Peoplecare

Annual Report 2013

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

Contents

Message from the Chairman

It is pleasing once again to be able to report a successful year to the members of Peoplecare; another year when our membership growth significantly exceeded the industry average in percentage terms and where we were again able to meet the requirements of the regulator and achieve excellent financial results for the company.

Whilst we have continued our recent successes, the past year has been hampered somewhat by changes in Government policy that affected many within our membership. These changes certainly did nothing to assist any member even those not directly affected.

It is Peoplecare's view that when the Government reduces the rebate on private health insurance, whether it applies to those joining later in life, or families with incomes above the Government's threshold, the consequences affect all members. The Government has now determined that from April 2014 they will further reduce the financial support they pay all members if a fund finds it necessary to increase contributions beyond CPI.

The Government makes this change even when they recognise and admit that the health index always rises above the CPI as the cost of hospital and medical treatments rise due to utilisation and the aging of the population. Peoplecare has lobbied against these changes for several months and the CEO report will add more detail to these changes so all members can judge for themselves the impact these changes have to your health fund.

Nonetheless, we have come through this difficult year successfully and will continue to be successful because of the well-developed policies of the company and the strength of our executive and staff.

We have also strengthened our ties with the other health funds we manage under long term agreements and, the consequential advantages in both staff development and the increased income that are evident because of these initiatives enable us to keep our membership and income growing to the advantage of all our members. We are able to provide exceptional benefits and lower contribution costs that have been recognised by independent evaluators.

Another big success story for the year has been our venture into the provision of dental and optical services for members based in the Illawarra. We have introduced three dental chairs and highly qualified practitioners and co-located these with our newly refurbished optical outlet in Market Street Wollongong with access and price advantages for our members. We view this new venture as a pilot for others in the future that we hope to establish in geographical areas where our membership numbers warrant these services. To date the new service has been highly successful in exceeding our budgeted projections and the level of service our staff have been able to provide.

In closing, I would like to offer on behalf of the members, sincere thanks to our dedicated staff, executive and Board who work to ensure the needs of our members are fully satisfied, and to formally acknowledge the honour awarded to our long term CEO, Mr Michael Bassingthwaighte, who was recognised this year with a Member in the Order of Australia (AM) for his tireless work for the industry and the broader Illawarra community.

Norman W. Branson Dip. Bus. (RMIT) FAICD
Chairman Peoplecare Board

21 September 2013

CEO's Report

The year ended 30 June 2013 has continued the trend of recent years with the Peoplecare business achieving exceptional results in what has been difficult economic conditions. We have continued to deliver high value health insurance products to our members resulting in high levels of customer satisfaction and strong membership growth that is more than double the industry average for the year. When combined with a strong financial result the company is in a good position to continue to deliver outstanding service to our customers.

We have continued to diversify our business through the establishment of our first optical and dental centre in Wollongong, NSW, and through the provision of management services that we provide to two other small independent health insurers.

The company has a focussed strategic plan for the future success and in this report I provide a brief overview of our performance and how it has been aligned to each of our four strategic objectives, namely:

1. People and Culture

At Peoplecare our focus is to ensure that we have highly skilled employees that are focussed on delivering consistently exceptional service to our customers. Our brand purpose "personal is best" is reflected in everything that we do as we strive for performance excellence. Our staff (our Peoplecarers) love working at Peoplecare and they value the overall working environment and strong connection to our brand and company values. We will continue to focus on training our Peoplecarers well, recognising them for their achievements and rewarding them well for a job well done.

We ensure that our recruitment practices are first class and that we find new Peoplecarers who fit the exceptional service mentality that is the hallmark of our success.

We foster and support our Peoplecarers to actively contribute to the community in which we operate and their input into a wide range of community and charitable activities are renowned.

We have a strong Executive team with many years' experience in health insurance and together with an enthusiastic and growing workforce are well prepared for the future.

We are very proud of the people that work for Peoplecare and we hope that our customers are also proud of their efforts.

2. Governance and Finance

It is essential in business today that the company has robust governance, risk and finance systems in place and at Peoplecare we understand the importance of such controls. We understand the risks and obligations that are inherent in health insurance. We focus clearly on our risk management practices and strategies and ensure that we meet our regulatory obligations at all times.

During 2012/13 we have invested in expanding our data analytical capability to ensure that we can continue to manage our costs in order to deliver the best value health insurance proposition to our members.

The effective financial management of the business is critical given that we are custodians of our member's money and we take that responsibility very seriously. I am pleased to inform the members that the financial performance this year has been very strong with a surplus of $7,057,873 being achieved for the year. Our capital levels remain within the Board approved target range and also satisfy the industry regulator.

Members should be aware that 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 members.

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

Summary of Results	2013		2012		2011	
	% income	$000	% income	$000	% income	$000
Contribution Income		**98,768**		**85,872**		**73,100**
Less Member Benefits Paid	**77.94%**	**76,981**	**77.50%**	**66,552**	**77.13%**	**56,385**
Less Risk Equalisation Trust Fund	**9.40%**	**9,286**	**9.37%**	**8,050**	**7.79%**	**5,698**
Less State Ambulance Levy	**1.27%**	**1,259**	**1.31%**	**1,128**	**1.37%**	**1,005**
Gross Margin	**11.38%**	**11,242**	**11.81%**	**10,142**	**13.70%**	**10,012**
Less Management Expenses attributable to the Health Benefit's Fund	**8.02%**	**7,924**	**8.82%**	**7,574**	**9.22%**	**6,739**
Underwriting Result	**3.36%**	**3,318**	**2.99%**	**2,568**	**4.48%**	**3,273**
Add Investment & Other Income (net of expenses)	**3.79%**	**3,740**	**2.70%**	**2,316**	**3.86%**	**2,823**
Net Surplus / (Deficit)	**7.15%**	**7,058**	**5.69%**	**4,884**	**8.34%**	**6,096**

Management expenses (the cost of administering the fund) are below the industry average at 8.02% for the 2012/13 financial year.

We continue to maximise other revenue streams to take the pressure off member premiums and during the past year we have received significant additional revenue from the management fees that we collect from National Health Benefits Australia Pty Ltd and the Reserve Bank Health Society Limited (each are separate health funds that are 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.

3. Imagination and Innovation

From a technology perspective we have continued to invest in enhancements to our overall IT platform and the expansion of online services to assist members to transact with us.

In December 2012 we also embarked on the establishment of a new optical and dental centre in Wollongong, NSW and this new facility has been extremely well received by our local members. The centre, named Peoplecare Eyes & Teeth, is the first such facility to be developed by Peoplecare and whilst we will take a little while to develop this business activity fully we look forward to the day where this is one of a number of similar facilities for members across various locations. To assist those members that do not reside within a reasonable distance we have also established an online Optical store, Peoplecare Eyes Online.

A further key objective is to advance our position within the health insurance industry through collaboration and we have a number of key strategic relationships in place. These relationships include the provision of health insurance computer software (HAMB Systems Limited), hospital and medical contracting services (Australian Health Service Alliance) and joint development of member services and industry representation (HIRMAA). To this end I have retained my Board positions on each of these organisations in the 2012/13 financial year.

4. A Unique Customer Experience

To deliver a unique experience to our customers we need to understand their needs and motivations .We have continued to invest in research to assist that understanding and this together with our motivation to deliver the "personal is best" experience has ensured that our members continue to demonstrate high satisfaction and that we continue to grow well above industry levels.

During 2012/13, the growth in member numbers was also outstanding with membership increasing from 28,249 to 30,316 members covering 70,773 people. This represents net growth of 7.32% which is exceptionally pleasing in the context of the industry average growth rate of 3.06%.

Additionally, our member attrition rate of 6.7% is significantly lower than the industry average of 8.2%, which is an impressive result. (Source: FCR June 2013).

We will continue to review our product suite to provide value for money health insurance products whilst ensuring the financial stability of the company. We have again submitted our products for external evaluation and these results have strongly enforced the value and competitiveness of the products that we provide.

We will continue to explore how to best add further value to our members in the coming years.

In addition to having the right products it is essential that this is backed by exceptional service standards and we are pleased to subject ourselves to external scrutiny. During the past year our annual member satisfaction survey was conducted with 1,399 members participating and resulted in a 96.7% satisfaction rating - an exceptional result.

Another demonstration of service is responsiveness and quality of response to member enquiries and at Peoplecare we believe strongly in the personal touch. In 2012/13, 96.6% of all telephone calls were answered in less than 10 seconds and virtually all general treatment (Extras) claims were processed within 24 hours. In addition, around 75% of eligible claims were processed electronically through our electronic HICAPS and IBA 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 website, which gives members additional choices for their fund transactions and access to 24x7 service.

Summary

The past financial year has not been without its challenges with major initiatives being introduced by the Federal Government that adversely affected many members. The private health insurance rebate was amended through the income testing arrangements that were effective from 1 July 2012 and more recently, the rebate on the Lifetime Health Cover Loading component of some members' premiums was withdrawn.

The 2012/13 financial year has once again been a significant year in terms of continuing strong financial performance and strong growth backed by exceptional service delivery from a committed and motivated workforce. The introduction of our first optical and dental centre was a major milestone for the company, and despite significant investment and set-up costs to establish the centre, future utilisation and profitability are expected to be strong.

I am proud to continue my leadership role and to guide the Peoplecare organisation with the Board and I express my sincere thanks to the Directors, dedicated management and employees and all of our members for their ongoing support.

Michael Bassingthwaighte AM
Chief Executive Officer

21 September 2013

Directors' Report

The directors present their report, together with the financial statements, on the company for the year ended 30 June 2013.

Directors

The following persons were directors of the company during the whole of the financial year and up to the date of this report, unless otherwise stated:

Mr Norman Branson

Ms Janelle Bond

Mr Alan Gibbs

Mr Andrew Gregory
(Elected to the Board in November 2012)

Dr Jacqueline Jennings
(Term of Directorship completed in November 2012)

Mr Gregory Parrish

Mr Ian Sampson

Mr Philip Weldon
(Associate Director - 1 year fixed term completed May 2013)

Objectives

The company's main purpose or objective is to:

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.

Strategy for achieving the objectives

To achieve its objective, the company will adopt a range of strategic initiatives categorised under four key pillars:

Imagination & Innovation

- We think of new ideas and imaginative products and services;
- We are innovative and ensure that technology is available to deliver our unique customer experience;
- We use our infrastructure and can-do attitude to allow us to do anything that we choose to do to grow the business and please our customers;
- We continually look for opportunities to take advantage of our core competencies; and
- We expand our business through collaboration, the development of value added services and new business opportunities.

People & Culture

- We recruit the right people, train them well and reward them based on their performance;
- We leverage the skills of our workforce and culture to consistently deliver fantastic service to our customers;
- We make sure that our purpose and brand ethos "because personal is best" is reflected in everything we do; and
- We know that our staff love working at Peoplecare.

A Unique Customer Experience

- We immerse ourselves in our members 'lives' and develop a better understanding of their needs and motivations;
- We identify and develop new things that add value to our members;
- We develop deeper emotional connections and design and deliver an exceptional customer experience;
- We ensure that our brand demonstrates who we are and how we go about our business; and
- We know that our members love us and stay loyal to us.

Governance and Finance

- We understand the risks and obligations inherent in this industry and in our business;
- We strongly focus on our risk management practices and behaviour and make sure that we always operate ethically and legally;
- We understand our business drivers intimately and manage our costs effectively to ensure that we deliver the best value products and services to our members; and
- We make sure that our finances are strong and support the growth objectives of the business while satisfying the industry regulators at all times.

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.

In December 2012, the company successfully established an optical and dental centre close to the Head Office in Wollongong.

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

Information on directors

Mr Norman Branson
Chairman
DipBus (RMIT) FAICD

Norman has 34 years experience in the health industry with 24 of those years in private health insurance. This health insurance experience includes 10 years as a fund CEO, 3 years as the federal Private Health Insurance Ombudsman, 3 years as an industry advocate and 7 years on the Peoplecare Board. Norman has also held director positions on various health - related boards commencing in 1988 as a director on the inaugural Victorian Ambulance Board and since then, on boards of the NHBS Retirement Villages Pty Ltd, NHBS Company Limited, HAMB Systems Limited, Australian Health Services Alliance Limited and now on the Lysaght Peoplecare Limited Board as a director appointed in 2006 and as Chairman since 2007.

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

Ms Janelle Bond
Director
BIT MBA (Commercial Law) FAICD

Janelle was elected as a Director in 2005 and is a member of the Finance, Audit and Risk Committee. Janelle is an experienced director and also Chair of the Wollongong City Council Governance Committee, Member of the Shellharbour City Council Governance, and Member of the BlueScope Steel Superannuation Policy Committee.

Janelle has extensive experience in the IT industry, has held various management positions and also has a background in commercial law, procurement, outsourcing, local government and materials science. Janelle is currently employed at BlueScope Steel in the role of Australia and New Zealand IT Contracts and Outsourcing Manager.

Janelle's professional qualifications include a Bachelor of Information Technology (Information Systems), and MBA (Commercial Law) and she is also a Fellow of the Australian Institute of Company Directors.

Mr Alan Gibbs
Director
MAICD 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 standalone business.

Alan's professional qualifications include a Diploma in Metallurgy, and he is also a Member of the Australian Institute of Company Directors.

Mr Andrew Gregory
Director
MAppFin, BComm (IB,HRM), MAICD

Andrew was elected as a Director in November 2012. Andrew is a member of the Finance, Audit and Risk Committee. Andrew is an experienced finance executive & company director, holding senior roles in both the commercial and human resource functions of a professional wealth manager, credit union and private health insurer. Currently Head of Financial Planning for Hillross Financial Services, Andrew's background is in managing the growth and professionalism of AMP's Private Wealth Management businesses.

Andrew is also Company Director of the Youth Insearch Foundation and a former Company Director of Quay Credit Union.

Andrew is well qualified with a Masters in Applied Finance from Macquarie University, a Bachelor of Commerce and he is also a Member of the Australian Institute of Company Directors.

Dr Jacqueline Jennings
Director
PhD MMgt BMet GAICD

Jacqueline was elected a Director in 2009, and was a member of the Finance, Audit and 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. Jacqueline is also a Graduate Member of the Australian Institute of Company Directors.

Jacqueline's term as Director was completed in November 2012.

Mr Gregory Parrish
Director
BCom CPA GAICD MBA

Greg was appointed as a Director in 2005 and is Chair of the Finance, Audit and Risk Committee. Greg has had extensive experience at executive level in the mutual sector. Greg is currently employed as Chief Executive Officer 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, information technology, and mergers and acquisitions. Greg's professional qualifications include a Bachelor of Commerce and Master of Business Administration, and he is also a Graduate Member of the Australian Institute of Company Directors.

Mr Ian Sampson
Director
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.

Mr Philip Weldon
Associate Director
LLB, BCom, MAICD, ACIS

Phil Weldon was appointed as an Associate Director in May 2012 for a term of 12 months. 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.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each board committee held during the year ended 30 June 2013, and the number of meetings attended by each director were:

Director	Full Board		Finance, Audit and Risk Committee		Nomination, Development & Remuneration Committee	
	Attended	Held	Attended	Held	Attended	Held
N. Branson*	6	6	3	4	2	2
J. Bond	6	6	4	4		
A. Gibbs	6	6	1	By invitation		
J. Jennings	3	3	2	2		
G. Parrish	5	6	4	4		
I. Sampson	6	6	1	By invitation	2	2
P. Weldon	5	5	3	By invitation		
A. Gregory	3	3	2	2		

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

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

In addition to the above meetings, the Board also held a Strategy Review Day in May 2013.

Contributions on winding up

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 (2012: $10). The number of members at the end of the financial year was 30,316 (2012: 28,249).

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 or 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 2013.

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

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the page 24.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

Norman Branson
DipBus (RMIT) FAICD

(Director)

Gregory Parrish
BCom CPA GAICD MBA

(Director)

21 September 2013

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 appropriately controlled, and that 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 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 and 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 Appointed Actuary;
- Review the annual Financial Conditions Report provided by the fund 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 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.

Nomination, Development and Remuneration Committee (continued)

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 contribute 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.

The 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 the 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.

Executive Team

Michael Bassingthwaighte
AM 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 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 Director
- HAMB Systems Limited - Chair of the Board
- HIRMAA - Director
- Defence Health - Director
- Illawarra Business Chamber - Director
- Australian Health Services Research Institute - University of Wollongong - Board Member

Dale Cairney
BCom CPA GAICD

Deputy Chief Executive Officer

Head of Governance, Risk & Technology

Dale is responsible for technology, risk management, project management, quality and process improvement, and governance 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 past 30 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 and Risk Committee.

His other current appointments include:

- HAMBS User Group Executive - Chair
- WEA Illawarra – Director

Anita Mulrooney
BA GDipIM GDipCom GAICD

Head of Customer Service & Marketing

Anita joined Peoplecare in 2006 and is responsible for customer service, operations, marketing and communications activities. She has over 20 years extensive health insurance experience in Australia and South- East Asia, including management roles in operations, customer service, sales & marketing, information systems and human resources.

Anita's current appointments include:

- HIRMAA Marketing Group - Chair
- Private Health Insurance Ombudsman's Consumer Website Reference Group - Member
- University of Wollongong - Alumni Development Group - Chair
- Destination Wollongong - Director
- IRT Research Foundation - Member

Chris Stolk

BCom CPA GAICD

Chief Financial Officer

Head of Finance & Administration

Chris joined our Executive Team in September 2007. Chris is responsible for the provision of all financial management functions of the organisation and has more than 20 years experience in the accounting and finance field, most of which time was spend 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 is also Company Secretary for Peoplecare.

Chris' current appointments include:

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

Maree Morgan-Monk

Head of People & Culture

Maree joined Peoplecare in 2011 and is our Head of People & Culture. She has 20 years of HR management experience across various industries including education, hospitality and general insurance.

As Head of People & Culture, 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, WH&S, human resource policy, and cultural development.

Maree has been awarded Australia's HR Manager of the Year for 2013 at the Australian HR Awards. Her particular areas of expertise are leadership development and training.

Dr Melinda Williams

BNurs, MPH, PhD

Head of Hospital & Health Services

Melinda joined Peoplecare in April 2009 and is our Head of Hospital & Health Services. 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 population health management. Melinda's main responsibility is to lead our hospital assessing and health services teams, including Peoplecare Eyes and Teeth, ensuring a range of health services are available to members to keep them healthy.

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 2013, 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, 21 September 2013

Statement of profit or loss and other comprehensive income

For the year ended 30 June 2013

	Note	2013	2012
		$	$
Revenue			
Premium revenue			
		98,767,808	**85,872,069**
Expenses			
Fund benefits paid to members		(76,681,375)	(65,345,523)
Amounts payable to the Risk Equalisation Trust Fund		(9,286,183)	(8,050,491)
Movement in outstanding claims liability		(299,214)	(1,206,122)
State ambulance levies		(1,258,936)	(1,128,497)
		(87,525,708)	**(75,730,633)**
Gross underwriting result		**11,242,100**	**10,141,436**
Management expenses			
Remuneration of auditors: Auditing the financial report		(69,000)	(64,391)
Employee benefits expense		(5,735,202)	(4,548,712)
Depreciation and amortisation expense		(558,941)	(533,396)
Other management expenses		(4,395,115)	(4,281,824)
		(10,758,258)	**(9,428,323)**
Other			
Other income	4	6,055,883	4,835,272
Increase/(decrease) in fair value of financial assets	5	1,128,597	(313,599)
Net (loss)/gain realised on disposal of financial assets held at fair value through profit or loss	6	(6,144)	67,190
Impairment of revalued property, plant and equipment	7	-	(418,214)
Other cost of goods sold	8	(604,305)	-
		6,574,031	**4,170,649**
Surplus before income tax expense (net underwriting result)		7,057,873	4,883,762
Income tax expense		-	-
Surplus after income tax expense for the year attributable to the members of Lysaght Peoplecare Limited		**7,057,873**	**4,883,762**
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the members of Lysaght Peoplecare Limited		**7,057,873**	**4,883,762**

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Statement of financial position

As at 30 June 2013

	Note	2013	2012
Assets		$	$
Current assets			
Cash and cash equivalents	9	40,546,567	35,294,277
Trade and other receivables	10	3,496,123	5,910,735
Inventories	11	67,977	-
Other financial assets	12	18,828,912	20,676,621
Other assets	13	328,799	146,570
Total current assets		**63,268,378**	**62,028,203**
Non-current assets			
Other financial assets	14	104	104
Property, plant and equipment	15	5,957,135	5,216,706
Intangibles	16	429,809	172,288
Total non-current assets		**6,387,048**	**5,389,098**
Total assets		**69,655,426**	**67,417,301**
Liabilities			
Current liabilities			
Trade and other payables	17	13,193,966	18,484,178
Provisions	18	6,175,670	5,848,855
Total current liabilities		**19,369,636**	**24,333,033**
Non-current liabilities			
Payables	19	373,458	276,313
Provisions	20	181,248	134,744
Total non-current liabilities		**554,706**	**411,057**
Total liabilities		**19,924,342**	**24,744,090**
Net Assets		**49,731,084**	**42,673,211**
Equity			
Retained Surplus		49,731,084	42,673,211
Total Equity		**49,731,084**	**42,673,211**

The above statement of financial position should be read in conjunction with the accompanying notes

Statement of changes in equity

For the year ended 30 June 2013

	Retained surplus $	Total equity $
Balance at 1 July 2011	**37,789,449**	**37,789,449**
Surplus after income tax expense for the year	4,883,762	4,883,762
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income for the year	**4,883,762**	**4,883,762**
Balance at 30 June 2012	**42,673,211**	**42,673,211**
Balance at 1 July 2012	**42,673,211**	**42,673,211**
Surplus after income tax expense for the year	7,057,873	7,057,873
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income for the year	**7,057,873**	**7,057,873**
Balance at 30 June 2013	**49,731,084**	**49,731,084**

The above statement of changes in equity should be read in conjunction with the accompanying notes

Statement of cash flows

For the year ended 30 June 2013

	Note	2013	2012
		$	$
Cash flows from operating activities			
Receipts from members and customers		97,789,980	95,785,734
Payments to members, suppliers and employees		(96,466,429)	(83,330,701)
Dividends received		164,676	184,350
Interest received		2,360,807	2,217,022
Net cash from operating activities	27	**3,849,034**	**14,856,405**
Cash flows from investing activities			
Payments for investments		(90,572,693)	(97,073,358)
Payments for property, plant and equipment	15	(1,290,512)	(97,926)
Payments for intangibles	16	(384,147)	(84,833)
Proceeds from sale of investments		93,542,856	92,651,553
Proceeds from sale of property, plant and equipment		107,752	21,078
Net cash from/(used in) investing activities		**1,403,256**	**(4,583,486)**
Cash flows from financing activities			
Net cash from financing activities		-	-
Net increase in cash and cash equivalents		5,252,290	10,272,919
Cash and cash equivalents at the beginning of the financial year		35,294,277	25,021,358
Cash and cash equivalents at the end of the financial year	**9**	**40,546,567**	**35,294,277**

The above statement of cash flows should be read in conjunction with the accompanying notes

Notes to the Financial Statements

30 June 2013

Note 1. **General information**

The financial report covers Lysaght Peoplecare Limited as an individual entity. The financial report is presented in Australian dollars, which is Lysaght Peoplecare Limited's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

Lysaght Peoplecare Limited is a not-for-profit unlisted public company limited by guarantee, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office
Corner Victoria & Young Streets, Wollongong, NSW, 2500

Principal place of business
Corner Victoria & Young Streets, Wollongong, NSW, 2500

A description of the nature of the company's operations and its principal activities are included in the directors' report, which is not part of the financial report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 21 September 2013. The directors have the power to amend and reissue the financial report.

Note 2. **Significant accounting policies**

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted

The company has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB') 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.
- 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.

Historical cost convention

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.

Comparative figures

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

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 - Outstanding claims provision
Note 3 - Risk management and financial instruments

Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the company and the revenue can be reliably measured. Revenue is measured 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 and loss when it has been earned. Premium revenue is recognised in profit and 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.

Interest income

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

Dividend income

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

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

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 as at the end of the reporting period.

Private Health Insurance rebate on premiums

This is the amount claimed by Lysaght Peoplecare Limited, as a cash amount, against the Department of Human Services for the Australian Government Private Health Insurance Rebate.

Other debtors

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

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.

Claims

Claims are recorded as an expense in the period in which the service has been provided to the member. The cost of claims therefore represents the claims paid during the period adjusted for the opening and closing provision for unpresented and outstanding claims. The provision for unpresented and outstanding claims provides for claims received but not assessed and claims incurred but not received. The provision is based on an actuarial assessment taking into account historical patterns of claims incidence and processing. No discount is applied to the provision due to the generally short period between claims incidence and settlement. The provision also provides for the expected payment to or receipt from the Risk Equalisation Trust Fund (RETF) in relation to the amount provided for unpresented and outstanding claims. The provision also allows for an estimate of expenses to cover the cost of processing the claims.

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.

Inventories

Stock on hand is stated at the lower of cost and net realisable value. Cost comprises purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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.

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 accumulated 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
Leasehold improvements	5 years
Plant and equipment	2 to 15 years
Motor vehicles	3 to 5 years
Computer equipment	2 to 5 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the company. Gains and losses between the carrying amount and the disposal proceeds are taken to 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.

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.

Intangible assets

Computer software

Costs incurred in acquiring software licences and the development of a 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.

Other intangibles

As part of the purchase of an optical business in December 2012, the company attained access to a loyal, long-term customer base of the acquired business.

Costs associated with acquiring these customer intangibles are amortised on a straight-line basis over the period of their expected benefit, which has been assessed as 10 years.

Unearned premium liability

Premiums received from members prior to 30 June 2013 relating to the period beyond 30 June 2013 are recognised as unearned premium liability. Also, forecast premiums receivable from contributors at 30 June 2013 are recognised as unclosed business premiums.

Trade and other payables

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Liability adequacy test

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% (2012: 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 2014, the next premium adjustment opportunity allowed by the Department of Health and Ageing, using a probability of sufficiency of 75%. No unexpired risk liability was required at 30 June 2013 (2012: nil).

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 judgments

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% (2012: 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 private 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.

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 reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Non-accumulating sick leave is expensed to profit or loss when incurred.

Long service leave

The liability for long service leave is recognised in current and non-current liabilities, depending on the unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Superannuation

Contributions to contribution superannuation plans are expensed in the period in which they are incurred.

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.

Health Insurance Risk Equalisation Trust Fund (RETF)

Under the provisions of the Private Health Insurance Risk Equalisation Policy Rules 2007, the risk equalisation scheme seeks to share the risks among all registered private health insurers by averaging out the cost of hospital treatment across the industry. Money is then transferred from private health insurers with younger healthier members with lower average claims payments to those insurers with older and less healthy membership and which have higher average claims payments.

Goods and Services Tax ('GST') and other similar taxes

Revenues and expenses 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 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.

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:

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 members 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.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the company for the annual reporting period ended 30 June 2013. The company's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the company, are set out below.

AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, 2010- 7 Amendments to Australian Accounting Standards arising from AASB 9 and 2012-6 Amendments to Australian Accounting Standards arising from AASB 9

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2015 and completes phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The company will adopt this standard from 1 July 2015 but the impact of its adoption is yet to be assessed by the company.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and it provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach would be used to measure assets whereas liabilities would be based on transfer value. As the standard does not introduce any new requirements for the use of fair value, its impact on adoption by the company from 1 July 2013 should be minimal, although there will be increased disclosures where fair value is used.

AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)

This revised standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments make changes to the accounting for defined benefit plans and the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months. The later will require annual leave that is not expected to be wholly settled within 12 months to be discounted allowing for expected salary levels in the future period when the leave is expected to be taken. The adoption of the revised standard from 1 July 2013 is expected to reduce the reported annual leave liability of the company.

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 these financial statements.

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 nonexecutive 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 policyholders (insurance contracts), other customers and investment securities.

Receivables from insurance contracts:

Credit risk in relation to insurance contracts is discussed in note 29.

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 Australian Government Private Health Insurance Rebate.

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 highly liquid securities; and

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

    (a) 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.

    (b) 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%.

    (c) 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 $19,103,425 (2012: $13,247,113).

(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 (PHIAC);

(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 fair value or future cash flows of a financial instrument. 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 29.

Market risk in relation to investment securities:

1. Currency risk

Currency risk is that the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The company does not have any direct foreign investments and therefore no exposure to currency risk.

2. 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.

3. 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:

(i) No more than an initial acquisition cost of $1,000,000 of shares are to be held in any one company;

(ii) The share portfolio will consist of only ASX 200 'blue chip' listed shares from a diversified range of industry sectors; and

(iii) 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* as of 30 June 2013 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.

** 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.*

Valuation of CDOs held by the Company

At the end of the reporting period, the company holds a total of two CDOs with an estimated fair value of Nil (2012: five CDOs were held with an estimated fair value of $549,000) which also represents the maximum future loss exposure to these securities at this date.

During the 2012/13 financial year, the company voted along with all noteholders on a resolution put forward by Lehman Brothers whereby they agreed to unwind three CDOs arranged by Lehman (through a related entity - Lehman Brothers Special Financing) and to instruct the Trustee to sell the underlying collateral and distribute the proceeds from the sale in accordance with the settlement documentation. The resolution was accepted by the required 75% of noteholders in December 2012. The company received its share of the proceeds from the settlement of these three CDOs in February and March 2013 for the amount of $542,856. As a result of this settlement, a net realised loss of $6,144 was recognised in the profit or loss statement in the reporting period.

Of the remaining two CDOs held by the company, both 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 2013, and using the methodology described above, the fair value of these securities approximates zero, which is equal to the carrying value in the statement of financial position.

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 marginally below the target capital adequacy risk multiple range endorsed by the Board in the capital management plan. Based on updated financial projections, the capital adequacy risk multiple for the company is expected to be within the target range, by the end of the next financial year.

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 2013 the company satisfied both requirements and reported a solvency reserve of $7,604,131 (2012: $7,749,598).

		2013	2012
		$	$
Note 4	**Other Income**		
	Travel insurance commission	37,801	38,243
	Overseas health cover commission	350,000	350,000
	Management services income	1,792,371	1,765,845
	Claims processing service fees	38,949	-
	Interest income	2,524,368	2,397,119
	Dividend income	164,676	184,350
	Financial assistance grant	12,660	27,000
	Rental income	57,924	57,188
	Dental income	470,567	-
	Optical income	590,866	-
	Other income	15,701	15,527
		6,055,883	**4,835,272**
Note 5	**Increase/(decrease) in fair value of financial assets**		
	Shares in listed corporations	1,128,597	(349,099)
	Interest bearing securities - CDOs	-	35,500
		1,128,597	**(313,599)**
Note 6	**Net (loss)/gain realised on disposal of financial assets held at fair value through profit or loss**		
	Shares in listed corporations	-	26,040
	Interest bearing securities - CDOs	(6,144)	28,000
	Interest bearing securities - Floating Rate Notes	-	13,150
		(6,144)	**67,190**
Note 7	**Impairment of revalued property, plant and equipment**		
	Land and buildings	-	418,214

The net impairment loss recognised on revaluation of the company's property, plant & equipment relates to the land and buildings asset class.

		2013	2012
		$	$
Note 8	**Other cost of sales**		
	Cost of dental sales	253,682	-
	Cost of optical sales	350,623	-
		604,305	**-**
Note 9	**Current assets - cash and cash equivalents**		
	Cash on hand	1,400	800
	Cash at bank	3,263,099	2,097,165
	Term deposits maturing within 3 months after the end of the reporting period	37,282,068	33,196,312
		40,546,567	**35,294,277**

Cash at bank bears floating interest rates between 0.00% and 2.95% (2012: 0.00% and 4.45%). Term deposits bear fixed interest rates between 4.00% and 4.55% (2012: 5.00% and 6.00%).

For the purpose 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.

		2013	2012
		$	$
Note 10	**Current assets - trade and other receivables**		
	Unclosed business premium - earned	346,986	807,294
	Unclosed business premium - unearned	138,141	165,097
	Private Health Insurance Rebate on premiums	1,899,440	3,927,201
	Investment income receivable	589,034	425,473
	Other debtors	526,522	589,670
	Less: provision for impairment of receivables	(4,000)	(4,000)
		3,496,123	**5,910,735**

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to $702,276 as at 30 June 2013 ($1,221,699 as at 30 June 2012).

The ageing of the past due but not impaired receivables are as follows:

	2013	2012
	$	$
Past due 0 - 30 days	676,031	889,047
Past due 31 - 120 days	23,468	323,528
Past due 121 days to one year	3,124	10,038
Past due 121 days to one year - impairment	(347)	(914)
More than one year	3,653	3,086
More than one year - impairment	(3,653)	(3,086)
	702,276	**1,221,699**

There was no movement in the provision for impairment of receivables (2012: Nil).

		2013	2012
		$	$
Note 11	**Current assets - inventories**		
	Optical stock on hand - at cost	67,977	-
Note 12	**Current assets - other financial assets**		
	Financial assets at fair value through profit or loss comprise:		
	Interest bearing securities - CDOs	-	549,000
	Shares in listed corporations	4,828,912	3,627,621
	Term deposits	14,000,000	16,500,000
		18,828,912	**20,676,621**

Refer to note 21 for further information on financial instruments.

		2013	2012
Note 13	**Current assets - other assets**		
	Prepayments	328,799	146,570
Note 14	**Non-current assets - other financial assets**		
	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 15	**Non-current assets - property, plant and equipment**		
	Land and buildings - at cost	5,275,012	5,275,012
	Less: Accumulated depreciation	(105,639)	-
	Less: Impairment	(550,012)	(550,012)
		4,619,361	**4,725,000**
	Leasehold improvements - at cost	613,018	-
	Less: Accumulated depreciation	(75,441)	-
		537,577	**-**
	Plant and equipment - at cost	1,429,720	1,116,037
	Less: Accumulated depreciation	(1,019,741)	(924,941)
		409,979	**191,096**
	Motor vehicles - at cost	379,954	328,598
	Less: Accumulated depreciation	(103,799)	(113,232)
		276,155	**215,366**
	Computer equipment - at cost	741,183	637,356
	Less: Accumulated depreciation	(627,120)	(552,112)
		114,063	**85,244**
		5,957,135	**5,216,706**

Note 15 Non-current assets - property, plant and equipment (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Land and Buildings	Leasehold Improve.	Plant and Equipment	Motor Vehicles	Computer Equipment	Total
	$	$	$	$	$	$
Balance at 1 July 2011	5,248,715	-	376,912	259,620	95,451	5,980,698
Additions	-	-	2,157	49,723	46,046	97,926
Disposals	-	-	-	(24,175)	-	(24,175)
Impairment of assets	(418,214)	-	-	-	-	(418,214)
Depreciation expense	(105,501)	-	(187,973)	(69,802)	(56,253)	(419,529)
Balance at 30 June 2012	4,725,000	-	191,096	215,366	85,244	5,216,706
Additions	-	613,018	313,683	259,984	103,827	1,290,512
Disposals	-	-	-	(117,768)	-	(117,768)
Depreciation expense	(105,639)	(75,441)	(94,800)	(81,427)	(75,008)	(432,315)
Balance at 30 June 2013	**4,619,361**	**537,577**	**409,979**	**276,155**	**114,063**	**5,957,135**

Valuations of land and buildings

The fair value of land and buildings located at 2-12 Victoria Street, Wollongong NSW, at the end of the reporting period was assessed by the Directors in accordance with the company's accounting policy. Fair value has been determined using a similar methodology to that adopted by the independent external valuer in 2012 and in the context of current commercial property market conditions. The Board of Directors determined that the fair value of the company's land and buildings at 30 June 2013 is $4,725,800 (2012: $4,725,000).

As the carrying value of the land and buildings at 30 June 2013 is not materially different to fair value (2.25%), no adjustment has been recognised in the 30 June 2013 financial statements.

Note 16 Non-current assets - intangibles

	2013	2012
	$	$
Software - at cost	551,932	405,258
Less: Accumulated amortisation	(389,049)	(276,258)
	162,883	**129,000**
Computer software under development - at cost	43,590	43,288
	43,590	**43,288**
Other intangibles - at cost	237,171	-
Less: Accumulated amortisation	(13,835)	-
	223,336	**-**
	429,809	**172,288**

Note 16 Non-current assets - intangibles (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Software	Software Development	Other Intangibles	Total
	$	$	$	$
Balance at 1 July 2011	170,590	30,732	-	201,322
Additions	72,277	12,556	-	84,833
Amortisation expense	(113,867)	-	-	(113,867)
Balance at 30 June 2012	129,000	43,288	-	172,288
Additions	146,674	302	237,171	384,147
Amortisation expense	(112,791)	-	(13,835)	(126,626)
Balance at 30 June 2013	**162,883**	**43,590**	**223,336**	**429,809**

Note 17 Current liabilities - trade and other payables

	2013	2012
	$	$
Unclosed business premium liability	138,141	165,097
Unearned premium liability (premiums in advance)	5,598,275	12,759,574
Amounts due to the Risk Equalisation Trust Fund	2,447,026	2,201,706
Annual leave	433,276	360,143
Other creditors and accruals	4,577,248	2,997,658
	13,193,966	**18,484,178**

Refer to note 21 for further information on financial instruments.

Note 18 Current liabilities - provisions

	2013	2012
	$	$
Long service leave	296,013	268,413
Outstanding claims liability - central estimate	5,694,584	5,404,787
Outstanding claims liability - risk margin 3.25%	185,073	175,655
	6,175,670	**5,848,855**

Note 18 Current liabilities - provisions (continued)

Process for determining risk margin

The risk margin for the outstanding claims provision is based on an analysis of the historical accuracy of the Fund's provision for outstanding claims. The benefits component of the provision for each period, which reflects the expected outstanding claims at the time of reporting, calculated according to the chain ladder method, is compared to the actual claims that are subsequently paid for that period. 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 risk margin at 30 June 2013, is calculated as 3.25% of the central estimate of the benefits component of the outstanding claims liability. Allowance is also made for expected risk equalisation consequences and administration costs associated with claims processing in the outstanding claims liability estimate.

The risk margin adopted at 30 June 2013 was 3.25% (2012: 3.25%). The Provision was determined by adopting one month's hindsight of claims paid after 30 June. Refer to note 2 for further explanation.

Movements in provisions

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

2013	Outstanding Claims
Carrying amount at the start of the year	5,580,442
Add Claims incurred	76,980,590
Less Claims paid	(76,681,375)
Carrying amount at the end of the year	**5,879,657**

Amounts not expected 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.

The following amounts reflect leave that is not expected to be taken within the next 12 months:

	2013 $	2012 $
Long service leave obligation expected to be settled after 12 months	296,013	268,413

Note 19 Non-current liabilities - payables

	2013	2012
Executive long term retention scheme	373,458	276,313

Refer to note 21 for further information on financial instruments.

		2013	2012
		$	$
Note 20	**Non-current liabilities - provisions**		
	Long service leave	181,248	134,744

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 to the financial statements.

Note 21 **Financial instruments**

Financial risk management objectives

The company's activities expose it to a variety of financial risks. Note 3 presents information about the company's exposure to these risks.

Market risk

Foreign currency risk

The company has no exposure to foreign currency risk at the end of the reporting period (2012: Nil).

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 $482,891 (2012: $362,762). Equity would increase or decrease by the same amount.

Interest rate risk

Interest rate risk is explained in note 3 (c).

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

	2013		2012	
	Weighted average interest rate	**Balance**	**Weighted average interest rate**	**Balance**
	%	$	%	$
Fixed Rate Instruments (maturing within 1 year):				
Financial Assets	4.25	51,282,068	5.46	49,696,312
Variable Rate Instruments:				
Financial Assets	2.60	3,263,099	2.25	2,646,165
Net exposure to cash flow interest rate risk		**54,545,167**		**52,342,477**

Note 21 Financial instruments (continued)

Sensitivity Analysis:

2013	Basis points increase: Basis points change	Basis points increase: Effect on surplus	Basis points increase: Effect on equity	Basis points decrease: Basis points change	Basis points decrease: Effect on surplus	Basis points decrease: Effect on equity
Fixed rate instruments	100	512,821	512,821	100	(512,821)	(512,821)
Variable rate instruments	100	32,361	32,361	100	(32,361)	(32,361)
		545,182	545,182		(545,182)	(545,182)

2012	Basis points increase: Basis points change	Basis points increase: Effect on surplus	Basis points increase: Effect on equity	Basis points decrease: Basis points change	Basis points decrease: Effect on surplus	Basis points decrease: Effect on equity
Fixed rate instruments	100	496,963	496,963	100	(496,963)	(496,963)
Variable rate instruments	100	26,462	26,462	100	(26,462)	(26,462)
		523,425	523,425		(523,425)	(523,425)

The above results are based on the change in interest rates being maintained for the past year and with all other variables remaining constant.

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 end of the reporting period was as follows:

	Note	2013	2012
		$	$
Financial Assets			
Cash and cash equivalents	9	40,546,567	35,294,277
Receivables	10	3,496,123	5,910,735
Financial assets at fair value through profit and loss:			
Term deposits	12	14,000,000	16,500,000
Interest bearing securities	12	-	549,000
Shares in listed corporations	12	4,828,912	3,627,621
		62,871,602	61,881,633

Note 21 Financial instruments (continued)

Other risk

Other risk is explained in note 3 (d).

CDOs portfolio:

Fair Value of the CDO Portfolio	Face Value	2013 $	2012 $
CDO 1	$300,000	-	300,000
CDO 2	$200,000	-	-
CDO 3	$200,000	-	196,000
CDO 4	$50,000	-	53,000
CDO 5	$500,000	-	-
Total Fair Value		-	549,000

	2013 $	2012 $
Settlement of CDOs during the financial year		
CDO 1 - Fair Value 1 July	300,000	-
CDO 1 - proceeds from settlement	(296,926)	-
CDO 3 - Fair Value 1 July	196,000	-
CDO 3 - proceeds from settlement	(192,384)	-
CDO 4 - Fair Value 1 July	53,000	-
CDO 4 - proceeds from settlement	(53,546)	-
Loss recognised in the financial year	6,144	-

For further information refer to note 3 (d): *Valuation Methodology* and *Valuation of CDOs held by the Company.*

Liquidity risk

Liquidity risk is explained in note 3 (b).

Remaining contractual maturities

The following tables detail the company's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

2013	1 month or less $	Between 2 and 4 months $	Between 4 and 6 months $	More than 6 months $	Remaining contractual maturities $
Non-derivatives					
Non-interest bearing					
Trade and other payables	(4,242,133)	(92,416)	(61,611)	(373,458)	(4,769,618)
Total non-derivatives	**(4,242,133)**	**(92,416)**	**(61,611)**	**(373,458)**	**(4,769,618)**

Note 21 Financial instruments (continued)

2012	1 month or less $	Between 2 and 4 months $	Between 4 and 6 months $	More than 6 months $	Remaining contractual maturities $
Non-derivatives					
Non-interest bearing					
Trade and other payables	(2,668,021)	(91,966)	(61,311)	(276,313)	(3,097,611)
Total non-derivatives	**(2,668,021)**	**(91,966)**	**(61,311)**	**(276,313)**	**(3,097,611)**

The carrying value of trade and other payables is $4,769,618 (2012: $3,097,611). The company is not significantly exposed to this risk as it has $40,546,567 of cash and cash equivalents to meet these obligations as they fall due.

Fair Value

The following tables detail the company's fair values of financial instruments categorised by the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

2013	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Fair value through profit or loss:				
Term deposits	14,000,000	-	-	14,000,000
Shares in listed corporations	4,828,912	-	-	4,828,912
Total assets	**18,828,912**	**-**	**-**	**18,828,912**

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
Shares in listed corporations	3,627,621	-	-	3,627,621
Total assets	**20,127,621**	**-**	**549,000**	**20,676,621**

Note 21 Financial instruments (continued)

Movements in level 3 financial instruments

Movements in level 3 financial instruments during the current and previous financial year are set out below:

	Interest Bearing Securities $	Total $
Balance at 1 July 2011	513,500	513,500
Gains recognised in profit or loss	35,500	35,500
Balance at 30 June 2012	549,000	549,000
Losses recognised in profit or loss	(6,144)	(6,144)
Disposals	(542,856)	(542,856)
Balance at 30 June 2013	-	-

The fair values of financial assets and liabilities, together with their carrying amounts in the statement of financial position, for the company are as follows:

	2013		2012	
	Carrying amount $	Fair value $	Carrying amount $	Fair value $
Assets				
Cash and cash equivalents	40,546,567	40,546,567	35,294,277	35,294,277
Loans and receivables	3,496,123	3,496,123	5,910,735	5,910,735
Financial assets fair valued through profit or loss	18,828,912	18,828,912	20,676,621	20,676,621
	62,871,602	**62,871,602**	**61,881,633**	**61,881,633**
Liabilities				
Trade and other payables	4,769,618	4,769,618	3,097,611	3,097,611
	4,769,618	**4,769,618**	**3,097,611**	**3,097,611**

Note 22 Key management personnel disclosures

Directors

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

Norman Branson
Janelle Bond
Alan Gibbs
Andrew Gregory (Elected to the Board in November 2012)
Dr Jacqueline Jennings (Term of Directorship completed in November 2012)
Gregory Parrish
Ian Sampson
Philip Weldon (Associate Director - 1 year fixed term completed May 2013)

Other key management personnel

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

Michael Bassingthwaighte - Chief Executive Officer
Dale Cairney - Deputy Chief Executive Officer
Anita Mulrooney - General Manager - Marketing & Communications
Christopher Stolk - Chief Financial Officer

Compensation

The aggregate compensation made to directors and other members of key management personnel of the company is set out below:

	2013	2012
	$	$
Short-term employee benefits	1,231,681	1,020,720
Post-employment benefits	183,521	241,122
Long-term benefits	97,146	86,168
	1,512,348	1,348,010

Total Directors' remuneration of up to a maximum of $311,400 pa was approved by members at the annual General Meeting on 13 November 2012. For the year ended 30 June 2013 total directors' remuneration paid was $277,899.

Related party transactions

Related party transactions are set out in note 25.

Note 23 Contingent assets and liabilities

At 30 June 2013 the company had no contingent assets and liabilities.

Note 24 Commitments

	2013	2012
	$	$
Capital commitments - Intangible assets		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	26,950	-
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	126,548	-
One to five years	340,131	-
One to five years	**466,679**	**-**

Operating lease commitments includes contracted amounts for a Dental and Optical retail outlet and plant and equipment under non-cancellable operating leases expiring within 3 to 5 years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Note 25 Related party transactions

Key management personnel

Disclosures relating to key management personnel are set out in note 22.

Transactions with related parties

The following transactions occurred with related parties:

	2013	2012
	$	$
Other income:		
Income from National Health Benefits Australia Pty Limited (NHBA) for management services	1,090,092	1,087,050
Income from Reserve Bank Health Society (RBHS) for management services	702,279	678,795
Payment for goods and services:		
Payment for services from HAMB Systems Limited	560,948	458,517
Payment for services from Australian Health Service Alliance Limited	347,033	258,195

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 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 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.

Note 25 Related party transactions (continued)

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).
2. Reserve Bank Health Society Limited (RBHS).

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 26 Events after the reporting period

No matter or circumstance has arisen since 30 June 2013 that has significantly affected, or may significantly affect the company's operations, the results of those operations, or the company's state of affairs in future financial years.

Note 27 Reconciliation of surplus after income tax to net cash from operating activities

	2013	2012
	$	$
Surplus after income tax expense for the year	7,057,873	4,883,762
Adjustments for:		
Depreciation and amortisation	558,941	533,396
Impairment of property, plant and equipment	-	418,214
Net loss on disposal of property, plant and equipment	10,016	3,097
(Increase)/decrease in fair value of financial assets	(1,128,598)	313,599
Net (gain)/loss on disposal of financial assets transferred to profit or loss on disposal	6,144	(67,190)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	2,414,612	(3,222,133)
Increase in inventories	(67,977)	-
Decrease/(increase) in prepayments	(182,229)	43,855
Increase in trade and other payables	1,995,188	2,496,148
Increase in employee benefits	74,104	84,058
Increase in other provisions	299,215	1,206,122
Increase/(decrease) in other operating liabilities	(7,188,255)	8,163,477
Net cash from operating activities	**3,849,034**	**14,856,405**

Note 28 **Non-cash investing and financing activities**

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

Note 29 **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 member groups within each product, meaning that the pricing applied to the member 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. Premiums for health insurance can only be changed with the approval of the Minister of 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 policyholders. Where payment of contributions is not received for a continual period of three months, the policy is terminated.

Note 29 **Nature and extent of risks arising from insurance contracts (continued)**

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. 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) 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 general treatment 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 members.

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

Directors' declaration

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements.
- the attached financial statements and notes thereto give a true and fair view of the company's financial position as at 30 June 2013 and of its performance for the financial year ended on that date; and
- 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 directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

Norman Branson
DipBus (RMIT) FAICD

(Director)

Gregory Parrish
BCom CPA GAICD MBA

(Director)

21 September 2013

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

We have audited the accompanying financial report of Lysaght Peoplecare Limited (the "Company") which comprises the statement of financial position as at 30 June 2013, the statement of profit and loss and other 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 Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require 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 Company's preparation of the financial report that gives a true and fair view in order to

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design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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.

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.

Auditor's opinion
In our opinion:

a the financial report of Lysaght Peoplecare Limited is in accordance with the Corporations Act 2001, including:

  i giving a true and fair view of the Company's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

  ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and

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GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A Sheridan
Partner - Audit & Assurance

Sydney, 21 September 2013

Notes

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