Health Insurance Fund of Australia

HEALTH INSURANCE FUND OF AUSTRALIA LIMITED

ACN 128 302 161

ANNUAL FINANCIAL REPORT

30 JUNE 2012

Contents

Directors

M. A. Dudley (Chairman)
G. A. Airey (retired 31 December 2011)
G. N. Gibson (Managing Director)
R. Homsany
M. L. S. Howard
T. S. Smith
N. J. Timoney
H. D. Zafer (appointed 25 February 2012)

Company Secretary

G. N. Gibson

Registered office and principal place of business

60-62 Stirling Street
Perth
Western Australia

Solicitor

DLA Piper (Australia)
Level 31, 152 - 158 St Georges Terrace
Perth
Western Australia

Banker

Commonwealth Bank
150 St Georges Terrace
Perth
Western Australia

External auditor

Deloitte Touche Tohmatsu
Level 14, 240 St Georges Terrace
Perth
Western Australia

Internal auditor

PricewaterhouseCoopers
QV1, 250 St Georges Terrace
Perth
Western Australia

Appointed actuary

P. Lurie
PricewaterhouseCoopers
QV1, 250 St Georges Terrace
Perth
Western Australia

The Board of Directors of Health Insurance Fund of Australia Limited (the "Company") submit herewith the Directors' Report for the year ended 30 June 2012 in accordance with the *Corporations Act 2001*.

Information about the Directors

The names and particulars of the Directors of the Company during or since the end of the year ended 30 June 2012 are:

Mr M. A. Dudley *B Com* Chairman	Mr Dudley is an Associate of CPA Australia, Associate of The Financial Planning Association of Australia, Associate of The Australian and New Zealand Institute of Insurance, an Associate of the Australian Institute of Management and a member of the Australian Institute of Company Directors. Mr Dudley was elected to the Board in 2007 and was appointed Chairman in 2008. Mr Dudley has extensive senior management experience in the financial services industry in Australia and New Zealand spanning over three decades. Mr Dudley is the Managing Director of financial planning and accounting services provider Pinnacle Planners as well as holding directorships in private companies involved in private investment, property development and the operation of child care facilities. Mr Dudley has served as a member of the Finance Committee of the Board of Newman College and Chairman of The Financial Planning Association of AMP Australia. Mr Dudley is a member of the Audit and Risk Committee and the Nomination and Remuneration Committee.
Mr G. A. Airey *Dip Ins Admin* Non-executive Director	Mr Airey was elected to the Board in 1990. Mr Airey was formerly a senior manager with AMP Society (now AMP Life Ltd – AMP Capital) and occupied senior administration roles in life, superannuation, investments, general insurance and general management. Mr Airey was a Director of the Asthma Foundation of WA for nearly 13 years. Mr Airey was a member of the Audit and Risk Committee. Mr Airey retired as a Director on 31 December 2011.
Mr G. N. Gibson *B Bus, Grad Dip Ed* Executive Director	Mr Gibson is Managing Director and Company Secretary, a Certified Practising Accountant ("CPA") with CPA Australia and member of the Australian Institute of Company Directors. Mr Gibson was appointed by the Board in 2009. Mr Gibson commenced with the Company in 2004 as Commercial Manager when it operated as an incorporated association under the *Associations Incorporation Act 1987* (WA). In 2005, Mr Gibson was appointed Chief Executive Officer during which time Mr Gibson managed the Company's re-registration as a private health insurer in 2008 and transfer of incorporation (from an association to a Company) in 2009, at which time Mr Gibson became Managing Director. Before joining the Company, Mr Gibson worked as an Area Business Manager for Australia's largest private hospital operator Affinity Health Ltd after serving in senior finance and commercial roles for a number of publicly listed companies involved in mining, infrastructure, manufacturing and industrial services. Mr Gibson also gained experience in the public sector as a senior lecturer in finance, accounting and commerce.
Mr R. Homsany *LLB (Hons), B Com, Grad Dip App Fin & Inv* Non-executive Director	Mr Homsany was appointed to the Board in June 2010. Mr Homsany is Executive Vice President, Australia of Mega Uranium Ltd, a TSX listed company and is an experienced corporate lawyer. Mr Homsany is also the principal of Cardinals Lawyers and Consultants. Previously he was Partner, Corporate and Commercial, of DLA Phillips Fox (now DLA Piper) and prior to that was a partner of Gadens Lawyers. Mr Homsany has also worked for an ASX top 50-listed internationally diversified resources company in operations, risk management and corporate. Mr Homsany is a Certified Practising Accountant ("CPA") with CPA Australia, a fellow of the Financial Services Institute of Australasia (FINSIA)

and a member of the Australian Institute of Company Directors. Mr Homsany has a Commerce Degree and Honours Degree in Law from the University of Western Australia and a Graduate Diploma in Finance and Investment from FINSIA. Mr Homsany has significant board experience with public listed companies. He is the Chairman of ASX listed Redstone Resources Ltd, ASX listed Merah Resources Ltd and TSX-V listed Central Iron Ore Limited. Mr Homsany is also Vice President of the West Perth Football Club Inc. Mr Homsany is Chairman of the Audit and Risk Committee.

Ms M. L. Howard *B Bus Admin, M Pol Sc*

Non-executive Director

Ms Howard was elected to the Board in 2008. Ms Howard is a member of the Australian Institute of Company Directors. Ms Howard has over 16 years extensive experience in the WA Public Service, including senior and executive roles within the Health Department portfolio covering finance, human resources, information technology, organisational systems, risk management and capital works programs. During this time Ms Howard held directorships in non-government organisations, where she was able to utilise her skills in strategic business planning and corporate governance. Prior to moving to Perth, Ms Howard worked for nearly 10 years with Deloitte in Italy in the areas of audit and taxation. During this time Ms Howard held a directorship in a publically listed company. Ms Howard is a member of CPA (USA) and has held membership with the Institute of Internal Auditors. Ms Howard is a member of the Audit and Risk Committee.

Mr T. S. Smith *B Bus*

Non-executive Director

Mr Smith was elected to the Board in 1995 and is a Certified Practising Accountant with CPA Australia. Mr Smith held a number of senior roles in the WA public sector for over 15 years including as a director and executive director, with responsibility for financial, human resources, organisational systems and capital projects. Mr Smith is a former Chairman of the Central Institute of Technology Governing Council and sat on a number of advisory bodies for education and training at the national level. Mr Smith held directorships with organisations in the financial, property and information technology sectors and consulted for over 10 years in strategic business planning, organisational structures and corporate governance in the private and university sectors. Mr Smith was appointed a member of the Audit and Risk Committee in December 2011 and is a member of the Nomination and Remuneration Committee.

Mr N. J. Timoney *BA (Mod)*

Non-executive Director

Mr Timoney was elected to the Board in 1996. Mr Timoney is Barrister and Solicitor and a partner of Stables Scott, Barristers and Solicitors. Between 1984 and 1989 Mr Timoney worked for a number of law firms in England, gaining experience in commercial litigation acting for various organisations including international companies in various industries including insurance and motor vehicle manufacture. Mr Timoney was admitted as a Solicitor in England and Wales in 1987. After moving to Australia, Mr Timoney was admitted as a Solicitor and Barrister in WA. Mr Timoney practices commercial law and has been involved a number of IPOs and appears in all courts in his commercial litigation role. Mr Timoney is Chairman of the Nomination and Remuneration Committee.

Mr H. D. Zafer *MPS PhCh*

Non-executive Director

Mr Zafer was appointed to the Board in February 2012. Mr Zafer is a member of the Australian Institute of Company Directors. Mr Zafer has more than 18 years experience in general and indemnity insurance. In the last 10 years, Mr Zafer has been involved in the financial, superannuation and trustee services sectors. Mr Zafer joined the Guild Group of companies in 1994 and was elected Chairman in 1999, a role he held until 2011 when he took up the Deputy Chair role. The Guild Group of companies includes an insurance company, two superannuation funds, a trustee services company and a wholly owned insurance law firm. In addition, Mr Zafer also made contributions serving Western Australian state government boards, not for profit organisations, university committees, community boards and as President of the Pharmacy Guild of Western Australia where his professional interests continue in his role as Vice President.

The above named Directors, with the exception of Mr Airey and Mr Zafer, held office during the whole of the year ended 30 June 2012.

Company Secretary

Mr G. N. Gibson, Certified Practising Accountant, held the position of Company Secretary of the Company at 30 June 2012. From 2005 to 2009, Mr Gibson was Secretary of Health Insurance Fund of W.A. (Inc.) before it transferred its incorporation to the Company on 1 December 2009. Mr Gibson was appointed Company Secretary of the Company on 1 December 2009. Details of Mr Gibson's other qualifications and experience are included in the "Information about the Directors" section of this Directors' Report.

Principal Activities

The principal activity of the Company is the provision of private health insurance in Australia by operating as a registered private health insurer in accordance with the *Private Health Insurance Act 2007* (Cth). Private health insurance provided by the Company includes coverage under Complying Health Insurance Products ("CHIP") for:

- Hospital inpatient and day patient services
- Hospital in the home services
- General treatment services.

The Company also provides private health insurance to overseas persons who temporarily reside in Australia. Other forms of insurance provided by the Company include travel insurance and general insurance under agency arrangements with third parties.

The Company's principal activities provide Contributors and their dependents access to a wide range of competitively priced healthcare treatments and services that are intended to be used to support healthy lives and lifestyles.

Objectives

The Company's enduring purpose is to provide Contributors and their dependents (also referred to as "Members") with easy access to the best value-for-money healthcare of their choice, where and when they need it. This will be achieved by:

- Providing access to relevant and high quality healthcare treatments and services
- Informing Contributors and their dependents about their health cover(s) and relevant healthcare issues
- Providing attractive rebates and benefits
- Keeping premiums affordable and competitive
- Delivering the highest standards of customer service

The Company's objectives involve:

- Growing health insurance policies and taking advantage of the benefits of business size and scale
- Gaining greater prominence amongst consumers
- Growing long term relationships with key healthcare providers and other provider groups

- Leveraging off Company membership of stakeholder groups, including the Australian Health Services Association Ltd for purchasing private hospital facilities and services and HAMB Systems Ltd for accessing beneficial electronic and digital information, technology and communications solutions.

The Company's vision is to be the leading provider of value-for-money health insurance that meet its Members' needs. To support its purpose and values, the Company has adopted "agility", "care" and "innovation" as its core values.

Performance Measures

The Company measures its performance in many ways, including by measuring, monitoring and analysing:

- Growth in health insurance policies
- Composition of the policy base and persons covered by the policies
- Growth in premium revenue and cost of benefits
- Ratio of premium revenue to cost of benefits
- Service delivery costs, including claims handling costs and other administration costs
- Policy acquisition costs
- Capital adequacy and solvency strength
- Contribution of income from activities other than from private health insurance premium revenues.

The Company also measures its performance by monitoring the performance of its governance framework including compliance matters, and the ability of the framework to support the Company's strategy and business operations objectives.

Financial Results

The net profit for the year ended 30 June 2012 was $8.3 million ($7.3 million in 2011). Premium revenue for the year was $84.1 million ($73.5 million in 2011), an increase of 14.5% over the previous year.

During the year, due to the combined effects of policy growth and premium rate increases, total premium revenue grew by more than the growth in total benefits incurred.

The Company is required to report its financial performance and position quarterly and annually ("returns**"**) to the industry regulator, the Private Health Insurance Administration Council ("Council"). The Company's returns are "stress-tested" to ensure the Company is financially able to support its business objectives and meet the Council's minimum prudential requirements. The Company has remained prudentially compliant throughout the year.

To enhance financial and risk management practices, during the year, the Company adopted a Capital Management Plan ("CMP") which was prepared with the assistance of the Company's Appointed Actuary. The CMP establishes the target minimum level of capital that the Company should operate with, and capital trigger-points that the Company could action in circumstances involving progressive depletions in available capital. At all times during the year, the Company's capital exceeded the target minimum level of capital.

Review of Operations

Policy Growth

During the year, the Company's core business Complying Health Insurance Product ("CHIP") policies grew by 12.8% compared to 3.7% growth in the Australian industry. The Company's objective to increase its penetration into targeted Australian states/territories other than Western Australia ("WA") (the Company's domicile state) was very successful, resulting in the proportion of the Company's total net growth in non-WA markets increasing by more than double. The Company also experienced strong growth in health insurance policies that are not CHIPs.

Affordability

During the year, for the first time, the Company implemented state/territory based pricing for CHIPs. The purpose of the change was to ensure the Company enhanced equity amongst CHIP policy holders by relating premium revenue earned with benefits incurred in each state/territory.

During the year, for 91.7% of CHIPs for the sixth consecutive year, the Company increased average policy premiums by less than 5.0% compared to the industry average increase of 5.06%. Higher increases (i.e. above 5.0%) applied to 8.3% of CHIPs in the states/territories that indicated a higher average rebate/benefit cost per policy.

As well as a relatively low average premium increase, during the year, the Company also made a significant investment to increase dental rebates covered under all of the Company's general treatment CHIPs. In addition, benefit limitations that applied to the Company's hospital treatment CHIPs were removed and for one hospital treatment CHIP, three days' private room accommodation for maternity stays was added.

Benefits

Other than the investment in dental rebates, there were no significant increases in rebates or annual limits, however due to the strong policy growth, claims incurred increased by 12.3%.

Choice and convenience

The Company's strong stance on choice aligns with consumer preference for them to remain in control when it comes to choosing their service provider. This means that the Company's policy holders retain the freedom to go to their family health provider without being financially disadvantaged.

Personalised service and convenience

The Company's priority is to develop its people and to ensure policy holders get access to friendly, qualified and experienced customer service when they want it and in the form they want it. The Company does not operate branch networks which it regards as cost-prohibitive and remains focussed on delivering customer service excellence through smart digital transaction and communication solutions including the Internet and other electronic and digital platforms. The Company believes that policy holders benefit from cost savings resulting in a higher allocation of available cash reserves for new and improved benefits and lower annual premium increases.

Investments

The Company's investments performed better than expected as a result of the Company reshaping its investments in accordance with the Company's Investment Policy Statement, involving a strategy for long term growth. Although returns from fixed interest funds were strong, the returns from bank term deposits progressively deteriorated over the year. Income from investments increased 8.6%, from $3.4 million to $ 3.7 million. The Company did experience a $0.1k fair value loss on financial assets at fair value. During the year, the Company's portfolio of investments grew by 21.0%, from $54.2 million to $65.6 million, due to $2.7 million fair value gains on financial assets at fair value and $8.7 million injection from cash balances in excess of the Company's operational requirement.

Company Membership

The Company's Constitution specifies that there must be a minimum of 12 company members. At 30 June 2012, the Company had 12 company members.

Other Developments

Property

In the second half of the year, the Company commenced redevelopment of owned premises situated at 100 Stirling Street, Perth. The premises are located close to the Company's existing offices at 60 Stirling Street, Perth. The decision to relocate to new premises will provide the required occupancy capability to align with projected policy growth as well as enhance administration efficiency. The Company does not anticipate that the relocation to 100 Stirling Street, Perth would disrupt its business operations including the provision of customer service to policy holders.

The Company will draw down the required $14.2 million funding from the Company's pool of investments progressively over an estimated 18-month period commencing January 2012. The Company anticipates that the revenue from investing in financial instruments that is given up will be offset by additional lease rental income and capital appreciation of the premises. As at 30 June 2012, approximately 20.0% of the funds allocated to construction of the premises have been incurred.

Electronic Transaction Processing and Communications

During the year, the Company continued to benefit from the use of digital workflow management software, including realising increased employee productivity and enhanced customer satisfaction. The Company will pursue similar initiatives in the 2013 financial year, including integrating the Company's website portal and core business software to achieve straight-through transaction processing.

Significant Changes in State of Affairs

There were no significant changes in the state of affairs of the Company during the year ended 30 June 2012.

Significant Matters or Circumstances after 30 June 2012

No matters or circumstances have arisen since 30 June 2012 which significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future years.

Environmental Regulations

The Company's operations are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory.

The Company is certified NOCO2 by the Carbon Reduction Institute Pty Ltd. Certification confirms the Company's financial contribution, by purchasing carbon offsets, towards reducing carbon emissions.

Indemnification of Officers and Auditors

During the year ended 30 June 2012, the Company paid a premium in respect of a contract insuring the Directors of the Company, the Company Secretary and all Executive Officers of the Company and of any related body corporate against a liability incurred as such a Director, Company Secretary or Executive Officer to the extent permitted by the *Corporations Act 2001* (Cth). The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the year ended 30 June 2012, indemnified or agreed to indemnify an Officer or Auditor of the Company or of any related body corporate against a liability incurred as such an Officer or Auditor.

Directors' Meetings

The following table sets out the number of Directors' meetings (including meetings of Committees of Directors) held during the year ended 30 June 2012 and the number of meetings attended by each Director (while they were a Director or Committee member). During the year ended 30 June 2012, nine Board meetings, six Nomination and Remuneration Committee meetings and eight Audit and Risk Committee meetings were held.

Directors	**Board of Directors**		**Audit and Risk Committee**		**Nomination and Remuneration Committee**	
	Held	Attended	Held	Attended	Held	Attended
Mr M. A. Dudley	9	7	8	7	3	3
Mr G. A. Airey	9	2(1)	8	3(1)	-	-
Mr G. N. Gibson	9	9	-	-	-	-
Mr R. Homsany	9	8	8	8	-	-
Ms M. L. Howard	9	9	8	7	-	-
Mr T. S. Smith	9	9	8	3(2)	3	3
Mr N. J. Timoney	9	8	-	-	3	3
Mr H. D. Zafer	9	2(3)	-	-	-	-

(1) Board and Committee member until December 2011 – eligible to attend 5 Board and 5 Committee meetings.

(2) Committee member from December 2011 – eligible to attend 3 meetings.

(3) Board member from February 2012 – eligible to attend 3 meetings.

Auditor's Independence Declaration to the Directors of Health Insurance Fund of Australia Limited

The Company has obtained an independence declaration from the Company's Auditor, Deloitte Touche Tohmatsu, which is set out on the following page and forms part of the Directors' Report for the year ended 30 June 2012.

Signed in accordance with a resolution of the Directors.

M. A. Dudley
Chairman

Perth, 26th September 2012

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Board of Directors
Health Insurance Fund of Australia Limited
60 Stirling Street
PERTH WA 6000

26 September 2012

Dear Board Members

Health Insurance Fund of Australia Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Health Insurance Fund of Australia Limited.

As lead audit partner for the audit of the financial statements of Health Insurance Fund of Australia Limited for the financial year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Leanne Karamfiles
Partner
Chartered Accountants

Statement of comprehensive income

For the year ended 30 June 2012

		Consolidated		Health Insurance Fund of Australia	
	Note	**2012**	2011	**2012**	2011
		$	$	**$**	$
Premium revenue	5	**84,086,823**	73,459,274	**84,086,823**	73,459,274
Net claims incurred	8	**(69,894,700)**	(62,057,488)	**(69,894,700)**	(62,057,488)
Acquisition expenses	15	**(4,702,533)**	(4,008,253)	**(4,702,533)**	(4,008,253)
Claims handling expenses	9	**(1,448,946)**	(1,320,132)	**(1,448,946)**	(1,320,132)
Underwriting result		**8,040,644**	6,073,401	**8,040,644**	6,073,401
Investment income	6	**3,682,194**	3,389,611	**3,681,340**	3,388,332
Fair value gains / (losses) on financial assets at fair value through profit or loss		**(78,526)**	49,187	**(78,526)**	49,187
Other income	7	**316,042**	373,951	**318,433**	375,358
Other operating expenses	9	**(3,624,203)**	(2,560,660)	**(3,623,884)**	(2,560,187)
Result of operating activities		**8,336,151**	7,325,490	**8,338,007**	7,326,091
Finance costs	9	**(64,328)**	(15,558)	**(64,186)**	(15,417)
Profit before income tax		**8,271,823**	7,309,932	**8,273,821**	7,310,674
Income tax benefit	10	**593**	230	**-**	-
Profit for the year		**8,272,416**	7,310,162	**8,273,821**	7,310,674
Other comprehensive income		**-**	-	**-**	-
Total comprehensive income for the year		**8,272,416**	7,310,162	**8,273,821**	7,310,674

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Health Insurance Fund of Australia Ltd and its controlled entities
Statement of financial position
At 30 June 2012

	Note	Consolidated		Health Insurance Fund of Australia	
		2012	2011	**2012**	2011
		$	$	**$**	$
ASSETS					
Current assets					
Cash and cash equivalents	11	**22,965,442**	20,068,440	**22,934,899**	20,037,066
Trade and other receivables	12	**5,180,258**	2,929,534	**5,174,437**	2,922,939
Other financial assets	13	**24,611,864**	17,000,000	**24,611,864**	17,000,000
Deferred acquisition costs	15	**540,791**	459,870	**540,791**	459,870
		53,298,355	40,457,844	**53,261,991**	40,419,875
Non-current assets					
Other financial assets	13	**24,304,757**	22,511,885	**24,304,757**	22,511,885
Investment in controlled entities	14	**-**	-	**1**	1
Property, plant and equipment	16	**9,559,288**	7,449,104	**9,559,288**	7,449,104
Deferred tax asset		**814**	230	**-**	-
		33,864,859	29,961,219	**33,864,046**	29,960,990
Total assets		**87,163,214**	70,419,063	**87,126,037**	70,380,865
LIABILITIES					
Current liabilities					
Trade and other payables	17	**1,376,426**	742,469	**1,376,043**	742,470
Outstanding claims liability	18	**5,471,186**	5,365,123	**5,471,186**	5,365,123
Unearned premium liability	19	**15,900,716**	8,428,039	**15,900,716**	8,428,039
Provisions	20	**461,551**	330,520	**461,551**	330,520
		23,209,879	14,866,151	**23,209,496**	14,866,152
Non-current liabilities					
Provisions	20	**75,054**	369,422	**75,054**	369,422
		75,054	369,422	**75,054**	369,422
Total liabilities		**23,284,933**	15,235,573	**23,284,550**	15,235,574
Net assets		**63,878,281**	55,183,490	**63,841,487**	55,145,291
EQUITY					
Reserves attributable to the entity's members					
Reserves	22	**4,121,355**	3,698,980	**4,121,355**	3,698,980
Retained earnings		**59,756,926**	51,484,510	**59,720,132**	51,446,311
		63,878,281	55,183,490	**63,841,487**	55,145,291
Total equity		**63,878,281**	55,183,490	**63,841,487**	55,145,291

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

Consolidated

	Note	Revaluation reserve	Retained earnings	Acquisition Reserve	Total
At 1 July 2010		**3,698,980**	**44,418,448**	**(238,624)**	**47,878,804**
Transfer of reserve to retained earnings	22	-	(238,624)	238,624	-
Prior period minority interest adjustment			(5,476)		(5,476)
Profit for the year		-	7,310,162	-	7,310,162
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	7,310,162	-	7,310,162
At 30 June 2011		**3,698,980**	**51,484,510**	**-**	**55,183,490**
Fair value revaluation of land and buildings		422,375	-	-	422,375
Profit for the year		-	8,272,416	-	8,272,416
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	8,272,416	-	8,272,416
At 30 June 2012		**4,121,355**	**59,756,926**	**-**	**63,878,281**

Health Insurance Fund of Australia	Revaluation reserve	Retained earnings	Total
At 1 July 2010	**3,698,980**	**44,135,637**	**47,834,617**
Profit for the year	-	7,310,674	7,310,674
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	7,310,674	7,310,674
At 30 June 2011	**3,698,980**	**51,446,311**	**55,145,291**
Fair value revaluation of land and buildings	422,375	-	422,375
Profit for the year	-	8,273,821	8,273,821
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	8,273,821	8,273,821
At 30 June 2012	**4,121,355**	**59,720,132**	**63,841,487**

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 2012

		Consolidated		Health Insurance Fund of Australia	
	Note	**2012** **$**	2011 $	**2012** **$**	2011 $
Cash flows from operating activities					
Premiums received		**89,583,509**	74,250,525	**89,583,509**	74,250,525
Interest and unit distributions received		**3,414,275**	3,831,465	**3,413,421**	3,830,186
Other income received		**102,144**	61,223	**106,760**	71,511
Amounts paid to the Risk Equalisation Trust Fund		**(2,456,777)**	(458,281)	**(2,456,777)**	(458,281)
Rent received		**229,348**	289,321	**229,348**	289,321
Claims paid		**(66,446,887)**	(62,515,047)	**(66,446,887)**	(62,515,047)
Ambulance Levy		**(173,456)**	-	**(173,456)**	-
Interest and other finance payments		**(382,518)**	(288,775)	**(382,376)**	(288,634)
Payments to suppliers and employees		**(9,185,905)**	(7,756,360)	**(9,188,978)**	(7,754,743)
Net cash flows from operating activities	23	**14,683,733**	7,414,071	**14,684,564**	7,424,838
Cash flows from investing activities					
Payments to acquire financial assets		**(12,809,519)**	(18,826,035)	**(12,809,519)**	(18,826,035)
Proceeds from sale of financial assets		**3,000,000**	22,106,414	**3,000,000**	22,106,414
Payments for property, plant and equipment		**(2,031,977)**	(826,074)	**(2,031,977)**	(826,074)
Proceeds from disposal of property, plant and equipment		**54,765**	40,410	**54,765**	40,410
Net cash flows used in investing activities		**(11,786,731)**	2,494,715	**(11,786,731)**	2,494,715
Net increase in cash and cash equivalents		**2,897,002**	9,908,786	**2,897,833**	9,919,553
Cash and cash equivalents at beginning of period		**20,068,440**	10,159,654	**20,037,066**	10,117,513
Cash and cash equivalents at end of period		**22,965,442**	20,068,440	**22,934,899**	20,037,066

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

1 Summary of significant accounting policies

a) General information

Health Insurance Fund of Australia Limited (the Company) is a company limited by guarantee incorporated in Australia. The address of its registered office and principal place of business is disclosed in the corporate information on page 1. The principal activities of the Company and its subsidiaries (the Group) are described in the Directors' Report on page 4.

b) Application of new and revised Accounting Standards

b.1) Standards and Interpretations adopted in the current year

The Company has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to their operations and are effective for the current financial reporting period beginning 1 July 2011.

The following new and revised Standards and Interpretations have been adopted in the current period:

- Amendments to AASB 7 'Financial Instruments: Disclosure'
- Amendments to AASB 101 'Presentation of Financial Statements'
- AASB 1054 'Australian Additional Disclosures' and AASB 2011-1 'Amendments to Australian Accounting Standards arising from Trans-Tasman Convergence Project'
- AASB 124 'Related Party Disclosures' (revised December 2009)

The impact of the adoption of these Standards and Interpretation did not have a material impact on the Company.

b.2 Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 9 'Financial Instruments' (December 2009), AASB 2009- 11 'Amendments to Australian Accounting Standards arising from AASB 9' AASB 9 'Financial Instruments' (December 2010) and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)'	1 January 2013	30 June 2014
• AASB 10 'Consolidated Financial Statements'	1 January 2013	30 June 2014
• AASB 12 'Disclosure of Interests in Other Entities'	1 January 2013	30 June 2014
• AASB 127 'Separate Financial Statements' (2011)	1 January 2013	30 June 2014
• AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
• AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards'	1 January 2013	30 June 2014
• AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income'	1 July 2012	30 June 2013

1 Summary of significant accounting policies (continued)

b) Adoption of new and revised accounting standards (continued)

b.2 Standards and Interpretations in issue not yet adopted (continued)

At the date of authorisation of the financial statements the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and interpretations have not yet been issued.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	1 January 2014	30 June 2015
• Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	1 January 2013	30 June 2014
• Mandatory Effective Date of IFRS 9 and Transition Disclosures (Amendments to IFRS 9 and IFRS 7)	1 January 2015	30 June 2016

c) Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Group and Company.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards (‘IFRS’).

The financial statements were authorised for issue by the directors on 19 September 2012.

d) Basis of preparation

The consolidated financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and requirements of the Private Health Insurance Administration Council (PHIAC).

These financial statements have been prepared on a historical cost basis, except for land and buildings and financial assets at fair value through profit and loss, which have been measured at fair value.

All amounts are presented in Australian dollars, which is the Group's functional currency.

e) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its controlled entities as at 30 June each year (the Group). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of the controlled entities are prepared for the same reporting period as the parent entity, using consistent accounting policies.

In preparing the consolidated financial statements, all inter-entity balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Controlled entities are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in controlled entities held by the Company are accounted for at cost in the separate financial statements of the parent entity less any impairment charges.

1 Summary of significant accounting policies (continued)

f) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Premium Revenue

Premium revenue comprises amounts charged to the policyholders, excluding taxes collected on behalf of third parties.

Premium revenue is recognised in the income statement from the attachment date, over the period of contract on a daily basis. Where time does not approximate the pattern of risk previous claims experience is used to derive the incidence of risk.

The proportion of premium received or receivable not earned in the income statement at the reporting date is recognised in the balance sheet as an unearned premium liability.

Rendering of services

Revenue is recognised where the contract outcome can be reliably measured, there is control of the right to be compensated for the services and the stage of completion can be reliably measured. Stage of completion is measured by reference to the labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the contract outcome cannot be reliably measured, revenue is recognised only to the extent that costs have been incurred.

Interest

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

g) Claims expense

Claims expense represents payment for claims and the movement in outstanding claims liabilities [Note 1(l)].

h) Risk EqualisationTrust Fund levies / recoveries

Under the provisions of the *Private Health Insurance Act 2007* (Cth), all health insurers must participate in the Risk Equalisation Trust Fund (RETF). The RETF shares a proportion of the hospital claims of all persons aged 55 years and over and those persons with claims in excess of $50,000 in the current and preceding three quarters, amongst all health insurers based upon the number of policy holders. Individual health insurers are required to pay in to the RETF or receive a payment from the RETF for the difference between their proportional share and their actual claims paid.

The amounts payable to and receivable from the Risk Equalisation Trust Fund are determined by the Private Health Insurance Administration Council after the end of each quarter. Estimated provisions for amounts payable and income receivable are recognised on an accrual basis.

1 Summary of significant accounting policies (continued)

i) Acquisition costs

Acquisition costs incurred in obtaining health insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the income statement in subsequent reporting periods.

Deferred acquisition costs (DAC) includes commission paid to intermediaries and other direct costs incurred in relation to the acquisition or renewal of health insurance contracts. Acquisition costs incurred are amortised in accordance with the expected pattern of the incidence of risk under the health insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

j) Unearned premium liabilities

Unearned premium liability is determined by apportioning the premium written over the period of the policy from date of attachment of risk.

k) Unexpired risk liability

Liability adequacy testing is performed in order to recognise any deficiencies in the income statement arising from the carrying amount of the unearned premium liability less any related deferred acquisition costs and intangible assets not meeting the estimated future claims under current health insurance contracts.

Liability adequacy testing is performed at the level of a portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

If the present value of the expected future cash flows relating to future claims plus the anticipated administration costs attributable to processing the claims and additional risk margin to reflect the inherent uncertainty in the central estimate, exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs, then the shortfall requires an unexpired risk liability to be recognised.

l) Outstanding claims liability

The liability for outstanding claims is measured as the central estimate of the present value of future projected claims payments and associated claims handling costs in respect of claims reported but not yet paid, claims incurred but not reported (IBNR) and claims incurred but not enough reported (IBNER).

Standard actuarial methods are applied to assess the net central estimate of outstanding claims liabilities. Features and trends of claim experience including claim frequencies, average claim sizes and individual claim estimates are analysed and assumptions about the future are selected. Projected future payments include an allowance for inflation and superimposed inflation and are discounted to present value.

A risk margin is added to the central estimate in determining the outstanding claims liabilities. The risk margin is designed to increase the probability of the outstanding claims liabilities proving ultimately to be adequate.

1 Summary of significant accounting policies (continued)

m) Financial assets at fair value through profit or loss

(i) Financial assets backing health insurance liabilities

Assets backing health insurance liabilities are segregated from other assets.

Financial assets are held to back health insurance liabilities on the basis that these assets are valued at fair value in the balance sheet, and consist of liquid and high quality investments such as cash and fixed income securities.

The management of financial assets and health insurance liabilities are closely monitored to ensure that investments are appropriate, given the expected pattern of future cash flows arising from health insurance liabilities.

Financial assets backing health insurance liabilities are designated at fair value through profit or loss. Initial recognition is at cost and subsequent measurement is at fair value in the balance sheet with any resultant unrealised profits and losses recognised in the income statement.

The Group does not have any other category of investment.

(ii) Determination of fair value

Fair value for the various types of financial assets is determined as follows:

(a) Cash assets - at face value of the amounts deposited;
(b) Listed, government and semi-government securities - by reference to quoted bid price; and
(c) Unlisted securities - based on redemption value per unit as reported by the fund managers using valuation techniques. Such valuation techniques include the use of recent arm’s length transactions, reference to other instruments that have substantially the same characteristics, discounted cash flow analysis or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

(iii) Recognition and de-recognition

All purchases and sales of financial assets that require delivery of the asset within the time frame established by regulation or market convention are recognised at trade date, being the date on which the Group commits to buy or sell the asset. In cases where the period between trade and settlement exceeds this time frame, the transaction is recognised at settlement date.

Financial assets are de-recognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and the Group has transferred substantially all risks and rewards of ownership.

n) Investment in controlled entities

Investments in controlled entities are carried at cost, less provision for impairment.

o) Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

(i) Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

1 Summary of significant accounting policies (continued)

p) Property, plant and equipment

Fixed assets, excluding buildings and freehold land, are depreciated over their estimated useful lives using the reducing balance and straight line methods. The building is depreciated on a straight line basis to write off the net cost or revalued amount over its expected useful life. Depreciation rates are as follows:

Freehold buildings	2.5%
Plant and equipment	5%- 33.3%
Motor vehicles	20%

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Buildings and freehold land are valued using the revaluation model whereby measurement subsequent to initial recognition is at fair value at the date of the latest revaluation less any subsequent accumulated depreciation and accumulated impairment losses.

Every third year the valuations are based on external property valuation reports. In the intervening years, valuations are based on management estimates. All properties are valued simultaneously.

When a revaluation increases the carrying value of a property, the increase is credited directly to equity under the heading of revaluation reserve. However, an increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement.

When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in the income statement. However, any decrease is debited directly to equity under the heading of revaluation reserve to the extent of any credit balance existing in the revaluation reserve in respect of that asset.

Any remaining balance on the revaluation reserve is credited to retained earnings when the corresponding property is de-recognised.

q) Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

r) Receivables

Trade receivables, which generally have 15-30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

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

An allowance for doubtful debts is made when there is objective evidence that the entity will not be able to collect the debts. Financial difficulties of the debtor, default payments or debts more than 90 days overdue are considered objective evidence of doubtful debts. Bad debts are written off when identified.

Amounts due under the Federal Government Rebate Incentives Scheme are stated at the net amount expected to be collected.

1 Summary of significant accounting policies (continued)

s) Taxation

(i) Income tax

In accordance with Section 50 - 30 of the *Income Tax Assessment Act 1997* (Cth), the income of the Company is exempt from income tax. The profit of the controlled entity, which is included in the consolidated statements of the Company, has been determined after providing for taxation expense at 30% of the controlled entity's pre-tax operating profit, adjusted for exempt income and non-deductible expenses.

(ii) Deferred tax

Deferred tax is provided in full, using the Balance Sheet approach, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position.

Deferred tax assets and liabilities are recognised at the tax rates expected to apply when the assets are recovered or liabilities are settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Current and deferred taxes attributable to amounts recognised directly in equity are recognised in equity.

(iii) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST). Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the tax authority is included as part of receivables and payables.

Cash flows are included in the cash flow statement on a net basis.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

t) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Any resultant write-down is recognised as an expense in the reporting period in which it occurs, unless the asset had previously been revalued, in which case the previous revaluation is written back with any excess being expensed.

The recoverable amount is the higher of an asset's fair value, less direct selling costs, and its value in use. In assessing the value-in-use of assets, the relevant cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or company of assets.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable operational cash flows (cash generating units).

1 Summary of significant accounting policies (continued)

u) Payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Payables, generally have 15 - 30 day terms.

v) Employee benefits

Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, rostered days off and long service leave and they are measured at their nominal value, except the liability for long service leave which is measured as the present value of the expected payments to be made in respect of services provided by employees up to the reporting date.

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

w) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

2 Critical accounting estimates and judgements

Estimates and judgements are made by the Company to arrive at certain key asset and liability amounts disclosed in the financial statements. These estimates and judgements are continually being evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key areas of significant judgement and the methodologies used to determine key assumptions are set out below.

Uncertainty over estimate of claims expense provision arising from health insurance contracts

Actuarial estimates are obtained after analysis of past claims experience. From these analyses, models of the claim payment process can be established and used to project future payments on claims outstanding at the balance date.

The estimates of outstanding claims obtained in this manner are estimates in the sense that there is a degree of uncertainty as to the difference which will ultimately arise between the estimates and the final result of the experience. This uncertainty arises from four sources:

(a) the nature of the claims process is not fully understood, it might be that none of the valuation models used is an entirely accurate representation of reality;

(b) there are components of randomness in the claims process, it is not possible to estimate the parameters of that process with complete precision even if complete confidence were felt in the nature of the model;

(c) any erroneous data will similarly have introduced uncertainties into the estimates of those parameters;

(d) even if the parameters could be estimated with precision, it would not be possible to predict outstanding claims with the same precision because of the random component in future experience.

Errors associated with (b) and (d) can be quantified in a formal way (estimation and statistical errors). However a large part of the uncertainty is associated with (a) (model specification error), and it is not possible to quantify this component.

The investigation and application of different models to the data is intended to reduce the model specification error, although the extent to which this is achieved is unknown.

The initial estimates obtained from the calculations are central estimates in the sense that they incorporate no deliberate bias towards over or under estimation. By definition, the estimates are intended to have about an even chance of ultimately turning out to be sufficient.

The nature of health insurance claims is such that the actual value of the liabilities is unknown because claims experience is subject to random fluctuations. The amount of the claim liability cannot be estimated with certainty. Also it is very difficult to determine the central estimate with a reasonable degree of precision. For this reason the inherent uncertainty in the central estimate must also be considered.

The provisions adopted in the Company's accounts are greater than the central estimate and the difference is referred to as a prudential margin. The prudential margin allows for some part of the uncertainties in the claim process and it also ensures that as far as possible that the surplus is not released until it is reasonably certain that

The estimated liability for outstanding claims has been calculated as the present value of the liability after allowing for:

(a) future increases prior to payment, due to claims inflation;

(b) discounting to take into account investment return attributable to the assets backing the provisions during the run-off period;

(c) expenses associated with administering claims during the run-off period.

Actuarial methods and assumptions

All actuarial methods and assumptions are discussed in Note 3

Allowance for Impairment

The allowance for impairment in investment in subsidiary is calculated using a discounted cash flow valuation model. The valuation model applies an earnings multiple to the forecast cash flows of the business and is subject to a degree of uncertainty.

3 Actuarial methods and assumptions

Claims estimates for the health insurance classes are derived from an analysis of four different actuarial models. Ultimate number of claims incurred are projected based on changes in claimant behaviour over time and past reporting patterns. Payments experience is analysed based on trends in ultimate incurred by month, paid chain ladder, paid per claim incurred and per claim reported. The resulting projected payments from these models are analysed along with benchmarks for average claim size and other statistics, in order to determine the final estimate of outstanding claims. The analysis and projection work is done for three valuation categories i.e. hospital, medical and general (ancillary) and consolidated into two health insurance classes, i.e. hospital including medical and general (ancillary). The exposure period is month of service.

Claims inflation is built into the resulting projected payments, to allow for both general economic inflation and superimposed inflation detected in the modelling of payment experience. Superimposed inflation arises from non-economic factors such as increased use of new medical technologies and changes in claimant behaviour. It is determined separately for each health insurance class.

Projected payments are discounted to allow for the time value of money.

(i) Assumptions

	2012		2011	
a) Inflation and discount rates	**Next 12 months % p.a.**	**Later % p.a.**	**Next 12 months % p.a.**	**Later % p.a.**
Inflation rates				
Normal	3.0%	3.0%	3.5%	3.5%
Superimposed				
Hospital	2.0%	2.0%	1.2%	1.2%
Medical	(0.3%)	(0.3%)	0.0%	0.0%
General (Ancillary)	0.0%	0.0%	2.0%	2.0%
Discount rates	2.8%	2.1%	4.8%	4.8%

	2012	2011
b) Weighted average expected term to settlement		
	Months	**Months**
Gross central estimate	1.64	1.42
Risk equalisation recoveries	1.35	1.14
Net central estimate	1.62	1.42
	Percent	**Percent**
c) Claims handling expense rate	3.5%	3.5%
d) Risk margin	5.0%	5.0%
e) Average claim size		
Hospital	$1,648.80	$1,557.80
Medical	$60.90	$55.90
General (Ancillary)	$51.20	$50.30

3 Actuarial methods and assumptions (continued)

(ii) Processes used to determine assumptions

Average weighted term to settlement

The average term to settlement is calculated separately by class of business based on historic payment patterns.

Future claim reports (IBNR)

Future claim reports are analysed using the ratio of late reported claims to reported claims over future development periods.

Average claim size

Average claim size is a benchmark being the outcome of the month of service blend of actuarial methods described above.

Expense rate

Claims handling expenses were calculated by analysis of the Company's actual expenses from profit and loss statements over the last 12 months.

Discount rates

Discount rates are derived as the one-year forward rates implied by the Commonwealth Government Bond yield curve as at the balance date.

Inflation rates

Economic inflation assumptions have been set by reference to current economic indicators.

Superimposed inflation

Superimposed inflation being the real increase after adjusting for normal inflation, usually due to non-economic effects e.g. changes in / new treatments and increased use of new medical technologies. The superimposed inflation rates assumed considered the Company's own real cost increases.

Sufficiency margin

The inherent uncertainty in the estimated claim liability means that there is a range of possible outcomes. An analysis of the variation of the expected results lead to adoption of a 7.5% co-efficient of variation (6.0% for 1-month hindsight valuations) and the lognormal distribution. This distribution is then used to calculate the risk margin required to increase the level of sufficiency of the central estimate from 50% to 80%.

3 Actuarial methods and assumptions (continued)

(iii) Sensitivity analysis - insurance contracts

The Company conducts sensitivity analyses to quantify the exposure risk of changes in the key underlying variables and assumptions, as described above. The movement in any key variable will impact the performance and equity of the Company.

The tables below describe how a change in each assumption will affect the insurance liabilities and hence the profit / (loss) and the equity both gross and net of risk equalisation.

Variable	**Impact of movement in variable**
Average weighted term to settlement	Does not directly affect the insurance liabilities.
Number of late reported claims	Used to determine the level of claims incurred but not reported (IBNR). An increase or decrease in lodgements have a corresponding impact on claims expense.
Expense rate	An increase or decrease in the expense rate assumption has a corresponding impact on claims expense.
Discount rate	The insurance liabilities are calculated by reference to expected future payments, discounted for the time value of money. An increase or decrease in the assumed rate of discount has an opposing impact on claims expense.
Inflation and superimposed inflation rates	Expected future payments are inflated to take account of both economic and non-economic inflationary pressures as described above under assumptions. An increase or decrease in the normal and / or superimposed inflation rate assumptions has a corresponding impact on claims expense.
Sufficiency margin	An increase or decrease in the coefficient of variation has a corresponding impact of the sufficiency margin and hence on the actuarial provision.
Average claim sizes	Average claim size is determined by the valuation, see above, and is used as a benchmark. Hence it is not sensitivity tested.

3 Actuarial methods and assumptions (continued)

Impact of changes in key variables

		Increase / (decrease) in profit and equity ($)			
		2012		2011	
Variable	**Movement in variable**	**Gross of risk equalisation**	**Net of risk equalisation**	**Gross of risk equalisation**	**Net of risk equalisation**
Future interest rates	1% decrease	(6,794)	(7,143)	(5,933)	(6,020)
	1% increase	6,884	7,238	6,007	6,095
		-	-		
Future inflation rates	1% decrease	5,386	5,663	5,070	5,144
	1% increase	(5,417)	(5,695)	(5,012)	(5,177)
		-	-		
Superimposed inflation	1% decrease	3,720	3,911	2,987	3,031
	1% increase	(3,741)	(3,933)	(3,005)	(3,049)
		-	-		
Adopted reporting rates	1% decrease	5,344	5,618	5,113	5,188
	1% increase	(5,381)	(5,657)	(5,151)	(5,227)
		-	-		
Incurred cost of latest two service months	1% decrease	134,335	141,234	124,273	126,098
	1% increase	(134,335)	(141,234)	(124,273)	(126,098)
		-	-		
Sufficiency margin	1% decrease	49,568	52,114	50,364	51,103
	1% increase	(49,568)	(52,114)	(50,364)	(51,103)
		-	-		
Claims management expense	1% decrease	47,701	50,151	50,311	51,050
	1% increase	(47,701)	(50,151)	(50,311)	(51,050)

4 Risk management

The Group's financial condition and operating activities are affected by a number of key financial risks including interest rate risk, credit risk, market risk, liquidity risk and fiscal risk and non-financial risks including insurance risk, compliance risk and operational risk. The Group's policies and procedures in respect of managing financial and insurance risks are set out in this note.

a) Corporate governance framework

The Board of Directors of the Company is responsible for the corporate governance of the Group. The Board of Directors of the Company determines the Group's overall risk appetite and approves the management strategies, policies and practices to ensure that risks, including compliance risks, are identified and managed within the context of this appetite.

The Audit and Risk Committee is a sub-committee of the Board of Directors of the Company. PricewaterhouseCoopers, the Company's outsourced internal auditor, operates under a charter adopted by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the Group. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, together with the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators.

The Audit and Risk Committee is responsible for:
(1) monitoring the Risk Management Plan;
(2) reviewing the audit plans of the internal and external auditor;
(3) monitoring and appraising the activities of the internal and external auditor;
(4) recommending the appointment of the external auditor, and reviewing and recommending the adoption of the statutory accounts to the Board.

The Board has appointed itself as the Investment Committee. The Board is responsible for determining investment policy and reviewing investment performance, having regard to advice from the Audit and Risk Committee. The Board utilises specialised investment management services for the management of the investment portfolio.

The Nomination and Remuneration Committee is a sub-committee of the Board of Directors of the Company. The Nomination and Remuneration Committee is responsible for succession planning and for reviewing performance and compensation arrangements for the directors and key management personnel.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved. In addition to the establishment of the Committee referred to above, these mechanisms include the following:

(1) approval of the strategic agenda, which encompasses the Group's vision, mission and strategy, that is designed to meet stakeholders' needs and manage business risk;
(2) implementation of operating plans and budgets by management and monitoring of progress against budget by the Board which includes the establishment and monitoring of key performance indicators (both financial and non-financial) for all significant business processes.

b) Capital management framework

Capital comprises the total equity as reflected in the balance sheet. The Company operates within the regulatory environment established by the *Private Health Insurance Act 2007* (Cth) (the "Act"). The regulatory body for the Private Health Insurance industry is the Private Health Insurance Council ("PHIAC"). the Company is subject to the Solvency and Capital Adequacy Standards applied by the Act and regulated by PHIAC. the Company is required to submit quarterly returns to PHIAC as well as an annual audited return that is used to establish whether the Company complies with the standards. the Company has exceeded the required Solvency and Capital Adequacy reserves throughout the year.

4 Risk management (continued)

The Company makes use of the Financial Condition Report ("FCR") prepared by its Appointed Actuary to inform the Board of Directors about decisions on capital management issues. The FCR is a medium term projection of the overall financial position of the business under a variety of economic and operating scenarios, allowing for new business. The FCR considers a number of key performance indicators in addition to solvency and capital requirements. The FCR enables the Company to assess a range of risks to which the business is exposed, their evolution over time, and the impact of the mitigating actions that might be taken.

Other tools the Company utilises to manage its capital requirements are the annual premium submission to the Department of Health and Ageing, forecasts, the annual budget and monthly management accounts. The annual premium submission considers the financial impact of the Company's plans over the next two years and the impact on capital adequacy and solvency. The annual premium submission, which is reviewed by the Company's Appointed Actuary, is approved by the Minister for Health and Ageing.

c) Insurance risk - health insurance activities

The Company's insurance activities primarily involve the underwriting of risks and claim management. The Company employs a disciplined approach to underwriting and risk management that emphasises maximising member benefits rather than a premium, volume or market share oriented approach.

(i) Risk management objectives and policies for mitigating insurance risk

The risk management activities include prudent underwriting, pricing, acceptance and management of risk process, together with claim management, reserving and investment. The objective of these disciplines is to enhance the financial performance of the Company's overall health insurance operations.

The key policies in place to mitigate risks arising from writing health insurance contracts include the following:

(a) the maintenance and use of management information systems that provide up-to-date, reliable data on the risks to which the business is exposed at any point in time;
(b) the use of actuarial models based on historical data to calculate premiums and monitor claims patterns;
(c) the mix of assets invested in is matched to the term of the insurance liabilities to maximise the investment performance;
(d) the diversification of business over two classes of insurance and a large number of uncorrelated individual risks seeks to reduce variability in loss experience.

(*ii) Terms and conditions of health insurance business*

The terms and conditions attaching to health insurance contracts affect the level of insurance risk accepted by the Company. There are no special terms and conditions in any non-standard contracts that have a material impact on the financial statements.

(iii) Concentration of insurance risk

The Company's exposure is concentrated in Western Australia where 90% of its policy holders reside. This concentration risk will change as the Company expands its business in other States and Territories.

(iv) Claims management and claims provisioning risks

The Company's approach to determining the outstanding claims liability is set out in Note 3. The Company's Appointed Actuary determines the Company's outstanding claims liability, that is reported at balance date, using approved actuarial methodology.

4 Risk management (continued)

d) Risk equalisation risk

PHIAC administers the Risk Equalisation Trust Fund ("RETF") in terms of the *Private Health Insurance Act 2007* (Cth). All private health insurance funds in Australia are required to submit their quarterly eligible claims data to PHIAC for inclusion in an age based and high cost claims pool. The pool is divided by the total number of single equivalent units ("SEU's") across all funds. The SEU rate is then applied to the number of SEU's in the fund and compared to the fund's actual risk equalisation eligible claims for the quarter. Each fund then either contributes their shortfall to or receives a payment for their surplus from the RETF. This arrangement spreads the risk of high cost claims and higher claiming older members across all funds in each defined RETF jurisdiction in Australia.

5 Premium revenue

	Consolidated and Health Insurance Fund of Australia		
	Hospital Tables $	**General Tables $**	**Total $**
Premium revenue has been determined after including:			
2012 premium revenue			
Premiums received including Federal Government rebates	**58,239,386**	**31,344,123**	**89,583,509**
+/- premiums in arrears	**(15,383)**	**(10,136)**	**(25,519)**
+/- unearned premium liability	**(5,092,281)**	**(2,363,962)**	**(7,456,243)**
+/- amount receivable from the Federal Government Rebate Incentives Scheme	**1,290,741**	**694,335**	**1,985,076**
Total premium revenue	**54,422,463**	**29,664,360**	**84,086,823**
2011 premium revenue			
Premiums received including Federal Government rebates	47,858,712	26,391,813	74,250,525
+/- premiums in arrears	(72,674)	(38,600)	(111,274)
+/- unearned premium liability	(661,109)	(312,973)	(974,082)
+/- amount receivable from the Federal Government Rebate Incentives Scheme	189,569	104,536	294,105
Total premium revenue	47,314,498	26,144,776	73,459,274

6 Investment income (net)

	Consolidated		Health Insurance Fund of Australia	
	2012 $	2011 $	**2012 $**	2011 $
Investment income	**3,682,194**	3,389,611	**3,681,340**	3,388,332

Investment income includes interest income and distribution income from unit trust investments.

7 Other income

	Consolidated		Health Insurance Fund of Australia	
	2012 $	2010 $	**2012** $	2010 $
Profit from sale of property, plant and equipment	**-**	5,568	**-**	5,568
Rental revenue	**229,348**	289,321	**229,348**	289,321
Other revenue	**86,694**	79,062	**89,085**	80,469
	316,042	373,951	**318,433**	375,358

8 Net Claims incurred

	Consolidated and Health Insurance Fund of Australia		
	Current year	**Prior years**	**Total**
2012	**$**	**$**	**$**
Gross claims expense			
Gross claims incurred - undiscounted	**67,169,270**	**(813,330)**	**66,355,940**
Discount movement	**(19,633)**	**26,996**	**7,363**
	67,149,637	**(786,334)**	**66,363,303**
Ambulance Levies	**177,322**	**-**	**177,322**
Risk equalisation expense			
Risk equalisation expense - undiscounted	**3,218,178**	**136,385**	**3,354,563**
Discount movement	**(833)**	**345**	**(488)**
	3,217,345	**136,730**	**3,354,075**
Net claims incurred	**70,544,304**	**(649,604)**	**69,894,700**
2011			
Gross claims expense			
Gross claims incurred - undiscounted	61,715,335	(336,826)	61,378,509
Discount movement	(29,353)	31,751	2,398
	61,685,982	(305,075)	61,380,907
Risk equalisation revenue			
Risk equalisation revenue - undiscounted	728,258	(51,875)	676,383
Discount movement	(345)	543	198
	727,913	(51,332)	676,581
Net claims incurred	62,413,895	(356,407)	62,057,488

Current year amounts relate to risks borne in the current financial year. Prior period amounts relate to a reassessment of the risks borne in all previous financial years.

For prior years, the movement in claims management expense allowance over the year is disregarded for consistency with the income statement. The Company values are the same as the consolidated values.

9 Other expenses

	Consolidated		**Health Insurance Fund of Australia**	
	2012	2011	**2012**	2011
	$	$	**$**	$
a) Other operating expenses				
Loss from write-off of property, plant & equipment	**739**	-	**739**	-
Commission	**250,205**	217,200	**250,205**	217,200
Information technology	**553,178**	427,817	**553,178**	427,817
Depreciation	**288,664**	253,492	**288,664**	253,492
Post-employment benefits	**419,872**	351,008	**419,872**	351,008
Other employee benefits	**4,356,743**	3,437,762	**4,356,743**	3,437,762
Legal fees	**55,361**	31,999	**55,134**	31,503
Postage and telephone	**228,639**	210,481	**228,639**	210,500
Printing and stationery	**121,658**	90,089	**121,658**	90,089
Rental and property expenses	**124,103**	116,706	**124,103**	116,706
Advertising	**2,175,454**	1,806,329	**2,175,454**	1,806,329
Other expenses	**963,797**	899,773	**882,784**	672,949
	9,538,413	7,842,656	**9,457,173**	7,615,355
Less: Acquisition expenses	**(4,605,925)**	(4,087,477)	**(4,525,004)**	(3,860,649)
Claims handling expenses	**(1,308,285)**	(1,194,519)	**(1,308,285)**	(1,194,519)
	3,624,203	2,560,660	**3,623,884**	2,560,187

9 Other expenses (continued)

	Consolidated		Health Insurance Fund of Australia	
	2012	2011	**2012**	2011
	$	$	**$**	$
b) Finance costs				
Financial charges and taxes	**382,518**	288,775	**382,376**	288,634
Less: Acquisition expenses	**(177,529)**	(147,604)	**(177,529)**	(147,604)
Claims handling expenses	**(140,661)**	(125,613)	**(140,661)**	(125,613)
	64,328	15,558	**64,186**	15,417

10 Income tax

	Consolidated		Health Insurance Fund of Australia	
	2012	2011	**2012**	2011
	$	$	$	$
Income tax expense				
Current tax	**-**	-	**-**	-
Deferred tax	**(584)**	(230)	**-**	-
Under (over) provided in prior years	**(9)**	-	**-**	-
Total tax (benefit) / expense charged to income statement	**(593)**	(230)	**-**	-
Reconciliation between net profit before tax and tax expense				
Profit before income tax expense	**8,271,823**	7,309,932	**8,273,821**	7,310,674
Tax at the Australian tax rate of 30% (2010: 30%)	**2,481,546**	2,192,980	**2,482,146**	2,193,202
Exempt income of parent entity	**(2,482,146)**	(2,193,202)	**(2,482,146)**	(2,193,202)
	(600)	(222)	**-**	-
Over provided in prior years	**(9)**	-	**-**	-
Deferred tax asset / (liability) not recognised on (loss) / gain in subsidiary	**16**	(8)	**-**	-
Tax (benefit) / charge for the year	**(593)**	(230)	**-**	-

11 Cash and cash equivalents

	Consolidated		Health Insurance Fund of Australia	
	2012	2011	**2012**	2011
	$	$	$	$
Cash on hand	**18,227**	18,012	**18,227**	18,012
Cash at bank and on call	**6,239,811**	5,040,060	**6,209,268**	5,008,686
Short-term deposits	**16,707,404**	15,010,368	**16,707,404**	15,010,368
	22,965,442	20,068,440	**22,934,899**	20,037,066

12 Receivables

	Consolidated		Health Insurance Fund of Australia	
	2012	2011	**2012**	2011
	$	$	**$**	$
Current				
Premiums in arrears	**236,384**	262,059	**236,384**	262,059
Investment income receivable	**383,239**	115,320	**383,239**	115,320
Amounts due from the Federal Government				
Rebate Incentives Scheme	**4,081,274**	2,096,198	**4,081,274**	2,096,198
Amounts receivable from controlled entities	**-**	-	**-**	7,260
Current tax receivable	**-**	3,000	**-**	-
Other amounts receivable	**479,361**	452,957	**473,540**	442,102
	5,180,258	2,929,534	**5,174,437**	2,922,939

13 Other financial assets

	Consolidated 2012 $	Consolidated 2011 $	Health Insurance Fund of Australia 2012 $	Health Insurance Fund of Australia 2011 $
Current				
Term deposits	**24,611,864**	17,000,000	**24,611,864**	17,000,000
Non-current				
Held to maturity investments (i)	**701,741**	3,772,095	**701,741**	3,772,095
Investments in unit trusts (ii)	**23,603,016**	18,739,790	**23,603,016**	18,739,790
	24,304,757	22,511,885	**24,304,757**	22,511,885

(i) Held to maturity investments include interest bearing financial assets that carry interest at variable rates.The weighted average interest rate of those assets is 6.96% (2011: 7.19 %) per annum.

(ii) The group holds investments in unit trusts carried at fair value through profit or loss (FVTPL).

14 Investments in controlled entities

		Consolidated 2012 $	Consolidated 2011 $	Health Insurance Fund of Australia 2012 $	Health Insurance Fund of Australia 211 $
51 "A" class units in unit trust - Maximeyes Optical Unit Trust	(i)	**-**	-	**51**	51
49 "B" class units in unit trust - Maximeyes Optical Unit Trust	(i)	**-**	-	**49**	49
Maximeyes Optical Unit Trust		**-**	**-**	**100**	**100**
Impairment				**(100)**	(100)
HIF Financial Services Pty Ltd		**-**	-	**1**	1
		-	-	**1**	1

The subsidiary companies are 100% owned by Health Insurance Fund of Australia Limited.

(i) The investment in Maximeyes Optical Unit Trust, which ceased trading in August 2009 and was fully impaired at 30 June 2010, was written off during 2011.

15 Deferred acquisition costs

	Consolidated 2012 $	Consolidated 2011 $	Health Insurance Fund of Australia 2012 $	Health Insurance Fund of Australia 2011 $
Deferred acquisition costs at 1 July	**459,870**	233,042	**459,870**	233,042
Acquisition costs deferred	**4,783,454**	4,235,081	**4,783,454**	4,235,081
Recognised in income statement	**(4,702,533)**	(4,008,253)	**(4,702,533)**	(4,008,253)
Deferred acquisition costs at 30 June	**540,791**	459,870	**540,791**	459,870

	Consolidated		Health Insurance Fund of Australia	
	2012	2011	**2012**	2011
	$	$	**$**	$

16 Property, plant and equipment

	Consolidated 2012 $	Consolidated 2011 $	Health Insurance Fund of Australia 2012 $	Health Insurance Fund of Australia 2011 $
Land at fair value	**5,185,000**	5,185,000	**5,185,000**	5,185,000
Buildings at fair value	**1,315,000**	965,000	**1,315,000**	965,000
Less: accumulated depreciation	**-**	(48,250)	**-**	(48,250)
Capital work in progress	**2,264,259**	567,885	**2,264,259**	567,885
	8,764,259	6,669,635	**8,764,259**	6,669,635
Office furniture and equipment - at cost	**1,563,142**	1,520,224	**1,563,142**	1,520,224
Less: accumulated depreciation	**1,007,399**	878,523	**1,007,399**	878,523
	555,743	641,701	**555,743**	641,701
Motor vehicles - at cost	**313,274**	178,970	**313,274**	178,970
Less: accumulated depreciation	**73,988**	41,202	**73,988**	41,202
	239,286	137,768	**239,286**	137,768
Total property, plant and equipment	**9,559,288**	7,449,104	**9,559,288**	7,449,104

The basis of valuation for land and buildings is the fair value based on existing use. The Company's Board of Directors is of the opinion that this basis provides a reasonable estimate of recoverable amount. There was a revaluation of the Company's freehold land and buildings in May 2012. The valuation was based on the fair market value of the two properties at that date by reference to several methodologies including summation method, capitalisation method and comparable rate method and was conducted in accordance with independent valuation standards. The valuation was performed by Steven L Kish who is a Certified Practising Valuer (Licensed Valuer # 498). Management does not believe that the fair market value of the properties has changed materially since the May 2012 valuation. The historic cost of the revalued land and buildings was $2,501,645.

Construction commenced in January 2012 to develop a commercial property for use by the Company as its head office and to earn rental income in the future. Until the development is complete all costs related to the development will be capitalised as capital work in progress.

16 Property, plant and equipment (continued)

	Land & Buildings $	Capital Work in Progress $	Office Furniture & Equipment $	Motor Vehicles $	Total $
Reconciliation of property, plant and equipment 2012 - consolidated					
Carrying amount at 1 July 2011	**6,101,750**	**567,885**	**641,701**	**137,768**	**7,449,104**
Revaluation	**422,375**	**-**	**-**	**-**	**422,375**
Additions	**-**	**1,696,374**	**139,333**	**196,270**	**2,031,977**
Disposals	**-**	**-**	**(347)**	**(53,719)**	**(54,066)**
Assets written off during the year	**-**	**-**	**(1,438)**	**-**	**(1,438)**
Depreciation expense	**(24,125)**	**-**	**(223,508)**	**(41,031)**	**(288,664)**
Carrying amount at 30 June 2012	**6,500,000**	**2,264,259**	**555,741**	**239,288**	**9,559,288**
Reconciliation of property, plant and equipment 2011 - consolidated					
Carrying amount at 1 July 2010	6,125,875	33,930	636,774	114,785	6,911,364
Revaluation	-	-	-	-	-
Additions	-	533,955	199,039	93,080	826,074
Disposals	-	-	-	(34,430)	(34,430)
Assets written off during the year	-	-	(412)	-	(412)
Depreciation expense	(24,125)	-	(193,700)	(35,667)	(253,492)
Carrying amount at 30 June 2011	6,101,750	567,885	641,701	137,768	7,449,104
Reconciliation of property, plant and equipment 2012 - Health Insurance Fund of Australia					
Carrying amount at 1 July 2011	**6,101,750**	**567,885**	**641,701**	**137,768**	**7,449,104**
Revaluation	**422,375**	**-**	**-**	**-**	**422,375**
Additions	**-**	**1,696,374**	**139,333**	**196,270**	**2,031,977**
Disposals	**-**	**-**	**(347)**	**(53,719)**	**(54,066)**
Assets written off during the year	**-**	**-**	**(1,438)**	**-**	**(1,438)**
Depreciation expense	**(24,125)**	**-**	**(223,508)**	**(41,031)**	**(288,664)**
Carrying amount at 30 June 2012	**6,500,000**	**2,264,259**	**555,741**	**239,288**	**9,559,288**
Reconciliation of property, plant and equipment 2011 - Health Insurance Fund of Australia					
Carrying amount at 1 July 2010	6,125,875	33,930	636,774	114,785	6,911,364
Revaluation	-	-	-	-	-
Additions	-	533,955	199,039	93,080	826,074
Disposals	-	-	-	(34,430)	(34,430)
Assets written off during the year	-	-	(412)	-	(412)
Depreciation expense	(24,125)	-	(193,700)	(35,667)	(253,492)
Carrying amount at 30 June 2011	6,101,750	567,885	641,701	137,768	7,449,104

	Consolidated 2012 $	Consolidated 2011 $	Health Insurance Fund of Australia 2012 $	Health Insurance Fund of Australia 2011 $
17 Trade and other payables				
Amounts due to the Risk Equalisation Trust Fund	**769,805**	62,150	**769,805**	62,150
Trade payables	**211,715**	378,037	**211,715**	378,037
Other creditors	**394,906**	302,282	**394,523**	302,283
	1,376,426	742,469	**1,376,043**	742,470

The average credit period on purchases is 30 days. No interest is charged on the trade payables for the first 30 days from the date of the invoice.

18 Outstanding claims liability

a) Outstanding claims liability

		Consolidated 2012 $	Consolidated 2011 $	Health Insurance Fund of Australia 2012 $	Health Insurance Fund of Australia 2011 $
Central estimate	**(A)**	**5,063,029**	4,967,488	**5,063,029**	4,967,488
Discount to present value		**(18,863)**	(27,343)	**(18,863)**	(27,343)
		5,044,166	4,940,145	**5,044,166**	4,940,145
Claims handling costs	**(B)**	**167,191**	170,188	**167,191**	170,188
Risk margin	**(C)**	**259,829**	254,790	**259,829**	254,790
Gross outstanding claims liability		**5,471,186**	5,365,123	**5,471,186**	5,365,123
Gross claims incurred - undiscounted	**(A)+(B)+(C)**	**5,490,049**	5,392,466	**5,490,049**	5,392,466

b) Reconciliation of movement in discounted outstanding claims liability

		Consolidated 2012 $	Consolidated 2011 $	Health Insurance Fund of Australia 2012 $	Health Insurance Fund of Australia 2011 $
Brought forward	**(D)**	**5,365,123**	6,543,491	**5,365,123**	6,543,491
Effect of changes in assumptions		**(614,821)**	(323,959)	**(614,821)**	(323,959)
Increase in claims incurred / recoveries anticipated over the year		**5,471,186**	5,365,126	**5,471,186**	5,365,126
Incurred claims recognised in income statement	**(E)**	**4,856,365**	5,041,167	**4,856,365**	5,041,167
Claim payments / recoveries during the year	**(F)**	**4,750,302**	6,219,535	**4,750,302**	6,219,535
Carried forward	**(D)+(E)-(F)**	**5,471,186**	5,365,123	**5,471,186**	5,365,123

c) Claims development tables

The claims development table is not required where uncertainty about amount and timing is typically resolved within one year. As greater than 99.9% of the Company's claims are resolved within one year, the claims development table has not been included.

d) Risk margins

Uncertainty was analysed for each portfolio taking into account potential uncertainties relating to the actuarial models and assumptions, the data quality, the health insurance environment and the impact of legislative reform. As the Company is a single portfolio comprising two correlated classes of risk, no allowance is made for diversification when setting the risk margin. The risk margin applied to increase the level of adequacy of the central estimate to 80% is 5.0%

19 Unearned premium liability

	Consolidated 2012 $	Consolidated 2011 $	Health Insurance Fund of Australia 2012 $	Health Insurance Fund of Australia 2011 $
Unearned premium liability at beginning of the period	**8,428,039**	7,451,323	**8,428,039**	7,451,323
Deferral of premiums on contracts paid in the period	**15,900,716**	8,428,039	**15,900,716**	8,428,039
Earning of premiums paid in previous periods	**(8,428,039)**	(7,451,323)	**(8,428,039)**	(7,451,323)
Unearned premium liability at the end of the period	**15,900,716**	8,428,039	**15,900,716**	8,428,039

20 Provisions for employee entitlements

	Consolidated 2012 $	Consolidated 2011 $	Health Insurance Fund of Australia 2012 $	Health Insurance Fund of Australia 2011 $
Current				
Annual leave	**286,234**	181,501	**286,234**	181,501
Long service leave	**175,317**	149,019	**175,317**	149,019
	461,551	330,520	**461,551**	330,520
Non-current				
Long service leave	**75,054**	43,165	**75,054**	43,165
Company directors' retirement	**-**	326,257	**-**	326,257
	75,054	369,422	**75,054**	369,422

Company directors' retirement liability represented monies held in an AMP Linked Investment Plan. These monies were held jointly in the Company's name and the individual director's name to be paid out at the discretion of the Company's Board upon retirement by a director of the Company. During 2012 the Company ceded its rights in the policies to the individual directors.

	Consolidated		Health Insurance Fund of Australia	
	2012	2011	**2012**	2011
	$	$	**$**	$

21 Unexpired risk liability

(a) Unexpired risk liability

	2012 $	2011 $	**2012 $**	2011 $
Unexpired risk liability opening balance	**-**	-	**-**	-
Recognition / (release) of unexpired risk liability in the period	**-**	-	**-**	-
Unexpired risk liability closing balance	**-**	**-**	**-**	**-**

(b) Calculation of deficiency

	2012 $	2011 $	**2012 $**	2011 $
Unearned premium liability	**15,900,716**	8,428,038	**15,900,716**	8,428,038
Less: related deferred acquisition costs	**540,791**	459,870	**540,791**	459,870
	15,359,925	7,968,168	**15,359,925**	7,968,168
Central estimate of present value of expected future cash flows arising from future claims including risk equalisation and policy handling expenses	**14,222,928**	7,526,458	**14,222,928**	7,526,458
Risk margin	**709,130**	376,323	**709,130**	376,323
	14,932,058	7,902,781	**14,932,058**	7,902,781
Unexpired risk liability	**-**	**-**	**-**	**-**

The liability adequacy test identified a surplus for the combined portfolio of Hospital and General (Ancillary) contracts that are subject to broadly similar risks that are managed together as a single portfolio. The process for determining the overall risk margin of 5.0%, as with outstanding claims, is intended to achieve an 80% probability of adequacy.

The full value of deferred acquisition costs were recognised in the current year and in the prior year.

As health insurance contracts have no end date, unlike a general insurance contract, health funds are obliged to keep offering and renewing their products to members thus giving rise to a constructive obligation. The constructive obligation is required to be included when performing the liability adequacy test to determine the unexpired risk liability. It is generally recognised that whilst health insurance contracts have no end date, a health fund will be able to alter its product's prices at least annually (from 1 April), thus limiting the impact of the constructive obligation. The liability adequacy test did not determine that any unexpired risk liability was required for the constructive obligation at 30 June 2012.

	Consolidated		Health Insurance Fund of Australia	
	2012	2011	**2012**	2011
	$	$	**$**	$
22 Reserves				
Land and buildings	**4,121,355**	3,698,980	**4,121,355**	3,698,980

The land and buildings revaluation reserve arises on the revaluation of land and buildings. When revalued land or buildings are sold, the portion of the properties revaluation reserve that relates to that asset, and that is effectively realised, is transferred directly to retained earnings.

The reserves of the Company meet the requirements of The Private Health Insurance (Health Benefits Fund Administration) Rules 2007 - Solvency Standard. The Company had net Health Benefits Fund Capital of $63,841,000 compared to the required Solvency Reserve of $9,074,000.

	Consolidated		Health Insurance Fund of Australia	
	2012	2011	**2012**	2011
	$	$	**$**	$
23 Reconciliation of net cash provided by operating activities to profit or loss				
Net profit from ordinary activities after tax	**8,272,416**	7,310,162	**8,273,821**	7,310,674
Adjustments for:				
Depreciation	**288,664**	253,492	**288,664**	253,492
(Profit) / loss on sale and write-off of property, plant and equipment	**739**	(5,568)	**739**	(5,568)
Fair value gains on financial assets	**78,526**	(49,187)	**78,526**	(49,187)
Other adjustments	**326,257**	(5,476)	**326,257**	-
	8,966,602	7,503,423	**8,968,007**	7,509,411
(Increase) in deferred acquisition costs	**(80,921)**	(226,828)	**(80,921)**	(226,828)
Increase in unearned premium liability	**7,472,677**	976,716	**7,472,677**	976,716
Decrease in contributions in arrears	**25,675**	111,942	**25,675**	111,942
Increase / (decrease) in outstanding claims	**106,063**	(1,178,368)	**106,063**	(1,178,368)
Increase / (decrease) in employee entitlements	**(163,337)**	3,892	**(163,337)**	3,892
(Increase) in other assets	**(584)**	(230)	**-**	-
(Increase) in other debtors	**(2,008,480)**	(274,616)	**(2,009,254)**	(262,735)
Increase in creditors	**633,957**	56,286	**633,573**	48,954
(Increase) / decrease in interest receivable	**(267,919)**	441,854	**(267,919)**	441,854
Cash flows from operating activities	**14,683,733**	7,414,071	**14,684,564**	7,424,838

24 Related party disclosures

The names of each person holding the position of director of the Company during the financial year are:

M. A. Dudley (Chairman), G. A. Airey (retired 31 December 2011), G. N. Gibson (Managing Director), R. Homsany, M. L. S. Howard, T. S. Smith, N. J. Timoney and H. D. Zafer (appointed 25 February 2012).

Directors of the Company are entitled to receive Company health benefits at subsidised rates applicable to all employees.

Transactions with related entities

Other than noted below there were no transactions with related entities in the current financial year.

Fees for Services

The Company provided management and administrative services to HIF Financial Services Pty Ltd for a fee of $74,052 for current financial year (2011: $79,200).

Transactions with director related entities

Mr N. J. Timoney (non-executive director), is a partner in the firm of Stables Scott, Barristers & Solicitors. Stables Scott provided legal services to the Company during the current financial year of nil (2011: $479).

Mr R. Homsany (non-executive director), is the principal of the firm of Cardinals Lawyers and Consultants. Cardinals provided legal services to the Company during the current financial year of $20,384 (2011: $9,674).

Key management personnel compensation

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

	Consolidated		Health Insurance Fund of Australia	
	2012	2011	**2012**	2011
	$	$	$	$
Short-term employee benefits	**1,048,410**	738,035	**1,048,410**	738,035
Post-employment benefits	**146,453**	115,188	**146,453**	115,188
	1,194,863	853,223	**1,194,863**	853,223

	Consolidated		Health Insurance Fund of Australia	
	2012	2011	**2012**	2011
	$	$	**$**	$
25 Remuneration of auditors				
Remuneration of the external auditor for audit of the consolidated financial statements of the Group and regulatory reporting	**90,300**	85,050	**90,300**	85,050
Remuneration of the internal auditor for internal audit services.	**44,000**	36,500	**44,000**	36,500
	134,300	121,550	**134,300**	121,550

26 Financial instruments

a) Financial risk

The Group is exposed to a number of forms of financial risk, the most significant being market risk. This section provides an explanation of the other aspects in which the Group is affected by financial risks.

(i) Market risk

The Group takes on exposure to market risks including, fair value interest risk and price risk. Market risks arise from open positions in interest rates and equity products, all of which are exposed to general and specific market movements. The market risks that the Group primarily faces are equity risk and interest rate risk, due to the nature of its investments and liabilities.

Investment activity for the Group is undertaken in accordance with an investment policy established by the Board of Directors. The policy stipulates cash flow requirements, liquidity management, authorised investments and maximums, composition of portfolio, performance benchmarks and credit structure.

At 30 June, the Group had the following mix of financial assets exposed to equities price risk:

	Consolidated		Health Insurance Fund of Australia	
	2012	2011	**2012**	2011
	$	$	**$**	$
Financial assets				
Investment in unit trusts	**23,603,016**	18,739,790	**23,603,016**	18,739,790

The unit trusts primarily invest in companies listed on the Australian Stock Exchange ("ASX").

At 30 June, if the S&P/ASX 300 Index had moved, as illustrated in the table below, with all other variables held constant, post tax profit/equity would have been affected as follows:

	Post tax profit/equity higher/(lower)			
	Consolidated		Health Insurance Fund of Australia	
	2012	2011	**2012**	2011
	$	$	**$**	$
+ 10% S&P/ASX 300 Index	**338,070**	199,912	**338,070**	199,912
- 10% S&P/ASX 300 Index	**(338,070)**	(199,912)	**(338,070)**	(199,912)

26 Financial instruments (continued)

(ii) Interest rate risk

The Group manages its exposure to interest rate risk through a diversified portfolio of investments including property and equity investments in addition to interest bearing assets. The interest bearing assets are further diversified in type and duration.

At balance date, the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk:

	Consolidated		Health Insurance Fund of Australia	
	2012	2011	**2012**	2011
	$	$	**$**	$
Financial assets				
Cash and cash equivalents	**22,965,442**	20,068,440	**22,934,899**	20,037,066
Term deposits	**24,611,864**	17,000,000	**24,611,864**	17,000,000
Held to maturity investments	**701,741**	3,772,095	**701,741**	3,772,095
	48,279,047	40,840,535	**48,248,504**	40,809,161

At 30 June, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and hence equity would have been affected as follows:

	Post tax profit/equity higher/(lower)			
	Consolidated		Health Insurance Fund of Australia	
	2012	2011	**2012**	2011
	$	$	**$**	$
+ 1.0% (100 basis points)	**677,996**	534,210	**677,691**	533,897
- 0.5% (50 basis points)	**(338,998)**	(267,105)	**(338,845)**	(266,949)

The movements in profit/equity are due to higher/lower interest income from variable rate cash and term deposit balances.

(iii) Liquidity risk

The Company is exposed to daily calls on its available cash resources from policy claims. Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost. The Company's Board sets limits on the minimum proportion of maturing funds available to meet such calls and to cover claims at unexpected levels of demand.

The following table reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities at 30 June 2012. The undiscounted cash flows for the respective upcoming fiscal years are presented. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2012.

26 Financial instruments (continued)

Maturity analysis of financial assets and liabilities based on management's expectations

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Payables and other financial liabilities mainly originate from the ongoing operations of the Group such as overhead expenses and investments in working capital. To monitor existing financial assets and liabilities as well as to enable an effective controlling of future risks, the Group has established comprehensive risk reporting covering its various business units that reflects expectations of management of expected settlement of financial assets and liabilities. The financial assets at fair value through profit and loss categorised as maturing in less than or equal to 3 months have been categorised as such because there is no maturity date, however, they are disclosed as non current assets on the Statement of Financial Position as it is the intention to hold these investments for greater than 12 months.

Consolidated Year ended 30 June 2012	≤ 3 months $	>3-6 months $	>6-12 months $	>1-5 years $	>5 years $	Total $
Financial assets						
Cash and cash equivalents	**22,965,442**	**-**	**-**	**-**	**-**	**22,965,442**
Term deposits	**-**	**24,611,864**	**-**	**-**	**-**	**24,611,864**
Receivables	**5,180,258**	**-**	**-**	**-**	**-**	**5,180,258**
Held to maturity investments	**-**	**-**	**-**	**701,741**	**-**	**701,741**
Financial assets at fair value through profit or loss	**23,603,016**	**-**	**-**	**-**	**-**	**23,603,016**
	51,748,716	**24,611,864**	**-**	**701,741**	**-**	**77,062,321**
Financial liabilities						
Payables	**(1,376,426)**	**-**	**-**	**-**	**-**	**(1,376,426)**
Net maturity	**50,372,290**	**24,611,864**	**-**	**701,741**	**-**	**75,685,895**
Year ended 30 June 2011						
Financial assets						
Cash and cash equivalents	20,068,440	-	-	-	-	20,068,440
Term deposits	-	17,000,000	-	-	-	17,000,000
Receivables	2,929,534	-	-	-	-	2,929,534
Held to maturity investments	-		-	3,772,095	-	3,772,095
Financial assets at fair value through profit or loss	18,739,790	-	-	-	-	18,739,790
	41,737,764	17,000,000	-	3,772,095	-	62,509,859
Financial liabilities						
Payables	(742,469)	-	-	-	-	(742,469)
Net maturity	40,995,295	17,000,000	-	3,772,095	-	61,767,390

26 Financial instruments (continued)

Health Insurance Fund of Australia Year ended 30 June 2012	**≤ 3 months $**	**>3-6 months $**	**>6-12 months $**	**>1-5 years $**	**>5 years $**	**Total $**
Financial assets						
Cash and cash equivalents	**22,934,899**	-	-	**-**	**-**	**22,934,899**
Term deposits	**-**	24,611,864	-	**-**	**-**	**24,611,864**
Receivables	**5,174,437**	-	-	**-**	**-**	**5,174,437**
Held to maturity investments	**-**		-	**701,741**	**-**	**701,741**
Financial assets at fair value through profit or loss	**23,603,016**	-	-	**-**	**-**	**23,603,016**
	51,712,352	**24,611,864**	**-**	**701,741**	**-**	**77,025,957**
Financial liabilities						
Payables	**(1,376,043)**	**-**	**-**	**-**	**-**	**(1,376,043)**
Net maturity	**50,336,309**	**24,611,864**	**-**	**701,741**	**-**	**75,649,914**
Year ended 30 June 2011						
Financial assets						
Cash and cash equivalents	20,037,066	-	-	-	-	20,037,066
Term deposits	-	17,000,000	-	-	-	17,000,000
Receivables	2,922,939	-	-	-	-	2,922,939
Held to maturity investments	-	-	-	3,772,095	-	3,772,095
Financial assets at fair value through profit or loss	18,739,790	-	-	-	-	18,739,790
	41,699,795	17,000,000	-	3,772,095	-	62,471,890
Financial liabilities						
Payables	(742,470)	-	-	-	-	(742,470)
Net maturity	40,957,325	17,000,000	-	3,772,095	-	61,729,420

Maturity analysis of the Company's undiscounted outstanding claims liability on insurance contracts is as follows:

	≤ 3 months $	**>3-6 months $**	**>6-12 months $**	**>1-5 years $**	**>5 years $**	**Total $**
Year ended 30 June 2012	**4,933,849**	**378,119**	**142,466**	**35,616**	**-**	**5,490,050**
Year ended 30 June 2011	4,800,752	435,630	124,869	31,217	-	5,392,468

Fair value

The methods for estimating fair value are outlined in Note 1 (m).

26 Financial instruments (continued)

Liquidity and interest risk tables

Consolidated 2012	Note	Floating interest rate $	Fixed interest maturing in: 1 year or less $	Fixed interest maturing in: 1 to 5 years $	Non interest bearing $	Total $
Financial assets						
Cash and cash equivalents	11	**22,947,215**	**-**	**-**	**18,227**	**22,965,442**
Term deposits	13		**24,611,864**	**-**	**-**	**24,611,864**
Contributions in arrears	12	**-**	**-**	**-**	**236,384**	**236,384**
Other receivables	12	**-**	**-**	**-**	**4,560,635**	**4,560,635**
Investment income receivable	12	**-**	**-**	**-**	**383,239**	**383,239**
Financial assets at fair value through profit and loss	13	**-**	**-**	**701,741**	**23,603,016**	**24,304,757**
		22,947,215	**24,611,864**	**701,741**	**28,801,501**	**77,062,321**
Weighted average interest rate		**4.06%**	**5.70%**	**6.96%**		
Financial liabilities						
Payables	17	**-**	**-**	**-**	**(1,376,426)**	**(1,376,426)**
		-	**-**	**-**	**(1,376,426)**	**(1,376,426)**
Net financial assets		**22,947,215**	**24,611,864**	**701,741**	**27,425,075**	**75,685,895**

Consolidated 2011	Note	Floating interest rate $	Fixed interest maturing in: 1 year or less $	Fixed interest maturing in: 1 to 5 years $	Non interest bearing $	Total $
Financial assets						
Cash and cash equivalents	11	20,050,428	-	-	18,012	20,068,440
Term deposits	13		17,000,000	-	-	17,000,000
Contributions in arrears	12	-	-	-	262,059	262,059
Other receivables	12	-	-	-	2,552,155	2,552,155
Investment income receivable	12	-	-	-	115,320	115,320
Financial assets at fair value through profit and loss	13	-	-	3,772,095	18,739,790	22,511,885
		20,050,428	17,000,000	3,772,095	21,687,336	62,509,859
Weighted average interest rate		5.30%	6.14%	4.89%		
Financial liabilities						
Payables	17	-	-	-	(742,469)	(742,469)
		-	-	-	(742,469)	(742,469)
Net financial assets		**20,050,428**	**17,000,000**	**3,772,095**	**20,944,867**	**61,767,390**

26 Financial instruments (continued)

Liquidity and interest risk tables

Health Insurance Fund of Australia 2012	**Note**	Floating interest rate $	Fixed interest maturing in: 1 year or less $	1 to 5 years $	Non interest bearing $	Total $
Financial assets						
Cash and cash equivalents	11	**22,916,672**	**-**	**-**	**18,227**	**22,934,899**
Term deposits	13		**24,611,864**	**-**	**-**	**24,611,864**
Contributions in arrears	12	**-**	**-**	**-**	**236,384**	**236,384**
Other receivables	12	**-**	**-**	**-**	**4,554,814**	**4,554,814**
Investment income receivable	12	**-**	**-**	**-**	**383,239**	**383,239**
Financial assets at fair value through profit and loss	13	**-**	**-**	**701,741**	**23,603,016**	**24,304,757**
		22,916,672	**24,611,864**	**701,741**	**28,795,680**	**77,025,957**
Weighted average interest rate		**4.06%**	**5.70%**	**6.96%**		
Financial liabilities						
Payables	17	**-**	**-**	**-**	**(1,376,043)**	**(1,376,043)**
		-	**-**	**-**	**(1,376,043)**	**(1,376,043)**
Net financial assets		**22,916,672**	**24,611,864**	**701,741**	**27,419,637**	**75,649,914**

Health Insurance Fund of Australia 2011	**Note**	Floating interest rate $	Fixed interest maturing in: 1 year or less $	1 to 5 years $	Non interest bearing $	Total $
Financial assets						
Cash and cash equivalents	11	20,019,054	-	-	18,012	20,037,066
Term deposits	13		17,000,000	-	-	17,000,000
Contributions in arrears	12	-	-	-	262,059	262,059
Other receivables	12	-	-	-	2,545,560	2,545,560
Investment income receivable	12	-	-	-	115,320	115,320
Financial assets at fair value through profit and loss	13	-	-	3,772,095	18,739,790	22,511,885
		20,019,054	17,000,000	3,772,095	21,680,741	62,471,890
Weighted average interest rate		5.30%	6.14%	4.89%		
Financial liabilities						
Payables	17	-	-	-	(742,470)	(742,470)
		-	-	-	(742,470)	(742,470)
Net financial assets		**20,019,054**	**17,000,000**	**3,772,095**	**20,938,271**	**61,729,420**

26 Financial instruments (continued)

b) Credit risk

The credit risk on financial assets of the Group is generally the carrying amount, net of any provisions for doubtful debts. Credit risk is mitigated by close management review of outstanding amounts which are regularly followed up and collected.

The table below provides information regarding the credit risk exposure of the Group at 30 June 2012 by classifying assets according to the Standard and Poors credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade.

The Company manages credit risk by setting investment limits based on counterparty credit ratings and the duration of investments. The compliance with these limits is reported to the Company's Board of Directors on a monthly basis.

Year ended 30 June 2012	AAA $	AA $	A $	BBB $	Not rated $	Total $
Consolidated						
Cash and cash equivalents	**7,014,510**	**15,932,705**	**-**	**-**	**18,227**	**22,965,442**
Term deposits		**24,611,864**	**-**	**-**	**-**	**24,611,864**
Receivables	**4,081,274**	**379,873**	**-**	**3,366**	**715,745**	**5,180,258**
Held to maturity investments	**-**	**-**	**-**	**-**	**23,603,016**	**23,603,016**
Financial assets at fair value through profit or loss	**-**	**-**	**-**	**701,741**	**-**	**701,741**
Total	**11,095,784**	**40,924,442**	**-**	**705,107**	**24,336,988**	**77,062,321**

Year ended 30 June 2011	AAA $	AA $	A $	BBB $	Not rated $	Total $
Consolidated						
Cash and cash equivalents	7,399,251	12,651,177	-	-	18,012	20,068,440
Term deposits	-	17,000,000	-	-	-	17,000,000
Receivables	2,099,198	110,693	-	4,627	715,016	2,929,534
Held to maturity investments	-	-	-	-	18,739,790	18,739,790
Financial assets at fair value through profit or loss	-	3,026,415	-	745,680	-	3,772,095
Total	9,498,449	32,788,285	-	750,307	19,472,818	62,509,859

The AAA rated receivable reflected above are due from Medicare Australia, a body administered and managed by the Federal Government. The Company's policy does not permit investment in any security rated below Standard and Poors' long-term A rating. The investment with a BBB rating reflected above is the result of a credit downgrade of an investment on 22 July 2010. Cash and cash equivalents with a BBB rating reflects interest accrued on the same investment.

c) Currency risk

All financial assets and liabilities of the Group are denominated in Australian dollars.

26 Financial instruments (continued)

Reconciliation of net financial assets to net assets

		Consolidated		Health Insurance Fund of Australia	
	Note	**2012 $**	2011 $	**2012 $**	2011 $
Net financial assets	26	**75,685,895**	61,767,390	**75,649,914**	61,729,420
Investment in controlled entities	14	**-**	-	**1**	1
Deferred acquisition costs	15	**540,791**	459,870	**540,791**	459,870
Property, plant and equipment	16	**9,559,288**	7,449,104	**9,559,288**	7,449,104
Deferred tax asset		**814**	230	**-**	-
Current liabilities	18,19,20	**(21,833,453)**	(14,123,682)	**(21,833,453)**	(14,123,682)
Non-current liabilities	20	**(75,054)**	(369,422)	**(75,054)**	(369,422)
Net assets per the balance sheet		**63,878,281**	55,183,490	**63,841,487**	55,145,291

Net fair value of financial assets and liabilities per the balance sheet

The net fair value of financial assets and liabilities approximate their carrying value.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from 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 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Year ended 30 June 2012	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Total $**
Held to maturity investments	**-**	**701,741**	**-**	**701,741**
Financial assets at fair value through profit or loss	**-**	**23,603,016**	**-**	**23,603,016**
	-	**24,304,757**	**-**	**24,304,757**

Year ended 30 June 2011	Level 1 $	Level 2 $	Level 3 $	Total $
Held to maturity investments	-	3,772,095	-	3,772,095
Financial assets at fair value through profit or loss	-	18,739,790	-	18,739,790
	-	22,511,885	-	22,511,885

27 Operating lease arrangements

Operating lease relates to the two properties owned by the company. One property (60 - 62 Stirling Street, Perth) has an original lease term of 3 years, which ends on 31 October 2013, with an option to extend for a further 2 year period. The lessee does not have an option to purchase the property at the expiry of the lease period.

The lease term for the other property (100 Stirling Street, Perth) ended on 31 March 2011 when the tenant vacated the premises ahead of the planned re-development of the property. The property will be re-developed as a future head office for the Company.

The property rental income earned by the Company from its property, which is leased out under operating leases, amounted to $229,348 (2011: $289,321). Direct operating expenses arising on the investment property in the period amounted to $86,508 (2011: $80,600).

Non-cancellable operating lease receivables	**Consolidated**		**Health Insurance Fund of Australia**	
	2012	2011	**2012**	2011
	$	$	**$**	$
Not later than 1 year	**225,761**	217,920	**225,761**	217,920
Later than 1 year and not longer than 5 years	**296,815**	501,480	**296,815**	501,480
Later than 5 years	**-**	-	**-**	-
	522,576	**719,400**	**522,576**	**719,400**

28 Subsequent events

There has not arisen in the interval between 30 June 2012 and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Board of Directors of the Company, to effect significantly the operations of the Group, the results of its operation, or the state of affairs of the Group in future years, other than the matters disclosed in this report.

HEALTH INSURANCE FUND OF AUSTRALIA LIMITED

DIRECTORS' DECLARATION

The directors declare that in the directors' opinion:

(a) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

(b) the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company and the consolidated entity;

(c) the financial statements and notes thereto are in compliance with International Financial Reporting Standards issued by the International Accounting Standards Board, as stated in note 1 (c).

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

On behalf of the Directors

M.A. Dudley
Director

Perth, 26th September 2012

Deloitte.

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Independent Auditor's Report to the Members of Health Insurance Fund of Australia Limited

We have audited the accompanying financial report of Health Insurance Fund of Australia Limited, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 10 to 51.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(c), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Deloitte

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Health Insurance Fund of Australia Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Health Insurance Fund of Australia Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2012 and of their performance for the year ended on that date; and

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

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1(c).

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Leanne Karamfiles
Partner
Chartered Accountants
Perth, 26 September 2012