



Annual Report 2014



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# About CBHS



We all want healthier and happier lives for our family and ourselves and CBHS takes pride in delivering high-quality health and well being services that offers peace of mind at every life stage.

CBHS was set up in 1951 as a shared, not-for-profit-cooperative after the Commonwealth Bank decided it wanted to provide its employees with access to affordable health insurance. We have now been serving our past and current employees and their families for 63 years.

At CBHS, we know it doesn't matter how big you are; it's the service you provide. Today, more than 83,000 members and their families trust us to be there in times of uncertainty, providing them with financial relief so they can focus on what is most important to them – their health and wellbeing.

Our services and programs not only help members when they're sick, but also assist when they're well and wanting to maintain their good health.

We know we are nothing without our members. We believe our history connects us in the same way family members are connected – and this family-like focus is reflected in our tagline: "We're Family".

Putting our members first at every step means we regularly receive higher member satisfaction scores than most other funds. We also have one of the highest claims payout ratios in the industry. So not only are our premiums low, but when you do have to make a claim, we give more of your money back.

But we never rest on our laurels. At CBHS we embrace innovation so we can continue to improve our services without ever compromising on our not-for-profit, family-focused member philosophy.

For whatever stage of life you and your family are at, CBHS is there ready to help.

**We believe our history connects us in the same way family members are connected – and this family-like focus is reflected in our tagline: "We're Family".**

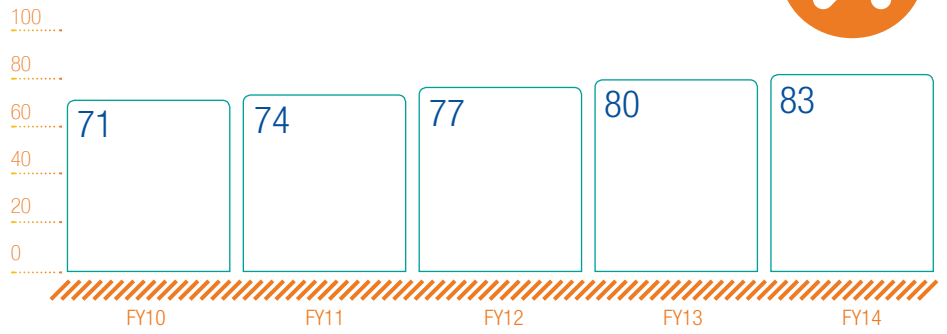
# Highlights



CBHS continues to provide more members with peace of mind, with now more than 193,000 persons covered.

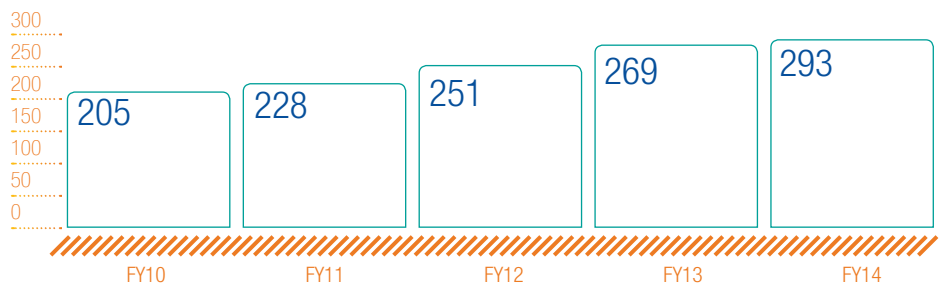
4.3% INCREASE IN MEMBERSHIP

Membership (thousands)



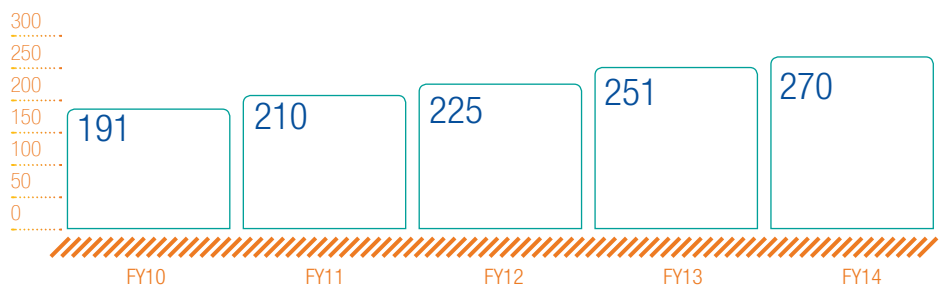
8.9% INCREASE IN REVENUE

Premium revenue (millions)



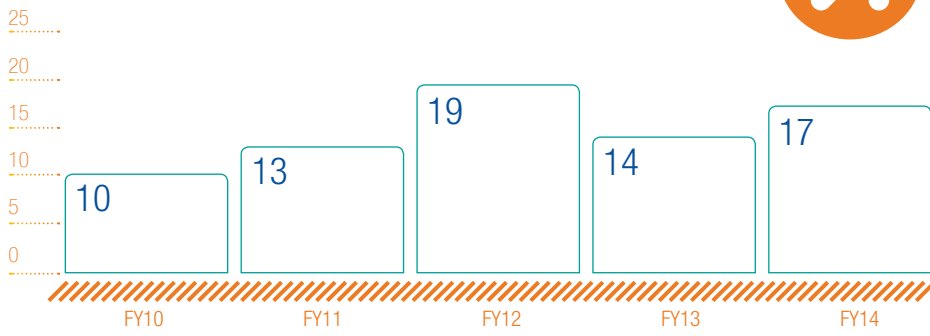
7.6% INCREASE IN BENEFITS INCURRED

Benefits incurred (millions)

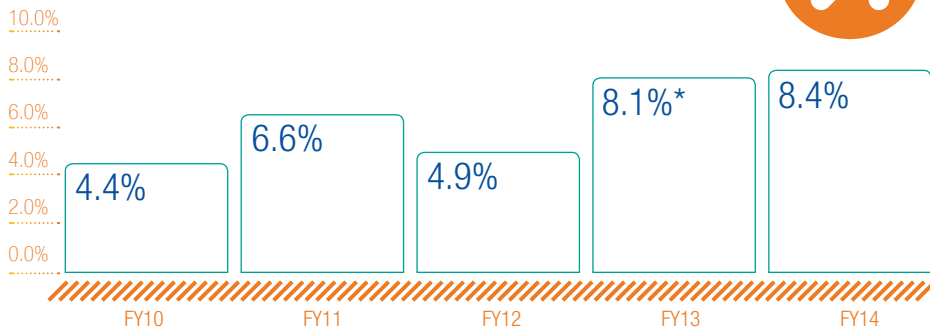


**SURPLUS INCREASED BY 20.1%**

Surplus (millions)



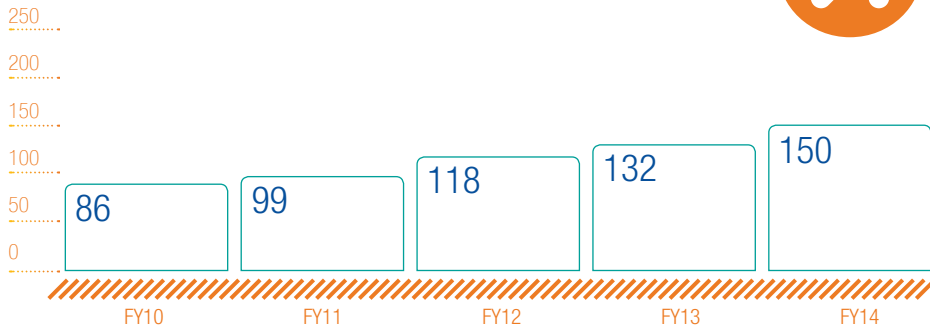
**8.4% INVESTMENT RETURNS IN 2014**



\*Note the 2013 investment return has been revised downward from 8.3% to 8.1% as a result of a presentation error.

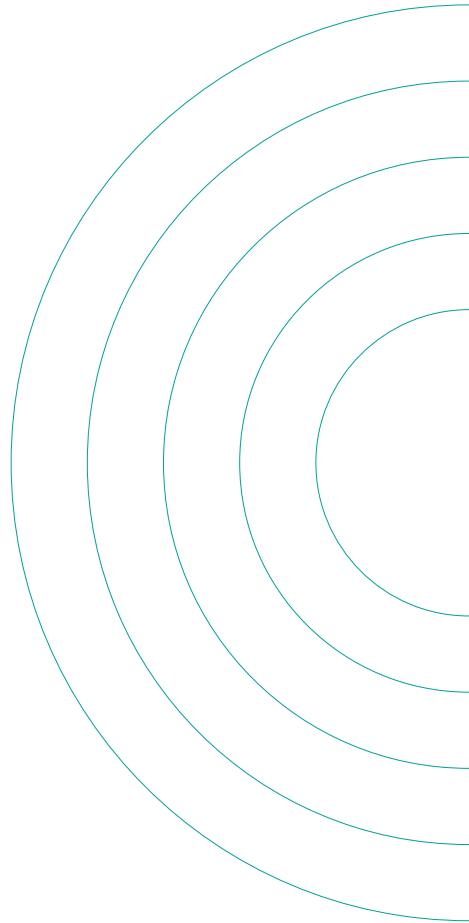
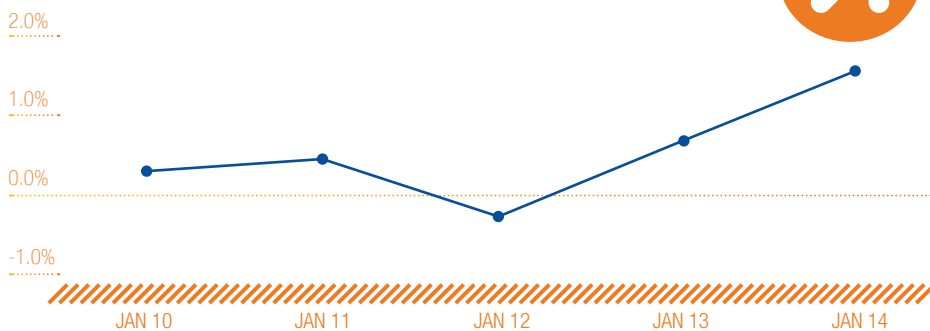
**13.0% INCREASE IN NET ASSETS**

Net assets (millions)



**RETURNS RELATIVE TO TARGET OVER ROLLING 5 YEAR PERIOD**

Target return CPI+2.5%





## FIVE YEAR HISTORY

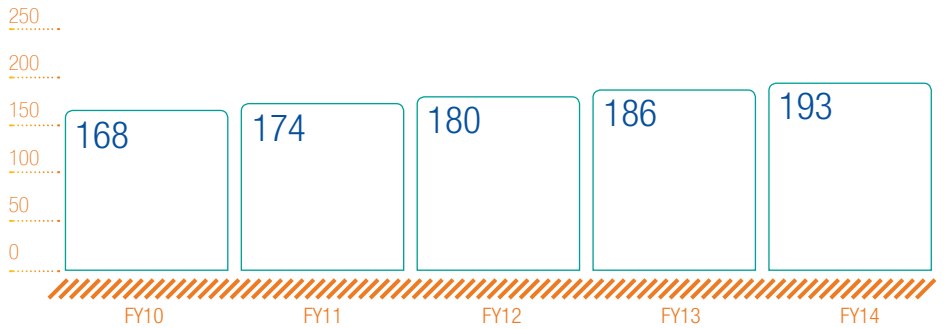
	2014	2013	2012	2011	2010
<b>INCOME STATEMENT</b>					
Direct premium revenue	293,044,016	269,043,545	251,488,025	227,983,184	205,367,339
Benefits incurred	233,017,751	215,098,365	191,211,740	177,989,149	161,605,655
Health benefits risk equalisation trust fund	33,038,279	32,140,736	30,651,139	29,282,266	26,701,157
Government levies	3,789,589	3,512,952	3,339,350	3,161,989	2,959,269
<b>Net claims incurred</b>	<b>269,845,619</b>	<b>250,752,053</b>	<b>225,202,229</b>	<b>210,433,404</b>	<b>191,266,081</b>
Net movement in unexpired risk liability	2,154,262	(1,165,469)	(200,000)	–	(988,583)
Management expenses	19,138,707	18,077,593	14,105,525	11,807,123	10,530,010
<b>Underwriting surplus</b>	<b>1,905,428</b>	<b>1,379,368</b>	<b>12,380,271</b>	<b>5,742,657</b>	<b>4,559,831</b>
Investment and other income	15,858,159	13,463,984	7,232,569	8,230,950	6,499,614
Depreciation and amortisation	(500,838)	(472,107)	(396,346)	(540,219)	(560,212)
<b>Operating surplus attributable to members of CBHS</b>	<b>17,262,749</b>	<b>14,371,245</b>	<b>19,216,494</b>	<b>13,433,388</b>	<b>10,499,233</b>
<b>BALANCE SHEET</b>					
Current assets	88,197,881	113,009,141	129,179,389	96,990,909	97,270,279
Non current assets	131,769,445	85,137,648	58,542,602	51,621,752	25,863,740
<b>Total assets</b>	<b>219,967,326</b>	<b>198,146,789</b>	<b>187,721,991</b>	<b>148,612,661</b>	<b>123,134,019</b>
Current liabilities	69,773,219	65,131,425	69,213,969	49,120,239	36,646,830
Non current liabilities	536,973	620,979	484,882	374,134	396,415
<b>Total liabilities</b>	<b>70,310,192</b>	<b>65,752,404</b>	<b>69,698,851</b>	<b>49,494,373</b>	<b>37,043,245</b>
<b>Net assets</b>	<b>149,657,134</b>	<b>132,394,385</b>	<b>118,023,140</b>	<b>99,118,288</b>	<b>86,090,774</b>
<b>Reserves</b>					
Asset revaluation reserve	–	–	–	311,642	717,516
Retained surpluses	149,657,134	132,394,385	118,023,140	98,806,646	85,373,258
<b>Total reserves</b>	<b>149,657,134</b>	<b>132,394,385</b>	<b>118,023,140</b>	<b>99,118,288</b>	<b>86,090,774</b>

# Delivering Value to Members

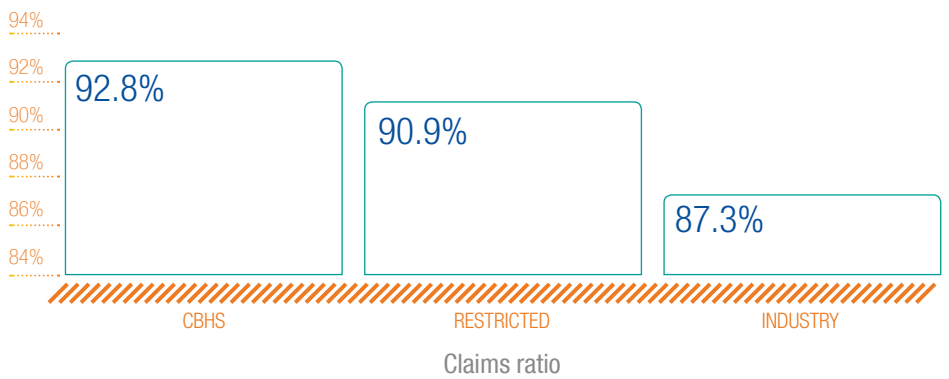


193,000 PEOPLE NOW EXPERIENCE THE BENEFITS OF CBHS MEMBERSHIP.

Persons covered (thousands)

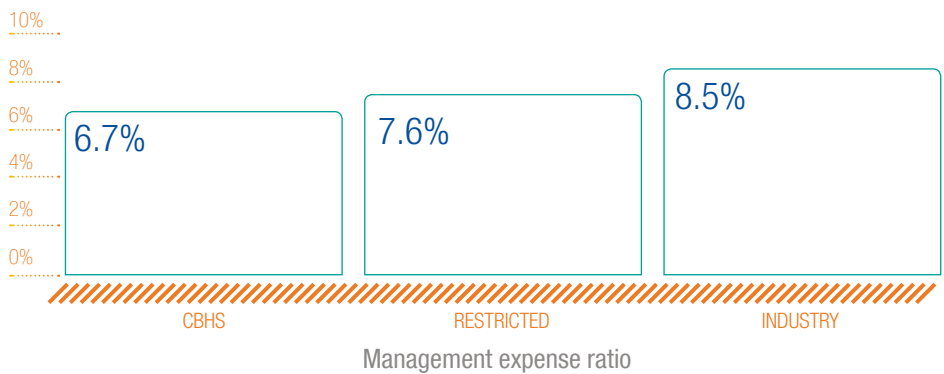


CBHS' MEMBER FOCUS ENSURES WE GIVE BACK MORE TO MEMBERS THAN THE INDUSTRY AVERAGE. IN 2014 WE PAID OUT OVER 92 CENTS IN CLAIMS FOR EVERY PREMIUM DOLLAR RECEIVED.



Note: Industry data source PHIAQ Quarterly Statistical Report

IN KEEPING WITH OUR PHILOSOPHY, WE CONTINUALLY LOOK TO IMPROVE THE WAY WE OPERATE. THIS ALLOWS CBHS TO MAINTAIN ONE OF THE LOWEST COST BASES IN THE INDUSTRY.



Note: Industry data source PHIAQ Quarterly Statistical Report

# Message from the Chairman and CEO

CBHS has been successful for a long time; we have consistently delivered value to our members by way of great benefits for competitive prices, we have regularly led the market on our payout ratio, we have been among the leanest operations in terms of management expense and yet we have excelled in member satisfaction. And, again in 2014, we have fulfilled our value promise of better benefits, lower costs and member focus.



**KERRY BRINKLEY**  
Chairman



**PAUL GLADMAN**  
CEO

### **STRONG PERFORMANCE WHILE MANAGING RISK**

Delivery on our value promise has helped us achieve annual growth of 4.3% in member numbers to 83,289. We have again paid out, in claims benefits, over 92 cents in every dollar of premium paid, proof of our objective to give back more to our members. We are able to sustain this level of member benefit by virtue of a lean management expense ratio in 2014 of just 6.7% and a target underwriting margin of just 1.75%; such value is of course retained in the business.

Our net surplus of \$17.3m was assisted by a very strong investment return. As pleasing as this is, our focus is not on the absolute return itself but also on the appropriate management of risk. We are aware of the volatility surrounding investment markets and our investment policy aims for, and our portfolio is constructed to achieve, an average return of "CPI plus 2.5%" over a five-year investment horizon. This longer-time horizon not only recognises that investment markets can be volatile in the short term, but also helps us maintain consistency in pricing by providing a buffer against rising business costs.

Last year, we implemented a new strategic asset allocation to optimise our returns for risk in an inherently volatile market. This year, our focus has been on positioning the portfolio to remain resilient during market downturns. This has involved replacing some fund managers with those whose products and approaches are better suited to our risk appetite, overall return and diversification goals. These changes were overseen by our Investment Committee, which relied on advice from our advisers, Towers Watson. Goldman Sachs was engaged to manage the change of fund managers to ensure we were not exposed to market volatility during the transition.

### **MEETING CHALLENGES HEAD-ON**

Sustainability is a key focus for us. The industry recently dealt with the former Federal Government's decision to wind back the private health insurance rebate, first by means-testing and then with the capping of the rebate in line with the consumer price index. While the current Federal Government has indicated it is more supportive of private health insurance, and has outlined its intention to restore the rebate to its previous levels, we cannot rely on a return to the previous situation.

Indeed, the recent Commission of Audit report to Government identified a significant number of potential reforms for the health system. Our industry is likely to support many of these reforms and most are inevitable in some form if the Australian health system is to remain sustainable. Regardless of the detail of these reforms, it is likely the level of regulatory change we have experienced in recent years will continue.



Over the long term, we understand the need to adapt to changes in our industry and seek to take advantage of the opportunities that result from them.

At CBHS, we will embrace any reforms that provide the industry with improved opportunities and we are well placed to deal with any hurdles as they occur. To do this, we will continue to rely on our excellent people, processes, systems and partners.

With this backdrop of impending change, our focus this year has centred on two themes: implementing and consolidating our current strategic initiatives, and identification of opportunities which will ensure we thrive rather than just survive in this new environment. As a result, we will be focusing on the following:

- **Improving member service.** Our members remain our core focus and to further improve the services we offer, we are increasing self-service functionality, lowering waiting times and enhancing our health and well-being activities, such as chronic disease management.
- **Increasing productivity.** While we have always been a lean operation and have kept our operating costs low, we have identified opportunities for increasing productivity through automation, process re-engineering and the outsourcing of non-core functions.
- **Enhancing product development.** Our products traditionally target the quality end of the value spectrum. But as affordability continues to be a major issue for our members, we are finding there is a greater demand for low cost/low benefit products. We believe an opportunity exists for us to create products that compete at the lower-price end of the value spectrum.
- **Expanding distribution.** While we are committed to servicing the Commonwealth Bank Group through our traditional channels, we will seek to further expand our distribution capacity through, for example, the use of aggregators.
- **Social media opportunities.** Over the past 12 months, we have become very active on social media. This medium allows us to expand our reach and to benefit from its immediacy.
- **Reducing claims leakage.** Claims leakage, arising from member or provider abuse through incorrect claiming or billing, results in premium rises for all members. We are increasing our investment in claims assessment tools and processes, which will help us identify errors and prevent fraudulent activities.

## PREPARING FOR THE FUTURE

Over the long term, we understand the need to adapt to changes in our industry and seek to take advantage of the opportunities that result from them. At CBHS, we are

## As a mutual health fund, owned by its members, CBHS strives for, and takes great pride in achieving excellence in member service.

well-equipped to do this. At the heart of our organisation we have excellent core assets including leading-edge technology, flexible and cost-effective products that appeal to a wide range of member needs, low staff turnover, and a strong working relationship with the Commonwealth Bank Group.

These core assets will be instrumental in meeting our objectives to expand our distribution reach, broaden our product appeal and protect and enhance our efficiency advantage. We compete in a market that is dominated by two major health funds and to counter their scale advantage, we rely on our agility and flexibility, strong member focus and other points of differentiation, as well as the advantages we have through our industry alliances, such as with the Australian Health Service Alliance for hospital contracting.

Technology supports many of our current and future operations and given the likely extent of future regulatory changes, along with our plans for product and service innovation, the demands on our IT capabilities are expected to grow exponentially. To better prepare for this growth, we have brought our IT systems support in-house. Previously, all support had been outsourced to a third-party provider. This new arrangement has given us significantly greater control over the way we prioritise and allocate resources, which has resulted in improved delivery times and quality, while lowering risk.

### MAINTAINING OUR CORE VALUES

In the current economic climate, members are increasingly focusing on the value of the service offerings from their health funds. So, while we have elevated our strategic focus in order to remain competitive and sustainable it is crucial that CBHS does

not lose sight of its key differentiator and purpose, which is to provide the best benefits at the lowest price via the best possible service to our members.

As a mutual health fund, owned by its members, CBHS strives for, and takes great pride in achieving excellence in member service. In late 2013, we introduced a tool called "Net Promoter Score", which measures a member's satisfaction levels with the service they have received from CBHS and with CBHS overall. We are delighted to be consistently scoring at levels which we believe position us well above our major competitors. Combined with the fact that, at the time of writing, we have been awarded the Roy Morgan Customer Satisfaction Award for each of the first six months of 2014, we are confident that we are delivering the excellent service expected by our members.

At the time of writing, we are in the latter stages of development of a new website, a project which reflects our aim to constantly improve our service to members. The site will introduce an updated look and feel consistent with our brand, while providing easier and more intuitive access to a wealth of new content. Significantly, there will be more options for members to complete transactions at their own convenience rather than needing to directly contact CBHS. For example, members will be able to add or remove the names of dependants, and change details such as payment amounts, contact information, level of cover or their nominated income tier for the rebate. Not only will this enhance the service we provide to members, but it will also free up our staff so they can spend more time assisting members who contact us with more complex queries.

To reflect our family-like focus, we have adopted a new tagline: "We're Family". This follows extensive member research during

2013, where we identified one of the most valued attributes of CBHS is the exclusive, family-like nature of our membership. Additional research showed there is still a vital and thriving place in our global economy for community thinking and action. Therefore, we decided to highlight this core attribute, and intend to make it more of a focus for our organisation. The "We're Family" tagline is now incorporated into our refreshed brand image, which will be rolled out from late 2014 through to early 2015.

### STAFF INITIATIVES

This year we have further strengthened our relationship with the Commonwealth Bank of Australia, in particular with the development of secondment opportunities between our two companies. These initiatives further enhance what is already a unique and fruitful corporate relationship.

### FUTURE OUTLOOK

As Chairman and CEO of CBHS, we are proud and honoured to be able to serve you, and to preside over an organisation which has once again delivered strong, sustainable results in an industry that continues to experience volatility.

This year, we are pleased to present our annual report, which demonstrates our commitment to keep doing what has made us so successful in the past but which also outlines a path for sustainable success as we head into 2015.



KERRY BRINKLEY  
Chairman



PAUL GLADMAN  
Chief Executive Officer

# Corporate Governance





## FRAMEWORK

The Constitution sets out various matters relating to the corporate governance practices of CBHS and can be viewed on the CBHS website ([www.cbhs.com.au](http://www.cbhs.com.au)).

The role and responsibilities of the Board of Directors (the Board) are set out in the Board Charter. Through this Charter the Board is accountable to Members for the activities and performance of CBHS under the Constitution. Under the Charter a number of functions have been reserved to the Board. These functions include:

- approving the strategies and financial objectives of CBHS
- approving the annual business plan and budget
- approving major corporate and capital initiatives
- endorsing corporate governance programs
- approving investment management initiatives.

The functions performed by the Board are exercised within an appropriate risk management framework. To ensure that decisions are taken quickly and effectively, the Chief Executive Officer (CEO) has been delegated a number of authorities. These authorities are exercised within an extensive system of internal controls. Principal among the delegated authorities are the day-to-day management of CBHS along with developing and maintaining a culture of trust, honesty and integrity in the relationships entered into by CBHS.

Private health insurers (including CBHS) are required to comply with a number of prudential standards issued by the Private Health Insurance Administration Council (PHIAC). One of these standards, the Governance Standard, is intended to ensure that private health insurers are managed prudently, that boards have access to appropriate independent expertise and that the boards of insurers include directors who have suitable competencies and experience to understand the relevant business issues and risks that they encounter.

The Board also endeavours, where applicable, to conform to the corporate governance principles and recommendations issued by the ASX Corporate Governance Council.

CBHS is committed to keeping its Members informed about general developments in corporate governance and the practical impact of those developments for CBHS. A dedicated corporate governance section is maintained on the CBHS website which also includes commentary about the risk management approach of CBHS.

## BOARD OF DIRECTORS

The Board comprises seven Directors. Each of the Directors is a non-executive director. Throughout the financial year each Director also confirmed that he or she was independent (that is, free from any business or other association with CBHS that could materially interfere with the Director's independent judgment). Details of each Director's experience, qualifications, special responsibilities and attendance at meetings are set out in the Directors' Report. In accordance with the Constitution, all Directors are members of CBHS.



The Board meets regularly to a schedule agreed prior to the start of each calendar year. The meeting agenda is designed to provide adequate information about operations and the environment in which CBHS operates and to allow the Board to guide and monitor management and assist in involvement in discussions and decisions on strategy. Matters of a strategic nature including implementation of key strategic initiatives are given priority on the agenda. In addition, scheduled meetings are supplemented by special purpose meetings where required and at least one meeting annually has a detailed strategy review focus.

Directors, as provided for in the Constitution, have utilised “written resolutions” as a way to maximise efficiency. Such written resolutions are generally dealt with by using appropriate communication technology to enable decisions to be made by the Board where it is not possible or convenient to convene a physical meeting. These decisions are formally recorded in the minutes of the next meeting of the Board.

Directors are required to disclose any conflicts and material personal interests to the Board. Where necessary the Board will evaluate whether a Director should participate in the consideration of a matter by using the mechanism set out in the Corporations Act 2001. Each Director regularly reviews his or her position in order to avoid any situation where an interest might affect, or appear to affect, a decision made by the Board.

Managers responsible for critical areas of the business are requested from time-to-time to brief the Board and its

Committees so as to assist Directors in maintaining their familiarity with and understanding of CBHS activities. These briefings contribute to the assessment made by the Board about the performance of Management in running the business. External professionals and consultants also brief the Board and its Committees where appropriate.

The Board has in place a procedure whereby, after appropriate consultation, Directors are entitled to seek independent professional advice at the expense of CBHS to assist them to carry out their duties as Directors. The policy provides that any such advice is generally made available to all Directors at the request of the Chairman.

The Constitution provides that the maximum aggregate term of a director is 12 years. For directors in office at the time of this change, the 12 year aggregate is to be calculated from 20 November 2003. The Board periodically assesses its performance, policies and practices along with the skills, experience and expertise that are required to competently discharge the Board’s duties, having regard to the strategic direction of the Company. Directors participate in an induction program upon appointment and in relevant industry education sessions where appropriate. Industry education includes sessions with experts in the particular fields relevant to CBHS operations. The training and education programs ensure Directors keep up to date with developments in a dynamic and challenging industry. Directors are also encouraged to attend and actively participate in education sessions and courses offered by the Australian Institute of Company Directors and other relevant professional institutions.

During the 2014 financial year, the Audit and Risk Committee devoted a significant amount of time to reviewing the way in which CBHS identifies and manages its strategic risks.

## RELATIONSHIP WITH MANAGEMENT

The Board has delegated to the CEO the authorities and powers necessary to achieve the Vision of CBHS. The authorities are designed to accelerate decision-making processes, improve efficiency and service to members.

The CEO may further delegate within a comprehensive set of Management delegations and guidelines. The CEO remains accountable for all authority delegated to Executive Management.

## BOARD COMMITTEES

The Board is supported by four Committees which meet regularly to consider the audit and risk process, board composition, investment and capital management, remuneration and people matters. Each Committee operates under a Charter, approved by the Board, which is reviewed from time-to-time. Board Committees have delegated authority within their Charter of responsibilities and make recommendations to the Board. Activities of each Committee are reported to the Board.

Details about the membership of Committees and the attendance of members at Committee meetings are set out in the Directors' Report.

## AUDIT AND RISK COMMITTEE

The purpose of the Audit and Risk Committee is to assist the Board to fulfil its statutory and fiduciary responsibilities relating to the financial reports, the risk management framework, the independence of the auditors and regulatory compliance.

In practice the Audit and Risk Committee provides an objective non-executive review

of the effectiveness of the external reporting of financial information, the strength of systems, process and control frameworks (including outsourced functions) and the strength and reliability of management practice and internal and external audit services.

The Charter of the Audit and Risk Committee meets the requirements for the responsibilities of an Audit and Risk Committee set out in the PHIAC Governance Standard. The Audit and Risk Committee's responsibilities include:

- oversight of Management in the preparation of the financial statements and financial disclosures and PHIAC statutory regulatory requirements
- reviewing accounting policies adopted by CBHS to ensure compliance with relevant laws and accounting standards
- reviewing all material accounting matters that require the exercise of judgement by Management together with the reporting of those matters to the Board
- monitoring the effectiveness of the risk management framework (including the Risk Management Plan) and the internal control environment
- evaluating the independence of the external auditor.

During the 2014 financial year, the Audit and Risk Committee devoted a significant amount of time to reviewing the way in which CBHS identifies and manages its strategic risks. This review was against the background of the extensive strategy development initiatives that were identified in the latter part of 2012–13.

In 2012, the Board upon recommendation from the then Audit and Risk Committee appointed Grant Thornton to undertake its Internal Audit activities. In line with the Board's requirements, Grant Thornton

undertakes reviews outlined in its audit plan which is approved by the Audit and Risk Committee on an annual basis. Grant Thornton has a direct reporting line to the Board through the Audit and Risk Committee.

The Audit and Risk Committee relies on the information provided by Management, the Internal Auditor and the External Auditor and a critical part of its oversight function includes meeting separately with both the External and the Internal Auditors, in the absence of Management, on a regular basis. In addition, the Audit and Risk Committee considers, in the absence of Management and the Auditors, the quality of the information it receives.

CBHS requires the partner of CBHS' External Auditor responsible for managing the CBHS audit to be rotated after a period of five years. The Board considered the rotation of the current engagement partner and formed the opinion that the value of consistency and continuity of the partner far outweighed the reason for change. As a result the current External Audit Partner will not be required to rotate until 7 years.

The CEO is authorised to appoint and remove the Internal Auditor only after approval by the Audit and Risk Committee.

Membership of the Audit and Risk Committee consists of financially literate non-executive Directors. In accordance with the PHIAC Governance Standard the Chairman of the Audit and Risk Committee is an independent Director. The Board has also decided that at least one Director must have expertise in financial accounting and reporting. The Chairman of the Board is not permitted to be Chairman of the Audit and Risk Committee. The CEO, Executive Managers, Appointed Actuary, Internal Auditor and External Auditor attend by invitation.

## NOMINATION COMMITTEE

The Nomination Committee reviews the composition and effectiveness of the Board. In addition to its role in proposing candidates for director appointment for consideration by the Board, the Nomination Committee has oversight responsibility with respect to:

- the establishment of processes by which the skill, experience and expertise levels of Directors can be enhanced (including through both continuing education and induction programs)
- the processes for the annual review of the performance of individual Directors and the Board as a whole
- review of the Board's succession plan to ensure that CBHS maintains an appropriate balance of skills, expertise and experience on the Board
- review of the succession planning requirements for the CEO.

The work of the Nomination Committee includes responsibility for reviewing CBHS' compliance with the "renewal" policy requirements of the PHIAC Governance Standard (i.e. the renewal of directors on the board). With respect to Director appointments, the Constitution requires that Directors must stand for re-election at least every three years on a rotation basis. In addition to the three year re-election requirement, new Directors appointed by the Board to fill casual vacancies must seek election at the Annual General Meeting of Members which immediately follows their appointment.

Meetings of the Nomination Committee may also include the CEO, Executive Managers and other professionals by invitation.

## INVESTMENT COMMITTEE

The Board has established an Investment Committee with a Charter to review, develop and monitor all investment-related activities.

Key responsibilities of the Investment Committee include making recommendations to the Board on appropriate risk and return objectives, strategic benchmarks, investment structures, investment target allocations and investment delegations for CBHS' investment portfolio. The work of the Investment Committee includes reviewing, recommending investment managers and reviewing the performance of those managers and the investment portfolio as a whole. The Investment Committee also has oversight of the capital and liquidity management on behalf of the Board.

To assist in undertaking this work, the Investment Committee is supported by its investment advisor Towers Watson. In 2012-13 the Investment Committee and the Board worked on defining its risk appetite and objectives for the CBHS investment portfolio. In 2013-14, the Investment Committee completed the alignment of its investments with the defined risk and return objectives through the selection of appropriate fund managers.

**Key responsibilities of the Investment Committee include making recommendations to the Board on appropriate risk and return objectives, strategic benchmarks, investment structures, investment target allocations and investment delegations for CBHS' investment portfolio.**

In 2013-14 the private health insurance regulator, PHIAC, introduced new capital standards. These standards required the Board to define a capital framework based on the key risks of the fund as defined by the Board. The Investment Committee, with the assistance of Management and the Appointed Actuary, revised the existing Capital Management Plan and developed a new Liquidity Management Plan in compliance with the requirements of the new standards.

The Board can confirm to members that it was in full compliance with the new capital standards prior to the required date and at the date of this report.

## PEOPLE AND REMUNERATION COMMITTEE

The principal responsibilities of the People and Remuneration Committee are to:

- consider and recommend to the Board the remuneration, performance payments and key performance indicators of the CEO;
- be informed of leadership performance, legislative compliance in employment issues, industrial agreements and occupational health and safety;

In accordance with the PHIAC Governance Standard, CBHS has a policy to assess (on an annual basis) the performance of the Board, Committees and individual Directors against each of their performance objectives.



- approve the aggregate of the remuneration adjustments and the performance payment structure for senior executives;
- review succession plans for key management employees;
- review the remuneration process for general staff; and
- review people policies.

The Board and the People and Remuneration Committee recognise that, while remuneration is important in recruiting, retaining and motivating talented and effective people, other factors also play a major role. These include the corporate reputation of CBHS, its ethical culture and business values, its executive leadership and other people policies.

Meetings of the People and Remuneration Committee may also include the CEO, Executive Managers and other professionals by invitation.

### BOARD AND COMMITTEE PERFORMANCE ASSESSMENT

In accordance with the PHIAC Governance Standard, CBHS has a policy to assess (on an annual basis) the performance of the Board, Committees and individual Directors against each of their performance objectives. The assessment of performance for the Board, Committees and Directors is undertaken prior to the commencement of the meeting programs for each calendar year.

### DIRECTORS' REMUNERATION

The aggregate remuneration of independent non-executive Directors is determined, from time-to-time, by a general meeting, as specified in the Constitution. The aggregate sum is divided between the Directors as they agree. The policy of the Board is that the aggregate amount should be set at a level which provides CBHS with the necessary degree of flexibility to enable it to retain the services of Directors of the highest calibre. The last determination was at the AGM held on 28 October 2010, when members approved an aggregate remuneration of \$300,000 per annum. Details of Directors' remuneration are set out in note 23. Directors' fees do not incorporate any bonus or incentive element.

### CHIEF EXECUTIVE OFFICER REMUNERATION

The Board, pursuant to the Constitution, fixes the remuneration of the CEO as part of the terms and conditions of appointment. Remuneration is reviewed on an annual basis by the Board. The CEO's remuneration includes an appropriate level of "at risk" remuneration in the form of a performance payment. The payment, where it is payable, is made annually and relates to CBHS' performance across a range of key result areas and to the CEO's individual contribution with respect to a range of performance targets.

## EXECUTIVE MANAGEMENT REMUNERATION

CBHS policy in respect of Executive Management incorporates remuneration that is competitively set so that CBHS can attract, motivate and retain high calibre executives to lead the company. The policy contains variable pay for performance elements which link reward with the strategic goals and performance of CBHS as well as individual performance. The People and Remuneration Committee reviews remuneration annually through a process that also considers relevant comparative remuneration in the market.

## EXECUTIVE MANAGEMENT PERFORMANCE ASSESSMENT

Executive Management (including the CEO) have individual and company-wide key performance indicators (KPIs) set at the commencement of each financial year. The KPIs of the CEO are finalised following the Board's approval of the annual business plan. The KPIs of the senior management team are usually finalised after the CEO's targets have been set.

A performance payment potential is established for each executive and senior manager at the commencement of the financial year. The payment, where it is payable, is an annual payment that relates to performance against a range of targets. Performance payments were made to senior managers in October 2013. These payments related to the performance of each employee for the 2012/2013 financial year.

## DEED OF INDEMNITY FOR DIRECTORS

At the 2012 AGM, Members approved CBHS entering into a deed of indemnity (in the form tabled at the meeting) with current and future Directors. Deeds of indemnity have been executed by CBHS with each Director in a form consistent with the approval of Members. The deeds provide an appropriate indemnity for each Director and clarify the rights and obligations of a Director with respect to access to documents and records, confidentiality, notification and conduct of claims, advances of legal costs until the finalisation of a claim and insurance against claims.

## RISK MANAGEMENT

The Board and Management of CBHS see risk management as a discipline for ensuring achievement of business objectives rather than as an administrative compliance exercise. To this end the Board and Management have spent considerable time over the last few years evaluating the various risks facing the business, with particular focus on material strategic risks. This has helped formulate the Board's risk appetite for operating in the current environment and has created a discipline for the Board to review and focus on those higher level strategic risks that could ultimately jeopardise the viability of the business. Our risk management approach also allows CBHS to explore the opportunities that can be pursued whilst mitigating the risk. This strategic approach to risk management has helped direct our efforts to just those initiatives that will truly ensure the sustainability of our business.

CBHS also has a comprehensive system of operational risk management and controls.

This risk management framework is critical to the safety, reputation and sustainability of the operations of the Company and to the ongoing viability of the health benefits fund operated by CBHS. A detailed Risk Management Plan has been in place over a number of years which sets out the various elements of the risk management framework and also documents the actions the Company will take to ensure risks are appropriately handled. CBHS also utilises risk management software to identify and manage operational risks. The various risk management practices are undertaken within the overriding principle that business risk is a basic line management responsibility – all managers, not just the CEO, share that responsibility. Independent review of the way in which Management has assessed risks and implemented internal controls within the risk management framework is carried out by Internal Audit.

Both the Board and the Audit and Risk Committee receive frequent updates about the management of operational and strategic risk. At each Board meeting, the CEO updates the Board on developments in relation to the material strategic risks facing CBHS. The Audit and Risk Committee also reviews business risks on a regular basis, with Management advising the Committee about the emerging risk environment and management practices during each Audit and Risk Committee meeting.

As part of the sign-off for the financial reports, Management completes a Management Certification and Representation questionnaire on various matters relevant to the financial statements and internal control framework. Also included in the Certification is an assurance from the CEO and Chief Financial Officer that the risk management and internal control systems are effective.

In order to continue to improve the risk management foundations of CBHS, the Board will look to appoint a Chief Risk Officer and a dedicated Risk and Compliance Manager in mid 2014. With the view to implement best practice and continue to strengthen our working relationship with the Commonwealth Bank, the roles will be secondments from the bank.

## CBHS WORKPLACE PHILOSOPHY

CBHS has a general duty of care to ensure the health, safety and welfare at work of all employees and others who come into the workplace. In line with this, CBHS is committed to maintaining a work environment that is free of any form of unlawful discrimination, harassment or bullying. Through the implementation of effective anti-discrimination policies, procedures and targeted training programs, CBHS provides a workplace culture that is fair and equitable in all aspects of employment and where employees are treated with respect and dignity.

A system has been established which allows staff to maintain their confidentiality should they wish to report behaviour issues.

CBHS has a policy of diversity in employment tailored to the unique circumstances and requirements of the Company. This policy leads to a variety of skills, experience and personal qualities in its employees. This commitment allows CBHS to reap the corporate benefits of its employee and director talent – benefits which serve to enhance CBHS' capacity to provide a quality service to its Members.

## MONITORING

The financial performance of CBHS is monitored through regular Management reporting of performance against budgets. These budgets have been established by Management and approved by the Board. The External Auditors review and test the system of internal controls, to the extent necessary, for an independent opinion on the financial statements at the end of the year.

## SYSTEMS

The systems of information technology and internal financial controls are designed to provide assurance against material misstatement or loss by enabling the timely identification of problems that require the attention of Management or the Board.

These controls have been established by Management and are reviewed from time-to-time by the Audit and Risk Committee and the Board.

## PRIVATE HEALTH INSURANCE CODE OF CONDUCT

CBHS operates and is accredited under the Private Health Insurance Industry Code of Conduct. The Code forms the basis for the manner in which the people of CBHS perform their work by requiring CBHS to operate its business in an open and honest manner with Members, employees, providers, the regulator (PHIAC) and the health insurance industry.

The Code promotes informed relationships between private health insurers and consumers. The objective of the Code is to enhance regulatory compliance and service standards across the industry.

The financial performance of CBHS is monitored through regular Management reporting of performance against budgets. These budgets have been established by Management and approved by the Board.

# Directors' Report



The Directors of CBHS Health Fund Limited (CBHS) submit their report together with the financial report of CBHS for the year ended 30 June 2014. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:



## BOARD OF DIRECTORS

The following persons held office as Directors during or since the end of the financial year:

- Kerry Brinkley (Chairman)
- Leslie Moth (Deputy Chairman)
- Kevin Bourke
- Michelene Hart
- Marielle Latour
- John Matthews
- Fintan Thornton

## INFORMATION ON DIRECTORS

### KERRY MAREE BRINKLEY

Ms Brinkley has been a member of CBHS since February 1973. She has been a Director of CBHS since January 1993, and was elected Chairman on 25 November 2008. She is the Chairman of the Nomination Committee and a member of the People and Remuneration Committee. Ms Brinkley is the Managing Director of Directioneering Queensland Pty Ltd. Ms Brinkley has had 20 years' experience in various roles within the Commonwealth Bank (the Bank). Following her time in the Bank, Ms Brinkley occupied the roles of CBA Section Secretary and Queensland Branch Secretary (CBA Section) within the Finance Sector Union of Australia and then operated a successful Industrial Relations Consultancy, Kerry Brinkley Consulting Pty Ltd. She is a graduate of Harvard University, Trade Union Program 1997, which included topics of law, economics and the American Health Systems. Ms Brinkley is a graduate and fellow of the Australian Institute of Company Directors.

### LESLIE GEORGE MOTH

Mr Moth has been a member of CBHS since February 1968. He has been a Director of CBHS since December 2006, and was elected Deputy Chairman on 25 November 2008. He is Chairman of the Investment Committee, as well as a member of the Audit and Risk and Nomination Committees. Mr Moth retired from the Bank in 2004 following a career spanning 36 years. During this time he performed senior roles including leadership roles within a number of subsidiary companies of the Bank Group. Mr Moth holds a Bachelor of Economics with Honours, is a Fellow of the Financial Services Institute of Australasia and is a Certified Professional Member of the Australian Human Resources Institute.

### KEVIN GERARD BOURKE

Mr Bourke has been a member of CBHS since August 1963. He was elected a Director of CBHS in November 2002 and is a member of the People and Remuneration Committee. He has had over 38 years experience with the Commonwealth Bank Group and held executive positions in Branch Management, Property Project Management, Corporate Finance, Human Resources and Financial Services. He was the Company Secretary of the Financial Services group of subsidiary companies for seven years and the Assistant Company Secretary of the Bank from 1996 until his retirement in November 2001. He is also a Fellow of the Governance Institute of Australia, Fellow of the Financial Services Institute of Australasia, and Fellow of the Institute of Public Accountants.

#### MICHELENE HART

Ms Hart has been a member of CBHS since April 2005. She has been a Director of CBHS since December 2006 and is Chairman of the Audit and Risk Committee and a member of the Investment Committee and Nomination Committee.

Ms Hart has 30 years experience in financial services and corporate advisory – operating and advising at board level of numerous companies ranging from large listed to small privately owned organisations. Ms Hart has broad expertise across strategy, governance, risk management and finance utilised in a wide range of corporate roles including CEO, Executive and Non-Executive Director, CFO, COO, Strategy and Group Company Secretary. She spent 15 years in senior executive positions with Colonial Limited and Commonwealth Bank of Australia before becoming CEO of a listed investment company and establishing, listing and running Australia's first listed vineyard property trust.

Ms Hart is currently a principal of Yorkway Capital Partners, an independent corporate advisory firm that she co-founded in 2009.

Ms Hart is a CPA and holds a Bachelor of Economics, an Executive MBA and a Graduate Diploma in Applied Finance and Investments.

#### MARIELLE DESIREE LATOUR

Ms Latour is a member of CBHS and was appointed by the Board in May 2010. She is a member of the Audit and Risk Committee and Investment Committee. Ms Latour has over 25 years experience in financial services having worked for organisations including the Commonwealth Bank, Colonial Group and Tower Australia Limited. Her professional experience is in marketing and the operational management of businesses. She has held senior management positions in marketing, strategy and project management. Ms Latour holds an Executive MBA and a Bachelor of Economics.

#### JOHN ERIC MATTHEWS

Mr Matthews has been a member of CBHS since 1964 and a Director since September 2008. He is Chairman of the People and Remuneration Committee and a member of the Nomination Committee. Mr Matthews retired from the Bank in 2004 after a career of 40 years, during which he held senior executive positions in Australia and overseas. He has extensive experience in treasury management and human resources. Mr Matthews holds several company directorships/committee memberships. He holds a Bachelor of Economics degree from Sydney University, is a graduate of the International Advanced Management Programme (IMI Geneva), a Senior Fellow of the Financial Services Institute of Australasia and a member of the Australian Institute of Company Directors.

#### FINTAN BENEDICT THORNTON

Mr Thornton was appointed to the CBHS Board in November 2012 and is a member of the Audit and Risk Committee. Mr Thornton has over 15 years' financial services experience. Mr Thornton's current role is Head of Employee Superannuation at the Commonwealth Bank of Australia Group. He has previously worked as a consulting actuary for Towers Watson and Russell Investments. Mr Thornton's financial services experience is predominantly in superannuation (including complex defined benefit arrangements) where he advised companies and super funds on asset/liability matters (i.e. investments), risk management, communications, governance and strategy development. Amongst other appointments, Mr Thornton was actuary to Qantas Airways, the Reserve Bank of Australia and the NZ Government. Mr Thornton holds a Bachelor of Actuarial Mathematics and Statistics degree, is a Fellow of the UK and Australian Actuaries Institutes and is a Member of the Australian Institute of Company Directors. Mr Thornton is actively involved in the Actuaries Institute where he supports its Risk Management Committee on developing guidance for actuaries on various matters including Enterprise Risk Management.

## DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of Committees of Directors) and number of meetings attended by each of the Directors of CBHS during the financial year were:

DIRECTORS	Board		Audit and Risk Committee		People & Remuneration Committee	
	NO. OF MEETINGS ELIGIBLE TO ATTEND	NO. OF MEETINGS ATTENDED	NO. OF MEETINGS ELIGIBLE TO ATTEND	NO. OF MEETINGS ATTENDED	NO. OF MEETINGS ELIGIBLE TO ATTEND	NO. OF MEETINGS ATTENDED
K. G. Bourke	9	9	–	1 <sup>1</sup>	2	1
K. M. Brinkley	9	9	–	1 <sup>1</sup>	2	2
M. Hart	9	9	3	3	–	–
M. D. Latour	9	9	3	3	–	–
J. E. Matthews	9	9	–	1 <sup>1</sup>	2	2
L. G. Moth	9	9	3	3	–	–
F. B. Thornton	9	8	3	3	–	–

<sup>1</sup> Attended Audit Committee meeting as an observer.

DIRECTORS	Nomination		Investment	
	NO. OF MEETINGS ELIGIBLE TO ATTEND	NO. OF MEETINGS ATTENDED	NO. OF MEETINGS ELIGIBLE TO ATTEND	NO. OF MEETINGS ATTENDED
K. G. Bourke	–	–	–	–
K. M. Brinkley	2	2	–	1 <sup>1</sup>
M. Hart	2	2	6	6
M. D. Latour	–	–	6	6
J. E. Matthews	2	2	–	1 <sup>1</sup>
L. G. Moth	2	2	6	6
F. B. Thornton	–	–	–	2 <sup>1</sup>

<sup>1</sup> Attended Investment Committee meeting as an observer.

## COMPANY SECRETARY

Following the resignation of Mr Nick Elvin from CBHS, and after an interim period in which the role of Company Secretary was performed by Ms Zenda Arkwright on a contract basis, Paul Gladman (CEO) and Dario Molina (CFO) were both appointed to the position of Company Secretary on 27 March 2014.

## INDEMNIFICATION OF OFFICERS OR AUDITOR

During the financial year, CBHS paid a premium in respect of a contract insuring all past, present and future directors, company secretaries, and executive officers of CBHS against any liability incurred as a director, secretary or executive officer to the extent permitted by the Corporations Act 2001.

In accordance with commercial practice the contract of insurance prohibits disclosure of the terms of the policy including the nature of the liability insured against and the amount of the premium.

CBHS has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of CBHS or of any related body corporate against a liability incurred as an officer or auditor.

## PRINCIPAL ACTIVITIES

The principal activity of CBHS during the financial year was the provision of health insurance and related well being services to its members, their dependants and immediate family members.

## DIVIDENDS

The Constitution of CBHS prohibits the payment of dividends.

## REVIEW OF OPERATIONS

The net amount of surplus for the financial year was \$17,262,749 (2013: \$14,371,245). CBHS is exempt under section 50-30 of the Income Tax Assessment Act 1997 from paying income tax.

A review of operations and the results for the financial year are set out in the Chairman and CEO's message.

The objectives for the year ahead will focus on our distribution reach, broaden our product appeal and protect and enhance our efficiency advantage and these are further discussed in the Message from the Chairman and CEO.

## CHANGES IN STATE OF AFFAIRS

During the financial year there was no significant change in the affairs of CBHS.

## SUBSEQUENT EVENTS

There has not been any matter or circumstance, occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect the operations of CBHS, the results of those operations, or the state of affairs of CBHS in future financial years.

## ENVIRONMENTAL REGULATION

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

## NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company, are important.

Details of the amounts paid or payable to the auditor for audit and non-audit services provided during the year are provided in note 22 to the accounts.

The Board has considered the position and, in accordance with advice received from the Audit and Risk Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor;
- none of the services undermine the general principles relating to auditor independences as set out in APES 110 Code of Ethics for Professional Accountants.

## AUDITOR'S INDEPENDENCE DECLARATION

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

## FUTURE DEVELOPMENTS

Disclosure of information regarding likely developments in the operations of CBHS in future financial years and the expected results of those operations would result in unreasonable prejudice to CBHS.

Accordingly, this information has not been disclosed in this report.

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.



K. M. BRINKLEY  
Chairman



M. HART  
Director

Dated at Sydney 18<sup>th</sup> day of August 2014



## Auditor's Independence Declaration

As lead auditor for the audit of CBHS Health Fund Limited for the year ended 30 June 2014, 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 CBHS Health Fund Limited during the period.

A handwritten signature in black ink, appearing to read 'R Balding', with a large, sweeping flourish at the end.

R Balding  
Partner

Sydney  
18 August 2014

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# Financial Statements

## STATEMENT OF COMPREHENSIVE INCOME

### For the year ended 30 June 2014

	NOTES	2014 \$	2013 \$
Direct premium revenue		293,044,016	269,043,545
Direct claims expense		(232,501,626)	(214,273,810)
Net movement in outstanding claims liability (claims & other component)		(485,125)	(1,114,555)
Net movement in outstanding claims liability (risk equalisation component)		(31,000)	290,000
Health benefits risk equalisation trust fund		(33,038,279)	(32,140,736)
Government levies	(5)	(3,789,589)	(3,512,952)
<b>Net claims incurred</b>	(2)	<b>(269,845,619)</b>	<b>(250,752,053)</b>
Net movement in unexpired risk liability	(18)b	(2,154,262)	1,165,469
Salaries and employee benefit expense		(11,443,658)	(9,921,312)
Other underwriting expenses	(7)	(7,695,049)	(8,156,281)
<b>Underwriting result</b>		<b>1,905,428</b>	<b>1,379,368</b>
Investment income	(3)	12,369,751	7,732,488
Fair value gains on financial assets at fair value through profit or loss	(4)	3,140,085	5,555,733
Other income	(3)	348,323	175,763
Depreciation and amortisation expense	(6)	(500,838)	(472,107)
<b>Operating surplus attributable to members of CBHS</b>		<b>17,262,749</b>	<b>14,371,245</b>
<b>Other comprehensive income</b>		<b>–</b>	<b>–</b>
Surplus for the period		17,262,749	14,371,245
<b>Total comprehensive income for the year</b>		<b>17,262,749</b>	<b>14,371,245</b>



## STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	NOTES	2014 \$	2013 \$
<b>Current assets</b>			
Cash and cash equivalents	(8)	15,637,384	42,188,122
Trade and other receivables	(9)	12,560,497	13,821,019
Financial assets at fair value through profit or loss	(10)	60,000,000	57,000,000
<b>Total current assets</b>		<b>88,197,881</b>	<b>113,009,141</b>
<b>Non-current assets</b>			
Financial assets at fair value through profit or loss	(11)	130,158,773	83,226,602
Fixture, fittings and equipment	(12)	1,610,672	1,911,046
<b>Total non-current assets</b>		<b>131,769,445</b>	<b>85,137,648</b>
<b>Total assets</b>		<b>219,967,326</b>	<b>198,146,789</b>
<b>Current liabilities</b>			
Trade and other payables	(13)	11,267,697	10,505,873
Outstanding claims liability	(16)	28,500,000	27,983,875
Unearned premium liability	(17)	26,375,618	25,437,881
Unexpired risk liability	(18)a) c)	2,154,262	–
Provisions	(14)	1,475,642	1,203,796
<b>Total current liabilities</b>		<b>69,773,219</b>	<b>65,131,425</b>
<b>Non-current liabilities</b>			
Provisions	(15)	536,973	620,979
<b>Total non-current liabilities</b>		<b>536,973</b>	<b>620,979</b>
<b>Total liabilities</b>		<b>70,310,192</b>	<b>65,752,404</b>
<b>Net assets</b>		<b>149,657,134</b>	<b>132,394,385</b>
<b>Reserves</b>			
Retained surpluses		149,657,134	132,394,385
<b>Total reserves</b>	(19)	<b>149,657,134</b>	<b>132,394,385</b>



## STATEMENT OF CASH FLOWS

For the year ended 30 June 2014

	NOTES	2014 \$ INFLOWS (OUTFLOWS)	2013 \$ INFLOWS (OUTFLOWS)
<b>Cash flows from operating activities</b>			
Receipts from members		294,561,299	266,263,786
Payments to members, employees and suppliers		(287,180,132)	(266,886,177)
Net cash flow provided by operating activities	(20)b	7,381,167	(622,391)
<b>Cash flows from investing activities</b>			
Payments for fixture, fittings and equipment		(200,464)	(1,639,235)
Proceeds from sale of fixture, fittings and equipment		155	2,690,380
Interest and investment income received		13,060,490	8,020,843
Payments for investments		(46,792,086)	6,572,654
Net cash flow used in investing activities		(33,931,905)	15,644,642
<b>Increase / (decrease) in cash and cash equivalents</b>		<b>(26,550,738)</b>	<b>15,022,251</b>
<b>Cash and cash equivalents at beginning of financial year</b>		<b>42,188,122</b>	<b>27,165,871</b>
<b>Cash and cash equivalents at the end of financial year</b>	(20)a	<b>15,637,384</b>	<b>42,188,122</b>



# Notes to the Financial Statements

## 1) Summary of significant accounting policies

### STATEMENT OF COMPLIANCE

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

The financial statements of CBHS also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB).

The financial statements were authorised for issue by the Directors on 18 August 2014. The Directors have the power to amend and reissue the financial statements.

### BASIS OF PREPARATION

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and assets backing general insurance liabilities. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars.

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

### NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

CBHS has considered the following new standard AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011), for the first time for the annual reporting period commencing 1 July 2013. The change has not materially affected the calculation of employee benefits disclosed in the financial statements.

No other standards were applicable to CBHS and hence have not been applied in these financial statements.

### SIGNIFICANT ACCOUNTING POLICIES

#### INSURANCE POLICIES

##### a) 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.





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

CBHS has determined that all current contracts with members are insurance contracts.

#### **b) Revenue**

Revenue is recognised to the extent that it is probable that the economic benefit will flow to CBHS and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognised.

##### **Premium revenue**

Premium revenue comprises premiums from private health insurance contracts held by policy holders.

Premium revenue comprises contributions received from members, inclusive of the Government rebate. The rebate is recognised in the Statement of Comprehensive Income as premium revenue. Rebates due from the Government but not received at balance date are recognised as receivables.

Premium revenue is recognised in the income statement from the attachment date over the period of the contract. Premium revenue relating to future financial periods is classified as unearned premium. Revenue includes the movement in contributions in arrears which is assessed based on the likelihood of collection established from past experience.

##### **Investment income**

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

Net fair value gains or losses are recognised in the period for all financial assets classified as at fair value through profit or loss.

#### **c) Goods and services tax**

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

- i. where the amounts of GST incurred are 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 expenses; or

- ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the ATO is classified as operating cash flows. Under the Goods and Services Tax Act 1999 subsection 38-55, the majority of CBHS income is GST free.

#### **d) Claims**

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

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

#### e) Health Benefits Risk Equalisation Trust Fund

Under the provisions of the Private Health Insurance Act 2007, all health insurers must participate in the Health Benefits Risk Equalisation Trust Fund, which charges a levy on all health insurers. The levy is calculated based on the proportion of hospital and medical claims of all persons aged 55 years and older as well as any person with high cost claims.

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

#### f) Other underwriting expenses

With the exception of expenses related to salaries and employee benefit expenses, all other expenses are classified as underwriting expenses.

#### g) Taxation

CBHS is a Private Health Insurer registered under the Private Health Insurance Act 2007 and is exempt from income tax and capital gains tax under section 50-30 of the Income Tax Assessment Act 1997.

#### h) Trade and other payables

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

#### i) Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe

established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Financial assets are classified into 'trade and other receivables' and 'financial assets at fair value through profit or loss'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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

CBHS has classified its investments (term deposits and managed funds) as financial assets at fair value through profit or loss since these investments are assets backing general insurance liabilities. Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss.

In estimating the fair value of financial assets CBHS has adopted the following approach:

- where financial instruments are traded in active markets and valuations are determined with reference to unadjusted quoted prices for identical assets, CBHS has utilised the market value of these instruments as advised by relevant financial institutions.

#### Financial Assets – trade and other receivables

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'receivables'. Receivables are measured at amortised cost using the effective interest method less impairment.

#### Impairment of financial assets – trade and other receivables

Trade and other receivables are assessed for indicators of impairment at each balance sheet date. Such financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost (such as receivables), the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The loss is recognised in profit or loss.

#### j) Fixture, fittings and equipment

Fixture, fittings and equipment are stated at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on fixture, fittings and equipment. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value being zero. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period with the effect of any changes recognised on a prospective basis.

The following estimated useful lives are used in the calculation of depreciation:

DESCRIPTION	USEFUL LIFE
Computer Equipment	3 years
Furniture and Fittings	7 years
Office Equipment	4 years

#### k) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits cover wages and salaries, annual leave and long service leave. Sick leave is non-vesting and is accounted for as incurred.

The liability for wages and salaries, annual leave and any other employee entitlements expected to be settled within twelve months of the reporting date, is calculated at current remuneration rates which are expected to be paid when the liability is settled.

The liability for long service leave entitlements represents the present value of the estimated future cash outflows to be made. In determining future cash outflows, consideration has been given to future increases in wage and salary rates, and the probability that employees will remain with CBHS for the period of time necessary to qualify for long service leave. The calculation includes related on-costs. In calculating the present value, the estimates of future cash outflows are discounted using the rates attaching to government guaranteed securities which have terms to maturity approximating the terms of the related liability.

Employee entitlement expenses and contributions made to superannuation funds by CBHS are recognised against profit when due.

#### l) Outstanding claims liability

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date under health insurance contracts issued by CBHS, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not reported, anticipated claims handling costs and the expected payment to the Health Benefits Risk Equalisation Trust Fund.

Claims handling costs include administration costs regarding the processing of these claims.

In assessing the outstanding claims liability CBHS seeks advice from its Appointed Actuary.

#### m) Provisions

Provisions are recognised when CBHS has a present obligation (legal or constructive) as a result of a past event, it is probable that CBHS will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

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.

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

#### n) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to CBHS as lessee are classified as operating leases (see note 26). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

#### o) Cash and cash equivalents

Cash comprises cash on hand; cash in bank and "24 hour" money at call. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of change in value.

CBHS also maintains a portfolio of term deposits and many of the term deposits have the characteristics of cash equivalents. These term deposits have not been categorised as cash equivalents and have been instead categorised as financial assets at fair value through profit or loss, given these term deposits are not utilised as business working capital in the same way as cash and cash equivalents.

**p) Liability adequacy test and unexpired risk liability**

The liability adequacy test is required to be performed to determine whether the unearned premium liability is adequate to cover the present value of expected cash flows relating to future claims arising from rights and obligations under current insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate.

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

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the insurance liability then the insurance liability is deemed to be deficient. CBHS applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of outstanding claims liability. The entire deficiency is recognised immediately in the income statement. The deficiency is recognised in the balance sheet as the "Unexpired Risk Liability".

If the liability adequacy test identifies that the insurance liability exceeds the expected future cash flows relating to future claims taking into account the additional risk margin then no recognition occurs in the income statement and balance sheet.

In assessing the unexpired risk liability CBHS seeks advice from its Appointed Actuary.

**q) Acquisition cost for health insurance contracts**

Acquisition costs incurred in obtaining health insurance contracts are expensed and not deferred.

**r) Assets backing general insurance liabilities**

All investments held by CBHS have been determined to be assets backing general insurance liabilities, and accordingly are designated as "at fair value through profit or loss". These are initially recorded at cost and subsequently re-measured at fair value. Interest earned or dividends/distributions received are included in interest income or fair value gains/(losses).

**s) Critical accounting judgements and estimates**

In the application of CBHS' accounting policies, which are described in note 1, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements that management has made in the process of applying CBHS' accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

**i. Outstanding claims liability**

Provision is made during the year for the estimated cost of claims incurred but not settled at balance date, including the cost of claims incurred but not yet reported to CBHS.





The estimated cost of claims includes direct expenses to be incurred in settling claims and any risk equalisation related to the hospital and medical portion of claims. CBHS takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Given the uncertainty in establishing claims provisions, a risk margin is added to determine the liability balance.

The risk margin is based on analysis of the volatility of historical claims experience. This past experience is assumed to be representative of future experience.

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to CBHS, where more information about the claim event is generally available. IBNR claims may often not be apparent to CBHS until several months later. In calculating the estimated cost of unpaid claims CBHS uses a variety of estimation techniques, generally based

upon actuarial analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however for changes or uncertainties which may create distortions in the underlying assumptions or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in internal or external processes which might accelerate or slow down the payment of claims, compared with the information from previous periods;
- the effects of inflation;
- medical and technological developments;
- increase in membership;
- increase in utilisation; and
- seasonal changes in utilisation.

Details of specific assumptions used in deriving the outstanding claims liability during the year are detailed in note 27(a).

#### ii. Unexpired risk liability

In estimating the unexpired risk liability, CBHS uses a variety of estimation techniques, generally based upon actuarial analyses of historical experience. Allowance is made, however for changes or uncertainties which may create distortions in the underlying assumptions or which might cause the cost of future claims to increase or reduce in a similar manner with the outstanding claim liability.

Details of specific assumptions used in deriving the unexpired risk liability during the year are detailed in note 27(b).



## 2) Net claims incurred

	2014 Current Year		2014 Prior Years		2014 Total	
	Provision Movement \$	Profit and loss \$	Provision Movement \$	Profit and loss \$	Provision Movement \$	Profit and loss \$
Gross claims expense	–	213,182,159	19,319,467	–	19,319,467	213,182,159
Outstanding claims provided for	(23,910,000)	23,910,000	4,105,408	(4,105,408)	(19,804,592)	19,804,592
Risk equalisation and Govt. levies	–	33,067,871	3,759,997	–	3,759,997	33,067,871
Risk equalisation and Govt. levies provided for	(4,590,000)	4,590,000	799,003	(799,003)	(3,790,997)	3,790,997
<b>Net claims incurred</b>	<b>(28,500,000)</b>	<b>274,750,030</b>	<b>27,983,875</b>	<b>(4,904,411)</b>	<b>(516,125)</b>	<b>269,845,619</b>

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

	2013 Current Year		2013 Prior Years		2013 Total	
	Provision Movement \$	Profit and loss \$	Provision Movement \$	Profit and loss \$	Provision Movement \$	Profit and loss \$
Gross claims expense	–	196,558,207	17,715,603	–	17,715,603	196,558,207
Outstanding claims provided for	(23,424,875)	23,424,875	4,594,717	(4,594,717)	(18,830,158)	18,830,158
Risk equalisation and Govt. levies	–	31,803,319	3,850,369	–	3,850,369	31,803,319
Risk equalisation and Govt. levies provided for	(4,559,000)	4,559,000	998,631	(998,631)	(3,560,369)	3,560,369
<b>Net claims incurred</b>	<b>(27,983,875)</b>	<b>256,345,401</b>	<b>27,159,320</b>	<b>(5,593,348)</b>	<b>(824,555)</b>	<b>250,752,053</b>

Outstanding claims liability movements are as follows:

	2014 \$	2013 \$
Opening balance	(27,983,875)	(27,159,320)
Prior year claims, risk equalisation and levies paid	23,079,464	21,565,972
Write back to profit and loss	4,904,411	5,593,348
Provision established for claims, risk equalisation and levies paid	(28,500,000)	(27,983,875)
<b>Closing balance</b>	<b>(28,500,000)</b>	<b>(27,983,875)</b>
<b>Net movement</b>	<b>(516,125)</b>	<b>(824,555)</b>

See note 16 for detail

### 3) Investment and other income

Investment and other income	2014 \$	2013 \$
Interest income:		
Cash and cash equivalents	650,034	1,142,577
Term deposits	2,924,350	5,178,564
Distributions	3,728,164	1,411,347
Futures contracts (a)	193,494	–
Realised gain on disposal of investments	4,873,708	–
Gain/(loss) on fixed assets	155	90,986
Licence fee & other revenue	348,169	84,777
<b>Total</b>	<b>12,718,074</b>	<b>7,908,251</b>

a) Income arising from future contracts represents income earned during the period of transition of investments, which involved moving the invested funds from active to passive investment managers. CBHS engaged Goldman Sachs to transition the portfolio and Goldman Sachs purchased future contracts during the period of transition.

### 4) Fair value gains on financial assets

	2014 \$	2013 \$
Managed share funds gains (a)	1,688,318	4,979,693
Managed bond fund gains (a)	1,179,677	379,428
Managed multi assets fund gains (a)	272,090	196,612
<b>Net gains</b>	<b>3,140,085</b>	<b>5,555,733</b>

a) Fair value of managed funds is based on unit prices provided by fund managers at 30 June 2014.

### 5) Government levies

	2014 \$	2013 \$
NSW, ACT ambulance levies	3,789,589	3,512,952
<b>Total</b>	<b>3,789,589</b>	<b>3,512,952</b>

### 6) Depreciation and amortisation expense

	2014 \$	2013 \$
Depreciation expense		
Fixture and fittings and equipment	500,838	472,107
<b>Total</b>	<b>500,838</b>	<b>472,107</b>

## 7) Other underwriting expenses

	2014 \$	2013 \$
Information technology	735,495	799,879
Financial charges and taxes	311,942	327,586
Postage and telephone	444,658	501,773
Printing and stationery	245,210	397,677
Property expense	724,333	742,961
Research, advertising and publicity	1,240,394	1,992,676
Consultant, actuarial, audit and legal fees	1,785,765	1,278,309
Electronic claims processing fees	780,800	705,995
Subscriptions for industry and purchasing associations	554,542	528,337
Insurance	99,105	92,112
Other expenses	772,805	788,976
<b>Total</b>	<b>7,695,049</b>	<b>8,156,281</b>

## 8) Cash and cash equivalents

	2014 \$	2013 \$
Cash at bank	2,537,295	2,272,756
Cash deposits – "24 hour At-Call"	13,099,539	39,914,816
Cash on hand	550	550
<b>Total</b>	<b>15,637,384</b>	<b>42,188,122</b>

## 9) Current trade and other receivables

	2014 \$	2013 \$
Premium receivable (a)	10,811,718	11,391,264
Investment income receivable	1,500,455	2,191,194
Prepayments	139,116	138,760
GST Recoverable	80,142	81,101
Sundry debtors	29,066	18,700
<b>Total</b>	<b>12,560,497</b>	<b>13,821,019</b>

a) Premium receivable comprises two components, the Federal Government's Private Health Insurance Rebate Scheme (PHI Rebate Scheme) \$8,419,494 (2013: \$8,528,990) and members who pay for their contributions in arrears or who are non-financial \$2,392,224 (2013: \$2,862,274).

- The rebate is accrued on a monthly basis and payment is due and payable within 30 days in the following month. Payment is normally received by the 15th day of the following month.
- The credit period for members who pay their contributions in arrears is 14 days. 14% of CBHS' members pay for their contributions in arrears while the other 86% pay their contributions in advance. Members who fall into arrears by more than 14 days are not charged interest however they are classified as "non-financial" and no benefit will be paid. CBHS Fund Rules state that if a member is non-financial for more than two months membership may be terminated. Consequently, for members who are non-financial for more than two months, the accrued premium income is reversed out of the profit and loss account and no allowance for impairment is provided.

Premium receivable for members in arrears at year end is made up of approximately 11,885 (2013: 11,454) members.

Medicare Australia is the only significant counterparty as at reporting date. Medicare Australia is the arm of the Federal Government that manages the PHI Rebate Scheme. As at 30 June 2014 the amount owing to CBHS from Medicare Australia was \$8,419,494. This amount is guaranteed by the Federal Government.

## 10) Current financial assets at fair value through profit or loss

	2014 \$	2013 \$
Term deposits (a)	60,000,000	57,000,000
<b>Total</b>	<b>60,000,000</b>	<b>57,000,000</b>

a) These term deposits have maturity dates ranging from 19 July 2014 to 27 May 2015. The weighted average interest rate on these term deposits is 3.93% (2013: 4.63%).

## 11) Non-current financial assets at fair value through profit or loss

	2014 \$	2013 \$
Term deposits (a)	13,300,000	18,300,000
Managed multi asset fund at market value (b)	10,099,039	9,284,611
Managed bond funds at market value (c)	61,675,038	18,042,766
Managed share funds at market value (d)	45,084,696	37,599,224
<b>Total</b>	<b>130,158,773</b>	<b>83,226,601</b>

a) These term deposits have maturity dates ranging from 19 July 2015 to 19 August 2016. The weighted average interest rate on these term deposits is 6.81% (2013: 6.63%).

b) As at 30 June 2014 CBHS had \$10,099,039 (2013: \$9,284,611) invested in an externally managed multi asset fund. The funds are managed by a professional fund manager.

- c) As at 30 June 2014 CBHS had \$61,675,038 (2013: \$18,042,766) invested in three externally managed bond funds. The funds are managed by professional fund managers.
- d) As at 30 June 2013 CBHS had \$45,084,696 (2013: \$37,599,224) invested in externally managed share funds. This balance is comprised of one managed Australian share fund (\$14,604,707) (2013: \$25,343,302) and three managed International share funds (\$30,479,989) (2013: \$12,255,922). The funds are managed by professional fund managers.

## 12) Fixture, fittings and equipment

	2014 \$	2013 \$
<b>Gross carrying amount</b>		
Balance as at 1 July	3,105,944	1,664,468
Additions	200,464	1,639,235
Disposals	(86,356)	(197,759)
<b>Balance as at 30 June</b>	<b>3,220,052</b>	<b>3,105,944</b>
<b>Accumulated depreciation</b>		
Balance as at 1 July	1,194,898	915,389
Disposals	(86,356)	(192,598)
Depreciation expense	500,838	472,107
<b>Balance as at 30 June</b>	<b>1,609,380</b>	<b>1,194,898</b>
<b>Net book value</b>		
<b>Balance as at 30 June</b>	<b>1,610,672</b>	<b>1,911,046</b>

Aggregate depreciation allocated during the year is recognised as an expense and disclosed in note 6 to the financial statements.

## 13) Current trade & other payables

	2014 \$	2013 \$
Amounts due to the Health Benefits Risk Equalisation Trust Fund (a)	9,842,580	8,063,610
Accruals (b)	1,062,411	2,017,854
Trade payables (b)	362,706	424,409
<b>Total</b>	<b>11,267,697</b>	<b>10,505,873</b>

- a) The credit period provided to CBHS by PHIAC for amounts due to the Health Benefits Risk Equalisation Trust Fund is 14 days from the date of invoice paid quarterly. Thereafter, interest is charged at 15% on the outstanding balance. CBHS has procedures in place to ensure this payment is made by the due date.
- b) For other trade creditors, the credit period on purchases of goods and services can vary between 7 and 30 days. No interest is charged on late payments. CBHS has procedures in place to ensure all payments are made by the due date.

## 14) Current provisions

	2014 \$	2013 \$
Employee benefits (a)	654,607	514,142
Provision for employee performance payments (b)	821,035	689,654
<b>Total</b>	<b>1,475,642</b>	<b>1,203,796</b>

- a) The current provision for employee benefits is annual leave accrued and expected to be paid within 12 months.
- b) The provision for employee performance payments is expected to be paid within 12 months.

## 15) Non-current provisions

	2014 \$	2013 \$
Employee benefits	536,973	620,979
<b>Total</b>	<b>536,973</b>	<b>620,979</b>

## 16) Outstanding claims provision

### a) Outstanding claims liability

	2014 \$	2013 \$
Outstanding claims – central estimate of the expected future payments for claims incurred (i)	21,732,218	21,289,000
Risk margin (ii)	1,485,782	1,458,875
Claims handling costs	692,000	677,000
Risk equalisation	4,590,000	4,559,000
<b>Gross outstanding claims liability</b>	<b>28,500,000</b>	<b>27,983,875</b>

- i. The expected future payments are not discounted due to the short tail nature of health insurance, as claims are generally settled within twelve months.
- ii. The risk margin of 5.50% (2013: 5.50%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 75% (2013: 75%).

### b) Risk margin

#### Process for determining risk margin

The outstanding claims risk margin was determined allowing for the relative uncertainty of the outstanding claims central estimates for health insurance contracts issued by CBHS. Uncertainty was analysed by comparing the initial outstanding claims central estimates of past months with that provision again determined after a further period of processing allowing for more accurate estimates of the outstanding claims. The relative differences between the initial central estimate of the provision and the later central estimate of the provision are then analysed to provide a basis from which to set the risk margin.

Although there are some claims paid for health insurance services that have been incurred for more than 12 months, these claims are small in number. Most activity in hospital and medical benefits after more than 12 months of the date of service are reversals due to compensation settlements. This activity is usually around 0.10% to 0.80% of total incurred claims in a month. (CBHS pays claims that are likely to be subject to compensation when the claimant gives an undertaking that the benefits will be repaid to CBHS upon compensation settlement). Also around 0.7% of ancillary benefit services for which benefits are payable are claimed (and paid) more than 12 months after the date of service. These very small changes in the total incurred claims in any month are reasonably predictable and included in the estimated provision that is determined 12 months after the initial provision date.

The overall provision is intended to have a 75% probability of adequacy.

	2014	2013
Risk margin	5.50%	5.50%

### c) Reconciliation of movement

	2014 \$	2013 \$
Changes in the gross outstanding claims liabilities can be analysed as follows:		
As at 1 July	27,983,875	27,159,320
Claims incurred during the year	269,845,619	250,752,053
Claims paid during the year	(269,329,494)	(249,927,498)
<b>As at 30 June</b>	<b>28,500,000</b>	<b>27,983,875</b>

## 17) Unearned premium liability

	2014 \$	2013 \$
Unearned premium liability as at 1 July	25,437,881	29,878,806
Deferral of premiums on contracts written in the period	26,375,618	25,437,881
Earning of premiums written in previous periods	(25,437,881)	(29,878,806)
<b>Unearned premium liability as at 30 June</b>	<b>26,375,618</b>	<b>25,437,881</b>

## 18) Unexpired risk liability

The liability adequacy test is performed to determine whether the unearned premium liability is adequate to cover the present value of expected cash flows relating to future claims arising from rights and obligations under current insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate.

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

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the insurance liability then the insurance liability is deemed to be deficient. CBHS applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of outstanding claims liability. The entire deficiency is recognised immediately in the statement of comprehensive income. The deficiency is recognised in the balance sheet as the "Unexpired Risk Liability" (URL).

CBHS performed the liability adequacy test and has recognised an increase of \$2,154,262 in the unexpired risk liability as at 30 June 2014 (2013: reduction of \$1,165,469).

#### a) Unexpired risk liability

	2014 \$	2013 \$
Unexpired risk liability as at 1 July	–	1,165,469
Increase/(decrease) recognition of additional risk liability in the period	2,154,262	(1,165,469)
<b>Unexpired risk liability as at 30 June</b>	<b>2,154,262</b>	<b>–</b>

Unexpired risk liability includes a risk margin of 2.75% (2013: 2.75%)

#### b) Movement recognised in the statement of comprehensive income

	2014 \$	2013 \$
Gross movement in unexpired risk liability	2,154,262	(1,165,469)
Net movement in unexpired risk liability	2,154,262	(1,165,469)
<b>Total movement recognised in the income statement</b>	<b>2,154,262</b>	<b>(1,165,469)</b>

#### c) Calculation of deficiency

	2014 \$	2013 \$
<b>(i) Unearned premium liability component</b>		
Unearned premium liability (A)	24,782,127	23,812,524
Central estimate of expected future cash flows arising from future claims on unearned premium liability (B)	24,329,135	22,966,942
Risk margin of 2.75% at 75% PoA* (C) (2013: 2.75%)	654,361	617,103
<b>Net deficiency (B+C–A)</b>	<b>(201,369)</b>	<b>–</b>
<b>(ii) Unclosed business liability component</b>		
Unclosed business liability (A)	1,593,491	1,625,357
Central estimate of expected future cash flows arising from future claims on unearned premium liability (B)	1,564,364	1,567,641
Risk margin of 2.75% at 75% PoA* (C)	42,075	42,121
<b>Net deficiency (B+C–A)</b>	<b>(12,948)</b>	<b>–</b>
<b>(iii) Insurance contracts renewable before the next pricing review</b>		
Insurance contracts renewable before the next pricing review (A)	238,745,418	216,923,134
Central estimate of expected future cash flows arising from future claims on insurance contracts renewable, allowing for differences between classes (B)	234,381,395	209,220,193
Risk margin 2.75% at 75% PoA* (C)	6,303,967	5,621,576
<b>Net deficiency (B+C–A)</b>	<b>(1,939,945)</b>	<b>–</b>
<b>Total deficiency (i)+(ii)+(iii)</b>	<b>(2,154,262)</b>	<b>–</b>

\* Probability of Adequacy



## 19) Total reserves

	2014 \$	2013 \$
<b>Retained surplus</b>		
Balance at beginning of financial year	132,394,385	118,023,140
Operating surplus	17,262,749	14,371,245
<b>Total retained surplus end of financial year</b>	<b>149,657,134</b>	<b>132,394,385</b>
Balance at end of financial year	149,657,134	132,394,385

## 20) Notes to the cash flow statement

### a) Reconciliation of cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents includes cash on hand and in the bank net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows;

	2014 \$	2013 \$
Cash and cash equivalents	15,637,384	42,188,122
<b>Total cash and cash equivalents</b>	<b>15,637,384</b>	<b>42,188,122</b>

### b) Reconciliation of operating surplus to net cash flows from operating activities

	2014 \$	2013 \$
Operating surplus	17,262,749	14,371,245
Interest and investment income received & receivable	(12,369,751)	(7,732,488)
Depreciation and amortisation	500,838	472,107
Net (increment) arising from the revaluation of current and non-current financial assets	(3,140,085)	(5,555,733)
(Gain) on sale of assets	(155)	(90,986)
Decrease in current receivables	569,783	1,859,911
Increase in amount payable for HBREE*	1,778,970	363,952
(Decrease)/increase in accounts payable and accruals	(1,017,146)	100,918
Increase/(decrease) in unearned premium liability	937,737	(4,440,925)
Increase in outstanding claims liability	516,125	824,555
Increase/(decrease) in unexpired risk liability	2,154,262	(1,165,469)
Increase in current provisions	271,846	234,425
Decrease in non-current provisions	(84,006)	136,097
<b>Net cash flow from operating activities</b>	<b>7,381,167</b>	<b>(622,391)</b>

\* HBREE – Health Benefits Risk Equalisation Expense

## 21) Related Parties

During the year all of the Directors of CBHS were members of the Fund. Membership was on terms and conditions no more favourable than those adopted when dealing with an unrelated individual in an arm's length transaction.

## 22) Remuneration of auditors

	2014 \$	2013 \$
Audit of the financial statements, statutory returns and regulatory requirements	131,500	123,000
Non-audit services (a)	70,840	4,500
<b>Total</b>	<b>202,340</b>	<b>127,500</b>

The auditor of CBHS is PricewaterhouseCoopers.

a) Non-audit service represents fees paid to PricewaterhouseCoopers for their review of the CBHS Risk Management framework.

## 23) Remuneration of directors and other key management personnel

Key management personnel include:

- 7 Non-Executive Directors
  - Kerry Brinkley (Chairman)
  - Leslie Moth (Deputy Chairman)
  - Kevin Bourke
  - Michelene Hart
  - Marielle Latour
  - John Matthews
  - Fintan Thornton
- 5 Executive Managers
  - Paul Gladman
  - Dario Molina
  - Megan Coombs
  - Brendan See
  - Miles Thomas

a) DIRECTORS REMUNERATION	2014 \$	2013 \$
Short-term employment benefits	257,209	256,917
Post-employment benefits (9.25% statutory superannuation guarantee)	23,792	23,123
<b>Total directors remuneration</b>	<b>281,001</b>	<b>280,040</b>

b) OTHER KEY MANAGEMENT PERSONNEL REMUNERATION	2014 \$	2013 \$
Short-term employment benefits	1,255,220	1,426,724
Post-employment benefits (9.25% statutory superannuation guarantee)	111,760	112,702
<b>Total key management personnel remuneration</b>	<b>1,366,980</b>	<b>1,539,426</b>
<b>Total directors and other key management personnel remuneration</b>	<b>1,647,981</b>	<b>1,819,466</b>

## 24) Liability of members

CBHS is a company limited by guarantee, incorporated and operating in Australia. The liability of the members is limited. Every voting member of CBHS undertakes to contribute to the assets of CBHS, in the event of CBHS being wound up while still a voting member, or within one year after ceasing to be a voting member, for payment of the debts and liabilities of CBHS (contracted before ceasing to be a voting member) and of the costs, charges and expenses of winding up, not exceeding ten dollars (\$10.00).

## 25) Contingent liability

There are no contingent liabilities that we are aware of that may affect the financial position of CBHS in the future.

## 26) Lease Commitments

### Non-cancellable operating leases

CBHS leases office space under a non-cancellable operating lease which expires in eight years. The lease has varying terms, escalation clauses and renewal rights. On renewal, the terms of the lease are renegotiated.

	2014 \$	2013 \$
Commitments for minimum lease payments in relation to non-cancellable operating lease are payable as follows:		
Within one year	459,273	459,273
Later than one year but not later than five years	1,837,092	1,837,092
Later than five years	1,377,819	1,837,096
<b>Total</b>	<b>3,674,184</b>	<b>4,133,461</b>

## 27) Actuarial assumptions and methods

### a) Outstanding claims liability

#### Hospital, Medical, Ambulance and Ancillary Cover

With the insured services of these products there can be some months delay between the incurred service and the service being paid by CBHS. The ultimate expected cost for these claims is determined by projecting the known claims reported and paid using historic patterns of claim development.

## Actuarial assumptions

The following assumptions have been made in determining the outstanding claims liabilities.

ESTIMATE	KEY VARIABLE 2014	KEY VARIABLE 2013
Estimated Medical and Ancillary Incurred Claims Cost	\$8,990,285	\$8,606,559
Estimated Hospital Incurred Claims Cost	\$10,953,618	\$10,316,443
Claims Handling Expense – Hospital	2.50%	2.50%
Claims Handling Expense – Medical and Ancillary	5.00%	5.00%
Risk equalisation (Outstanding Claims Component)	25.00%	25.00%
Risk Margin	5.50%	5.50%

### Process used to determine assumptions

#### *Hospital and Medical Incurred Claims Cost*

This is determined by projecting the total paid claims for each month incurred at the balance date using seasonal factors and historic reporting patterns.

#### *Ancillary Incurred Claims Cost*

This is determined by projecting the total paid claims for each month incurred at the balance date using historic patterns.

#### *Claims Handling Expense Rate*

Claims handling expenses were calculated by reference to past experience of claims handling costs as a percentage of past claims.

#### *Risk equalisation (Outstanding Claims Component)*

This is determined by applying the projected relationship between net risk equalisation claims and paid claims to the hospital and medical outstanding claims.

### Sensitivity analysis

#### *Summary*

CBHS conducts sensitivity analyses 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.

### Impact of changes in key variables

	KEY VARIABLE CHANGE 2014	CHANGES IN OUTSTANDING CLAIMS COMPONENT* 2014 \$	KEY VARIABLE CHANGE 2013	CHANGES IN OUTSTANDING CLAIMS COMPONENT* 2013 \$
Incurred claims	+10%	2,420,000	+10%	2,270,000
	-10%	(2,420,000)	-10%	(2,270,000)
Expense rate	+10%	69,000	+10%	68,000
	-10%	(69,000)	-10%	(68,000)
Risk equalisation (OSC Component)	+10%	498,000	+10%	456,000
	-10%	(498,000)	-10%	(456,000)

\*Excludes risk margin

## b) Unexpired risk liability

### Actuarial assumptions

The following assumptions have been made in determining the unexpired risk liabilities. The table below is a combination of the unexpired risk liabilities from 1) unearned premium liability and 2) insurance contracts to be renewed before the next pricing review.

ESTIMATE	KEY VARIABLE 2014	KEY VARIABLE 2013
Estimated Claims Cost	\$194,611,980	\$169,422,343
Risk equalisation (relating to above estimated claim)	13.10%	15.60%
Risk margin	3.20%	3.30%

### Process used to determine assumptions

#### *Estimated Claims Cost*

This is determined by projecting the claims from (1) unearned premium liabilities and (2) renewable contracts to the next pricing review, based on historic reporting patterns.

#### *Risk equalisation (relating to above estimated claim)*

The proportion of claims for each product that are claimed under the risk equalisation arrangements is kept constant. The net deficit per single equivalent unit is projected based on using CBHS experience of the average change from quarter to quarter.

#### *Process for determining the risk margin*

The risk margin was determined allowing for the relative uncertainty of the budget projection central estimates of benefits. The budget projection is used to determine the likely future claims experience of the unearned premiums and contractual obligations.

Uncertainty was analysed by comparing the nine month rolling central estimates of budgeted benefits with those actually incurred. The relative differences between the central estimate of the budget forecasts and the actual benefits are then examined on an empirical basis, providing the basis for the selected risk margin.

The liability is intended to have a 75% probability of adequacy.

	2014	2013
Risk margin	2.75%	2.75%

### Sensitivity analysis

#### *Summary*

CBHS conducts sensitivity analyses 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.

#### Impact of changes in key variables

	KEY VARIABLE CHANGE 2014	CHANGES IN UNEXPIRED RISK COMPONENT* 2014 \$	KEY VARIABLE CHANGE 2013	CHANGES IN UNEXPIRED RISK COMPONENT* 2013 \$
Estimated Claims Cost	+10%	22,205,499	+10%	17,124,104
	-10%	2,154,262	-10%	–
Risk equalisation (relating to above estimated claim)	+10%	2,908,141	+10%	704,391
	-10%	2,154,262	-10%	–

\* Excludes risk margin

## 28) Insurance contracts – risk management policies and procedures

The financial condition and operation of CBHS is affected by a number of key risks including insurance risk, interest rate risk, credit risk, market risk, liquidity risk, compliance risk, fiscal risk and operational risk.

The Board of Directors of CBHS determines the entity's risk appetite and approves the risk management strategies, policies and practices to ensure that risks are identified and managed within the context of this appetite.

Some of the key features of CBHS's risk management framework include the:

- Audit and Risk Committee's responsibility is to assist the Board fulfil its statutory and fiduciary duties relating to the financial reports, the risk management framework, the independence of the auditors and regulatory compliance;
- Investment Committee's responsibility to monitor investment-related activities;
- annual endorsement of a Risk Management Plan which sets out the ways in which CBHS will mitigate strategic and operational risks;
- monitoring and management of risk through the utilisation of risk management software; and
- various internal policies, procedures and information systems including:
  - CBHS Management's regular assessment and reporting on key risks. Risk profiles are reviewed regularly and where necessary policies and procedures are implemented to mitigate the risk;
  - the specific identification and addressing of insurance risk within the CBHS risk profile;

- the Internal Audit function which provides management and the Board independent assurance of the internal control environment;
- the annual Management Certification and Representation Questionnaire provides the Board from management about the accuracy of the representation of financial data and the effectiveness of internal controls;
- an investment strategy heavily weighted to defensive investment assets and capital preservation;
- the monitoring and review of compliance with Solvency and Capital Adequacy standards as required by the Private Health Insurance Act 2007, and the strategic benchmarks set by the Board;
- the setting of key performance indicators under the annual Business Plan together with the monitoring and re-forecasting of targets throughout the course of the year;
- a product design and approval process that includes sign-off by business units (Marketing, Finance and Operations), the Appointed Actuary and Legal prior to Board approval;
- a rigorous pricing review;
- review and approval of the budget and forecast/s compiled by management; and
- continuous monitoring of performance against budget and forecast/s.

### Insurance Risk

The provision of Private Health Insurance in Australia is governed by the Private Health Insurance Act 2007. The regulatory factors which impact CBHS' insurance risk include the:

- principle of community rating which precludes health insurers from discriminating against people based on factors which include medical condition, gender, race, religious belief or age;
- Risk Equalisation scheme which, in effect, re-allocates some of the risk of private health insurers which relates to the age profiles of their health benefits funds; and
- review and approval by the Federal Minister for Health and Ageing of all Health Insurance premium increases.

### Concentration Risk

CBHS is a not for profit private health insurer, exclusively for current and former employees of the Commonwealth Bank Group as well as their family members.

This exclusive market base is key to the diversified CBHS policyholder membership base.

### Credit Risk

Credit Risk is the potential of loss arising from failure of a debtor or counterparty (in relation to loans to counterparty), to meet their contractual obligations.

CBHS is exposed to credit risk through the operation of its Private Health Insurance business and management of its financial assets (credit risk of financial assets is addressed in note 30 (f)).

In terms of non financial assets, credit risk relates to HIC Rebate Receivable (a government organisation administering the Private Health Insurance Government rebate scheme) and Premium Receivable from policyholders. Premiums in arrears are continuously monitored. No claims are paid on policies with contributions in arrears.

#### Interest Rate Risk

CBHS interest rate risk is limited to those of its financial assets in note 30 (d).

All other receivables are non interest bearing.

#### Compliance Risk

In operating a health benefits fund, CBHS is required to comply with the requirements set out in the Private Health Insurance Act 2007.

CBHS has established internal controls to ensure that it meets its compliance requirements under the Act. These measures include:

- external legal input in relation to the drafting of its health benefits fund rules;
- dedicated compliance reviews of operational practices;
- regular documented internal control reviews of changes to regulations;
- completion of the annual Management Certification and Representation Questionnaire by operational managers; and
- internal audit assessments of compliance arrangements.

#### Other

Market Risk and Liquidity Risk are addressed at note 30(g).

## 29) Segment information

CBHS operates only in one business and geographical segment, which is providing private health insurance and related wellbeing services in Australia.

## 30) Financial instruments

### a) Capital risk management

Capital adequacy and solvency standards are established by PHIAC, and are an integral component of the regulatory reporting framework. PHIAC issues Solvency and Capital Adequacy Standards (Schedules 2 and 3 of Private Health Insurance (Health Benefits Fund Administration) Rules 2007), which are designed to ensure that health funds adhere to prudent capital and investment policies. In September 2013 PHIAC released the new capital adequacy and solvency standards which came into effect in stages from 31 March 2014 to 1 July 2014.

Capital is managed in accordance with the CBHS Capital Management Policy. It provides a framework for the management and monitoring of capital in line with the Board's risk appetite. This document is underpinned by an;

- Investment Policy which defines the Board's investment beliefs, a strategic asset allocation and specific rules around investments; and
- Liquidity Management Policy which defines targets and responsibilities of tasks in the management of liquid assets.

The Board can confirm that it was in full compliance with the requirements of the capital standards released by PHIAC prior to the required date and at the date of this report.

### b) Significant accounting policies

Significant accounting policies, including the criteria for recognition, the basis of measurement and the basis on which revenue and expense are recognised in respect of each class of financial asset and liability are disclosed in Note 1.

### c) Financial risk management objective

CBHS principal financial instruments comprise receivables, payables, short and long term deposits and units in managed funds. CBHS manages its exposure to key financial risks in accordance with the company's risk management framework. The objective of the risk management framework is to protect the future financial assets of CBHS.

The main risks arising from CBHS financial instruments are market risk (including interest rate and price risk), credit risk and liquidity risk. CBHS uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate risks and assessments of market forecasts for interest rates. Ageing analysis are monitored to manage credit risk and liquidity risk is monitored through the development of rolling cash flow forecasts.

The primary responsibility for identification and control of financial risks rests with the Chief Executive Officer and Chief Financial Officer.

During the year CBHS made changes to its investment portfolio in order to align the investments with its risk appetite and return objectives.

#### d) Interest rate risk management

CBHS is exposed to interest rate risk on its investment portfolio and bank deposits. The investment portfolio comprises both fixed and floating interest rate investments. The risk is managed by maintaining a high proportion in fixed interest rate investments. As at 30 June 2014 the fair value of investments with a fixed interest rate was \$73,300,000 (2013: \$75,300,000).

CBHS' exposures to interest rates on financial assets are detailed below:

	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %	2014 \$	2013 \$
Cash deposits – "24 hour at call"	2.89%	13,099,539	39,914,816
Term deposits designated at fair value through profit or loss	4.45%	73,300,000	75,300,000

#### Interest rate sensitivity analysis

The sensitivity analyses below have been determined on the exposure to interest rate movements on the investment portfolio at reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 25 basis point increase or decrease is used when reporting interest risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

At reporting date, if interest rates had moved, as illustrated in the table below, with all other variables held constant, net profit would have been affected as follows:

	SURPLUS HIGHER/(LOWER)	
	2014 \$	2013 \$
+0.25% (25 basis points) per annum	183,250	188,250
-0.25% (25 basis points) per annum	(183,250)	(188,250)

This is mainly attributable to CBHS' exposure to variable interest rates on its investments.

#### e) Price risks

CBHS is exposed to price risks arising from its investments in cash, share, bond and multi asset managed funds. These investments are held for strategic, rather than trading, purposes. CBHS mitigates its price risk with an investment policy weighted to defensive natured assets.

#### Price risk sensitivity – managed funds

The sensitivity analyses below have been determined based on the exposure to unit price risks at the reporting date. If the unit prices of the managed funds had moved as illustrated in the table below, with all other variables held constant, net profit would have been affected as follows:

	SURPLUS HIGHER/(LOWER)	
	2014 \$	2013 \$
+5% per annum	4,471,897	1,363,175
-5% per annum	(4,471,897)	(1,363,175)

#### f) Credit risk management

Credit risk is the potential for loss arising from the failure of a debtor or counterparty (in relation to loans to that counterparty), to meet their contractual obligations.

CBHS investments are with Board approved financial institutions and managed investment schemes. For investments held directly, these instruments are subject to Board approved counterparty limits.



## Credit exposure by credit rating

	2014 \$	2013 \$
<b>Cash and cash equivalents</b>		
A series rating	13,099,539	39,914,816
B series rating	–	–
Unrated	–	–
	<b>13,099,539</b>	<b>39,914,816</b>
<b>Financial assets at fair value through the profit or loss</b>		
A series rating	73,300,000	75,300,000
B series rating	–	–
Unrated	116,858,773	64,926,601
	<b>190,158,773</b>	<b>140,226,601</b>

## Financial instruments designated as at “fair value through profit or loss”

	2014 \$	2013 \$
Carrying amount of financial instruments designated as at “fair value through profit or loss”	73,300,000	75,300,000
Principal amount of financial instruments designated as at “fair value through profit or loss”	73,300,000	75,300,000
Cumulative changes in fair value attributed to changes in credit risk	(287,500)	(362,000)
Changes in fair value attributable to changes in credit risk recognised during the period	(74,500)	(771,000)

At reporting date there are no significant concentrations of credit risk relating to financial instruments designated at fair value through profit or loss. The carrying amount reflected above represents CBHS maximum exposure to credit risk.

## g) Liquidity risk management

Liquidity risk arises from the possibility that CBHS may be unable to settle a transaction on the due date. The ultimate responsibility for liquidity risk management rests with the Chief Executive Officer and Chief Financial Officer. CBHS manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. CBHS continues to review its Capital Management Plan to assist in managing the company’s medium and long term funding and liquidity requirements.

## Liquidity and interest risk tables

The following table details CBHS’ remaining contractual maturity for its non-derivative financial liabilities. The table outlines the undiscounted cash flows of financial liabilities based on the earliest date on which CBHS can be required to pay. The table only includes principal cash flows arising from trade and other payables that are non-interest bearing.

	LESS THAN 1 MONTH \$	1-3 MONTHS \$	3 MONTHS TO 1 YEAR \$	1-5 YEARS \$	5+ YEARS \$
<b>2014</b>					
Trade and other payables	1,425,117	9,842,580	–	–	–
<b>2013</b>					
Trade and other payables	1,433,336	9,072,537	–	–	–

## h) Fair value control framework

Fair values are subject to a control framework designed to ensure that they are either determined, or validated, by a function independent of the risk taker. The ultimate responsibility for the determination of fair values lies with the Chief Financial Officer who establishes the accounting policies and procedures governing valuation, and is responsible for ensuring that these comply with relevant accounting standards.

For fair values determined by reference to external quotation or evidenced pricing parameters, independent price determination or validation is utilised. At 30 June 2014, all financial instruments held by CBHS were traded in active markets.

The fair value measurements have been classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- i. Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- ii. 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 2); and
- iii. Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

## i) Fair value of financial instruments

As at 30 June 2014, the split of the financial assets at fair value through the profit and loss into the fair value hierarchy is as follows:

	LEVEL 1: QUOTED PRICES IN ACTIVE MARKETS (I) \$	LEVEL 2: VALUATION TECHNIQUES BASED ON OBSERVABLE MARKET DATA (II) \$	LEVEL 3: VALUATION TECHNIQUES INCORPORATING INFORMATION OTHER THAN OBSERVABLE MARKET DATA (III) \$	TOTAL \$
<b>2014</b>				
Assets				
Fair value through profit or loss				
Term deposits	73,300,000	–	–	73,300,000
Managed multi asset fund	10,099,039	–	–	10,099,039
Managed share funds	45,084,696	–	–	45,084,696
Managed bond funds	61,675,038	–	–	61,675,038
<b>Total</b>	<b>190,158,773</b>	<b>–</b>	<b>–</b>	<b>190,158,773</b>

As at 30 June 2013, the split of the financial assets at fair value through the profit and loss into the fair value hierarchy is as follows:

	LEVEL 1: QUOTED PRICES IN ACTIVE MARKETS (I) \$	LEVEL 2: VALUATION TECHNIQUES BASED ON OBSERVABLE MARKET DATA (II) \$	LEVEL 3: VALUATION TECHNIQUES INCORPORATING INFORMATION OTHER THAN OBSERVABLE MARKET DATA (III) \$	TOTAL \$
<b>2013</b>				
Assets				
Fair value through profit or loss				
Term deposits	75,300,000	–	–	75,300,000
Managed multi asset fund	9,284,611	–	–	9,284,611
Managed share funds	37,599,224	–	–	37,599,224
Managed bond funds	18,042,766	–	–	18,042,766
<b>Total</b>	<b>140,226,601</b>	<b>–</b>	<b>–</b>	<b>140,226,601</b>

At 30 June 2014, all financial instruments held by CBHS are traded in active markets, hence level 1. Financial assets are valued using unadjusted quoted prices in active markets for identical assets. Financial assets in this category are managed funds.

Quoted unit prices for the managed funds are provided by the respective fund manager. The unit price is determined based on the sum of the last traded prices of the underlying shares at the end of the trading day divided by the number of units issued to unit holders. When determining the fair value of the managed fund the exit unit price is used.

The directors consider that the carrying amounts of the financial assets and liabilities in the financial statements approximate the fair values.

## 31) Additional company information

CBHS is a public company, limited by guarantee, incorporated and operating in Australia.

**Registered Office**  
Level 5, 79 George Street  
PARRAMATTA NSW 2150  
Tel: (02) 9843-7603

**Principal Place of Business**  
Level 5, 79 George Street  
PARRAMATTA NSW 2150  
Tel: (02) 9843-7603



# Directors' Declaration



## In the directors' opinion:

- (a) the financial statements and notes set out between pages 31 and 59 are in accordance with the Corporations Act 2001, including:
  - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
  - (ii) giving a true and fair view of the company's financial position as at 30 June 2014 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as when they become due and payable.

Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer as required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with

KERRY BRINKLEY

M.HART

Director

Dated at Sydney 18<sup>th</sup> day of August 2014



## Independent auditor's report to the members of CBHS Health Fund Limited

### Report on the financial report

We have audited the accompanying financial report of CBHS Health Fund Limited ("the fund"), which comprises the statement of financial position as at 30 June 2014, the statement of comprehensive income and the statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

### Directors' responsibility for the financial report

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

### Auditor's responsibility

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

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

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

### 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 CBHS Health Fund Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Fund's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations), the *Corporations Regulations 2001* and Accounting Standard AASB 101 Presentation of Financial Statements.

b) the Fund's financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

PricewaterhouseCoopers

R Balding  
Partner

Sydney  
18 August 2014





[www.cbhs.com.au](http://www.cbhs.com.au)