Reserve Bank Health Society Limited

ABN 91 087 648 735

Annual Report – 30 June 2013

Contents

Reserve Bank Health Society Limited
Chairperson's Review
30 June 2013

The financial position of the Reserve Bank Health Society (RBHS) continued to improve in 2012/13. The Society recorded a solid surplus of $1.126 million in 2012/13, as growth in expenses was contained (despite some significant increases in the level of general treatment benefits) and our annual premium increase was at the lower end of the industry range. The strong capital position of the RBHS was maintained and remains well above the minimum capital required by the private health insurance regulator (PHIAC). Membership numbers continued to improve during the year, with growth of around 1.2 per cent, and membership totalling 2,131 at 30 June.

One of the main initiatives of the RBHS Board during the year was to seek feedback from members on the RBHS' operations. As such, RBHS members participated in an industry survey of member attitudes, with a focus on those aspects that have changed since the previous survey was undertaken in 2010. A total of 472 responses were received from members. It was very pleasing that the RBHS' member satisfaction result was the highest achieved of all of the 13 HIRMAA funds (that is, mostly smaller, not for profit funds) that completed the survey. The survey indicated that 396 members assessed that they were Very Satisfied (85 per cent) with the RBHS and 68 were Somewhat Satisfied (15 per cent).

The overall very positive result for member satisfaction was in line with that obtained in 2010, prior to the outsourcing of the fund administration to Lysaght Peoplecare. It was particularly noteworthy that significant improvements were identified in those areas where changes have been implemented over the past couple of years. Members registered large improvements in: the speed in payment of their claims; the ease of use and functionality of the website (which was launched in January 2012); telephone responsiveness and quality; and member communications more generally. The Board is continuing to assess the messages from the survey and will draw on these to guide some of its activities in the year ahead. One such area where action has already been adopted is the use of technology. With nearly 40 percent of the RBHS membership registered to transact electronically with RBHS, the introduction of a mobile services feature in early June 2013 has allowed members to access the website from their mobile phone and login to the RBHS Online Member Services via a mobile friendly site. Since June, 6% of all electronic traffic through to the website has been done so via a mobile device.

The year also saw the introduction of broader health cover services to RBHS members. These services, which are free of charge to members with hospital cover, provide members with online web access to a range of health and wellbeing tools. It includes members being able to access a health risk assessment tool to provide information about personal health risks and advice on ways to improve health outcomes. Other components include a hospital in the home program, which aims to make it easier for people to leave hospital earlier and receive personal care at home, and a special program for members to assist in the management of chronic diseases. Although these program offerings are still in their infancy, 11 members have completed the health risk assessment and some of these members have subsequently been referred to participate in a chronic disease management program. In addition to this, a further 25 members were identified as eligible for the program via the Fund, of which six members are now actively enrolled and receiving the benefits of the program. Currently three RBHS members are participating in the hospital in the home program.

The RBHS continued to adapt to numerous regulatory and policy changes implemented by PHIAC and the Australian Government during 2012/13. One of the major changes was the introduction of income testing of the private health insurance rebate, which involved significant operational changes for all private health insurers. In the year ahead, PHIAC will also be introducing a new set of capital standards for private health insurers and a new risk management standard. The RBHS is well placed to adopt these standards, given its strong capital position and robust risk management framework.

During the year the RBHS completed the full transition of the provision of services from the Reserve Bank of Australia to Peoplecare with the move of the Company Secretary role in January 2013. This role had been undertaken by Ms Susan Kenny since June 2012 and the Board valued highly the services provided by Susan during this period of ongoing transition. The Board welcomed the appointment of Mr Chris Stolk as Company Secretary, who together with CEO, Mr Michael Bassingthwaighte, have enabled the RBHS to continue to fulfil the objective of providing simply better benefits and services tailored to our membership base.

In recognition of the added importance of communication between the RBHS Board and Peoplecare as the outsourced provider, the Board established a separate Contract Performance sub-committee of the Board, led by Mr Keith Drayton, to oversee such matters. This brings to three the number of sub-committees of the Board. The Audit and Risk Committee, led by Deputy Chairperson, Ms Andrea Brischetto, continued its substantial workload during the year, while the Benefit Review Committee led by Mr Warren Wise, also had an ongoing central role.

Reserve Bank Health Society Limited
Chairperson's Review
30 June 2013

To my fellow directors, I thank you for your continued commitment to the organisation and the time and support provided during 2012/13. I thank them, and especially Mr John Pick, for the leave of absence granted to me during 2012, which enabled me to pursue an opportunity of working overseas. John very capably stepped back in to the role of Chairperson, providing leadership and wisdom to the RBHS Board during that time.

For the year ahead, the Board will continue its longstanding focus of ensuring that the RBHS delivers some of the best benefits to our members while maintaining the ongoing strong financial position of the Fund.

M. Coombs

Merylin Coombs
Chairperson
Sydney, 9 September 2013

Reserve Bank Health Society Limited
Directors' report
30 June 2013

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:

Ms Merylin Coombs
Ms Andrea Brischetto
Mr Lindsay Boulton
Mr Anthony Dickman
Mr John Pick
Mr Warren Wise
Mr Keith Drayton

Objectives
The Company Objectives include:

Product and Service Excellence
To deliver a range of health insurance products, including a suite of health management services with industry leading service standards that are tailored to the eligible membership base and that match the company's "Simply Better Benefits" ethos.

Member growth and retention
To adopt a growth and retention strategy that maximises participation from within the targeted group of eligible members.

Financial Stability
To effectively manage claims and operational costs given the financial pressures in the industry and to keep premium increases at or below the Health CPI and industry average.

Relationship management
To effectively manage the key alliances and stakeholder relationships to ensure the long term operating effectiveness and viability of the company.

Corporate Governance
To ensure the company is well placed to meet the challenges in an increasingly complex, competitive and highly regulated environment. Ensure that all business decisions are taken within the context of the risk appetite of the company.

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

Product and Service Excellence
• Undertake annual competitor product analysis and regular member satisfaction survey research;
• Provide members with more ways to transact with the Fund via the website and on-line services; and
• Conduct an annual review of Fund products and benefits to ensure they continue to align with the 'Simply better benefits' ethos.

Member growth and retention
• Complete analysis of the growth demographics and triggers to participation in private health insurance; and
• Develop targeted marketing campaigns and strategies to maximise growth & retention.

Financial Stability
• Complete analysis of long term financial performance projections and in particular the impact on annual pricing rounds and level of capital retained such that premium increases are minimised for members.

Relationship Management

• Meet with key industry stakeholders including the Private Health Insurance Administration Council (PHIAC), Department of Health and Ageing, business critical service providers and strategic partners of the company on a regular basis.

Corporate Governance

• Risk Management policy and framework to be maintained in accordance with AS/ISO 31000:2009 and reported to the Board at least every six months;
• Review the outsourcing policy as part of the regular management services agreement performance review;
• Review and modify where appropriate the company structure and practices to align with the PHIAC governance standards; and
• Board to be regularly appraised of industry developments and inherent risks via CEO Board Report and Risk Management Reporting.

Principal activities

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.

Information on directors

Name:	Ms Merylin Coombs
Title:	Chairperson Independent Non-Executive Director
Qualifications:	B.Economics, Graduate of AICD
Experience and expertise:	Director since February 2008. Chairperson since November 2010*.
Special responsibilities:	None
Name:	Ms Andrea Brischetto
Title:	Independent Non-Executive Director
Qualifications:	B. Economics (Hons), M.Sc Economics, Member of AICD
Experience and expertise:	Director since June 2007. Deputy Chairperson since November 2008. Chairperson Audit and Risk Committee. Member Benefit Review Committee.
Special responsibilities:	None
Name:	Mr Lindsay Boulton
Title:	Independent Non-Executive Director
Qualifications:	BA Social Science, B. Economics (Hons), Graduate of AICD
Experience and expertise:	Director since September 2008. Member Audit and Risk Committee. Director - Note Printing Australia Ltd.
Special responsibilities:	None
Name:	Mr Anthony Dickman
Title:	Independent Non-Executive Director
Qualifications:	BA Economics (Hons), M.Sc Economics, Grad Dip Applied Finance and Investment, Graduate of AICD
Experience and expertise:	Director since November 2007. Chairman (November 2008 to November 2010). Member Contract Performance Committee.
Special responsibilities:	None

Name:	Mr John Pick
Title:	Independent Non-Executive Director
Qualifications:	B. Business, Grad Dip Design Science, Fellow of AICD
Experience and expertise:	Director since August 1998. Chairman (December 2005 to November 2008). Acting Chairperson (March 2012 to November 2012). Member Contract Performance Committee. Member Benefit Review Committee.
Special responsibilities:	None

Name:	Mr Warren Wise
Title:	Independent Non-Executive Director
Qualifications:	B. Business, Graduate of AICD
Experience and expertise:	Director since July 2008. Member Audit and Risk Committee. Chairperson Benefit Review Committee.
Special responsibilities:	None

Name:	Mr Keith Drayton
Title:	Independent Non-Executive Director
Qualifications:	B. Business (Hons), M. App Finance, Affiliate of AICD
Experience and expertise:	Director since November 2011. Chairperson Contract Performance Committee.
Special responsibilities:	None

* Ms Merylin Coombs was on leave of absence from the Board from March 2012 to November 2012. During this time, Mr John Pick was Acting Board Chairperson.

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:

	Full Board		Audit and Risk Committee		Other Committees**	
	Attended	Held	Attended	Held	Attended	Held
Ms Merylin Coombs	5	6	-	-	-	-
Ms Andrea Brischetto	6	6	3	3	2	2
Mr Lindsay Boulton	6	6	3	3	-	-
Mr Anthony Dickman	6	6	-	-	1	1
Mr John Pick	6	6	-	-	3	3
Mr Warren Wise	6	6	3	3	2	2
Mr Keith Drayton	5	6	-	-	1	1

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

** The Other Committees consist of:

Benefit Review Committee

The objective of the Benefit Review Committee is to assist the Board to fulfill its responsibility in relation to the setting of appropriate benefits for the RBHS bearing in mind the financial position of the company.

Contract Performance Committee

The objective of the Contract Performance Committee is to assist the Board to fulfill its responsibility in relation to the reviewing the performance of Outsourced Service Providers (OSP) against the Outsourcing Policy and the terms of the outsourcing arrangement. By undertaking this role, the Committee also assists the Board in meeting its obligations under the PHIAC Outsourcing Standard.

Reserve Bank Health Society Limited
Directors' report
30 June 2013

Contributions on winding up
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 2,131 members as at 30 June 2013, it means the members of the company are liable to contribute a total of $2,131 ($1 per member) if the company is wound up.

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.

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 following page.

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

M. Coombs

Merylin Coombs
Chairperson

A Brischetto

Andrea Brischetto
Chairperson - Audit and Risk Committee

9 September 2013
Sydney

Grant Thornton Audit Pty Ltd
ACN 130 913 594

Level 19, 2 Market Street
Sydney NSW 2000
GPO Box 2551
Sydney NSW 2001
T +61 2 9286 5555
F +61 2 9286 5599
E info.nsw@au.gt.com
W www.grantthornton.com.au

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 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

A Sheridan
Partner - Audit & Assurance

Sydney, 9 September 2013

Reserve Bank Health Society Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2013

	Note	2013 $	2012 $
Revenue			
Premium revenue		10,501,121	9,861,053
Other income	4	451,845	474,634
		10,952,966	10,335,687
Expenses			
Fund benefits paid to members		(10,099,018)	(9,670,632)
Amounts receivable from the Risk Equalisation Trust Fund		1,669,678	1,857,709
Movement in outstanding claims liability		112,746	(147,807)
State ambulance levies		(137,316)	(129,261)
		(8,453,910)	(8,089,991)
Gross underwriting result		2,499,056	2,245,696
Management expenses			
Management fees		(753,506)	(780,590)
Remuneration of auditors: Auditing the financial report		(23,100)	(22,000)
Depreciation and amortisation expense		(1,277)	(142)
Other management expenses		(594,859)	(530,730)
		(1,372,742)	(1,333,462)
Surplus before income tax expense (net underwriting result)		1,126,314	912,234
Income tax expense		-	-
Surplus after income tax expense for the year attributable to the members of Reserve Bank Health Society Limited		1,126,314	912,234
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the members of Reserve Bank Health Society Limited		1,126,314	912,234

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

Reserve Bank Health Society Limited
Statement of financial position
As at 30 June 2013

	Note	2013 $	2012 $
Assets			
Current assets			
Cash and cash equivalents	5	274,153	549,185
Trade and other receivables	6	916,724	1,369,974
Other financial assets	7	10,000,000	9,300,000
Other assets	8	32,088	27,025
Total current assets		11,222,965	11,246,184
Non-current assets			
Property, plant and equipment	9	2,833	3,238
Total non-current assets		2,833	3,238
Total assets		11,225,798	11,249,422
Liabilities			
Current liabilities			
Trade and other payables	10	794,843	1,832,035
Provisions	11	667,580	780,326
Total current liabilities		1,462,423	2,612,361
Total liabilities		1,462,423	2,612,361
Net assets		9,763,375	8,637,061
Equity			
Retained surpluses		9,763,375	8,637,061
Total equity		9,763,375	8,637,061

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

Reserve Bank Health Society Limited
Statement of changes in equity
For the year ended 30 June 2013

	Retained surplus $	Total equity $
Balance at 1 July 2011	7,724,827	7,724,827
Surplus after income tax expense for the year	912,234	912,234
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income for the year	912,234	912,234
Balance at 30 June 2012	8,637,061	8,637,061

	Retained surplus $	Total equity $
Balance at 1 July 2012	8,637,061	8,637,061
Surplus after income tax expense for the year	1,126,314	1,126,314
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income for the year	1,126,314	1,126,314
Balance at 30 June 2013	9,763,375	9,763,375

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

Reserve Bank Health Society Limited
Statement of cash flows
For the year ended 30 June 2013

	Note	2013 $	2012 $
Cash flows from operating activities			
Receipts from members & customers		9,904,035	12,640,688
Payments to members, suppliers and employees		(9,942,196)	(11,058,241)
Interest received		464,001	461,837
Net cash from operating activities	18	425,840	2,044,284
Cash flows from investing activities			
Payments for investments		(27,900,000)	(21,600,000)
Payments for property, plant and equipment	9	(872)	(3,380)
Proceeds from sale of investments		27,200,000	19,476,359
Net cash used in investing activities		(700,872)	(2,127,021)
Cash flows from financing activities			
Net cash from financing activities		-	-
Net decrease in cash and cash equivalents		(275,032)	(82,737)
Cash and cash equivalents at the beginning of the financial year		549,185	631,922
Cash and cash equivalents at the end of the financial year	5	274,153	549,185

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

Note 1. General information

The financial report covers Reserve Bank Health Society Limited as an individual entity. The financial report is presented in Australian dollars, which is Reserve Bank Health Society Limited's functional and presentation currency.

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

Reserve Bank Health Society 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	*Principal place of business*
Corner Victoria & Young Streets,	Corner Victoria & Young Streets,
Wollongong, NSW, 2500	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 9 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').

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.

Note 2. Significant accounting policies (continued)

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 this note under the following heading:

Outstanding claims provision

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.

The Reserve Bank Health Society receives employer contributions from the Reserve Bank of Australia and Note Printing Australia. This is recognised as premium income along with contributions from members.

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

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.

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

Note 2. Significant accounting policies (continued)

Private Health Insurance rebate on premiums
This is the amount claimed by Reserve Bank Health Society 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 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 and deposits held at call with financial institutions net of bank overdrafts.

Property, plant and equipment
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.

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

Computer equipment	3 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.

Note 2. Significant accounting policies (continued)

Impairment of assets
At each reporting date, the company reviews the carrying values of its financial assets other than those classified as fair value through profit and loss and 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 to profit or loss.

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.

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 to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability.

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 55%. No unexpired risk liability was required at 30 June 2013 (2012: nil).

Note 2. Significant accounting policies (continued)

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 55% is intended to be achieved through the adoption of the risk margin of 1.50% (2012: 1.50%) at the end of the reporting period.

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

The final Provision for outstanding claims estimate has in the past been determined by taking into account claims paid in the months of July and August that had a service date of 30 June or before, of that year. For the financial years contained in this report, the Fund has elected to estimate the final balance of the Provision based on one month's hindsight, that is, taking into account only the claims paid in July that relate to a service date of 30 June or before. Management believe that the accuracy of the provision estimate will not be compromised by adopting one month hindsight rather than two.

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.

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 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.

Note 2. Significant accounting policies (continued)

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
As part of the investment strategy, the company actively manages its investment portfolio to ensure that a portion of its investments mature in accordance with the expected pattern of future cash flows arising from private health insurance liabilities.

All insurance backing financial assets are classified as fair value through the profit or loss in accordance with the accounting policy set out on the following pages.

With the exception of property, plant & equipment, the company has determined that all assets are held to back private health insurance liabilities and their accounting treatment is set out on the following pages.

Financial instruments
Initial recognition and measurement:
Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are derived within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transaction costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Classification and subsequent measurement
Financial assets at fair value through profit or loss:
Financial assets are designated at fair value through profit or loss in accordance with AASB 1023 General Insurance Contracts. 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 and losses recognised in profit or loss.

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

(i) Cash and cash equivalents
Cash 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 and deposits held at call with financial institutions net of bank overdrafts.

Note 2. Significant accounting policies (continued)

(ii) Investments
Initial recognition is at fair value, being acquisition cost, in the statement of financial position with transaction costs expensed in profit and loss. Subsequent measurement is at fair value with any resultant fair value gains or losses recognised in profit and loss. Regular purchases and sales of investments are recognised on trade date – the date on which the company commits to purchase or sell the asset. Investments 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.

(iii) Loans and receivables
Trade and other receivables to the RBHS have been classified as 'loans and receivables' and are initially recognised at fair value, being the amounts due, which is equivalent to their amortised cost.

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.

Note 2. Significant accounting policies (continued)

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement

These amendments are applicable to annual reporting periods beginning on or after 1 July 2013, with early adoption not permitted. They amend AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). The adoption of these amendments from 1 July 2014 will remove the duplication of information relating to individual KMP in the notes to the financial statements and the directors report. As the aggregate disclosures are still required by AASB 124 and during the transitional period the requirements may be included in the Corporations Act or other legislation, it is expected that the amendments will not have a material impact on 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 Audit and Risk Committee, which is responsible for developing and monitoring risk management policies. The Audit and Risk Committee consists entirely of non-executive directors and reports regularly to the full Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the company's activities.

The management and administration of the company is outsourced to Lysaght Peoplecare Limited (LPC) under the terms of a five (5) year management agreement. The Audit and Risk committee is responsible for monitoring LPC's compliance with the risk management policies and procedures that are in place and reviews the adequacy of the risk management framework in relation to the risks faced by the company. The Audit and Risk Committee is assisted in its oversight role by internal audit functions performed by a professional services firm. The Internal Auditor undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported through the company's 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 20.

Other receivables:
The risk of financial loss to the company from customers other than fund members arises principally from 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 this arrangement is assessed as low, the reason being that 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.

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

Note 3. Risk management and financial instruments (continued)

Investment securities (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 credit risk by:
(i) investing in highly liquid securities; and
(ii) investing only with approved deposit-taking institutions (ADIs) regulated by the Australian Prudential Regulation Authority (APRA):
(a) Limiting the amount of funds that can be invested with any single financial institution.
(b) Institutions are to have a minimum S&P short term credit rating of A1+. This is to ensure that funds are placed with the lowest risk rated financial institutions.

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 $3,400,000 (2012: $2,600,000).

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

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

(i) The daily liquidity position is monitored along with future cash flow requirements to meet claims commitments;
(ii) Compliance with solvency and capital adequacy requirements set down by the Private Health Insurance Administration Council;
(iii) Ensuring 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 20.

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. The risk is that movements in interest rates could affect returns and income. Interest rate risk is managed by investing in a range of short term fixed rate deposits. Interest rate risk is minimised as the short term fixed deposits allow for regular reinvestment in line with interest rate movements. See Note 12 for the impact to surplus by a change in interest rate on investments held by the company at 30 June 2013.

(d) Other risk
The management and administration of the company is outsourced to Lysaght Peoplecare Limited (LPC). Consequently there is significant third party risk as the company is dependent upon LPC continuing to provide the services outlined in the management agreement in an efficient and timely manner. The term of the initial agreement is for five (5) years.

Note 3. Risk management and financial instruments (continued)

The Contract Performance Committee (CPC) assists the Board in managing this significant third party risk by:

- Undertaking the role of Contract Manager under the Management Services Agreement with LPC;
- Review the performance of LPC against the general requirements of the contract annually, including:
  - o Ensuring appropriate insurances are in place;
  - o Succession planning for key staff involved in RBHS business;
  - o Adherence to confidentiality, privacy and other compliance related requirements under service contracts;
  - o Assisting the Board with the performance assessment of the contracted CEO role.
- Review the operating performance of LPC against the KPIs detailed in the contract each quarter, in particular the performance trends against service performance levels (SPLs);
- Provide recommendations to the Board in regard to actions required to correct performance issues with LPC;
- Review the contract with LPC annually and recommend changes to the Board as appropriate;
- Review requests for contract fee increases by LPC, and recommend any changes to the Board;
- Review requests for changes to SPLs and recommend any changes to the Board;
- Review the contract with LPC prior to termination or renewal, and make recommendations to the Board in terms of renewal;
- Review the Outsourcing Policy annually, and recommend changes to the Board; and
- Report any significant risk incidents through to the Audit and Risk Committee (ARC) or Board.

Capital management

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

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

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

Solvency

The company is required to comply with the prudential requirements of the Private Health Insurance Act 2007, specifically Divisions 140 and 143, in respect of solvency and capital adequacy requirements. At 30 June 2013 the company satisfied both requirements and reported a solvency reserve of $1,732,433 (2012: $1,802,891).

Note 4. Other income

	2013 $	2012 $
Interest income	451,845	474,601
Other income	-	33
	451,845	474,634

Note 5. Current assets - cash and cash equivalents

	2013 $	2012 $
Cash at bank	274,153	549,185

Cash at bank bears floating interest rates between 0.00% and 2.95% (2012: 0.00% and 3.70%).

For the purpose of the cash flow statement, cash and cash equivalents relate entirely to cash at bank. Cash and cash equivalents at the end of the financial year is reconciled to the related item in the statement of financial position.

Note 6. Current assets - trade and other receivables

	2013 $	2012 $
Unclosed business premium - earned	1,680	2,293
Unclosed business premium - unearned	3,984	2,359
Amounts due from the Risk Equalisation Trust Fund	553,087	604,001
Private Health Insurance Rebate on premiums	231,252	626,576
Investment income receivable	67,135	79,291
Other debtors	59,586	55,454
	916,724	1,369,974

Past due but not impaired
Customers with balances past due but without provision for impairment of receivables amount to $782 as at 30 June 2013 ($1,333 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	437	677
Past due 31 - 120 days	345	656
	782	1,333

No receivables were impaired at balance date (2012: Nil)

Note 7. Current assets - other financial assets

	2013 $	2012 $
Financial assets at fair value through profit and loss	10,000,000	9,300,000

Financial assets at fair value through profit and loss comprise entirely of term deposits.

Note 8. Current assets - other assets

	2013 $	2012 $
Prepayments	32,088	27,025

Note 9. Non-current assets - property, plant and equipment

	2013 $	2012 $
Computer equipment - at cost	4,252	3,380
Less: Accumulated depreciation	(1,419)	(142)
	2,833	3,238
	2,833	3,238

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

	$	Total $
Balance at 1 July 2011	-	-
Additions	3,380	3,380
Depreciation expense	(142)	(142)
Balance at 30 June 2012	3,238	3,238
Additions	872	872
Depreciation expense	(1,277)	(1,277)
Balance at 30 June 2013	2,833	2,833

Note 10. Current liabilities - trade and other payables

	2013 $	2012 $
Unclosed business premium liability	3,984	2,359
Unearned premium liability (premiums in advance)	414,573	1,456,332
Other creditors and accruals	376,286	373,344
	794,843	1,832,035

Refer to note 12 for further information on financial instruments.

Note 11. Current liabilities - provisions

	2013 $	2012 $
Outstanding claims liability - central estimate	659,643	771,265
Outstanding claims liability - risk margin 1.5%	7,937	9,061
	667,580	780,326

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 55% probability of sufficiency.

The risk margin at 30 June 2013, is calculated as 1.50% 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 1.50% (2012: 1.50%). 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:

	Out-standing Claims $
2013	
Carrying amount at the start of the year	780,326
Add Claims incurred	9,986,272
Less Claims paid	(10,099,018)
Carrying amount at the end of the year	667,580

Note 12. 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
The company is not exposed to any significant price risk.

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

Note 12. Financial instruments (continued)

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 at Fair Value through profit and loss	4.04	10,000,000	5.39	9,300,000
Variable Rate Instruments:				
Cash & Cash Equivalents	2.29	274,153	3.35	549,185
Net exposure to cash flow interest rate risk		10,274,153		9,849,185

Sensitivity Analysis:

	Basis points increase			Basis points decrease		
2013	**Basis points change**	**Effect on surplus**	**Effect on equity**	**Basis points change**	**Effect on surplus**	**Effect on equity**
Fixed rate instruments	100	100,000	100,000	100	(100,000)	(100,000)
Variable rate instruments	100	2,742	2,742	100	(2,742)	(2,742)
		102,742	102,742		(102,742)	(102,742)

	Basis points increase			Basis points decrease		
2012	**Basis points change**	**Effect on surplus**	**Effect on equity**	**Basis points change**	**Effect on surplus**	**Effect on equity**
Fixed rate instruments	100	93,000	93,000	100	(93,000)	(93,000)
Variable rate instruments	100	5,492	5,492	100	(5,492)	(5,492)
		98,492	98,492		(98,492)	(98,492)

The above results are based on the change in interest rates being maintained for the past year and with all else equal.

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 12. Financial instruments (continued)

		2013 $	2012 $
Financial Assets			
Cash and cash equivalents	5	274,153	549,185
Receivables	6	916,724	1,369,974
Financial assets at fair value through profit and loss: term deposits	7	10,000,000	9,300,000
		11,190,877	11,219,159

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	(376,286)	-	-	-	(376,286)
Total non-derivatives	(376,286)	-	-	-	(376,286)

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	(373,344)	-	-	-	(373,344)
Total non-derivatives	(373,344)	-	-	-	(373,344)

The company is not significantly exposed to this risk as it has $274,153 of cash plus $2,000,000 of term deposits maturing in July 2013 to meet these obligations as they fall due.

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:

Note 12. Financial instruments (continued)

	2013		2012	
	Carrying amount $	Fair value $	Carrying amount $	Fair value $
Assets				
Cash and cash equivalents	274,153	274,153	549,185	549,185
Receivables	916,724	916,724	1,369,974	1,369,974
Financial assets fair valued through profit or loss	10,000,000	10,000,000	9,300,000	9,300,000
	11,190,877	11,190,877	11,219,159	11,219,159
Liabilities				
Trade and other payables	376,286	376,286	373,344	373,344
	376,286	376,286	373,344	373,344

Note 13. Key management personnel disclosures

Directors
The following persons were directors of Reserve Bank Health Society Limited during the financial year:

Merylin Coombs
Andrea Brischetto
Lindsay Boulton
Anthony Dickman
John Pick
Warren Wise
Keith Drayton

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	12,665	13,166
Post-employment benefits	976	1,185
	13,641	14,351

Other transactions with key management personnel
During the period the company received health insurance contributions from key management personnel on normal terms and conditions. That is to say, on terms or conditions no more favourable than those available to other members.

Related party transactions
Related party transactions are set out in note 15.

Note 14. Contingent assets and liabilities

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

Note 15. Related party transactions

Key management personnel
Disclosures relating to key management personnel are set out in note 13.

Transactions with related parties
The following transactions occurred with related parties:

	2013 $	2012 $
Payment for goods and services:		
Payment to Lysaght Peoplecare Limited for management services	693,113	630,022
Payment to Reserve Bank of Australia for management services	60,393	150,568

The company is managed and administered by Lysaght Peoplecare Limited ("LPC") through a management services agreement. The nature of the relationship is outlined in Note 3.

Up until the end of December 2012, the company also received management support, largely in the form of company secretarial services, from the Reserve Bank of Australia for an agreed fee. From 1 January 2013, these services commenced being provided by Lysaght Peoplecare Limited.

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 16. Economic dependency

A number of RBHS members receive a contribution to their premiums as a benefit of employment by the Reserve Bank. The insurer believes that the membership base of the RBHS is sensitive to the contribution.

Note 17. 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 18. Reconciliation of surplus after income tax to net cash from operating activities

	2013 $	2012 $
Surplus after income tax expense for the year	1,126,314	912,234
Adjustments for:		
Depreciation and amortisation	1,277	142
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	453,250	(393,449)
Increase in prepayments	(5,063)	(12,989)
Increase in trade and other payables	2,942	153,340
Increase/(decrease) in other provisions	(112,746)	147,808
Increase/(decrease) in other operating liabilities	(1,040,134)	1,237,198
Net cash from operating activities	425,840	2,044,284

Note 19. Non-cash investing and financing activities

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

Note 20. 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.

Note 20. Nature and extent of risks arising from insurance contracts (continued)

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.

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 55%.

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.

Reserve Bank Health Society Limited
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 comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;

- 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

M. Coombs

Merylin Coombs
Chairperson

A Brischetto

Andrea Brischetto
Chairperson - Audit and Risk Committee

9 September 2013
Sydney

Grant Thornton Audit Pty Ltd
ACN 130 913 594

Level 19, 2 Market Street
Sydney NSW 2000
GPO Box 2551
Sydney NSW 2001
T +61 2 9286 5555
F +61 2 9286 5599
E info.nsw@au.gt.com
W www.grantthornton.com.au

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 "Fund"), 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 of the Fund.

Directors' responsibility for the financial report

The Directors of the Fund are responsible for the preparation of the financial report that gives a true and fair view 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. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require 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.

Grant Thornton

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

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 Fund'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

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A Sheridan
Partner - Audit & Assurance

Sydney, 9 September 2013