



I would like to start this 2019/20 report by thanking our members and staff for their support and understanding during what was a tumultuous and challenging financial year for all Australians. As a member-owned not-for-profit fund, we were able to focus our energies on placing the best interests of our members first, as they dealt with unprecedented individual, family and community-wide challenges that created heightened levels of stress and anxiety. Many of the regions we serve experienced severe drought, devastating bushfires and then a global pandemic throughout 2019/20.

Our response has been to assist our members both from a financial and health-related perspective. Deferring of premium increases, providing the facility for members to suspend policies while in financial hardship, providing extended cover for COVID-19 related hospital treatment, teamed with the introduction of additional well-being support programs allowed us to support members through COVID-19.

New health and wellbeing programs, as well as increased availability for access to telehealth services, launched at the onset of the pandemic measures were:

- Hospital Care At Home: Allowing our members to recover in the safety, comfort and privacy of their own homes.
- MindStep CBT: Our mental health support coaching program to help our members identify, understand and improve psychological difficulties such as stress, insomnia, worry, anxiety and depression.
- Care Connected (now Valion Health): A virtual health clinic focusing on delivering allied health care services via telehealth and online.

The response we received from our members regarding these initiatives was extremely pleasing.

While the Private Health Insurance industry in general has been experiencing declining participation, Westfund recorded strong growth with 9107 new members (excluding ambulance) joining the fund. Importantly almost 46 per cent of these new members were drawn from under 35 cohort, which enhances our long term prospects in remaining an independent regionally focused health fund.

## Building a stronger fund

Over recent years, the Board has made a commitment to invest in the business for the future to ensure our members can continue to enjoy the special service and care Westfund has provided for more than 60 years. This investment has included enhancing our management skills, risk and governance capabilities, and digital and marketing expertise.

We have started to witness the benefits of this investment through improved operating efficiencies and enhancements to the member experience, including our website, members app and Members Online Area, our regional Care Centres and our Contact Centre operations.

## Financial performance

Like most businesses, our financial performance was certainly impacted by the pandemic, with the premium deferral and cost of providing COVID-19 support initiatives having a material effect on our results.

We saw a reduction in claims during the months of April and May in particular and we accounted for the vast majority of these claims to flow through early in the new financial year. While recording a deficit of \$3.9m is not ideal, Westfund has built up an extremely strong capital base that allows us to accommodate these extraordinary circumstances. Our expectations and business plans project that we will return to securing a more positive financial outcome in the 2020/21 financial year.

## Community support

As a member-owned fund, we take great pride in being able to support the communities we serve through providing assistance to charities, sporting organisations, community events and welfare initiatives. Our Community Grants Program provides groups with the opportunity to apply for grants (up to \$2500) and defibrillators in two annual intakes. During 2019/20, the Program supported 50 organisations with the provision of \$125,000 with 29 grants and 21 defibrillators distributed to valuable community organisations.

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## Welcoming our new Chief Executive Officer

Matt Banning, who served as our Chief Executive Officer for more than three years, resigned early in 2020 to take up a position closer to his home. During his tenure, Matt started our journey of transforming the business to ensure we were well prepared to deal with the varied challenges facing the Private Health Insurance industry. We thank him for his contribution and wish him well in his new endeavours.

Following Matt's departure, the Board sought to recruit an experienced Chief Executive Officer who had a passion for member-owned not-for-profit organisations and a proven track record in growing and developing successful business. We were pleased to be able to secure the services of Mark Genovese, whose previous role was as Chief Executive Officer of Unity Bank, a member-owned mutual bank. Mark spent 17 years in his previous role taking Unity from an asset base of \$90m to \$1.3b during his tenure.

## Gratitude

On behalf of our Board I would like to recognise the exceptional efforts of our staff who have worked tirelessly to ensure our members' needs have continued to be met – especially those impacted by the pandemic. Many members of our team were asked to work from home, to adjust their roles, while also dealing with their own personal challenges. To their credit, they did so with grace – ensuring our members remained at the centre of our operations at all times.

I would also like to thank my fellow directors who understand the important and critical role Westfund plays in the communities we serve. They are committed to ensuring we build and maintain a sustainable and progressive organisation so that we meet the health insurance needs of our existing and future members.




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## Vale Wes Anderson

Early in 2020, we lost one of our long-serving and much-loved directors, Wes Anderson. Wes served as a director for 16 years and his commitment, passion and desire to see Westfund succeed played a major role in our success. Wes is greatly missed and on behalf of our members and staff I would like to pass on our condolences and best wishes to his family.

**Graeme Osborne**  
Chair

The directors present their report, together with the financial statements, on the company for the year ended 30 June 2020.

### Directors

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

**Graeme Osborne**  
Chair

**Brian Kelly**  
Deputy Chair

**Bradley Williams**

**Geoffrey Wheeler**

**Jordan Tilse**

**Michael Serong**

**Phillip Burgett**

**Wesley Anderson \***

### Company objectives

The company's purpose is to support health fund policy holders' long-term well-being with premium services that facilitate choice, access and affordability of healthcare.

The company's financial driver is sustaining high value services and benefits for its health fund policy holders.

The company's short-term objectives are to:

- improve and promote the value of health fund membership in the face of heightened price sensitivity, increased competition, reduced Government incentive and challenging economic conditions;
- maintain industry-leading health fund policy holder retention;
- continue development of sales and service channels;
- grow policy holders while maintaining sustainable products;
- retain a strong capital base; and
- enhance employee wellbeing at work and attract and retain quality employees.

The company's long-term objectives are to:

- support the health and wellbeing of the company's policy holders and the communities in which the company serves;
- maximise policy holder value through high quality, value-for-money health insurance products and an integrated health service offering supported by highly personalised service;
- finance health outcomes to the benefit of health fund policy holders;
- maintain a profit-for-members approach, with surpluses in excess of requirements used for the benefit of members; and
- provide regional employment and career opportunities.

### Strategy for achieving the objectives

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

- increase the company's brand awareness;
- increase the value of the company's membership by providing additional services;
- modernise the way in which the company interacts with its health fund policy holders;
- provide staff with the required training and tools to excel in their job; and
- attract and retain quality staff to work for the company.

### Principal activities

The principal continuing activities of the company during the year were to provide health insurance and healthcare services to health fund policy holders.

\* Wesley Anderson sadly passed away on 1 January 2020. Wesley was appointed as a director in 2004 and was the Deputy Chair. He made a valuable and important contribution during his tenure. The Board greatly appreciated his dedication and commitment to the company and he will be sorely missed.

## Significant changes in the state of affairs – Impact of the Coronavirus (COVID-19) pandemic

The last quarter of the financial year has been impacted by the outbreak of the Coronavirus (COVID-19) pandemic. The company responded quickly to COVID-19 related risks, which focused primarily on the health and safety of employees and fund policy holders and ensuring the cashflow and liquidity position of the company.

In response, to the pandemic, the company implemented a number of measures to support fund policy holders including:

### COVID19 Member Support Hub

Created a dedicated online support hub for members to access, providing the latest updates and helpful insights;

### Paused premiums

Paused premium increases for six months from 1 April 2020 to assist members in these difficult times. New premiums came into effect on 1 October 2020;

### COVID-19 cover

Added hospital cover for admissions related to COVID-19 for eligible members until the end of 2020;

### Health and wellbeing

Extended the MindStep Online Cognitive Behavioural Therapy ('CBT') courses until the end of 2020, thus continuing to provide a suite of programs to help members access extra benefits and mental health services from home;

### COVID-19 financial hardship program

Extended support measures for members until the end of 2020, providing assistance to members experiencing financial distress and facing difficult financial decisions. Westfund's staff provided support to discuss cover options to ensure policies are appropriate for member's needs; and

### Virtual consultations

Extended the ability for members to claim for virtual consultations for psychology, physio, occupational therapy and a range of other allied health services until at least the end of 2020.

Due to Government imposed lockdowns fund policy holders were unable to have routine procedures, fully utilise their benefits and make claims on the fund. In recognition of claims that have likely been deferred, net claims expense was adjusted by \$11,870,000 and a deferred claims liability provision recognised as at 30 June 2020.

The company set up a crisis management team who introduced a number of COVID-19 policies and protocols, to ensure the health and safety of members, staff and the community at large. These included employee travel restrictions, working from home arrangements and appropriate health and hygiene standards, such as hand sanitisation stations, social distancing, contactless interactions, all designed to ensure compliance but also to reassure employees, customers and visitors in these uncertain times.

The impact of COVID-19 in 2021 cannot be predicted with any certainty and despite the challenging external environment, the company remains positioned to continue to achieve on its objectives.

## Contribution on winding up

The company is incorporated under the Corporations Act 2001 and is a company limited by guarantee. If the company is wound up, the constitution states that members undertake to contribute such amounts as may be required not exceeding the sum of \$1 each towards meeting any outstanding obligations of the company. As at 30 June 2020 there were 58,361 (2019: 53,427) memberships and the maximum amount liable to be contributed was \$58,361 (2019: \$53,427).

# Board of directors

## Director profiles



**Graeme Osborne**  
GAICD  
Chair

Graeme has been the Chair of the Board since 2018 and has been a non-executive director since 1996. He has experience in private health insurance, industrial relations, superannuation and the mining and financial services industries. He is a director of Coal Services Pty Limited, Coal Mines Insurance Pty Ltd and NSW Mines Rescue Pty Limited. He is also a member of Coal Service Risk Management and Remuneration Committees. He has served as a director of Auscoal Superannuation Pty Ltd where he served as a member of the Audit, Risk and Compliance Committee. He also was a member of Mine Superannuation's Insurance Committee and Remuneration and Nomination Committee. He is currently District President of the Construction, Forestry, Maritime, Mining and Energy Union – South Western District.

**Special responsibilities:**  
Member of the Audit Committee, member of the Risk Committee and member of the Remuneration Nomination and Governance Committee.



**Brian Kelly**  
GAICD  
Deputy Chair

Brian was appointed as a director in 2010. He has strong experience in the mining industry and has held the position of Regional Manager at Western Mines Rescue Station for a number of years with expertise in work health and safety and emergency response. Prior to this he was Production Manager at mining company Centennial Coal. Brian is a member of the Mine Managers' Association of Australia.

**Special responsibilities:**  
Chair of the Remuneration Nomination and Governance Committee and member of the Risk Committee.



**Brad Williams**  
BBM, ASSOC DIP BUS,  
MIML, GAICD  
Non-Executive Director

Bradley was appointed as a director in 2017. He has a strong background in finance, banking and business development. He has held various positions at Community First Credit Union and Westpac Bank and is a director of Bradfin Pty Ltd, a mortgage broking company. He is currently Head of Industry Relationships at Unity Bank.

**Special responsibilities:**  
Member of the Audit Committee.



**Geoff Wheeler**  
DIP. HRM, ASSOCIATE  
DEGREE VET, C.MMA,  
GAICD, JP  
Non-Executive Director

Geoffrey was appointed as a director in 2017. He has experience in mining, business and hospitality, human resources and club management. He is currently General Manager of the Lithgow Workmen's Club.

**Special responsibilities:**  
Member of the Remuneration Nomination and Governance Committee.



**Jordan Tilse**  
BA, LLB, GAICD  
Non-Executive Director

Jordan was appointed as a director in 2017. She has a number of years' experience in top tier law firms as a solicitor advising on employment law matters and corporate governance across various industries including banking, finance and insurance. She has also acted as solicitor assisting the Royal Commission into Trade Union Governance and Corruption. Jordan is founder and principal of Melbourne based law firm Sefton Davis which specialises in advising clients on employment matters including restructures, redundancies, workplace grievances and workplace training and investigations.

**Special responsibilities:**  
Member of the Risk Committee.



**Michael Serong**  
BA, LLB, GAICD  
Non-Executive Director

Michael was appointed as a director in 2014. He is an employment and labour lawyer with a background in business and corporate law, including finance, investment and insurance. He has particular expertise in Private Health Insurance law and regulation and has advised private health insurers over many years. He has held partnerships in a number of law firms during his career and is currently a consultant with Norton Rose Fulbright based in Melbourne.

**Special responsibilities:**  
Member of the Remuneration Nomination and Governance Committee and member of the Audit Committee.



**Phillip Burgett**  
BCOM, FCA, GAICD  
Non-Executive Director

Phillip was appointed as a director in 2012. He has extensive experience in providing independent audit, risk management and corporate governance services in health, local government, finance and insurance sectors. He is currently an independent member on public sector (local government) audit and risk management committees. Phillip has previously been a partner of accounting and business advisory firm Morse Group.

**Special responsibilities:**  
Chair of the Audit Committee and Chair of the Risk Committee.

### Company Secretary

Deng Gichuru (Chief Risk Officer) was appointed Company Secretary in June 2020. His qualifications and professional memberships include Grad Dip (Risk Management), MAICD, ANZIIF (Senior Associate CIP), AGIA (Associate) and RMIA (Member).

Previously the position was held by Dominique Fox (until September 2019) and Chris Phillips (Chief Financial Officer) (September 2019 to June 2020).

### Meetings of Directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2020, and the number of meetings attended by each director were:

	Full Board		Audit Committee	
	Attended	Held	Attended	Held
Graeme Osborne – Chair	14	14	4	4
Brian Kelly – Deputy Chair	14	14	-	-
Bradley Williams	14	14	4	4
Geoffrey Wheeler	13	14	-	-
Jordan Tilse	13	14	-	-
Michael Serong*	13	14	1	1
Phillip Burgett	14	14	4	4
Wesley Anderson ***	6	6	2	2

Committee	Risk Committee		Remuneration Nomination and Governance	
	Attended	Held	Attended	Held
Graeme Osborne – Chair	4	4	5	5
Brian Kelly ** – Deputy Chair	1	1	5	5
Bradley Williams	-	-	-	-
Geoffrey Wheeler	-	-	5	5
Jordan Tilse	4	4	-	-
Michael Serong	-	-	5	5
Phillip Burgett	4	4	-	-
Wesley Anderson ***	2	2	-	-

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

\* Joined the Audit Committee on 18 February 2020

\*\* Joined the Risk Committee on 18 February 2020

\*\*\* Passed away on 1 January 2020



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**Mark Genovese**  
Chief Executive Officer



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**Liz Casmiri**  
Chief Health Care  
Services Officer



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**Deng Gichuru**  
Chief Risk Officer



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**Jon Goodgame**  
Chief Operations Officer



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**John Pallister**  
Chief Information Officer



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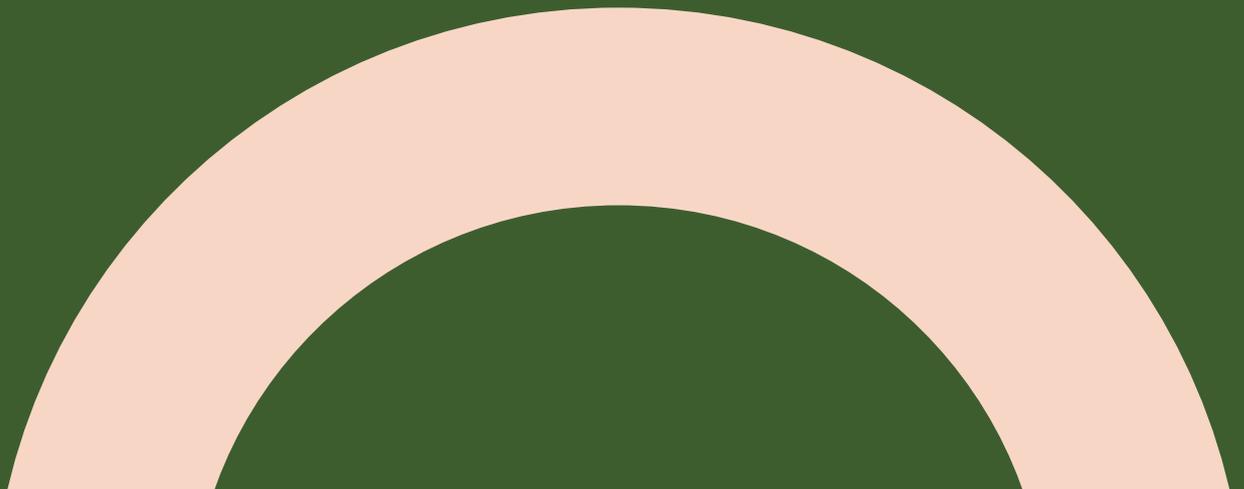
**Chris Phillips**  
Chief Financial Officer



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**Bill Sheffield**  
Chief People Officer

Positions held as at 30 June 2020.



# With our members at the moments that matter most

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The financial year 2019/20 brought with it many challenges for Australians and for our members.

We've been with our members throughout the difficult times this year – with members affected by drought, bushfire, flood and also a global pandemic in the far-reaching effects of COVID-19.

Underlying economic conditions have made times tough for many Australians and we've remained steadfast in our commitment to stand beside our members through it all.

“The greatest wealth is health” was coined over 2000 years ago by Roman poet Virgil however 2020 has brought these words to life for not just our members, but all Australians.

The COVID-19 pandemic has highlighted the importance of our health and the important role that we as a private health insurer can play in the lives of our members. Our entire team rose to the occasion and went above and beyond to let our members know that we care and that we are here to support them, no matter how unexpected the challenge.

Despite a challenging economic landscape, we introduced many new initiatives for our members designed to improve their health and wellbeing and continue access to vital health services amidst all the uncertainty. We launched three Health and Wellbeing Programs that will directly improve our members' lives. We expanded our Provider of Choice Network so that members around the country can access quality health care while minimising out of pocket costs. For COVID-19, we've also extended the ability for members to claim for virtual consultations for psychology, physio, occupational therapy and a range of other allied health services until at least the end of the year. We continued support in using telehealth services to enable claiming on ancillary services. We expanded our Financial Hardship Support suspension program to alleviate some of the pressure for members doing it tough.

We doubled down on our investment in the communities we served, expanding the Westfund Community Grants program by an additional \$50,000 for 2020 so that local organisations, the lifeline of our communities, received access to vital funding to keep their programs alive.



## We welcomed our new CEO

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In May 2020, we welcomed our new CEO Mark Genovese. Mark's appointment brought a further 35 years of experience in member-owned organisations to our ranks – courtesy of his years in the credit union industry, most recently as CEO of Unity Bank.

Mark joined Westfund and the private health insurance industry at a significant time. His vision for Westfund as a member-owned, regionally-founded fund has been well received, as has his commitment to sustainable growth and placing our members at the centre of our future.

He is supported in his vision for the fund by the executive team, who will provide the blueprint for our staff as we work towards our common goals and aspirations for Westfund's future.

Mark's appointment followed the departure of former CEO Matt Banning in February 2020.

## Our members come first. Always.

Throughout 2020s challenges, Westfund has remained steadfast in our commitment to helping members manage their health and financial wellbeing.

As outlined by our Chair, we launched several programs and initiatives for members to stay healthy, safe and connected. We extended the ability for members to claim for virtual consultations for psychology, physio, occupational therapy and a range of other allied health services. We committed to reopening Care Centres as early as it was safe to do so. And we expanded our digital support options to help members when and where they needed us.

Westfund's Dental Care and Eye Care operations also deserve special recognition.

Providing the highest quality of care is at the forefront of our commitment to our patients.

Our employees worked behind the scenes during the COVID lockdown to assess and improve our internal procedures across both clinical settings. Their hard work enabled our operations to transition back to business at the appropriate time, in line with best practice to ensure the safety of members and patients.



Westfund Dental continued to provide treatment to those requiring emergency care, while still adhering to Australian Dental Association (ADA) guidelines.

During this period, the Dental Care Centre achieved dental accreditation through Quality Innovation Performance (QIP) in collaboration with the ADA.

To achieve this accreditation, Westfund Dental was assessed against the six National Safety and Quality Health Service (NSQHS) Standards.

QIP accreditation demonstrates Westfund's commitment to quality improvement, patient safety and providing the highest level of patient care.

Another exciting initiative being undertaken by the team is participation in the Rebuilding Smiles® program, coordinated by the ADA's Australian Dental Health Foundations.

The Rebuilding Smiles® program assists individuals who have experienced domestic violence and who may have immediate dental trauma or ongoing oral health problems related to a lack of dental treatment over time.

The program involves dental practitioners providing free treatment to patients referred by local charities and non-profit organisations.

Westfund Dental Care Centre is proud to support such a valuable initiative and is currently planning integration of the program into its operations.

This will include the establishment of Dental Rescue Day events to treat and support patients referred by local charities and not-for-profit organisations.

## Investing in our members

We continue to invest in our digital footprint to make it easier for our members to interact with us and get the support they need.

Similarly, we are committed to maintaining our physical presence in our communities, with our Care Centre operations in Lithgow, Bathurst, Orange, Mudgee, Dubbo and Wollongong as well as Maroochydore, Mackay, Rockhampton, Townsville, Moranbah and Emerald.

It is important to us that our members feel in control of their health and wellbeing. Being member-owned means our members' health is our health, and the community's health is everyone's health.

We remain a staunch employer of local talent with more than 190 employees across our regional footprint – branching from our Head Office operations at Lithgow, to a dedicated WeWork office in Sydney and our Contact Centres in Lithgow, Penrith and Maroochydore.

Our Eye Care and Dental Care Centres continue to service local members in their areas.

We want to be where our members are, engaging in the activities they engage in. That's why we have continued to support things like the Orange Running Festival and the grassroots Rugby Union in the Central West through the Westfund Ferguson Cup. We're working to foster relationships to facilitate positive health outcomes across our Care Centre footprint – this is an area we continue to grow and develop.



2020 Westfund Ferguson Cup Premiers Bathurst Bulldogs



## New premises for Wollongong Care Centre

We were excited to unveil our new premises in Wollongong in December 2019, an investment in our members located in the Illawarra region.

Our premises at 1/162 Crown Street Wollongong were opened by the Hon Paul Scully MP, Member for Wollongong and the NSW Shadow Minister for Natural Resources, joined by Lord Mayor of Wollongong Councillor Gordon Bradbery.

The highlight of the event was the attendance of our oldest local member Kathleen Heiler who joined Westfund team members for the celebrations.



Oldest local member Kathleen Heiler



# Giving back to the communities we serve

## Community grants

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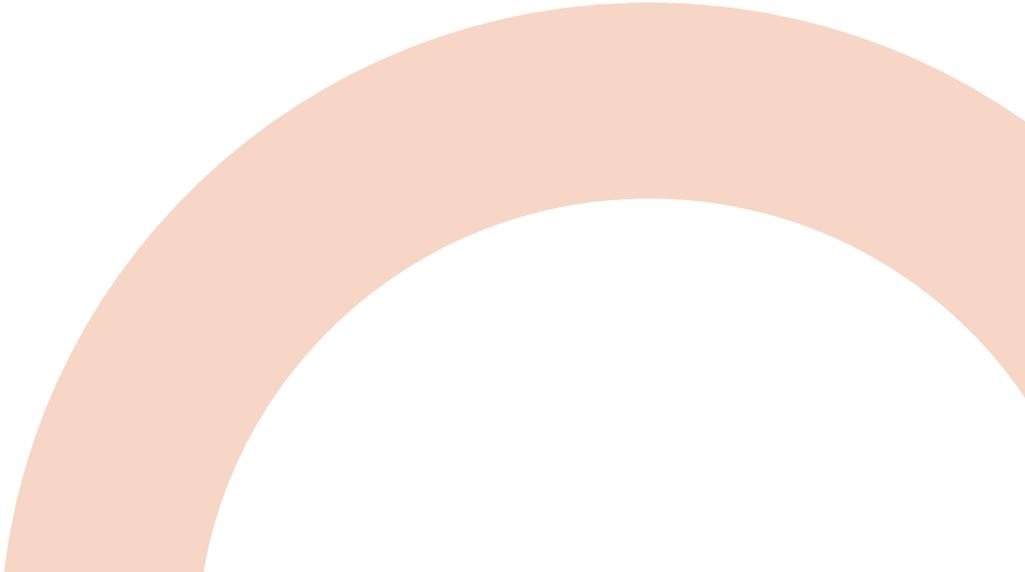
Our Westfund Community Grants Program is gaining steady momentum, with 2019/20 providing two rounds of outstanding applications. This gave us the opportunity to grant a further 29 grants to worthwhile community organisations, as well as donating 21 defibrillators to deserving communities across our network.

The Community Grants Program offers community organisations the chance to apply for a share of \$120,000 in annual grants. It also includes Westfund's Here for Hearts program, which provides access to defibrillators.

The program is built on a foundation of four pillars: Family, Healthy, Fit for Life and Community.

Successful applicants demonstrated their commitment to one or multiple pillars and it was pleasing for Westfund to engage with organisations whose community-based values aligned so closely with our own.

The recipients represent a diverse range of groups from locations across the country.



## Community grants

### Successful applicants 2019

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#### Round 1

##### Grants

- Orange Youth Centre
- Riding for the Disabled – Orange Centre
- Migrant and Refugee Support Service, Orange City Council
- FoodCare Orange
- Orange Women's Shed
- Bowen Community Technology Centre
- Sailability Mackay
- RACQ Capricorn Helicopter Rescue
- Oasis Life Lounge
- ausEE Inc. – Recipe Book
- Kids Diabetes Camps
- Rebound WA
- Bathurst Community Transport
- Central West Women's Health Centre
- Can Assist Lithgow
- Quota International Lithgow branch
- Lithgow District Men's Shed Association
- Thrive Services Lithgow
- Lithgow Bears Rugby League Football Club
- Albion Park Rail Community Centre Inc.
- Dreams2Live4
- Bear Cottage – Sydney Children's Hospitals Foundation

##### Defibrillators

- Glenbrook Public School
- Lithgow Information and Neighbourhood Centre (LINC)
- Lithgow Valley Pistol Club Inc.
- Mount St Thomas Public School
- Orange Woodworkers Association Inc.
- Queensland Aids Council
- Sensory Concerts
- YMCA Springfield Lakes Community Centre
- Yumba Bimbi Support Services

#### Round 2

##### Grants

- Moranbah State School P and C
- Sunset Strip Progress Association Inc.
- Orange City Council Migrant Refugee Support Service
- Lions Cancer Institute
- Lithgow District Junior Cricket Association
- FoodFaith Limited
- Bathurst Community Transport

##### Defibrillators

- Lithgow and District Family History Society Inc.
- Wide Bay Ostomates Association inc.
- Landsborough State School
- Cooyar Agricultural Society Inc
- Oak Flats Public School
- RDA Wagga Wagga
- Canning Vale Senior Football Club
- Bowenfels Charge of Presbyterian Church of Australia
- Uniting Church in Australia Lithgow Parish
- Clergate Public School
- Lithgow Bears Rugby League Football Club
- Mudgee Bushwalking and Bike Riding Club Inc
- Pioneer Valley Golf Club
- RDA Blaxland



# Westfund Limited

## Financial statements

### 30 June 2020

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## Contents

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Directors' report	22
Auditor's independence declaration	23
Statement of profit or loss and other comprehensive income	24
Statement of financial position	25
Statement of changes in equity	26
Statement of cash flows	27
Notes to the financial statements	28
Directors' declaration	62
Independent auditor's report	63

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The financial statements cover Westfund Limited as an individual entity. The financial statements are presented in Australian dollars, which is Westfund Limited's functional and presentation currency.

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

**Westfund Limited**  
**59 Read Avenue**  
**Lithgow NSW 2790**

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 21 September 2020. The directors have the power to amend and reissue the financial statements.

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### Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

### Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

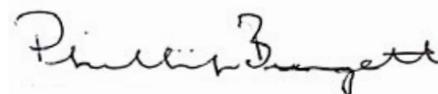
This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



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Graeme Osborne  
Chair



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Phillip Burgett  
Director

21 September 2020  
Lithgow

# Auditor's independence declaration

## To the directors of Westfund Limited

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In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Westfund Limited for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.



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Grant Thornton Audit Pty Ltd  
Chartered Accountants



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A Sheridan  
Partner – Audit & Assurance

21 September 2020  
Sydney

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# Statement of profit or loss and other comprehensive income

## For the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Premium revenue		226,236	205,926
Claims expense		(202,961)	(184,166)
Risk equalisation trust fund income		8,282	13,511
State levies		(2,718)	(2,787)
Net claims incurred		(197,397)	(173,442)
Gross margin before claims and underwriting expenses		28,839	32,484
Claims handling expenses		(18,446)	(15,564)
Other underwriting expenses		(10,035)	(8,857)
Underwriting expenses		(28,481)	(24,421)
Underwriting result		358	8,063
Interest revenue calculated using the effective interest method		4	26
Other revenue	4	5,609	6,740
(Loss)/gain on the revaluation of financial instruments at fair value through profit or loss		(731)	12,614
Depreciation and amortisation expense	5	(3,047)	(1,928)
Reversal of impairment on land and buildings	11	177	2,271
Fair value gain/(loss) on investment properties	12	282	(2,265)
Impairment of goodwill	14	-	(527)
Cost of goods sold		(2,597)	(3,171)
Fund administration expenses		(3,988)	(4,163)
Finance costs	5	(20)	-
(Loss)/profit before income tax expense		(3,953)	17,660
Income tax expense		-	-
(Loss)/profit after income tax expense for the year attributable to the members of Westfund Limited		(3,953)	17,660
Other comprehensive income for the year, net of tax		-	-
<b>Total comprehensive income for the year attributable to the members of Westfund Limited</b>		<b>(3,953)</b>	<b>17,660</b>

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

# Statement of financial position

## As at 30 June 2020

	Note	2020 \$'000	2019 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		1,311	286
Trade and other receivables	6	6,052	9,292
Inventories		282	278
Financial assets at fair value through profit or loss	7	67,770	50,966
Security deposits		76	78
Deferred acquisition costs	8	1,780	1,000
Other	9	1,385	3,311
<b>Total current assets</b>		<b>78,656</b>	<b>65,211</b>
<b>Non-current assets</b>			
Financial assets at fair value through profit or loss	10	123,962	132,127
Deferred acquisition costs	8	3,337	2,499
Property, plant and equipment	11	11,542	12,084
Investment properties	12	6,896	7,245
Right of use assets	13	804	-
Intangibles	14	1,654	684
<b>Total non-current assets</b>		<b>148,195</b>	<b>154,639</b>
<b>Total assets</b>		<b>226,851</b>	<b>219,850</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	15	1,301	1,179
Lease liabilities	16	486	-
Employee benefits		3,116	2,472
Provisions	17	27,804	17,374
Other	18	28,356	29,633
<b>Total current liabilities</b>		<b>61,063</b>	<b>50,658</b>
<b>Non-current liabilities</b>			
Lease liabilities	16	337	-
Employee benefits		724	512
<b>Total non-current liabilities</b>		<b>1,061</b>	<b>512</b>
<b>Total liabilities</b>		<b>62,124</b>	<b>51,170</b>
<b>Net assets</b>		<b>164,727</b>	<b>168,680</b>
<b>Equity</b>			
Retained surpluses		164,727	168,680
<b>Total equity</b>		<b>164,727</b>	<b>168,680</b>

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

## Statement of changes in equity

### For the year ended 30 June 2020

	Asset revaluation reserve \$'000	Retained surpluses \$'000	Total equity \$'000
<b>Balance at 1 July 2018</b>	-	151,020	151,020
Surplus after income tax expense for the year	-	17,660	17,660
Other comprehensive income for the year, net of tax	-	-	-
<b>Total comprehensive income for the year</b>	-	17,660	17,660
<b>Balance at 30 June 2019</b>	-	168,680	168,680
<b>Balance at 1 July 2019</b>	-	168,680	168,680
Deficit after income tax expense for the year	-	(3,953)	(3,953)
Other comprehensive income for the year, net of tax	-	-	-
<b>Total comprehensive income for the year</b>	-	(3,953)	(3,953)
<b>Balance at 30 June 2020</b>	-	164,727	164,727

The asset revaluation reserve is used to recognise changes in the fair value of land and buildings, excluding investment properties. The value is currently \$nil (2019: \$nil) as previous revaluations have been fully exhausted by subsequent downward revaluations.

# Statement of cash flows

## For the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
<b>Cash flows from operating activities</b>			
(Loss)/profit before income tax expense for the year		(3,953)	17,660
<b>Adjustments for:</b>			
Depreciation and amortisation	5	3,047	1,928
Net fair value movement and impairment on land and buildings, investment properties and goodwill		2	521
Net fair value gain on investment properties		(459)	-
Net loss on disposal of non-current assets		560	8
Amortisation of deferred acquisition costs		1,554	525
Interest received		(4)	(26)
Interest and other finance costs		20	-
		<b>767</b>	<b>20,616</b>
<b>Change in operating assets and liabilities:</b>			
Decrease/(increase) in trade and other receivables		3,240	(771)
Decrease/(increase) in inventories		(4)	137
Decrease/(increase) in prepayments		1,841	(2,378)
Increase in other operating assets		(3,085)	(4,047)
Decrease in trade and other payables		(132)	(3,688)
Increase in employee benefits		856	76
Increase in other provisions		10,430	1,535
Decrease in other operating liabilities		(1,023)	(2,627)
		<b>12,890</b>	<b>8,853</b>
Interest received		4	26
Interest and other finance costs paid		(20)	-
		<b>12,874</b>	<b>8,879</b>
<b>Cash flows from investing activities</b>			
Net change in investments		(8,639)	(7,979)
Payments for property, plant and equipment	11	(926)	(552)
Payments for intangibles	14	(1,823)	(431)
Proceeds from disposal of property, plant and equipment		124	-
		<b>(11,264)</b>	<b>(8,962)</b>
<b>Cash flows from financing activities</b>			
Repayment of lease liabilities		(585)	-
		<b>(585)</b>	<b>-</b>
Net increase/(decrease) in cash and cash equivalents		1,025	(83)
Cash and cash equivalents at the beginning of the financial year		286	369
		<b>1,311</b>	<b>286</b>

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

# Notes to the financial statements

## 30 June 2020

### Note 1. Significant accounting policies

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

### New or amended Accounting Standards and Interpretations adopted

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

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

The following new Accounting Standards adopted that are most material to the company:

#### AASB 15 Revenue from contracts with customers

The company has adopted AASB 15 from 1 July 2019, using the modified retrospective method not to restate comparatives. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The majority of the company's revenue is recognised under AASB 1023 'General Insurance Contracts' which is not impacted by the adoption of AASB 15.

The company earns revenue that is within the scope of AASB 15, predominantly from the provision of services in dental and eyecare centres. Dental and eyecare centre revenue is recognised as the services are provided to the customers or goods sold. The company has performed a review of the revenue recognition under AASB 15 of these revenue streams, and the revenue recognition patterns remain consistent with the prior accounting policy. There was no material impact on the financial statements by the adoption of AASB 15 on these revenue streams.

#### AASB 16 Leases

The company has adopted AASB 16 from 1 July 2019, using the modified retrospective method not to restate comparatives. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

The company has not received any Coronavirus (COVID-19) related rent concessions.

The impact of adoption of AASB 16 on opening accumulated retained surpluses as at 1 July 2019 was \$nil as follows:

	1 July 2019 \$'000
Operating lease commitments as at 1 July 2019 (AASB 117)	978
Operating lease commitments discount based on the weighted average incremental borrowing rate of 2.5% (AASB 16)	(17)
Short-term leases not recognised as a right-of-use asset (AASB 16)	(53)
<b>Right-of-use assets (AASB 16)</b>	<b>908</b>
<b>Lease liabilities – current (AASB 16)</b>	<b>(411)</b>
<b>Lease liabilities – non-current (AASB 16)</b>	<b>(497)</b>
Impact on opening retained surpluses as at 1 July 2019 (AASB 16)	-

When adopting AASB 16 from 1 July 2019, the company has applied the following practical expedients:

- applying a single discount rate to the portfolio of leases with reasonably similar characteristics;
- accounting for leases with a remaining lease term of 12 months as at 1 July 2019 as short-term leases;
- excluding any initial direct costs from the measurement of right-of-use assets;
- using hindsight in determining the lease term when the contract contains options to extend or terminate the lease;
- not apply AASB 16 to contracts that were not previously identified as containing a lease; and
- recognise a right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

### Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for not-for-profit oriented entities.

### Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, the revaluation of financial assets and liabilities at fair value through profit or loss, investment properties and certain classes of property, plant and equipment.

### Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

### Revenue recognition

The company recognises revenue as follows:

#### Premium revenue

Premium revenue comprises premiums from private health insurance contracts held by policyholders. Premium revenue is recognised when it has been earned. Premium revenue is recognised from the attachment date over the period of the contract. The attachment date is from when the insurer accepts the risk from the insured under the insurance contract. Revenue is recognised in accordance with the pattern of the incidence of risk expected over the term of the contract.

The proportion of the premium received or receivable not earned in profit or loss at the reporting date is recognised in the statement of financial position as a liability. Any non-current portion is discounted based on expected settlement dates. Premiums on unclosed business are brought to account using estimates based on payment cycles nominated by the policyholder.

# Notes to the financial statements

## 30 June 2020

### Note 1. Significant accounting policies (continued)

#### Revenue from contracts with customers

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

#### Eye care centres revenue

Revenue from eye care centre revenue is recognised over time, upon delivery of the services to customers, which generally occurs in a single optical visit. Revenue from the delivery of goods to customers is recognised at a point-in-time.

#### Dental centres revenue

Revenue from dental centres is recognised over time, upon the delivery of the services to customers, which generally occurs in a single dental visit.

#### Rental income

Rent revenue from investment properties is recognised on a straight-line basis over the lease term. Lease incentives granted are recognised as part of the rental revenue. Contingent rentals are recognised as income in the period when earned.

#### Other revenue

Other revenue is recognised at the point-in-time when it is received or when the right to receive payment is established.

#### Interest

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.

#### Claims expense

Claims are recorded as an expense in the period in which the service has been provided to the member. The cost of claims therefore represents the claims paid during the period adjusted for the opening and closing provision for outstanding claims. The provision provides for claims received but not assessed and claims incurred but not received and is based on an actuarial assessment taking into account historical patterns of claims incidence and processing. No discount is applied to the provision due to the generally short period between claims incidence and settlement. The provision also provides for the expected payment to or receipt from the Risk Equalisation Trust Fund ('RETF') in relation to outstanding claims. The provision also allows for an estimate of expenses to cover the cost of processing the claims. Claims expense have been adjusted by a specific deferred claims provision due to the Coronavirus (COVID-19) pandemic, as detailed in the 'provisions' policy below.

#### Risk equalisation

Amounts payable to or receivable from the RETF are recognised in profit or loss in the period to which the payments or receipts relate.

Under current legislation, all private health insurers must participate in the RETF in which all private health insurers share the cost of the eligible claims of members aged 55 years and over, and claims meeting the high cost claim criteria. The Australian Prudential Regulation Authority ('APRA') determines the amount payable to or receivable from the RETF after the end of each quarter. Estimates of amounts payable or receivable are provided for periods where determinations have not yet been made. This includes an estimate of risk equalisation for unrepresented and outstanding claims.

Any amounts due or owing at the reporting date in relation to the period are brought to account as an asset or liability.

### Income tax

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

### Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the company's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the company's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

### Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days. The company has applied the simplified approach to measuring expected credit

losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

### Deferred acquisition costs

Direct acquisition costs incurred in obtaining health insurance contracts, including broker commissions, 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 profit or loss in subsequent reporting periods. Deferred acquisition costs are amortised on a straight-line basis in accordance with the expected pattern of the incidence of risk.

### Inventories

Inventories are stated at the lower of cost and net realisable value on a 'first in first out' basis. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

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

### Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

# Notes to the financial statements

## 30 June 2020

### Note 1. Significant accounting policies (continued)

#### Financial assets at amortised cost

Financial assets at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

#### Financial assets at fair value through profit or loss

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

#### Impairment of financial assets

The company recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the company's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured

on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through profit or loss. In all other cases, the loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

#### Assets backing private health insurance liabilities

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

All insurance backing financial assets are classified as fair value through the profit or loss.

#### Investment properties

Investment properties principally comprise of freehold land and buildings held for long-term rental and capital appreciation that are not occupied by the company. Investment properties are initially recognised at cost, including transaction costs, and are subsequently remeasured annually at fair value. Movements in fair value are recognised directly in profit or loss.

Investment properties are derecognised when disposed of or when there is no future economic benefit expected.

Transfers to and from investment properties to property, plant and equipment are determined by a change in use of owneroccupation. The fair value on the date of change of use from investment properties to property, plant and equipment are used as deemed cost for the subsequent accounting. The existing carrying amount of property, plant and equipment is used for the subsequent accounting cost of investment properties on the date of change of use.

#### Property, plant and equipment

Land, building structures and improvements are shown at fair value, based on periodic valuations, at least every three years by external independent valuers, less subsequent

depreciation and impairment for buildings. The valuations are undertaken more frequently if there is a material change in the fair value relative to the carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Increases in the carrying amounts arising on revaluation of land and buildings are credited in other comprehensive income through to the asset revaluation reserve in equity. Any revaluation decrements are initially taken in other comprehensive income through to the asset revaluation reserve to the extent of any previous revaluation surplus of the same asset. Thereafter the decrements are taken to profit or loss, however the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same class of asset previously recognised in profit or loss.

Plant and equipment and motor vehicles is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Buildings structures and improvements	7-40 years
Leasehold improvements	Over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter
Plant and equipment	3-7 years
Motor vehicles	5 years

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

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the company. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any asset revaluation reserve surplus relating to the item disposed of is transferred directly to retained profits.

## Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred and an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the company expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The company has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

## Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset.

# Notes to the financial statements

## 30 June 2020

### Note 1. Significant accounting policies (continued)

#### Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

#### Computer software

Significant costs associated with the purchase of, or internally developed, computer software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of three years.

#### Impairment of non-financial assets

Goodwill is not subject to amortisation and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

#### Trade and other payables

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

### Lease liabilities

#### Policy from 1 July 2019

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the company's incremental borrowing rate, being the rate that the company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. Lease payments comprise fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

#### Policy to 30 June 2019

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the company will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

### Unexpired risk liability

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

A liability adequacy test is required to be performed in respect of the unearned premium liability and insurance contracts renewable before the next pricing review (constructive obligation). The purpose of the test is to determine whether the insurance liability, net of related deferred acquisition costs, is adequate to cover the present value of expected cash outflows relating to future claims arising from rights and obligations under current insurance coverage.

An additional risk margin is included in the test to reflect the inherent uncertainty in the central estimate. The liability adequacy test is performed at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio.

If the present value of the expected future cash flows relating to future claims plus an additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability then the premium is deemed to be deficient. The company applies a risk margin to achieve the same probability of sufficiency for future claims as achieved by the estimate of the outstanding claims liability.

### Provisions

Provisions are recognised when the company has a present (legal or constructive) obligation as a result of a past event, it is probable the company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

#### Outstanding claims provision

A provision is made for outstanding claims at the reporting date, measured as the central estimate of the expected payments against claims incurred but not settled under insurance contracts. The expected future payments include those in relation to claims reported but not yet paid and claims incurred but not yet reported, together with allowances for RETF consequences and claims handling expenses.

#### Deferred claims provision

A provision is made for claims deferred as a result of Government imposed restrictions on elective surgeries and other health services due to the Coronavirus (COVID-19) pandemic. The provision is estimated on the basis of actual claims versus expected claims during the period in which the services were restricted, which was from March 2020 to June 2020 inclusive ('the COVID-19 period'). This took into account an estimate of the procedures and services deferred into the next financial year. The expected claims experience is based on observable daily claim amounts immediately preceding the Coronavirus (COVID-19) restrictions, taking into account changes in the customer base during the COVID-19 period.

### Employee benefits

#### Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

# Notes to the financial statements

## 30 June 2020

### Note 1. Significant accounting policies (continued)

#### Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

#### Defined contribution superannuation expense

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

#### Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and assumes that the transaction will take place either: in the principal market or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

For quoted investments, fair value is determined based on current bid price. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

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

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

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

### Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

### New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the company for the annual reporting period ended 30 June 2020. The company's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the company, are set out below.

#### AASB 17 Insurance Contracts

This standard is applicable to annual reporting periods beginning on or after 1 January 2023, which may be deferred for another year by the accounting setters. The standard replaces AASB 4 'Insurance Contracts', AASB 1023 'General Insurance Contracts' and AASB 1038 'Life Insurance Contracts' and will enhance comparability of accounting between products, companies and across jurisdictions by establishing principles for the recognition, measurement, presentation and disclosure of insurance contracts issued, including reinsurance contracts held and investment contracts with a discretionary participation feature. The standard reflects the view that an insurance contract combines features of both a financial instrument and a service contract. AASB 17 combines current measurement of future cash flows with the recognition of profit over the period services are provided under the contract; presents insurance service results and insurance revenue separately from insurance finance income or expenses;

and requires an accounting policy choice on a portfolio-by-portfolio basis of whether to recognise all insurance finance income or expenses in profit or loss or partially in other comprehensive income.

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

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

The company has undertaken an initial impact assessment and is considering implementation options.

#### Other amending accounting standards

Other amending accounting standards issued but not mandatory are not considered to have a significant impact on the financial statements of the company as they provide either clarification of existing accounting treatment or editorial amendments.

# Notes to the financial statements

## 30 June 2020

### Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

#### Provision for outstanding claims

As disclosed in note 1, a liability for outstanding claims is recognised at the reporting date, measured based on the central estimate of the expected payments against claims incurred but not settled at the reporting date. This 'central estimate' of outstanding claims is an estimate which is intended to contain no intentional over or under estimation. For this reason the inherent uncertainty in the central estimate must also be considered and a risk margin is added. The estimated cost of claims includes allowances for the RETF consequences and claims handling expense. Given the inherent uncertainty in establishing claims provisions, it is likely that actual results will differ from the original estimate.

The company uses estimation techniques in calculating the estimated cost of unpaid claims based upon statistical analysis of historical data. Allowance is made, however, for changes or uncertainties which may distort the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including changes to the company's processes which might accelerate or slow down the notification and/or recording of paid or incurred claims, compared with statistics from previous periods.

The calculation was determined taking into account benefits paid as at the reporting date.

The risk margin is based on an analysis of the past experience of the company. The analysis examined the volatility of the past payments that has not been explained by the model adopted to determine the central estimate. This past volatility has been assumed to be indicative of the future volatility. The central estimates are calculated gross of any risk equalisation recoveries. A separate estimate is made of the amounts that will be recoverable from the RETF based upon the gross provision.

Details of specific key estimates and judgements used in deriving the outstanding claims liability as at the reporting date are detailed in note 3.

#### Unexpired risk liability

Claims are recorded as an expense in the period in which the service has been provided to the member. The cost of claims therefore represents the claims paid during the period adjusted for the opening and closing provision for unrepresented and outstanding claims. The provision for unrepresented and outstanding claims provides for claims received but not assessed and claims incurred but not received. To calculate the provision the Liability Adequacy Test ('LAT') is performed in order to determine whether an unexpired risk liability needs to be recognised. Refer to note 17 for the assumptions. No discount is applied to the provision due to the generally short period between claims incidence and settlement. The provision also provides for the expected payment to or receipt from the RETF in relation to the amount provided for unrepresented and outstanding claims. The provision also allows for an estimate of expenses to cover the cost of processing the claims.

No deficiency was identified as at 30 June 2020 that resulted in an unexpired risk liability needing to be recognised. This test is also extended beyond the recognised unearned premium liability to include premiums renewable until the next repricing review, usually 1 April each year.

## Direct acquisition costs

The company pays an upfront commission to brokers on signing up new members. These upfront commissions are likely to give rise to future premium revenue beyond the current period and are able to be measured and directly attributed to a particular insurance contract. The company considers the duration of a health insurance contract to be an open-ended agreement as the company stands ready to continue to insure its members under continuing policies. However, general insurers amortise deferred acquisition costs usually over one year, as their policies generally have a defined term of one year. With health insurance, if the contract term is considered to be only the term to which the member has agreed to, or paid to, the deferred acquisition cost would be amortised over that term. This does not consider the open-ended nature of a health insurance contract, the contract periods to which future premium revenue will arise, nor the expected pattern of the incidence of risk under the insurance contracts to which the costs relate. For these reasons the company has assessed that it is more appropriate to use average retention rates to determine the appropriate member contract life and related amortisation period for members who purchase insurance through the broker channel.

The company re-performs this analysis at least annually for reassessment. For the year ended 30 June 2020, the average member contract life has been assessed as four years. This did not decrease the acquisition cost with no impact on the profit or loss. The recoverability of the related deferred acquisition costs is also considered as part of the liability adequacy test performed. As described in note 17, the company has no deficiency in the unearned premium liability at 30 June 2020.

## Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term.

In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the company's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The company reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

## Employee benefits provision

As discussed in note 1, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

## Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the company. The Coronavirus (COVID-19) pandemic has had an impact upon the financial statements, in two specific areas: (i) deferred claims and (ii) property valuations.

(i) **Deferred claims** – As discussed in note 1, a separate deferred claims provision has been recognised following APRA and ASIC's guidance to insurers, for claims which have been deferred as a result of Government imposed restrictions on elective surgeries and other health services due to the Coronavirus (COVID-19) pandemic. The provision is based on actual claims versus expected claims during the period in which the services were restricted, the expected claims experience is based on observable daily claim amounts immediately preceding the restrictions, taking into account changes in the customer base during the COVID-19 period. Refer to notes 3 and 17 for further details.

# Notes to the financial statements

## 30 June 2020

### Note 2. Critical accounting judgements, estimates and assumptions (continued)

(ii) **Property valuations** – There is significant valuation uncertainty arising from the Coronavirus (COVID-19) pandemic and the response of Government in relation to it. As a result, the value of land and buildings and investment properties may change significantly and unexpectedly over a relatively short period of time. As detailed in note 21, the valuations are prepared on the basis of ‘material valuation uncertainty’, noting that less certainty, and a higher degree of caution, should be attached to the valuations than would normally be the case

### Note 3. Actuarial assumptions and methods

#### Actuarial methods

The estimate for the outstanding claims provision is derived based on three valuation classes, namely hospital, medical and general treatment services.

In calculating the provision for unpaid claims two methods are used. For recent service months, the Bornhuetter-Ferguson method is given some weighting which progressively blends payment experience and prior forecasts of incurred costs. For other months, a chain ladder method is used. This assumes that the notification pattern of the current claims will be consistent with historical experience.

The deferred claims provision relates to claims deferred as a result of surgeries and other health services being restricted for

policyholders from March 2020 to June 2020 inclusive (‘the COVID-19 period’). This impacted health services for hospital, general treatment claims.

#### Key estimates and judgement – deferred claims provision

This provision is calculated by comparing the estimate of the insured surgeries and other procedures that were expected to occur during the COVID-19 period and the actual insured surgeries and other procedures that occurred during this period. Risks and uncertainties have been taken into account in the measurement of the deferred claims provision and are reflected in the key inputs and judgment.

The key judgment and inputs into the deferred claims provision include:

- incurred claim estimates recognised as at 30 June 2020 as part of the year-end outstanding claims provisioning;
- incurred claim forecasts prepared prior to COVID-19 impacting claims activity; and
- the expected proportion of the difference between the forecasts which represents deferred claims. The expected claims deferral rates are 100% (2019: Not applicable) for hospital and medical claims, and 85% (2019: Not applicable) for general treatment claims.

#### Actuarial assumptions – outstanding claims liability

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

Variables	2020	2020	2020	2019	2019	2019
	Hospital %	Medical %	General treatment %	Hospital %	Medical %	General treatment %
Assumed portion paid to date	90.32	91.46	97.75	89.23	90.45	96.77
Expense rate	1.50	1.50	1.50	3.50	3.50	3.50
Risk equalisation rate	(7.50)	(7.50)	(7.50)	(9.60)	(9.60)	(9.60)
Risk margin	11.00	11.00	11.00	11.00	11.00	11.00

The risk margin of 11% (2019: 11%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 75% (2019: 75%).

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## Process used to determine assumptions – outstanding claims liability

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

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### Factor

<b>Chain ladder development factors</b>	Chain ladder development factors were selected based on observations of historical claim payment experience. Particular attention was given to the development of the most recent 12 months. An increase/decrease would lead to a higher/lower projection of the ultimate liability and a corresponding increase/decrease in claims expense respectively.
<b>Bornhuetter-Ferguson unpaid factors</b>	Bornhuetter-Ferguson unpaid factors were selected based on historical patterns of payment (by notification) to ultimate incurred claims. Essentially, the proportion of ultimate incurred claims to be paid by notification month is selected based on observations from the historical notification. The “unpaid proportion” is then multiplied by a prior forecast of incurred claims for each service month to determine the outstanding claims estimate. An increase/decrease would lead to a higher/lower projection of the ultimate liability and a corresponding increase/decrease in claims expense respectively.
<b>Discount rate</b>	As insurance claims for the company are generally settled within one year, no discounting of claims is usually applied as the difference between the undiscounted value of claims payments and the present value of claims payments is not likely to be material.
<b>Expense rate</b>	Claims handling expenses were calculated by reference to past experience of total claims handling costs as a percentage of total past payments. An increase/decrease in this expense rate would have a corresponding effect on the claims expense.
<b>Risk equalisation allowance</b>	Risk equalisation is a mechanism designed to help support community rating. The company has been a net recipient from the pool for the last five financial years. This allowance represents the expected receipt from the pool in respect of the outstanding claims.
<b>Risk margin</b>	The risk margin has been based on an analysis of the past experience of the company. This analysis examined the volatility of past payments that has not been explained by the model adopted to determine the central estimate. This past volatility has been assumed to be indicative of the future volatility and has been set at a level estimated to equate to a probability of adequacy of 75% (2019: 75%). An increase/decrease in the risk margin would have a corresponding effect on the claims expense.

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# Notes to the financial statements

## 30 June 2020

### Note 3. Actuarial assumptions and methods (continued)

#### Sensitivity analysis – insurance contracts

The company conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables as disclosed above. The movement in any key variable will impact the performance and equity of the company, as outlined in the table below:

#### Impact on key variables

Variables	Movement in variable %	Adjustments on surplus/ (deficit) \$'000	Adjustments on equity \$'000
Chain ladder development factors	10.0% (10.0%)	491 (491)	491 (491)
Bornhuetter-Ferguson unpaid factors	10.0% (10.0%)	1,328 (1,328)	1,328 (1,328)
Expense rate	1.0% (1.0%)	167 (167)	167 (167)
Risk equalisation	1.0% (1.0%)	156 (156)	156 (156)
Risk margin	1.0% (1.0%)	143 (143)	143 (143)

### Note 4. Other revenue

	2020 \$'000	2019 \$'000
Eye care centres revenue	2,429	3,048
Dental centres revenue	2,694	3,322
Rental income	484	365
Other revenue	2	5
	<b>5,609</b>	<b>6,740</b>

#### Disaggregation of revenue:

Eye care centre revenue and dental centres revenue is recognised over time, upon delivery of the services to customers. All revenue is generated in Australia.

## Note 5. Expenses

	2020 \$'000	2019 \$'000
(Loss)/profit before income tax includes the following specific expenses:		
<b>Depreciation</b>		
Building structures and improvements	213	260
Leasehold improvements	374	473
Plant and equipment	691	659
Motor vehicles	140	150
Investment properties	174	33
Land and buildings right-of-use assets	604	-
<b>Total depreciation</b>	<b>2,196</b>	<b>1,575</b>
<b>Amortisation</b>		
Computer software	851	353
<b>Total depreciation and amortisation</b>	<b>3,047</b>	<b>1,928</b>
<b>Finance costs</b>		
Interest and finance charges paid/payable on lease liabilities	20	-
<b>Leases</b>		
Minimum lease payments	-	912
Short-term lease payments	213	-
Low-value assets lease payments	68	-
<b>Total leases</b>	<b>281</b>	<b>912</b>
<b>Employee costs</b>		
Salaries, wages and employment entitlements	16,989	16,772
Payroll tax	930	840
Superannuation	1,534	1,396
Other	876	640
<b>Total employee costs</b>	<b>20,329</b>	<b>19,648</b>

# Notes to the financial statements

## 30 June 2020

### Note 6. Trade and other receivables

	2020 \$'000	2019 \$'000
<b>Current assets</b>		
Trade receivables	54	938
Premiums in arrears	239	419
Less: allowance for expected credit losses of premiums in arrears	(50)	(116)
	<b>243</b>	<b>1,241</b>
Medicare rebates	4,177	3,794
RETF refund	1,470	4,036
Investment income receivable	162	221
	<b>6,052</b>	<b>9,292</b>

#### Allowance for expected credit losses

The company has recognised a recovery of \$66,000 (2019: loss of \$6,000) in profit or loss in respect of impairment of premiums in arrears and \$nil (2019: \$nil) in respect of impairment of trade receivables.

The ageing of trade receivables and premiums in arrears and allowance for expected credit losses provided for above are as follows:

	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	2020 %	2019 %	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Not overdue	-	-	55	16	-	-
0 to 6 months overdue	-	-	-	922	-	-
Over 6 months overdue and premiums in arrears	20.9%	27.7%	238	419	50	116
			<b>293</b>	<b>1,357</b>	<b>50</b>	<b>116</b>

Movements in the allowance for expected credit losses are as follows:

	2020 \$'000	2019 \$'000
Opening balance	116	110
(Decrease)/increase in provisions recognised	(66)	6
Closing balance	<b>50</b>	<b>116</b>

### Note 7. Financial assets at fair value through profit or loss

	2020 \$'000	2019 \$'000
<b>Current assets</b>		
Term deposits	26,933	34,515
Cash at call	40,837	16,451
	<b>67,770</b>	<b>50,966</b>

Refer to note 21 for further information on fair value measurement.

### Note 8. Deferred acquisition costs

	2020 \$'000	2019 \$'000
<b>Current assets</b>		
Deferred acquisition costs	1,780	1,000
<b>Non-current assets</b>		
Deferred acquisition costs	3,337	2,499

### Movements in deferred acquisition costs

Movements in deferred acquisition costs (both current and non-current) are set out below:

	2020 \$'000	2019 \$'000
Opening balance	3,499	-
Additions	3,172	4,024
Amortisation	(1,554)	(525)
Carrying amount at the end of the year	5,117	3,499

### Note 9. Other

	2020 \$'000	2019 \$'000
<b>Current assets</b>		
Prepayments	878	2,719
Unclosed business	507	592
	<b>1,385</b>	<b>3,311</b>

### Note 10. Financial assets at fair value through profit or loss

	2020 \$'000	2019 \$'000
<b>Non-current assets</b>		
Mortgage backed securities	1,150	1,830
Managed funds	122,812	130,297
	<b>123,962</b>	<b>132,127</b>

Refer to note 20 for further information on financial instruments and insurance risks and note 21 for further information on fair value measurement.

# Notes to the financial statements

## 30 June 2020

### Note 11. Property, plant and equipment

	2020 \$'000	2019 \$'000
<b>Non-current assets</b>		
Land, building structures and improvements	12,298	12,475
Less: accumulated depreciation	(1,921)	(1,954)
Less: Impairment	(733)	(910)
	<b>9,644</b>	<b>9,611</b>
Leasehold improvement	2,153	2,983
Less: accumulated depreciation	(1,816)	(2,540)
	<b>337</b>	<b>443</b>
Plant and equipment	4,345	8,726
Less: accumulated depreciation	(3,118)	(7,015)
	<b>1,227</b>	<b>1,711</b>
Motor vehicles	980	961
Less: accumulated depreciation	(646)	(642)
	<b>334</b>	<b>319</b>
	<b>11,542</b>	<b>12,084</b>

### Reconciliations

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

	Land, building structures and improvements \$'000	Leasehold improvement \$'000	Plant and equipment \$'000	Motor vehicles \$'000	Total \$'000
Balance at 1 July 2018	11,260	890	1,967	477	14,594
Additions	123	26	403	-	552
Disposals	-	-	-	(8)	(8)
Reversal of impairment of assets	2,271	-	-	-	2,271
Transfers to investment properties (note 12)	(3,783)	-	-	-	(3,783)
Depreciation expense	(260)	(473)	(659)	(150)	(1,542)
Balance at 30 June 2019	9,611	443	1,711	319	12,084
Additions	69	274	292	291	926
Disposals	-	(6)	(85)	(136)	(227)
Reversal of impairment of assets	177	-	-	-	177
Depreciation expense	(213)	(374)	(691)	(140)	(1,418)
Balance at 30 June 2020	9,644	337	1,227	334	11,542

### Valuations of land and buildings

Refer to note 21 for details on the revaluation of land and buildings.

## Note 12. Investment properties

	2020 \$'000	2019 \$'000
<b>Non-current assets</b>		
Investment properties – fair value	6,896	7,245

### Reconciliation

Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:

	2020 \$'000	2019 \$'000
Opening fair value	7,245	5,760
Disposals	(457)	-
Revaluation increments/(decrements)	282	(2,265)
Transfer from property, plant and equipment (note 11)	-	3,783
Depreciation expense	(174)	(33)
Closing fair value	6,896	7,245

### Valuations of investment properties

Refer to note 21 for details on the fair value of investment properties.

### Rental income and expenses

Rental income amounts to \$484,000 (2019: \$365,000) included within other revenue, as detailed in note 4. Direct lessor property expenses of \$219,000 (2019: \$133,000) payable by the lessor were reported within other expenses, of which \$nil (2019: \$nil) was incurred on vacant properties that did not generate rental income.

The company's rental income was not significantly impacted by the Coronavirus (COVID-19) pandemic.

	2020 \$'000	2019 \$'000
<b>Lessor entitlements</b>		
Minimum lease commitments receivable but not recognised in the financial statements:		
Within one year	464	449
One to five years	1,096	1,454
	1,560	1,903

# Notes to the financial statements

## 30 June 2020

### Note 13. Right-of-use assets

	2020 \$'000	2019 \$'000
<b>Non-current assets</b>		
Land and buildings – right-of-use	1,408	-
Less: Accumulated depreciation	(604)	-
	<b>804</b>	<b>-</b>

Additions to the right-of-use assets during the year were \$499,000.

The company leases premises, for the operation of health care centres, under agreements of between one to four years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

The company leases office equipment under agreements of less than one year. These leases are either short-term or lowvalue, so have been expensed as incurred and not capitalised as right-of-use assets.

### Note 14. Intangibles

	2020 \$'000	2019 \$'000
<b>Non-current assets</b>		
Goodwill – at cost	-	527
Less: Impairment	-	(527)
	-	-
Computer software – at cost	3,258	3,681
Less: Accumulated amortisation	(1,604)	(2,997)
	<b>1,654</b>	<b>684</b>
	<b>1,654</b>	<b>684</b>

### Reconciliations

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

	Goodwill \$'000	Computer software \$'000	Total \$'000
Balance at 1 July 2018	527	606	1,133
Additions	-	431	431
Impairment of assets	(527)	-	(527)
Amortisation expense	-	(353)	(353)
Balance at 30 June 2019	-	684	684
Additions	-	1,823	1,823
Impairment of assets	-	(2)	(2)
Amortisation expense	-	(851)	(851)
Balance at 30 June 2020	-	1,654	1,654

### Note 15. Trade and other payables

	2020 \$'000	2019 \$'000
<b>Current liabilities</b>		
Trade payables	671	821
Accrued expenses	630	358
	1,301	1,179

Refer to note 20 for further information on financial instruments and insurance risks.

### Note 16. Lease liabilities

	2020 \$'000	2019 \$'000
<b>Current liabilities</b>		
Lease liability	486	-
<b>Non-current liabilities</b>		
Lease liability	337	-

Refer to note 20 for further information on financial instruments and insurance risks.

### Note 17. Provisions

	2020 \$'000	2019 \$'000
<b>Current liabilities</b>		
Lease make good	101	119
Deferred claims	11,870	-
Outstanding claims	15,833	17,255
	27,804	17,374

### Movements in provisions

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

2020	Lease make good \$'000	Deferred claims \$'000	Outstanding claims \$'000
Carrying amount at the start of the year	119	-	17,255
Additional provisions recognised	-	11,870	-
Amounts used	(18)	-	(1,422)
	101	11,870	15,833

# Notes to the financial statements

## 30 June 2020

### Note 17. Provisions (continued)

#### Lease make good

The provision represents the present value of the estimated costs to make good the premises leased by the company at the end of the respective lease terms.

#### Deferred claims

A deferred claims provision has been accrued separately to the outstanding claims provision following APRA and ASIC's guidance to insurers on 22 June 2020. The liability calculation assumes that pre-Coronavirus (COVID-19) claim estimates between March 2020 and June 2020 will be fully realised through a catch up period in the next financial year to 30 June 2021. The calculation assumes that 100% of pre-Coronavirus (COVID-19) expected hospital and medical claims and 85% of pre-Coronavirus (COVID-19) expected ancillary claims will be realised. The liability will be fully wound back by 30 June 2021 which is in line with APRA and ASIC's guidance.

	2020 \$'000	2019 \$'000
Provision for deferred claims	11,870	-

#### Outstanding claims

The provision represents outstanding claims either being processed at the end of the reporting date or yet to be received by the company in accordance with the terms and conditions of each health insurance policy. Refer to note 3 for actuarial assumptions and methods used.

	2020 \$'000	2019 \$'000
Outstanding claims – central estimate of the expected future payment for claims incurred	14,037	14,971
Claims handling expense	227	574
Risk margin	1,569	1,710
Net outstanding claims liability	15,833	17,255

#### Provision for unexpired risk liability

	Unearned premium \$'000	Unearned unclosed business \$'000	Constructive obligation \$'000	Total \$'000
<b>2020</b>				
<b>Inflows</b>				
Hospital and general treatment combined premium	27,156	507	177,098	204,761
<b>Outflows</b>				
Central estimate of future benefits	(23,390)	(436)	(153,354)	(177,180)
Central estimate of future management expenses	(2,200)	(41)	(14,345)	(16,586)
Risk margin	(1,086)	(20)	(7,084)	(8,190)
Total outflows	(26,676)	(497)	(174,783)	(201,956)
Net surplus	480	10	2,315	2,805

2019	Unearned premium \$'000	Unearned unclosed business \$'000	Constructive obligation \$'000	Total \$'000
<b>Inflows</b>				
Hospital and general treatment combined premium	28,179	590	161,085	189,854
<b>Outflows</b>				
Central estimate of future benefits	(23,737)	(497)	(136,757)	(160,991)
Central estimate of future management expenses	(1,267)	(27)	(7,244)	(8,538)
Risk margin	(1,000)	(21)	(5,760)	(6,781)
Total outflows	(26,004)	(545)	(149,761)	(176,310)
Net surplus	2,175	45	11,324	13,544

The total unexpired risk liability was \$nil (2019: \$nil).

The reporting date liability adequacy test has identified a surplus and as such no provision for unexpired risk liability has been recognised.

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

The risk margin of 4% (2019: 4%) applied to the benefits, risk equalisation, state levies and claims related expenses cash flows has been estimated to equate to a probability of adequacy of approximately 75% (2019: 75%).

## Note 18. Other

	2020 \$'000	2019 \$'000
<b>Current liabilities</b>		
Deferred commissions payable	693	864
Unearned unclosed business	507	590
Unearned premiums	27,156	28,179
	<b>28,356</b>	<b>29,633</b>

# Notes to the financial statements

## 30 June 2020

### Note 19. Capital management

The company operates in the private health insurance industry and is subject to prudential capital regulations determined in accordance with the capital adequacy and solvency standards which are set out by the Australian Prudential Regulation Authority ('APRA').

#### APRA Prudential Standard HPS 110 'Capital Adequacy'

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

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

- a description of the Board's risk appetite as it relates to capital needs and the process used to determine that appetite;
- target capital levels which have regard to access to capital and the impact on premiums of holding more or less capital than the amount determined;
- details of how the capital target is calculated; and
- clearly defined capital trigger points and corrective actions for each of the trigger points which specifies the actions and timeframes for those actions that the company may utilise to return capital to the target levels.

The Board's policy is to maintain a strong capital base and to hold capital in accordance with the company's capital management plan. At the end of the reporting period, the company had capital well in excess of the minimum statutory requirements and slightly above the target capital range endorsed by the Board in the capital management plan.

The Board reviews the capital management plan on an annual basis.

#### APRA Prudential Standard HPS 100 'Solvency Standard'

This standard requires, as far as practicable, that at any time the financial position of a health benefits fund conducted by the company will be able to meet, out of the Fund's assets, all liabilities that are referable to the Fund, as those liabilities become due. It is also a requirement of the Solvency Standard that the company have and comply with a Board endorsed liquidity management plan for each health benefits fund it conducts. The liquidity management plan includes Board approved minimum liquidity requirements and management action triggers should liquidity fall below the minimum set down by the Board.

The company has a Board endorsed liquidity management plan in place and all liquidity requirements were met at 30 June 2020 and 30 June 2019.

The Board reviews the solvency of the company on a regular basis.

### Note 20. Financial instruments and insurance risks

#### Financial risk management objectives

The company's activities expose it to a variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk and insurance risk. The company's overall strategy seeks to assist the company in meeting its financial targets, while minimising potential adverse effects on financial performance.

The Audit Committee and the Risk Committee have been delegated responsibility by the Board for, amongst other issues, monitoring and managing financial risk exposures of the company. An investment policy has been developed by the Board and is subject to regular review.

#### Market risk

##### Price risk

The company is not exposed to any direct equity price risk as it does not hold any such financial assets at fair value. However, the company is exposed indirectly to the market where it invests in assets such as managed funds.

## Interest rate risk

The company's main interest rate risk arises from its financial assets. Financial assets held at variable rates (cash and cash equivalents, cash at call, security deposits, mortgage backed securities and managed funds)

expose the company to interest rate risk, whereas financial assets held at fixed rates (term deposits) expose the company to fair value interest rate risk.

As at the reporting date, the company had the following financial assets exposed to interest rate risk:

	2020 \$'000	2019 \$'000
Cash at bank	1,311	254
Cash at call	40,837	16,451
Mortgage backed securities	1,150	1,830
Managed funds	122,812	130,297
<b>Net exposure to interest rate risk</b>	<b>166,110</b>	<b>148,832</b>

An official increase/decrease in interest rates of 50 (2019: 50) basis points would have a favourable/adverse effect on surplus before tax and retained surpluses of \$831,000 (2019: \$744,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts.

These provisions are considered representative across all customers of the company based on historical collection rates and forward-looking information that is available. Generally, premiums in arrears and trade receivables are written off when there is no reasonable expectation of recovery. Refer to note 6.

## Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The company does not hold any collateral.

The company manages credit risk as outlined in its Investment Policy and Guidelines. The Investment Policy addresses each of the matters required by APRA Prudential Standard HPS 110.

The target asset allocation for the investment portfolio is up to 35% growth assets, with the balance in defensive assets. It is acceptable for 100% of the investment portfolio to be in defensive assets, and there is no minimum allocation to growth assets.

The company has adopted a lifetime expected loss allowance in estimating expected credit losses to premiums in arrears and trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning.

The investment policy only applies to the investment reserve managed by the company's custodian.

# Notes to the financial statements

## 30 June 2020

### Note 20. Financial instruments and insurance risks (continued)

The target allocation limit is:

Allocation type	Asset	Target allocation	Minimum allocation	Maximum allocation
Defensive	Cash	23%	10%	100%
	Fixed interest	42%	-	90%
Growth	Australian equities	15%	-	30%
	International equities	10%	-	20%
	Global listed property	5%	-	10%
	Global listed infrastructure	5%	-	10%
Total		100%		

The investment allocation at the end of the reporting period was:

Allocation type	Asset	2020 \$,000	2020 %	2019 \$,000	2019 %
Defensive	Cash	35,338	22%	38,205	23%
	Fixed interest	70,538	45%	70,544	42%
Growth	Australian equities	21,387	14%	25,419	15%
	International equities	16,496	10%	17,502	10%
	Global listed property	6,789	4%	8,291	5%
	Global listed infrastructure	7,602	5%	8,541	5%
Total		158,150	100%	168,502	100%

Acceptable investments include:

#### 11am call deposits

Cash invested on an overnight basis. Funds can be recalled or re-invested before 11am on the following business day.

#### Term deposits

Funds invested with a financial institution at a predetermined rate that applies to the duration of the deposit. The principal is held on deposit for a fixed term with interest payable at maturity. It is not a tradeable security and the investor is penalised when funds are prepaid.

#### Bank bills

Bank-accepted bills are bills of exchange drawn by a company or individual (borrower) usually for periods between 30 and 180 days. The bill is accepted by the bank, which in turn accepts the liability for payment at maturity.

It is a short-term investment issued at a discount to the face value and is of a very high credit standing, consequently trades at the lowest yields of all commercially issued bills.

#### Negotiable certificate of deposit ('NCD')

Short-term bearer securities issued by banks for up to 180-days. They are sold at a discount to face value and are highly liquid discount securities, representing the bank's debt, therefore trade at similar yields to bank bills. Creditworthiness of the bank will determine where the bank's NCD trades, relative to the Bank Bill Swap Rate ('BBSW').

#### Floating rate note ('FRN')

The FRN is a longer-term security issued for a fixed period of time but has a variable (floating) coupon on a monthly or quarterly basis. The coupon reflects current interest rates, which is determined as a margin over the BBSW rate set.

FRN's appeal to investors who are reluctant to commit funds to fixed interest investments for longer periods in times of fluctuating interest rates. Typical issuers are banks, corporates, financial institutions and securitised vehicles.

### Floating rate negotiable certificate of deposit

An NCD, which is issued by a bank for a set period of time with a variable rate, set on a quarterly or monthly basis over the fixed term. The interest rate is set against the BBSW reference rate reflecting the current market rate at each interval. These are issued as a rolling discount security.

### Commonwealth and semi Government bonds

Securities issued by the Federal or State Governments that typically pay a fixed rate of interest (coupon) and mature at a fixed point in time. The interest (coupon) is paid at regular intervals (semi-annually, but can be paid monthly, quarterly, or annually). These securities are generally issued for a period of greater than one year.

### Sector specific pooled managed funds

These funds invest in one particular asset sector. By way of example the company's existing pooled managed fund that being the UBS Australian Bond Fund only invests in Australian fixed interest securities, with

the aim of outperforming the Bloomberg AusBond Composite Bond Index over the medium term. The investment can be generally redeemed in T+5 business days. Another example is an Australian or international share focussed fund which has a longer term investment horizon bias due to their exposure to share assets. The investment can be generally redeemed in T+5 business days.

### Diversified pooled managed funds

These funds invest in a pre-determined range of asset classes including cash, fixed interest, property, and Australian & international shares. The weighting among the various asset classes will differ depending upon the type of diversified fund chosen, e.g. a Conservative Funds have a higher weighting in cash and fixed interest than Balanced Funds that have higher weightings in growth assets such as property and shares.

### Capital guaranteed investments

A capital guaranteed investment is an investment product which includes a guarantee by a financial institution that an investor will receive a pre-agreed amount of capital back if the product is held to maturity.

In addition to the investment reserve, the company also internally manages a portfolio of cash, term deposits and mortgage backed securities. The value of this portfolio at the end of the reporting period was:

Asset	2020 \$'000	2019 \$'000
Cash	29,376	4,761
Term deposit	3,056	8,000
Mortgage backed securities	1,150	1,830
Total	33,582	14,591

Whilst these products aim to limit the amount of capital loss, they can also limit the amount of return that investors can obtain if the investments appreciate. This compromise is how the offering institutions can afford to guarantee the principal investment.

At the end of the reporting period the maximum amount held with one financial institution was \$38,791,943. Given the conservative nature of the portfolio the company expects all counterparty's to meet their obligation.

# Notes to the financial statements

## 30 June 2020

### Note 20. Financial instruments and insurance risks (continued)

#### Liquidity risk

Vigilant liquidity risk management requires the company to maintain sufficient liquid assets (mainly cash and cash equivalents) to be able to pay debts as and when they become due and payable.

The company manages liquidity risk by maintaining adequate cash reserves and continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

#### Remaining contractual maturities

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

	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
<b>2020</b>					
<b>Non-derivatives</b>					
<b>Non-interest bearing</b>					
Trade payables	671	-	-	-	671
Other liabilities	28,356	-	-	-	28,356
<b>Interest-bearing – fixed rate</b>					
Lease liability	486	308	29	-	823
<b>Total non-derivatives</b>	<b>29,513</b>	<b>308</b>	<b>29</b>	<b>-</b>	<b>29,850</b>

	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
<b>2019</b>					
<b>Non-derivatives</b>					
<b>Non-interest bearing</b>					
Trade payables	821	-	-	-	821
Other liabilities	29,633	-	-	-	29,633
<b>Total non-derivatives</b>	<b>30,454</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30,454</b>

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

## Insurance risk

Insurance risk is the risk of fluctuations in the timing, frequency and severity of claim settlements relative to expectations.

The company provides private health insurance products including hospital cover and extras cover, as standalone products or packaged products that combine the two.

These services are categorised as two types of contracts: hospital and/or extra covers.

The table below sets out the key variables upon which the cash flows of the insurance contracts are dependent.

Type of cover	Details of cover	Nature of claims	Key variables affecting cash flows
Hospital cover	Defined benefits paid for hospital treatment, including accommodation, medical and prostheses costs.	Hospital benefits defined by the insurance contract or relevant deed.	Claims incidence and claims inflation.
Extras cover	Defined benefits paid for ancillary treatment, such as dental, optical, physiotherapy and chiropractic services.	Extras benefits defined by the insurance contract or relevant deed.	Claims incidence and claims inflation.

The provision of private health insurance in Australia is governed by the Private Health Insurance Act 2007 and shaped by a number of regulatory factors. These factors include:

- (a) the principle of community rating. This principle prevents private health insurers from discriminating between people on the basis of their health status, age, race, sex, sexuality, the frequency that a person needs treatment, or claims history;
- (b) risk equalisation which supports the principle of community rating. Private health insurance averages out the cost of hospital treatment across the industry. The risk equalisation scheme transfers money from private health insurers with younger healthier members with lower average claims payments to those insurers with an older and less healthy membership and which have higher average claims payments;
- (c) the Private Health Insurance Act 2007 limits the types of treatments that private health insurers are able to offer as part of their health insurance business; and
- (d) premiums for health insurance can only be changed with the approval of the Minister for Health.

Insurance risks are managed through the following:

**Claims management** – Strict claims management ensures the timely and correct payment of claims in accordance with policy conditions and provider contracts. Claims are regularly monitored and tracked.

**Experience monitoring** – Regular financial and operational results, including investment returns and capital requirements, are reported to the Audit Committee and the Risk Committee, and the Board. This included regular monitoring of claims experience during the COVID-19 period. Results are also monitored against industry for insurance risks and experience trends as published by the regulator.

**Ability to vary premium rates** – The company can vary future premium rates subject to (d) above.

# Notes to the financial statements

## 30 June 2020

### Note 20. Financial instruments and insurance risks (continued)

**Risk equalisation** – Private health insurance legislation requires private health insurance contracts to meet community rating requirements, as detailed in (a) above. To support these restrictions, all private health insurers must participate in the Risk Equalisation Trust Fund.

**COVID-19 deferred claims provision** – The company's capital management policy requires a sufficient level of capital to be held by the company. The company has created a deferred claims provision to fund claims delayed due to the Coronavirus (COVID-19) pandemic.

### Note 21. Fair value measurement

#### Fair value hierarchy

The following tables detail the company's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

**Level 1** – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the company can access at the measurement date

**Level 2** – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

**Level 3** – Unobservable inputs for the asset or liability

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>2020</b>				
Term deposits	26,933	-	-	26,933
Cash at call	40,837	-	-	40,837
Mortgage backed securities	-	1,150	-	1,150
Managed funds	-	122,812	-	122,812
Land and buildings	-	-	9,644	9,644
Investment properties	-	-	6,896	6,896
<b>Total assets</b>	<b>67,770</b>	<b>123,962</b>	<b>16,540</b>	<b>208,272</b>
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>2019</b>				
Term deposits	34,515	-	-	34,515
Cash at call	16,451	-	-	16,451
Mortgage backed securities	-	1,830	-	1,830
Managed funds	-	130,297	-	130,297
Land and buildings	-	-	9,611	9,611
Investment properties	-	-	7,245	7,245
<b>Total assets</b>	<b>50,966</b>	<b>132,127</b>	<b>16,856</b>	<b>199,949</b>

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables, financial assets and trade and other payables are assumed to approximate their fair values due to their short-term nature.

## Valuation techniques for fair value measurements categorised within level 2 and level 3

Two land and buildings were independently valued by Herron Todd White Ltd in May 2020 while the remaining assets have a revaluation as at 30 June 2018. These valuations have been conducted on the basis of market value and have been performed through a review of sale and rental values of comparable properties within close proximity. The directors consider that there has been no material change to the valuations as at 30 June 2020.

Investment properties are revalued annually based on independent assessments by a member of the Australian Property Institute having recent experience in the location and category of investment property being valued. Valuations are based on current prices in an active market for similar properties of the same location and condition, subject to similar leases and takes into consideration occupancy rates and returns on investment, (i.e. the income capitalisation approach). The fair value was independently valued by Herron Todd White Ltd in May 2020 and assessed by the directors as at 30 June 2020.

When calculating the income capitalisation approach, the net market rent has a strong interrelationship with the adopted capitalisation rate given the methodology involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value. An increase/decrease in the net market rent and an increase (softening)/decrease (tightening) in the adopted capitalisation rate could potentially offset the impact to the fair value. A directionally opposite change in the net market rent and the adopted capitalisation rate could potentially magnify the impact to the fair value.

As at the date of valuations, there is significant valuation uncertainty arising from the Coronavirus (COVID-19) pandemic and the response of Government in relation to it. As a result property values may change significantly and unexpectedly over a relatively short period of time. The valuations are prepared on the basis of 'material valuation uncertainty', noting that less certainty, and a higher degree of caution, should be attached to the valuations than would normally be the case.

The current responses to the pandemic means that the company has faced an unprecedented set of circumstances on which to base its judgement. These market conditions remained at the reporting date.

The key assumptions and estimates used in the valuation approach, which are likely to be impacted by the Coronavirus (COVID-19) pandemic, include:

- future rental income, based on location, type and quality of property, which are supported by the terms of any existing leases, external evidence such as current market rents for similar properties;
- lease assumption based on current and expected future market conditions;
- the capitalisation rate derived from recent comparable market transactions; and
- the impact of government support on tenants and rental schemes giving rise to possible rental deferrals and rental forgiveness.

The property valuations are based on information available at the reporting date. In the event that the circumstances are more material or prolonged than anticipated, this may further impact the fair value of the company's properties.

Mortgage backed securities and managed funds at fair value are revalued monthly based on current market price provided by the custodian.

# Notes to the financial statements

## 30 June 2020

### Note 21. Fair value measurement (continued)

#### Level 3 assets and liabilities

Movements in level 3 assets during the current and previous financial year are set out in notes 11 and 12.

The level 3 assets and liabilities unobservable inputs and sensitivity are as follows:

Description	Unobservable inputs	Range (weighed average) %	Sensitivity %	Movement in fair value \$'000
Land and building	Capitalisation rate	7.50%	(0.25%)	(333)
	Capitalisation rate	7.50%	0.25%	311
Investment properties	Capitalisation rate	7.50%	(0.25%)	(238)
	Capitalisation rate	7.50%	0.25%	222

### Note 22. Remuneration of auditors

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

	2020 \$	2019 \$
<b>Audit services – Grant Thornton</b>		
Audit or review of the financial statements	99,221	81,900
<b>Other services – Grant Thornton</b>		
Audit of APRA returns	11,100	10,900
Other assurance related services	30,800	14,600
	41,900	25,500
	141,121	107,400

### Note 23. Contingent liabilities

The company has given bank guarantees as at 30 June 2020 of \$161,000 (2019: \$142,000) to various landlords.

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## Note 24. Related party transactions

### Parent entity

Westfund Limited is the parent entity.

### Key management personnel

Disclosures relating to key management personnel are set out in note 25.

### Transactions with related parties

Directors and key management personnel may hold insurance policies with the company. These are on normal commercial terms and conditions and at market rates.

### Receivable from and payable to related parties

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

### Loans to/from related parties

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

## Note 25. Key management personnel disclosures

### Compensation

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

	2020	2019
	\$	\$
Short-term employee benefits	2,391,216	1,991,663
Post-employment benefits	-	48,908
Termination benefits	60,893	95,493
	<b>2,452,109</b>	<b>2,136,064</b>

## Note 26. Events after the reporting period

No matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the company's operations, the results of those operations, or the company's state of affairs in future financial years.

# Directors' declaration

## 30 June 2020

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In the directors' opinion:

- the financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the financial statements and notes give a true and fair view of the company's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

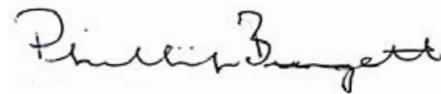
Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



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**Graeme Osborne**  
Chair



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**Phillip Burgett**  
Director

21 September 2020  
Lithgow

# Independent auditor's report

## To the members of Westfund Limited

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### Report on the audit of the financial report

#### Opinion

We have audited the financial report of Westfund Limited (the Company), which comprises the statement of financial position as at 30 June 2020, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

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

- giving a true and fair view of the Company's financial position as at 30 June 2020 and of its performance for the year ended on that date; and
- complying with Australian Accounting Standards and the Corporations Regulations 2001.

#### Basis for opinion

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

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

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# Independent auditor's report

## To the members of Westfund Limited

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### Emphasis of matter – material uncertainty regarding property valuations

We draw attention to Note 21 Fair value measurement in the financial report. This Note describes the impact of the valuation uncertainty arising from the COVID-19 pandemic on the Westfund Limited's financial position and performance.

In our view, this matter is fundamental to the user's understanding of the financial report, and the financial position and performance of Westfund Limited. Our opinion is not modified in respect to this matter.

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

The Directors are responsible for the other information. The other information comprises the information included in the Company's Annual Report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

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

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

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

### Responsibilities of the Directors' for the financial report

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

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

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## Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

[https://www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](https://www.auasb.gov.au/auditors_responsibilities/ar4.pdf).

This description forms part of our auditor's report.



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Grant Thornton Audit Pty Ltd  
Chartered Accountants



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A Sheridan  
Partner – Audit & Assurance

21 September 2020  
Sydney

