Peoplecare

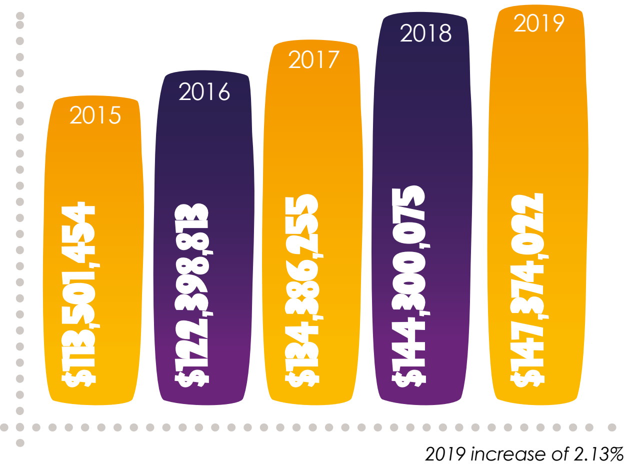
Annual Report 2019

What's inside

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

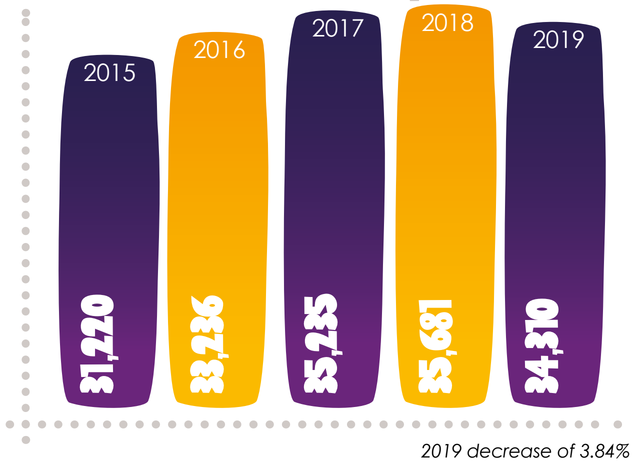
Performance
highlights

Contribution Income



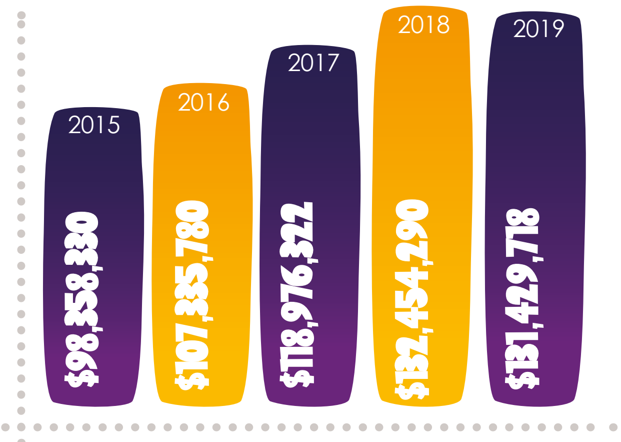
2019 increase of 2.13%

Memberships



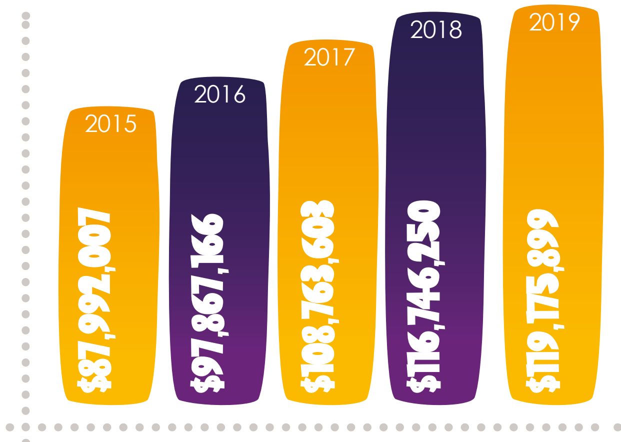
2019 decrease of 3.84%

Benefits Paid



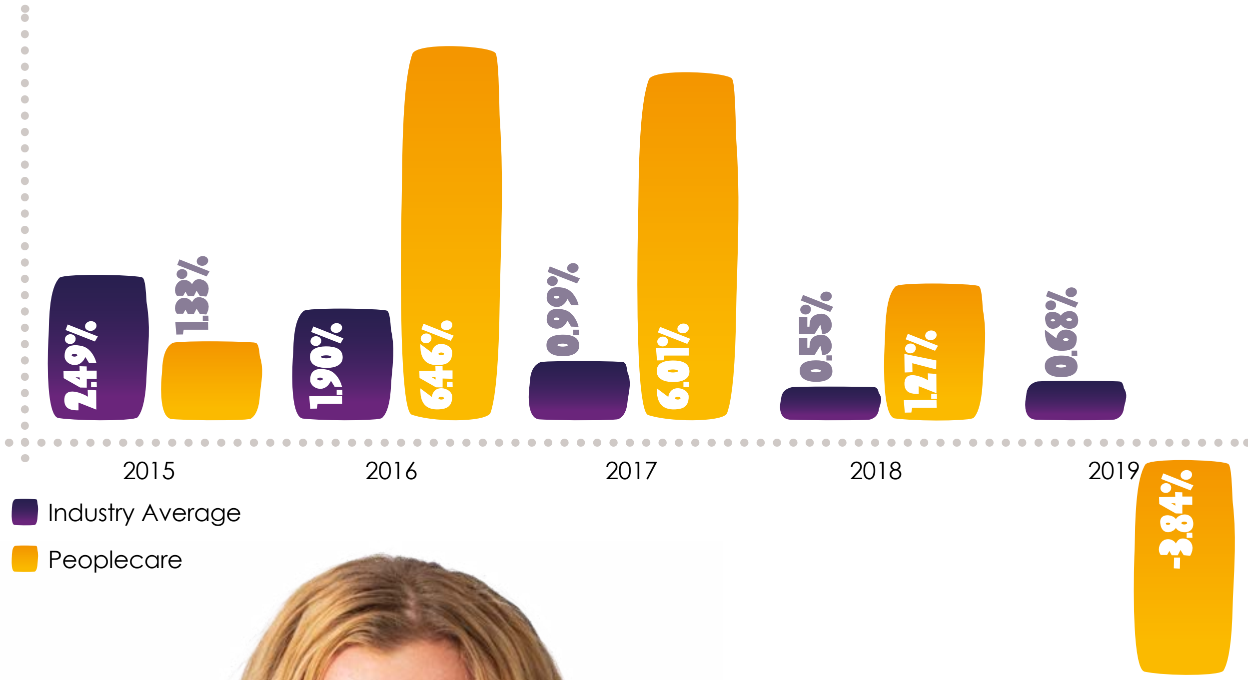
2019 decrease of 0.24%

Total Assets



2019 increase of 2.08%

Membership growth against industry average



The big picture

Vision

To be the benchmark service company facilitating better health for members

Core purpose

Peoplecare facilitates access to affordable health care that positively impacts members' lives

Scope

Peoplecare operates nationally as a not-for-profit health insurer and health service facilitator through strategic alliances

A message from the Chairman

In the 2018/19 financial year, Peoplecare delivered exceptional member service and sound financial results, during an exceptionally challenging time for our industry, which faced increasing costs and declining growth rates. During this year, Peoplecare focused on sustainability, member satisfaction and service delivery to ensure our members received the best possible care.

The body of this report will provide detail on our financial performance, showing that we have achieved a positive result exceeding the previous financial year's performance. This is primarily due to careful financial management, prudent investment of our reserves and close scrutiny of our operating expenses in a private health insurance environment where costs are steadily increasing and affordability is more of an issue than ever before.

Over the past 12 months, the private health insurance industry implemented a number of the biggest government reforms in over a decade, which were designed to make the market product offerings more transparent and easier to understand. We've made some significant changes to our products to support these reforms and our financial performance. We understand that affordability remains the most significant issue facing our members and we'll continue to offer our members a choice of cover levels, great value and exceptional service levels.

It is pleasing that despite this challenging environment, our internally measured Net Promoter Score increased for the period to 55.3 (from 51.9 in 2018), which gives us confidence that we are on the right path. The release of our new website and mobile app (Larry) recently achieved the number one rating in an independent member survey measuring satisfaction, along with our overall claiming experience and number two in overall ease of use. We will continue to enhance our digital technology to further improve our customer communication and service. All of this supports our view that 'you don't need to go bigger to get brilliant health cover'.

These results are only possible through the commitment and support of our team of Peoplecarers. Our staff engagement score measured by Aon's 2019 survey has seen Peoplecare named as an Aon Best Employer for the third year running, one of only 12 companies in Australia and New Zealand. We work hard to attract and retain talented, high-performing staff and strive to provide a rewarding and enjoyable work environment. My thanks to all staff for their achievements this year.

As you may be aware, APRA, the regulator for financial services, is strengthening the governance and risk management of the industry through the introduction of a number of prudential standards. Peoplecare has been proactive in the support and implementation of these standards and will continue to support APRA in their endeavours to make our industry more robust, secure and sustainable, which will in turn protect our membership.

None of our achievements would have been possible without the assistance and commitment of our executive management team lead by Dr Melinda Williams. Michael Bassingthwaighte left enormous shoes to be filled and Melinda has relished the role and delivered a very strong first year.

I would also like to thank our Board of Directors for their support, diligence and contribution to the Peoplecare business over the past 12 months. We believe that the positive and enriching culture within Peoplecare starts at Board-level and flows through the whole business.

I offer a very sincere thank you to the Board, management and all Peoplecarers that have helped develop and nurture our business to make Peoplecare what it is today.

To our members, the team and Board at Peoplecare are here to look after your interests and health for many years to come. We know that the 2018/19 financial year was one of significant change for some of you. We're committed to keeping premiums as low as possible, improving the value proposition of health cover and pursuing appropriate reforms to ensure your ongoing access to affordable health care.

Glenn Lennell GAICD
Chairman

25 September 2019
Wollongong

A message from the CEO

The 2019 financial year has been a challenging and successful year for Peoplecare, containing some of the biggest changes to the private health insurance industry in more than a decade. Peoplecare responded to this change with a new suite of products and careful financial management to produce strong results.

Peoplecare took an active approach to its financial management in 2019, turning around last year's modest net underwriting loss, through changes to some of our underperforming covers. This necessary correction partly contributed to the drop in total memberships for the first time in many years, however we are confident that the changes addressed the product performance issues and will result in improved financial results and ensure our sustainability into the future.

During the year, Peoplecare introduced new hospital covers under the government's new Gold, Silver and Bronze tiers and made changes to ensure our existing hospital covers fit the new standards a full year ahead of the 1 April 2020 deadline. We also released a new cover that our members have been asking for – a high level cover without pregnancy, called Silver Plus Hospital cover, ensuring that we have a range of cover options for our members to suit a number of circumstances and budgets.

Another piece on the financial management side was to change our pricing structure from Australia-wide pricing to state-based pricing. The reason for this is to more accurately reflect the varying costs in each state. Health costs are significantly higher in Victoria and Queensland, for instance, and we believe it is fairest to reflect the variable costs in state-based premiums.

Despite our year of change, our internally measured Net Promoter Score, a tough measure of customer loyalty, increased for the period to 55.3 (from 51.9 in 2018), which is an exceptionally strong result and a credit to our Peoplecarers who have continued to look after our members during a challenging time.

The good news out of the private health insurance reforms for Australians is that hospital covers will soon be more consistent from fund to fund. The challenge for Peoplecare will be in differentiating our offering in an environment of increased standardisation.

Melinda Williams BNurs, MPH, PhD, GAICD
Chief Executive Officer

A message from the CEO

Summary of Results	2019		2018		2017	
	% income	$'000	% income	$'000	% income	$'000
Contribution Income		**147,374**		**144,300**		**134,386**
Less Member Benefits Paid	85.90%	126,589	86.08%	124,211	82.14%	110,382
Less Risk Equalisation Trust Fund	2.35%	3,464	4.29%	6,190	5.20%	6,993
Less State Ambulance Levy	1.17%	1,728	1.18%	1,702	1.19%	1,601
Less Movement in Unexpired Risk Liability	- 0.24%	-351	0.24%	351	0.00%	0
Gross Margin	**10.82%**	**15,944**	**8.21%**	**11,846**	**11.47%**	**15,410**
Less Management Expenses attributable to the Health Benefit's Fund	9.72%	14,332	9.56%	13,802	9.77%	13,135
Net Underwriting Result	**1.09%**	**1,612**	**-1.36%**	**-1,956**	**1.69%**	**2,275**
Add Investment & Other Income (net of expenses)	2.95%	4,341	2.86%	4,122	3.55%	4,767
Net Surplus / (Deficit)	**4.04%**	**5,953**	**1.50%**	**2,166**	**5.24%**	**7,042**

The value of Peoplecare is:

- more back in benefits – we paid 89% of our revenue for member benefits in 2018/19
- being not-for-profit – we only charge what it costs us to pay claims and run Peoplecare
- no hospital excess for children under 21
- unlimited emergency ambulance cover – we include unlimited emergency ambulance cover throughout all states in Australia as part of every level of cover
- hospital and medical contracts across the whole of Australia, encompassing 35,998 contracted doctors and 559 hospitals
- a generous 'Access Gap' scheme to pay more towards members' medical services
- personalised telephone service and exceptional customer service resulting in a 96% member satisfaction rating*

*Discovery Research: 2019 Member Satisfaction Survey

A workforce doing great things

We know our members appreciate us being there for them and putting them first. In the 2018/19 financial year, we answered more than 80% of our members' 93,922 calls within three rings.

Peoplecare's workplace continues to win awards. For the third time running, Peoplecare has been awarded the coveted Aon Best Employer accreditation, one of only 12 organisations across Australia and New Zealand to do so.

Peoplecare was a finalist in the Australian HR Awards 2019 for Best Change Management Strategy.

To reward and recognise our Peoplecarers, we launched the V.I.P. portal in July 2018 which provides genuine savings at over 350 retailers. This is just another way we attract, motivate and retain the best talent here at Peoplecare.

A strong, sustainable business

As a small, robust and nimble health fund, Peoplecare is well-positioned to take advantage of opportunities in the future and withstand challenging market conditions.

Another side to sustainability in 2019 has been the increased activity of our regulator, the Australia Prudential Regulation Authority (APRA). APRA introduced a range of Prudential Standards new to health insurers effective from 1 July 2019, including CPS 510 Governance, CPS 520 Fit and Proper, CPS 234 Information Security, CPS 320 Actuarial and Related Matters, HPS 310 Audit and Related Matters.

To summarise, APRA has helped Peoplecare strengthen its already sound governance and cyber security oversight over the 2019 financial year.

The upside of Peoplecare's increased governance capability is the benefit that flows on to the management services Peoplecare provides for other health funds. Peoplecare has extended its current contracts to provide management services to Reserve Bank Health Society (RBHS), *onemedifund* and Allianz Worldwide Partners Overseas Students and Overseas Visitors health insurance portfolios. Peoplecare expanded its Keira Street processing centre in Wollongong to support the increase to its managed services.

A better healthcare experience

Our mantra has long been to drive affordable health care that positively impacts members' lives. We pride ourselves on helping members access the health care they need in a timely way and we will continue providing health cover to support our members.

We have also continued to offer members free information about programs to help manage and improve their health. Our hospital substitution options have helped many members get treatment in the comfort of their own homes and have helped many others manage their chronic health conditions.

Our optical and dental centre, Peoplecare Eyes & Teeth, has provided Peoplecare members with discounts totaling around $600,000. It continues to receive excellent reviews, with 99% of patients rating the service as either 'Good', 'Great' or 'Fantastic' using our anonymous online survey tool.

A more engaged customer

Our 'personal is best' philosophy underpins how we'll continue to seek the highest levels of engagement with our customers.

The importance of mobile devices to our current members continues to increase, overtaking desktops as the device of choice to access our website for the first time this year.

During the year, Peoplecare achieved high ratings for ease of claiming and website services in Discovery Research's 2019 Member Satisfaction Survey of 11 similar health funds. We continue to find ways of improving our members service experience, however they choose to deal with us: by phone, digitally or in person.

James Robins joined the executive team in January as our first Chief Information and Digital Officer, bringing with him over 25 years' experience in information and technology communications. His main focus will be on digital strategy including our information technology assets including our data systems, security, website and mobile app, Larry.

Peoplecare also continues its broader industry engagement as part of Members Own Health Funds, which is a group of 19 not-for-profit and mutual health funds that share the same approach of putting members' needs ahead of profits. Peoplecare, along with Members Own, is committed to promoting the message that the not-for-profit health funds are an excellent alternative to the big, profit-driven health funds. More than a million health fund members belong to Members Own Health Funds across Australia.

Peoplecare and its staff can be proud of the results achieved during another challenging year. I'd like to give my thanks to the Peoplecare staff, management and Board, who worked together effectively during a period of change that sets us up to achieve our objectives in our members' best interests for now and into the future.

M. Williams

Melinda Williams BNurs, MPH, PhD, GAICD
Chief Executive Officer

25 September 2019
Wollongong

Overview

Benefits - where do they go?

Hospital	FY 2019 ($)	FY 2018 ($)
Heart and vascular system	12,016,483	11,167,252
Joint replacements	9,758,226	9,491,141
Hospital psychiatric services	6,810,187	6,575,677
Gastrointestinal endoscopy	5,340,889	5,308,670
Rehabilitation	5,124,735	4,868,448
Digestive system	4,769,392	4,442,640
Weight loss surgery	4,469,384	4,036,823
Bone, joint and muscle	4,402,390	4,024,202
Pregnancy and birth	3,893,829	3,760,790
Cataracts	2,417,814	2,153,020
All Others	31,164,650	30,331,903

Note: FY19 clinical categorisations differ from those published in the 2018 Annual Report due to the Government Reforms introduced on 1 April 2019

Extras	FY 2019 ($)	FY 2018 ($)
Dental	16,770,364	16,541,066
Optical	7,390,174	7,528,829
Physiotherapy	2,010,780	2,009,479
Chiropractic	1,804,157	1,842,239
Massage	1,678,553	1,751,259
Health Aids & Wellness	975,745	932,201
Health & Wellness	591,003	615,986
Pharmacy	548,467	600,234
Preventative Health	547,365	601,622
Health Coaching	527,051	692,881
All Others	1,062,934	844,804

Note: FY18 figures may differ from those published in the 2018 Annual Report due to reclassification

481 babies born

30,933 hospital admissions

$242,960 top hospital claim

111 members treated at home

416 chronic disease management programs completed

Achievements

Aon Best Employer

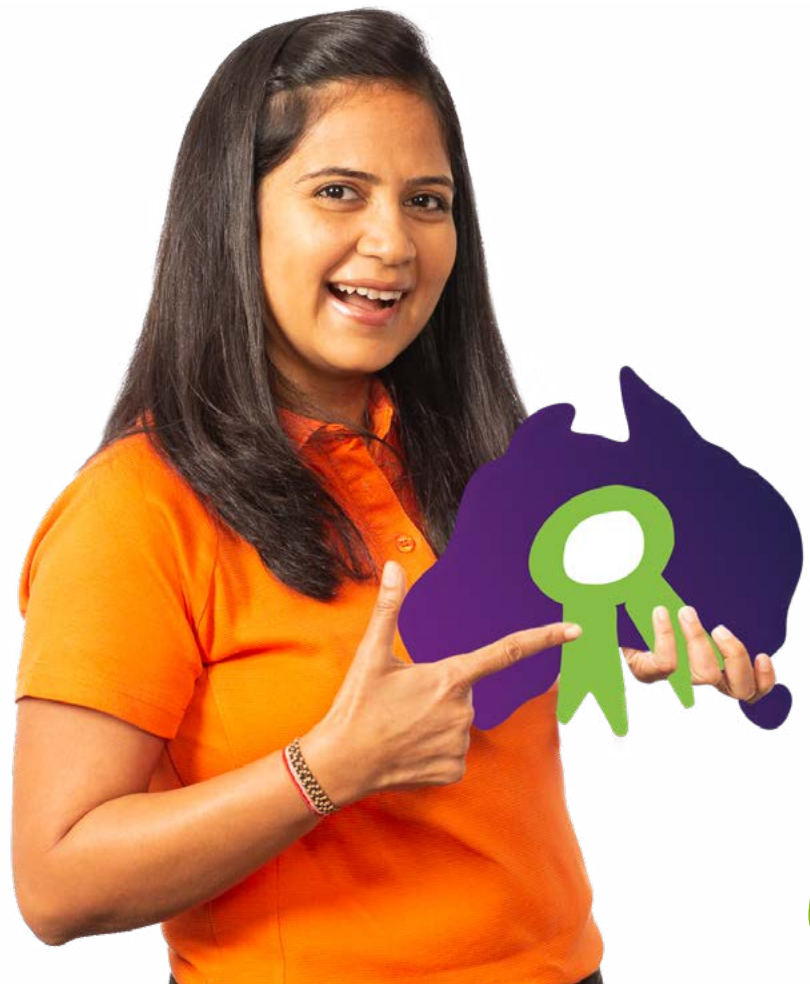
Getting to the top is hard, but maintaining excellence is harder still. We are proud to have made Aon Best Employer status again in 2019, one of only 12 organisations in Australia and New Zealand to do so.

What's Aon Best Employers?
It's a program run annually by Aon Hewitt to recognise an elite group of organisations with high employee engagement, effective leadership and high-performance cultures and we're still the only Australian health fund to be accredited.

Aon Best Employers outperform on employee engagement, senior leadership and staff turnover (the latter by 33%).*

What does this mean for our members?
Peoplecarers who care, leaders who lead effectively and experts who stay for your benefit – there just might be something in this for everyone.

*Source: Aon Best Employers 2018



Change Management

Peoplecare was a finalist in the Australian HR Awards for 2019 for the Best Change Management Strategy.

Peoplecare introduced the Changexplorer program to 50 Peoplecarers across various departments as a strategic response to the PHI reforms.

The process ensured Peoplecare had staff who were in a better position to implement change effectively.

The PHI Reforms Strategic group was tasked with deciphering the changes made by the government and how it would impact Peoplecare. The group designed a new series of products to comply with the reforms and introduced a new pricing methodology.

The POW WOW group was tasked with the implementation of the decisions made by the first group. The group developed the accompanying logistics, resourcing, training, communication, support and wellness activities.

The change process 'go live' period ran between 1 February and 1 April. In order to facilitate the cultural change, staff had regular training and debriefs throughout the process. Wellness activities were introduced and the Mwahcademy Awards were held in celebration to recognise and reward Peoplecarers who went above and beyond during the change process.

Peoplecare also continued to manage satisfaction through regular staff surveys throughout the reform period. When asked if staff had been provided with effective training to assist them in performing their role in the lead up to the PHI reforms, only 62% selected 'agree' or 'strongly agree'. By the end of the change implementation, 100% of staff fell into these categories.

White Ribbon

Peoplecare are undertaking an accreditation process that will provide essential education for all staff on the support that exists for victims of domestic violence.

The White Ribbon Australia Workplace Accreditation program will help Peoplecare to implement practices to prevent and respond to domestic violence. With a zero tolerance of violence towards women and men, Peoplecare have commenced the 18-month accreditation process which will be complete in June 2020.

The program will raise awareness around the issue of violence against men and women; establish active steps to prevent and respond to domestic violence and create a strong culture of respect, integrity and gender equality.

Quick facts

34,310
memberships covering
76,422
people

6,524
hours of training & development

190
Peoplecarers

96.1%
members satisfied
Source: Discovery Research 2019

89%
member retention

For every dollar Peoplecare received in premiums,
89c was paid back in the form of benefits

Directors' Report

The directors present their report, together with the financial statements, on the company for the year ended 30 June 2019.

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:

- **Glenn Lennell**
- **Peter Fitzgerald**
- **Andrew Gregory**
- **Stephannie Jonovska**
- **Louise Leaver**
- **Michael Oertel**
- **Sue Baker-Finch (Associate Director)**

Objectives

The Company's main purpose or objective is to:

Facilitate access to affordable health care that positively impacts members' lives.

Strategy for achieving the objectives

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

A workforce doing great things

- Creating a flexible, high performing, enthusiastic and innovative workforce to meet the challenges of the future;
- Fostering the diversity and development of our people to deliver outstanding service to our customers and to provide a challenging and rewarding workplace where they can excel and thrive; and
- Our people make a great contribution to our community.

A more engaged customer

- Recognising the emerging needs of our customers, provide the products and services that they want and deserve;
- Empower our customers to take good care of their health and reward them for achieving their goals;
- Establish health networks to improve access to more affordable care for the long term and continue to move along the integrated care path; and
- Embrace and champion the benefits of the not-for-profit healthcare and financing model.

A better healthcare experience

- Delivering a better healthcare experience for members by providing access to relevant and appropriate healthcare services as part of a national private health insurance product;
- Build a regional presence in Southern NSW; and
- Position Peoplecare as a trusted health partner and capable service provider for the future.

A strong, sustainable business

- Ensuring that key business risks are well understood and embedded throughout Peoplecare;
- Leveraging our data and business intelligence to identify key profitable private health insurance markets and market segments that deliver sound financial results that grow capital strength;
- Leverage our collaborative business partnerships to aggressively pursue new diversified opportunities to further develop our capability and to generate additional revenue streams; and
- A key focus on investment in new technologies that drive customer engagement and the development of strong collaborative partnerships and relationships with the industry regulators.

Principal activities

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

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

Our Directors

Glenn Lennell GAICD
Glenn was appointed as a Director in 2014 and Chair in 2016.

Glenn has over 35 years' experience in the IT industry in both technical and management positions. As a self-taught software developer, Glenn gained experience in a number of IT disciplines moving into business administration and management in the late 1980s.

Between 1997 and 2013, Glenn was the Chief Executive Officer of HAMB Systems Limited which provides application software and technical services to 23 of Australia's private health insurers, including Peoplecare.

In this role, Glenn has worked with a number of government agencies in the development of regulatory change to the private health insurance industry.

Glenn is a Graduate of the Australian Institute of Company Directors.

Andrew Gregory MAppFin BCom (IB, HRM) GAICD
Andrew was elected as a Director in 2012 and is an experienced Finance Executive & Company Director holding senior roles in the financial services sector.

Currently the General Manager Retail Banking, Regional Victoria and Tasmania with NAB, Andrew brings expertise in financial services, private wealth management, corporate finance, corporate governance and private health insurance.

Andrew is a non-executive Director & Treasurer of the Youth Insearch Foundation and a former non-executive Director of Quay Credit Union.

Andrew holds a Masters in Applied Finance from Macquarie University, a Bachelor of Commerce from UOW, a Diploma of Financial Services & Mortgage Broking and is a Graduate of the Australian Institute of Company Directors.

Peter Fitzgerald BCom FCA GAICD
Peter was elected as a Director in 2015.

Peter retired in 2015 after 27 years as a Partner of KPMG, including over 20 as managing partner of the Wollongong practice. For more than 10 years he was Chair of the regional (non-metropolitan) practices of KPMG.

He has provided a variety of professional services over this period, including external audit, internal audit, corporate taxation, business & strategic planning, and broad business advisory to an extensive array of clients.

He completed 12 years as a Council Member of the University of Wollongong in 2017, serving as Chair of its Risk, Audit & Compliance Committee for most of that time.

Peter has a Bachelor of Commerce (majoring in Accounting) from the University of Wollongong. He is a Fellow of the Institute of Chartered Accountants in Australia, a Graduate of the Australian Institute of Company Directors, and formerly a Registered Tax Agent & Registered Company Auditor.

Louise Leaver LLB (Hons), BSc (Psyc), GAICD
Louise was appointed as Director in 2016.

Louise is an experienced in-house corporate lawyer and management professional with a diverse background in not-for-profit and commercial enterprises spanning private health insurance, education and steel manufacturing. Louise has particular expertise in corporate and commercial law, as well as corporate governance and risk management. As a former Senior Legal Counsel for a health fund, Louise has an in-depth understanding of private health insurance operations and regulation.

Louise is currently the General Counsel and Group Head of Governance for IRT, a not-for-profit provider of seniors' lifestyle and care solutions, where she leads the legal, governance and risk functions of the organisation.

Louise's professional qualifications include a Bachelor of Laws (Hons), Bachelor of Science (Psyc), Graduate Diploma in Legal Practice and Graduate Diploma in Applied Corporate Governance. Louise is also a Graduate of the Australian Institute of Company Directors.

Our Directors

Stephannie Jonovska BCom FCPA GAICD
Stephannie was appointed as Director in 2016.

Stephannie is a commercial management professional with over 25 years' experience in the steel manufacturing and solutions industry.

Currently Manager Finance Transformation for BlueScope Australian Steel Products, her diverse experience spans finance, governance, shared services, innovation and transformation change management.

She is a committee member on the St Mary Star of the Sea College Governance and Nominations Committee.

Stephannie's professional qualifications include a Bachelor of Commerce. She is also a Graduate of the Australian Institute of Company Directors and a Fellow of CPA Australia.

Michael Oertel BEc, FCPA, GAICD
Michael was appointed as an Associate Director in 2017 and then as a Director in 2018.

Michael has over 39 years' experience in the private health insurance industry, engaging with boards, management and regulators.

He has been the Chief Executive Officer of a registered private health insurer for 22 years and served as a Director on two of Peoplecare's strategic partner boards, HAMBS and Members Health Fund Alliance.

Michael is a passionate and committed strategic leader with highly developed governance, financial and risk acumen.

Michael's professional qualifications include a Bachelor of Economics majoring in Accounting and he is a Fellow of CPA Australia and Graduate of the Australian Institute of Company Directors.

Sue Baker-Finch BSc (Hons), MBA, MBC, FAICD **(Associate Director)**
Sue Baker-Finch was appointed as an Associate Director in May 2018.

Sue is a seasoned management professional who, in 2016, transitioned from full-time executive roles to a portfolio career as a non-executive director, management consultant and business coach/mentor. She has over 20 years of senior executive leadership experience in commercial, government and not-for-profit businesses across a range of industry sectors. Sue has substantial background in the health sector, having held leadership roles in a national general practice organisation, a medical research institute and as a Board member in the NSW public hospital system.

Sue's professional qualifications include a Bachelor of Science (Hons), Masters of Business Administration and Masters of Business Coaching. She is a Fellow of the Australian Institute of Company Directors.

Directors' Report

Meetings of directors

The number of meetings of the company's Board of Directors ("the Board") and each Board committee held during the year ended 30 June 2019, and the number of meetings attended by each director was:

	Full Board		Nomination, Development and Remuneration Committee (NDRC)		Risk & Audit Committee*		Risk Committee*		Audit Committee*	
Directors	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held
G. Lennell[1]	9	9	2	2	3	3	2	2	2	2
P. Fitzgerald	9	9	1	1	3^	3	1	2	1	2
A. Gregory	9	9	1	1	3	3	-	-	-	-
S. Jonovska	9	9	2	2	1^	3	-	-	-	-
L. Leaver	9	9	-	-	3	3	2	2	2	2
M. Oertel	9	9	-	-	3	3	2	2	2	2
S. Baker-Finch *(Associate Director)*	9	9	1	1	3	3	-	-	-	-

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

* *The Risk and Audit Committee separated into the Risk Committee and the Audit Committee from 1 January 2019.*

[1] *Glenn Lennell is the Board Chair and an ex officio member of the Nomination, Development and Remuneration Committee and of the Risk and Audit Committees.*

^ *Invite only.*

Contributions on winding up

The company is limited by guarantee. Under the constitution of the company, each member agrees that, if the company is wound up during the time that they are a member, or within one year after ceasing to be a member, they will contribute to the assets of the company, for the payment of the debts and liabilities of the company (contracted before ceasing to be a member) and of the costs, charges, and expenses of winding up and for adjustment among the members of the rights of the members, such amount as may be required, but not exceeding $10 (2018: $10). The number of members at the end of the financial year was 34,310 (2018: 35,681).

Matters subsequent to the end of the financial year

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

i. the operations of the company;

ii. the results of these operations; or

iii. the state of affairs of the Company in the financial years subsequent to 30 June 2019.

Dividends

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

Non-audit services

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

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

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 29.

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

Glenn Lennell GAICD
Director

Peter Fitzgerald BCom, FCA, MAICD
Director

25 September 2019
Wollongong

Corporate
Governance Statement Summary

The Corporate Governance Statement outlines the Corporate Governance practices that Peoplecare Health Limited ("Peoplecare") has in place to ensure it is directed and managed effectively and appropriately for the benefit of members. These practices are a system of directing and controlling the affairs, policies, functions and actions of the company, while managing business risk. Below is a summary of the Corporate Governance Statement and the full version can be located at https://peoplecare.com.au/_Documents/PeoplecareCorporateGovernanceStatementMarch2019.pdf

Board of Directors
The Directors govern the company on behalf of all members and have legal responsibility for oversight of the sound and prudent management of Peoplecare.

Their responsibilities vary but include setting the strategic direction, monitoring the financial position and performance and ensuring compliance with relevant legislation and regulations.

Every financial member of Peoplecare is entitled to participate in the company's governance by being elected or appointed to the Board of Directors in accordance with the Constitution, the Board Renewal Policy, the Fit and Proper Policy, and approved nomination processes.

Board Composition
The Board must not have more than 6 directors and must be comprised by a majority of non-executive independent directors. At least 2 of the directors are required to be elected by the members and not more than 4 may be appointed by a resolution of the Board.

The Chair of the Board must be an Independent Director and is elected as Chair by the Board at the first meeting of Directors each year that follows the AGM.

Board attributes
The Board Appoints directors from time to time to ensure there is a mix of skills, experience and professional standing to enhance and complement the skills and attributes of directors.

The Board utilises a Board Skills Matrix to ensure that the skills, experience, and attributes of the directors is appropriate for the size and complexity of Peoplecare, and the industry it operates in.

Diversity
Peoplecare recognises and values diversity of the Board. It actively pursues an appropriate mix of skills, experience, independence, knowledge, gender, age, cultural backgrounds and work styles to best reflect and effectively represent the member base.

Board process
Board decisions are made on a consensus basis.

The Company Secretary is accountable to the Board for governance matters and ensures that board policy and procedures are followed.

The Board utilises the following committees to assist in the discharge of its duties, and they are each governed by an established Terms of Reference:

- Audit Committee;
- Risk Committee; and
- Nomination, Development and Remuneration Committee

Board remuneration
The Members of Peoplecare approve the total aggregate sum of remuneration available for Directors at the AGM.

Director remuneration is allocated amongst Board members in accordance with a formula recommended by the Nomination, Development & Remuneration Committee based on a set of standards.

Directors education
New Directors are inducted through a formal process that covers the nature of the business, governance, current industry issues, the Strategic Plan and the expectations of the Company concerning performance of Directors.

All Directors are required to:

1. Become members of the Australian Institute of Company Directors (AICD);
2. Undertake the AICD Company Directors Course within the first term following their appointment to the Board; and
3. Maintain their membership with the AICD.

Directors are required to undertake Director Professional Development to maintain their AICD membership status.

Board and director performance appraisal
The Board as a whole, Individual Directors and Board Committee members undertake a performance appraisal annually.

The Chair of the Board will drive improvements in Board and individual Director performance utilising results of the annual performance review, together with knowledge of the conduct of each Director gathered through the year.

Board meeting strategy and internal control
The Board has instituted a standard system that governs the process of all Board meetings to ensure that due recognition is given to ensuring that all relevant business requirements are effectively maintained.

Senior Management
The Board ensures that senior management (comprising the CEO and Executive Team) have the knowledge, skills and experience necessary for prudent operation of Peoplecare.

The Board, in fulfilling its functions, may delegate authority to management to act on behalf of the Board with respect to certain matters, as determined by the Board.

Standards of ethical behaviour
Peoplecare has adopted Standards of Ethical Behaviour to guide the Board, individual Directors, and Executive Management in carrying out their duties and responsibilities. The Executive Management team ensures that the principles of these behaviours flow to all employees through HR policies and work practices generally.

Delegations
The Board delegates the day to day management responsibility for Peoplecare to the CEO.

A separate Delegations Policy is in operation and this includes a delegations of authority to the CEO, other Executive Managers, and other positions within Peoplecare as determined by the Board.

Director election and appointment process
The Board determines the process for election or appointment of Directors through the Nominations, Development & Remuneration Committee.

The guidelines for the election and appointment processes are updated by the Company Secretary in accordance with the requirements set by the Nominations, Development and Remunerations Committee.

Our Executive Team

Chief Executive Officer (7 July 2018)

Melinda Williams BNurs, MPH, PhD, GAICD
Melinda joined Peoplecare in 2009 and successfully headed the Hospital & Health Services department before becoming CEO in July 2018.

Melinda has extensive experience in the highly specialised hospital–medical side of health funds, the design and evaluation of health management programs, as well as clinical nursing experience in both hospital and community sectors.

Melinda completed her PhD with the University of Wollongong in Population Health Management.

Melinda is a Director of Members Health Fund Alliance and a Director of The Cram Foundation.

Chief Executive Officer (retired 6 July 2018)

Michael Bassingthwaighte AM FAICD
Michael, CEO from 1982 to 2018, has been instrumental in driving the direction of Peoplecare.

He has been a key player in private health insurance in Australia and has played a major role in representing the interests of smaller funds within the industry.

His appointments include Director of:

- Coordinare Limited
- IRT Group

Michael was awarded the Member of the Order of Australia in 2013 for his *"significant service to the private health insurance industry and the community of the Illawarra region."*

Deputy Chief Executive Officer & Chief Risk Officer

Head of Governance, Risk & Compliance

Dale Cairney BCom CPA GAICD
Dale is responsible for governance, risk management, and compliance for Peoplecare and its customer insurers. Dale also undertakes the role of Chief Risk Officer as part of APRA requirements.

Dale has a wealth of senior management experience across a range of industries, including private health insurance, dental and eye care practice management, finance, manufacturing, mining, and transport industries over the past 35 years.

Dale's particular strengths are in general management, corporate governance, risk management, and finance. Dale is a regular volunteer and participant in charitable events.

Dale currently chairs the Members Health Fund Alliance Governance, Risk & Compliance Committee, and is a volunteer Director and Chair of the Audit and Risk Committee at The Cram Foundation.

Chief Financial Officer & Company Secretary

Head of Finance & Administration

Chris Stolk BCom CPA GAICD
Chris is responsible for the provision of all financial management functions and has responsibility for the data analytics and reporting function within the organisation. Chris has more than 25 years' experience in the accounting and finance field, most of which was spent working with organisations in the financial services industry.

His specialist skills include management reporting, statutory reporting, taxation and business planning and compliance. He also has a keen interest in treasury operations. Chris is also Company Secretary for Peoplecare.

Chris is a member of the Catholic Development Fund (CDF) Advisory Council as well as a representative on the Finance, Insurance and Audit Committee.

Our Executive Team

Head of Customer Service & Marketing

Anita Mulrooney BA GDipIM GDipCom GAICD
Anita has over two decades of experience in the not-for-profit, insurance, and health sectors in Australia and South-East Asia across key business functions including operations, customer service, sales and marketing and human resources.

She is responsible for Peoplecare's operations, customer service delivery, marketing, brand, communications, and community relations.

Anita's primary focus is to lead our Customer Service and Marketing Teams to provide clear, simple and high-value products for our members and to make sure Peoplecare's customer service experience is an exceptional one.

Since assuming the role in 2006, Anita has played a pivotal role in the evolution the Peoplecare brand from a small restricted fund to one of Australia's most respected not-for-profit health insurers.

Anita's other appointments include:

- Members Health Fund Alliance Marketing Committee – Chair
- Private Health Insurance Ombudsman's Website Reference Group – Member
- IRT – Director
- UOW Pulse – Director

Head of People , Culture & Capability

Maree Morgan-Monk BA GDipHR
Maree joined Peoplecare in 2011 and is Head of People and Culture. She has 20 years of HR Management experience across various industries, including education, hospitality and general insurance.

As Head of People, Culture & Capability, Maree is responsible for ensuring that our people, processes and practices retain Peoplecare's status as a true employer of choice with an exceptional level of staff satisfaction.

Maree supports our managers and staff in the areas of recruitment, training and development, Work Health and Safety, Human Resource policy, and cultural development.

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

Chief Information and Digital Officer

(from January 2019)

James Robins BComm BSc MInfsc
James has over 25 years' experience in information technology, specialising in digital transformation and strategy.

He brings a broad range of experience in IT leadership and consulting across a variety of industries including insurance, manufacturing and the public sector.

He is a Senior Member of the Australian Computer Science Society and has completed a Bachelor of Science (Computer Science), a Bachelor of Commerce (Management), a Master of Information Science and a Certificate of Executive Leadership.

James is responsible for Peoplecare's information technology and digital solutions.

Head of Hospital & Health Services

Melissa Jones
Melissa is Peoplecare's Head of Hospital and Health Services. She is responsible for the successful delivery of services at Peoplecare Eyes & Teeth (our dental and optical clinic in Wollongong), as well as the management of our Hospital and Medical team in their delivery of Broader Health Cover services and hospital claims processing.

Melissa joined Peoplecare in 2013, successfully managing Peoplecare Eyes and Teeth for 5 years. Melissa has 12 years' experience in Management and Optical Dispensing, and is focussed on ensuring our members receive value and quality services for all of their healthcare needs.

Our Executive Team

Head of Strategy & Innovation

(until September 2018)

Peter Buckley BCom MBA GAICD

Peter joined Peoplecare in 2016 as Head of Strategy and Innovation to further our customer centricity, innovation and business agility. He is an experienced executive manager with a track record of building value for businesses, their people and customers across a number of key roles in large engineering and services businesses, along with a number of iconic Australian and ASX-listed companies.

Peter was awarded Young Business Person of the Year in 2012 by the Illawarra Business Chamber. He was a Director and Vice-President of The Illawarra Connection, and member of the Salvation Army Illawarra Advisory Board.

His current volunteer appointments include roles for the University of Wollongong, The Smith Family and School for Social Entrepreneurs. Within the health sector he is a member of the Commonwealth Government Overseas Students Health Cover consultative group.

GrantThornton

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Auditor's Independence Declaration

To the Directors of Peoplecare Health Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Peoplecare Health Limited for the year ended 30 June 2019, 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

M A Adam-Smith
Partner – Audit & Assurance

Sydney, 25 September 2019

Statement
of surplus or deficit and other comprehensive income
For the year ended 30 June 2019

	Note	2019 $	2018 $
Revenue			
Premium revenue		147,374,022	144,300,075
Expenses			
Fund benefits paid to members		(126,414,024)	(122,105,886)
State ambulance levies		(1,727,914)	(1,702,406)
Risk Equalisation Trust Fund Levy		(3,463,958)	(6,190,030)
Movement in outstanding claims liability		(174,783)	(2,105,007)
Movement in unexpired risk liability		350,961	(350,961)
		(131,429,718)	(132,454,290)
Gross underwriting result		15,944,304	11,845,785
Management expenses			
Employee benefits expense		(10,648,966)	(10,111,756)
Depreciation and amortisation expense		(1,456,613)	(734,727)
Other management expenses		(10,062,776)	(9,576,023)
		(22,168,355)	(20,422,506)
Other			
Other revenue	4	10,635,680	9,588,422
Increase/(decrease) in fair value of financial assets	5	3,050,462	2,792,416
Net gain/(loss) realised on disposal of financial assets held at fair value through surplus or deficit	6	(12,517)	(177,551)
Other cost of goods sold	7	(1,496,613)	(1,460,658)
		12,177,012	10,742,649
Surplus before income tax expense		5,952,961	2,165,928
Income tax expense		-	-
Surplus after income tax expense for the year attributable to the members of Peoplecare Health Limited		5,952,961	2,165,928
Other comprehensive income for the year			
Items that will not be reclassified to surplus or deficit			
Gain on revaluation of land and buildings		400,000	325,000
Other comprehensive income for the year		400,000	325,000
Total comprehensive income for the year attributable to the members of Peoplecare Health Limited		6,352,961	2,490,928

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

Statement
of financial position
As at 30 June 2019

	Note	2019 $	2018 $
Assets			
Current assets			
Cash and cash equivalents	8	53,351,836	51,803,351
Trade and other receivables	9	5,171,273	4,997,840
Inventories	10	131,666	126,928
Other financial assets	11	20,291,767	24,421,405
Other assets	12	881,452	757,735
Total current assets		79,827,994	82,107,259
Non-current assets			
Other financial assets	13	31,286,599	25,767,005
Property, plant and equipment	14	7,319,772	7,276,027
Intangibles	15	741,534	1,595,959
Total non-current assets		39,347,905	34,638,991
Total assets		119,175,899	116,746,250
Liabilities			
Current liabilities			
Trade and other payables	16	21,810,637	25,513,565
Provisions	17	8,488,766	8,723,613
Total current liabilities		30,299,403	34,237,178
Non-current liabilities			
Provisions	18	336,192	321,729
Total non-current liabilities		336,192	321,729
Total liabilities		30,635,595	34,558,907
Net assets		88,540,304	82,187,343
Equity			
Reserves	19	1,300,860	900,860
Retained surpluses		87,239,444	81,286,483
Total equity		88,540,304	82,187,343

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

Statement of changes in equity

For the year ended 30 June 2019

	Reserves	Retained surpluses	Total equity
	$	$	$
Balance at 1 July 2017	575,860	79,120,555	79,696,415
Surplus for the year	-	2,165,928	2,165,928
Other comprehensive income for the year	325,000	-	325,000
Total comprehensive income for the year	325,000	2,165,928	2,490,928
Balance at 30 June 2018	900,860	81,286,483	82,187,343

	Reserves	Retained surpluses	Total equity
	$	$	$
Balance at 1 July 2018	900,860	81,286,483	82,187,343
Surplus for the year	-	5,952,961	5,952,961
Other comprehensive income for the year	400,000	-	400,000
Total comprehensive income for the year	400,000	5,952,961	6,352,961
Balance at 30 June 2019	1,300,860	87,239,444	88,540,304

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

Statement of cash flows

For the year ended 30 June 2019

	Note	2019	2018
		$	$
Cash flows from operating activities			
Receipts from members and customers		153,889,207	157,525,127
Payments to members, suppliers and employees		(154,529,641)	(152,435,721)
		(640,434)	5,089,406
Dividends received		736,900	718,746
Interest received		90,487	116,812
Net cash from operating activities	27	186,953	5,924,964
Cash flows from investing activities			
Payments for investments		(131,567,214)	(161,438,926)
Payments for property, plant and equipment	14	(329,556)	(791,223)
Payments for intangibles	15	(153,369)	(61,378)
Proceeds from disposal of investments		133,184,728	151,509,329
Proceeds from disposal of property, plant and equipment		226,943	130,910
Net cash from/(used in) investing activities		1,361,532	(10,651,288)
Cash flows from financing activities			
Net cash from financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		1,548,485	(4,726,324)
Cash and cash equivalents at the beginning of the financial year		51,803,351	56,529,675
Cash and cash equivalents at the end of the financial year	8	53,351,836	51,803,351

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

Note 1. General information

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

Controlled entities

Peoplecare Health Limited has incorporated two 100% owned subsidiaries. Peoplecare Health Insurance Pty Limited and Peoplecare Professional Services Pty Limited were both set up to register the names for potential future organisation group structure.

The financial statements of Peoplecare Health Limited have been prepared on the basis of the stand-alone entity. These financial statements do not include the consolidated results of either 100% owned subsidiary Peoplecare Health Insurance Pty Limited and Peoplecare Professional Services Pty Limited . This is on the basis that neither subsidiary has traded during the year and the consolidated financial statements would not differ to those of the stand-alone entity financial statements of the company.

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

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

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

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

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 25 September 2019. The directors have the power to amend and reissue the financial statements.

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 or amended Accounting Standards and Interpretations adopted

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

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. The following new Accounting Standards are most relevant to the company:

AASB 9 Financial Instruments

The company has adopted AASB 9 from 1 July 2018, applying the standard retrospectively. The standard replaced AASB 139 'Financial Instruments: Recognition and Measurement'. The standard introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through surplus or deficit unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI').

Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through surplus or deficit to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through surplus or deficit, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch).

New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

Consistent with AASB 1023 'General Insurance Contracts', financial assets backing insurance liabilities are measured and classified at fair value through surplus or deficit and therefore the impact of AASB 9 has been minimal, as detailed below. There were also consequential changes to AASB 101 'Presentation of Financial Statements' from the introduction of AASB 9.

The impact on adoption is as follows:

- the company now recognises impairment of trade receivables and assets held at amortised cost based on ECL rather than only incurred credit losses, as was the case under AASB 139. The company has used the simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables. There was no impact on the change in impairment modelling; and
- interest income is now shown separately on the face of surplus or deficit. This resulted in the reclassification of 'investment income' split between 'interest revenue calculated using the effective interest method' and 'gain on the revaluation of financial instruments at fair value through surplus or deficit'.

Basis of preparation

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

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

Historical cost convention

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

Comparative figures

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

Use of estimates and judgements

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

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

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 disclosed in the following notes:

- Note 2: Significant accounting policies - under the heading 'Liability adequacy test';
- Note 2: Significant accounting policies - under the heading 'Provisions: Outstanding claims liability';
- Note 2: Significant accounting policies - under the heading 'Property, plant and equipment: Land and buildings';
- Note 14: Non-current assets - property, plant and equipment - under the heading 'Valuations of land and buildings'; and
- Note 15: Non-current assets - intangibles - under the heading 'Useful lives of intangibles'.

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

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

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

Commission
Revenue is recognised at an amount that reflects the consideration to which the company is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the company: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

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

Receivables

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

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

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

A small provision for doubtful debts is sufficient as the policies are cancelled once the lapsed period of arrears reaches 60 days.

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

Private Health Insurance rebate on premiums
This is the amount claimed by Peoplecare Health Limited, as a cash amount, from 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.

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

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

Investments and other financial assets
Financial assets at amortised cost

A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

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

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

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

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 surplus or deficit on a straight-line basis over the estimated useful lives of each item of property, plant and equipment. Land is not depreciated.

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

Buildings	50 years
Leasehold improvements	2 to 10 years
Plant and equipment	2 to 15 years
Motor vehicles	3 to 5 years
Computer equipment	2 to 5 years

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

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the company. Gains and losses between the carrying amount and the disposal proceeds are taken to surplus or deficit. When revalued assets are sold, it is the company's policy to transfer the amounts included in other reserves in respect of those assets to retained surpluses.

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

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

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

All impairment losses are recognised in surplus or deficit.

Non-financial assets

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

Intangible assets

Computer software and software development

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

Software licences and capitalised development costs have a finite useful life and are carried at cost, less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the costs over their useful lives being 2.5 to 5 years.

Goodwill and licence intangibles

As part of the purchase of an optical business in December 2012, the company attained access to a loyal, long-term customer base of the acquired business. Costs associated with acquiring these customer intangibles are amortised on a straight-line basis over the period of their expected benefit, which was originally assessed as 10 years. At 30 June 2019, as no future economic benefits are expected, this goodwill has been derecognised. Refer Note: 15 Non-current assets - intangibles.

A service agreement has been entered into with Members Own Health Funds Limited. Peoplecare Health Limited has obtained marketing, advertising and promotion services in relation to the Members Own Health Fund Trade Marks. The licence to use the Trade Marks is for the term of the agreement which is 20 years. The cost of acquiring the licence is amortised on a straight line basis over the period of the expected benefit being 6 years.

Unearned premiums

Premiums received from members prior to 30 June 2019 relating to the period beyond 30 June 2019 are recognised as unearned premiums. Also, forecast premiums receivable from members at 30 June 2019 are recognised as unclosed business premiums.

Trade and other payables

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

Liability adequacy test

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

The provision for unexpired risk liability is determined as the excess of benefits, risk equalisation, state levies, claims related expenses plus a risk margin, over the premiums for the relevant period. Projected benefits, risk equalisation, state levies and claims related expenses were determined from projections adjusted for recent experience compared to projected and based on no membership growth.

The risk margin of 4.00% (2018: 4.00%) that is applied to the benefits, risk equalisation, state levies and claims related expenses cashflows has been estimated to equate to a probability of adequacy of approximately 75% (2018: 75%).

Provision for unexpired risk liability

2019	Unearned premium[1] $	Unearned unclosed business[2] $	Constructive obligation[3] $	Total $
Hospital and General Treatment Combined Premiums	13,883,024	108,074	100,069,225	114,060,324
Outflows:				
Central estimate of future benefits	(12,342,648)	(97,011)	(87,035,073)	(99,474,732)
Central estimate of future claims handling management expenses	(931,342)	(7,165)	(6,619,325)	(7,557,832)
Risk margin	(530,960)	(4,167)	(3,746,176)	(4,281,303)
Total outflows	(13,804,949)	(108,344)	(97,400,574)	(111,313,867)
Total surplus	78,075	(270)	2,668,652	2,746,457
Total unexpired risk liability				-

1. *Unearned premium - the value of health insurance premiums received from members prior to 30 June 2019 relating to the period beyond 30 June 2019.*
2. *Unearned unclosed business - the value of health insurance premiums owing by members from 30 June 2019 up to and including their next normal payment date*
3. *Constructive obligation - the value of health insurance premiums to be received from members and the cash flows relating to future claims arising from rights and obligations under current insurance coverage at 30 June 2019 up to 31 March 2020, the next premium rate change date at which time Peoplecare is no longer obligated to accept policy renewals at the current premium rates*

2018	Unearned premium[1] $	Unearned unclosed business[2] $	Constructive obligation[3] $	Total $
Hospital and General Treatment Combined Premiums	16,134,899	126,725	95,937,054	112,198,678
Outflows:				
Central estimate of future benefits	(14,755,614)	(117,459)	(85,875,235)	(100,748,308)
Central estimate of future claims handling management expenses	(1,073,045)	(8,573)	(6,390,881)	(7,472,500)
Risk margin	(633,146)	(5,041)	(3,690,645)	(4,328,832)
Total outflows	(16,461,806)	(131,074)	(95,956,760)	(112,549,640)
Total surplus	(326,906)	(4,349)	(19,706)	(350,961)
Total unexpired risk liability				(350,961)

1. *Unearned premium - the value of health insurance premiums received from members prior to 30 June 2018 relating to the period beyond 30 June 2018.*
2. *Unearned unclosed business - the value of health insurance premiums owing by members from 30 June 2018 up to and including their next normal payment date.*
3. *Constructive obligation - the value of health insurance premiums to be received from members and the cash flows relating to future claims arising from rights and obligations under current insurance coverage at 30 June 2018 up to 31 March 2019, the next premium rate change date at which time Peoplecare is no longer obligated to accept policy renewals at the current premium rates.*

Whilst the liability adequacy test has identified a deficiency in the area of unearned unclosed business, the total of all results is a surplus, and as such no provision for unexpired risk liability has been recognised at 30 June 2019. In 2018, the test identified deficiencies in all areas, therefore a provision for unexpired risk liability of $350,961 was recognised at 30 June 2018.

Provisions

Outstanding claims liability

The outstanding claims estimate is derived based on three valuation classes, namely Hospital, Medical and General Treatment services. 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 by the Board based upon advice from the Appointed Actuary, and 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.

Actuarial assumptions

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

	2019			2018		
	Hospital	Medical	General Treatment	Hospital	Medical	General Treatment
Variables	%	%	%	%	%	%
Assumed portion paid to date	97.97%	97.28%	98.55%	98.33%	97.30%	98.32%
Expense rate	3.85%	3.85%	3.85%	6.90%	6.90%	6.90%
Discount rate	-	-	-	-	-	-
Risk equalisation rate	3.72%	3.72%	-	6.85%	6.85%	-
Risk margin	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%

The risk margin was determined from the assumption that there is a normal distribution of differences between the calculated provisions required for past periods and the finally determined requirements for those periods. A probability of sufficiency of 75% is intended to be achieved through the adoption of the risk margin of 3.25% (2018: 3.25%) at the end of the reporting period.

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

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

The company conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the performance and equity of the company.

Impact on key variables

2019

Variables	**Movement in variable**	**Adjustments on Surplus**	**Adjusted amount included in Income Statement**	**Adjustments on Equity**	**Adjusted amount included in Balance Sheet**
		$	$	$	$
Chain ladder development factors	1.00%	(72,802)	(72,802)	(72,802)	(72,802)
	-1.00%	72,802	72,802	72,802	72,802
Discount rate	-	-	-	-	-
	-	-	-	-	-
Risk equalisation rate	1.00%	(59,890)	(59,890)	(59,890)	(59,890)
	-1.00%	59,890	59,890	59,890	59,890
Risk margin	1.00%	(77,919)	(77,919)	(77,919)	(77,919)
	-1.00%	77,919	77,919	77,919	77,919

2018

Variables	**Movement in variable**	**Adjustments on Surplus**	**Adjusted amount included in Income Statement**	**Adjustments on Equity**	**Adjusted amount included in Balance Sheet**
		$	$	$	$
Chain ladder development factors	1.00%	(67,585)	(67,585)	(67,585)	(67,585)
	-1.00%	67,585	67,585	67,585	67,585
Discount rate	-	-	-	-	-
	-	-	-	-	-
Risk equalisation rate	1.00%	(54,303)	(54,303)	(54,303)	(54,303)
	-1.00%	54,303	54,303	54,303	54,303
Risk margin	1.00%	(76,226)	(76,226)	(76,226)	(76,226)
	-1.00%	76,226	76,226	76,226	76,226

Other provisions
Provisions are recognised when:

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

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

iii that the outflow can be reliably measured.

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

Employee benefits

Wages and salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Accumulating sick leave is expensed to surplus or deficit when incurred.

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

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

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

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

Goods and Services Tax ('GST') and other similar taxes
Revenues and expenses are recognised net of GST, except where GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the expense item.

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

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

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

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

Investment and other financial assets:
Financial assets at fair value through surplus or deficit

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

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

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

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

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

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

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

New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended, that are applicable to the company but are not yet mandatory, have not been early adopted by the company for the annual reporting period ended 30 June 2019. 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 15 Revenues from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018 (for-profit entities) or 1 January 2019 (not-for-profit entities). The standard provides a single standard for revenue recognition and replaces AASB 118 'Revenue' which covers contracts for goods and services and AASB 111 'Construction Contracts' which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The majority of the company's revenue is recognised under AASB 1023 'General Insurance Contracts' which is not impacted by the adoption of AASB 15. There is no material impact of this standard on the company's non-insurance revenue. The company will adopt this standard from 1 July 2019.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset and lease liability are recognised at the commencement of the lease. The right-of-use asset is recognised at an amount that is equivalent to the initial measurement of the lease liability, adjusted for lease prepayments, lease incentives received, initial direct costs incurred, and an estimate of any future restoration, removal or dismantling costs. The lease liability is recognised at the present value of future lease payments comprising fixed lease payments less incentives, variable lease payments, residual guarantees payable, payment of purchase options where exercise is reasonably certain, and any anticipated termination penalties. The lease payments are discounted at the rate implicit in the lease, or where not readily determinable, the entity's incremental borrowing rate. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to surplus or deficit as incurred. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117.

Impact of adoption of AASB 16

The company will adopt AASB 16 from 1 July 2019 and has elected to use the modified transitional approach not to restate comparatives. Furthermore, the company has elected to continue to account for leases as operating leases where the lease term ends within 12 months of the date of initial application. As detailed in Note 24, the company's undiscounted operating leases, on transition is $808,773. The impact on adoption will not be material, as summarised below:

- $63,435 expiring within 12 months and therefore will continue to be accounted for as operating leases using the transitional provisions; and
- $745,338 representing long-term leases that will be capitalised as finance leases from 1 July 2019, discounted using the company's incremental borrowing rate at the date of initial application.

AASB 17 Insurance Contracts

This standard is applicable to annual reporting periods beginning on or 1 January 2021. The standard replaces AASB 4 'Insurance Contracts', AASB 1023 'General Insurance Contracts' and AASB 1038 'Life Insurance Contracts' and will enhance comparability of accounting between products, companies and across jurisdictions by establishing principles for the recognition, measurement, presentation and disclosure of insurance contracts issued, including reinsurance contracts held and investment contracts with a discretionary participation feature. The standard reflects the view that an insurance contract combines features of both a financial instrument and a service contract. AASB 17 combines current measurement of future cash flows with the recognition of profit over the period services are provided under the contract; presents insurance service results and insurance revenue separately from insurance finance income or expenses; and requires an accounting policy choice on a portfolio-by-portfolio basis of whether to recognise all insurance finance income or expenses in surplus or deficit or partially in other comprehensive income.

Insurance obligations will be accounted for using current values - instead of historical cost. The information needs be updated regularly, providing more useful information to the users of financial statements. Further key principles of AASB 17 include the following:

- insurance contracts are those where the entity accepts significant insurance risk from the policyholder;
- accounted for separately are specified embedded derivatives, direct investment components and performance obligations within the insurance contract;
- division of contracts into groups that are recognised and measured at a risk-adjusted present value of the future fulfilment cash flows plus or minus unearned profits cash flows plus or minus unearned profits;
- the profit from contract groups is recognised over the insurance coverage period, with anticipated losses recognised immediately; and
- disclosure of information so as to assess the effect that contracts have on the financial position, financial performance and cash flows of the entity, including qualitative and quantitative information about amounts recognised, significant judgements made and the nature and extent of the risks from insurance contracts.

The company expects to adopt this standard from 1 July 2021 and is yet to assess its impact.

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

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 Risk and Audit Committee, which is responsible for developing and monitoring risk management policies. The Risk and Audit 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, regulatory requirements, the Board's risk appetite, and the company's activities.

The company, through training and management standards and procedures, aims to develop a disciplined and constructive risk culture in which all employees understand their roles and obligations.

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

(a) Credit risk

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

Receivables from insurance contracts:

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

Other receivables:

The risk of financial loss to the company from customers other than fund members arises principally from two sources: management services provided by the company to other private health and specialty insurers, and receivables due from Department of Human Services in relation to the Australian Government Private Health Insurance Rebate.

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

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

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

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

Investment securities (Cash and cash equivalents and other financial assets):

The Board has addressed the issue of credit risk from investment securities through the development and regular review of the company's investment strategy. The strategy requires the company holds a diversified investment portfolio, heavily weighted to defensive assets over growth assets.

The portfolio of defensive assets consists of cash and cash equivalents, highly liquid fixed interest securities, longer term fixed income securities (up to 10 years), short term receivables and assets used in the operations of the business.

The company limits its exposure to counterparty credit risk through the following policies which are detailed in the investment strategy and summarised below:

Cash and cash equivalents and highly liquid fixed interest securities (short-term investments):

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

(a) Short term investments are required to be placed with ADIs with a minimum issuer credit rating of A1 or higher (as defined by Standard and Poor's rating agency). This is to ensure that investment funds are placed with highly secure, low risk rated entities; and

(b) Notwithstanding (a), the Board has a tolerance for up to 20% of the defensive investment asset portfolio to be invested with ADIs who meet the following criteria:

i Net Assets > $50 million;

ii Return on Equity > 5% for each of the last two financial years; and

iii Total regulatory capital as a % of total risk weighted assets > 12% for each of the last two financial years; and

iv The maximum amount invested with any individual ADI or related banking group in this category is $1,000,000.

Long-term fixed income securities

Long term fixed income securities held by the company may include:

- Bank endorsed bills of exchange;
- Term Deposits;

- Securities Issued by Federal or State Government bodies or securities issued by a semi-government authority with security guaranteed by the Federal or State Government; and
- Corporate bonds

i All long term defensive investments are required to have a minimum issuer rating of AA- (as defined by Standard and Poor's rating agency) except for corporate bond investments which must have a minimum issuer credit rating of A-; and

ii Exposure to any single issuer, financial institution or related banking group, is limited to a maximum of 35% of the defensive asset investment portfolio. This maximum may be exceeded for a short period of time (two weeks).

In addition to the above, the company holds a portfolio of growth assets which includes shares in listed corporations. The company manages credit risk in respect to this portfolio by:

i The share portfolio will be actively managed by an independent investment advisor;

ii Only stocks from the ASX200 Accumulation Index will be included in the portfolio and will include shares from a range of diverse industry sectors with sector limits of +/- 15%; and

iii No more than 17% of the Australian equity portfolio is to be held in any one company.

iv The total combined holding of Australian and International equities cannot exceed the Board endorsed maximum of 18% of the total investment assets of the Fund;

v. The value of international equities cannot exceed 35% of the total equity portfolio value;

vi An equities Investment via an ETF will only be through the purchase of a physical ETF, that is, the Fund will not invest in synthetic ETF's.

vii Any ethical or conflict of interest investment considerations/decisions are not to be applicable when investing via a passive approach (index fund or ETF) due to the individual investment decisions being deemed "arms-length" in nature.

viii The investment advisor will seek approval from the management investment committee before changing or adding any direct holdings, managed funds or ETF's into the portfolio.

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 $30,971,918 (2018: $30,298,328).

(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 future liquidity requirements:

(i) Management prepare daily cash flow forecasts for the upcoming six months. This forecast provides for the major types of inflows and outflows, as well as the projected net cash position each day and cumulatively over the forecast period. The forecasts are assessed and updated on a regular basis as new information comes to hand. Cash flow projections are updated daily with actual cash flow outcomes to assess accuracy and assist in improving future cash flow forecasting;

(ii) The company should always hold enough cash to meet the Solvency Standard. Investments in cash and term deposits must be sufficient to meet the short-term liabilities, claims liability and other recurring operating expenditure. To do this, the value of the short-term deposit portfolio must be at least equal to the capital adequacy requirement reported in the quarterly regulatory return lodged with APRA.

In setting the minimum cash balance the Board has considered the following:

- The historical seasonality of cash flows of the fund over a number of years;
- The potential size of cash outflows under stressed business conditions. To test the fund's ability to meet the Solvency Standard retrospectively, management increased historical daily cash outflows over the past four years by factors of 1.25 and 1.50. Under both scenarios, a minimum cash balance of $2,500,000 would have been sufficient to meet the Solvency Standard requirements;
- The inability to convert term deposits into cash prior to maturity date;
- The inability to convert fixed income securities into cash prior to maturity date (trade on the secondary market); and
- The inability to convert all or a portion of the fund's equities portfolio quickly to cash to meet the minimum cash requirements.

Should the company's cash balance fall below the board approved minimum cash balance for a period of more than a few days, management will undertake remediation activities outlined in the Liquidity Management Plan.

To ensure, as far as practically possible, compliance with the Solvency Standard requirements and to avoid breaching the cash management requirement under the standard, the sum of $1,800,000 is held in a separate bank account that will not be drawn upon and is not to be considered in managing the day to day cash flow requirements of the fund; and

(iii) Ensure an adequate match between fund assets and liabilities.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the fair value or future cash flows of a financial instrument. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Market risk in relation to insurance contracts:

Market risk in relation to insurance contracts is discussed in Note 29.

Market risk in relation to investment securities:

1. Currency risk

Currency risk is 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 has minimal currency risk exposure at 30 June 2019. The company held $3.17m of international equities via physical Exchange Traded Funds (ETF) however $1.50m of these equities is not effected by currency risk because this proportion is fully hedged. The role of hedging for international equity investments is to neutralise foreign exchange risk within the portfolio.

2. Interest rate risk

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

3. Other market price risk

The company is exposed to securities price risk in relation to both the long term fixed income and the equities investment portfolios. This arises from investments held by the company and classified on the statement of financial position as at fair value through surplus or deficit. This risk is managed in the following investment strategy requirements:

Equities Portfolio

i The share portfolio will be actively managed by an independent investment advisor;

ii Only stocks from the ASX200 Accumulation Index will be included in the portfolio and will include shares from a range of diverse industry sectors with sector limits of +/- 15%;

iii No more than 17% of the Australian equity portfolio is to be held in any one company;

iv The total combined holding of Australian and International equities cannot exceed the Board endorsed maximum of 18% of the total investment assets of the Fund;

v The value of international equities cannot exceed 35% of the total equity portfolio value;

vi An equities Investment via an ETF will only be through the purchase of a physical ETF, that is, the Fund will not invest in synthetic ETF's.

vii Any ethical or conflict of interest investment considerations/decisions are not to be applicable when investing via a passive approach (index fund or ETF) due to the individual investment decisions being deemed "arms-length" in nature.

viii The investment advisor will seek approval from the management investment committee before changing or adding any direct holdings, managed funds or ETF's into the portfolio.

Fixed Income Portfolio

i No more than 35% of the defensive asset portfolio can be invested in any single issuer; and

ii Fixed interest securities will be acquired under the advice of a Board approved independent investment adviser.

The investment policy is subject to review and approval by the Board on an annual basis.

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 which are set out in the

APRA Prudential Standard HPS 100 - Solvency Standard and APRA Prudential Standard HPS 110 - Capital Adequacy.

The Capital Adequacy Standard requires amongst other things that the company holds sufficient assets in its health benefits fund to provide adequate capital for the conduct of the health benefits fund in accordance with the Private Health Insurance Act 2007 and in the interests of policyholders of the fund. The company's compliance with the Capital Adequacy Standard is an indication of its future financial strength, on a going concern basis.

Each private health insurer must have, and comply with, a written, Board endorsed, capital management policy, which as a key component must include a Capital Management Plan. The company's Capital Management Plan must contain:

i A description of the Board's risk appetite as it relates to capital needs and the process used to determine that appetite;

ii Target capital levels which have regard to access to internal and external capital and the impact on premiums of holding more or less capital than the amount determined;

iii Details of how the capital target is calculated; and

iv Clearly defined capital trigger points and corrective actions for each of the trigger points which specifies the actions and timeframes for those actions that the company may utilise to return capital to the target levels.

The Board's policy is to maintain a strong capital base and to hold capital in accordance with the capital management plan.

At the end of the reporting period the company held capital in excess of the capital adequacy requirements determined in accordance with the Capital Adequacy Prudential Standard.

The Board reviews the capital management plan on a biennial basis, or as triggered by events detailed in the company's capital management policy.

Solvency

The purpose of this Prudential Standard is to ensure as far as practicable that at any time the financial position of a health benefits fund conducted by a private health insurer is such that the private health insurer will be able to meet, out of the fund's assets, all liabilities that are referrable to the fund, as those liabilities become due.

This Prudential Standard requires the private health insurer to demonstrate that it will be able to meet the liabilities of its health benefits fund, allowing for adverse circumstances.

It is also a requirement of the Solvency Standard that the company have and comply with a Board endorsed Liquidity Management Plan for each health benefits fund it conducts. The Liquidity Management Plan must include Board approved minimum liquidity requirements and management action triggers should liquidity fall below the minimum set down by the Board.

The company has a Board endorsed Liquidity Management Plan in place and all liquidity requirements contained in the Standard were met at all times during the year ended 30 June 2019.

Note 4. Other revenue

	2019 $	2018 $
Travel insurance commission	10,403	21,487
Overseas student health cover agency fee	939,239	720,527
Management services income	5,893,731	4,769,882
Interest income	90,487	116,812
Dividend income	736,900	718,746
Dental revenue	1,808,096	1,714,378
Optical revenue	1,059,022	1,054,076
Other income	97,802	472,534
	10,635,680	9,588,442

The company has entered into a number of management services agreements, all at arm's length and on normal commercial terms.

Note 5. Increase/(decrease) in fair value of financial assets

	2019 $	2018 $
Bonds	1,059,423	862,146
Shares in listed companies	697,390	735,290
Term deposits	1,293,649	1,194,980
	3,050,462	2,792,416

Note 6. Net gain/(loss) realised on disposal of financial assets held at fair value through surplus or deficit

	2019 $	2018 $
Bonds	(12,080)	64,891
Shares in listed corporations	(437)	(242,442)
	(12,517)	(177,551)

Note 7. Other cost of goods sold

	2019 $	2018 $
Cost of dental sales	825,966	787,442
Cost of optical sales	670,647	673,216
	1,496,613	1,460,658

Note 8. Current assets - cash and cash equivalents

	2019 $	2018 $
Cash on hand	2,000	2,200
Cash at bank	6,072,102	5,979,200
Term deposits maturing within 3 months after the end of the reporting period	47,277,734	45,821,951
	53,351,836	51,803,351

Cash at bank bears floating interest rates between 0.00% and 1.35% (2018: 0.00% and 1.60%). Term deposits bear fixed interest rates between 1.80% and 2.80% (2018: 2.30% and 2.75%).

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

Note 9. Current assets - trade and other receivables

	2019 $	2018 $
Unclosed business premium - earned	191,336	152,702
Unclosed business premium - unearned	108,074	126,725
Amount due from Risk Equalisation Fund	147,039	-
Private Health Insurance Rebate on premiums	3,109,207	3,079,154
Investment Income Receivable	384,114	353,639
Other debtors	1,241,079	1,295,196
Less: provision for impairment of receivables	(9,576)	(9,576)
	5,171,273	4,997,840

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to $204,336 as at 30 June 2019 ($258,627 as at 30 June 2018).

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

	2019 $	2018 $
Past due 0 - 30 days	66,936	194,085
Past due 31 - 120 days	42,413	29,332
Past due 121 days to one year	99,380	41,713
More than one year	5,203	3,073
More than one year - impairment	(9,596)	(9,576)
	204,336	258,627

There was no increase in the provision for impairment of receivables (2018: Nil).

Note 10. Current assets - inventories

	2019 $	2018 $
Optical stock on hand - at cost	131,666	126,928

Note 11. Current assets - other financial assets

	2019 $	2018 $
Financial assets at fair value through surplus or deficit: Shares in listed corporations	16,291,767	15,065,670
Financial assets at fair value through surplus or deficit: Term deposits	4,000,000	7,500,000
Financial assets at fair value through surplus or deficit: Bonds	-	1,855,735
	20,291,767	24,421,405

Note 12. Current assets - other assets

	2019 $	2018 $
Prepayments	881,452	757,735

Note 13. Non-current assets - other financial assets

	2019 $	2018 $
Unlisted shares - Lysaght Credit Union	2	2
Unlisted shares - Peoplecare Health Insurance Pty Ltd	100	100
Unlisted shares - Peoplecare Professional Services Pty Ltd	2	2
Financial assets at fair value through surplus or deficit:		
Bonds	31,286,495	25,766,901
	31,286,599	25,767,005

Note 14. Non-current assets - property, plant and equipment

	2019 $	2018 $
Land and buildings - at fair value	6,225,000	5,825,000
Leasehold improvements - at cost	904,855	904,855
Less: Accumulated depreciation	(594,821)	(476,806)
	310,034	428,049
Plant and equipment - at cost	1,756,334	1,683,783
Less: Accumulated depreciation	(1,477,271)	(1,404,914)
	279,063	278,869
Motor vehicles - at cost	418,452	621,994
Less: Accumulated depreciation	(133,063)	(175,432)
	285,389	446,562
Computer equipment - at cost	1,603,498	1,500,740
Less: Accumulated depreciation	(1,383,212)	(1,203,193)
	220,286	297,547
	7,319,772	7,276,027

Reconciliations

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

	Land and Buildings $	Leasehold Improve. $	Plant and Equipment $	Motor Vehicles $	Computer Equipment $	Total $
Balance at 1 July 2017	5,500,000	460,874	229,443	391,597	170,056	6,751,970
Additions	-	76,369	118,760	309,759	286,335	791,223
Disposals	-	-	-	(134,502)	-	(134,502)
Revaluation of assets	325,000	-	-	-	-	325,000
Depreciation expense	-	(109,194)	(69,334)	(120,292)	(158,844)	(457,664)
Balance at 30 June 2018	5,825,000	428,049	278,869	446,562	297,547	7,276,027
Additions	-	-	76,481	147,610	105,465	329,556
Disposals	-	-	(3,931)	(231,258)	(1,803)	(236,992)
Revaluation of assets	400,000	-	-	-	-	400,000
Depreciation expense	-	(118,015)	(72,356)	(77,525)	(180,923)	(448,819)
Balance at 30 June 2019	6,225,000	310,034	279,063	285,389	220,286	7,319,772

Valuations of land and buildings

The fair value of land and buildings located at 2-12 Victoria Street, Wollongong NSW, at the end of the reporting period was assessed by Opteon Property Group, an independent external valuer, in accordance with the company's accounting policy. Fair value has been determined in the context of current commercial property market conditions. The fair value of the company's land and buildings at 30 June 2019 is $6,225,000 (2018: $5,825,000).

The company classifies its assets into the three levels prescribed under the accounting standards. All resulting fair value estimates for land and buildings are classified as Level 2. The Level 2 fair value of land and buildings has been derived using the market value approach. The key inputs under this approach are the current observable prices in an active market for similar properties in the same location and condition, and the net market rental income as at the valuation date, capitalised at an appropriate market yield.

Note 15. Non-current assets - intangibles

	2019 $	2018 $
Computer software - at cost	2,297,399	2,276,189
Less: Accumulated amortisation	(1,364,741)	(1,024,214)
Less: Impairment loss	(456,161)	-
	476,497	1,251,975
Computer software under development - at cost	132,159	-
Goodwill and licence intangibles - at cost	875,181	875,181
Less: Accumulated amortisation	(661,300)	(531,197)
Less: Impairment loss	(81,003)	-
	132,878	343,984
	741,534	1,595,959

Reconciliations

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

	Software $	Software development $	Goodwill and licence intangibles $	Total $
Balance at 1 July 2017	106,446	1,231,142	474,056	1,811,644
Additions	61,378	-	-	61,378
Transfers in/(out)	1,231,142	(1,231,142)	-	-
Amortisation expense	(146,991)	-	(130,072)	(277,063)
Balance at 30 June 2018	1,251,975	-	343,984	1,595,959
Additions	21,210	132,159	-	153,369
Impairment of assets	(456,161)	-	(81,003)	(537,164)
Amortisation expense	(340,527)	-	(130,103)	(470,630)
Balance at 30 June 2019	476,497	132,159	132,878	741,534

Useful lives of intangibles

As described in Note 2, the company reviews the estimated useful lives of intangibles at the end of each financial year. The company adjusted the remaining effective useful life of:

1. website software intangibles to better reflect their actual usage and future economic benefit. This assessment resulted in the useful life reducing from 3 years to 1.5 years and an impairment loss of $21,392;
2. mobile app software intangibles to better reflect their actual usage and future economic benefit. This assessment resulted in the useful life reducing from 5 years to 1.5 years and an impairment loss of $434,769;
3. customer intangibles (goodwill) which has been assessed as having no future economic benefit. This assessment resulted in an impairment write down of $81,003.

The change in the above estimates resulted in an impairment loss of $537,164 to the surplus or deficit for 30 June 2019.

Note 16. Current liabilities - trade and other payables

	2019 $	2018 $
Unclosed business premium liability	108,074	126,725
Unearned premium liability (premiums in advance)	12,087,291	14,420,967
Amounts due to the Risk Equalisation Trust Fund	-	900,324
Annual leave	929,525	947,041
Executive long term retention scheme	170,542	931,658
Other creditors and accruals	8,515,205	8,186,850
	21,810,637	25,513,565

Refer to note 20 for further information on financial instruments.

Note 17. Current liabilities - provisions

	2019 $	2018 $
Long service leave	443,670	502,339
Outstanding claims liability - central estimate	7,791,862	7,622,581
Outstanding claims liability - risk margin 3.25%	253,234	247,732
Unexpired Risk Liability	-	350,961
	8,488,766	8,723,613

Outstanding claims liability
Process for determining risk margin

The risk margin for the outstanding claims provision is based on an analysis of the historical accuracy of the Fund's provision for outstanding claims. The benefits component of the provision for each period, which reflects the expected outstanding claims at the time of reporting, calculated according to the chain ladder method, is compared to the actual claims that are subsequently paid for that period. The difference between the actual outstanding claims and the expected outstanding claims is analysed to determine a risk margin which provides a 75% probability of sufficiency.

The risk margin at 30 June 2019, is calculated as 3.25% of the central estimate of the benefits component of the outstanding claims liability. Allowance is also made for expected risk equalisation consequences and administration costs associated with claims processing in the outstanding claims liability estimate.

The risk margin adopted at 30 June 2019 was 3.25% (2018: 3.25%). The Provision was determined by adopting one month's hindsight of claims paid after 30 June. Refer to Note 2 for further explanation.

Unexpired risk liability
Process for determining risk margin

The risk margin for the liability adequacy test is based on an analysis of the historical variance of the Fund's projected net margins compared with actual net margins. The difference between the actual net margins and the expected net margins is analysed by the Appointed Actuary to determine an appropriate risk margin which has been estimated to equate to a probability of adequacy of 75%.

The risk margin adopted at 30 June 2019 was 4.00% (2018: 4.00%). Refer to Note 2 for further explanation.

Movements in provisions

Movements in each class of provision, other than employee benefits, are set out below:

Outstanding claims	2019 $	2018 $
Carrying amount at the start of the year	7,870,313	5,765,306
Add Claims incurred	126,588,807	124,210,893
Less Claims paid	(126,414,024)	(122,105,886)
Carrying amount at the end of the year	8,045,096	7,870,313

Unexpired risk	2019 $	2018 $
Carrying amount at the start of the year	350,961	-
Add Movement in Unexpired Risk Liability	(350,961)	350,961
Carrying amount at the end of the year	-	350,961

Amounts not expected to be settled within the next 12 months

Long service leave obligations:
The current portion of this liability represent the unconditional entitlement to long service leave where employees have completed the required period of service. This amount is presented as a current liability as the Company does not have an unconditional right to defer settlement for these obligations. However, based on past years' experience including low turnover of long term staff, the Company does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

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

	2019 $	2018 $
Employee benefits obligation expected to be settled after 12 months	402,649	456,453

Note 18. Non-current liabilities - provisions

	2019 $	2018 $
Long service leave	336,192	321,729

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

Note 19. Equity - reserves

	2019 $	2018 $
Revaluation surplus reserve	1,300,860	900,860

Revaluation surplus reserve
The reserve is used to recognise increments and decrements in the fair value of land and buildings, excluding investment properties. In the event of a sale of an asset, any balance in the reserve in relation to that asset is transferred to retained surpluses.

	Revaluation surplus 2018 $	Total 2017 $
Balance at 1 July 2017	575,860	575,860
Revaluation - gross	325,000	325,000
Balance at 30 June 2018	900,860	900,860
Revaluation - gross	400,000	400,000
Balance at 30 June 2019	1,300,860	1,300,860

Note 20. 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
Sensitivity analysis for currency risk
The company holds an unhedged international portfolio of equity investments valued at current foreign exchange prices of $1,664,063 (2018: $1,515,795). For equity investments classified as fair value through surplus or deficit, a 5% change of the Australian Dollar against all other currencies at reporting date would have resulted in an increase or decrease to the company's surplus or deficit of $83,203 (2018: $75,790). Equity would increase or decrease by the same amount.
The above example assumes a constant and equal 5% change of the Australian Dollar against all other currencies. However, in practice a basket of currencies does not move in this constant fashion because invariably macroeconomic factors will impact each currency differently.

Price risk
Sensitivity analysis for price risk
The company's Australian equity investments are listed on the Australian Securities Exchange. For equity investments classified as fair value through surplus or deficit, a 10% change in the bid price at reporting date would have resulted in an increase or decrease to the company's surplus or deficit of $1,629,177 (2018: $1,506,567). Equity would increase or decrease by the same amount.

The company's bonds are listed on the secondary market. For bonds classified as fair value through surplus or deficit, a 10% change in the bid price at reporting date would have resulted in an increase or decrease to the company's surplus or deficit of $3,128,650 (2018: $2,762,264). Equity would increase or decrease by the same amount.

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

Note 20. Financial instruments (continued)

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

	2019 Weighted average interest rate %	2019 Balance $	2018 Weighted average interest rate %	2018 Balance $
Fixed rate instruments (maturing within one year):				
Financial assets	2.31%	51,277,734	2.64%	55,177,686
Fixed rate instruments (maturing after one year):				
Financial assets	3.32%	31,286,495	3.71%	25,766,901
Variable rate instruments:				
Financial assets	1.34%	6,072,102	1.57%	5,979,200
Net exposure to cash flow interest rate risk		88,636,331		86,923,787

Sensitivity Analysis:

	Basis points increase			Basis points decrease		
2019	Basis points change	Effect on surplus	Effect on equity	Basis points change	Effect on surplus	Effect on equity
Fixed rate instruments	100	825,642	825,642	100	(825,642)	(825,642)
Variable rate instruments	100	60,721	60,721	100	(60,721)	(60,721)
		886,363	886,363		(886,363)	(886,363)

	Basis points increase			Basis points decrease		
2018	Basis points change	Effect on surplus	Effect on equity	Basis points change	Effect on surplus	Effect on equity
Fixed rate instruments	100	809,446	809,446	100	(809,446)	(809,446)
Variable rate instruments	100	59,792	59,792	100	(59,792)	(59,792)
		869,238	869,238		(869,238)	(869,238)

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

Credit risk
Credit risk is explained in Note 3 (a).

Exposure to credit risk:
The carrying amount of the company's financial assets represents the maximum credit exposure. The company's maximum exposure to credit risk at the end of the reporting period was as follows:

Note 20. Financial instruments (continued)

	2019 $	2018 $
Financial Assets		
Cash and cash equivalents	53,351,836	51,803,351
Receivables	5,016,820	4,997,840
Financial assets at fair value through surplus or deficit: Term deposits	4,000,000	7,500,000
Financial assets at fair value through surplus or deficit: Bonds	31,286,495	27,622,636
	93,655,151	91,923,827

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.

2019	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 (excl. GST & PAYG)	8,568,865	-	-	-	8,568,865
Total non-derivatives	8,568,865	-	-	-	8,568,865

2018	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 (excl. GST & PAYG)	8,891,119	-	-	277,426	9,168,545
Total non-derivatives	8,891,119	-	-	277,426	9,168,545

The carrying value of trade and other payables is $8,568,865 (2018: $9,168,545). The company is not significantly exposed to this risk as it has $53,351,836 of cash and cash equivalents to meet these obligations as they fall due.

Note 20. Financial instruments (continued)

Fair value

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:

	2019 Carrying amount $	2019 Fair value $	2018 Carrying amount $	2018 Fair value $
Assets				
Cash and cash equivalents	53,351,836	53,351,836	51,803,351	51,803,351
Receivables	5,016,820	5,016,820	4,997,840	4,997,840
Financial assets fair valued through surplus or deficit	35,286,495	35,286,495	35,122,636	35,122,636
Shares in listed corporations	16,291,767	16,291,767	15,065,670	15,065,670
	109,946,918	109,946,918	106,989,497	106,989,497
Liabilities				
Trade and other payables	(8,568,865)	(8,568,865)	(9,168,545)	(9,168,545)
	(8,568,865)	(8,568,865)	(9,168,545)	(9,168,545)

Financial assets measured at fair value in the statement of financial position are grouped into three levels of fair value hierarchy. This grouping is determined based on the lowest level of significant inputs used in fair value measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial assets and liabilities above are classified as Level 1 due to either their short term nature or their values being derived by quoted prices (unadjusted) in active markets for identical assets. The net carrying amounts for these financial assets and liabilities are deemed to approximate their fair values.

Note 21. Key management personnel disclosures

Directors

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

Glenn Lennell
Peter Fitzgerald
Andrew Gregory
Stephannie Jonovska
Louise Leaver
Michael Oertel
Sue Baker-Finch (Associate Director)

Other key management personnel

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

Dr Melinda Williams	Chief Executive Officer
Dale Cairney	Chief Risk Officer Deputy Chief Executive Officer
Anita Mulrooney	Head of Customer Service & Marketing
Christopher Stolk	Chief Financial Officer
Melissa Jones	Acting Head of Hospital & Health Services
Maree Morgan-Monk	Head of People & Culture
James Robins	Chief Information and Digital Officer From January 2019
Michael Bassingthwaighte	Chief Executive Officer Retired 6 July 2018
Peter Buckley	Head of Strategy & Innovation Until 9 November 2018

Compensation

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

	2019 $	2018 $
Short-term employee benefits	2,272,069	2,102,007
Post-employment benefits	172,903	181,937
Long-term benefits	855,845	110,627
	3,300,817	2,394,571

Total Directors' remuneration of up to a maximum of $338,264 per annum was approved by members at the Annual General Meeting on 8 November 2017. For the year ended 30 June 2019 total directors' remuneration paid was $316,941.

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.

Note 22. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Grant Thornton Audit Pty Ltd, the auditor of the company:

	2019 $	2018 $
Audit services - Grant Thornton Audit Pty Ltd		
Audit of the financial statements	77,280	73,600
Other services - Grant Thornton Audit Pty Ltd		
Audit of regulatory returns	19,320	18,400
	96,600	92,000

Note 23. Contingent assets and liabilities

At 30 June 2019 the company had no contingent assets and liabilities.

Note 24. Commitments

	2019 $	2018 $
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	303,424	239,155
One to five years	505,349	404,438
	808,773	643,593

Operating lease commitments includes contracted amounts for office facilities, a retail outlet and plant and equipment under non-cancellable operating leases expiring within 2 to 5 years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Note 25. Related party transactions

Key management personnel

Disclosures relating to key management personnel are set out in Note 21.

Transactions with other parties

The following transactions occurred with other related parties:	2019 $	2018 $
Payment for goods and services:		
Payment for services from HAMB Systems Limited	-	660,425
Payment for services from Australian Health Service Alliance Limited	-	386,444
Payment for services from Members Own Health Funds	-	231,659
Payment for services from Members Health Fund Alliance	53,700	-
Payment for services from other related party	900	-

During the year, fees were paid to Members Health Fund Alliance, a not for profit company which the CEO, Dr Melinda Williams, was a director. She received no remuneration from Members Health Fund Alliance. The payments were made on normal commercial terms and conditions, and relate to a yearly membership which provides access to the company's advocacy services, research and policy, and forums and events.

During the year, fees of $900 were paid to SBF Consulting; Management Consulting and Business Coaching conducted by Sue Baker-Finch, an associate director of Peoplecare.

Receivable from and payable to other parties

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

Loans to/from other parties

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

Terms and conditions

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

Note 26. Events after the reporting period

No matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the company's operations, the results of those operations, or the company's state of affairs in future financial years.

Note 27. Reconciliation of surplus to net cash from operating activities

	2019 $	2018 $
Surplus for the year	5,952,961	2,165,928
Adjustments for:		
Depreciation and amortisation	1,456,613	734,727
Net loss on disposal of property, plant and equipment	10,049	3,592
(Increase)/decrease in fair value of financial assets	(3,050,462)	(2,792,416)
Net (gain)/loss on disposal of financial assets transferred to surplus or deficit on disposal	12,517	177,551
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(142,958)	484,907
Increase in inventories	(4,738)	(32,796)
Increase in prepayments	(123,717)	(308,248)
Decrease in trade and other payables	(1,350,601)	(161,155)
Increase/(decrease) in employee benefits	(44,206)	83,199
Increase/(decrease) in other provisions	(176,178)	2,455,968
Decrease in retirement benefit obligations	-	(244,452)
Increase/(decrease) in other operating liabilities	(2,352,327)	3,358,159
Net cash from operating activities	186,953	5,924,964

Note 28. Non-cash investing and financing activities

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

Note 29. Nature and extent of risks arising from insurance contracts

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

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

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

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

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

Sensitivity to insurance risk

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

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

Selection, pricing and concentration risk

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

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

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

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

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

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

This risk is minimised through a process of arrears management whereby benefit payments are with-held from non-financial policyholders. Where payment of contributions is not received for a continual period of 60 days, 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 75%.

Market risk in relation to insurance contracts

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

The company is exposed to inflationary risk in relation to hospital and medical services that may materially impact on the future value of claims payments. Controls in place to mitigate this risk include contracts with hospital and medical service providers, and limits applied to some benefits provided under 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.

Directors' Declaration

In the directors' opinion:

- the attached financial statements and notes 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 give a true and fair view of the company's financial position as at 30 June 2019 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

Glenn Lennell GAICD
Director

Peter Fitzgerald BCom, FCA, MAICD
Director

25 September 2019
Wollongong

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Independent Auditor's Report

To the Members of Peoplecare Health Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Peoplecare Health Limited (the Company), which comprises the statement of financial position as at 30 June 2019, the statement of surplus or deficit and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Company is in accordance with the *Corporations Act 2001*, including:

a giving a true and fair view of the Company's financial position as at 30 June 2019 and of its performance for the year ended on that date; and

b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

Grant Thornton Audit Pty Ltd
Chartered Accountants

M A Adam-Smith
Partner – Audit & Assurance

Sydney, 25 September 2019

Notes

Notes

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