



The
Doctors' Health
Fund



Annual Report 2009

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Chairman's Report

I am pleased to present the 2008 - 2009 Annual Report to members of The Doctors' Health Fund, the first in my capacity as Chairman. During the 32 year history of this Fund there has been considerable change to the health insurance landscape. Yet through all this change our track record of delivering value for members has endured. As a not-for-profit organisation, our members' interests are paramount.

As some of you may recall, in 2006 the directors endorsed a strategic plan involving a focused growth path, a revamped product suite better suited to members and enhanced governance. Three years into that plan, we have seen significant progress in a number of areas.

Membership has increased by 29% since setting that plan and we are now a fund that insures over 12,000 people. This growth provides a solid footing for our future.

We pride ourselves on providing a range of products that meet our members' needs across the various stages of their lives. Our products provide quality and transparent benefits and we continually look for ways to enhance them. For example, from 1 April 2009 our hospital products with an excess were enhanced by reducing the excess payment structure to \$250 per admission, until the total excess on the policy is reached. In July, the Financial Review Smart Investor Magazine rated our Prime Choice \$500 excess product, as amongst the best on offer in both their 'family' and 'established couples' categories.

During the year we made some further improvements to our extras products and introduced a member discount offer for optical products with Luxottica, a company with brand names such as OPSM, OPSM Direct, Laubman & Pank, Budget Eyewear and Vision Plus (WA).

From March 2009 members can now access discounted travel insurance through QBE Insurance.

Our Fund has continued to perform well financially. Revenue from member contributions was up by \$2.4m to \$18.2m. We paid out over \$15m in net member benefits, which represents 84.7 cents of every dollar of income, an increase from 78.5 cents in 2008.

The Fund's expenses totaled \$2.7m, a reduction of 18.8% from the prior year. The management expense ratio, or the ratio of expenses to contribution income, was reduced to 14.9% from 21.1% in 2008.

Acquisition costs are related to our growth strategy, which has reaped good results, not only in new memberships but also within our target segment of younger doctors. Our membership growth was 13.7% which is amongst the highest in the industry. Whilst we have been able to reduce this expenditure as our marketing gains momentum, it is an essential part of the growth strategy.

Our investment income was a standout in the industry with a return of 6.65% achieved. This was well above the industry average as a result of the Fund's prudent investment philosophy.

Our fund remains in a strong financial position. Our excess capital over the minimum mandated solvency level is \$11.2m. Our capital adequacy is also above the industry average and above that of the restricted fund group.

In January, we sadly said farewell to Dr Philip Douglas who lost his battle with cancer. Phil was the longest serving director on our board having been appointed in 1989. He was a talented and busy surgeon who took the time to provide valuable input and strategic direction to the Fund for almost 20 years.

In June, Dr Paul Nisselle resigned from the Board following his appointment to a senior position in the United Kingdom. Paul had been a director since 2002 and served as Chairman of the Board since 2006.

Paul has successfully presided over the Board during a period of significant change brought about by the increased regulation and more stringent governance requirements.

In their place, we welcomed two new directors, whose re-appointment is to be voted upon at the Annual General Meeting. Dr Janette Stening (nee Low) and Dr Dominic Barnes respectively joined our Board in February and July this year. They each bring different backgrounds and experience within the medical profession which we believe complement the current Board.

We will continue to grow our membership through targeted marketing activities. At the same time we will strive to reduce administration costs and our carbon footprint. As an example, recent enhancements to our software system will enable us to send documents such as claims statements, invoices and other notifications electronically.

The Australian Government has proposed changes to the private health insurance rebate and Medicare levy surcharge. The effect of the proposals, should they proceed, will vary by member. Some members will have their contribution rebate reduced or eliminated based on the extent to which their incomes are above the proposed thresholds. At the same time, the Medicare levy surcharge will be increased for those without private health insurance. We believe we are well placed to weather the changes ahead given we offer high quality and transparent benefits and a unique level of medical cover through our Top Cover product.

The National Health and Hospitals Reform Commission released its final report in July 2009. It contains over one hundred recommendations which are now to be assessed by federal and state governments. How these recommendations will unfold is uncertain at this early stage. We will monitor and assess these as they concern the private health insurance industry.

We remain focused on the interest of our members as we face the challenges ahead.

Governance at The Doctors' Health Fund

The Doctors' Health Fund (the Fund), a registered private health insurer, is committed to implementing high standards of corporate governance.

The powers and duties of the Fund are specified in the constitution of the Fund, the Corporations Act 2001 (Cth), the Private Health Insurance Act 2007 (Cth) and other relevant legislation and law.

Board of directors and its committees

Composition of the Board

For the year ending 30 June 2009, the Board determined its size and composition subject to limits imposed by the Fund's constitution which provides for a minimum of five directors and a maximum of seven directors. For the time being, the Board has determined that there shall be five directors, three of whom are medical practitioners.

Whenever necessary and appropriate, the Board may make arrangements to access skills externally where they are not available within the Board.

Board committees

The Board establishes standing and ad hoc committees to assist it in carrying out its responsibilities. The directors chair and participate in those committees.

Each committee is provided with a charter by the Board setting out its role, composition, powers, responsibilities and any other relevant matters.

Currently there are three standing committees:

1. Audit, Risk and Compliance Committee (ARCC)
2. Human Resource, Remuneration and Nominations Committee (HRRNC)
3. Marketing and Business Development Committee (MBDC)

Unless specifically empowered by the Board these committees are advisory committees. Matters requiring the Fund's decision are referred to the next meeting of the Board.

Role and responsibilities of the Board

The Board's role is to provide strategic guidance to the Fund within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the Fund's strategic aims, ensures that the necessary financial and human resources are in place for the Fund to meet its objectives and reviews the performance of management. The Board sets the Fund's values and standards and ensures that its obligations to the members of the Fund and others are understood and met.

In addition to committee meetings, the Board aims to meet at least six times a year.

The roles and responsibilities of the Chairman and the Chief Executive Officer

The roles of the Chairman and the Chief Executive Officer are strictly separate.

Role of the Chairman

The Chairman is responsible for leadership and effectiveness of the Board.

The Chairman presides over the Board and general meetings of the Fund. This task includes making sure that the Board is well informed and that the directors have the opportunity to air differences, explore ideas and generate the collective views and wisdom necessary for the proper operation of the Board and the Fund.

The Chairman is responsible for meetings of the Board being conducted competently and is expected to provide effective leadership in formulating the strategic directions for the Fund.

The Chairman must ensure that general meetings of the Fund are conducted efficiently and that members of the Fund have adequate opportunity to air their views and obtain answers to their queries.

The Chairman is also the Board's representative in dealings with management and is responsible for communicating the Board's views to management clearly and accurately. She also acts as the primary counselor to the Chief Executive Officer.

Role of the Chief Executive Officer

The Chief Executive Officer is appointed by the Board.

The Chief Executive Officer is responsible for the management of the Fund in accordance with the directions of the Board. This includes responsibility for delivery on the strategy, policies and budgets approved by the Board.

Board and Chief Executive Officer appraisal

The Board considers the evaluation of its own and the Chief Executive Officer's performance as fundamental to establishing a culture of performance and accountability.

Conflicts of interest

A director, who has a material personal interest in a matter relating to the affairs of the Fund or has any other interest which should be disclosed to avoid an actual or perceived conflict, may not be present when such a matter is discussed and may not vote on such matter.

Audit, Risk and Compliance Committee

The role of the ARCC is to assist the Board in discharging its responsibilities in relation to all internal and external audit, risk and compliance matters.

Internal control and risk management framework

The Board has developed internal controls and risk management procedures and instituted compliance systems. The ARCC is responsible for overseeing these compliance systems and reporting them to the Board.

Accountability and audit

External audit

The Board ensures that the Fund is audited annually by a reputable professional accounting firm. The current external auditors are PricewaterhouseCoopers.

Internal audit

The Fund has an outsourced internal audit function. An independent internal auditor conducts internal audit reviews and testing on a rotational basis. All audit reports are reviewed by the ARCC. The internal auditor reports directly to the ARCC and attends all ARCC meetings.

Human Resource, Remuneration and Nominations Committee

The role of the HRRNC is to assist the Board with the task of developing policies and procedures regarding conditions and remuneration of employees and directors. It considers the appropriate skills and qualifications needed for the Board and recommends suitable directors to fill casual vacancies.

Marketing and Business Development Committee

The role of the MBDC is to advise and assist the Board on matters relating to marketing and communications for the Fund and to actively promote the Fund to members and potential members. This committee was established on 1 July 2009.

Clinical advisory responsibilities

The Clinical Advisory Committee was disbanded during the financial year and its responsibilities transferred to the Board. These responsibilities are guided by principles set down by the Board and relate to medical and related clinical issues impacting the Fund's operations.

The role of members

The Board ensures that the members are informed of all major developments affecting the Fund's state of affairs. The Board's annual report is a major part of the communication to members about the state of affairs of the Fund. The annual general meeting is held within four months after the close of the financial year at a place the Board appoints.

The Board is the final level of appeal within the Fund, for matters handled pursuant to the Fund's Complaints Resolution Policy.

Remuneration of directors

Directors are paid by the Fund for their services. The amount is determined from time to time at annual general meetings. Proposals to change directors' remuneration are agreed to by the members as a lump sum at annual general meetings. The actual division of the lump sum between the directors is a matter for the Board. The Chair and the committee chairs will normally receive slightly higher fees than other directors. The directors are each indemnified by the Fund against any liability they might incur in their capacity as a director, subject to corporations law limitations.

Directors' Report

The directors of The Doctors' Health Fund Limited submit herewith the annual financial report for the financial year ended 30 June 2009. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the Fund during or since the end of the financial year are:

Name	Appointed	Resigned / Deceased
Dr P C Arnold	15 September 1993	-
Dr D F Barnes	1 July 2009	-
Dr P R Douglas	25 October 1989	Deceased 3 January 2009
Mr B E Foy	3 May 2006	-
Mrs P M Mann	3 August 2005	-
Dr P Nisselle	23 October 2002	Resigned 30 June 2009
Dr J Stening (nee Low)	25 February 2009	-

Particulars of directors

Peter Arnold non-executive director
BSc MBBCh BA (Politics, Philosophy, Economics)

Dr Arnold was appointed to The Doctors' Health Fund Board in 1993. He is a member of the Audit, Risk and Compliance Committee.

Dr Arnold currently serves on Impairment Panels of the Nurses' and Midwives' Registration Board of NSW. He is a member of the committee of the Medico-Legal Society of NSW, of the executive committee of the Doctors' Health Advisory Service (NSW) and of the Advisory Committee for Beyondblue's National Doctors' Mental Health Program.

Dr Arnold was formerly chairman of the Federal Council of the Australian Medical Association, deputy president of NSW Medical Board, president of the Australian Medical Association (NSW), president of the General Practitioners' Society in Australia and deputy chairman of the Acute Care Advisory Committee, operating under the aegis of the Commonwealth Department of Health and Ageing.

He has represented, respectively, the Australian Medical Association and the NSW Medical Board on federal and state government committees and working parties and at meetings of international medical organisations. He was in general medical practice in suburban Sydney from 1966 until 1990.

Dominic Barnes non-executive director
MBBS MSc (Drug Development) MBA

Dr Barnes was appointed to The Doctors' Health Fund Board on 1 July 2009. He is the Chairman of the Marketing and Business Development Committee.

Dr Barnes is a Queensland University medical graduate. He worked for more than 10 years as a full time vocationally registered general practitioner in Queensland and then in part time general practice /indigenous health in New South Wales while pursuing a pharmaceutical career.

Dr Barnes is currently vice-president and general manager of the Australian subsidiary of Shire plc, a global biopharmaceutical company specialising in treatments for rare genetic diseases where there are few or no therapeutic options. He has held senior management positions with responsibility for medical, scientific and regulatory affairs and health economics with a number of pharmaceutical companies.

He was formerly a member of a number of committees, including Medicines Australia Health Policy Development Strategic Committee, Drug Information Association Australia's Steering Committee, University of NSW Medical School's Therapeutics Committee and the Medicines Australia Biotechnology Interest Group. He is currently the Medicines Australia representative on the Commonwealth Department of Health Indigenous Access to the PBS Expert Advisory Panel.

Philip Douglas Deceased 3 January 2009
MBBS BSc (Med) FRACS

Dr Douglas was appointed to The Doctors' Health Fund Board in 1989. He was chairman of the Clinical Advisory Committee and was also a member of the Human Resource, Remuneration and Nominations Committee.

Dr Douglas was a colorectal surgeon and a visiting medical officer at Prince of Wales Hospital and Prince of Wales Private Hospital. He was also chairman of the Senior Medical Staff Association at Prince of Wales Hospital.

Bruce Foy non-executive director
B.Com LLB FAICD

Mr Foy was appointed to The Doctors' Health Fund Board in 2006. He is the Chairman of the Audit, Risk and Compliance Committee and a member of the Human Resource, Remuneration and Nominations Committee and of the Marketing and Business Development Committee.

Mr Foy is a professional non-executive director, being on a number of public and private boards, including First State Superannuation Trustee Corporation, Transgrid Corporation, Southern Uranium Ltd and Financial Planning Association of Australia Ltd.

Previously, Mr Foy was managing director and country manager for Australia of ING Bank N.V., and over a banking career spanning some twenty-five years, held a number of chief executive roles in wholesale and investment banking and stockbroking. Mr Foy was admitted as a barrister to the Supreme Court of New South Wales in 1989. He is a Fellow of the Institute of Company Directors.

Patria Mann non-executive director (Chairman)
BEc CA MAICD

Mrs Mann was appointed to The Doctors' Health Fund Board in August 2005 and appointed Chairman of the Board on 27 May 2009. She also chairs the Human Resource, Remuneration and Nominations Committee and is a member of the Audit, Risk and Compliance Committee.

Mrs Mann is a chartered accountant. She worked for the international accounting firm KPMG for seventeen years, including eight years in London. Mrs Mann is now a professional non-executive director.

Currently, Mrs Mann is a non-executive director of First State Superannuation Trustee Corporation, Ridley Corporation Limited and Perpetual Superannuation Limited.

Mrs Mann is a member of the Institute of Chartered Accountants and the Institute of Company Directors.

Paul Nisselle AM Resigned 30 June 2009
MBBS M.Hlth&MedLaw FRACGP

Dr Nisselle was appointed to The Doctors' Health Fund Board in 2002. He served as chairman of the Board and the Human Resource, Remuneration and Nominations Committee from 2007. He resigned from the Board on 30 June 2009 following his appointment as Senior Consultant, Educational Services of The Medical Protection Society in the United Kingdom

Dr Nisselle was a general practitioner for 18 years before commencing work in the medical indemnity industry in 1989. He served on the Medical Practitioners Board of Victoria, the Councils of the RACGP, NAGPA, AMA (Federal) and AMA Victoria and is a former president and former chairman of AMA Victoria.

Janette Stening (nee Low) non-executive director
MBBS FANZCA

Dr. Stening was appointed to the Board of The Doctors' Health Fund on 25 February 2009. She is a member of the Marketing and Business Development Committee.

Dr Stening is a Queensland University medical graduate who has practised in both Queensland and Victoria.

Dr Stening practised as an anaesthetist for 19 years, doing her initial training in anaesthesia in Brisbane and Townsville. She then sub-specialised in paediatric anaesthesia, furthering her training in Melbourne and London, before returning to an appointment as a consultant anaesthetist at The Royal Children's Hospital in Melbourne.

She has been extensively involved in registrar teaching and research, including a presentation at The World Congress of Anaesthetists and publications on management of difficult anaesthesia in paediatric syndromes and post-operative pain management in cerebral palsy.

She is presently the manager of an orthopaedic surgical practise.

Principal activities

The principal activities in the course of the financial year were the administration of a private health insurance business, governed by the Private Health Insurance Act 2007.

Review of operations

The operations of the Fund during the financial year and the results of those operations were as follows:

The profit for the year attributable to members was \$1,586,678 (2008: \$1,155,759). The increase is due to reduced management expenses, higher investment income and increased contribution revenue. This increase was despite the higher member benefit payments which amounted to 84.7% of contributions compared to 78.5% in the prior year.

The Doctors' Health Fund Limited is exempt under section 50-30 of the Income Tax Assessment Act 1997 from paying income tax.

Significant changes in state of affairs

During the financial year there was no significant change in the state of affairs of the Fund, either financially or in its operations.

Matters subsequent to the end of the financial year

There has not been any matter or circumstance, other than that referred to in the financial statements or notes to the financial statements, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial years.

Future developments

The Fund will continue to undertake initiatives to increase the Fund's market profile and membership. Further information on likely developments in the operations of the Fund and the expected results of operations is not included because the directors believe that it would be likely to result in unreasonable prejudice to the Fund.

Dividends

In accordance with the Fund's constitution no dividend can be paid to the members of the Fund.

Environmental Regulation

The Fund has assessed whether there are any particular or significant environmental regulations which apply to it and has determined that there are none.

Company Secretary

The Company Secretary is Mr Peter Aroney. Mr Aroney was appointed to the position of Company Secretary and Chief Executive Officer of The Doctors' Health Fund Limited on 14 May 2008. Mr Aroney is a member of the Institute of Chartered Accountants in Australia and has 27 years experience in business including a number of years in senior management roles with public companies.

Proceedings on behalf of the Company

No person has applied to the court under section 237 of the Corporations Act 2001 for leave 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 part of those proceedings. No proceedings have been brought or intervened in on behalf of the company with leave of the court under section 237 of the Corporations Act 2001.



Meetings of directors and committees

The following table sets out the number of meetings of the Board of Directors, the Audit, Risk and Compliance Committee (ARCC), the Human Resource, Remuneration and Nominations Committee (HRRNC) and the Clinical Advisory Committee (CAC), held during financial year ended 30 June 2009, and the number of meetings attended by each director. The CAC was disbanded during the year and its responsibilities transferred to the Board.

Directors	Board of Directors		ARCC		HRRNC		CAC	
	Total Held - 6		Total Held - 5		Total Held - 2		Total Held - 1	
	EA	A	EA	A	EA	A	EA	A
Dr P C Arnold	6	6	5	5	-	-	1	1
Dr P R Douglas	4	3	-	-	1	1	-	-
Mr B E Foy	6	6	5	5	2	2	-	-
Mrs P M Mann	6	6	5	5	-	-	-	-
Dr P Nisselle	6	6	-	-	2	2	-	-
Dr J Stening	2	2	-	-	-	-	-	-

EA = Eligible to attend

A = Attended

Indemnifying directors and officers

During the year, the Fund purchased management liability insurance to provide cover in respect of claims made against the directors and officers as far as is allowable by the Corporations Act 2001. The policy also covers the Fund for reimbursement of director's and officer's expenses associated with such claims. The total amount of insurance premiums paid and the nature of the liability are not disclosed due to a confidentiality clause within the agreement. As at the date of this report, no amounts have been claimed or paid in respect of this indemnity and insurance, other than the premium referred to above. The directors are each indemnified by the Fund against any liability they might incur in their capacity as a director, subject to corporations law limitations.

Auditors

The external auditors of the Fund are PricewaterhouseCoopers, chartered accountants, Newcastle.

Auditor's independence declaration

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

Signed in accordance with a resolution of the directors made pursuant to Section 298(2) of the Corporations Act 2001.

On behalf of the directors

Sydney
Date: 23 September 2009



P. Mann
Chairman

PricewaterhouseCoopers
ABN 52 780 433 757

PricewaterhouseCoopers Centre
26 Honeysuckle Drive
PO Box 798
NEWCASTLE NSW 2300
DX 77 Newcastle
Australia
Telephone +61 2 4925 1100
Facsimile +61 2 4925 1199

Auditor's Independence Declaration

As lead auditor for the audit of The Doctors' Health Fund Limited for the year ended 30 June 2009, 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.

This declaration is in respect of The Doctors' Health Fund Limited during the period.



Wayne Russell
Partner
PricewaterhouseCoopers

Newcastle
23 September 2009

PricewaterhouseCoopers
ABN 52 780 433 757

PricewaterhouseCoopers Centre
26 Honeysuckle Drive
PO Box 798
NEWCASTLE NSW 2300
DX 77 Newcastle
Australia
Telephone +61 2 4925 1100
Facsimile +61 2 4925 1199

**Independent auditor's report to the members of
The Doctors' Health Fund Limited**

Report on the financial report

We have audited the accompanying financial report of The Doctors' Health Fund Limited (the company), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for The Doctors' Health Fund Limited.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor

**Independent auditor's report to the members of
The Doctors' Health Fund Limited (continued)**

considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of The Doctors' Health Fund Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2009 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the company's financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of The Doctors' Health Fund Limited (the company) for the year ended 30 June 2009 included on The Doctors' Health Fund Limited web site. The company's directors are responsible for the integrity of The Doctors' Health Fund Limited web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from

Independent auditor's report to the members of
The Doctors' Health Fund Limited (continued)

electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.



PricewaterhouseCoopers



Wayne Russell
Partner

Newcastle
23 September 2009

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes as set out from page 19 to 46 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2009 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors

Sydney
Date: 23 September 2009



P Mann
Chairman

Income Statement

for the Financial Year Ended 30 June 2009

	Note	2009 \$	2008 \$
Premium revenue		18,168,603	15,805,178
Direct claims expense		(17,789,402)	(14,271,807)
Ambulance levies		(231,914)	(211,737)
RETF recoveries		2,626,468	2,076,110
Acquisition costs	5	(618,259)	(827,344)
Claims handling costs	5	(1,031,896)	(1,326,619)
Net claims incurred		(17,045,003)	(14,561,397)
Other underwriting expenses	5	(1,058,016)	(1,181,923)
Underwriting result		65,584	61,858
Investment income		1,518,272	1,090,774
Other income		2,822	3,127
Profit before income tax		1,586,678	1,155,759
Income tax (expense) / benefit	6	-	-
Profit from continuing operations	19	1,586,678	1,155,759
Profit for the year attributable to members		1,586,678	1,155,759

The above income statement should be read in conjunction with the accompanying notes to the financial statements

Balance Sheet

as at 30 June 2009

	Note	2009 \$	2008 \$
Current assets			
Cash and cash equivalents	9	269,870	673,991
Trade and other receivables	10	1,812,314	1,849,713
Financial assets at fair value through profit or loss	11	13,900,140	7,750,000
Total current assets		15,982,324	10,273,704
Non-current assets			
Financial assets at fair value through profit or loss	12	6,800,000	9,250,000
Plant and equipment	13	65,848	90,854
Total non-current assets		6,865,848	9,340,854
TOTAL ASSETS		22,848,172	19,614,558
Current liabilities			
Trade and other payables	14	313,251	219,830
Unearned premium liability	15	6,223,619	5,321,121
Unexpired risk liability	16	278,000	-
Outstanding claims liabilities	17	1,832,000	1,474,000
Total current liabilities		8,646,870	7,014,951
Non-current liabilities			
Provision for employee benefits	18	40,068	25,051
Total non-current liabilities		40,068	25,051
TOTAL LIABILITIES		8,686,938	7,040,002
NET ASSETS		14,161,234	12,574,556
Equity			
Retained profits	19	14,161,234	12,574,556
TOTAL EQUITY		14,161,234	12,574,556

The above balance sheet should be read in conjunction with the accompanying notes to the financial statements

Statement of Changes in Equity

for the Financial Year Ended 30 June 2009

	2009 \$	2008 \$
Total equity at the beginning of the financial year	12,574,556	11,418,797
Profit for the year	1,586,678	1,155,759
Total recognised income and expenses for the financial year attributable to members	1,586,678	1,155,759
Total equity at the end of the financial year	14,161,234	12,574,556

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

Cash Flow Statement

for the Financial Year Ended 30 June 2009

	Note	2009 \$	2008 \$
Cash flows from operating activities			
Receipts from policyholders		19,036,146	16,623,792
Receipts from RETF		2,823,768	2,048,271
Payments to suppliers and employees (inclusive of GST)		(2,629,836)	(3,399,075)
Claims and ambulance levies paid		(17,395,557)	(14,888,380)
Net cash flows from operating activities	21	<u>1,834,521</u>	<u>384,608</u>
Cash flows from investing activities			
Interest received		1,416,430	1,166,966
Payments for plant and equipment		(15,292)	(8,953)
Proceeds from disposal of plant and equipment		-	17,383
Proceeds from disposal of financial asset at fair value through profit or loss		10,550,000	2,900,000
Payments for financial assets at fair value through profit or loss		(14,189,780)	(4,900,000)
Net cash flows from investing activities		<u>(2,238,642)</u>	<u>(824,604)</u>
Net (decrease) / increase in cash and cash equivalents		(404,121)	(439,996)
Cash and cash equivalents at the beginning of the financial year		<u>673,991</u>	<u>1,113,987</u>
Cash and cash equivalents at the end of the financial year	21	<u>269,870</u>	<u>673,991</u>

The above cash flow statement should be read in conjunction with the accompanying notes to the financial statements

for the Financial Year Ended 30 June 2009

NOTE 1: Summary of accounting policies

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

Basis of preparation

This general purpose financial report covers The Doctors' Health Fund Limited (the Fund) as a single entity and has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group (UIG) Interpretations and the Corporations Act 2001.

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of the Fund complies with International Financial Reporting Standards (IFRS).

This financial report has been prepared under the historical cost convention, with certain exceptions as described in the accounting policies below.

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

The financial statements are presented in Australian dollars, which is the Fund's functional and presentation currency.

Significant accounting policies

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions and other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Accounting for health benefits organisations under AASB 1023

The Fund complies with AASB 1023 'General Insurance Contracts'. Under AASB 1023 the financial statements must include all assets, liabilities, revenues, expenses and accumulated funds attributable to the members of the Fund. Therefore the Fund's financial report includes total statutory and accumulated funds of the health insurance business.

(b) Insurance contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant over time. The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect.

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

(c) Investments

As part of its investment policy the Fund actively manages its investment portfolio to ensure that investments mature in accordance with the expected pattern of future cash flows arising from health insurance liabilities.

All investments are initially recognised at fair value being the acquisition cost.

(d) Asset backing insurance liabilities

All assets held by the Fund, with the exception of plant and equipment, have been determined to be assets backing insurance liabilities, and accordingly are designated as 'at fair value through profit or loss'. These are initially recorded at fair value being the acquisition cost. All related realised and unrealised gains or losses are included in investment income. Interest earned is included in investment income.

(e) Insurance contract liabilities

Health insurance outstanding claims liabilities

Health insurance outstanding claims liabilities are measured as the central estimate of the present value of expected future payments against claims incurred but not settled at the reporting date, whether reported or not, together with allowances for the Risk Equalisation Trust Fund, related claims handling costs and an additional risk margin to allow for the inherent uncertainty in the central estimate.

Unearned premium and unexpired risk liability

The proportion of written premiums, attributable to subsequent periods is deferred as unearned premium. The change in the liability for unearned premium is taken to the income statement in the order that revenue is recognised over the period of risk.

At each reporting date the adequacy of the unearned premium liability is assessed by considering current estimates of all expected future cash flows relating to future claims against 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 unearned premium liability is deemed to be deficient and an additional provision for unexpired risk liability is recognised. The Fund 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.

As the Fund has a constructive obligation to renew policies, and contribution rates cannot be changed before 1 April 2010, an additional test is conducted on the additional premiums expected to be earned in the period from 1 July 2009 to 31 March 2010.

(f) Claims

Health insurance claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and any adjustments to claims outstanding from previous years.

Claims handling costs are costs incurred in connection with the negotiation and settlement of claims and include all direct expenses of the claims department and any part of general administrative costs directly attributable to the claims function.

(g) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. The Fund recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met as described below.

Premium revenue

Premium revenue is recognised in the income statement, when it has been earned which is from the attachment date over the period of the contract. The attachment date is from when the insurer accepts the risk from the insured under the insurance contract. Revenue is recognised in accordance with the pattern of the incidence of risk expected over the term of the contract.

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

Premiums on unclosed business are brought to account using estimates based on payment cycles nominated by the policyholder.

Investment income

Investment income is recognised in the income statement on the basis of income earned for the financial year on the investment portfolio. Any interest earned but not received before the end of the financial year is accrued and carried forward in the Balance Sheet.

At each reporting date, the fair value of the investments is measured and recorded in the Balance Sheet. Any difference is transferred to the income statement.

Disposal of assets

Revenue from the sale of assets is recognised when the Fund has transferred to the buyer the significant risks and rewards of ownership of the assets.

(h) Risk Equalisation Trust Fund (RETF)

From 1 April 2007, under the provisions of the Private Health Insurance Act 2007, all health insurers must participate in the RETF, which charges a levy to all health insurers, and shares a proportion of the hospital claims of all persons aged 55 years and older and those with high cost claims amongst all registered health insurers.

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

(i) Acquisition costs

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

(j) Cash and cash equivalents

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

(k) Trade payables and other payables

Trade payables and other payables are recognised when the Fund becomes obliged to make future payments resulting from the purchase of goods and services.

(l) Acquisition of assets

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

In the event that settlement of all or part of the cash consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

(m) Plant and equipment

Plant and equipment are held at cost less accumulated depreciation.

Depreciation is calculated on a straight line basis over the estimated useful life of the property, plant and equipment between three and six years.

(n) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service and superannuation, when it is probable that settlement will be required and are capable of being measured reliably.

Provisions made in respect of wages and salaries and annual leave expected to be settled within twelve months, are measured at their nominal values, using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of annual leave and long service leave which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Fund in respect of services provided by employees up to the reporting date.

(o) Goods and services tax

Revenues, expenses, assets and liabilities are recognised net of the amount of goods and services tax (GST), except:

- i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST receivable from the taxation authority is included as part of receivables.

(p) Income tax

The Fund is exempt from tax under Section 50-30 of the Income Tax Assessment Act, 1997.

(q) Trade receivables and other receivables

Trade receivables and other receivables are recorded at amounts due less any allowance for doubtful debts. Any amount owing from members whose premium in arrears exceed two months from 'paid to' date, are written off as bad debts.

(r) Impairment of assets

At each reporting date, the Fund reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Fund estimates the recoverable amount of the cash generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash generating unit in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(s) Provisions

Provisions are recognised when the Fund has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is probable that the recovery will be received and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(t) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

(u) New accounting standards and UIG interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods. The Fund's assessment of the impact of these new standards and interpretations is set out below.

AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101 (effective from 1 January 2009)

The September 2007 revised AASB 101 requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being at the beginning of the comparative period. The Fund will apply the standard from 1 July 2009.

The following new standards and amendments are not expected to have a material impact on the Fund's financial statements.

AASB	Title	Operative Date
2008-2	Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation. [AASB 7, AASB 101, AASB 132, AASB 139 & Interpretation 2]	1 January 2009
2008-5	Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 January 2009
2008-6	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 July 2009
2009-2	Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments [AASB 4, 7, 1023 & 1038]	1 January 2009
2009-4	Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 July 2009
2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 January 2010
2009-6	Amendments to Australian Accounting Standards	1 January 2009
2009-7	Amendments to Australian Accounting Standards	1 July 2009

NOTE 2: Critical accounting judgments and estimates

No critical accounting judgments have been made in the year. There are two areas in which critical estimates are applied; namely the ultimate liability arising from claims made under insurance contracts and unexpired risk liability.

Provision for outstanding claims is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Fund.

Provision for unexpired risk liability is made at year-end where the present value of 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.

The estimated cost of claims includes direct expenses to be incurred in settling claims. The Fund takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liabilities established.

NOTE 3: Actuarial assumptions and methods

The following actuarial assumptions and processes are used in the preparation of these accounts.

(a) Outstanding claim liabilities

(i) Methodology

The chain ladder approach has been applied to the claims data separately for hospital, medical and general treatment claims. Where deemed necessary, adjustments based on actuarial judgement were made to the outstanding claims by service month to produce an appropriate estimate of incurred claims for the service month.

(ii) Expense rate

The administration component, applied to the gross outstanding claims liability less RETF recoveries component is based on the Fund's estimate of claims handling expenses expressed as a percentage of total benefits plus RETF recoveries for the last 12 months. The expense assumption is 8.0%; (2008; 10.2%).

(iii) RETF recoveries

To estimate the RETF component a factor of -21% (2008; -18%) was applied to the gross outstanding claims provision for hospital and medical benefits. This factor was determined as the ratio of the RETF recoveries to total hospital and medical benefits for the 12 months to 31 March 2009.

(iv) Risk margin

A risk margin of 9.5% (2008; 9.5%), to provide a 75% (2008; 75%) probability of adequacy, was added to the central estimate.

The total net outstanding claims provision was then determined as the sum of the gross outstanding claims provision, the expense component, the RETF recoveries component and the risk margin.

(b) Unexpired risk liabilities

As described in note 1(e), an assessment is made as to whether an unexpired risk liability is required to be brought to account. This involves assessing the profitability of future cash flows by considering trends in claiming, membership growth, mix of products and other factors.

Where the resultant future loss ratio, which represents the combined claims and expense ratios, is expected to exceed 100%, an unexpired risk liability is brought to account. The claims ratio for this purpose includes a risk margin of 3% (2008; 3%) added to the central estimate, in order to provide a 75% (2008; 75%) probability of adequacy. On this basis an unexpired risk liability of \$278,000 has been raised this year (2008; nil).

(c) Sensitivity analysis – insurance contracts

(i) Summary

The Fund 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 profit and equity of the Fund. The tables below describe how a change in each assumption will affect the insurance liabilities.

Variable	Impact of movement in variable
Assumed outstanding claims by service month as a percentage of total incurred claims by service month	An increase or decrease, in the assumed outstanding claims by service month as a percentage of total incurred claims by service month would result in an increase or decrease in claims expense.
Expense rate	An estimate for the internal costs of handling claims is included in the outstanding claims liability. An increase or decrease in the expense rate assumption would have a corresponding impact on claims expense.
Increase in future loss ratio	An increase or decrease in the future loss ratio would result in a corresponding impact on the unexpired risk liability.

(ii) Impact of changes in key variables

		Profit \$'000	Equity \$'000
Recognised amounts per financial statements		1,587	14,161
Variable	Movement	Adjustment amounts	
Assumed outstanding claims by service month as a percentage of total incurred claims by service month	+ 1%	1,490	14,064
	- 1%	1,684	14,258
Expense rate	+ 1%	1,569	14,143
	- 1%	1,605	14,179
Increase in future loss ratio	+ 1%	1,527	14,101
	- 1%	1,647	14,221

NOTE 4: Risk management policies and procedures

The financial condition and operation of the Fund are affected by a number of key risks including capital risk, insurance risk, financial risk (credit risk, liquidity risk, market risk and interest rate risk). Information regarding these risks and how they are managed is provided in this note.

The Fund manages risk by:

- establishing an Audit, Risk and Compliance Committee to assist the Board in the execution of its responsibilities
- maintaining a robust risk management framework
- the application of actuarial standards for solvency and capital adequacy established by the Private Health Insurance Administration Council (PHIAC)
- the Fund's internal policies and procedures designed to mitigate such risks

The responsibilities of the Audit, Risk and Compliance Committee include:

- reviewing the annual reports and other financial information distributed externally
- assisting the Board to review the effectiveness of the Fund's system of internal control
- monitoring the risk management system
- monitoring the activities of the internal audit function
- reviewing the nomination and performance of the external auditor

(a) Capital risk

The objectives in dealing with this risk are to maintain a prudent level of capital that ensures the ongoing viability of the Fund as a going concern. Solvency and capital adequacy standards are established under the Private Health Insurance Act 2007, (the Act), and are an integral component of the prudential reporting and management regime for private health insurers under the Act.

The Act specifies a two tier capital requirement for health benefit funds with each tier considering the capital requirements in a different set of circumstances. The first tier is intended to ensure the basic solvency of the health benefits fund, while the second tier is intended to ensure the basic capital requirements for a viable ongoing operation.

Whilst the purpose of the standards is to prescribe the minimum capital requirement, the Fund maintains capital in excess of that minimum. This is to ensure that under a range of adverse circumstances, the Fund would be expected to be in a position to meet its existing and future obligations to contributors and other creditors, in the context of a viable ongoing operation.

(b) Insurance risk

The provision of private health insurance in Australia is governed by the Act which is premised on the principle of community rating.

The community rating principle applies to the setting of Australian private health insurance premiums. In principle, the premium charged may not improperly discriminate between people. Premiums may not be set on the basis of age, gender, occupation, race, existing illness or other characteristics of a person likely to vary the need for hospital or general treatment. The principles of community rating are specified in the Act.

In these circumstances, the Fund adopts a prudent approach to pricing its products; a process which requires approval by the Minister for Health and Ageing. Pricing is typically determined annually and at levels which at least cover the projected benefit payments and management expenses of operating the Fund.

An important consideration in insurance risk is the Risk Equalisation Trust Fund (RETF). This scheme imposes a levy to all health insurers; and shares a proportion of the hospital claims, of all persons aged over 55 years and those with high cost claims, between all health insurers. With an older than average membership base, the Fund has been a net drawer of funds from the RETF. As a net drawer, the Fund is exposed to adverse changes that may be implemented to the scheme by the Australian government.

The Fund employs sound claims management practices based on an expert health insurance information technology platform. Together, these seek to ensure that all

claims are paid in compliance with benefit schedules and provide the detailed statistics required for actuarial projection purposes.

The Fund employs the services of an external actuarial firm proficient in health insurance, which assist across a number of areas including reserving, pricing, product development and reporting.

(c) Financial risk

The operating activities of the Fund expose it to financial risks such as credit risk, liquidity risk, market risk / interest rate risk and fair value estimation. The Fund's risk management framework recognises the unpredictable nature of financial markets and seeks to minimise potential adverse effects on financial performance and capital.

The Fund holds the following financial instruments:

	30 June 2009	30 June 2008
	\$	\$
Financial assets		
Cash and cash equivalents	269,870	673,991
Financial asset at fair value through profit or loss	20,700,140	17,000,000
Receivable from RETF	588,800	786,100
Receivable for GST	37,150	45,083
Government 30% rebate	715,967	565,856
Premium in arrears	102,135	153,653
Total	22,414,062	19,224,683

	30 June 2009	30 June 2008
	\$	\$
Financial liabilities		
Trade and other payables (excluding annual leave payable)	240,697	164,541
Total	240,697	164,541

(i) **Credit risk**

Credit risk arises from the financial assets of the Fund which comprise cash and cash equivalents, term deposits and investments, and other receivables. The risk relates to the potential default of a counterparty with the maximum exposure being the carrying amount of the asset.

During the current and prior financial year, the Board of Directors had authorised the operation of only one bank account with one of the four major Australian banks rated AA.

Credit risk for RETF recoveries ultimately relates to the risk of default from other private health insurance organisations that participate in the RETF. These other health insurers operate under the same laws and regulation as the Fund. Credit risk for premium receivables is the risk of non-payment by policyholders. This is considered minimal due to the diversification of policyholders. The GST and Medicare Australia receivables each have a counterparty that is an agency or department of the Australian Government.

Credit risk for financial assets at fair value through profit or loss is managed by the establishment of and adherence to, the Fund's Investment Policy. This policy governs the financial instruments in which the Fund is permitted to invest.

The Fund's Investment Policy details the asset classes in which funds may be invested.

Exposure limits are imposed for each class as well as for individual counterparty within each class, in order to provide a spread of investments and therefore minimise concentration risk. These limits are directly related to the assessed credit risk of the asset class as well as considering the recently implemented Australian Government Guarantee Scheme.

The investment policy places emphasis on the regulatory status and size of the financial institution, as well as its credit rating. This provides a sound basis for credit risk assessment as well as allowing the flexibility needed to optimise returns. This philosophy aligns with PHIAC's current capital adequacy prudential measurement.

The credit quality of financial assets, all of which are neither past due nor impaired, can be assessed by reference to external credit ratings, if available, or to historical information about counterparty default rates as below.

Rating	30 June 2009 \$	30 June 2008 \$
Cash and cash equivalents		
AA	269,870	673,991
Fair value through profit or loss		
AA+	12,150,000	6,500,000
AA	5,950,140	4,900,000
BBB+	-	4,000,000
Non-rated	2,600,000	1,600,000
Total	20,970,010	17,673,991

Under the Australian Government Guarantee Scheme for Large Deposits and Wholesale Funding, introduced in November 2008, \$10,000,000 (2008: nil), of the financial assets were subject to a guarantee issued by the Commonwealth of Australia. This guarantee includes \$2,000,000 of the non-rated category.

(ii) Liquidity risk

Prudent liquidity management implies sufficient available cash to cover the Fund's operational cash outflows. The Fund manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity forecast of financial assets and liabilities. A minimum balance is required to be maintained in cash while surplus funds are invested in term deposits in order to optimise returns.

The Fund does not have any borrowings or other debt obligations. The only financial liabilities relate to trade payables and accrued and other liabilities which arise in the normal course of business. These amounts are all payable within 30 days (2008: 30 days).

(iii) Market risk / Interest rate risk

Market risk is the risk that the fair value of future cash flows from a financial instrument will fluctuate because of changes in market factors. The risk relates to interest rate risk arising from the interest bearing financial assets which are cash and financial assets at fair value through profit or loss. The remaining assets in the balance sheet are non-interest bearing and not subject to market risk.

As with credit risk, this risk is managed through the Investment Policy, which establishes exposure limits for each type of financial asset. Consideration is given to the market fluctuations for the asset class, as the maturity duration. The overall duration profile of the portfolio is monitored in light of interest rate movements.

The current investment strategy reflects the Board's risk averse approach to market risk.

The cash balance is subject to a floating interest rate and hence it is subject to market risk as a result of changes to interest rates. The risk is managed by regular monitoring of the cash balance and investment of surplus funds in other permitted investments.

The financial assets at fair value through profit or loss are currently either term deposits or fixed interest investments. The Fund generally holds such investments to their maturity, however, due the fair value accounting requirement, interest rate changes may have a financial impact on the Fund's results during the time they are held by the Fund. In addition, interest rate fluctuations will impact the future earnings of the Fund as funds become available for investment and are locked-in at prevailing rates.

The Fund employs the services of advisors who assist in sourcing term deposits and fixed interest investments as well as providing advice as to the interest rate market. Such advisors are approved by the Board as required by the Investment Policy.

The analysis below demonstrates the impact that a change in interest rates of 2% (2008; 1%) would have on profit and equity based on the financial assets at fair value through profit or loss held at balance date. This movement is assumed for the sensitivity analysis after considering recent movements in official interest rates.

30 June 2009	Carrying amount \$	Movement in interest rates	Profit \$	Equity \$
Cash	269,870	+2%	5,397	5,397
		-2%	(5,397)	(5,397)
Financial assets at fair value through profit or loss	20,700,140	+2%	414,003	414,003
		-2%	(414,003)	(414,003)

30 June 2008	Carrying amount \$	Movement in interest rates	Profit \$	Equity \$
Cash	673,991	+1%	6,740	6,740
		-1%	(6,740)	(6,740)
Financial assets at fair value through profit or loss	17,000,000	+1%	170,000	170,000
		-1%	(170,000)	(170,000)

(iv) **Fair value estimation risk**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of term deposits with financial institutions is estimated to be the maturity value of the instruments, discounted using the relevant interest rate applicable to the specific instruments at reporting date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair value due to their short term nature.

NOTE 5: Other underwriting expenses

	2009	2008
	\$	\$
Expense by function		
Acquisition costs	618,259	827,344
Claims handling costs	1,031,896	1,326,619
Other underwriting expenses	1,058,016	1,181,923
Total expenses (excluding direct claims expenses)	<u>2,708,171</u>	<u>3,335,886</u>
Expense by nature		
Advertising and marketing expenses	401,392	572,017
Australian Health Service Alliance fees	125,447	128,817
Consultants fees	25,275	90,749
Depreciation	38,908	42,515
Directors' fees	243,249	254,999
Employee benefits expenses	1,051,025	1,325,894
Information technology expenses	222,998	196,584
Printing, postage and stationary	84,357	60,771
Rental expenses	84,029	83,351
Other expenses	431,491	580,189
Total expenses (excluding direct claims expenses)	<u>2,708,171</u>	<u>3,335,886</u>

NOTE 6: Income tax

The Fund is exempt from tax under Section 50-30 of the Income Tax Assessment Act 1997.

NOTE 7: Key management personnel remuneration

(a) Directors

The following persons were directors of the Fund during the financial year:

Dr P C Arnold

Dr P R Douglas (deceased 3 January 2009)

Mr B E Foy

Mrs P M Mann

Dr P Nisselle (resigned 30 June 2009)

Dr J Stening (appointed 25 February 2009)

(b) Other key management personnel

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

Name	Position	Effective date
Mr Peter Aroney	Chief Executive Officer	from 14 May 2008

(c) Key management personnel compensation

The compensation paid to the key management personnel of the Fund, is set out below:

	2009	2008
	\$	\$
Short-term employee benefits	467,725	559,596
Post employment benefits	42,746	64,085
Termination benefits	-	78,000
	<hr/> 510,471	<hr/> 701,681

NOTE 8: Remuneration of auditors

	2009 \$	2008 \$
Audit services		
PricewaterhouseCoopers Australian Firm: Audit and review of financial report and other audit work under the Corporations Act 2001	47,000	55,600
Total remuneration for audit services	47,000	55,600
Non-audit services		
PricewaterhouseCoopers Australian Firm: Audit of regulatory returns	12,500	11,800
Total remuneration for audit related services	12,500	11,800
	59,500	67,400

NOTE 9: Cash and cash equivalents

	2009 \$	2008 \$
Cash in hand	200	200
Cash at bank	269,670	673,791
	269,870	673,991

The Fund's exposure to interest rate risk is discussed in note 4. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

NOTE 10: Current assets - Trade and other receivables

	2009 \$	2008 \$
Interest accrued	313,800	272,318
Receivable from RETF	588,800	786,100
Receivable for GST	37,150	45,083
Government 30% rebate	715,967	565,856
Premium in arrears	102,135	153,653
Other receivables	54,462	26,703
	1,812,314	1,849,713

(a) Impaired trade receivables

There were no impaired trade receivables for the Fund in 2009 or 2008.

(b) Past due but not impaired

At 30 June 2009 and 30 June 2008 there were no trade receivables which were past due but not impaired.

(c) Interest rate risk

Information about the Fund's interest rate risk in relation to trade and other receivables is provided in note 4.

(d) Fair value and credit risk

Due to the short term nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above.

NOTE 11: Current assets - Financial assets at fair value through profit or loss

	2009 \$	2008 \$
Term deposits	11,850,000	7,750,000
Subordinated notes	2,050,140	-
	13,900,140	7,750,000

Information about the Fund's exposure to credit risk is provided in note 4.

NOTE 12: Non-current assets - Financial assets at fair value through profit or loss

	2009	2008
	\$	\$
Term deposits	6,800,000	9,250,000
	<u>6,800,000</u>	<u>9,250,000</u>

Information about the Fund's exposure to credit risk is provided in note 4.

NOTE 13: Non-current assets - Plant and equipment

	2009	2008
	\$	\$
Gross carrying amount – at cost		
Balance at the beginning of the financial year	239,069	278,219
Additions	13,902	8,225
Disposals	-	(47,375)
Balance at the end of the financial year	<u>252,971</u>	<u>239,069</u>
Accumulated depreciation		
Balance at the beginning of the financial year	(148,215)	(136,419)
Disposals	-	30,719
Depreciation expenses	(38,908)	(42,515)
Balance at the end of the financial year	<u>(187,123)</u>	<u>(148,215)</u>
Net book value		
Balance at the beginning of the financial year	90,854	141,800
Balance at the end of the financial year	<u>65,848</u>	<u>90,854</u>

NOTE 14: Current liabilities - Trade and other payables

	2009 \$	2008 \$
Trade payables	164,111	161,015
Accrued and other liabilities	76,586	3,526
Annual leave payables	72,554	55,289
	313,251	219,830

Trade and other payables include accruals for annual leave. The entire obligation is presented as current, since the Fund does not have an unconditional right to defer settlement. However, based on past experience, the Fund does not expect all employees to take the full amount of accrued leave within the next 12 months. The amount of leave not expected to be taken within the next 12 months is \$34,916 (2008; \$27,645).

NOTE 15: Current liabilities - Unearned premium liability

	2009 \$	2008 \$
Unearned premium liability at the beginning of the financial year	5,321,121	4,463,915
Deferral of premiums on contract written in the year	6,223,619	5,321,121
Earning of premiums written in previous year	(5,321,121)	(4,463,915)
Unearned premium liability at the end of the financial year	6,223,619	5,321,121

NOTE 16: Current liabilities - Unexpired risk liability

	2009 \$	2008 \$
Unexpired risk liability		
Unexpired risk liability at the beginning of the financial year	-	-
Recognition of additional unexpired risk liability in the period	278,000	-
Unexpired risk liability at end of the financial year	<u>278,000</u>	<u>-</u>
Deficiency recognised in the income statement		
Gross movement in unexpired risk liability	278,000	-
Net movement in unexpired risk liability	<u>278,000</u>	<u>-</u>

A risk margin of 3% (2008; 3%) has been applied in the calculation of the unexpired risk liability as at 30 June 2009. The risk margin has been calculated to equate to a 75% probability of adequacy (2008; 75%). Refer note 3 for further details on actuarial assumptions and methods.

NOTE 17: Current liabilities - Outstanding claims liability

	2009 \$	2008 \$
Central estimate of the expected present value of the future payments for claims incurred	1,834,000	1,461,000
Risk margin	159,000	128,000
RETF recoveries component	(285,000)	(239,000)
Claims handling costs	124,000	124,000
Outstanding claims liability	<u>1,832,000</u>	<u>1,474,000</u>

No discount was used in the above calculation since most claims are settled within three months. The risk margin has been calculated to equate to a 75% probability of adequacy (2008; 75%). Refer note 3 for further details on actuarial assumptions and methods.

NOTE 18: Non-current liabilities - Provision for employee benefits

	2009 \$	2008 \$
Long service leave payable	40,068	25,051
	40,068	25,051

NOTE 19: Retained profits

	2009 \$	2008 \$
Balance at the beginning of the financial year	12,574,556	11,418,797
Profit for the year	1,586,678	1,155,759
Balance at the end of the financial year	14,161,234	12,574,556

NOTE 20: Related party disclosures

As required under the Fund's constitution the directors are members of the Fund. Their membership is on the same terms and conditions as all other members. The directors are remunerated for their services.

NOTE 21: Notes to the statement of cash flows

	2009 \$	2008 \$
Reconciliation of cash and cash equivalents		
Cash on hand and cash at bank *	269,870	673,991
Reconciliation of net cash flow from operating activities		
Operating profit after income tax	1,586,678	1,155,759
Interest received	(1,416,430)	(1,166,966)
Depreciation	38,908	42,515
(Increase) / Decrease in other current assets	(22,961)	(66,993)
Increase / (Decrease) in unearned premium liability	902,498	857,206
Increase / (Decrease) in unexpired risk liability	278,000	-
Increase / (Decrease) in other operating liabilities	94,811	(449,428)
Increase / (Decrease) on other provisions	373,017	12,515
Net cash flows from operating activities	1,834,521	384,608

* Cash and cash equivalents consist of cash on hand and cash in bank only.

NOTE 22: Commitments

(a) Operating lease commitments

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2009	2008
	\$	\$
Not longer than one year	109,509	-
Longer than one year and not longer than five years	184,827	-
Longer than five years	-	-
	<hr/>	<hr/>
	294,336	-

NOTE 23: Solvency requirement

Under Schedule 2 of the Private Health Insurance (Health Benefits Fund Administration) Rules 2007 the solvency reserve of the Fund is \$2,977,000 (2008: \$3,151,000).

NOTE 24: Segment information

The Doctors' Health Fund Limited operates no business other than providing private health insurance in Australia.

NOTE 25: Events occurring after the balance sheet date

There have not been any matters or circumstances that have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the Fund, the results of those operations or the state of affairs of the Fund in future financial years.

NOTE 26: Additional fund information

The Doctors' Health Fund Limited is a public company limited by guarantee, incorporated and operating in Australia as a private health insurer.

Registered office and principal place of business

Level 5, 69 Christie Street
ST LEONARDS NSW 2065

The annual report was authorised for issue by the directors on 23 September 2009. The company has the power to amend and reissue the financial report.

