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# **Reserve Bank Health Society Limited**



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**Annual Report**  
**2010/11**

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# **Reserve Bank Health Society Limited**

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## **RESERVE BANK HEALTH SOCIETY LIMITED ANNUAL REPORT 2010/11**

**ABN 91 087 648 735**

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# **Reserve Bank Health Society Limited**

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## CHAIRPERSON'S REVIEW

The Reserve Bank Health Society (RBHS) recorded a healthy surplus in 2010/11, totalling \$1 246 175, which was slightly lower than the surplus recorded in 2009/10. This result reflects the Board's objective of providing members with superior benefit levels, while keeping premium increases to a minimum and targeting a sound level of capital adequacy. The Board increased benefit levels substantially across a wide range of general benefits in 2010/11, while implementing a premium rise of only 1.5 per cent. This increase was the lowest in the industry and well below the industry average of 5.6 per cent. The benefits and premium changes became effective on 7 April 2011.

The RBHS is required to comply with various legislative and regulatory requirements in the management of its Health Benefit Fund (the Fund). One of those requirements is to obtain an independent actuarial assessment of the financial condition of the Fund on an annual basis. As at 30 June 2011, the Actuary reported that the Fund was in a sound financial position and member benefits were well secured.

In April 2011, the RBHS entered into a five-year agreement with Lysaght Peoplecare Limited (Peoplecare) for the provision of member services, administration and Board support for the RBHS. Peoplecare commenced the provision of most of these services on 1 May 2011. As mentioned in last year's annual report, the aim of this arrangement is to ensure the long-term viability of the RBHS by lowering management costs and improving operational efficiency and member services.

As part of this management arrangement, the RBHS submitted an application to the Australian Competition and Consumer Commission (ACCC) under the *Australian Competition and Consumer Act 2010* for authorisation of some of the services that it wished to acquire from Peoplecare. The purpose of this application was to seek the ACCC's approval for undertaking activities that could potentially be interpreted as cartel behaviour under the Act. After completing an evaluation and public consultation process, the ACCC has granted the RBHS the authorisation requested, for a period of 10 years. If no application for review of the determination is made, the ACCC's determination will come into effect on 16 September 2011, and Peoplecare will begin providing the relevant services.

The Board also formalised a five-year funding agreement with the Reserve Bank of Australia (RBA) on behalf of those members who receive employer-sponsored support. A formal agreement with the RBA is also being developed to cover some residual services that it will continue to provide to the RBHS.

The Board of the RBHS recognises and appreciates the significant contribution that the RBA and its staff have made to the operation of the RBHS since its inception in 1959, and looks forward to the continued collaboration with the RBA under the new, more transparent and effective arrangements. On behalf of the Board, I would like to thank the staff at both the RBHS and Peoplecare for their commitment to ensuring that the transition to the new arrangements has been as smooth as possible for RBHS members.

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# **Reserve Bank Health Society Limited**

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## **CHAIRPERSON'S REVIEW (CONTINUED)**

I would like to thank members for their support over the past year, especially during the changes experienced in recent months. The Board was particularly pleased with the participation and results of the member satisfaction survey, which was undertaken for the first time in August 2010. The responses revealed that 99 per cent of respondents were satisfied with the RBHS in an overall sense and most members agree that the RBHS offers good value for money and better benefits than other funds. Following implementation of the agreement with Peoplecare, the Board is looking forward to introducing a number of new technological, service and product changes over the coming year.

I would also like to thank my fellow Directors for their ongoing commitment and support during 2010/11. Following the Annual General Meeting in November 2010, Mr Anthony Dickman stepped down from the Chairman's position, while remaining on the Board. I was elected to the position of Chairperson and Ms Andrea Brischetto was re-elected to the position of Deputy Chairperson at the meeting of the Board in November 2010. My fellow Directors and I thank Mr Dickman for his dedication to, and leadership of, the Board over the previous two years and value the continuity in terms of governance of the Society brought about by his ongoing service on the Board.

The management of the Society also underwent considerable change during the year, with Ms Alanna Barry taking on the dual role of Chief Executive Officer and Secretary of the RBHS, succeeding Ms Claire Warner and Ms Anna Crews in these roles respectively. The Board expresses its appreciation to Ms Warner for her leadership of the Society over the past two years, particularly her efforts in the development of the new administrative arrangements with Peoplecare. The Board also thanks Ms Crews for her service and contribution to the Society over the past five years; a period in which the Society underwent considerable change.



**Merylin Coombs**  
Chairperson

Sydney, 15 September 2011

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# Reserve Bank Health Society Limited

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## DIRECTORS' REPORT

The Board of Directors submit their report on the operations of the RBHS, together with the annual financial statements for the financial year ended 30 June 2011 as required under the *Corporations Act 2001*.

### COMPANY OBJECTIVES & STRATEGY

The RBHS is a not-for-profit private health insurer registered under the *Private Health Insurance Act 2007*. It is also a public company registered under the Corporations Act. Its main objective, both short and long term, is to provide members with superior health insurance and medical benefits in a cost-effective manner. The Chairperson's Report outlines the company's strategy as required under the Corporations Act, and forms part of the Directors' Report.

### DIRECTORS AND SENIOR OFFICERS

The names and particulars of the Directors and senior officers of the RBHS during 2010/11 are:

<b>MERYLIN COOMBS</b>	<b>ANDREA BRISCHETTO</b>	<b>LES AUSTIN</b>
<b>Chairperson Independent Non-Executive Director</b>	<b>Independent Non-Executive Director</b>	<b>Independent Non-Executive Director</b>
<b>B. Economics Member of AICD</b>	<b>B. Economics (Hons) M.Sc Economics Member of AICD</b>	<b>B. Economics (Hons) M. Commerce Fellow of FINSIA Fellow of AICD</b>
Chairperson of the RBHS since November 2010.	Deputy Chairperson of the RBHS since November 2008.	Director of the RBHS since November 2010.
Director of the RBHS since July 2008.	Director of the RBHS since November 2007.	Associate Director of the RBHS from July 2005 to November 2010.
Associate Director <sup>1</sup> of the RBHS from February to July 2008.	Chairperson of the RBHS Audit and Risk Committee.  Associate Director of the RBHS from June to November 2007.	Director of Securency International Pty Ltd and Securency Australia Pty Ltd (retired 3 June 2011).  Member of the Compliance Committee of Sandhurst Trustees Limited.

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<sup>1</sup> Prior to November 2010, directors who did not have voting rights were Associate Directors in terms of the RBHS's Constitution. The position of Associate Director was abolished in November 2010.

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# **Reserve Bank Health Society Limited**

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## **DIRECTORS' REPORT (CONTINUED)**

### **LINDSAY BOULTON**

**Independent Non-Executive  
Director**

**BA Social Science  
B. Economics (Hons)  
Member of AICD**

Director of the RBHS since  
November 2010.

Associate Director of the RBHS  
from September 2008 to November  
2010.

Member of the RBHS Audit and  
Risk Committee.

Director of Note Printing Australia  
Ltd.

### **ANTHONY DICKMAN**

**Independent Non-Executive  
Director**

**BA Economics (Hons)  
M.Sc Economics  
Grad Dip Applied Finance and  
Investment  
Member of AICD**

Director of the RBHS since  
November 2007.

Chairman of the RBHS from  
November 2008 to November  
2010.

### **JOHN PICK**

**Independent Non-Executive  
Director**

**B. Business  
Grad Dip Design Science  
Fellow of AICD**

Director of the RBHS since  
October 1998.

Chairman of the RBHS from  
December 2005 to November 2008.

Associate Director of the RBHS  
from August to October 1998.

### **WARREN WISE**

**Independent Non-Executive  
Director**

**B. Business  
Member of AICD**

Director of the RBHS since August  
2008.

Member of the RBHS Audit and  
Risk Committee.

Associate Director of the RBHS  
from July to August 2008.

### **ALANNA BARRY**

**Chief Executive Officer  
Company Secretary**

**B. Commerce  
Member of CPA Australia**

Chief Executive Officer of the  
RBHS from March 2011.

Company Secretary of the RBHS  
from March 2011.

### **CLAIRE WARNER**

**Former Chief Executive Officer**

**B.Sc Computer Science  
Grad Dip Business  
Administration  
Grad Dip Applied Finance and  
Investment  
Fellow of FINSIA  
Member of AICD**

Chief Executive Officer of the  
RBHS from April 2009 to March  
2011.

### **ANNAMARIA CREWS**

**Former Company Secretary**

**M. Organisation Development  
and Training  
Member of AICD**

Company Secretary of the RBHS  
from February 2006 to March  
2011.

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# **Reserve Bank Health Society Limited**

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## **DIRECTORS' REPORT (CONTINUED)**

All directors are non-executive directors and were in office from the start of the financial year to the date of this report, unless otherwise stated.

### **MEETINGS OF DIRECTORS**

The RBHS's Board of Directors convened 11 times during the 2010/11 financial year. The number of meetings attended and the number of meetings each Director was eligible to attend are recorded below.

<b>Board Meetings</b>		
<b>Director</b>	<b>Attendance</b>	<b>Eligible</b>
Merylin Coombs	10	11
Andrea Brischetto	11	11
Les Austin	11	11
Lindsay Boulton	11	11
Anthony Dickman	11	11
John Pick	11	11
Warren Wise	10	11

Audit and Risk Committee meetings attended by appointed directors of the RBHS are also recorded below, in addition to the number of meetings each Director was eligible to attend.

<b>Audit and Risk Committee</b>		
<b>Director</b>	<b>Attendance</b>	<b>Eligible</b>
Andrea Brischetto	3	3
Lindsay Boulton	3	3
Warren Wise	3	3

### **PRINCIPAL ACTIVITIES & PERFORMANCE MEASUREMENT**

The RBHS's principal activity during the financial year was the underwriting of private health insurance policies to its members. This remained unchanged from the previous financial year.

In line with the Board's strategic objective to provide members with superior health insurance and medical benefits in a cost-effective manner, the Board increased benefit levels for a range of general benefits in April 2011, while implementing a premium rise of 1.5 per cent, which was the lowest in the industry and well below the industry average of 5.6 per cent. This was facilitated by both the healthy surplus in 2010/11 and the anticipated cost savings from the new administrative arrangements going forward.



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# **Reserve Bank Health Society Limited**

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## **DIRECTORS' REPORT (CONTINUED)**

The RBHS uses a range of performance indicators to monitor performance. They include, but are not limited to, monthly reporting to the Board on the financial accounts, membership activity and operations. In August 2010, the RBHS undertook a Member Satisfaction Survey for the first time to assist in understanding members' expectations and the level of satisfaction across a number of areas. This survey indicated that 99 per cent of respondents were satisfied with the RBHS in an overall sense and most members agree that the RBHS offers good value for money and better benefits than other funds. Members also noted that they would like to see faster claim processing times and a user-friendly website where members can access benefit information. The RBHS is acting on members' feedback and will use these survey results as a benchmark for future performance reviews.

### **LIABILITY OF MEMBERS**

The RBHS is a company limited by guarantee under the *Corporations Act 2001* and hence has no contributed equity. If the RBHS is wound up and cannot meet its debts, the Constitution states that each member may be required to contribute a maximum of \$1 towards meeting any outstanding obligations of the RBHS. As the RBHS had 2 070 members as at 30 June 2011, it means the members of the company are liable to contribute a total of \$2 070 (\$1 per member) if the company is wound up.

### **AUDITOR'S INDEPENDENCE DECLARATION**

The Auditor's independence declaration, as required under section 307C of the Corporations Act, is included on page 7 and forms part of this report.

Signed in accordance with a resolution of the Directors made pursuant to section 298(2) of the Corporations Act.

On behalf of the Board of Directors



**Merylin Coombs**  
Chairperson

Sydney, 15 September 2011

Grant Thornton Audit Pty Ltd  
ACN 130 913 594

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Sydney NSW 2000  
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**Auditor's Independence Declaration  
To the Directors of Reserve Bank Health Society Limited**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Reserve Bank Health Society Limited for the year ended 30 June 2011, 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 AUDIT PTY LTD  
Chartered Accountants  
A G Rigele  
Director - Audit & Assurance

Sydney, 15 September 2011

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## **Independent Auditor's Report To the Members of Reserve Bank Health Society Limited**

We have audited the accompanying financial report of Reserve Bank Health Society Limited (the "Company"), which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the company.

### **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 of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes such internal controls as the Directors determine are necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

### **Auditor's responsibility**

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

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

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Reserve Bank Health Society 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 2011 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

  
GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants

  
A G Rigele  
Director - Audit & Assurance

Sydney, 15 September 2011

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# Reserve Bank Health Society Limited

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## DIRECTORS' DECLARATION

The directors of the RBHS declare that:

1. the financial statements and notes, as set out on pages 11 to 39 are in accordance with the *Corporations Act 2001* and:
  - a. comply with Accounting Standards and the *Corporations Regulations 2001*;
  - b. give a true and fair view of the RBHS's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - c. comply with International Financial Reporting standards as disclosed in Note 1.
2. in the directors' opinion, there are reasonable grounds to believe that the RBHS will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of directors made pursuant to section 295(5) of the *Corporations Act 2001*.



**Merylin Coombs**  
Chairperson

Sydney, 15 September 2011

# Reserve Bank Health Society Limited

## ANNUAL FINANCIAL STATEMENTS

### STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

	Notes	2011 \$	2010 \$
<b>INSURANCE REVENUE</b>			
Premium revenue	2, 2(a)	9 408 459	8 252 963
<b>TOTAL INSURANCE REVENUE</b>		<u>9 408 459</u>	<u>8 252 963</u>
<b>CLAIMS EXPENDITURE</b>			
Fund Benefits Paid to Members	4	(8 784 086)	(7 881 212)
Risk Equalisation Trust Fund receipt	5	1 874 926	1 469 856
Ambulance levies		(122 457)	(118 491)
<b>NET CLAIMS INCURRED</b>		<u>(7 031 617)</u>	<u>(6 529 847)</u>
<b>UNDERWRITING RESULT</b>		<u>2 376 842</u>	<u>1 723 116</u>
<b>OTHER INCOME</b>			
Investment income	2	402 280	269 329
Other revenue	2	3 766	3 750
<b>ADMINISTRATIVE EXPENSES</b>			
Management fee paid to Reserve Bank of Aust.	7	(1 200 435)	(637 900)
Management fee paid to Lysaght Peoplecare Ltd.	7	(100 139)	-
Remuneration of Auditors:			
Auditing the Financial Report	6	(50 500)	(28 000)
Other Management expenses	7	(185 639)	(61 663)
<b>SURPLUS BEFORE INCOME TAX EXPENSE</b>		<u>1 246 175</u>	<u>1 268 632</u>
<b>INCOME TAX EXPENSE</b>	1(f)	-	-
<b>SURPLUS</b>		<u>1 246 175</u>	<u>1 268 632</u>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>		-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u>1 246 175</u>	<u>1 268 632</u>

The financial statements should be read in conjunction with the accompanying notes. The accounting policies and principles under which the statements have been prepared are set out in the accompanying notes.

# Reserve Bank Health Society Limited

## ANNUAL FINANCIAL STATEMENTS (CONTINUED)

### STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Notes	2011 \$	2010 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	8	631 922	519 443
Receivables	9	971 560	874,247
Financial Instruments	10	7 176 359	5 809 248
Other Assets	11	14 036	3 923
<b>TOTAL CURRENT ASSETS</b>		<u>8 793 877</u>	<u>7 206 861</u>
<b>TOTAL ASSETS</b>		<u><b>8 793 877</b></u>	<u><b>7 206 861</b></u>
<b>CURRENT LIABILITIES</b>			
Premiums in advance	12	225 265	209 209
Payables	13	211 267	-
Provisions	3, 14	632 518	519 000
<b>TOTAL CURRENT LIABILITIES</b>		<u>1 069 050</u>	<u>728 209</u>
<b>TOTAL LIABILITIES</b>		<u><b>1 069 050</b></u>	<u><b>728 209</b></u>
<b>NET ASSETS</b>		<u><u>7 724 827</u></u>	<u><u>6 478 652</u></u>
<b>EQUITY</b>			
Retained earnings		7 724 827	6 478 652
<b>TOTAL EQUITY</b>		<u><b>7 724 827</b></u>	<u><b>6 478 652</b></u>

The financial statements should be read in conjunction with the accompanying notes. The accounting policies and principles under which the statements have been prepared are set out in the accompanying notes.

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# **Reserve Bank Health Society Limited**

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## **ANNUAL FINANCIAL STATEMENTS (CONTINUED)**

### **STATEMENT OF CHANGES IN EQUITY**

**For the year ended 30 June 2011**

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Opening balance of equity at beginning of the year	6 478 652	5 210 020
Total comprehensive income for the year	1 246 175	1 268 632
<b>Closing balance of equity at end of the year</b>	<b><u>7 724 827</u></b>	<b><u>6 478 652</u></b>

The financial statements should be read in conjunction with the accompanying notes. The accounting policies and principles under which the statements have been prepared are set out in the accompanying notes.



# Reserve Bank Health Society Limited

## ANNUAL FINANCIAL STATEMENTS (CONTINUED)

### STATEMENT OF CASH FLOWS

For the year ended 30 June 2011

	Notes	2011 Inflow/ (Outflow) \$	2010 Inflow/ (Outflow) \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from Members & Customers		9 423 451	8 253 264
Receipts from Risk Equalisation Trust Fund		1 746 717	1 673 485
Payments to members and suppliers		(10 105 881)	(8 978 136)
Interest received		415 302	217 768
Net cash provided by operating activities	15(b)	1 479 589	1 166 381
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Net (payment for)/proceeds from other financial assets		(1 367 110)	(1 538 741)
Net cash used in investing activities		(1 367 110)	(1 538 741)
Net increase/(decrease) in cash		112 479	(372 360)
Cash at beginning of financial year		519 443	891 803
Cash at the end of financial year	15(a)	631 922	519 443

The financial statements should be read in conjunction with the accompanying notes. The accounting policies and principles under which the statements have been prepared are set out in the accompanying notes.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

The financial report is a general purpose financial report, which has been prepared in accordance with relevant Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board, and the *Corporations Act 2001*.

The financial report covers the Reserve Bank Health Society Limited as an individual entity. The RBHS is a company limited by guarantee, incorporated and domiciled in Australia.

This financial report of the RBHS complies with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety. By complying with AIFRS, the financial report also complies with International Financial Reporting Standards (IFRS) in their entirety.

The material accounting policies adopted by the company in the preparation of the financial report are shown below. The accounting policies have been consistently applied unless otherwise stated.

#### **Basis of Preparation**

The financial report has been prepared on an accrual basis, using historical costs modified by the revaluation of selected financial assets and financial liabilities for which the fair value basis of accounting has been applied.

All amounts presented are in Australian dollars unless otherwise stated.

#### **Accounting Policies**

##### **(a) Revenue**

Revenue from members is recognised by reference to the members' contribution period, inclusive of the Private Health Insurance Rebate, in accordance with AASB 1023 – *General Insurance Contracts*. Premium income is recognised when earned. Outstanding premiums receivable is recognised as an asset (Note 9). Premium income relating to future financial periods is classified as contributions in advance and recognised as a liability (Note 12). The RBHS receives employer contributions from the RBA and Note Printing Australia. This is recognised as premium income along with contributions from members.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### (b) Financial instruments

The RBHS held its financial assets in term deposit investments for the 2010/11 financial year. The RBHS accounts for its financial instruments in accordance with AASB 139 – *Financial Instruments: Recognition and Measurement* and discloses these instruments under AASB 7 – *Financial Instruments: Disclosures*.

The RBHS measures its financial instruments at cost on trade date, which includes transaction costs, where the related contractual rights or obligations exist. Subsequent to initial recognition, these instruments are measured as set out below:

##### (i) Held-to-maturity investments

All term deposits held by the RBHS are classified as ‘held-to-maturity’, as these instruments have fixed terms (i.e. 6 months or less), and it is the RBHS’s intention to hold these investments to maturity. Term deposits are measured at amortised cost, which is the same as their fair value in this case. Interest earned on term deposits is determined by reference to the relevant interest rates, the principal amounts, and the relevant terms and conditions. Interest is accrued, and received at maturity or re-invested.

##### (ii) Loans and receivables

Trade and other receivables to the RBHS have been classified as ‘loans and receivables’ and are carried at face value, which is equivalent to their amortised cost.

#### (c) Trade and other payables

Account payables are recognised when the RBHS becomes obliged to make future payments arising from the purchase of goods and services.

#### (d) Provisions

Provisions are recognised when there is a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. The following provisions are recognised on the RBHS’s Statement of Financial Position in accordance with AASB 1023 – *General Insurance Contracts*.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### (d) Provisions (Continued)

##### (i) *Provision for outstanding claims*

The provision 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 a risk margin to reflect the inherent uncertainty in the central estimate. No discount is applied to the provision owing to the short time period between claims incidence and settlement.

#### (e) Employee benefits

The RBHS's liability for employee benefits arising from the services rendered by employees is accounted for on an accrual basis. As employee benefits are short-term employee benefits that are expected to be settled within one year, they are measured at the amount expected to be paid when the liability is settled. There were no employment benefit liabilities at 30 June 2011 (2010: nil).

#### (f) Income tax

The RBHS is a private health insurer registered under the *Private Health Insurance Act 2007* and is exempt from income tax under section 50-30 of the *Income Tax Assessment Act 1997*.

#### (g) Goods and Services Tax (GST)

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

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; and
- receivables and payables are recognised inclusive of GST.

The net amount of GST recoverable from the Australian Tax Office is included as part of receivables (Note 9). As private health insurance is a GST free supply under section 38.55 of the *Goods and Services Tax Act 1999*, the RBHS is able to claim input tax credits for GST paid.

#### (h) Comparatives

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### (i) Capital

The RBHS's capital comprises its retained earnings, which have been built up from previous years' surpluses. The RBHS does not have contributed capital, as it is a company limited by guarantee (see Note 18).

The RBHS maintains capital to ensure it can conduct its health insurance business and absorb shocks and deficits that may arise in the course of its operations. As the RBHS is registered to operate a health insurance fund under the *Private Health Insurance Act 2007*, it is required to maintain capital (as defined by the *Act*) that equals or exceeds the capital adequacy requirement. The capital adequacy requirement is designed such that the RBHS would be expected to remain solvent for at least three years, assuming future experience during that period is in accordance with the best estimate based on the current business of the RBHS.

In 2010/11, the RBHS managed its capital, as defined under the *Act*, so that its ratio of total assets to the capital adequacy requirement exceeds 1.0, the minimum ratio required under the *Act*. The RBHS has adopted this approach, because its small membership base and older age profile of members result in particularly high volatility in claims.

#### (j) Critical Accounting Estimates and Judgements

The Directors of the RBHS evaluate estimates and judgements incorporated into the financial report 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 externally and within the company.

##### *Provision for outstanding claims*

The RBHS maintains a provision for outstanding claims as required by AASB 1023 – *General Insurance Contracts*, based upon advice from the appointed actuary, KPMG Actuarial.

Provision is made at year-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 insurance contracts issued by the fund. The expected future payments include those in relation to claims reported but not yet paid and claims incurred but not yet reported. This 'central estimate' of outstanding claims is an estimate that 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.

Further information on key judgements and estimates in relation to the calculation of the provision for outstanding claims is included in Note 3.

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **1. ACCOUNTING POLICIES (CONTINUED)**

#### **(k) Assets Backing Insurance Liabilities**

The RBHS manages its financial investments, which comprise term deposits and cash, to ensure it has sufficient funds to meet all private health insurance liabilities, such as members' claims and operational expenses as they fall due.

To ensure that the risks inherent in the RBHS's investments are appropriately managed, the Board has endorsed a strategy of placing no more than 35 per cent of total term deposits with any one financial institution, while ensuring that there is a reasonable spread of maturity dates. Central to the management of the RBHS's liquidity is the forecasting of daily cash flows. The board is regularly advised about the extent of surplus funds available based on historical records and latest projections of cash flows, including expectations of contributions and risk equalisation funds to be received and claims to be paid out. As at 30 June 2011, the Board determined that private health insurance liabilities are reasonably backed by cash and term deposits.

#### **(l) Unexpired Risk Liability**

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

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability, less related intangible assets and related deferred acquisition costs, then the unearned premium is deemed to be deficient. Any deficiency is recognised immediately in the profit and loss. The company applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability, refer to notes 1(d)(i) and 3.

The liability adequacy test has been performed collectively for hospital and general treatment contracts up to 1 April 2012 using a probability of sufficiency of 55%. No unexpired risk liability was required at 30 June 2011 (2010: nil).

# Reserve Bank Health Society Limited

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2. REVENUE

	2011	2010
	\$	\$
Operating activities		
- Premium income	9 408 459	8 252 963
Other Income		
- Investment income	402 280	269 329
- Other revenue	3 766	3 750
	<u>406 046</u>	<u>273 079</u>
Total Revenue	<u>9 814 505</u>	<u>8 526 042</u>

Revenue from operating activities consists of premium income and is outlined further below.

In January 2010, new funding arrangements between the Board of the RBHS and the RBA commenced. Under these arrangements, the RBA explicitly charged the RBHS for the services it provided. At the same time, the RBA compensated the RBHS by providing an equivalent contribution to offset the additional charge. This contribution is reflected in premium income.

Other income from non-operating activities relates to interest received from the RBHS's investments in term deposits and its working account, as well as reimbursement payments from the Reserve Bank for some service fees paid to Directors (See Note 17 for more details).

#### (a) Premium Income

2011	Hospital	General	Total
	\$	\$	\$
Premiums received*	5 434 347	3 985 338	9 419 685
Add/(Less) adjustment to provision for premiums in arrears	2 787	2 043	4 830
Add/(Less) adjustment to provision for premiums in advance	(9 263)	(6 793)	(16 056)
Premium income	<u>5 427 871</u>	<u>3 980 588</u>	<u>9 408 459</u>
2010	Hospital	General	Total
	\$	\$	\$
Premiums received*	4 755 579	3 528 197	8 283 776
Add/(Less) adjustment to provision for premiums in arrears	(2 213)	(1 383)	(3 596)
Add/(Less) adjustment to provision for premiums in advance	(16 031)	(11 186)	(27 217)
Premium income	<u>4 737 335</u>	<u>3 515 628</u>	<u>8 252 963</u>

\* Includes income from members, employer contributions and PHI rebate.

# Reserve Bank Health Society Limited

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3. ACTUARIAL ASSUMPTION AND METHODS

#### (a) Actuarial Methods

The outstanding claims estimate is derived based on three valuation classes, namely hospital, medical and general treatment services. Diversification benefits within a valuation class are implicitly allowed for through the model adopted. The determination of the risk margin has also implicitly allowed for diversification between valuation classes based on an analysis of past correlations in deviations from the adopted model.

The outstanding claims provision has been estimated using a chain ladder method, based on historical experience and future expectations as to claims. As claims for health funds are generally settled within one year, no discounting of claims is applied as the difference between the undiscounted value of claims payments and the present value of claims payments is not likely to be material.

#### (b) Actuarial Assumptions

The following assumptions have been made in determining the outstanding claims liability.

	Jun-11	Jun-11	Jun-11	Jun-10	Jun-10	Jun-10
Variables	Hospital	Medical	General Treatment	Hospital	Medical	General Treatment
Expense rate	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
Risk equalisation rate	(31.91%)	(31.91%)	-	(29.80%)	(29.80%)	-
Risk margin	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%

The risk margin of 0.80 per cent (0.80 per cent in June 2010) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 55 per cent (55 per cent in June 2010) where the provision is calculated with two months hindsight. The central estimate of outstanding claims (including those that have been reported but not yet settled and those incurred but not yet reported) 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.

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3. ACTUARIAL ASSUMPTION AND METHODS (CONTINUED)

#### (c) Process used to determine assumptions

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

##### *i) Assumed proportion paid to date*

The assumed proportion paid to date summarises the application of the chain ladder method described above to determine the total expected incurred benefits in each service month. Manual adjustments were then made for reasonableness (where necessary), to the current month and current month less 1 results. These adjustments were made by calculating the average incurred benefit per Single Equivalent Unit (SEU), per working day for each month and graphing the results for the past four years. The seasonality exhibited by the service type is reasonably consistent from year to year, with each year's service type showing an increase in incurred benefits from the previous year. Based on these graphs, manual adjustments were made to the chain ladder results to derive the total monthly incurred benefits, and hence the outstanding claims provision. An increase in the proportion assumed paid to date would lead to more claims being paid earlier, and therefore a decrease in the liability.

##### *ii) Discount rate*

As claims for health funds are generally settled within one year, and the difference between the undiscounted value of claims payments and the present value of claims payments is not likely to be material, no discounting of claims is applied.

##### *iii) Expense rate*

Claims handling expenses were calculated by reference to past experience of total claims handling costs as a percentage of total past payments (including risk equalisation receipts). An increase or decrease in this expense would have a corresponding effect on the claims expense.

##### *iv) Risk equalisation allowance*

In simplified terms, each organisation is required to contribute to the risk equalisation pool or is paid from the pool to equalise their hospital claims exposure to persons aged over 55 years of age and in respect of high cost claims. This is an allowance made in respect of the claims incurred but not yet paid. An increase or decrease in this expense would have a corresponding effect on the claims expense.

##### *v) Risk margin*

The risk margin has been based on an analysis of the past experience of the RBHS. This analysis examines the volatility of past payments that had not been explained by the model adopted to determine the central estimate. This past volatility has been assumed to be indicative of the future volatility, and has been set at a level estimated to equate to a probability of adequacy of 55 per cent (55 per cent in June 2010). An increase or decrease in this margin would have a corresponding effect on the claims expense.

# Reserve Bank Health Society Limited

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3. ACTUARIAL ASSUMPTION AND METHODS (CONTINUED)

#### (d) Sensitivity analysis – insurance contracts

The RBHS conducted sensitivity analysis on the outstanding claims liability to quantify the exposure to risk of changes in the key underlying variables. The movement in any key variable will impact the performance and equity of the RBHS. Impact on key variables:

Variables	Movement in variable	Adjustments on surplus \$'000	Adjusted amount included in Income Statement \$'000	Adjustments on Balance Sheet \$'000	Adjusted amount included in Balance Sheet \$'000
Assumed portion paid to date	+10%	197	197	(197)	(197)
	-10%	(197)	(197)	197	197
Risk equalisation rate	+10%	(17)	(17)	17	17
	-10%	17	17	(17)	(17)
Risk margin	+10%	-	-	-	-
	-10%	-	-	-	-
				<b>Surplus</b>	<b>Equity</b>
				<b>2011</b>	<b>2011</b>
				<b>\$'000</b>	<b>\$'000</b>
Recognised amounts in the financial statements				1 246	7 725

### 4. BENEFITS PAID TO MEMBERS

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Hospital & Medical Ordinary claims paid	647 906	728 528
Hospital & Medical Risk Equalisation claims paid	4 945 979	4 332 578
General claims paid	3 076 683	2 949 106
Net change in provision for outstanding claims	113 518	(129 000)
Claims expense	<u>8 784 086</u>	<u>7 881 212</u>
Total	<u><u>8 784 086</u></u>	<u><u>7 881 212</u></u>

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# Reserve Bank Health Society Limited

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 5. RISK EQUALISATION

The RBHS participates in the Private Health Insurance Risk Equalisation arrangements, which shares amongst all private health insurers a proportion of the hospital claims of all persons aged 55 and over and high-cost claims. Estimated provisions for amounts receivable are provided for periods for which determinations have not yet been made. Risk equalisation refunds are recognised as an offset against benefits expense in the respective financial year, and the receivable is recognised as an asset in the financial statements (Note 9).

### 6. AUDITOR'S REMUNERATION

In 2010/11, Grant Thornton's remuneration was \$50 500 (\$28 000 in 2009/10), of which \$27 000 (\$23 500 in 2009/10) relates to the audit of financial accounts and \$23 500 (\$4 500 in 2009/10) relates to other assurance-related services, which include the audit of the RBHS's regulatory returns. No other services were provided by Grant Thornton in 2010/11 (Nil in 2009/10).

### 7. MANAGEMENT EXPENSES

In the period between July and December 2009, the RBHS incurred few management expenses, as the majority of management expenses were paid for by the Reserve Bank and Note Printing Australia on behalf of members who received an employer contribution towards premiums and by members who did not receive employer contribution.

In January 2010, new funding arrangements between the Board of the RBHS and the Reserve Bank commenced. Under these arrangements, the Reserve Bank explicitly charged the RBHS for the services it provided. At the same time, the Reserve Bank compensated the RBHS by providing an equivalent contribution to offset the additional charge.

Commencing from 1 May 2011, the provision of member services, administration and Board support was outsourced to Peoplecare for an initial period of five years (further details regarding this arrangement are included in the Chairperson's Review). As a result of this arrangement, less reliance is placed on the RBA for the provision of administration services.

### 8. CASH AND CASH EQUIVALENTS

Reported cash and cash equivalents relate entirely to cash at bank.

	2011 \$	2010 \$
Cash at bank	631 922	519 443

# Reserve Bank Health Society Limited

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2011 \$	2010 \$
<b>9. TRADE AND OTHER RECEIVABLES</b>		
Premiums receivables	233 319	228 489
Interest receivables	66 528	79 549
Amounts Due from Risk Equalisation Trust Fund	568 029	439 823
Other trade receivables	103 684	126 386
Total	<u>971 560</u>	<u>874 247</u>

No receivables are impaired as at 30 June 2011.

Premiums receivables comprise of premium in arrears (\$2 530), and a private health insurance rebate component (\$230 789) which was not yet due. As at 30 June 2011, the premium in arrears that was past due but not impaired is shown in the following table:

Premium in arrears	Past due time band		
	0 to 30 days	2 421	720
	31 to 120 days	109	-
	121 days to one year	-	958
	More than one year	-	-
Total		<u>2 530</u>	<u>1 678</u>

The RBHS's reported trade and other receivables have been classified as loans and receivables. Additional information is contained in Note 1(b).

## 10. FINANCIAL INSTRUMENTS

Term deposits	<u>7 176 359</u>	<u>5 809 248</u>
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As at 30 June 2011, the RBHS's financial instruments were fixed interest short-term deposits. These term deposits are, and have been, classified as 'held-to-maturity'. Additional information is contained in Note 1(b) and Note 20.

## 11. OTHER ASSETS

Prepayments	<u>14 036</u>	<u>3 923</u>
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## 12. PREMIUMS IN ADVANCE

Premium income of \$225 265 (2010: \$209 209) relating to future financial periods is classified as premiums in advance.

# Reserve Bank Health Society Limited

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2011 \$	2010 \$
<b>13. PAYABLES</b>		
Creditors	163 796	-
Accruals	47 471	-
Total	<u>211 267</u>	<u>-</u>

### 14. PROVISIONS

Gross outstanding claims liability	585 651	480 000
Claims handling expense	<u>43 076</u>	<u>36 000</u>
Outstanding claims – central estimate of the expected future payment for claims incurred	<u>628 727</u>	<u>516 000</u>
Risk margin	<u>3 791</u>	<u>3 000</u>
Outstanding claims liability	<u>632 518</u>	<u>519 000</u>

During the financial year, the additional provision raised was \$8 956 595 and the amount used was \$8 997 976, bringing the balance of the outstanding claims provision to \$477 619 as at 30 June 2011. Adding in the Risk Equalisation income component of \$154 899 on the outstanding claims, results in the outstanding claims liability of \$632 518.

Changes in the gross outstanding claims can be further analysed as follows:

Gross outstanding claims at beginning of period	<u>480 000</u>	<u>644 000</u>
Change in claims incurred for the prior year	(1 000)	(60 000)
Claims paid in respect of the prior year	(482 000)	(585 000)
Claims incurred during the year (expected)	8 774 651	7 937 000
Claims paid during the year	(8 186 000)	(7 456 000)
Gross outstanding claims at end of period	<u>585 651</u>	<u>480 000</u>

The risk margin of 0.80 per cent (0.80 per cent in 2009/10) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 55 per cent (55 per cent in 2009/10) where the provision is calculated with 2 months hindsight.

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# Reserve Bank Health Society Limited

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2011	2010
	\$	\$

### 15. CASH FLOW INFORMATION

#### (a) Reconciliation of Cash

For the purpose of the cash flow statement, cash refers to cash at bank. Cash at the end of the financial year is reconciled to the related items in the balance sheet as follows:

Cash at bank	631 922	519 443
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#### (b) Reconciliation of surplus attributable to members to net cash flows from operations.

Surplus attributable to members	1 246 175	1 268 632
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Add (Increase) / Decrease in Assets:

Risk Equalisation Trust Fund Receivable	(128 206)	203 629
Interest Receivable	13 021	(51 561)
Premiums Receivable	(4 830)	(45 215)
GST Receivable	111 811	(118 910)
Trade Receivables	(89 110)	15 512
Prepayments	(10 113)	(3 922)

Add Increase / (Decrease) in Liabilities:

Trade and Other Payables	211 267	-
Premiums in Advance	16 056	27 216
Outstanding Claims Provision	113 518	(129 000)

Net cash flow from operations	1 479 589	1 166 381
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### 16. ECONOMIC DEPENDENCY

During the year, the RBHS received significant funding from the RBA, in the form of employer contributions for the majority of fund members. As such the RBHS is dependant upon this employment benefit being offered to maintain the current and future membership base.

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# Reserve Bank Health Society Limited

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 17. KEY MANAGEMENT PERSONNEL AND RELATED PARTIES

AASB 124 – *Related Party Disclosures* requires disclosure of information relating to total compensation of key management personnel. The key management personnel of the RBHS are its board members, chief executive officer and secretary, who have the authority and responsibility for planning, directing and monitoring the activities of the RBHS. This group numbered 10 during 2010/11 (9 in 2009/10).

Compensation of key management personnel of the RBHS is as follows:

	2011	2010
	\$	\$
Short-term employee benefits	12 694	8 750
Post-employment benefits	467	-
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
Total compensation	<u>13 161</u>	<u>8 750</u>

The reported short-term employees' benefits relate to cash salary, and are reported on an accrual basis. The RBA ultimately meets the cost of the salaries of the Chief Executive Officer, the Secretary and the RBHS's staff members. This disclosure is of only those whom are directly remunerated by RBHS (i.e. Board).

In addition, based on the RBHS Board Charter, the remuneration of directors and associate directors is determined by the board. During the 2010/11 financial year, three directors received total fees of \$13 161 (excluding GST), of which \$3 766 was paid to one director in recognition of the additional work undertaken on the project to outsource the RBHS's administrative and operational services. Based on an agreement between the board and the RBA, the RBA reimbursed the RBHS for these expenses. The reimbursements are recorded as Other Revenue in the RBHS's accounts.

All key management personnel of the RBHS are members of the RBHS under the normal terms and conditions of membership. As such, they make contributions and receive benefits on terms and conditions no more favourable than those available to other members of the RBHS.

There were no other related party transactions with key management personnel of the RBHS during the 2010/11 financial year.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 18. LIABILITY OF MEMBERS

The RBHS is a company limited by guarantee and hence has no contributed equity. However, on any winding up of the fund, the members are not entitled to any surplus that would otherwise be available for distribution. The company must distribute the assets of the health benefits fund as required by the *Private Health Insurance Act 2007*, and must then pay any other surplus to another body corporate incorporated in an Australian state or territory that has:

- objectives similar, or in part similar, to the objectives of the insurer and objectives incidental or conducive to those so specified but not other; and
- whose constitution prohibits the distribution of its income and property among its members or contributors to at least as great an extent that imposed on the insurer under its constitution.

If the RBHS is wound up and cannot meet its debts, the Constitution states that each member is required to contribute a maximum of \$1 towards meeting any outstanding obligations of the RBHS.

### 19. CONTINGENT LIABILITIES AND COMMITMENTS

The RBHS does not have any contingent liabilities or commitments at 30 June 2011 (Nil in June 2010).

### 20. FINANCIAL INSTRUMENTS AND RISK

AASB 7 – *Financial Instruments: Disclosures* requires disclosure of information relating to the significance and performance of financial instruments; their terms and conditions; fair values; risk exposures and risk management.

The RBHS provides health insurance to its members in return for premiums. As at 30 June 2011, the bulk of the RBHS's assets were maintained in financial instruments in the form of cash at bank and term deposits, to provide liquidity to meet members' claims and other obligations. Other financial instruments the RBHS has include financial assets and liabilities from its receivables and payables. The RBHS does not use derivative instruments in its operations; as a consequence, it had no derivative assets or liabilities as at 30 June 2011. By virtue of the financial instruments the RBHS holds as a part of its operations, the RBHS is exposed to interest rate risk, credit risk and liquidity risk.



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****20. FINANCIAL INSTRUMENTS AND RISK (CONTINUED)****Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. As the financial instruments held by the RBHS as at 30 June 2011 were term deposits, and the value of these term deposits are not affected by the short-term movement in interest rates, a market risk sensitivity analysis has not been performed.

**Interest rate risk**

Interest rate risk is the risk that movements in interest rates could affect returns.

Sensitivity analysis for fixed rate instruments:

A change of 100 basis points in interest rates on investments held at the end of the reporting period would have increased or decreased profit or loss by \$71 764 (2010: \$58 092). Equity would increase or decrease by the same amount.

**Credit risk**

Credit risk is the risk that the issuer of a financial instrument may default on its obligations to repay principal and interest payments on an asset, resulting in financial loss to the RBHS.

The RBHS invests its funds within a low-risk framework. A working balance is held in the RBHS's trading bank account. Investments are made only in short-term deposits or in short-term bank bills issued by Authorised Deposit-taking Institutions (excluding branches of foreign banks) with a long-term credit rating equivalent to Moody's Aa2 and S&P's AA, or better. The RBHS also imposes a limit of 35 per cent on the holding of financial instruments issued by any single financial institution within its investment portfolio.

The RBHS's maximum exposure to credit risk in relation to each class of recognised financial assets is the carrying amount of those assets reported on the balance sheet.

As at 30 June 2011, the concentration of the RBHS's credit risk exposure on term deposits was as follows:

	<b>Minimum Credit Rating Requirement of Security Issuer</b>		<b>% of total assets</b>	
	Standard and Poor's	Moody's	2011	2010
Term Deposits	AA	Aa2	81.4%	80.6%

As at 30 June 2011 (and 30 June 2010) the RBHS held no past due or impaired financial assets.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 20. FINANCIAL INSTRUMENTS AND RISK (CONTINUED)

#### Liquidity risk

Liquidity risk relates to the risk that the RBHS will be unable to meet its obligations to members or creditors as these fall due. The RBHS manages liquidity risk by regularly forecasting premiums, claims, and other cash inflows and outflows. Cash flows associated with claims are volatile, owing to the RBHS's small membership base and membership age profile, which is older than the industry average. The RBHS also maintains a buffer in its working accounts and a large amount of short-term deposits to meet unexpected liquidity needs.

All financial assets and liabilities are current.

#### Insurance risk

The provision of private health insurance in Australia is governed by the *Private Health Insurance Act 2007* and shaped by a number of regulatory factors. The first is the principle of community rating. This principle prevents private health insurers from discriminating between people on the basis of their health status, age, race, sex, sexuality, the frequency that a person needs treatment, or claims history.

The second is risk equalisation, which supports the principle of community rating. Private health insurance averages out the cost of hospital treatment across the industry. The risk equalisation scheme transfers money from private health insurers with younger healthier members with lower average claims payments to those insurers with older and less healthy members which have higher average claims payments.

Thirdly, the *Private Health Insurance Act 2007* limits the types of treatments that private health insurers are able to offer as part of their health insurance business.

Lastly, the premiums for health insurance can be changed only with the approval of the Minister.

#### Net fair value

The carrying value of financial assets and liabilities, recorded in the financial statements, represent their respective fair value in accordance with the accounting policies disclosed in Note 1 to the Financial Statements.

### 21. EVENTS AFTER THE BALANCE SHEET DATE

The financial report was authorised for issue by the board of directors on 15 September 2011.

There are no known events after the balance sheet date of 30 June 2011 relating to conditions that existed on or prior to that date that have not been reflected in the RBHS's annual report for 2010/11.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****22. SOLVENCY RESERVE**

In accordance with clause 5 of Schedule 2 of the *Private Health Insurance (Health Benefits Fund Administration) Rules 2007*, the Solvency Reserve is disclosed in this annual report.

The Solvency Reserve as at 30 June 2011 for the RBHS, as calculated in accordance with the Solvency Standard set out by PHIAC, is \$1 775 000 (\$1 417 000 as at 30 June 2010). Based on the requirements, a minimum of \$1 million of management capital is required for the Solvency Reserve.

**23. SEGMENT INFORMATION**

The RBHS operates predominantly in one business segment and one geographic segment. This is the administration of a private health insurance fund within Australia.

**24. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting period. The RBHS's assessment of the impact of these new standards and interpretations is set out below:

<b>New/revised pronouncement:</b>	AASB 124 Related Party Disclosures  AASB 2009-12 Amendments to Australian Accounting Standards arising from AASB 124.
<b>Superseded pronouncement:</b>	AASB 124 Related Party Disclosures
<b>Explanation of amendments:</b>	This revision amends the disclosure requirements for government related entities and the definition of a related party.
<b>Effective date (i.e. annual reporting periods ending on or after):</b>	31 December 2011
<b>Likely impact:</b>	Since the entity is not a government related entity, there is not expected to be any changes arising from this standard.

# Reserve Bank Health Society Limited

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 24. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

<b>New/revised pronouncement:</b>	<p>AASB 9 Financial Instruments</p> <p>AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9</p>
<b>Superseded pronouncement:</b>	AASB 139 Financial Instruments: Recognition and Measurement (part)
<b>Explanation of amendments:</b>	<p>AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities. AASB 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in AASB 139 and removes the impairment requirement for financial assets held at fair value.</p> <p>In addition, the majority of requirements from AASB 139 for the classification and measurement of financial liabilities has been carried forward unchanged, except in relation to own credit risk where an entity takes the option to measure financial liabilities at fair value. AASB 9 requires the amount of the change in fair value due to changes in the entity's own credit risk to be presented in other comprehensive income (OCI), unless there is an accounting mismatch in the profit or loss, in which case all gains or losses are to be presented in the profit or loss.</p> <p>The requirements from AASB 139 related to the derecognition of financial assets and liabilities have been incorporated unchanged into AASB 9.</p>
<b>Effective date (i.e. annual reporting periods ending on or after):</b>	31 December 2013
<b>Likely impact:</b>	Due to the recent release of these amendments and that adoption is only mandatory for the 30 June 2014 year end, the entity has not yet made an assessment of the impact of these amendments.

# Reserve Bank Health Society Limited

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 24. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

<b>New/revised pronouncement:</b>	AASB 1053  Application of Tiers of Australian Accounting Standards
<b>Superseded pronouncement:</b>	None
<b>Explanation of amendments:</b>	<p>This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements:</p> <ul style="list-style-type: none"> <li>a) Tier 1: Australian Accounting Standards; and</li> <li>b) Tier 2: Australian Accounting Standards - Reduced Disclosure Requirements.</li> </ul> <p>Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.</p> <p>The following entities apply Tier 1 requirements in preparing general purpose financial statements:</p> <ul style="list-style-type: none"> <li>a) for-profit entities in the private sector that have public accountability (as defined in this Standard); and</li> <li>b) the Australian Government and State, Territory and Local Governments.</li> </ul> <p>The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements:</p> <ul style="list-style-type: none"> <li>a) for-profit private sector entities that do not have public accountability;</li> <li>b) all not-for-profit private sector entities; and</li> <li>c) public sector entities other than the Australian Government and State, Territory and Local Governments.</li> </ul>
<b>Effective date (i.e. annual reporting periods ending on or after):</b>	30 June 2014
<b>Likely impact:</b>	The entity is a Tier 2 entity (i.e. a not-for-profit private sector entity) and therefore eligible to apply the reduced disclosures within the financial instruments, related parties, accounting policies, borrowing costs, and financial statement disclosures. The entity has not yet made a decision about whether it will adopt the reduced disclosure requirements in future.

# Reserve Bank Health Society Limited

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 24. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

<b>New/revised pronouncement:</b>	AASB 2010-2  Amendments to Australian Accounting Standards arising from reduced disclosure requirements
<b>Superseded pronouncement:</b>	None
<b>Explanation of amendments:</b>	This Standard gives effect to Australian Accounting Standards - Reduced Disclosure Requirements. AASB 1053 provides further information regarding the differential reporting framework and the two tiers of reporting requirements for preparing general purpose financial statements.
<b>Effective date (i.e. annual reporting periods ending on or after):</b>	30 June 2014
<b>Likely impact:</b>	The entity is a Tier 2 entity (i.e. a not-for-profit private sector entity) and therefore eligible to apply the Reduced Disclosure Requirements of AASB 2010-2. The Reduced Disclosure Requirements are not mandatory for Tier 2 entities and the entity has not yet made a decision about whether it will adopt the Reduced Disclosure Requirements in future.

<b>New/revised pronouncement:</b>	AASB 2010-05  Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]
<b>Superseded pronouncement:</b>	None
<b>Explanation of amendments:</b>	The Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the International Accounting Standards Board.
<b>Effective date (i.e. annual reporting periods ending on or after):</b>	31 December 2011
<b>Likely impact:</b>	These amendments have no major impact on the requirements of the amended pronouncements.

# Reserve Bank Health Society Limited

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 24. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

<b>New/revised pronouncement:</b>	<p>AASB 2010-4</p> <p>Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]</p>
<b>Superseded pronouncement:</b>	None
<b>Explanation of amendments:</b>	<p>Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments.</p> <p>Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.</p> <p>Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions.</p> <p>Clarify that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken in account.</p>
<b>Effective date (i.e. annual reporting periods ending on or after):</b>	31 December 2011
<b>Likely impact:</b>	The amendments have limited relevance to the entity and the impact is unlikely to be significant.

# Reserve Bank Health Society Limited

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 24. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

<b>New/revised pronouncement:</b>	AASB 1054  Australian Additional Disclosures
<b>Superseded pronouncement:</b>	None
<b>Explanation of amendments:</b>	<p>This standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB. This standard relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas:</p> <ul style="list-style-type: none"> <li>(a) Compliance with Australian Accounting Standards</li> <li>(b) The statutory basis or reporting framework for financial statements</li> <li>(c) Whether the financial statements are general purpose or special purpose</li> <li>(d) Audit fees</li> <li>(e) Imputation credits</li> <li>(f) reconciliation of net operating cash flow to profit (loss).</li> </ul> <p>This Standard sets out the Australian-specific disclosures for entities that have adopted Australian Accounting Standards. This Standard contains disclosure requirements that are additional to IFRSs.</p>
<b>Effective date (i.e. annual reporting periods ending on or after):</b>	30 June 2012
<b>Likely impact:</b>	Not expected to have significant impact, as the amendment is only relocating Australian specific disclosures from existing standards to this new standard.



# Reserve Bank Health Society Limited

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 24. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

<b>New/revised pronouncement:</b>	<p>AASB 2010-7</p> <p>Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023, &amp; 1038 and interpretations 2, 5, 10, 12, 19 &amp; 127]</p>
<b>Superseded pronouncement:</b>	None
<b>Explanation of amendments:</b>	<p>The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows:</p> <ul style="list-style-type: none"> <li>• The change attributable to changes in credit risk are presented in other comprehensive income (OCI)</li> <li>• The remaining change is presented in profit or loss. If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</li> </ul>
<b>Effective date (i.e. annual reporting periods ending on or after):</b>	31 December 2013
<b>Likely impact:</b>	This Standard makes amendments to a range of Australian Accounting Standards and Interpretations as a consequence of the issuance of AASB 9: Financial Instruments in December 2010. Accordingly, these amendments will only apply when the entity adopts AASB 9.

## Reserve Bank Health Society Limited

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 24. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

<b>New/revised pronouncement:</b>	Fair Value Measurement (The AASB has not issued this standard, which was finalised by the IASB in May 2011).
<b>Superseded pronouncement:</b>	None
<b>Explanation of amendments:</b>	<p>IFRS 13 establishes a single source of guidance under IFRS for determining the fair value of assets and liabilities. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under IFRS when fair value is required or permitted by IFRS. Application of this definition may result in different fair values being determined for the relevant assets.</p> <p>IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.</p>
<b>Effective date (i.e. annual reporting periods ending on or after):</b>	31 December 2013
<b>Likely impact:</b>	Due to the recent release of this standard, the entity has yet to conduct a detailed analysis of the differences between the current fair valuation methodologies used and those required by IFRS 13. However, when this standard is adopted for the first time for the year ended 30 June 2014, there will be no retrospective adjustment to comparative figures because the revised fair value measurement requirements apply prospectively from 1 July 2013.

#### 25. RBHS DETAILS

The Reserve Bank Health Society Limited is an incorporated company limited by guarantee. The RBHS operates in Australia, with its registered office at 65 Martin Place, Sydney, NSW, 2000 and its principal place of business is located at Corner Victoria and Young Streets, Wollongong, NSW, 2500. Contact details: Telephone Free Call 1800 027 299.