YOUR 2015 ANNUAL REPORT

Contents

A message from the Chair and CEO

Bob Scheuber AM
Chair

Matthew Moore
CEO

It is our great privilege to report to you on behalf of the board of directors, our executive and staff, on the operations and results of rt health fund for the year ended 30 June 2015.

This year has seen a significant amount of change in the private health insurance industry, affecting both the regulatory and competitive environments. The most notable changes have been the public listing of Medibank Private in November 2014 and the appointment of APRA as the new regulatory body for health insurers from 1 July 2015. The board and management have been actively preparing the fund for both the expected and potential impact of these changes and are confident that the fund is well positioned.

Within the fund a number of new initiatives were realised in FY15, aimed at continuing to support our high levels of member service and increasing membership growth.

The result is a net surplus of $2.2 million. Even though rt is a not-for-profit fund, owned by its members, it is required to earn and retain a surplus, which ensures that the fund is financially sound, and able to continue paying benefits and investing in improved member services and facilities. The board and management carefully balance the need to maintain strong reserves against the impact of increased contributions on members.

This year's result, in terms of both net surplus and key prudential measures, places the fund's performance well within the parameters required of the industry regulator.

The fund earns rental income from its building in Surry Hills, Sydney, and share market investments. While rental income and building valuations have continued to be strong, a reduction in interest rates and market performance have impacted investment income. The board and executive are focused on the primary purpose of the fund being to make benefit payments to members, and as such seek to reduce the impact of market volatility by investing in conservative managed funds, corporate bonds and term deposits.

Improvements in growth and member service

A number of initiatives were introduced in FY15 designed to enhance the fund's profile in new markets, with the objective of prudently increasing membership growth.

Following approval from the Department of Health in FY14, the fund's membership mandate expanded to cover both the transport and energy industries, and during the year a number of engagements with key industry organisations and peak bodies were launched. Several valuable new relationships have been formed and we look forward to further increasing our activity within the energy industry.

The fund undertook a new approach to marketing with a mainstream media campaign centred around Gladstone, Queensland. Gladstone was chosen as an ideal target market for the fund given its high concentration of employers in the transport and energy sectors.

The fund also participated in the new Members Own Health Funds initiative, an alliance of 15 mutual health funds formed to enable funds such as ours to collectively launch a national campaign promoting mutual funds as an important alternative to the big mainstream players. The concept is similar to the successful industry super funds campaign and will develop over a number of years.

Also during the year the fund launched its first Facebook page and a new website, both intended to increase awareness in new markets and enhance communication opportunities with members and potential members.

As a not-for-profit, mutual fund, we have a very strong focus on providing the best value to our members and we weigh this carefully with any decision to invest funds into marketing programs such as this.

Additionally, this year fund members have begun to take advantage of the agreement entered into with QBE to provide preferentially priced travel insurance to rt health fund members and members in Newcastle and Sydney have taken advantage of the new optical and dental services launched last year. Demand for these services is growing solidly. A new clinic for our Brisbane-based members will be opened in FY16 in the new Brisbane member centre in Edward Street. The building is currently under redevelopment and is expected to be open in around April 2016. It will replace the current Melbourne Street, South Brisbane office and members will be kept well informed of the progress of this facility and the move to the new Edward Street location.

The board will be considering the expansion of clinical services to other areas in future, carefully balancing the desire to deliver services to more members with the ability to realise positive results on those undertakings.

Member satisfaction continued to be high in FY15, with our annual member satisfaction survey showing 96% of members are satisfied with the fund and providing a range of useful insights into the member experience. Pleasingly, members have reported very high levels of satisfaction with the service provided through our call centre and claims teams and we've been very pleased to continue providing very high levels of service and same-day turnaround on most claims for another year. Member retention continues to be strong and significantly better than the industry average.

Active focus on cost management

Issues around the management of healthcare costs have come to the forefront in the past 12 months, in part driven by some large industry players demanding a more active involvement by hospitals, prostheses manufacturers and other healthcare service providers in reducing the escalation of healthcare costs, one of the primary drivers of members' health insurance contributions. This increased level of awareness and dialogue is one that we support and have been working with our industry bodies to keep on the agenda.

CEO, Matthew Moore, has continued to participate in the peak industry body for hospital contracting, the AHSA, as deputy chair of that organisation throughout the year.

Through our own careful management of underwriting performance, prudent cost management and careful claims assessing we were able to pass on to members a lower-than-average rate increase, for the second year. Member research this year showed a significant improvement in members' perceptions of the fund from the perspectives of being competitively priced and value for money.

Railway & Transport Health Fund Ltd (ABN 93 087 648 744)

Board renewal

The board is committed to effective renewal in order to ensure there is always a combination of new directors, bringing new skills and contributions to the board, as well as seasoned, experienced and knowledgeable directors.

In 2014 the board embarked on an extensive process to identify a pool of potential candidates for future director positions. Kirsten Mander joined the board in 2014 through this process.

Andy Taylor accepted an opportunity to work overseas and consequently resigned from the board earlier this year. We thank Andy for his excellent contributions and wish him every success in his new role. Through the board renewal process we were able review our list of potential candidates and David Pegley was appointed to the casual vacancy created. David's appointment to a three-year term is due to be considered by the AGM in November.

We would like to extend the sincere thanks of the board and management to the members of rt health fund for your ongoing commitment to this 126-year-old organisation. We would like to acknowledge the efforts of the board, management and staff, who all demonstrate an unwavering commitment to the goals of the fund and to constantly improving the service it provides to members. We look forward to the year ahead, to continually improving the experience of all members as they interact with the fund, and to welcoming new members to the fund.

Bob Scheuber AM
Chair

Matthew Moore
CEO

From the Chair

I have had the privilege and the honour to be Chair of the board for six out of the eight years I have served. I strongly believe in board renewal and I believe this also applies to the position of Chair. I will therefore stand aside as Chair at the November board meeting and be retiring from the board a short time later. I believe I leave the board and the fund in a very strong position.

It has been a pleasure to work with my fellow directors, the CEO, executives and staff to strengthen the fund for the future. In my time as Chair I have witnessed a number of significant achievements, as a result of strong governance and professional management:

- restoring the fund to a strong, prudentially sound position
- moving into our new headquarters in Surry Hills, Sydney
- introduction of a new product suite
- expansion into the provision of optical and dental clinics
- purchase of a new building in Brisbane to provide clinical and member services
- expansion of our strong commitment to personal services to members
- building our management capability to professionally administer the fund into the future.

I have never forgotten that it is you, the members, whom I serve. I thank our membership for their confidence in electing me three times to the board and providing me with the opportunity to serve this organisation.

Bob Scheuber
Chair

Corporate Governance

Role of the board

The board is responsible for the overall corporate governance of the fund, including determining its strategic direction and financial wellbeing, as well as guiding and monitoring its business and affairs on behalf of the members to whom it is accountable.

In summary, the board's accountabilities and responsibilities include:

- contributing to the development of, approving, and monitoring the implementation of strategy, including identifying and mitigating any risks that may harm the fund
- setting the overall direction, financial objectives and operational goals for the fund
- reviewing and approving the annual budget and business plan
- delegating clear responsibility and authority to the committees of the board and the CEO, and monitoring and regularly reviewing the performance of those who hold delegated powers
- ensuring that the fund has effective processes and systems in place to enable the board to monitor its performance and capabilities
- overseeing the fund's corporate governance framework and ensuring effective communication with members and stakeholders
- monitoring the financial state and performance of the fund
- approving the fund's financial reporting, including its annual report
- promoting and maintaining organisational values and a culture where transparent and timely information is shared between management and the board
- ensuring effective systems of internal control and internal audit
- reviewing the performance of, and mentoring, the CEO.

The board delegates responsibility for the day-to-day management of the fund to the CEO, and to executive management through the CEO, but remains responsible for overseeing the performance of the management team. To ensure that responsibility is clearly defined, the board has delegated a range of authorities to management through formal delegations. These include limited expenditure authority, and the authority to enter into certain contracts and to engage staff.

Board charter

The board has continued in FY2015 to undertake key activities which will ensure all of its policies, practices and procedures reflect good governance and current corporate practice. In line with current best practice, the board's charter outlines the fund's approach to such issues as:

- corporate culture
- workplace health and safety
- code of conduct
- risk management
- audit
- policies and procedures
- ethical standards and values
- board agenda
- meeting procedures
- directors' induction and training
- board and directors' evaluation and remuneration
- CEO's evaluation and remuneration
- capital management.

The directors recognise that adherence to the charter is fundamental in demonstrating that they are accountable to members and stakeholders, and that they are appropriately overseeing the strategic direction of the fund and managing its business risks.

Election to the board

The board has adopted a 'Fit and Proper Person' policy including minimum qualifying standards and criteria to be met for nominees wishing to be elected to the board.

The policy is compliant with APRA regulations and consistent with the ASX guidelines encouraging attributes necessary to be a director of a public company.

Conflicts of interest

Directors are required to disclose on an ongoing basis any interests that could potentially conflict with those of the fund or its members. In accordance with the Corporations Act 2001, the board ensures that any director with a material personal interest in a matter being considered by the board must not be present when it is under discussion and may not vote on the matter. Processes have also been implemented to ensure any breaches of compliance, regulations or code of conduct by board members are identified.

Board committees

In line with best practice corporate governance, the board has established standing committees as an efficient mechanism for considering detailed issues and making recommendations for consideration by the entire board. These committees adopt charters setting out the matters relevant to the composition, responsibilities and administration of each committee. Current committees of the board are:

Audit and Risk Committee

The audit and risk committee is responsible for:

- facilitating the independence of the external audit process and addressing issues arising from the external audit process
- ensuring the fund meets its obligations to regulatory agencies
- directing the internal audit function, ensuring maximum value to the fund
- ensuring the quality and accuracy of published financial reports so they present a true and fair view of the fund's financial position and comply with relevant statutory and regulatory requirements
- ensuring the fund adopts, maintains and applies appropriate accounting and business policies and procedures
- overseeing the fund's investments ensuring the correct balance between liquidity, term of investments and interest rates
- overseeing the capital management plan
- ensuring the fund maintains effective internal control and risk management systems in order to safeguard its financial, physical and intellectual resources.

Governance, Renumeration and Nominations Committee

The governance, renumeration and nominations committee is responsible for:

- assisting the board to achieve its objectives of ensuring that rt has a board of effective composition, size and commitment to adequately discharge its responsibilities and duties
- establishing policies and procedures for the annual performance evaluation of the board, each director and management, and recommending performance and salary reviews for the CEO
- reviewing and planning professional development and succession with the board and executive management
- annual education programs for directors
- managing the 'Fit and Proper Person' policy and procedures for board appointees.

Business Development Committee

The business development committee is responsible for:

- reviewing the development and implementation of strategic business development initiatives, and ensuring initiatives are consistent with the fund's strategic plan
- reviewing, and where appropriate, making recommendations to the board on business growth and diversification opportunities
- responding to emerging issues related to business development
- reviewing general market conditions and how these may present or limit new business development opportunities
- reviewing and assessing appropriate business cases and plans prepared by management
- monitoring the outcomes of business development initiatives.

Board performance

A performance evaluation process has been established for the board, individual directors and key executives. Directors continue to undertake formal training through the Australian Institute of Company Directors (AICD) and Governance Institute of Australia (GIA), as required. From time to time directors attend PHA (Private Healthcare Australia) and HIRMAA (Health Insurance Restricted Membership Association of Australia) industry and director education forums.

Directors' Report

For the year ended 30 June 2015

Your directors present their report on the company for the financial year ended 30 June 2015.

Company objectives

Short term and long term

To operate as a private health insurer and to conduct a health benefits fund, or funds, for the purposes of carrying on health insurance and health related business for the benefit of members and their dependants.

Company strategy

Short term

To leverage the operational efficiencies of the fund to enhance the member experience across health, optical and dental services whilst maintaining the level of capital for long-term sustainability.

Long term

To achieve a sustainable level of capital to enable the fund to meet current and future members' and their dependants' needs for private health insurance and related services.

Principal activities

The principal activity of the company during the financial year was the provision of private health insurance. Additionally the company provides optical and dental clinic services to members and customers from two locations during the year.

Measuring performance

The key measures of performances are: gross margin and loss ratio by product, state and channel; benefits paid by member; management expense ratio; net margin; membership; capital adequacy and solvency ratios. The fund achieved a gross margin of 15.1% (target 14.9%), MER of 12.5% (target 13.1%) and net margin of 2.6% (target 1.7%). Clinics are currently loss making in line with expectations but will improve over future periods as scale increases.

Directors

The names of the directors in office at any time during or since the end of the year are:

B Scheuber AM

V Reynolds

D Ellis (retired 20 November 2014)

J Pascoe

M Prior

M Scanlan

A Taylor (resigned 20 May 2015)

D Pegley (appointed 20 May 2015)

K Mander (appointed 20 October 2014)

Directors have been in office since the start of the financial year to the date of this report, unless otherwise stated. Their qualifications, experience and special responsibilities are as follows:

Bob Scheuber AM, B Ec., B Bus., FCPA, FAIM, MAICD
Chair

Age 60

Term Independent member elected director
First appointed 24/10/2007, last re-elected 20/11/2013

Committees Member, Governance, Remuneration and Nominations Committee; Former member, Audit and Risk Committee

Directorships None

Experience Chair of the board since December 2009.

Former Chair QSuper, QSL Board of Trustees, and CRC Rail Ltd. Former CEO of Queensland Rail.

Awarded Member of the Order of Australia (AM) in January 2008, for 'service to the rail sector in Queensland, particularly through contributions to regulatory and operational reforms'

Member of rt health fund since 1991

Victoria Reynolds Dip HR Mgt., MAHRI, MWOB, GAICD

Age 63

Term Independent appointed director
First appointed 21/09/2005, last re-appointed 19/08/2015

Committees Chair, Governance, Remuneration and Nominations Committee

Member, Audit and Risk Committee

Directorships Chair – Port Stephens chamber of commerce & industry

Experience Operation Site Manager Joblinkplus – a not-for-profit registered charity organisation providing employment and welfare services to the community

Consultant, human resources and industrial relations

Former General Manager, Human Resources, Rail Infrastructure Corporation, concluding 22 years with NSW rail

Awarded Premier's Silver Award for Excellence in service delivery

Former Chair of the board from 2005 to 2009

Member of rt health fund since 1991

Dennis Ellis MAICD

Age 69

Term Independent member elected director
Retired 20/11/2014, first appointed 21/09/2005

Committees Former Member, Governance, Remuneration and Nominations Committee

Directorships None

Experience Former Senior Vice President RTBU Queensland

Retired after 34 years with QR National and Queensland Rail

Member of rt health fund since 1997

Kirsten Mander LLM, FAICD, FGIA, FRMIA

Age 56

Term Independent appointed director
First appointed 20/10/2014

Committees Member, Business Development Committee

Directorships Chair, International Women's Development Agency

Chair, Victorian Assisted Reproductive Treatment Authority

Director, Swinburne University of Technology

Director, Australian Centre for Health Research

Experience Group Executive, Governance, General Counsel and Company Secretary, Australian Unity Ltd

General Counsel and Company Secretary, Sigma Pharmaceuticals Ltd

General Manager, Strategy, Government and Regulatory Affairs

General Counsel and Company Secretary, TRUenergy Pty Ltd

General Counsel, Smorgon Group

Legal Manager and Corporate Lawyer, Western Mining Corporation

Julie Pascoe BA, Grad Dip Mktg, FAICD, QPMR (AMSRS), GIA (Cert)

Age 54

Term Independent appointed director

First appointed 24/08/2011; last re-appointed 23/08/2014

Committees Member, Business Development Committee

Member, Audit and Risk Committee

Directorships Barnardos Australia

Stuart Alexander & Co Pty Ltd

Corporate Property Group

Experience Director of marketing, marketing strategist and business manager

Former member and Chair of People and Culture Committee, Church Resources Charitable Trust Foundation

Over 20 years in senior management covering a portfolio of industries with emphasis on building strong brands and ensuring high levels of organisational performance and competence

Member of rt health fund since 2014

David Pegley B Sc. (Hons) Cantab., MBA, FAICD, JP

Age 57

Term Independent member elected director

Appointed 20/05/2015 to fill casual vacancy arising from resignation of Andy Taylor

Committees Member, Business Development Committee

Directorships Ku-ring-gai Financial Services Ltd

Experience Current CEO – Cash Services Australia

Former general manager and senior executive Colonial/Commonwealth Bank Group

Senior executive positions Citibank Ltd

Michael Prior M Comm., Grad Dip Applied Finance, Cert Applied Tax, CPA, CTA, MAICD

Age 56

Term Independent appointed director

First appointed 25/05/2006, last re-appointed 15/04/2015

Committees Chair, Audit & Risk Committee, Member, Governance, Remuneration and Nominations Committee

Former member, Business Development Committee

Directorships Woods Cottage Foundation Ltd, PB Advisory Group Pty Ltd

Former independent member of Finance and Investment Committee, Board of Grain Growers Association of Australia

Experience Public accountant and private consultant

Over 30 years in finance including as former CFO CMC Markets Asia Pacific, and GM Operational Risk and Compliance, CBA

Member of rt health fund since 2009

Michael Scanlan BEng., Grad Dip Mgt., MBA, FAICD, FAIM, FCILT, FAMI, MIE, MAMI

Deputy Chair

Age 60

Term Independent member elected director

First appointed 18/11/2009, last re-elected 21/11/2012

Committees Chair, Business Development Committee

Former Member, Audit and Risk Committee and Governance Remuneration and Nominations Committee

Directorships Chair, Railways Credit Union, Chair Westwood Superannuation Fund Company Trustee. Director, WICET Services, WICET Holdings, Wiggins Island Coal Export Terminal.

Former Director of Heritage Train Company, Queensland Tourism Industry Council Board, Translink Advisory Board; City Trans Management Committee; and International Public Transport Association (Aust & NZ)

Experience Part-time rail specialist consultant since 2008

Over 34 years with Queensland Rail including a variety of business unit executive positions

Member of rt health fund since 1993

Andy Taylor BSC (Hons), CEng, MBA, GAICDI

Age 57

Term Independent member elected director
Elected 20/11/2013; resigned 20/05/2015

Committees Former member, Audit and Risk Committee, and Business Development Committee

Directorships Workplace Resource Centre

Experience Principal and Partner in Headway Consulting Group

Formerly held senior roles in Queensland Rail until departing as head of the passenger business in 2008. Leader of the integration team bringing Australian RailRoad Group (ARG) into QR

Member of rt health fund since 2004

Meetings of directors

During the financial year, a total of 20 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

	Director Meetings		Committee Meetings					
			Audit & Risk Committee		Governance, Remuneration and Nominations Committee		Business Development Committee	
Name	**E**	**A**	**E**	**A**	**E**	**A**	**E**	**A**
B Scheuber	10	10	1	1	2	2	–	–
M Scanlan	10	10	–	–	2	2	3	3
V Reynolds	10	8	3	3	4	4	–	–
D Ellis	3	3	–	–	2	2	–	–
K Mander	8	8	–	–	–	–	2	2
J Pascoe	10	9	3	3	–	–	3	3
D Pegley	1	1	–	–	–	–	–	–
M Prior	10	10	4	4	2	2	1	1
A Taylor	9	9	1	1	–	–	–	–

Table Key:
E Number of meetings eligible to attend
A Number of meetings attended

Executive officers

Matthew Moore BA, MAICD
Chief Executive Officer

Matthew was appointed CEO on 25/10/2010, having joined rt as operations manager in 2007, moving to General Manager Strategy in 2009.

He has been a director of the Australian Health Service Alliance Ltd (AHSA) since November 2012 and is Deputy Chair and a member of its Audit and Risk Committee and Remuneration and Nomination committee. In May 2015, he became a director of IPCO Australia Pty Limited.

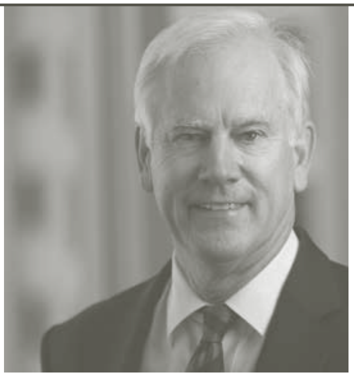
He has worked in senior executive positions within the private health insurance industry for nearly 26 years. These included head of strategy at Medibank Private, then at MBF where he established and implemented fraud and risk analysis systems. As CEO of an innovative business services organisation, he provided outsourced administration and ICT services to small and medium-sized health funds, both in Australia and overseas.

Simone Tregeagle BA (Comm), Grad Cert (Mktg), CPM, MAICD
Chief Operating Officer

Simone was appointed Deputy CEO in December 2010 after joining rt in 2006 as a marketing consultant, and being appointed Manager Sales, Service & Marketing in 2009, a role she continues to fulfil as Deputy CEO and Chief Operating Officer.

She has held executive positions within the private health industry, including Medibank Private and Grand United, as well as marketing agencies and not-for-profit organisations for more than 23 years.

In May 2015, she became a director of IPCO Australia Pty Limited.



Mark Dayhew BBus, CPA, AAII, CIP
Chief Financial Officer

Mark was appointed Chief Financial Officer in August 2010. He brings a depth of experience from over 30 years in the insurance industry, including more than 20 in senior executive roles. Mark's specialisation covers financial systems, risk management, corporate governance and financial reporting.

John Hartigan BComm, CA, FCIS, GAICD, FGIA
Company Secretary

John was appointed Company Secretary in May 2010. He is a Fellow of the Governance Institute of Australia, a Chartered Accountant and Graduate Member of the Institute of Company Directors. He has over 20 years' experience in corporate governance, risk management and secretariat practice in listed and unlisted public companies.

In May 2015, he became a director of IPCO Australia Pty.

Jui Tham MBBS (USYD), MCom (UNSW)
Chief Medical Officer

Jui was appointed Chief Medical Officer and Executive Manager Health Services and Strategy in October 2010. He is a former surgical registrar, spending four years in the NSW hospital system before joining Bain & Company where he worked for over four years in Australia and the USA across a range of projects and industry sectors. Jui is responsible for monitoring the fund's underwriting performance and providing oversight of the fund's clinical services and valuable input into medical issues.

Operating results

The surplus attributable to members of the company for the financial year ended 30 June 2015 amounted to $2,168,000 (2014: $1,700,000).

Review of operations

A gross margin of 15.1% generated during the year is a improvement from 2014, at 13.3%. This result reflected a slowing in the increase of hospital claim costs during the year.

Membership decreased by 0.20% over the 12 months to 30 June 2015.

Management expenses were lower than the preceding year as a percentage of premium income, being 12.5% (2014: 13.4%). The fund has continued to invest in the internal processes and operational capacity, particularly in the establishment of clinical services to members.

Investment income was lower than in the prior year, due to the reduction of interest rates across the market. The fund had sought to lessen the impact of these falls in term deposit rates with the investment in higher yielding instruments in corporate bonds. The managed fund returns performed well overall however was impacted by the market downturn in the final quarter of the year.

Significant changes in state of affairs

Renovation of a new office at our Edward Street, Brisbane location has commenced and is expected to be completed in early 2016. It will provide health and clinical services to our members in that region. The fund entered a joint venture in IPCO Australia Pty Limited for the purpose of developing new software. No other significant changes in the company's state of affairs occurred during the financial year.

After balance date events

No matters or circumstances have arisen since the end of the financial year which significantly affected, or may significantly affect, the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

Future development, prospects and business strategies

The company will continue to pursue business activities as a registered health benefits organisation and in health related businesses.

Environmental issues

The company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

Dividends paid or recommended

As the company is a company limited by guarantee and a not-for-profit organisation, no dividends have been paid, declared or recorded.

Options

As the company is limited by guarantee, no options over issued shares or interests in the company were granted during or since the end of the financial year and accordingly there were no options outstanding at the date of this report.

Indemnifying officers or auditor

During or since the end of the financial year, the company has paid insurance premiums to insure all directors and officers of the company against liabilities for costs and expenses incurred by them to the extent permitted by the Corporations Act 2001 in defending legal proceedings arising from their conduct while acting in the capacity of director or officer of the company, other than conduct involving a wilful breach of duty in relation to the company.

The contract of insurance prohibits disclosure of the nature of the liabilities and the amount of the premium.

No indemnities have been given or insurance premiums paid during or since the end of the financial year for any person who is, or has been, an auditor of the company.

Proceedings on behalf of company

No person has applied for leave of court to bring proceedings on behalf of the company or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Rounding of amounts

The entity has applied relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and directors' report have been rounded off to the nearest $1,000.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 20 and forms part of this report.

Signed in accordance with a resolution of the board of directors

R Scheuber AM
Chair

Dated this 23rd day of September 2015
Sydney, NSW

Railway & Transport Health Fund Ltd (ABN 93 087 648 744)

Auditor's Independence Declaration

Grant Thornton

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Auditor's Independence Declaration
To the Directors of Railway & Transport Health Fund Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Railway & Transport Health Fund Limited for the year ended 30 June 2015, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A G Rigele
Partner - Audit & Assurance

Sydney, 23 September 2015

Financial Statements

Statement of Surplus or Deficit and Other Comprehensive Income

For the year ended 30 June 2015

	Note	2015 $'000	2014 $'000
Premium revenue	3	93,475	90,558
Claims expense		(99,600)	(98,937)
Risk equalisation trust fund income		10,289	10,605
Gap and Access Gap refund		10,961	10,836
State levies		(1,018)	(997)
Net claims incurred		(79,368)	(78,493)
Claims handling expenses	4	(6,121)	(6,526)
Other underwriting expenses	4	(5,557)	(5,637)
Underwriting expenses		(11,678)	(12,163)
Underwriting result		2,429	(98)
Investment revenue	3	1,434	1,494
Change in fair value of investments in equity instruments	3	(106)	165
Other revenue	3	2,380	1,340
Other expenses		(3,969)	(1,201)
Surplus attributable to members before tax		2,168	1,700
Income tax expense	1a.	–	–
Surplus attributable to members after tax		2,168	1,700
Items that will not be reclassified subsequent to profit or loss – asset revaluation (net of tax)		–	(790)
Total comprehensive income attributable to members		2,168	910

This statement should be read in conjunction with the notes to the financial statements.

Statement of Financial Position

As at 30 June 2015

	Note	2015 $'000	2014 $'000
Current assets			
Cash and cash equivalents	7	3,011	4,465
Trade and other receivables	8	5,898	6,040
Financial assets	9	28,665	31,935
Other current assets	10	270	199
Inventory	11	115	125
Assets classified as held for sale	12	–	2,293
Total current assets		37,959	45,057
Non-current assets			
Financial assets	9	11,134	2,035
Intangible assets	13	1,517	971
Property, plant and equipment	14	18,053	16,482
Investment property	15	3,657	5,571
Investments in joint venture	16	980	–
Total non-current assets		35,341	25,059
Total assets		73,300	70,116
Current liabilities			
Trade and other payables	17	1,568	1,669
Short-term provisions	18	10,466	11,449
Other current liabilities	19	13,184	11,069
Total current liabilities		25,218	24,187
Non-current liabilities			
Long-term provisions	18	141	156
Total non-current liabilities		141	156
Total liabilities		25,359	24,343
Net assets		47,941	45,773
Equity			
Reserves	21	–	–
Retained earnings		47,941	45,773
Total equity		47,941	45,773

This statement should be read in conjunction with the notes to the financial statements.

Statement of Changes in Equity

For the year ended 30 June 2015

	Retained earnings $'000	Asset revaluation reserve $'000	Total $'000
Balance at 30 June 2013	44,073	790	44,863
Surplus for the year	1,700	–	1,700
Other comprehensive income	–	(790)	(790)
Balance at 30 June 2014	45,773	–	45,773
Surplus for the year	2,168	–	2,168
Other comprehensive income	–	–	–
Balance at 30 June 2015	47,941	–	47,941

This statement should be read in conjunction with the notes to the financial statements.

Statement of Cash Flows

For the year ended 30 June 2015

	Note	2015 $'000	2014 $'000
Cash flow from operating activities			
Receipts from members' premiums		95,719	93,328
Benefits paid to members		(79,288)	(75,389)
Receipts from tenants		578	666
Payments to suppliers and employees		(15,515)	(12,798)
Interest received		1,612	1,367
Clinic income		1,380	134
Net cash provided by operating activities	24	4,486	7,308
Cash flows from investing activities			
Proceeds from disposal of investments		36,500	58,000
Payment for purchase of investments		(42,870)	(55,108)
Proceeds from disposals of property, plant and equipment		2,780	–
Investment in joint venture		(980)	–
Payment for property, plant and equipment		(357)	(7,812)
Payment for intangibles		(1,013)	(679)
Disposal of PPE & Motor vehicle		–	23
Net cash used in investing activities		(5,940)	(5,576)
Cash flows from financing activities			
Net cash provided by financing activities		–	–
Net (decrease)/increase in cash held		(1,454)	1,732
Cash at beginning of year		4,465	2,733
Cash at end of year	7	3,011	4,465

This statement should be read in conjunction with the notes to the financial statements.

Notes to the Financial Statements

For the year ended 30 June 2015

Note 1: Statement of significant accounting policies

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

The financial report covers Railway & Transport Health Fund Limited as an individual company. Railway & Transport Health Fund Limited is a company limited by guarantee, incorporated and domiciled in Australia.

The financial report complies with Australian Accounting Standards, (which include Australian equivalents to International Financial Reporting Standards (AIFRS). A statement of compliance with International Financial Reporting Standards cannot be made due to the company applying the not-for-profit sector specific requirements contained in the AIFRS.

All amounts presented within the financial report are in Australian dollars, unless otherwise stated.

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of preparation

The accounting policies set out below have been consistently applied to all years presented, unless otherwise stated.

Reporting basis and conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting policies

a. Income tax

The company is a private 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.

b. Revenue

Premium revenue is recorded on an accruals basis, reflecting premiums received adjusted for the opening and closing premiums in advance and in arrears. Premiums received in advance are recorded as a liability, and premiums in arrears (to the extent recoverable) are recorded as an asset. Premiums on unclosed business are brought to account using estimates based on payment cycles nominated by the member.

- Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.
- Revenue from the rendering of a service is recognised upon the delivery of the service to the members.
- Lease income from operating leases where the company is the lessor is recognised in the income statement on a straight-line basis over the lease term.
- Revenue from the sale of goods is recognised upon the delivery of goods to customers.
- Net fair value gains or losses on financial assets classified as fair value through profit and loss are recognised in the period.
- All revenue is stated net of the amount of goods and services tax (GST).

c. Claims

Claims are recorded as an expense in the period in which the service has been provided to the member. The cost of claims therefore represents the claims paid during the period, adjusted for the opening and closing provision for un-presented and outstanding claims. The provision for un-presented and outstanding claims provides for claims received but not assessed, and claims incurred but not received. The provision is based on an actuarial assessment taking into account historical patterns of claim incidence and processing. No discounting is applied to the provision due to the generally short period between claim incidence and settlement. The provision also provides for the expected payment to, or receipt from, the Risk Equalisation Trust Fund (RETF) in relation to the amount provided for un-presented and outstanding claims. The provision also allows for an estimate of operating expenses to cover the cost of processing the claims.

In addition to the provision for un-presented and outstanding claims, an unearned premium liability is also provided for to meet the costs, including claims handling costs, that will arise under current insurance contracts. The unearned premium liability is calculated by considering current estimates of the present value of expected future cash flows arising from the rights and obligations under current insurance contracts.

d. Risk equalisation

Amounts receivable from the RETF are recorded in the statement of financial performance in the period for which the receipts relate. Any amounts due at the balance date in relation to the period are brought to account as assets.

e. Outstanding claims liability

Provision is made at the year end for the liability for outstanding claims, which is measured as the central estimate of the expected payments against claims incurred but not settled at the reporting date under insurance contracts issued by the company. The expected future payments include those in relation to claims reported but not yet paid, and claims incurred but not yet reported. This central estimate of outstanding claims is an estimate that is intended to contain no intentional over- or underestimation. For this reason, the inherent uncertainty in the central estimate must also be considered and a risk margin is added. Actual results could differ from the estimate.

The expected future payments include those in relation to claims reported but not yet paid, and claims incurred but not yet reported, together with allowances for Risk Equalisation Trust Fund consequences and claims handling expenses.

f. Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

g. Unexpired risk liability

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

If the present value of the expected future cash flows relating to future claims, plus the additional risk margin to reflect the inherent uncertainty in the central estimate, exceeds the unearned premium liability 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 is achieved by the estimate of the outstanding claims liability.

Note 1: Statement of significant accounting policies (cont.)

h. Unclosed business

Unclosed business is recognised on the balance sheet at year end as premiums in arrears. This is calculated as the remainder of the premium payable.

i. 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. The board has adopted a conservative approach to maintain its investment portfolio in cash and interest rate securities, except for a maximum of 10% of non-investment property assets in Australian Equities.

With the exception of property, plant and equipment, the company has determined that all assets are held to back private health insurance liabilities and their accounting treatment is fair value through the profit and loss in accordance with the policy set out in Note 1 (j). Previously, fixed interest rate securities were held to maturity. There is no movement in fair value for both the current and prior year between these classifications and therefore the reclassification is considered immaterial.

j. Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either purchase or sell the asset (i.e. trade date accounting is adopted). Financial instruments are initially measured at fair value plus transactions costs, except where the instrument is classified as 'at fair value through profit or loss' in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at either fair value, amortised cost (using the effective interest rate method) or cost. 'Fair value' represents the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances valuation techniques are adopted.

'Amortised cost' is calculated as:

– the amount at which the financial asset or financial liability is measured at initial recognition;
– less principal repayments;
– plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the 'effective interest method'; and
– less any reduction for impairment.

The 'effective interest method' is used to allocate interest income or interest expense over the relevant period, and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

Financial assets at fair value through profit and loss

Financial assets are classified at 'fair value through profit or loss' when they are held for trading for the purpose of short-term profit taking, or where they are derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in

accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with charges in carrying value being included in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those that are not expected to mature within 12 months after the end of the reporting period, which will be classified as non-current assets.

Fair value

Fair value is determined based on current bid prices for all quoted investments. 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.

Impairment

At the end of each reporting period, the entity assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of surplus or deficit and other comprehensive income.

De-recognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset.

k. Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value, less, where applicable, any accumulated depreciation and impairment losses.

Property

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction). Valuations are performed whenever the directors believe there has been a material movement in the value of the assets or at least every 3 years.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against the related revaluation reserve directly in equity. All other decreases are charged to the statement of comprehensive income.

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 re-valued amount of the asset.

Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Note 1: Statement of significant accounting policies (cont.)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of surplus or deficit and other comprehensive income during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets, including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the company commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of fixed asset	Depreciation rate
Buildings	2%
Computer equipment	25/33.33%
Motor vehicles	12.5%
Plant and equipment	5-20%
Leasehold improvements	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the statement of surplus or deficit and other comprehensive income. When re-valued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

l. Investments in associates and joint arrangements

Associates are those entities over which the Fund is able to exert significant influence but which are not subsidiaries.

A joint venture is an arrangement that the Fund controls jointly with one or more other investors, and over which the Fund has rights to a share of the arrangement's net assets rather than direct rights to underlying assets and obligations for underlying liabilities. A joint arrangement in which the Fund has direct rights to underlying assets and obligations for underlying liabilities is classified as a joint operation.

Investments in associates and joint ventures are accounted for using the equity method. Interests in joint operations are accounted for by recognising the Group's assets (including its share of any assets held jointly), its liabilities (including its share of any liabilities incurred jointly), its revenue from the sale of its share of the output arising from the joint operation, its share of the revenue from the sale of the output by the joint operation and its expenses (including its share of any expenses incurred jointly).

Any goodwill or fair value adjustment attributable to the Fund's share in the associate or joint venture is not recognised separately and is included in the amount recognised as investment.

The carrying amount of the investment in associates and joint ventures is increased or decreased to recognise the Fund's share of the profit or loss and other comprehensive income of the associate and joint venture, adjusted where necessary to ensure consistency with the accounting policies of the Fund.

Unrealised gains and losses on transactions between the Fund and its associates and joint ventures are eliminated to the extent of the Fund's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

m. Investment property

Investment property, comprising freehold office complexes, is held to generate long-term rental yields. All tenant leases are on an arm's length basis. Investment property is carried at fair value, determined by independent valuers, and adjusted to reflect the current market value of the property. Changes in fair value of investment property are reflected in the statement of surplus or deficit and other comprehensive income for the year.

n. Impairment of assets

At each reporting date, the company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell, and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of surplus or deficit and other comprehensive income.

o. Intangible assets

Acquired Computer software

Computer software has a finite useful life and is carried at cost, less any accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis to allocate the cost of the software over its useful life, being three years.

p. Leased Asset

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the company are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

q. Provisions

Provisions are recognised when the company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

r. Employee benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Note 1: Statement of significant accounting policies (cont.)

s. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

t. Inventories

Inventories are measured at lower of cost and net realisable value. Cost is determined on the basis of full purchase price. Overheads are applied on the basis of normal operating capacity.

u. Comparative figures

When required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

v. Rounding of amounts

The entity has applied relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and directors' report have been rounded off to the nearest $1,000.

w. New and revised standards that are effective for these financial statements

A number of new and revised standards and an interpretation became effective for the first time to annual periods beginning on or after 1 January 2014. Information on these new standards is presented below.

AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities

AASB 2012-3 adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

AASB 2012-3 is applicable to annual reporting periods beginning on or after 1 January 2014.

The adoption of these amendments has not had a material impact on the Fund as the amendments merely clarify the existing requirements in AASB 132.

AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets

These narrow-scope amendments address disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

When developing IFRS 13 *Fair Value Measurement*, the IASB decided to amend IAS 36 *Impairment of Assets* to require disclosures about the recoverable amount of impaired assets. The IASB noticed however that some of the amendments made in introducing those requirements resulted in the requirement being more broadly applicable than the IASB had intended. These amendments to IAS 36 therefore clarify the IASB's original intention that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal.

AASB 2013-3 makes the equivalent amendments to AASB 136 *Impairment of Assets* and is applicable to annual reporting periods beginning on or after 1 January 2014.

The adoption of these amendments has not had a material impact on the Fund as they are largely of the nature of clarification of existing requirements.

AASB 2013-5 Amendments to Australian Accounting Standards – Investment Entities

The amendments in AASB 2013-5 provide an exception to consolidation to investment entities and require them to measure unconsolidated subsidiaries at fair value through profit or loss in accordance with AASB 9 *Financial Instruments* (or AASB 139 *Financial Instruments: Recognition and Measurement* where AASB 9 has not yet been adopted). The amendments also introduce new disclosure requirements for investment entities that have subsidiaries.

These amendments apply to investment entities, whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. Examples of entities which might qualify as investment entities would include Australian superannuation entities, listed investment companies, pooled investment trusts and Federal, State and Territory fund management authorities.

AASB 2013-5 is applicable to annual reporting periods beginning on or after 1 January 2014.

This Standard has not had any impact on the Fund as it does not meet the definition of an 'investment entity' in order to apply this consolidation exception.

AASB 2014-1 Amendments to Australian Accounting Standards (Part A: Annual Improvements 2010-2012 and 2011-2013 Cycles

Part A of AASB 2014-1 makes amendments to various Australian Accounting Standards arising from the issuance by the IASB of International Financial Reporting Standards *Annual Improvements to IFRSs 2010-2012 Cycle and Annual Improvements to IFRSs 2011-2013 Cycle.*

Among other improvements, the amendments arising from *Annual Improvements to IFRSs 2010-2012 Cycle:*

- clarify that the definition of a 'related party' includes a management entity that provides key management personnel services to the reporting entity (either directly or through a group entity)
- amend AASB 8 *Operating Segments* to explicitly require the disclosure of judgements made by management in applying the aggregation criteria

Among other improvements, the amendments arising from *Annual Improvements to IFRSs 2011-2013 Cycle* clarify that an entity should assess whether an acquired property is an investment property under AASB 140 *Investment Property* and perform a separate assessment under AASB 3.

Business Combinations to determine whether the acquisition of the investment property constitutes a business combination.

Part A of AASB 2014-1 is applicable to annual reporting periods beginning on or after 1 July 2014.

The adoption of these amendments has not had a material impact on the Group as they are largely of the nature of clarification of existing requirements.

x. Accounting standards issued but not yet effective and not being early adopted by the Fund.

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Fund has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Fund as follows:

Note 1: Statement of significant accounting policies (cont.)

AASB 9 Financial Instruments

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.

The AASB has already amended the effective date of AASB 9 to '1 January 2018' through its Amending Standard AASB 2014-1 Amendments to Australian Accounting Standards. It is expected that the AASB will issue the remaining amendments arising from IFRS 9 (2014) in the near future.

The Fund has not yet assessed the full impact of AASB 9 as this standard does not apply mandatorily before 1 January 2018.

The Fund does not anticipate the early adoption of any of the above Australian Accounting Standards.

y. Critical accounting estimates and judgement

The directors evaluate estimates and judgement incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the company. The key areas in which critical estimates are applied are as described below.

Outstanding claims provision

Provision is made at the year-end for the liability for outstanding claims, which is measured as the central estimate of the expected payments against claims incurred but not settled at the reporting date under insurance contracts issued by the company. The expected future payments include those in relation to claims reported but not yet paid, and claims incurred but not yet reported. This central estimate of outstanding claims is an estimate that is intended to contain no intentional over- or underestimation. 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 Risk Equalisation Trust Fund (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.

In calculating the estimated cost of unpaid claims the company uses estimation techniques 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 development and/or recording of paid or incurred claims, compared with statistics from previous periods. The calculation was determined as at 30 June 2015, taking into account one-month of actual post balance date claims.

The risk margin has been based on an analysis of the past experience of the company. The analysis examined the volatility of past payments, which has not been explained by the model adopted to determine the central estimate. This past volatility has been assumed to be indicative of 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 at year end are detailed in notes 2 and 18.

Unexpired risk liability

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

Details of specific key estimates and judgements used in deriving the unexpired risk liability at year end are detailed in note 18d.

Impairment of financial and non-financial assets

The company assesses impairment at each reporting date by evaluating conditions specific to the company that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Directors valuation of property calculations performed in assessing recoverable amounts incorporate a number of key estimates.

z. Adoption of the financial report

The financial report was authorised for issue on 23 September 2015 by the board of directors.

Note 2: Actuarial assumptions and methods

Actuarial methods

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

In calculating the estimated cost of unpaid claims a chain ladder method is used, which assumes that the development pattern of the current claims will be consistent with historical experience. Where deemed necessary, manual adjustments were made to the outstanding claims by 'service month' to produce an appropriate estimate of incurred claims for the service month.

The following assumptions have been made in determining the outstanding claims liability based on inputs from management and advice from the Appointed Actuary.

	2015			2014		
Variables	Hospital %	Medical %	General treatment %	Hospital %	Medical %	General treatment %
Portion paid to date	93.9	95.4	98.0	93.3	96.5	97.7
Expense rate	6.70	6.70	6.70	7.62	7.62	7.62
Discount rate	–	–	–	–	–	–
Risk equalisation rate	(15.35)	(15.35)	–	(19.00)	(19.00)	–
Risk margin	5.00	5.00	5.00	5.00	5.00	5.00

The risk margin (with one month hindsight) of 5% (2014: 5%) of the underlying liability has been estimated to equate to a probability of adequacy greater than 75% (2014: 75%).

Process used to determine assumptions

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

Proportion paid to date

The proportion paid to date summarises the application of the chain ladder method (over the 12 months to 30 June 2015) to determine the total expected incurred in each service month.

The proportion paid to date has been determined with one month's paid claims hindsight.

Discount rate

As claims for health funds 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. An increase in the proportion assumed paid to date would lead to more claims being paid earlier and therefore a decrease in the liability.

Expense rate

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

Risk equalisation allowance

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

Risk margin

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 future volatility and has been set at a level estimated to equate to a probability of adequacy greater than 75% (2014: 75%). An increase or decrease in this expense would have a corresponding effect on the claims expense.

Sensitivity analysis – insurance contracts

Summary

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

Note 2: Actuarial assumptions and methods (cont.)

Variables	Movement in variable %	Adjustments on Surplus $'000	Adjusted amount included in Statement of Comprehensive Income $'000	Adjustments on Equity $'000	Adjusted amount included in Statement of Financial Position $'000
Gross outstanding claims provision	+10	(944)	(944)	(944)	(944)
	-10	944	944	944	944
Expense rate	+10	(69)	(69)	(69)	(69)
	-10	69	69	69	69
Discount rate	+10	–	–	–	–
	-10	–	–	–	–
Risk equalisation rate	+10	148	148	148	148
	-10	(148)	(148)	(148)	(148)
Risk margin	+10	(45)	(45)	(45)	(45)
	-10	45	45	45	45

	Surplus 2015 $'000	Equity 2015 $'000
Recognised amounts in the financial statements	2,168	47,941

	2015 $'000	2014 $'000

Note 3: Revenue

	2015 $'000	2014 $'000
Premium revenue	93,475	90,558
Investment revenue	1,434	1,494
Change in fair value of investments in equity instruments	(106)	165
Other revenue		
Rental income	504	607
Other income	1,876	733
Total other revenue	2,380	1,340

Note 4: Expenses

	2015 $'000	2014 $'000
Expenses by function		
Claims handling expenses	6,121	6,526
Other underwriting expenses	5,557	5,637
Total expenses (excluding direct claims expenses)	11,678	12,163
Expenses by nature		
Employee benefits	6,121	6,526
Depreciation and amortisation	1,048	737
Other expenses	4,509	4,900
Total expenses (excluding direct claims expenses)	11,678	12,163

Note 5: Directors and key management personnel compensation

	Directors 2015 $'000	Directors 2014 $'000	Other KMP 2015 $'000	Other KMP 2014 $'000
Short-term employee benefits				
Salary and fees	285	254	1,148	1,058
Cash benefits	2	2	4	8
Non-cash benefits	–	–	17	19
	287	256	1,169	1,085
Post-employment benefits				
Superannuation	27	25	108	94
Termination benefits	–	–	–	–
Total directors and key management personnel compensation	314	281	1,277	1,179

Note 6: Auditor's remuneration

	2015 $'000	2014 $'000
Remuneration of the auditor for:		
– Audit services	82	79
– Non audit services	–	5
Total auditor's remuneration	82	84

Note 7: Cash and cash equivalents

	2015 $'000	2014 $'000
Cash on hand	2	2
Cash at bank	3,009	4,463
	3,011	4,465

Note 8: Trade and other receivables

	2015 $'000	2014 $'000
Current		
Premiums in arrears	576	706
Less provision for impairment	(23)	(52)
PHI rebate	1,821	1,866
Risk equalisation trust fund (RETF) quarterly receivable	2,632	2,729
Unclosed business	498	615
Other receivables	394	176
	5,898	6,040

All amounts of receivables are deemed short term. The carrying value of short-term receivables is considered a reasonable approximation to fair value. All of the trade and other receivables have been reviewed for indicators of impairment. The age of financial assets is as follows:

	Past due (days overdue) < 30	Past due (days overdue) 31 – 60	Past due (days overdue) > 60	Gross amount $'000	Past due and impaired > 90	Net amount $'000
Premiums in arrears						
2015	475	47	54	576	(23)	553
2014	525	91	90	706	(52)	654

	2015 $'000	2014 $'000

Note 9: Financial assets

	2015 $'000	2014 $'000
Current		
Financial assets at fair value through profit or loss		
– held-for-trading Australian listed shares	3,500	2,418
– term deposits	21,500	29,517
– fixed income securities	3,665	–
	28,665	31,935
Non Current		
Financial assets at fair value through profit or loss		
– fixed income securities	11,134	2,035
	11,134	2,035

Note 10: Other current assets

	2015 $'000	2014 $'000
Current		
Prepayments	270	199
	270	199

Note 11: Inventory

	2015 $'000	2014 $'000
Current		
Stock on hand	115	125
	115	125

Note 12: Assets classified as held for sale

	2015 $'000	2014 $'000
Current		
South Brisbane Property	–	2,293
	–	2,293

Note 13: Intangible assets

	2015 $'000	2014 $'000
Intangible assets		
At cost	2,344	2,294
Accumulated amortisation	(827)	(1,323)
Total intangible assets	1,517	971

	Intangible assets $'000
Balance at 1 July 2013	568
Additions	597
Disposals	–
Transfer from property, plant and equipment	81
Amortisation charge	(275)
Amounts written off	–
Balance at 30 June 2014	971
Additions	1,013
Disposals	(104)
Transfer to property, plant and equipment	(105)
Amortisation charge	(258)
Amounts written off	–
Carrying amount at 30 June 2015	1,517

Note 14: Property, plant and equipment

	Note	2015 $'000	2014 $'000
Land			
At fair value	(a)	4,106	3,569
Accumulated depreciation		–	–
Land		4,106	3,569
Buildings			
At fair value	(a)	11,263	9,886
Accumulated depreciation		(135)	–
Total buildings		11,128	9,886
Motor vehicles			
At cost		112	112
Accumulated depreciation		(24)	(11)
Total Motor Vehicles		88	101
Office furniture and equipment			
At cost		4,035	3,954
Accumulated depreciation		(1,304)	(1,028)
Total office furniture and equipment		2,731	2,926
Total property, plant and equipment		18,053	16,482

(a) The fair value of the land and buildings located at 1 Buckingham St Surry Hills was independently valued by Knight Frank as at 30 June 2014. This valuation has been conducted on the basis of market value and has been performed through a review of sale and rental values of comparable properties within close proximity. The Directors have used the information contained within this report in addition to direct offers for acquisition in order to assess the fair value as at 30 June 2014. No other land and buildings were revalued during the period and the Directors have determined that no other adjustments to fair value are required for the year ended 30 June 2015.

	Land $'000	Buildings $'000	Motor vehicle $'000	Plant and equipment $'000	Total $'000
Balance at 30 June 2013	2,841	6,784	65	1,171	10,861
Additions	1,350	4,177	66	453	6,046
Disposals	–	–	(19)	(70)	(89)
Transfer to asset held for sale	(258)	(324)	–	–	(582)
Reclassification	–	–	–	1,767	1,767
Depreciation expense	–	(141)	(11)	(395)	(547)
Revaluation	(364)	(610)	–	–	(974)
Carrying amount at 30 June 2014	3,569	9,886	101	2,926	16,482
Additions	–	–	–	357	357
Disposals	–	–	–	(15)	(15)
Transfers from investment property	537	1,377	–	–	1,914
Depreciation expense	–	(135)	(13)	(642)	(790)
Reclassification	–	–	–	105	105
Carrying amount at 30 June 2015	4,106	11,128	88	2,731	18,053

No impairment charge has been recognised during the year (2014: $0).

	Note	2015 $'000	2014 $'000

Note 15: Investment property

	Note	2015 $'000	2014 $'000
Investment property	(a)	3,657	5,571
		3,657	5,571
Balance at beginning of year		5,571	6,540
Assets held for sale		–	(1,711)
Fair value adjustments		–	742
Transfer to property, plant and equipment		(1,914)	–
Balance at end of year		3,657	5,571

(a)The fair value of the investment property located at 1 Buckingham St Surry Hills was independently valued by Knight Frank as at 30 June 2014. This valuation has been conducted on the basis of market value and has been performed through a review of sale and rental values of comparable properties within close proximity. The Directors have used the information contained within this report in addition to direct offers for acquisition in order to assess the fair value as at 30 June 2014. The Directors have examined market conditions at 30 June 2015 and have assessed that no fair value adjustment should be recognised.

Note 16: Investment in joint venture

The Fund has one material joint venture, IPCO Australia Pty Limited which was incorporated on the 12 May 2015.

Name of the Joint Venture	Country of incorporation and principal place of business	Principal activity	Proportion of ownership interests held by the group	
			30 June 2015	30 June 2014
IPCO Australia Pty Limited	Australia	Development and commercialisation of software	50	–

The investment in IPCO Australia Pty Limited is accounted for using the equity method in accordance with AASB 128 Investments in associates.

Summarised financial information for IPCO Australia Pty Limited is set out below:

	2015 $'000	2014 $'000
Current Assets (a)	20	–
Non- Current assets	1,960	–
Total assets	1,980	–
Current liabilities (b)	–	–
Non – current liabilities (c)	–	–
Total liabilities	–	–

(a) Includes cash and cash equivalents
(b) Includes financial liabilities (excluding trade and other payables and provisions)
(c) Includes financial liabilities (excluding trade and other payables and provisions)

Revenue	–	–
Profit for the year	–	–
Other comprehensive income for the year	–	–
Total comprehensive income for the year	–	–
Depreciation and amortisation	–	–
Interest income	–	–
Interest expenses	–	–
Tax expense	–	–

A reconciliation of the above summarised financial information to the carrying amount of the investment in IPCO Australia Pty Limited is set out below:

Total net assets of IPCO	1,980	–
Proportion of ownership interests held by the Group	50%	–
Carrying amount of the investment in IPCO	990	–

No dividends were received from IPCO Australia Pty Limited during the years 2015 and 2014.

IPCO Australia Pty Limited is a Private Company; therefore no quoted market prices are available for its shares.

Note 17: Trade and other payables

	2015 $'000	2014 $'000
Current		
Sundry payables and accrued expenses	1,070	1,054
Unclosed business contributions	498	615
	1,568	1,669

Note 18: Provisions

	Note	2015 $'000	2014 $'000
Current			
Employee benefits	(a)	785	646
Member rewards	(b)	243	162
Outstanding claims	(c)	9,438	10,641
Unexpired risk liability	(d)	–	–
		10,466	11,449
Non Current			
Employee benefits	(a)	141	156
		141	156

	Employee benefits $'000	Member rewards $'000	Outstanding claims $'000	Total $'000
Movements in provisions				
Balance at 1 July 2014	802	162	10,641	11,605
Amounts used during the year	(89)	–	(5,829)	(5,918)
Amounts raised during the year	213	81	4,626	4,920
Amounts reversed during the year	–	–	–	–
Balance at 30 June 2015	926	243	9,438	10,607

(a) Provision for employee benefits

A provision has been recognised for employee entitlements relating to annual and long service leave for employees. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based upon historical data. The measurement and recognition criteria for employee benefits have been included in note 1.

(b) Provision for member rewards

A provision has been recognised for a member rewards program. This provides for incentives offered to new members for joining as well as existing members for continued loyalty.

(c) Provision for outstanding claims

	2015 $'000	2014 $'000
Outstanding claims – central estimate of the expected future payment for claims incurred	9,746	11,299
Risk equalisation component	(1,410)	(2,026)
Claims handling expense	653	861
Gross outstanding claims liability	8,989	10,134
Risk margin (i)	449	507
Net outstanding claims liability	9,438	10,641
Risk margin %	5%	5%

a Risk margin

The risk margin (with one month hindsight) of 5% (2014: 5%) of the underlying liability has been estimated to equate to a probability of adequacy greater than 75% (2014: 75%).

The central estimate of outstanding claims (including those that have been reported but not yet settled, and which have been incurred but not yet reported) is an estimate that is intended to contain no intentional over- or underestimation. For this reason the inherent uncertainty in the central estimate must also be considered.

The risk margin has been based on an analysis of the past experience of the 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 future volatility.

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

The outstanding claims provision has been estimated using a chain ladder method, based on historical experience and future expectations as to claims. The calculation was determined taking into account one month of actual post balance date claims.

As claims for private health insurers 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. Accordingly, reasonable changes in assumptions would not have a material impact on the outstanding claims balance.

Note 18: Provisions (cont.)

(i) Risk margin (cont.)

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

	2015 $'000	2014 $'000
Gross outstanding claims at beginning of period	11,299	7,545
Risk equalisation component	(2,026)	(1,097)
Administration component	861	503
Central estimate at beginning of period	10,134	6,951
Change in claims incurred for the prior year	945	129
Claims paid in respect of the prior year	4,252	(3,887)
Claims incurred during the year (expected)	89,660	91,387
Claims paid during the year (expected)	(85,111)	(83,281)
Central estimate at end of period	9,746	11,299
Administration component	653	861
Risk equalisation component	(1,410)	(2,026)
Gross outstanding claims at end of period	8,989	10,134

(d) Provision for unexpired risk liability

	Unearned premium $'000	Unearned unclosed business $'000	Constructive obligation $'000	Total $'000
2015				
Premium (1)	13,184	498	61,502	75,184
Related deferred member acquisition costs	–	–	–	–
Premium less related DMAC (2)	13,184	498	61,502	75,184
Outflows				
Central estimate of future benefits	11,294	430	52,469	64,193
Central estimate of future management expenses	1,286	47	6,073	7,406
Risk margin	503	19	2,342	2,864
Total outflows (3)	13,083	496	60,884	74,463
Total deficiency (3) – (2)	–	–	–	–
Total unexpired risk liability (3) – (1)	–	–	–	–
Total unexpired risk liability	–	–	–	–

	Unearned premium $'000	Unearned unclosed business $'000	Constructive obligation $'000	Total $'000
2014				
Premium (1)	11,069	615	60,663	72,347
Related deferred member acquisition costs	–	–	–	–
Premium less related DMAC (2)	11,069	615	60,663	72,347
Outflows				
Central estimate of future benefits	9,294	510	51,296	61,100
Central estimate of future management expenses	1,105	60	6,119	7,284
Risk margin	416	23	2,297	2,736
Total outflows (3)	10,815	593	59,712	71,120
Total deficiency (3) – (2)	–	–	–	–
Total unexpired risk liability (3) – (1)	–	–	–	–
Total unexpired risk liability	–	–	–	–

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

The liability adequacy test for sufficiency is determined as the excess of projected benefits, risk equalisation, state levies, claims-related expenses, plus a risk margin over the projected premiums, less intangible assets and related deferred member acquisition costs for the relevant period.

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 projected premiums for the relevant period. Projected premiums, benefits, risk equalisation, state levies and claims-related expenses were determined on a best estimate basis with no membership growth.

The risk margin of 4% for annual reporting (2014: 4%) is applied to the benefits, risk equalisation, state levies and claims-related expenses cash flows. The risk margin is to provide a 75% level of adequacy (2014: 75%). The risk margin has been based on an analysis of the past experience of the company. This analysis examined the volatility of past loss ratios. The adopted risk margin is based on past volatility, plus allowances for uncertainty from the economic environment and changes in the risk profile.

	2015 $'000	2014 $'000

Note 19: Other liabilities

	2015 $'000	2014 $'000
Current		
Premium received in advance	13,184	11,069
	13,184	11,069

Note 20: Members' guarantee

The company is limited by guarantee and hence has no contributed equity. If the company is wound up, the constitution states that all funds, property and assets that remain after payment of outstanding claims, debts and liabilities shall be applied to another organisation or institution having objects similar to Railway & Transport Health Fund Limited, providing similar services, which prohibits the distribution of income and assets to its members, and which is exempt from payment of income tax. If the company is wound up and cannot meet its debts, the constitution states that each member is required to contribute a maximum of $10 toward meeting any outstanding obligations of the company.

Note 21: Reserves

	2015 $'000	2014 $'000
Current		
Revaluation reserve	–	–
Movement of reserves		
Balance at beginning of year	–	790
Revaluation increase/(decrease) on property	–	(790)
Balance at end of year	–	–

The asset revaluation reserve records the revaluations of non-current assets.

Note 22: Capital and leasing commitments

	2015 $'000	2014 $'000
Operating lease commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable – minimum lease payments		
– not later than 12 months	138	90
– later than 12 months but not later than 5 years	185	277
– greater than 5 years	–	–
	323	367

The operating lease commitments relate to a non-cancellable premises lease entered into for the operation of the office in Charlestown.

Note 23: Contingent liabilities and contingent assets

The company does not have any contingent liabilities or assets at 30 June 2015.

Note 24: Cashflow information

Reconciliation of cash flow from operations with surplus after income tax

	2015 $'000	2014 $'000
Surplus/(loss) after income tax	2,168	1,700
Non-cash flows in surplus		
Depreciation and amortisation	1,048	822
Net asset revaluation	–	230
Fair value adjustment of investments	106	(165)
Fair value adjustment of investments in equity	–	(790)
Net loss on disposal of property, plant and equipment	(369)	66
Changes in assets and liabilities		
Decrease/(increase) in trade and term debtors	576	1,277
Decrease/(increase) in inventory	9	(125)
(Increase)/decrease in other assets	(71)	(24)
Increase/(decrease) in payables	(107)	(955)
Increase in provisions	(989)	3,559
Increase in other liabilities	2,115	1,713
Cash flows from operations	4,486	7,308

Note 25: Events after the balance sheet date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

Note 26: Financial instruments measured at fair value

a. Financial risk management

The company's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, bills and leases.

The totals for each category of financial instrument, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	2015 $'000	2014 $'000
Financial assets		
Cash and cash equivalents	3,011	4,465
Loans and receivables	5,898	6,040
Fair value through profit and loss investments		
– listed securities	3,500	2,418
– term deposits	21,500	31,552
– fixed income securities	14,799	–
	48,708	44,475
Financial liabilities		
Financial liabilities at amortised cost		
– trade and other payables	1,568	1,669
– other liabilities	13,184	11,069
	14,752	12,738

The company does not have any derivative instruments at 30 June 2015.

The Audit and Risk Committee has been delegated responsibility by the board of directors for, among other issues, monitoring and managing financial risk exposures of the company. An investment policy has been developed in order to comply with PHIAC's requirements.

The company's overall investment strategy seeks to assist the company in meeting its financial targets, while minimising potential adverse effects on financial performance. The main risks the company is exposed to through its financial instruments have been addressed below, including market risks, liquidity risks, credit risks and insurance risks.

Note 26: Financial instruments measured at fair value (cont.)

a. Financial risk management (cont.)

Market Risk

(i) Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at reporting date whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The company is also exposed to earnings volatility on floating rate instruments.

	Weighted average effective interest rate	Within year $'000	Fixed interest rate maturing 1 to 5 years $'000	Total $'000
2015				
Financial assets				
Cash and cash equivalents	2.50%	3,011	–	3,011
Receivables	0.00%	5,898	–	5,898
Investments – term deposits	3.00%	21,500	–	21,500
Investments – fixed income securities	5.05%	3,665	11,134	14,799
Total financials assets		34,074	11,134	45,208
2014				
Financial assets				
Cash and cash equivalents	2.60%	4,465	–	4,465
Receivables	0.00%	6,040	–	6,040
Investments	3.76%	29,517	2,035	31,552
Total financials assets		40,022	2,035	42,057

The following table illustrates sensitivities in the company's exposures to changes in interest rates. The table indicates the impact on how surplus and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

	2015		2014	
	$'000	$'000	$'000	$'000
Interest rate movement	+2.00%	-2.00%	+2.00%	-2.00%
Impact on net result for the year	753	(753)	655	(655)
Impact on equity	753	(753)	655	(655)

Foreign currency risk

The company is not exposed to any material foreign currency risk.

Commodity price risk

The company is not exposed to any material commodity price risk.

Liquidity risk

Liquidity risk arises from the possibility that the company might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The company manages this risk through the following mechanisms:

- preparing forward-looking cash flow analysis in relation to its operational, investing and financing activities
- monitoring undrawn credit facilities
- obtaining funding from a variety of sources
- maintaining a reputable credit profile
- managing credit risk related to financial assets
- investing only in surplus cash with major financial institutions
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities. Financial guarantee liabilities are treated as payable on demand since the company has no control over the timing of any potential settlement of the liabilities.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates, and does not reflect management's expectations that banking facilities will be rolled forward.

Note 26: Financial instruments measured at fair value (cont.)

a. Financial risk management (cont.)

Liquidity risk (cont.)

Financial liability and financial asset maturity analysis

Due within	< 1yr $'000	1 – 5yrs $'000	> 5yrs $'000	Total $'000
2015				
Financial liabilities due for payment				
Trade and other payables (excluding estimated annual leave)	1,568	–	–	1,568
Other liabilities	13,184	–	–	13,184
Total contractual outflows	14,752	–	–	14,752
Total expected outflows	14,752	–	–	14,752
Financial assets — cash flows realisable				
Cash and cash equivalents	3,011	–	–	3,011
Trade, term and loans receivables	5,898	–	–	5,898
Investments held at fair value through profit and loss	28,665	11,134	–	39,799
Total anticipated Inflows	37,574	11,134	–	48,708
Net inflow on financial instruments	22,822	11,134	–	33,956
2014				
Financial liabilities due for payment				
Trade and other payables (excluding estimated annual leave)	1,669	–	–	1,669
Other liabilities	11,069	–	–	11,069
Total contractual outflows	12,738	–	–	12,738
Total expected outflows	12,738	–	–	12,738
Financial assets — cash flows realisable				
Cash and cash equivalents	4,465	–	–	4,465
Trade, term and loans receivables	6,040	–	–	6,040
Held-for-trading investments	31,935	2,035	–	33,970
Total anticipated Inflows	42,440	2,035	–	44,475
Net inflow on financial instruments	29,702	2,035	–	31,737

Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counter parties of contract obligations that could lead to a financial loss to the company.

Management monitors credit risk by actively assessing the rating quality and liquidity of counter parties. The table below demonstrates the translation of grading used to assess the investments held by the company.

Grade	Standard & Poor's	Moody's	AM Best
1	AAA AA+ AA AA-	Aaa Aa1 Aa2 Aa3	A++ A+
2	A+ A A- BBB+ BBB BBB-	A1 A2 A3 Baa1 Baa2 Baa3	A A- B++ B+
3	BB + BB BB- B+ B B-	Ba1 Ba2 Ba3 B1 B2 B3	BB+ BB BB- B+ B B-
4	Below B-	Below B3	Below B-
Unrated	–	–	–

Analysis of Standard & Poor's Ratings:

AAA to AA-	Encompasses the major Australian banks and the Australian government.
A+ to A-	Enables exposure to the regional Australian banks that offer good risk/rewards.
BBB+ to BBB-	Provides for greater exposure to regional Australian banks and hybrid securities, but a maximum of 30% is set as a prudent level when combined with liquidity requirements.
Unrated	Enables access to a wide range of ASX-listed non-bank securities, such as credit unions and building societies.

The investment policy adopted by the company is designed to meet the standards set by PHIAC. Below is an analysis of the credit risk as it stands at year end.

Grading	1 $'000	2 $'000	3 $'000	4 $'000	Unrated $'000	Total $'000
2015						
Cash and cash equivalents	3,011	–	–	–	–	3,011
Fair value investments	9,372	25,826	–	–	1,101	36,299
Total	12,383	25,826	–	–	1,101	39,310
% of total	31%	66%	–	–	3%	
Maximum allowable per investment policy	N/A	N/A	N/A	N/A	N/A	
2014						
Cash and cash equivalents	–	4,463	–	–	2	4,465
Fair value investments	11,737	18,805	–	–	3,428	33,970
Total	11,737	23,268	–	–	3,430	38,435
% of total	30%	61%	0%	0%	9%	
Maximum allowable per investment policy	N/A	N/A	N/A	N/A	N/A	

Note 26: Financial instruments measured at fair value (cont.)

a. Financial risk management (cont.)

Insurance risk

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

The first is the principle of community rating. This principle prevents private health insurers from discriminating between people on the basis of their health status, age, race, sex, and sexuality, the frequency that a person needs treatment, or claims history. The second is risk equalisation, which supports the principle of community rating.

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

b. Net fair values

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the balance sheet. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgment and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted market bid prices. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

		2015		2014	
		Net carrying value $'000	Net fair value $'000	Net carrying value $'000	Net fair value $'000
Financial assets					
Cash and cash equivalents	(i)	3,011	3,011	4,465	4,465
Trade and other receivables	(i)	5,898	5,898	6,040	6,040
Investments: fair value to profit or loss	(iii)	39,799	39,799	33,970	33,970
Total financial assets		48,708	48,708	44,475	44,475
Financial liabilities					
Trade and other payables	(i)	1,568	1,568	1,669	1,669
Other liabilities	(ii)	13,184	13,184	11,069	11,069
Total financial liabilities		14,752	14,752	12,738	12,738

(i) Cash and cash equivalents, trade and other receivables and trade and other payables are short-term instruments in nature whose carrying value is equivalent to fair value.

(ii) Other liabilities are comprised of premiums in advance and exclude amounts provided for relating to unexpired risk liability, outstanding claims liability and employee benefits, which are not considered to be financial instruments.

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The financial assets held at fair value, fall entirely within Level 1 as at 30 June 2015.

Note 27: Company details

The registered office and principal place of business of the company is:

Railway & Transport Health Fund Limited
ABN 93 087 648 744
Eveleigh House
1 Buckingham Street
SURRY HILLS NSW 2010

Directors' Declaration

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 21 to 61, are in accordance with the Corporations Act 2001 and:
   a. comply with Accounting Standards and the Corporations Regulations 2001; and
   b. give a true and fair view of the financial position as at 30 June 2015 and of the performance for the year ended on that date of the company.
2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the board of directors.

R Scheuber AM
Chair
Dated this 23rd day of September 2015
Sydney, NSW

Independent Auditor's Report

GrantThornton

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Independent Auditor's Report
To the Members of Railway & Transport Health Fund Limited

We have audited the accompanying financial report of Railway & Transport Health Fund Limited (the "Company"), which comprises the statement of financial position as at 30 June 2015, the statement of surplus or deficit and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Company.

Directors' responsibility for the financial report
The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view 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.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's

Independent Auditor's Report (cont.)

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judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion, the financial report of Railway & Transport Health Fund Limited is in accordance with the Corporations Act 2001, including

a giving a true and fair view of the Company's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

b complying with Australian Accounting Standards and the Corporations Regulations 2001

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A G Rigele
Partner - Audit & Assurance

Sydney, 23 September 2015

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