Peoplecare

Annual Report 2012

Peoplecare Health Insurance
Lysaght Peoplecare Limited
A registered private health insurer
ABN 95 087 648 753

Contents

Message from Chairman

When we address the numbers in an annual financial return, it is easy to become deeply involved in the statistical importance of growth and profit, for these elements are of absolute significance when we look at the question of why we grow to these new heights. For each of the past five years Peoplecare has experienced growth in percentage terms quite outside industry results and this has been achieved while still maintaining a very sound capital base.

This year directors and executives worked with a talented group of strategic planners (Tough Problems) to try and chart the next five years. Our strategy was based around the fundamental question we always need to answer. "How can we continue to increase our customer relevance and value, expand our sphere of operations and continue to deliver a unique service that is responsive to members' emerging expectations given the rapidly changing competitive environment and the limitations of capital, capacity and capability?"

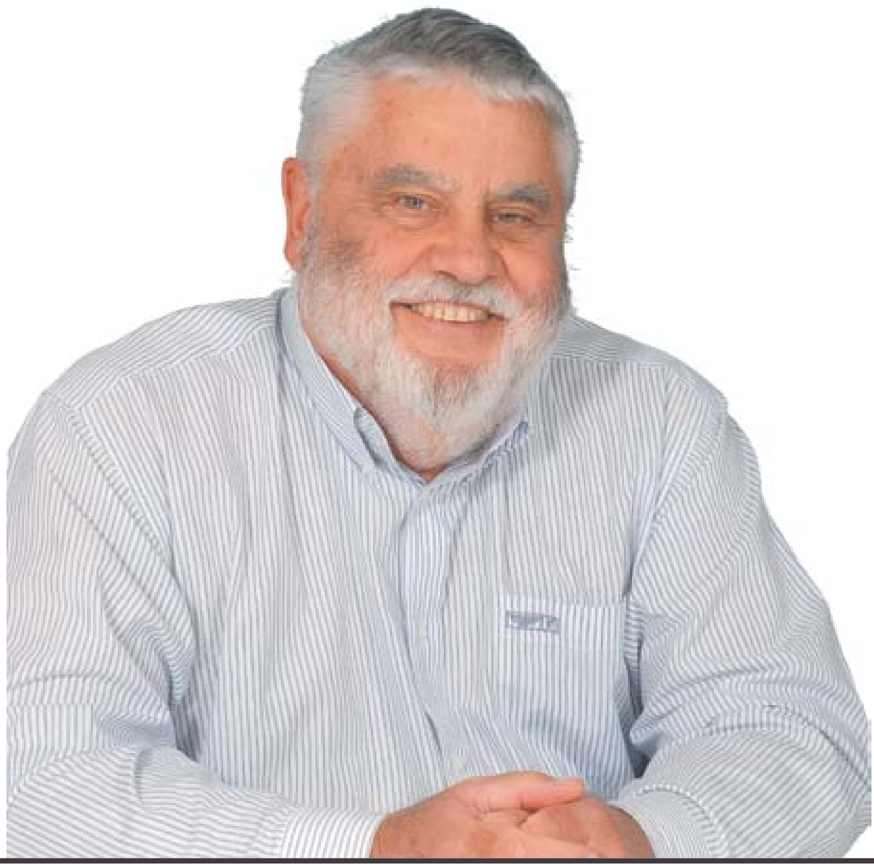
We recognised that to continue to offer the levels of service and competitive benefits to our membership within our mutual Not For Profit environment we still needed to increase member numbers and profitability. Only by managed growth can we guarantee we have the capacity to generate sufficient funds to maintain our pre-eminent electronic capability for members to communicate with us in the new environment and to attract highly qualified and motivated staff to develop cost effective and competitive products that our members deserve.

Of course another important element is to ensure that this necessary growth is cost effective and doesn't involve existing members with additional cost. We have been able to achieve this objective again this year, and our newly developed strategy will enable your fund to continue this managed growth into the future.

All of our achievements are the results of a highly motivated team of staff, executives and directors who have again worked together to deliver outstanding results for the membership during 2011/12. I record my thanks for their continuing effort on behalf of the membership of Peoplecare.

Norman W Branson Dip Bus (RMIT), FAICD (Dip)
Chairman

8 September 2012



CEO's Report

The past year has again been successful for Peoplecare with strong financial performance and fund growth and the continuation of an extremely high level of customer satisfaction.

The strategic plan for the company has been diligently pursued during the course of the year and my report focuses on describing our achievements against the plan. This is our report card:

1. Product and Service Competitiveness

We are committed to providing our members with products and services that are highly valued. To ensure that this is achieved we regularly review competitors' offerings and also have our products regularly assessed by independent evaluators; such as Choice magazine, Canstar Cannex and the Australian Financial Review Smart Investor. It is very satisfying that we continue to be rated highly by these independent organisations.

The delivery of exceptional customer service is critical to our ongoing success and during the past year our annual member satisfaction survey was conducted with 1,511 members participating that resulted in a 97.8% satisfaction rating – another exceptional result.

Personal service is the clear objective of all employees at Peoplecare and we all take great pride in delivering a responsive and quality service to members. By way of example; 95.3% of all telephone calls were answered within 15 seconds and virtually all general treatment (Extras) claims were processed within 24 hours during 2011-12. In addition, around 75% of eligible claims were processed electronically through our HICAPS electronic claims systems, eliminating the need for members to submit separate claims. We have also expanded the range of online member services and online claiming through our new website and importantly via mobile devices, which gives members additional choices for their fund transactions. Electronic hospital claims processing has now also expanded rapidly with more than 50% of all claims now being received and processed automatically.

We also ensure that we have robust processes in place that benefit members and to this end we retain full compliance with the standards established by the private health insurance Code of Conduct. This self-regulatory Code is designed to promote enhanced standards in service to consumers through improved staff training, policy documentation, privacy and dispute resolution.

2. Growth and Retention

During 2011/12, the growth in member numbers was again outstanding with membership increasing from 24,409 to 28,249 members covering 65,722 people. This represents net growth of 15.73% which is exceptionally pleasing in the context of the industry average growth rate of 3.65%*. This continued growth in membership demonstrates the value of the Peoplecare products and service.

Additionally, our member attrition rate of 6.2% is lower than the industry average of 7.7%, which is an impressive result. (Source: PHIAC A Reports – 4 quarters to March 2012).

Our brand positioning clearly illustrates our point of difference and the brand refresh that was launched just 2 years ago has been highly successful in portraying the Peoplecare values and culture as well as significantly improving the growth rate and lowering the overall age demographics of the membership - this is of long term benefit to all members. The performance and engagement of our staff in delivering on the key brand values has been instrumental in driving our ongoing success.

3. Financial Strength

Peoplecare's financial performance for the 2011/12 financial year continued to be strong with a surplus of $4,883,762.

Peoplecare is a not-for-profit fund owned and operated by its members (no shareholders) and all fund surpluses generated are held in reserves for payment of future benefits to members and their families, to improve the benefits and services provided to members and to meet statutory reserve requirements. These reserves are invested on behalf of the membership.

* Source: PHIAC A Reports - 4 quarters to March 2012

The following table summarises the trading results for the financial year and the past two years.

Summary of Results	2012		2011		2010	
	% income	$000	% income	$000	% income	$000
Contribution Income		85,872		73,100		63,025
Less Member Benefits Paid	77.50%	66,552	77.13%	56,385	77.90%	49,067
Less Risk Equalisation Trust Fund	9.37%	8,050	7.79%	5,698	8.40%	5,301
Less State Ambulance Levy	1.31%	1,128	1.37%	1,005	1.50%	928
Gross Margin	11.81%	10,142	13.70%	10,012	12.20%	7,729
Less Management Expenses attributable to the Health Benefit's Fund	8.82%	7,574	9.22%	6,739	8.80%	5,559
Underwriting Result	2.99%	2,568	4.48%	3,273	3.40%	2,170
Add Investment & Other Income (net of expenses)	2.70%	2,316	3.86%	2,823	3.40%	2,112
Net Surplus / (Deficit)	5.69%	4,884	8.34%	6,096	6.80%	4,282

Management expenses (the cost of administering the fund) are in line with the industry average at 8.82% for the 2011/12 financial year.

We have maintained our external relationships with a number of other parties and use our infrastructure and competencies in order to generate additional income for the benefit of our health insurance members. During the past year we have received significant additional revenues from the management fees that we collect from National Health Benefits Australia Pty Ltd and Reserve Bank Health Society Limited (each separate health funds managed by Peoplecare), licence fees from operating health insurance benefits arrangements for international students in Australia via a third party relationship with Allianz Global Assistance and a travel insurance agency with QBE Travel.

4. Technology Leadership

One of our objectives is to be an early adopter and IT leader and to maximise the return on investment in technology to deliver cost effective service enhancements and business efficiencies.

During the 2011/12 financial year, we have maintained our focus on the development of our infrastructure to assist us to operate more efficiently and cost effectively for the benefit of members. We have expanded the capability of our electronic systems whereby a greater level of claims are now being received electronically making it easier for our members to do business with us.

We have also further developed web site and mobile facilities to allow members to transact with us any time of the day or night. There has been a fantastic take up of these services that deliver real value to our members.

5. People, Skills and Culture

Our employees are our heroes and we have developed a high performing, appropriately skilled and culturally aligned workforce. Our front line employees deliver outstanding service to our members and it is critical that they are well trained and experienced in delivering superior service.

We encourage all staff to focus on business improvements, participate in regular training programs and keep abreast of the latest business developments through our regular information sessions and team meetings.

All employees have regular individual performance reviews to set goals and ensure their ongoing development and high performance. Succession planning for the Board and Management team is also an integral part of the Peoplecare business in order to ensure business continuity and viability.

The Board is committed to providing the company with a management team with a wide range of complementary skills and a wealth of industry knowledge and that are appropriately experienced and qualified for their area of responsibility.

Our staff willingly engage in a wide range of community and charity events and this is also a key part of the Peoplecare culture.

6. Corporate Strength

At Peoplecare we are collaborative and seek to provide leadership and innovation within the health insurance industry and with our key business partners.

Peoplecare is strongly committed to the partner organisations that provide our IT services (HAMB Systems Ltd), hospital and medical contracting services (Australian Health Service Alliance) and our industry association (hirmaa). I have retained my Board positions on each of these organisations in the 2011/12 financial year.

We also encourage our senior executives to play a significant role in a number of local organisations for their professional development and to utilise their expertise and influence for the good of the local community.

We are proud of our heritage as a mutual Not For Profit organisation and consider this structure to be in the best interests of our members in the long term.

Summary

The 2011/12 financial year has been a significant year in terms of continuing strong financial performance and exceptional growth backed by exceptional service delivery.

At the close of the financial year we have seen the introduction of the Private Health Insurance Rebate amendments that came into effect on 1 July 2012. This will result in reductions in the level of premium support to members by Government for those members whose income exceeds the established thresholds. The impact of this legislative change will not be clear for some time, however at Peoplecare we are confident in our ability to continue to deliver high quality products and service that is valued by our members.

This coming year will also acknowledge the 60th anniversary of the company that commenced operations at CRM at Port Kembla in October 1952. We are all indebted to the foresight and passion of those that saw the benefit of establishing their own mutual health insurance organisation all those years ago. Many of the original members remain members to this day and I say to them thank you for your loyalty and ongoing support.

I am privileged to have the opportunity to lead the Peoplecare organisation and I express my sincere thanks to our Board, dedicated management and employees and all of our members for their ongoing support.

Michael Bassingthwaighte
Chief Executive Officer

8 September 2012

Director's Report

The Directors present their report together with the annual general purpose financial report of Lysaght Peoplecare Limited for the year ended 30 June 2012 and the auditors' report thereon.

Directors

The Directors of the company, at any time during the year, are:

Norman Branson

DipBus (RMIT) FAICD (Dip)

Norman is Chairman of the Board of Directors having been appointed a director in 2006.

Norman has over 20 years experience in private health insurance. He was the Private Health Insurance Ombudsman from 1999 to 2002, and has served in various CEO and senior management positions in health insurance, finance, and information systems companies. Norman has also held director positions on various boards in the public and private health sector including Health Insurance Restricted Membership Association Australia (hirmaa), Australian Health Service Alliance (AHSA), Victorian Ambulance Board, HAMB Systems Limited, NHBS Retirement Villages Pty Ltd and NHBS Company Limited.

Norman's professional qualifications include a Diploma of Business and he is also a Graduate Fellow of the Australian Institute of Company Directors.

Janelle Bond

BIT MBA (Commercial Law) FAICD

Janelle was elected as a Director in 2005 and is a member of the Finance, Audit & Risk Committee. Janelle is an experienced director and also holds the following governance positions:

- Chair of the Wollongong City Council Governance Committee
- member of the Shellharbour City Council Governance, Audit and Risk Committee
- member of the BlueScope Steel Superannuation Policy Committee

Janelle is employed at BlueScope Steel as IT Contracts and Outsourcing Manager and has extensive experience in the IT Industry. Janelle's professional qualifications include a Bachelor of Information Technology (Information Systems), and MBA (Commercial Law) and she is also a Graduate Fellow of the Australian Institute of Company Directors.

Alan Gibbs

GAICD JP

Alan was elected as a Director in 2006, and is currently employed as International Trade Manager at BlueScope Steel in Port Kembla.

Alan has significant experience across a broad range of disciplines. Since entering the workforce as a trainee metallurgist with John Lysaght (Aust) in 1976, Alan has worked in Victoria, Western Australia and New South Wales in a number of managerial positions in operations, supply chain, sales and marketing as well as working internationally as the President for a stand alone business.

Alan's professional qualifications include a Diploma in Metallurgy, along with various other certifications and he is also a Graduate member of the Australian Institute of Company Directors.

Dr Jacqueline Jennings

PhD MMgt BMet GAICD

Jacqueline was elected as a Director in 2009, and is a member of the Finance, Audit & Risk Committee.

Jacqueline has extensive experience in management and has held executive positions with BHP Steel, as well as having been a director in the financial sector and the construction industry.

Jacqueline's qualifications include a PhD in Management, a Masters Degree in Management, and a Bachelor Degree in Metallurgy.

Gregory Parrish

BCom CPA GAICD MBA

Greg was appointed as a Director in 2005 and is Chair of the Finance, Audit & Risk Committee.

Greg has had extensive experience at executive level in the mutual sector. Greg is currently employed as Manager Financial and Administrative Services and Company Secretary for CEnet, a not for profit shared services ICT company. Previously, he was employed as the Executive Manager – Corporate Services for Community Alliance Credit Union for 11 years and has 20 years experience in senior management roles in various private health insurance and financial institutions. Greg's experience includes areas such as strategy, finance, consulting, governance, mergers and acquisitions. Greg's professional qualifications include a Bachelor of Commerce and Master of Business Administration.

Ian Sampson

BCom LLB FAICD FAIM

Ian was elected as a Director in 2006 and is Chair of the Board Nomination, Development & Remuneration Committee. Ian is self employed as a Strategic Advisor and is an experienced director and general manager. He has extensive experience in large steel manufacturing, mining, engineering and sugar manufacturing businesses in Australasia, the South Pacific and South Africa. His particular strengths are in strategic assessment & development, organisation design & development, general management & leadership. Ian was a Director of the Sugar Research and Development Corporation from 2008-11 and is a director of a private investment company. Ian's professional qualifications include a Bachelor of Commerce and Bachelor of Law. He is a Fellow of both the Australian Institute of Company Directors and the Australian Institute of Management.

Philip Weldon

LLB, BCom, MAICD, ACIS

Phil Weldon was appointed as a Associate Director in May 2012.

A lawyer of 30 years experience, Phil is presently the principal of a law firm. He was previously General Counsel and Company Secretary of MBF for 11 years. He was the inaugural independent member of the PHA Code of Conduct Committee which monitors health funds' compliance with the Code. Phil has been a Company Secretary for 25 years. As a course director with Chartered Secretaries Australia for 5 years, Phil made many presentations to the public and boards on the duties of directors and officers and governance generally. He is a director of a number of private companies.

Phil's professional qualifications include a Bachelor of Commerce and Bachelor of Law. He is a member of the Australian Institute of Company Directors and Chartered Secretaries Australia.

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Principal activities

During the year the principal continuing activities of the company consisted of operating as a private health insurer under the Private Health Insurance Act 2007. The company also manages two other Health Benefits funds.

No significant changes to the principal activities have occurred during the financial year.

Company objectives

The Company objectives include:

Product & service competitiveness

To deliver a range of health insurance products, including a suite of health management services with industry leading service standards that are tailored to niche communities, financially viable with high perceived value by our members and recognised independently as competitive.

Member growth and retention

To adopt a substantial organic growth strategy through an enhanced marketing plan and relevant distribution channels within agreed financial performance criteria. Our brand identity will be embedded in everything we do.

Financial strength

To effectively manage costs given financial pressures in the industry; generate sufficient underwriting surpluses and maximise capital management to maintain the financial strength required to fund growth across the health insurance, health related and non-health business segments.

People, skills and culture

To maximise return on investment and sustain a high performing, appropriately skilled and culturally aligned workforce and organisation that lives and breathes the "personal is best" brand ethos. Provide additional opportunities and personal development for staff that is focussed on the whole of the business.

Innovation and technology

To be an early adopter and IT leader among our industry and peers; maximise the return on investment in technology to deliver fantastic service to our customers; to leverage our IT capability and expertise and ensure that the IT infrastructure can meet the needs of the company.

Corporate strength

Ensure the company is well placed to meet the challenges and opportunities in an increasingly complex, risky, competitive and regulated environment. Ensure that all business decisions are taken within the context of the risk appetite of the company and protect the interests of members.

Strategy for achieving objectives

To achieve these objectives, the company has adopted the following strategies:

Product & service competitiveness

- Industry leading service standards will be consistently delivered to customers;
- Member access to services continue to be expanded in the electronic environment and meet members' expectations;
- Continue to implement a range of health services that improve the long term health status of members; and
- Products will be externally assessed and positively recognised through independent evaluation.

Member growth and retention

- Membership will have grown above industry averages and in line with the risk appetite of the company;
- The international student market has been re-invigorated and is contributing valuable additional revenue to the company; and
- Targeted marketing campaigns have been implemented, along with strategies to maximise growth & retention.

Financial strength

- Peoplecare will be profitable, with a positive underwriting margin and high perceived value to our customers;
- The company Balance Sheet will continue to be improved with an increased commercial focus within a mutual structure and capital reserves will be maintained at the top end of the actuarially assessed level.

People, skills and culture

- The employees at Peoplecare remain highly motivated and are aligned to and embrace the culture and business plans of the Peoplecare organisation;

- All staff live and breathe the company ethos "personal is best";
- The company maximises the potential of all employees and provides a challenging, interesting, fun and supportive work environment; and
- Individual personnel development plans are in place.

Innovation and technology

- The IT environment will focus on enhanced efficiencies and service delivery and provide an integrated company wide solution wherever practical;
- The IT leadership role within our peer group is maintained and our capability and expertise will be leveraged to meet the aspirations of the strategic plan; and
- The investment in IT infrastructure will generate quantifiable savings.

Corporate strength

- A strong risk management mentality is in place and is in tune with key risks including operational and sovereign risks that may damage the company;
- The company risk appetite has been reviewed and is taken into account in all strategic decisions;
- The company is well prepared for any strengthening of industry consolidation; and
- Continue to improve our business and workplace sustainability.

Directors' meetings

The following table sets out the number of meetings attended by each Director and the number of meetings held while each Director was eligible. During the financial year, 13 meetings of Directors (including committees of Directors) were held.

Director	Full Board		Finance, Audit & Risk Committee		Nomination, Development & Remuneration Committee	
	Attended	Held	Attended	Held	Attended	Held
N. Branson*	8	8	3	3	2	2
J. Bond	7	8	2	3		
A. Gibbs	8	8	1	By invitation		
J. Jennings	8	8	3	3		
G. Parrish	8	8	3	3		
I. Sampson	8	8	1	By invitation	2	2
P. Weldon**	2	2	1	By invitation		

* Mr N. Branson is the Board Chairman and is an ex officio member of the Finance, Audit and Risk Committee.

** Appointed 18/05/12

Matters subsequent to the end of the financial year

As at the date of this Directors' Report, the directors are not aware of any matter of circumstance that has arisen that has significantly affected, or may significantly affect:

(i) the operations of the company;

(ii) the results of these operations; or

(iii) the state of affairs of the Company in the financial years subsequent to 30 June 2012

Dividends

The company is limited by guarantee and is prohibited by its constitution and law from paying dividends.

Non-audit services

The Board of Directors, in accordance with advice from the Finance Audit and Risk Committee, is satisfied that the external auditors did not provide any non-audit services during the financial year. Therefore, consideration of the compatibility of the external auditors' services with the general standard of independence for auditors imposed by the *Corporations Act 2001* was not required. The directors are satisfied that any future non-audit services contemplated will not compromise the external auditors' independence for the following reasons:

(i) All non-audit services are reviewed and approved by the Finance Audit and Risk Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and

(ii) The nature of the services provided do not compromise the general principles relating to auditor independence as set out in *Section 290 of APES 110 – Code of Ethics for Professional Accountants* set by the Accounting Professional and Ethics Standards Board.

Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 25 and forms part of the Directors' Report for the financial year ended 30 June 2012.

Signed in accordance with a resolution of the directors on 8 September 2012 pursuant to section 298(2) of the *Corporations Act 2001:*

Norman W Branson
DipBus FAICD (Dip)

(Director)

Gregory Parrish
BCom CPA GAICD MBA

(Director)

Wollongong, 8 September, 2012

Corporate Governance Statement

This statement outlines the Corporate Governance practices Lysaght Peoplecare Limited ("Peoplecare") has in place to ensure that the company is directed and managed effectively and appropriately for the benefit of members. These practices are a system of directing and controlling the affairs, policies, functions and actions of the company, while managing business risk. The Directors act as stewards of the company on behalf of all members and have legal responsibility for their actions and conduct, primarily through the *Corporations Act (2001)* and *Private Health Insurance Act (2007)*.

Although not a listed public company, Lysaght Peoplecare Limited is committed to corporate governance that is consistent with the ASX "Corporate Governance Principles and Recommendations", and the governance principles and standards required by the Private Health Insurance Administration Council (PHIAC).

The Board has many responsibilities, including setting the strategic direction of the company in the best interest of members, review and approval of corporate policies and strategies, and monitoring the financial position and performance of the company including consideration and approval of budgets and financial reports at least annually. The Board ensures the significant risks faced by the company have been identified and appropriate control, monitoring and reporting mechanisms are in place to ensure these risks are well managed in accordance with AS/NZS ISO 31000:2009, and regulator requirements.

Board composition

The Board composition is determined in accordance with the Constitution and recommendations from the Nomination, Development & Remuneration Committee. The majority of the Board will comprise independent directors, within the meaning of the ASX Corporate Governance Principles and those standards defined by PHIAC. Elected directors must be nominated in accordance with the Board approved nomination process.

In consultation with the Chairman, directors can seek independent external professional advice on business matters relating to Peoplecare at the Company's expense. External independent professional advice is also available to directors while acting in positions on committees of the Board.

Board attributes

The elected director positions are filled through a democratic and transparent process, where members are able to view details of each candidate, consider the skill attributes required on the Board, and vote as they consider to be in the best interests of all members.

The independent appointed director positions will be filled based on a set of skills, experience and professional standing as the Board may determine from time to time as necessary to enhance and complement the skills and attributes of elected directors.

Modern corporate governance guidelines state that the mix of skills and experience on the Board must be appropriate to the complexity of the industry, business risks and strategic direction of the company. The Board will therefore always seek the right candidates who can positively and actively contribute to the future direction of the company.

Board process

The Board and Board Committees meet regularly in accordance with the Board or Board's approved annual calendar. The Board plans its business each year through an annual agenda where key business items are raised at each meeting on a pre-determined cyclical basis. The Board utilises the following committees to assist in the discharge of its duties:

Finance, Audit & Risk Committee

The purpose of the Committee is to assist the Board to fulfil its responsibility in relation to the quality and reliability of the financial information used by the Board in determining policies, or for inclusion in the financial reports, the appropriateness and relevance of the company's risk management processes, and compliance with the statutory requirements of the company. The Committee consists of three independent non-executive directors nominated by the Board. Appointment to the Committee is for a period of one year. The Board ensures that the Chair of the Committee has the financial skills and experience required to manage this key element of the business.

The Committee's major responsibilities in relation to finance are:

- Review any new accounting policies and procedures to ensure that they are compliant with relevant Australian Accounting Standards, and in accordance with regulations imposed by the *Private Health Insurance Act 2007*, and Private Health Insurance Administration Council (PHIAC) Guidelines;
- Serve as an independent and objective party to review the annual financial statements and any other financial information prior to their submission to the Board;
- Review the quarterly management financial reports, together with data and reports provided by PHIAC and the fund's Appointed Actuary;
- Review the annual Financial Conditions Report provided by the fund's Appointed Actuary;
- Recommend investment policies to the Board and review the performance of the Company's investments and investment strategies;
- Review other strategic policies that are of relevance to the Committee including investment, risk management, delegations, capital management, purchasing and credit card policies, outsourcing policies and pricing and product policies;
- Review the assumptions and projections used in preparing the annual rate submission together with reports from the Appointed Actuary and make recommendations to the Board in relation to the annual rate submission; and
- Review the Capital Management Plan prepared by management and the Appointed Actuary, and make recommendations to the Board in relation to the Capital Management Plan.

The Committee's major responsibilities in relation to audit are:

- The oversight of internal control, particularly as it applies to administration, operations, finance, reporting and quality and integrity of audit and compliance personnel and ensure that any major deficiencies are identified and that appropriate action is taken by management;
- Review the scope of the internal audit function, ensuring resources are adequate and that there is appropriate co-ordination with the external auditors;
- Review, in conjunction with the CEO and Deputy CEO the performance of the internal auditor and approve the engagement terms and conditions of the internal auditor;
- Oversee and appraise the scope and quality of the audits conducted by the internal auditor and the external auditor, ensuring that they cover all material risks and reporting requirements of the company;
- Review the results of the internal and external audit work and ensure significant issues raised are rectified as appropriate in a timely manner;
- Formally review the nomination and performance of the external auditor and recommend to the Board any appointment or variation to that appointment, including being satisfied that the auditor is independent as required under Part 2M.4 of the *Corporations Act 2001;*
- Discuss the external and internal audit plans for the forthcoming financial year;
- Discuss the impact on the financial statements of any proposed changes in accounting policies or accounting standards;
- Review the nature and impact of any changes in accounting policies adopted by the company during the financial year; and
- Review and approve the fees proposed for the internal or external audit work to be performed.

The Committee will review the performance of the internal auditor, external auditor and Appointed Actuary each year following the Annual General Meeting, with a view to ensuring that they have utilised skill and diligence in the execution of their tasks on behalf of members, and in the advice provided to the Board and management of the company throughout the year. The Committee, based on the outcomes of this assessment, may recommend to the Board, improvements to the scope of the audit and actuarial engagements, and if deemed necessary, call for tenders for the respective roles.

The external auditor, internal auditor or Appointed Actuary may be engaged on assignments additional to their statutory duties, where their expertise and knowledge of the company is relevant, and provided that the independence required in fulfilling these duties is not breached.

The Committee's major responsibilities in relation to Risk Management are:

- Monitor the company's risk management plan and process and ensure that this is compliant with PHIAC Corporate Governance Standards, and with the Australian risk management standard AS/NZS ISO 31000:2009;
- Review the company's Business Continuity and Disaster Recovery Plans and ensure that they are tested on a regular basis;
- Evaluate the company's exposure to fraud and review reports on any major frauds and thefts from the company;
- Review appropriate ethical standards for the management of the company, and recommend these to the Board;
- Monitor compliance with all regulatory requirements and the industry Code of Conduct; and
- Review the company insurances on an annual basis and ensure adequacy in regard to the risks faced by the business.

Nomination, Development and Remuneration Committee

The purpose of this Committee is to assist the Board to fulfil its responsibility in relation to the quality and effectiveness of the Board, individual directors and management, and to ensure that appropriate development and succession plans are in place. The Committee is also required to review relevant remuneration and employment policies, and to undertake the annual performance appraisal of the Chief Executive Officer.

The Committee's responsibilities in relation to Board nominations are:

- Determining the appropriate size and composition of the Board, having regard to the independence and composition requirements of the PHIAC Governance Standards, and where necessary making recommendations regarding the use of associate directors to temporarily fill positions where specific skills are required;
- Setting a formal and transparent procedure for selecting new directors for appointment to the Board;
- Developing criteria for selection of candidates for appointed Board positions, in the context of the Board's approved composition and structure;
- Setting a formal and transparent procedure for election of non-appointed directors to the Board;
- Making recommendations to the Board on the appointment and removal of directors; and
- Developing a succession plan for the Board and management and regularly reviewing that plan.

The Committee's responsibilities in relation to Board development are:

- Ensuring there is an appropriate induction program and induction manual in place for new directors and reviewing the effectiveness of that program;
- Developing a plan for identifying, assessing, and enhancing director competencies, including considering requests by directors for relevant training / education programs, and recommending to the Board the attendance by directors at such programs;

- Considering and developing in conjunction with the Chief Executive Officer an appropriate budget for Board education and training;
- Recommending to the Board any professional membership requirements of directors;
- Reviewing director meeting attendance, and making recommendations to the Board in terms of any inappropriate absences; and
- Managing the process that leads to the evaluation of Board and director performance within best practice guidelines and ensuring that appropriate external assessment is conducted periodically.

The Committee's responsibilities in relation to Board and executive remuneration are:

- Establishing an annual cycle for reviews of remuneration and other terms for Board and executive positions;
- Reviewing remuneration surveys and market conditions for Board and executive positions;
- Advising the Board on remuneration packages and other terms of employment for directors, the Chief Executive Officer and other senior executives of the company;
- Reviewing and monitoring performance of incentive and retention schemes for the Chief Executive Officer and other senior executives and advising the Board to ensure levels of reward are aligned with accountabilities, and contribution to the success of the company; and
- In conjunction with the Board Chair, the Committee Chair conducts the annual performance assessment of the Chief Executive Officer.

In addition, other ad-hoc committees will be established as required to manage specific issues. The extent, role and structure of committees are commensurate with the size of the company.

Board performance

The Board undertakes an external assessment of its performance each three years and an internal review each other year. Board performance assessments are completed for both whole of Board and Board Committees and at individual director level. The Constitution of the company has provisions that the Board may exercise in the event that an individual director's performance is not to the level that is expected of a reasonable person in that position.

The Board also uses the performance evaluation for ongoing improvement in corporate governance strategies, and utilises a balanced scorecard for monitoring strategic objectives and the initiatives and measures that will be used to assess performance of the Board and the company as a whole.

Board remuneration

Change to total aggregate sum of remuneration available to directors is approved by members of the company at an Annual General Meeting. The aggregate sum required as remuneration for directors is reviewed annually and considers a balance of the mutual and Not For Profit status of the company, the requirement for appropriate skills and experience on the Board for effective governance and the benefit of members over the long term, the market level of directors' fees required to attract appropriate candidates and the market level of directors fees' for similar companies.

External advice and surveys may be used from time to time to determine an appropriate level of aggregate and individual director remuneration. The allocation of the aggregate sum (or part thereof) of directors' remuneration is in accordance with a formula recommended to the Board by the Nomination, Development & Remuneration Committee based on participation in meetings and Board Committees, and reflecting the additional skills, experience and qualifications of candidates appointed in positions as Chair of the Board or a Board Committee. The allocation formula must be approved by the Board. Such allocation may include reserving of some fees each year for special project appointments at a later date.

Material Personal Interest (Conflict of Interest)

In accordance with the *Corporations Act 2001* directors must advise the Board of any material personal interest that could potentially conflict with those of the company. Where the Board believes that a significant conflict exists, it may require the Director concerned either not to be present at the meeting or not to participate in discussions whilst the item is being considered.

Directors are required to sign meeting attendance registers and note any material personal interest at each meeting. In addition, directors and senior executives are required to complete or update a Material Personal Interest Disclosure Statement in the form approved by the Board.

Delegations

The Board delegates the day to day management responsibility for the company to the Chief Executive Officer.

A separate Delegations Policy that includes delegations of authority to the Board Committees, the Chief Executive Officer and other executive managers is in operation and reviewed annually as a Board annual program item.

Standards of Ethical Conduct

As part of the Board's commitment to the highest standard of conduct, the company adopts a Standards of Ethical Behaviour to guide the Board, individual directors, and executive management in carrying out their duties and responsibilities. The executive management will also ensure that the principles of these behaviours flow to all employees through Human Resource Policies and work practices generally.

Standards of Ethical Behaviour - directors and executive managers

- Must act honestly, in good faith and in the best interests of the company as a whole;
- Have a duty to use due care and diligence in fulfilling the functions of office and exercising the powers attached to that office;
- Must use the powers of office for a proper purpose and in the best interests of the company as a whole;
- Must recognise that the primary responsibility is to the members of the company as a whole but should, where appropriate, have regard for the interests of all stakeholders of the company;
- Must not make improper use of information acquired as a director or executive manager;
- Must not take improper advantage of the position of director or executive manager;
- Must not allow personal interests or the interests of any associated person to conflict with the interests of the company;
- Has an obligation to be independent in judgement and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken by the Board of Directors or executive managers;
- Confidential information received by a Director or Executive Manager while acting in that role for the company remains the property of the company and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by the company, or the person from whom the information is provided, or is required by law;
- Should not engage in conduct likely to bring discredit upon the Company;
- Shall comply with all relevant Human Resources policies of the company in regard to their conduct while in the presence of staff, members and others;
- Recognise the inherent nature of regulation of the industry as a whole and be responsive and open at all times to the requirements of the regulator and Government; and
- Has an obligation at all times to comply with the spirit as well as the letter of the law and with the principles of these Standards of Ethical Conduct.

LEADERSHIP Team

Peoplecare's Leadership Team has a wide range of complementary skills and a wealth of industry experience.

Michael Bassingthwaighte
FAICD

Chief Executive Officer

Michael has been with Peoplecare as CEO since 1982 and has been instrumental in driving the direction of the company. He has been a key player in private health insurance in Australia over the last 30 years and has played a major role in representing the interests of smaller funds within the industry. His other current appointments include:

- Australian Health Service Alliance (AHSA) - Co-founder and current Director
- HAMB Systems Limited - Chair of the Board
- Health Insurance Restricted Membership Association Australia (HIRMAA) - Vice-President
- Defence Health - Director
- NSW Exceptional Drugs Committee - Chair
- Illawarra Business Chamber - Director
- University of Wollongong - Australian Health Services Research Institute - Board Member

Dale Cairney
BCom CPA GAICD

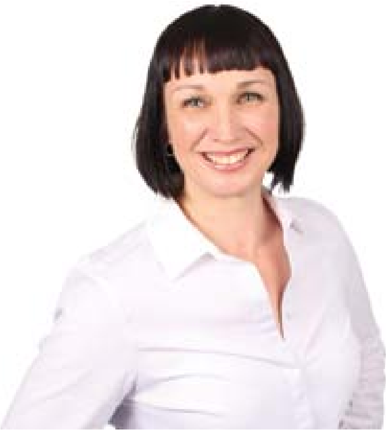
Deputy Chief Executive Officer

Dale is responsible for health insurance operations, IT, and health management services for Peoplecare and its customer insurers. Dale has a wealth of senior management experience across a range of industries including private health insurance, dental & eyecare practice management, finance, manufacturing, mining, and transport industries over the last 25 years.

Dale's particular strengths are in general management, corporate governance, finance, and risk management and he serves as the management representative on the Finance Audit & Risk Committee. Dale is also Company Secretary for Peoplecare.

Dale's current appointments include:

- HAMBS User Group Executive - Chair
- WEA Illawarra – Director & Chair of the Board
- Cancer Council NSW – South Eastern Regional Advisory Committee – Committee member & Chair of Risk Sub-Committee



Anita Mulrooney
BA GDipIM GDipCom GAICD

General Manager - Marketing & Communications

Anita joined Peoplecare in 2006. She has had extensive health insurance experience over the last 20 years in Australia and South-East Asia including management roles in Sales & Marketing, Operations, Member Service, Information Systems and Human Resources.

Anita's particular strengths are in project management, strategic communications and public relations.

Anita's current appointments include:

- University of Wollongong Alumni Development Group - Chair
- IRIS Research - Director
- Health Insurance Restricted Membership Association Australia (hirmaa) Marketing Committee - Chair
- Destination Wollongong - Director
- Private Health Insurance Ombudsman's Consumer Website Reference Group - member.

Christopher Stolk
BCom CPA GAICD

Chief Financial Officer

Chris started with Peoplecare in September 2007. Chris is responsible for the provision of all financial management functions of the organisation and has over 20 years experience in the accounting and finance field, the five years before joining Peoplecare spent working with organisations in the financial services industry.

His specialist skills include management reporting, statutory reporting, taxation and business planning and compliance. He also has a keen interest in treasury operations.

Chris' current appointments include:

- Member of the Catholic Development Fund Advisory Council
- Member of the Cancer Council Illawarra Relay for Life Committee

John Henry
BCom CPA

Corporate Relations Manager

John has been with Peoplecare since 1989 and is responsible for coordinating the marketing and relationship management in the corporate sector. John's wealth of experience with the fund over the last 24 years has included working as part of the management team and specialising in the areas of Accounting, Marketing and Operations.

Tory Macri

Customer Service Manager

Tory joined Peoplecare in October 2009 and as the Customer Service Manager he is responsible for the operational performance and activities of the Call Centre, Claims, Membership and Contributions along with staff development recruitment and training.

He has over 20 years operational management experience dealing with inbound and outbound call centres across the industries of Telecommunications, Utilities, Health Insurance, Property Investment, and Fleet Management.

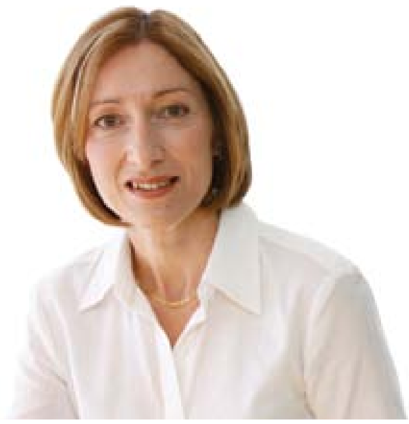
Tory's main focus is in creating high quality practice standards in service delivery, member support, staff development, and operational efficiencies.

Pablo Neira

BCom DipCompApp

Information Technology Manager

Pablo has been at the helm of the Information Technology team at Peoplecare since 2000. During this time, he has been involved in all aspects of IT and has specialised in business improvement projects. Pablo has played an instrumental role in the development of Peoplecare's reputation as a technology leader.



Susan McAnulty

BCom CPA

Finance Manager

Susan joined Peoplecare in December 2008 and her responsibilities include financial/ management accounting and reporting, data analysis, cash-flow monitoring and treasury functions, investment management, tax compliance, audit and regulatory compliance.

Susan has previously worked in various local government accounting and management positions. Her broad range of experience includes financial, management and project accounting, taxation, treasury, payroll and procurement.

Maree Morgan-Monk

BA GDipHR

Human Resources Manager

Maree is the newest member of Peoplecare's leadership team, joining as our Human Resources Manager in 2011. She has 18 years of HR Management experience across various industries including education, hospitality and general insurance.

As Human Resources Manager, Maree is responsible for ensuring that our people processes and practices retain Peoplecare's status as a true employer of choice with an exceptional level of staff satisfaction. Maree supports our managers and staff in the areas of recruitment, training & development, OH&S, Human Resource policy, and cultural development. Her particular areas of expertise are leadership development and training.

Dr Melinda Williams

BNurs MPH PhD

Clinical Services Manager

Melinda joined Peoplecare in April 2009 and is our clinical services manager. She has extensive experience in the design and evaluation of health management programs for health insurance members as well as clinical nursing experience in both hospital and community sectors.

Melinda has completed her PhD with the University of Wollongong in cancer prevention. Melinda's main focus is in keeping members healthy and managing a range of health management programs available to members.

Grant Thornton

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Auditor's Independence Declaration
To the Directors of Lysaght Peoplecare Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Lysaght Peoplecare Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A Sheridan
Partner - Audit & Assurance

Sydney, 8 September 2012

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Grant Thornton Audit Pty Ltd
ACN 130 913 594

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Independent Auditor's Report
To the Members of Lysaght Peoplecare Limited

Report on the financial report

We have audited the accompanying financial report, of Lysaght Peoplecare Limited (the "Fund"), which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility for the financial report

The directors of the Fund are responsible for the preparation of the financial report that gives a true and fair view of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes such internal controls as the Director's determine are necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence
In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Opinion
In our opinion the financial report of Lysaght Peoplecare Limited is in accordance with the Corporations Act 2001, including:

a) Giving a true and fair view of the Fund's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

b) Complying with Australian Accounting Standards and the Corporations Regulations 2001.

Grant Thornton.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A Sheridan
Partner – Audit & Assurance

Sydney, 8 September 2012

Directors' Declaration

The Directors of the company declare that:

1. The financial statements, comprising the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and accompanying notes are in accordance with the *Corporations Act 2001*; and:

   (a) comply with Accounting Standards and the Corporations Regulations 2001; and

   (b) give a true and fair view of the company's financial position as at 30 June 2012 and of its performance for the year ended on that date.

2. The Chief Executive Officer and the Chief Financial Officer have each declared that:

   (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001;*

   (b) the financial statements and notes for the financial year comply with the Australian Accounting Standards and the *Corporations Regulations 2001;* and

   (c) the financial statements and notes for the financial year give a true and fair view of the financial position of the company as at 30 June 2012 and of its performance, as represented by the results of its operations and its cash flows for the financial year ended on that date.

3. In the Directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors on 8 September 2012 pursuant to section 295(5) of the *Corporations Act 2001:*

Norman W Branson
DipBus FAICD (Dip)

(Director)

Gregory Parrish
BCom CPA GAICD MBA

(Director)

Wollongong, 8 September, 2012

Statement of Comprehensive Income

For the year ended 30 June 2012

	Note	2012	2011
		$	$
Income			
Premium revenue		85,872,069	73,100,325
Other income	4	4,835,272	3,905,252
		90,707,341	**77,005,577**
Expenses			
Fund Benefits paid to members		(65,345,523)	(56,078,692)
Amounts payable to Risk Equalisation Trust Fund	2(i)	(8,050,491)	(5,698,062)
Movement in outstanding claims liability	2(k)	(1,206,122)	(306,414)
Movement in unexpired risk liability	2(p)	-	-
State ambulance levies		(1,128,497)	(1,004,810)
		(75,730,633)	**(63,087,978)**
Gross underwriting result		**14,976,708**	**13,917,599**
Management expenses			
Depreciation & amortisation		(533,396)	(500,667)
Employee benefits expenses		(4,548,712)	(3,691,237)
Remuneration of auditors:			
Auditing the Financial Report		(64,391)	(66,290)
Other Management Expenses		(4,281,824)	(4,195,259)
		(9,428,323)	**(8,453,453)**
Other			
(Decrease)/(increase) in fair value of financial assets	5(a)	(313,599)	631,654
Net gain realised on disposal of financial assets held at fair value through profit or loss	5(b)	67,190	-
Impairment of revalued land & buildings	6	(418,214)	-
		(664,623)	**631,654**
Surplus before income tax (net underwriting result)		4,883,762	6,095,800
Income tax expense	2(j)	-	-
Surplus for the year		**4,883,762**	**6,095,800**
Total comprehensive income for the year		**4,883,762**	**6,095,800**
Surplus is attributable to:			
Members of Lysaght Peoplecare Limited		4,883,762	6,095,800
		4,883,762	**6,095,800**
Total comprehensive income for the year is attributable to:			
Owners (members) of Lysaght Peoplecare Limited		4,883,762	6,095,800
		4,883,762	**6,095,800**

The Statement of Comprehensive Income is to be read in conjunction with the accompanying notes.

Statement of Financial Position

As at 30 June 2012

	Note	2012	2011
		$	$
Current Assets			
Cash and cash equivalents	7	35,294,277	25,021,358
Receivables	8	5,910,735	2,688,602
Other financial assets	9	20,676,621	16,501,225
Other assets	10	146,570	190,425
Total Current Assets		**62,028,203**	**44,401,610**
Non-Current Assets			
Property, plant and equipment	11	5,216,706	5,980,698
Intangible assets	12	172,288	201,322
Other financial assets	13	104	104
Total Non-Current Assets		**5,389,098**	**6,182,124**
Total Assets		**67,417,301**	**50,583,734**
Current Liabilities			
Payables	14	18,484,178	7,910,722
Provisions	15	5,848,855	4,600,968
Total Current Liabilities		**24,333,033**	**12,511,690**
Non-Current Liabilities			
Payables	16	276,313	190,144
Provisions	17	134,744	92,451
Total Non-Current Liabilities		**411,057**	**282,595**
Total Liabilities		**24,744,090**	**12,794,285**
Net Assets		**42,673,211**	**37,789,449**
Equity			
Retained Surplus		42,673,211	37,789,449
Total Equity		**42,673,211**	**37,789,449**

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

Statement of Changes in Equity

For the year ended 30 June 2012

	Retained Surplus $	Total $
At 1 July 2010	**31,693,649**	**31,693,649**
Total comprehensive income for the year		
Surplus for the year	6,095,800	6,095,800
	6,095,800	**6,095,800**
At 30 June 2011	**37,789,449**	**37,789,449**
Total comprehensive income for the year		
Surplus for the year	4,883,762	4,883,762
	4,883,762	**4,883,762**
At 30 June 2012	**42,673,211**	**42,673,211**

The Statement of Changes in Equity is to be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the year ended 30 June 2012

	Note	2012	2011
		$	$
Cash flows from operating activities			
Receipts from members & customers		95,785,734	75,705,539
Payments to members, suppliers and employees		(83,330,701)	(71,092,984)
Interest received		2,217,022	2,076,093
Dividends received		184,350	238,593
Net cash inflow/(outflow) from operating activities	**21(c)**	**14,856,405**	**6,927,241**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(182,759)	(750,956)
Proceeds from sale of property, plant and equipment		21,078	100,909
Net (payment for) other financial assets		(4,421,805)	(6,156,995)
Net cash inflow/(outflow) from investing activities		**(4,583,486)**	**(6,807,042)**
Net increase in cash and cash equivalents		10,272,919	120,199
Cash and cash equivalents at beginning of period		25,021,358	24,901,159
Cash and cash equivalents at end of period	**21(a)**	**35,294,277**	**25,021,358**

The Statement of Cash Flows is to be read in conjunction with the accompanying notes.

Notes to the Financial Statements

For the year ended 30 June 2012

NOTE 1 Corporate Information

The financial statements of Lysaght Peoplecare Limited for the year ended 30 June 2012 were authorised for issue in accordance with a resolution of the directors on 8 September 2012.

The financial statements are presented in the Australian Currency.

Lysaght Peoplecare Limited is a public company limited by guarantee, incorporated and operating in Australia.

Lysaght Peoplecare Limited is a registered private health insurer.

Trading Name: Peoplecare

Australian Business Number (ABN): 95 087 648 753

Principal Places of Business and Registered Office:
Corner Victoria & Young Streets, Wollongong, NSW, 2500

Website: www.peoplecare.com.au

NOTE 2 Summary Of Significant Accounting Policies

Basis of Preparation

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001.*

The financial statements comply with International Financial reporting standards except for:

- AASB 116 'Property, Plant and Equipment' accounting for net revaluation increments and decrements on a class of assets basis rather than on an individual asset basis as required for For-Profit entities; and
- AASB 136 'Impairment of Assets' value in use being determined as being the depreciated replacement cost of an asset instead of the present value of the future cash flows expected to be derived from the asset as required for For-Profit entities.

The financial statements have also been prepared on an historical cost basis, except for the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value method of accounting has been adopted.

Use of Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from the estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both internally and externally to the company.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 2 (k) – Outstanding Claims Provision
- Note 3 – Risk Management and Financial Instruments

Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial statements are set out on the following pages and have been consistently applied to all years presented in these financial statements unless otherwise stated.

(a) Trade and Other Payables

Payables are amounts due to external parties for the supply of goods and services to the company and are recognised as liabilities when the goods and/or services are received. These amounts are unsecured and are usually paid within 30 days of recognition.

(b) Assets Backing Private Health Insurance Liabilities

The company has adopted a conservative investment strategy that utilises short term financial instruments. Liquidity of the portfolio is matched to the expected pattern of future cash flows arising from the private health insurance liabilities.

The company has determined that all financial assets of the Health Benefits fund are held to back private health insurance liabilities and their accounting treatment is as follows:

(i) Investment and other financial assets

Financial Assets at Fair Value Through Profit or Loss

Financial assets are designated at fair value through profit or loss. Initial recognition is at fair value, being acquisition cost, in the statement of financial position and subsequent measurement is at fair value with any resultant fair value gains or losses recognised in profit or loss.

Details of fair value for the different types of financial assets are listed below:

Cash and Cash Equivalents

Cash and cash equivalents, and bank overdrafts are carried at face value of the amounts deposited or drawn. The carrying amounts of cash assets and bank overdrafts approximate their fair value. For the purposes of the statement of cash flows, cash includes cash on hand, deposits held at call with financial institutions net of bank overdrafts, and other short-term highly liquid investments maturing within 3 months of the end of the reporting period.

Other Financial Assets

Initial recognition is at fair value, being acquisition cost, in the statement of financial position with transaction costs expensed in profit or loss. Subsequent measurement is at fair value with any resultant fair value gains or losses recognised in profit or loss. Regular purchases and sales of financial assets are recognised on trade date – the date on which the company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive the cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership.

Shares and fixed interest securities are initially recognised at fair value, being the acquisition cost and the subsequent fair value is taken as the quoted bid price of the instrument at the end of the reporting period. If quoted market values are not available then fair values are estimated based on mid market price valuation models.

Amounts due from Members

Amounts due from contributors are initially recognised at fair value, being the amounts due. They are subsequently measured at fair value which is approximated by taking this initially recognised amount and reducing it for impairment as appropriate.

A provision for impairment of receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the value of estimated future cash flows. The impairment charge is recognised in profit or loss.

(c) Property, Plant and Equipment

Land and Buildings

Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Independent valuations are performed regularly to ensure that the carrying amounts of land and buildings does not differ materially from the fair value at the end of the reporting period. A director's valuation will be carried out in each year that the property is not valued by an external independent valuer.

Where an adjustment is made to the valuation, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Where there is no adjustment, accumulated depreciation remains as is and the building continues to be depreciated as per the depreciation policy.

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

Plant and Equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

In the event that settlement of all or part of the cash consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation of Property, Plant and Equipment

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each item of property, plant and equipment. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- Buildings: 50 years
- Computer equipment: 3 - 5 years
- Leasehold Improvements: 5 years
- Motor Vehicles: 5 years
- Office furniture and equipment: 5 - 7 years

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period.

Disposals

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount. These are included in profit or loss. When revalued assets are sold, it is the company's policy to transfer the amounts included in other reserves in respect of those assets to retained surplus.

(d) Intangible assets

Computer Software

Costs incurred in acquiring software licences and the development of a new website that will contribute to future period financial benefits through reserve generation and/or cost reduction are capitalised to computer software.

Software licences and capitalised website development costs have a finite useful life and are carried at cost, less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of licences over their useful lives being 2 1/2 years.

(e) Comparative Figures

Where required by Australian Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(f) Employee Benefits

Wages and Salaries, Annual Leave and Sick Leave

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

Liabilities for non vesting sick leave are recognised at the time when the leave is taken and measured at the rates paid, or payable.

Long Service Leave

The liability for long service leave is recognised in the provision for long service leave and measured at the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future salaries and wages levels, experience of employee departures and periods of service. Expected future payments are discounted using national government bond rates at the end of the reporting period with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Superannuation

Contributions are made by the company to employee superannuation funds and are charged as expenses when incurred. For year ended 30 June 2012 the expense was $328,790 (2011: $292,828).

Executive Long Term Retention Strategy

A long term retention strategy has been adopted by the Board for nominated company executives which provides annual incentive based payments, vesting over a period of time. The value of the payment is linked directly to the achievement of a range of strategic performance benchmarks. The scheme is designed to link executive reward structure and long term strategic goals of the company, and also serves as a risk management strategy aimed to retain executive talent and knowledge over the longer term.

(g) Impairment of Assets

Financial Assets

A financial asset, other than those classified as fair value through profit or loss, is assessed at the end of each reporting period to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

Non-Financial Assets

At the end of each reporting period, the company reviews the carrying values of its non-financial assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed in profit or loss. The value in use is determined as being depreciated replacement cost.

(h) Goods and Services Tax

Revenues, expenses and assets are recognised net of GST, except where GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

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

(i) Health Insurance Risk Equalisation Trust Fund (RETF)

Under the provisions of the *Private Health Insurance Risk Equalisation Policy Rules 2007*, eligible claims are pooled, based upon variable percentage allocation to age cohorts or in respect of high cost claims, with each fund charged a levy so as to bear a portion of this pool. The amounts payable to and receivable from the risk equalisation scheme are determined by the Private Health Insurance Administration Council after the end of each quarter. Estimated provisions for amounts payable and income receivable are recognised on an accrual basis.

(j) Income Tax

No income tax expense was provided for as the company is entitled to tax exempt status under the provisions of Section 50-30, Item 6.3 of the *Income Tax Assessment Act 1997.*

(k) Provisions

Outstanding Claims Liability

Provision is made at the period end for the liability for outstanding claims which is measured as the central estimate of the expected payments against claims incurred but not settled at the reporting date under private health insurance contracts issued by the company. This 'central estimate' of outstanding claims is an estimate which is intended to contain no intentional over or under estimation. For this reason the inherent uncertainty in the central estimate must also be considered and a risk margin is added. Actual results could differ from the estimate.

The expected future payments include those in relation to claims reported but not yet paid and claims incurred but not yet reported, together with allowance for Risk Equalisation Trust Fund consequences and claims handling expenses.

The provision for outstanding claims liability is determined after taking into account claims paid in July of the following financial year, that relate to services provided in the current financial year.

Accounting Estimates and Judgements

Risk margins are determined on a basis that reflects the company's business. Regard is had to the robustness of the valuation models, the reliability and volume of available data, past experience of the company and the industry and the characteristics of the classes of business written.

The risk margin was determined from the assumption that there is a normal distribution of differences between the calculated provisions required for past periods and the finally determined requirements for those periods. A probability of sufficiency of 75% is intended to be achieved through the adoption of the risk margin of 3.25% (2011: 3.25%) at the end of the reporting period.

The actuarial valuation model used to calculate the outstanding claims is a modified chain ladder model. This model, and variants of it, is used by other health insurers and general insurers to calculate outstanding claims liabilities by using the relationships between the claims paid at each time interval in the past, for each period incurred, to predict the extent of incurred claims for each recent period for which claim payments have not yet been completed.

As the run-off of health insurance claims is relatively rapid, the claims to be paid in the future were not discounted.

Other Provisions

Provisions are recognised when:

(i) the company has a present legal or constructive obligation as a result of past events;

(ii) it is more likely than not that an outflow of economic benefits will be required to settle the obligation; and

(iii) that the outflow can be reliably measured.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the obligation at the end of the reporting period.

(l) Receivables

Unclosed Business Premium

Unclosed business premium represents amounts owing by members at the end of the reporting period, up to and including the date of the next normal payment cycle for their individual policy. The unclosed business premium consists of two components:

(i) Earned – representing contribution amounts owed by members up to and including 30 June; and

(ii) Unearned – representing contribution amounts owed by members from 30 June up to and including their next normal payment date.

A small provision for doubtful debts is sufficient as the policies are cancelled once the lapsed period of arrears reaches 90 days.

Interest Receivable

Interest receivable represents an accrual calculation of interest from investments outstanding at the end of the reporting period.

Health Insurance Rebate Receivable

This is the amount claimed by Lysaght Peoplecare Limited, as a cash amount, against Department of Human Services for the 30%, 35% and 40% rebates.

Other Debtors

Other debtors are recorded at amounts due less any provision for doubtful debts. Other debtors are normally settled in 30 days.

(m) Revenue

Revenues are recognised at the fair value of the consideration received or receivable.

Revenue is recognised for the major business activities as follows:

Premium Revenue

Premium revenue is recognised in profit or loss when it has been earned. Premium revenue is recognised in profit or loss from the attachment date over the period of the contract. The attachment date is from when the insurer accepts the risk from the insured under the insurance contract. Revenue is recognised in accordance with the pattern of the incidence of risk expected over the term of the contract. Where time does not approximate the pattern of risk, previous claims experience is used to derive the incidence of risk.

Investment Income

Interest income is recognised on a time proportional basis taking into account the interest rates applicable to the financial assets.

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

Other Revenue

Other revenue is recognised when receivable.

All revenue is stated net of the amount of goods and services tax (GST).

(n) Claims

Claims are recorded as an expense in the period in which the service has been provided to the contributor. The cost of claims therefore represents the claims paid during the period adjusted for the opening and closing provision for unpresented and outstanding claims.

(o) Unearned Premium Liability

Premiums received from contributors prior to 30 June 2012 relating to the period beyond 30 June 2012 are recognised as Unearned Premium Liability. Also, forecast premiums receivable from contributors at 30 June 2012 are recognised as unclosed business premiums.

(p) Unexpired Risk Liability

At each reporting date, the sufficiency of the unearned premium liability is assessed by considering the current estimate of all expected future cash flows relating to future claims against current private health insurance contracts.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability, less related intangible assets and related deferred acquisition costs, then the unearned premium is deemed to be deficient. Any deficiency is recognised immediately in the profit and loss. The company applies a risk margin of 2.00% (2011: 2.00%) to achieve a probability of sufficiency of 75%.

The liability adequacy test has been performed collectively for hospital and general treatment contracts up to 1 April 2013, the next premium adjustment opportunity allowed by the Department of Health and Ageing. No unexpired risk liability was required at 30 June 2012 (2011: nil).

NOTE 3 **Risk Management And Financial Instruments**

The company has exposure to the following risks from investing in various financial instruments:

(a) Credit risk

(b) Liquidity risk

(c) Market risk

(d) Other risk

This note presents information about the company's exposure to each of the above risks, the objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout the financial statements and notes.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board of Directors has established the Finance Audit and Risk Committee, which is responsible for developing and monitoring risk management policies. The Finance Audit and Risk Committee consists entirely of non-executive directors and reports regularly to the full Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the company's activities. The company, through training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Finance Audit and Risk Committee is responsible for monitoring compliance with the company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the company. The Finance Audit and Risk Committee are assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported through the Finance Audit and Risk Committee to the Board of Directors.

(a) Credit Risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's receivables from members (insurance contracts), customers and investment securities.

Receivables from Insurance Contracts

Credit risk in relation to insurance contracts is discussed in Note 26.

Other Receivables

The risk of financial loss to the company from customers other than fund members arises principally from two sources: management services provided by the company to other private health insurers and receivables from Department of Human Services in relation to the federal government's rebate on private health insurance - premium reductions scheme.

The probability of financial loss to the company from these arrangements is assessed as low for the following reasons:

(i) The premium reductions scheme is legislated under the *Private Health Insurance Act 2007* and is an integral part of the private health insurance industry affecting all private health insurers; and

(ii) In relation to the management services provided, the company has formal arrangements via a management services contract which among other things provides appropriate protection to the company in respect of the risk of customer default.

There has been no history of default in relation to this category of receivables.

Investment Securities (Cash and Cash Equivalents and Other Financial Assets)

The board has addressed the issue of credit risk from investment securities through the development and regular review of the company's investment strategy. The company limits its exposure to counterparty credit risk through the following policies contained within the investment strategy:

(i) a diversified investment portfolio with a heavier weighting to defensive assets versus growth assets. Defensive assets consist of highly liquid fixed interest securities, cash and cash equivalents, short term receivables and assets used in the operations of the business and the holding value of these will not fall below the capital adequacy requirement of the company as determined by the capital adequacy standards;

(ii) investing in liquid securities; and

(iii) investing with approved deposit-taking institutions (ADIs) regulated by the Australian Prudential Regulation Authority (APRA):

- Rated institutions are to have a minimum S&P short term credit rating of A1 or higher. This is to ensure that funds are placed with the lowest risk rated financial institutions;
- Limit on the amount of funds that may be placed with unrated institutions and only where their net assets exceed $50 million, and, for each of the last two financial years, return on equity exceeds 5% and total regulatory capital as % of total risk weighted assets exceeds 12%; and
- Limiting the amount of funds that can be invested with any single financial institution.

Given the company's conservative investing policies and procedures, management does not expect any counterparty to fail to meet its obligations.

At the end of the reporting period, the maximum exposure of the company to any one financial institution measured at fair value was $13,247,113 (2011: $6,859,452).

(b) Liquidity Risk

Liquidity risk is the risk that the company might encounter difficulties in settling debts or otherwise meeting its obligations related to financial liabilities. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities as and when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

The following procedures have been adopted by the company to manage liquidity risk:

(i) The daily liquidity position is monitored along with future cash flow requirements to meet claims commitments;

(ii) Compliance with solvency and capital adequacy requirements set down by the Private Health Insurance Administration Council;

(iii) Ensuring through the investment policy that the company maintains at least the value of the capital adequacy requirement in 'liquid' assets which consists of cash, short term receivables, term deposits, bank bills and debentures; and

(iv) Ensuring an adequate match between fund assets and liabilities.

(c) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Market Risk in Relation to Insurance Contracts

Market risk in relation to insurance contracts is discussed in Note 26.

Market Risk in Relation to Investment Securities

(i) *Currency risk*

The company does not have any material exposure to currency risk.

(ii) *Interest rate risk*

The company is subject to interest rate risk through volatility in cash flows generated by interest bearing financial instruments. To minimise this volatility, the company diversifies its holdings of financial instruments between various financial institutions and through investing in a range of differing financial products. The company has adopted an investment strategy that delivers a diversified portfolio with a heavier weighting to defensive assets versus growth assets. Defensive assets consist of fixed interest securities and cash and cash equivalents.

(iii) *Other market price risk*

The company is exposed to equity securities price risk. This arises from investments held by the company and classified on the statement of financial position as at fair value through profit or loss. This risk is managed in the following investment strategy requirements:

- No more than an initial acquisition cost of $1,000,000 of shares are to be held in any one company;
- The share portfolio will consist of only ASX 200 'blue chip' listed shares from a diversified range of industry sectors; and

- All shares acquired must be under the advice of a board approved investment advisor.

The investment policy is subject to review and approval by the Finance Audit and Risk Committee.

(d) Other Risk

The company, as part of its holding of interest bearing securities, has a portfolio of collateralised floating rate notes linked to the performance of Collateralised Debt Obligations (CDOs). The company engages the services of an independent advisor to provide regular (monthly) review of the portfolio, security valuations and an ongoing action plan to manage these investments in line with the company's stated investment objectives and risk tolerance.

Valuation Methodology

In the absence of genuine quoted bid prices in an active market, the estimated fair value of a CDO can be determined by the use of a valuation technique using inputs that are observable for the security in the market.

A CDO is essentially a credit linked note and comprises two key parts; the credit swap (the "swap") and the collateral. The swap valuations were obtained using market credit default swap (CDS) prices for the reference portfolio entities of each CDO and market correlation numbers[1] as of 30 June 2012 obtained from CMAN, Bloomberg and JP Morgan, which are leading providers of this data. These credit correlation numbers were used as data inputs, together with the unique structures of each CDO, into a single Gaussian copula model; the industry standard pricing methodology. 'Unique structure' includes the remaining credit support behind the transaction, the CDOs maturity date, and coupons payable.

Following the valuation of the swap for each CDO, the collateral behind each transaction is then valued. This valuation process simply involves the valuation of specific corporate bonds acting as collateral. Any difference in the collateral's valuation to its notional (face value) is then subtracted from the swap price to derive the final valuation.

Valuation of CDOs held by the Company

At the end of the reporting period, the company holds a total of five CDOs with an estimated fair value of $549,000 (2011: $513,500) which also represents the maximum loss exposure to these securities at this date. During the 2011/12 financial year, two of the CDOs held defaulted and the full principal investment was lost. There was no impact on the 2011/12 year's surplus as the CDOs were written down to zero value in prior financial years.

During the 2011/12 year, one CDO matured. The face value and the fair value of this CDO was $400,000 and $372,000 respectively. The amount received on maturity was $400,000, as per the CDO's face value. A realised gain on maturity of $28,000 has been recognised. Refer to Note 5 (b).

Of the remaining five CDOs held by the company, two had been written down to zero in previous financial years as their fair value approximated zero due to the high probability of full principal losses. The independent advisor has maintained this 'high probability of total loss' status at 30 June 2012, and using the methodology described above, the fair value of these securities approximates zero, the carrying value in the statement of financial position. The remaining three CDO securities have an estimated fair value of $549,000 at 30 June 2012 resulting in a gain during the current year of $35,500 (2011: $57,000) which represents 2.84% of the total portfolio's face value of $1,250,000 (30 June 2012). Refer to Note 5 (a) for additional details.

Two of the three CDOs were arranged by Lehman Brothers. Soon after Lehman Brothers filed for Chapter 11 bankruptcy protection in the United States, the swaps attached to each transaction were terminated by the Trustee. This means that any credit events in the reference portfolio that may have occurred post Lehman Brothers Chapter 11 bankruptcy filing has no bearing on the transaction or its valuation.

The security documentation for each CDO stipulates that if the swap counterparty files for bankruptcy protection, the swap is to be unwound and the collateral returned to the note holders. The Trustee is unable to act on this instruction based on, amongst other things, a challenge from Lehman Brothers and the decision to deliver the collateral to note holders is tied up in both the English and United States courts.

The fair value of the remaining three CDOs utilises the valuation methodology described above, however the values of the two Lehman Brothers arranged CDOs reflect the value of the underlying collateral in the transaction plus adjustments for the estimated current cash balances (unpaid coupons) less a provision for estimated costs (of the Trustee to unwind these securities including associated legal costs), less an adjustment for the estimated risks of not making a full recovery of the collateral (providing for the possibility that the final legal outcome is that Lehman Brothers have first rights to a portion of the collateral).

These CDO valuations are therefore a theoretical estimation based on these inputs and accordingly are categorised by the accounting standards valuation hierarchy as Level 3 securities. Refer to Note 9 for further information on the valuation hierarchy.

[1] How the default probabilities of one entity affects the default probabilities of other entities. A zero correlation implies no effect at all. Generally correlations are positive as defaults are often caused by systemic events that affect all entities in a similar manner, but to different degrees.

Following is a reconciliation of the fair value of the CDO portfolio as at 30 June 2012:

Security	Face Value	Fair Value @ 30 June 2011	Fair Value @ 30 June 2012	Gain recognised in FY 2011/12
CDO 1	$300,000	$282,000	$300,000	$18,000
CDO 2	$200,000	-	-	-
CDO 3	$200,000	$184,000	$196,000	$12,000
CDO 4	$50,000	$47,500	$53,000	$5,500
CDO 5	$500,000	-	-	-
Total	$1,250,000	$513,500	$549,000	$35,500

The table below provides a sensitivity analysis on the impact to the company's future results should the fair value of these assets decline to the levels outlined below:

Face Value of Portfolio	Fair Value of Portfolio	**Loss ratio** (total loss recognised compared to face value)	Potential future profit/(loss) Impact
$1,250,000	$500,000	60%	($49,000)
$1,250,000	$250,000	80%	($299,000)
$1,250,000	-	100%	($549,000)

Capital Management

The company operates in the private health insurance industry and is subject to prudential capital regulations determined in accordance with the solvency and capital adequacy standards set out in the *Private Health Insurance (Health Benefit Fund Administration) Rules* ("the rules") which are administered by the Private Health Insurance Administration Council (PHIAC). The rules set minimum standards in relation to a private health insurer's solvency and capital adequacy requirements. The Board's policy is to maintain a strong capital base and to hold capital well in excess of the minimum requirements stipulated in the rules. Capital management policies are contained in the capital management plan which identifies the target level of capital the company will hold given its risk profile.

At the end of the reporting period the company had capital well in excess of the minimum statutory requirements and within the target capital 'assets to capital adequacy ratio' range set down by the Board in the capital management plan.

The capital management plan is reviewed and updated annually by management in conjunction with the Appointed Actuary and approved by the Board of Directors.

Solvency

The company is required to comply with the prudential requirements of the *Private Health Insurance Act 2007,* specifically Divisions 140 and 143, in respect of solvency and capital adequacy requirements. At 30 June 2012 the company satisfied both requirements and reported a solvency reserve of $7,749,598 (2011: $6,855,626).

		2012	2011
NOTE 4	**Other Income**	**$**	**$**
	Management Fees and Commissions		
	Travel Insurance Commission	38,243	41,725
	Overseas Health Cover Commission	350,000	300,000
	Management Services Income	1,765,845	1,161,419
		2,154,088	**1,503,144**
	Interest Income	2,397,119	2,039,223
	Dividend Income	184,350	238,593
	Financial Assistance Grant	27,000	57,500
	Rental Income	57,188	51,936
	Other	15,527	14,856
		4,835,272	**3,905,252**

NOTE 5	**(a) The increase/(decrease) in fair value of financial assets relate to the following asset classes:**		
	Shares in Listed Corporations	(349,099)	438,734
	Interest Bearing Securities		
	CDOs	35,500	153,000
	Floating Rate Notes	-	39,920
		(313,599)	**631,654**
	(b) The realised gain/(loss) in relation to the company's financial assets disposed of during the period relate to the following asset classes:		
	Shares in Listed Corporations	26,040	-
	Interest Bearing Securities		
	CDOs	28,000	-
	Floating Rate Notes	13,150	-
		67,190	**-**

NOTE 6	**The net impairment loss recognised on revaluation of the company's Property, Plant & Equipment relate to the following asset classes:**		
	Land & Buildings	(418,214)	-
		(418,214)	**-**

NOTE 7	**Cash and Cash Equivalents**		
	Cash on Hand	800	800
	Cash at Bank	2,097,165	1,900,414
	Term Deposits maturing within 3 months after the end of the reporting period	33,196,312	23,120,144
		35,294,277	**25,021,358**

Cash at bank bears floating interest rates between 0% and 4.45% (2011: 0% and 5.21%). Term deposits bear fixed interest rates between 5.00% and 6.00% (2011: 5.85% and 6.34%).

		2012	2011
		$	$
NOTE 8	**Receivables**		
	Unclosed Business Premium : Earned	807,294	480,059
	Unclosed Business Premium : Unearned	165,097	204,072
	Private Health Insurance Rebate	3,927,201	1,601,545
	Less: Provision for Impairment of Receivables	(4,000)	(4,000)
		4,895,592	**2,281,676**
	Other Debtors	589,670	161,674
	Investment Income Receivable	425,473	245,252
		5,910,735	**2,688,602**
NOTE 9	**Other Financial Assets**		
	Financial Assets at Fair Value Through profit or loss	20,676,621	16,501,225
		20,676,621	**16,501,225**
	Financial Assets at Fair Value Through profit or loss comprise:		
	Term Deposits	16,500,000	9,500,000
	Interest Bearing Securities		
	CDOs	549,000	885,500
	Floating Rate Notes	-	1,486,850
	Shares in Listed Corporations	3,627,621	4,628,875
		20,676,621	**16,501,225**

The company's exposure to credit, currency, interest rate and equity price risks related to financial instruments is disclosed in Note 22.

(i) Valuation Hierarchy

The tables over the page classifies financial instruments held by the company and recognised in the statement of financial position according to the valuation hierarchy stipulated in AASB 7 as follows:

Level 1:

The instrument has quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2:

A valuation technique is used using inputs other than quoted prices within Level 1 that are observable for the financial instrument, either directly (i.e. as prices), or indirectly (i.e. derived from prices); or

Level 3:

A valuation technique is used using inputs that are not based on observable market data (unobservable inputs).

2012	Level 1	Level 2	Level 3	Total
	$	$	$	$
Assets				
Fair value through profit or loss:				
Term Deposits	16,500,000	-	-	16,500,000
CDOs	-	-	549,000	549,000
Floating Rate Notes	-	-	-	-
Shares in Listed Corporations	3,627,621	-	-	3,627,621
	20,127,621	**-**	**549,000**	**20,676,621**

2011	Level 1	Level 2	Level 3	Total
	$	$	$	$
Assets				
Fair value through profit or loss:				
Term Deposits	9,500,000	-	-	9,500,000
CDOs	-	372,000	513,500	885,500
Floating Rate Notes	-	1,486,850	-	1,486,850
Shares in Listed Corporations	4,628,875	-	-	4,628,875
	14,128,875	**1,858,850**	**513,500**	**16,501,225**

(ii) Reconciliation of financial instruments categorised as Level 3

2012	Term Deposits	Interest Bearing Securities	Shares in Listed Corporations	Total
	$	$	$	$
Opening balance - 1/7/2011	-	513,500	-	513,500
Transfers into/out of Level 3	-	-	-	-
Gains recognised in profit or loss	-	35,500	-	35,500
Closing balance - 30/6/2012	**-**	**549,000**	**-**	**549,000**

2011	Term Deposits	Interest Bearing Securities	Shares in Listed Corporations	Total
	$	$	$	$
Opening balance - 1/7/2010	-	456,500	-	456,500
Transfers into/out of Level 3	-	-	-	-
Gains recognised in profit or loss	-	57,000	-	57,000
Closing balance - 30/6/2011	**-**	**513,500**	**-**	**513,500**

Refer to Note 3 (d) for further information in relation to the valuation of financial instruments classified within Level 3 of the valuation hierarchy.

		2012	2011
		$	$
NOTE 10	**Other Assets**		
	Prepayments	146,570	190,425
		146,570	**190,425**
NOTE 11	**Property, Plant & Equipment**		
	Land and Buildings - at Cost	5,275,012	5,765,297
	Less: Provision for Depreciation	-	(384,784)
	Less: Accumulated impairment losses	(550,012)	(131,798)
		4,725,000	**5,248,715**
	Computer Equipment - at Cost	637,356	591,310
	Less: Provision for Depreciation	(552,112)	(495,859)
		85,244	**95,451**
	Furniture & Equipment - at Cost	1,116,037	1,113,880
	Less: Provision for Depreciation	(924,941)	(736,968)
		191,096	**376,912**
	Motor Vehicles - at Cost	328,598	325,856
	Less: Provision for Depreciation	(113,232)	(66,236)
		215,366	**259,620**
	Total Property, Plant & Equipment	**5,216,706**	**5,980,698**

Land and Buildings located at 2-12 Victoria Street, Wollongong NSW

The fair value of land and buildings at the end of the reporting period was assessed by an independent external valuer in accordance with the company's accounting policy. Fair value has been determined based on the 'capitalisation method' which utilises the following inputs sourced from the independent external valuation:

Estimated annual gross rental per m^2 of lettable area	\$310 per m^2
Estimated yield	9%
Net lettable area	1,372 m^2

	2012	2011
	$	$
Movement in Carrying Amounts Between the Beginning and End of the Year:		
Land and Buildings		
Carrying Value at the Beginning of the Year	5,248,715	5,286,027
Additions	-	17,056
Transfer from Capital Works Under Construction	-	49,604
Depreciation Expense	(105,501)	(103,972)
Impairment Loss recognised in profit or loss	(418,214)	-
Carrying Value at the End of the Year	**4,725,000**	**5,248,715**
Computer Equipment		
Carrying Amount at the Beginning of the Year	95,451	68,253
Additions - at Cost	46,046	90,445
Depreciation Expense	(56,253)	(63,247)
Carrying Amount at the End of the Year	**85,244**	**95,451**
Furniture & Equipment		
Carrying Amount at the Beginning of the Year	376,912	333,605
Additions - at Cost	2,157	225,744
Depreciation Expense	(187,973)	(182,437)
Carrying Amount at the End of the Year	**191,096**	**376,912**
Motor Vehicles		
Carrying Amount at the Beginning of the Year	259,620	172,190
Additions - at Cost	49,723	250,368
Disposals - at WDV	(24,175)	(101,186)
Depreciation Expense	(69,802)	(61,752)
Carrying Amount at the End of the Year	**215,366**	**259,620**
Capital Works Under Construction		
Carrying Amount at the Beginning of the Year	-	49,604
Additions - at Cost	-	-
Transfer to Land & Buildings	-	(49,604)
Carrying Amount at the End of the Year	**-**	**-**

		2012 $	2011 $
NOTE 12	**Intangible Assets**		
	Computer Software - at Cost	405,258	332,981
	Less: Provision for Amortisation	(276,258)	(162,391)
		129,000	**170,590**
	Computer Software Under Development - at Cost	43,288	30,732
	Total Intangible Assets	**172,288**	**201,322**
	Movement in Carrying Amounts Between the Beginning and End of the Year:		
	Computer Software		
	Carrying Amount at the Beginning of the Year	170,590	81,017
	Additions - at Cost	72,277	161,732
	Transfer from Computer Software Under Development	-	17,100
	Amortisation Expense	(113,867)	(89,259)
	Carrying Amount at the End of the Year	**129,000**	**170,590**
	Computer Software Under Development		
	Carrying Amount at the Beginning of the Year	30,732	42,221
	Additions - at Cost	12,556	5,611
	Transfer to Computer Software	-	(17,100)
	Carrying Amount at the End of the Year	**43,288**	**30,732**
NOTE 13	**Other Financial Assets - Non Current**		
	Unlisted Shares - Lysaght Credit Union	2	2
	Unlisted Shares - Peoplecare Health Insurance Pty Ltd	100	100
	Unlisted Shares - Peoplecare Professional Services Pty Ltd	2	2
		104	**104**
NOTE 14	**Payables**		
	Amounts Due to the Risk Equalisation Trust Fund	2,201,706	1,609,254
	Other Creditors & Accruals	2,997,658	1,464,426
	Unclosed Business Premium Liability	165,097	204,072
	Unearned Premium Liability (premiums in advance)	12,759,574	4,366,307
	Annual Leave	360,143	266,663
		18,484,178	**7,910,722**

			2012	2011
			$	$
NOTE 15	**Provisions - Current**			
	Outstanding Claims Liability			
	Outstanding Claims		5,404,787	4,236,629
	Risk Margin		175,655	137,691
			5,580,442	**4,374,320**
	The reconciliation of this provision is as follows:			
	Balance at the beginning of the year		4,374,320	4,067,906
	Add Claims incurred		66,551,645	56,385,106
	Less Claims paid		(65,345,523)	(56,078,692)
	Balance at the end of the year		**5,580,442**	**4,374,320**

Process for determining risk margin

The risk margin for the outstanding claims provision is based on an analysis of the historical variance of the Fund's provision for outstanding claims. The benefits component of the provision, which reflects the expected outstanding claims at the time of reporting, is compared to the actual outstanding claims paid to date. The difference between the actual outstanding claims and the expected outstanding claims is analysed to determine a risk margin which provides a 75% probability of sufficiency.

The percentage risk margin at 30 June 2012 is 3.25% (2011: 3.25%). Refer to Note 2 (k) for further explanation of the risk margin adopted.

			2012	2011
	Leave Provisions			
	Long Service Leave		268,413	226,648
			268,413	**226,648**

Liabilities not anticipated to be settled within the next 12 months:

The long service leave provision, even though classified as current, is not expected to be settled in the next 12 months. This notion is based on past years' experience of low turn-over of long term staff and minimal payment of accrued long service leave.

			2012	2011
	Total Provisions - Current		**5,848,855**	**4,600,968**
NOTE 16	**Payables - Non Current**			
	Executive Long Term Retention Strategy	Note 2 (f)	276,313	190,144
NOTE 17	**Provisions - Non Current**			
	Provision for Long Service Leave		134,744	92,451

Provision for Long-Term Employee Benefits

A provision has been recognised for employee benefits relating to long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits has been included in Note 2 (f) to the financial statements.

NOTE 18 **Members' Guarantee**

The company is limited by guarantee. Under the constitution of the company, each member agrees that, if the company is wound up during the time that they are a member, or within one year after ceasing to be a member, they will contribute to the assets of the company, for the payment of the debts and liabilities of the company (contracted before ceasing to be a member) and of the costs, charges, and expenses of winding up and for adjustment among the members of the rights of the members, such amount as may be required, but not exceeding $10 (2011: $10). The number of members at the end of the financial year was 28,249 (2011: 24,409).

NOTE 19 **Capital And Other Commitments**

Intangible Assets

Contracted but not provided for and payable:		
Not Later Than 1 Year	-	54,890
Later Than 1 Year But Not Later Than 5 Years	-	-
Later Than 5 Years	-	-
	-	**54,890**

NOTE 20 **Key Management Personnel Disclosures**

(a) Directors

The following persons were directors of Lysaght Peoplecare Limited during the financial year:

Name	**2012**	**2011**
Norman Branson (Chairman)	✓	✓
Janelle Bond	✓	✓
Alan Gibbs	✓	✓
Jacqueline Jennings	✓	✓
Gregory Parrish	✓	✓
Ian Sampson	✓	✓
Andrew Gregory (Associate Director)		Term expired 28/2/11
Philip Weldon (Associate Director)	Commenced 18/05/12	

(b) Other Key Management Personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the company, directly or indirectly during the financial year:

Name	**2012**	**2011**
Michael Bassingthwaighte (Chief Executive Officer)	✓	✓
Dale Cairney (Deputy Chief Executive Officer)	✓	✓
Anita Mulrooney (General Mgr - Marketing & Communications)	✓	✓
Christopher Stolk (Chief Financial Officer)	✓	✓

	2012	2011
	$	$
(c) Key Management Personnel Compensation		
Short Term Employee Benefits	1,020,720	990,912
Post Employment Benefits	241,122	231,947
Long Term Employee Benefits	86,168	154,057
	1,348,010	**1,376,916**

Total Directors' remuneration of up to a maximum of $300,000 pa was approved by members at the annual General Meeting on 11 November 2011. For the year ended 30 June 2012 total directors' remuneration paid was $237,515.

NOTE 21 Notes To The Cash Flow Statement

(a) Cash and Cash Equivalents

For the purposes of the cash flow statement, cash includes cash on hand, bank deposits, and investments in money market instruments maturing within 3 months of the end of the reporting period. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position:

Cash on Hand	800	800
Cash at Bank	2,097,165	1,900,414
Term Deposits maturing within 3 months after the end of the reporting period	33,196,312	23,120,144
	35,294,277	**25,021,358**

The company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 22.

(b) Non-Cash Financing and Investing Activities

During the financial year the company did not undertake any non-cash activities.

(c) Reconciliation of Surplus after income tax to net cash flow from operating activities

Surplus for the year	4,883,762	6,095,800
Depreciation and amortisation	533,396	500,667
Net (gain)/loss on sale of property, plant and equipment	3,097	278
Net (gain)/loss on disposal of financial assets transferred to profit or loss on disposal	(67,190)	-
Net (Increase)/decrease in fair value of financial assets	313,599	(631,655)
Impairment of revalued land & buildings	418,214	-
Change in operating assets		
(increase)/decrease in prepayments	43,855	(81,051)
(increase)/decrease in receivables	(3,241,388)	(235,970)
(increase)/decrease in GST refundable	19,255	3,177
increase/(decrease) in payables	10,659,625	912,962
increase/(decrease) in provisions	1,290,180	363,033
	14,856,405	**6,927,241**

		2012	2011
		$	$
NOTE 22	**Financial Assets and Liabilities**		
	The company holds the following financial instruments:		
	Financial Assets		
	Cash and cash equivalents	35,294,277	25,021,358
	Loans and receivables	5,910,735	2,688,602
	Financial assets fair valued through profit or loss	20,676,621	16,501,225
		61,881,633	**44,211,185**
	Financial Liabilities		
	Trade and other payables	3,097,611	1,565,975
	Employee leave entitlements	763,300	585,762
		3,860,911	**2,151,737**

Credit Risk

Credit Risk is explained in Note 3 (a).

Exposure to Credit Risk

The carrying amount of the company's financial assets represents the maximum credit exposure. The company's maximum exposure to credit risk at the reporting date was:

		Carrying Amount	
	Note:	**2012**	**2011**
		$	$
Cash and Cash Equivalents	7	35,294,277	25,021,358
Receivables	8	5,910,735	2,688,602
Financial Assets at Fair Value Through profit or loss:			
Term Deposits	9	16,500,000	9,500,000
Interest bearing securities	9	549,000	2,372,350
Shares in Listed Corporations	9	3,627,621	4,628,875
		61,881,633	**44,211,185**

Past Due Not Impaired

The ageing of the company's receivables at the reporting date:

	Gross 2012	Impairment 2012	Gross 2011	Impairment 2011
	$	$	$	$
Not past due	4,689,037	-	2,209,602	-
Past due 0-30 days	889,047	-	453,417	-
Past due 31 - 120 days	323,528	-	20,460	-
Past due 121 days to one year	10,038	(914)	6,110	(987)
More than one year	3,086	(3,086)	3,013	(3,013)
	5,914,736	**(4,000)**	**2,692,602**	**(4,000)**

The movement in the allowance for impairment in respect of receivables during the year was as follows:

	2012	2011
	$	$
Balance at the Beginning of the Year	(4,000)	(4,000)
Impairment loss recognised	-	-
Balance at the End of the Year	**(4,000)**	**(4,000)**

There was no movement in the impairment provision during the financial year (2011: Nil).

Liquidity Risk

Liquidity risk is explained in Note 3 (b)

The following are the contractual maturities of the company's financial liabilities:

	Carrying Amount	Contractual Cash Flows	1 month or less	2 - 4 months	4 -6 months	More than 6 months
	$	$	$	$	$	$
30 June 2012						
Non-derivative financial liabilities						
Trade & Other payables	3,097,611	(3,097,611)	(2,668,021)	(91,966)	(61,311)	(276,313)
30 June 2011						
Non-derivative financial liabilities						
Trade & Other payables	1,565,975	(1,565,975)	(1,229,998)	(87,500)	(58,333)	(190,144)

The company is not significantly exposed to this risk as it has $35,294,277 of cash and cash equivalents to meet these obligations as they fall due.

Currency Risk

Exposure to Currency Risk

The company has no material exposure to foreign currency risk at the end of the reporting period (2011: Nil).

Interest Rate Risk

Profile

At the end of the reporting period, the interest rate profile of the company's interest bearing financial instruments was:

	Carrying Amount	
	2012	2011
	$	$
Fixed Rate Instruments (maturing within 1 year)		
Financial Assets		
Cash & Cash Equivalents	33,196,312	23,120,144
Other Financial Assets	16,500,000	9,500,000
Financial Liabilities	-	-
	49,696,312	**32,620,144**
Weighted Average Interest Rate @ 30 June	5.46%	6.04%

Variable Rate Instruments		
Financial Assets		
Cash & Cash Equivalents	2,097,165	1,900,414
Other Financial Assets	549,000	2,372,350
Financial Liabilities	-	-
	2,646,165	**4,272,764**
Weighted Average Interest Rate @ 30 June	2.25%	5.13%

Sensitivity Analysis for Fixed Rate Instruments

A change of 100 basis points in interest rates at the end of the reporting period would have increased or decreased the surplus by $496,963 (2011: $326,201). Equity would increase or decrease by the same amount.

Sensitivity Analysis for Variable Rate Instruments

A change of 100 basis points in interest rates at the end of the reporting period would have increased or decreased interest received and therefore the surplus by $26,462 (2011: $42,728). Equity would increase or decrease by the same amount.

Price Risk

Sensitivity Analysis for Equity Price Risk

The company's equity investments are listed on the Australian Securities Exchange. For equity investments classified as fair value through profit or loss, a 10% change in the bid price at reporting date would have resulted in an increase or decrease to the company's profit or loss of $362,762 (2011: $462,887). Equity would increase or decrease by the same amount.

Sensitivity Analysis for CDO Price Risk

A change of 10% in the bid price or mid market valuation of the company's CDO portfolio at the end of the reporting period would have resulted in an increase or decrease to the company's profit or loss by $54,900 (2011: $88,550). Equity would increase or decrease by the same amount.

NOTE 23 Related Party Transactions

(a) Key Management Personnel Compensation

Disclosures relating to key management personnel are set out in Note 20.

(b) Other Transactions with Related Parties

During the year the company received health insurance contributions from and paid health insurance benefits to key management personnel of the company and their relatives on normal commercial terms and conditions. That is to say, on terms and conditions no more favourable than those available to other members.

During the year, fees of $458,517 (2011: $380,410) were paid to HAMB Systems Limited, a not-for-profit company over which the CEO, Michael Bassingthwaighte, has significant influence. Mr Bassingthwaighte is a director of HAMB Systems Limited for which he receives nominal remuneration to cover costs. The payments were made on normal commercial terms and conditions and relate to software and information technology services provided to the company.

During the year, fees of $258,195 (2011: $207,516) were paid to Australian Health Service Alliance Limited, a not-for-profit company over which the CEO, Michael Bassingthwaighte, has significant influence. Mr Bassingthwaighte is a director of Australian Health Service Alliance Limited for which he receives no remuneration. The payments were made on normal commercial terms and conditions and relate to the management of provider relationships, collection, dissemination and analysis of medical and hospital data, management of Access Gap Cover, as well as prosthesis, educational services and training.

The company has entered into two management contracts, both at arm's length and on normal commercial terms, to provide management services to:

1. National Health Benefits Australia Pty Limited (NHBA).

Lysaght Peoplecare Limited has received a fee of $1,087,050 from NHBA for the provision of management services during the reporting period (2011: $995,280).

2. Reserve Bank Health Society Limited (RBHS).

Lysaght Peoplecare Limited has received a fee of $678,795 from RBHS for the provision of management services during the reporting period (2011: $166,139).

NOTE 24 Contingent Assets And Liabilities

At 30 June 2012 the company had no contingent assets and liabilities.

NOTE 25 Subsequent Events

There has not been any matters or circumstances that have arisen since the end of the financial year that has significantly affected, or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

NOTE 26 Nature And Extent Of Risks Arising From Insurance Contracts

The purpose of insurance is risk distribution, that is, to spread risks across a large pool of individuals. Insurance provides a mechanism by which individuals who pay an agreed sum, known as a 'premium' can be indemnified against future events that may cause loss.

An insurance contract is a product under which an insurer accepts significant risk from a policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder.

A health insurance contract is a type of insurance whereby the company (the insurer) agrees to reimburse the policyholder for health care costs in exchange for a premium. The contract (policy) stipulates the type of health care benefits covered as well as costs to be reimbursed.

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

The company has determined that all current contracts with policyholders are insurance contracts.

Sensitivity to Insurance Risk

Health insurance claims tend to be short-tailed in nature, in that the period of time between a claim event occurring and the date of payment of that claim are typically less than one year, and in most cases less than six months. Historical claim lag patterns demonstrate that greater than 90% of claims are settled within three months of the claim event occurring.

The health insurance claims are therefore generally not sensitive to factors such as inflation, changes in interest rates, or other time-value of money issues, and as such a sensitivity analysis has not been provided in the financial statements.

Selection, Pricing and Concentration Risk

Community rating is the basis of Australia's private health insurance system. Under the *Private Health Insurance Act 2007*, private health insurance contracts are required to be community rated, that is, in setting premiums, or paying benefits, funds cannot discriminate on the basis of health status, age, race, sex, and sexuality, use of hospital or medical services or general claiming history. Although this risk is shared collectively across the entire pool of policyholders, actuaries and underwriters still collect health information to determine the overall premium that insurers must charge to sustain the pool.

Community rating mandates that one price must apply to all contributor groups within each product, meaning that the pricing applied to the contributor groups within a product applies to all current and future potential members.

The company manages concentration risk by pricing each product with regard to the risk profile of each policyholder group.

Another regulatory factor is Risk Equalisation which supports the principle of community rating. The Risk Equalisation scheme transfers money from private health insurers with younger healthier members with lower average claims payments to those insurers with an older and less healthy membership and which have higher average claims payments.

The *Private Health Insurance Act 2007,* also limits the types of treatment that private health insurers are able to offer as part of their health insurance business. Finally, premiums for health insurance can only be charged with the approval of the Minister for Health and Ageing.

Credit Risk in Relation to Insurance Contracts

Credit risk is the risk that one party to an insurance contract will cause a financial loss for the other party by failing to discharge an obligation.

The maximum exposure to credit risk to insurance contract related assets, at the end of the reporting period, is the carrying amount net of any provision for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

This risk is minimised through a process of arrears management whereby benefit payments are with-held from non-financial members. Where payment of contributions is not received for a continual period of three months, membership is terminated.

The company does not have any material credit risk exposure to any single receivable or group of receivables under insurance contracts entered into by the company.

Liquidity Risk in Relation to Insurance Contracts

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with insurance contracts.

The company manages liquidity risk in relation to insurance contracts by continuously monitoring forecast and actual cash flows and claims provisioning risk as well as holding a high percentage of highly liquid investments to meet the obligations of the company.

The approach adopted by the company in determining the outstanding claims provision is detailed in Note 2 (k). The provision is subject to some uncertainty, but the company seeks to ensure the outstanding claims provision is adequate by:

(i) ongoing and regular review of claim lags to ensure they are consistent with historical analysis;

(ii) a periodic external review conducted by the appointed actuary, incorporated within a quarterly report to the Board of Directors and the annual financial conditions report prepared for the Board of Directors and provided to the industry regulator;

(iii) ongoing and regular reviews of forecasts to ensure that factors included in calculating the outstanding claims provision remain relevant and reliable; and

(iv) the inclusion of a risk margin in the calculations (as detailed in Note 2 (k)) to ensure a probability of sufficiency of 75%.

Market Risk in Relation to Insurance Contracts

Market risk is the risk that the fair value or future cash flows associated with insurance contracts will fluctuate because of changes in market prices. Factors affecting market prices faced by the company include inflation risk.

The company is exposed to inflationary risk in relation to hospital and medical services that may materially impact on the future value of claims payments. Controls in place to mitigate this risk include contracts with hospital and medical service providers, and limits applied to some benefits and ancillary products. The company also monitors growth in the utilisation and charges for medical services on an ongoing basis to ensure they are within forecast ranges.

Regulatory and Capital Adequacy Risk

The company is subject to prudential regulation prescribed in the *Private Health Insurance Act 2007,* and administered by the Private Health Insurance Administration Council (PHIAC). The prudential regulation includes solvency and capital adequacy requirements that are designed to protect the long-term viability of the company and the best interest of contributors.

The company has capital objectives significantly exceeding the solvency and capital adequacy requirements, and utilises the appointed actuary for advice in determining an appropriate target capital level for the company.

NOTE 27 New Standards And Interpretations Issued Not Yet Effective

AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors requires entities who have not applied a standard or interpretation, which has been published but is not yet effective, to make certain disclosures. These disclosures include stating that the standard or interpretation has not yet been applied and the potential impact on the entity's financial statements in the period of initial application.

As the disclosures relate to Standards and Interpretations in issue when the financial statements are authorised for issue, it is important to monitor the AASB's, IASB's and IFRIC's output to ensure that all relevant pronouncements are covered.

Below is a description of some of these standards with significant impact in financial reporting:

AASB 9 Financial Instruments

Introduces new requirements for the classification and measurement of financial assets and liabilities. AASB 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in AASB 139 and removes the impairment requirement for financial assets held at fair value. This may result in the measurement basis of financial assets changing from fair value to amortised cost (or vice versa). Also the requirement to test assets at fair value for impairment has been removed. The majority of the existing classification and measurement requirements of financial liabilities from AASB 139 have been incorporated into AASB 9, except in relation to own credit risk where an entity takes the option to measure financial liabilities at fair value. AASB 9 requires the amount of the change in fair value due to changes in the entity's own credit risk to be presented in other comprehensive income (OCI), unless there is an accounting mismatch in the profit or loss, in which case all gains or losses are to be presented in the profit or loss. If the entity holds any 'own credit risk' financial liabilities, the fair value gain or loss will be incorporated in the OCI, rather than profit or loss, unless accounting mismatch.

Likely impact:

The likely financial impact to the Company as a consequence of these new requirements will be immaterial assuming the current composition of financial assets and liabilities of the company continues.

AASB 13 Fair Value Measurement

The new AASB will not affect which items are required to be 'fair valued', but will specify how an entity should measure fair value and disclose fair value information. Currently, guidance on measuring fair value is distributed across many AASBs. Some Standards contain limited guidance and others quite extensive guidance that is not always consistent. For financial assets we expect the guidance to be appropriate and consistent with existing practice. The guidance will however also apply to the measurement of fair value for non-financial assets and will make a significant change to existing guidance in the applicable standards.

Likely impact:

For financial assets, AASB 13's guidance is broadly consistent with existing practice. It will also apply to the measurement of fair value for non-financial assets, however Management are yet to assess the impact of any changes to this Standard.

AASB 119 Employee Benefits (AASB 119 Amendments)

The AASB 119 amendments include a number of targeted improvements throughout the Standard. The main changes relate to defined benefit plans. They are:

- eliminate the 'corridor method', requiring entities to recognise all gains and losses arising in the reporting period in other comprehensive income;
- streamline the presentation of changes in plan assets and liabilities; and
- enhance the disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them. The amended version of AASB 119 is effective for financial years beginning on or after 1 January 2013.

Likely impact:

Management are currently assessing the changes to the Standard to determine whether there is any effect to the Company.

AASB 2011-9 Amendments to Australian Accounting Standards Presentation of Items of Other Comprehensive Income (AASB 101 Amendments)

The AASB 101 amendments require an entity to group items presented in other comprehensive income into those that, in accordance with other AASBs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after 1 July 2012.

Likely impact:

This amendment to the Standard will not have a financial impact on the Company as the changes are in presentation only.

Amendments to IAS 32 Financial Instruments: Presentation and IFRS 7 Financial Instruments: Disclosures

The amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities. Qualitative and quantitative disclosures have been added to IFRS 7 relating to gross and net amounts of recognised financial instruments that are (a) set off in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position. The amendments are applicable for annual periods beginning on or after 1 January 2014.

Likely impact:

This amendment to the Standard will not have a financial impact on the Company as the changes are in presentation and disclosure only.

Financial instruments - Project to replace IAS 39 (AASB 139) Financial Instruments: Recognition and Measurement

The IASB's project to replace IAS 39 is still in progress. This project has been broken into three phases, and an outline of its status and effects is given below.

- Phase 1: Classification and measurement. In November 2009 the IASB published IFRS 9 Financial Instruments, however at that stage IFRS 9 only addressed financial assets. However, in late October 2010, the IASB finalised the stage in relation to the financial liabilities. A further amendment was made in December 2011 to change the mandatory application date from 1 January 2013 to 1 January 2015. Early adoption is still permitted. AASB 9 was also amended so that it does not require the restatement of comparative period financial statements for the initial application of the classification and measurement requirements of AASB 9, but instead requires modified disclosures on transition to AASB 9.
- Phase 2: Impairment methodology. Deliberations are continuing in relation to the mechanics of the model, including the subsequent measurements, however there has been a change from the current "incurred loss" to an "expected loss" model, resulting in the impairment being booked at inception.
- Phase 3: Hedge accounting. Deliberations are continuing, however the overall objective is to simplify the current hedging requirements and to align these with the current internal risk management system in place. This is being considered under two separate areas being general and macro hedging.

Both Phase 2 and 3 are currently not proposed to be completed by the IASB until the end of 2012.

Likely impact:

Management are yet to assess the impact of any changes to this Standard as the review is still being conducted by the IASB.

Proposed Accounting Standard Regarding Revenue Recognition

The IASB has issued Exposure Draft (ED), Revenue from Contracts with Customer which proposes a single model that would replace most of the current guidance in IAS 18 and IAS 11, including related interpretations.

The proposed model is based on the core principle that requires an entity to recognise revenue in a manner that depicts the transfer of goods or services to customers in the amount that reflects the consideration the entity receives, or expects to receive, for those goods or services.

To apply this principle, an entity would perform the following five steps:

- Identify the contract with a customer;
- Identify the separate performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to each separate performance obligation; and
- Recognise revenue as the entity satisfies each performance obligation

Under IFRS, revenue is currently recognised when the risks and rewards of ownership of a product or service are transferred to the customer. Under the proposed model, revenue would be recognised when the customer obtains control of a transferred product or service. The Boards believe that the concept of transferring control, rather than transferring the risks and rewards of ownership, would result in more consistent decisions about when goods or services are transferred to the customer.

Currently, the Board has made a number of revisions to the original ED, which has recently been re-exposed for comment from constituents. The IASB/FASB have revised their previous work plan, and are now expecting to release the final standard by the end of 2012.

Likely impact:

Management are yet to assess the impact of any potential changes to this Standard as the proposed model is still an exposure draft.

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