly or indirectly in contravention of the provisions of Division 1 of Part 4 and Division 4 of Part 2A of the Act.

Richmond Sinnott & Delahunty
Richmond Sinnott & Delahunty
Chartered Accountants

W. Sinnott
Warren J Sinnott
Partner

Bendigo
17 August 2010