

ANNUAL REPORT 2015



OUR VALUE PROMISE

GREATER BENEFITS
LOWER COSTS
MEMBER FOCUSED

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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 WELLBEING SERVICES WHICH OFFER PEACE OF MIND AT EVERY STAGE OF LIFE.



CBHS was set up in 1951 by the Commonwealth Bank of Australia Group (CBA Group) to provide its employees with access to affordable health insurance. We have now been serving current and former employees of the Bank and their families for 64 years.

At CBHS we know that the service we provide is far more important than how big you are. Today, more than 88,000 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 help members when they're sick and also assist them to improve and maintain their good health. We're there for our members in the good times and the bad.

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".

By putting our members first every step of the way means they regularly rate us higher for member satisfaction than members of most other funds. We also have one of the highest claims payout ratios in the industry. In addition to our premiums being low, when you do have to make a claim, we give you more back.

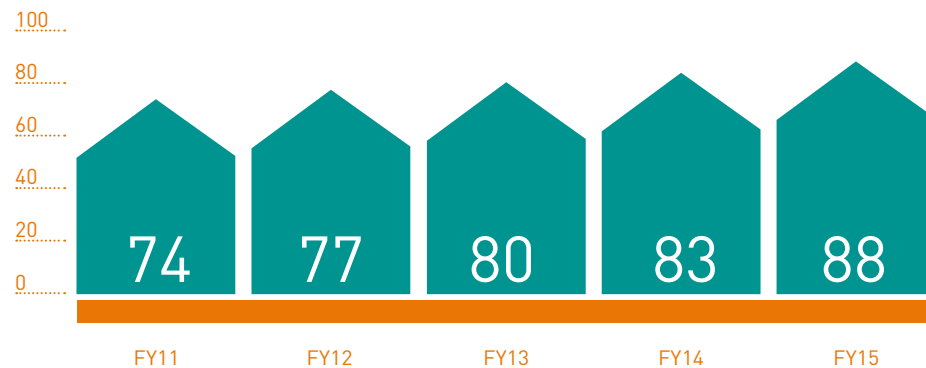
We never rest on our laurels; at CBHS we embrace innovation so we can continue to improve our services without ever compromising on our family-focused member philosophy.

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

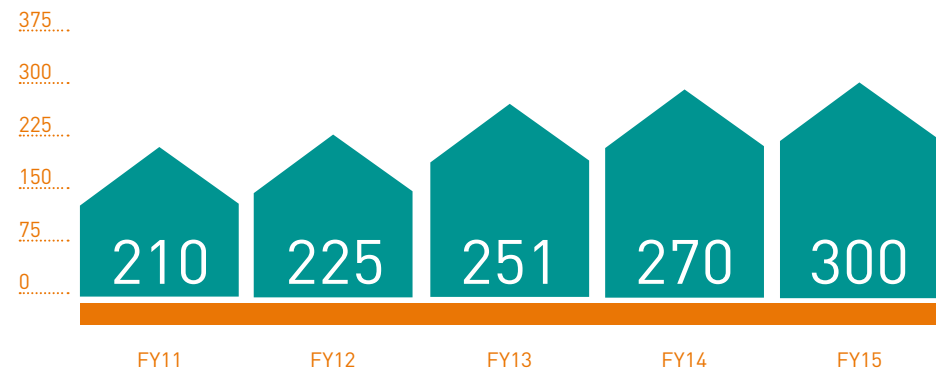
HIGHLIGHTS

CBHS CONTINUES TO PROVIDE MORE MEMBERS WITH PEACE OF MIND, WITH NOW MORE THAN 202,000 PERSONS COVERED.

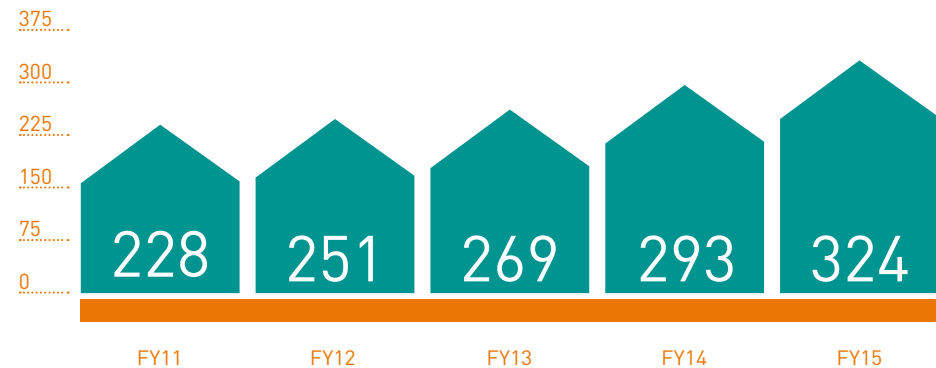
6.0% INCREASE IN MEMBERSHIP
Membership (thousands)



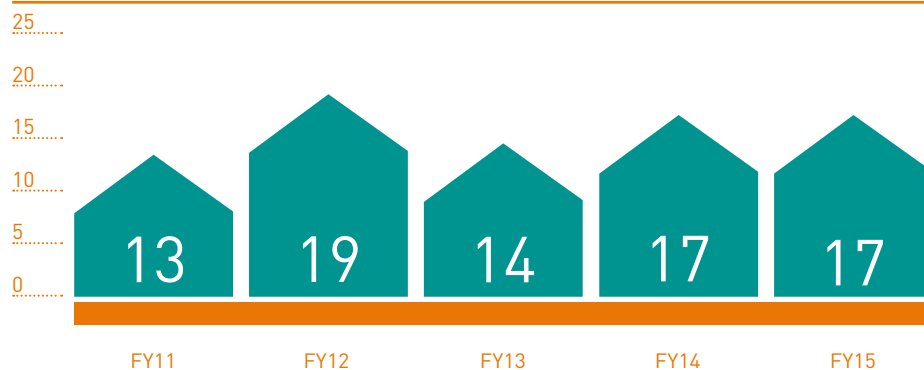
11.1% INCREASE IN BENEFITS INCURRED
Benefits incurred (millions)



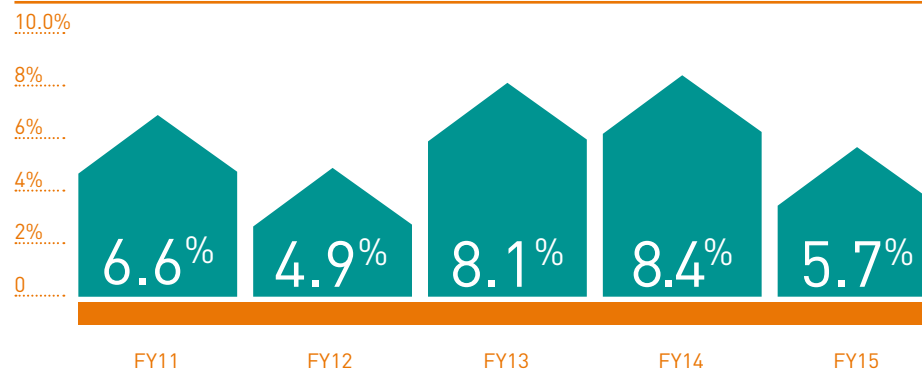
10.6% INCREASE IN REVENUE
Premium revenue (millions)



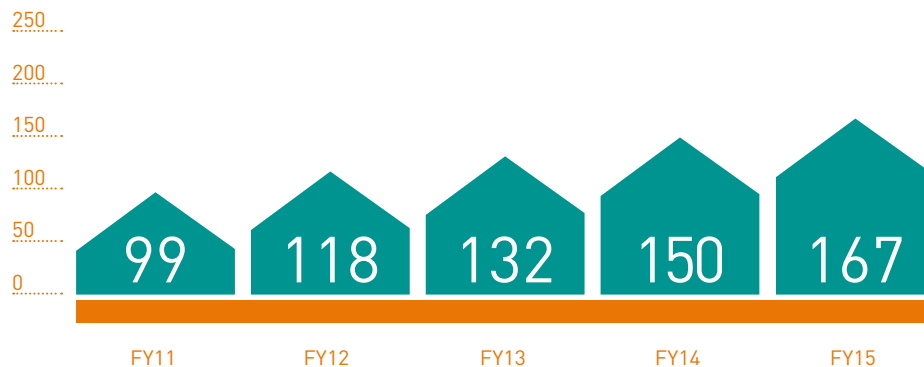
SURPLUS DECREASED BY 0.26%
Surplus (millions)



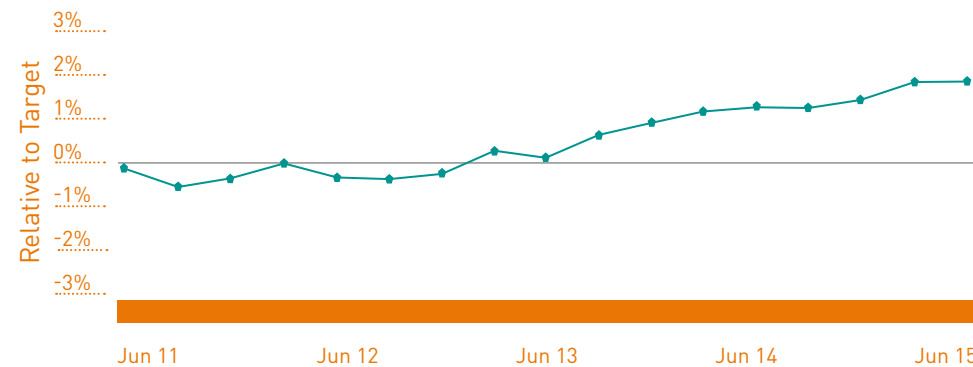
5.7% INVESTMENT RETURNS IN 2015



11.3% INCREASE IN NET ASSETS
Net assets (millions)



INVESTMENT RETURNS RELATIVE TO TARGET OVER ROLLING MEASUREMENT PERIODS
Target Return CPI + 2.5%



FIVE YEAR HISTORY

(in \$'000 unless otherwise indicated)

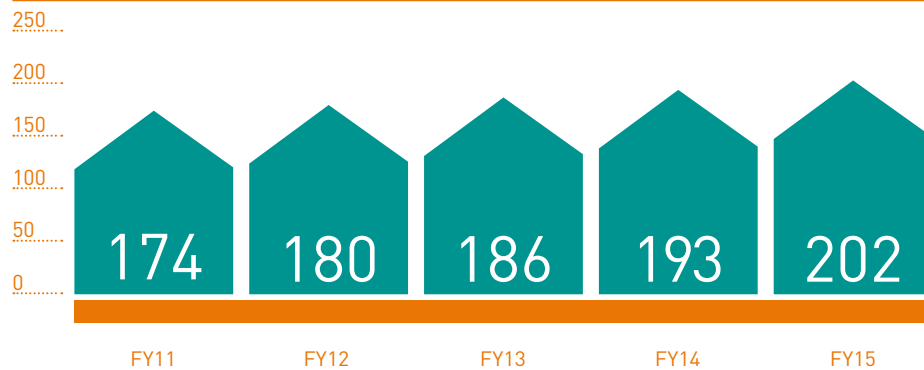
	2015	2014	2013	2012	2011
INCOME STATEMENT					
Direct premium revenue	324,147	293,044	269,044	251,488	227,983
Benefits incurred	258,315	233,018	215,098	191,212	177,989
Health benefits risk equalisation trust fund	37,222	33,038	32,141	30,651	29,282
Government levies	4,064	3,790	3,513	3,339	3,162
Net claims incurred	299,601	269,846	250,752	225,202	210,433
Net movement in unexpired risk liability	(2,154)	2,154	(1,165)	(200)	-
Management expenses	21,074	19,139	18,078	14,106	11,807
Underwriting surplus	5,626	1,905	1,379	12,380	5,743
Investment and other income	12,087	15,858	13,464	7,233	8,231
Depreciation and amortisation	(495)	(500)	(472)	(396)	(540)
Operating surplus attributable to members of CBHS	17,218	17,263	14,371	19,217	13,434

	2015	2014	2013	2012	2011
BALANCE SHEET					
Current assets	104,581	88,197	113,009	129,179	96,991
Non current assets	135,437	131,770	85,138	58,543	51,622
Total assets	240,018	219,967	198,147	187,722	148,613
Current liabilities	72,536	69,773	65,132	69,214	49,120
Non current liabilities	606	537	621	485	374
Total liabilities	73,142	70,310	65,753	69,699	49,494
Net assets	166,876	149,657	132,394	118,023	99,119
Reserves					
Asset revaluation reserve	-	-	-	-	312
Retained surpluses	166,876	149,657	132,394	118,023	98,807
Total reserves	166,876	149,657	132,394	118,023	98,807

DELIVERING VALUE TO MEMBERS

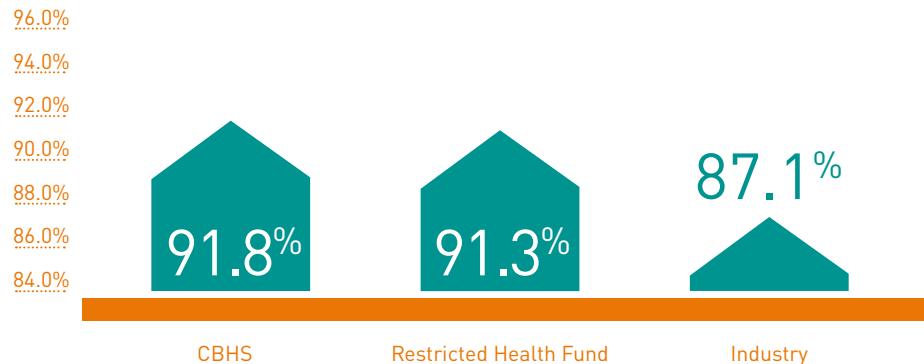
202,000 PEOPLE NOW EXPERIENCE THE BENEFITS OF CBHS MEMBERSHIP

Insured persons (thousands)



CBHS' MEMBER FOCUS ENSURES WE GIVE BACK MORE TO MEMBERS THAN THE INDUSTRY AVERAGE. IN 2015 WE PAID OUT OVER 91 CENTS IN CLAIMS FOR EVERY PREMIUM DOLLAR RECEIVED.

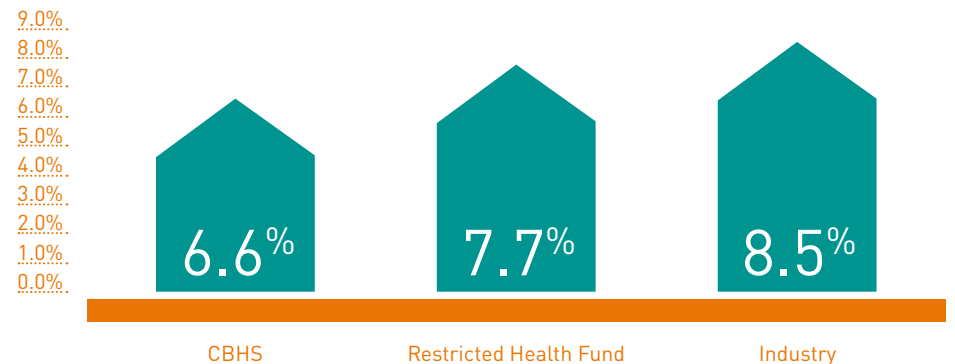
Claims Ratio



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.

Management Expense Ratio



Note: Industry data source PHIAQ Quarterly Statistical Report

MESSAGE FROM THE CHAIRMAN

It is with great pleasure that I provide my last Chairman's report for CBHS Health Fund. I will be retiring from the Board as at the close of the Annual General Meeting in November this year. I will comment further on my retirement at the conclusion of this message.

CBHS has had another excellent year, achieving a surplus of \$17.2m for the year. CBHS now has gross member assets of over \$240.0m and net assets of \$166.9m. Total contribution revenue for the year was \$324.1m which is 10.6% up on last year. More importantly, CBHS is now providing financial assistance to 202,000 Australians based on just over 88,000 individual memberships. This represents net membership growth of 6.0%, which again exceeds the average industry growth rate.

We are confident that our ability to keep delivering great results with exceptional service lies in two fundamental elements of the CBHS business model:

- First, we are absolutely focused on member value, not shareholder value; and
- Second, we have a complete commitment to continue to positively engage with our primary stakeholder, the Commonwealth Bank.

But we know that our industry will continue to evolve and CBHS must continue to respond proactively to ensure our continued success. We also know that our business must be thriving, not just surviving, in order to continue delivering better value and choice to our members. This year, we have given particular attention to our strategy for the long term future. While our plans are still very much embryonic, we know that the two elements mentioned above which have underpinned our success to date will continue to be critical in the future.

In particular, we are looking at ways in which we can increase our focus on preventative health services and also exploring ways we can continue to grow at above industry rates while still operating within the constraints of our restricted eligibility model. Whatever we do, as members of a mutual organisation, you can rest assured that we will always put the needs of our members before profit.

Everything we do in the future will build upon our capabilities learned from the past and will not forget where we have come from – providing the highest quality and best value health insurance for over 60 years. With this in mind, I thought it appropriate to reflect on some of the achievements I have seen in my time on the Board.

- Roy Morgan Private Health Insurer of The Year in 2012 and 2014
- Net Promoter Score (measure of member satisfaction) at around 70
- Growth rates well in excess of industry average
- Expense ratio well below industry average at market leading levels
- Benefits paid (as a percentage of premiums received) market leading
- Multiple Choice magazine acknowledgements

These achievements are a source of great pride and position us well for the future. We believe we have a compelling product range and our service excellence is widely acknowledged allowing us to grow at above industry growth rates. We are also financially secure. While these very tangible and measurable factors are very important, so too are the less visible elements of our business philosophy. In particular, we actively embrace the changes happening within our industry, seeing the inherent opportunities rather than seeing them as a compliance cost or a constraint. Most important, however, is the way we make our decisions, whether they be at an operational level or a strategic level. Yes, we make them in a robust

KERRY BRINKLEY



manner and based on the facts and figures, but we also apply an element of humanity and focus on the other party, whether that be a member, a supplier or the Commonwealth Bank. We put ourselves in the shoes of the other party and ask ourselves “would we agree with or at least understand the decision or action?” It is this approach which guides us and which differentiates CBHS from many of its competitors.

Given what I have just said, I am confident that I leave the organisation in a very healthy position and I believe that members should have both financial confidence in their fund, while also being assured that their decision to join and remain with one of Australia’s best health funds is a wise one.

In early 2015, Mr Kevin Bourke retired from the board after 13 years of dedicated service. Kevin will be remembered for his unwavering advocacy for members and staff. Kevin’s successor, is Ms Terri Benson who brings an extensive experience in regulated businesses, possessing organisational strategy and business improvement expertise. Ms Benson has significant experience in the utility sector in both executive and non-executive roles.

CBHS continues to have an experienced and skilled Board that continues to provide excellent leadership to the organisation.

Our management team, led by our Chief Executive Officer, Paul Gladman, is experienced and capable and is well positioned to further develop CBHS into the future as well as effectively managing today’s business.

In closing, I would like to thank the members of CBHS Health Fund for the opportunity to have been a Director of the business since January 1993. When I joined the Board, the Fund was still a part of the Commonwealth Bank and I worked with a number of Board colleagues and CBA Management to oversee the separation in 1996. I could not have envisaged at that time that CBHS would grow and mature to become the great Health Insurance Fund that it is today.

I have had the opportunity to represent CBHS in deputations to Government Ministers, during discussions with the regulator, and at meetings and conferences of industry groups. It is a truly challenging and forever changing industry – which seems to always attract the focus of an incoming Federal Government after each election cycle.

In recent months, I have reflected on the skills, knowledge and experience that I have gained and am confident that in exercising my responsibilities as a Director that I have always had the interests of Members as my priority. To have been a Director of CBHS (and Board Chairman since 2008) has been a privilege and I wish the business every success in the future. It is without question that I will always remain a member so will be keeping a keen eye on its future progress.

A handwritten signature in black ink, appearing to read 'Kerry Brinkley', with a long horizontal flourish extending to the right.

Kerry Brinkley
Chairman

MESSAGE FROM THE CEO

The chairman has already provided an overview of our performance for 2015. Most gratifying to me is the fact that we can compete so effectively against much larger companies and achieve such strong results. In particular, I am proud of the fact that our company pays out around \$1m in claims benefits every day. Our company clearly provides a lot of value to a lot of people. Who we are and what we stand for lies beneath this performance. Our primary concern is to deliver the best possible value to our members and to do so as efficiently as possible. For every dollar of premium received, we keep less than two cents; just enough to ensure our sustainability.

While claims costs continue to rise (on average over the last two years, claim costs have increased by 7%) our rate rise this year was kept at 6.58%. We know that any price rise is undesirable but we only pass on what we believe is in the best long-term interests of the membership. A large part of our management attention, therefore, is on how we can continue to minimise the effects of rising claims costs and to keep price increases as low as possible. To this end, we are focused on the following key initiatives:

1. Growth, to build scale in our business, through:
 - a. Diversification in distribution. This has been achieved through the use of the aggregators “Compare The Market” and “iSelect”, both of which have demonstrated an ability to reach eligible members that CBHS could not afford to do on its own. And we have also significantly extended our reach through greater use of social media and digital marketing.
 - b. Development of a new website which has brought our digital presence up to date, making it easier to navigate and providing increased information and functionality, and providing immediate benefits by way of increased traffic and sales.
 - c. Product development to create more products which are attractive to more members. In particular, our product range has typically been targeted at people seeking top levels of cover for a great price. More recently, as economic pressure has built on more people, we have found an increasing demand for lower priced, lower benefit products.
2. Claims cost reduction:
 - a. Product benefit review to identify under-utilised benefits, the cost of which can be better used elsewhere, as well as inappropriately used benefits.
 - b. Claims leakage involves the identification of claims lodged or paid in error and/or inappropriate claims made by providers or members. Every dollar saved here can be allocated to legitimate benefits, or saved to offset premium increases, and so we aim to lead the market in this regard.
 - c. Proactive health management programs. These include programs to assist members suffering from chronic disease such as diabetes, obesity, cardio disease and bone density issues. We also provide what’s called “hospital substitute treatment” which includes, for example, in-home rehabilitation programs which allow a member to receive rehab following orthopaedic surgery in the comfort and convenience of their own home rather than having to spend time in a rehabilitation facility.

PAUL GLADMAN



3. Productivity improvement such that we can do more with less:
 - a. Internal process reviews, including the outsourcing of low value commodity processes like mail handling.
 - b. Systems improvements to enhance staff productivity and member experience.
4. Investment of members' funds:
 - a. CBHS invests its capital, which now exceeds \$223m, in a diverse range of investments with the objective of generating returns that may be applied to offsetting the rising costs of health services, thereby limiting the premium increases required to keep pace with those rising costs. Member funds are invested predominantly (73% at 30 June 2015) in defensive assets, with a smaller portion (27% at 30 June 2015) being invested in a diversified selection of growth assets.
 - b. While CBHS' investment portfolio has delivered returns over the last few years that exceed our long term goals, it is important to realise that such returns are not an indication of future

performance. Indeed, the current low interest rate environment now being experienced is emerging as part of a longer term trend and indicates a period of lower investment returns for the foreseeable future. It is important for members to know that rather than compensate for this environment by expanding the risk profile of our portfolio in pursuit of a higher absolute return (which would in turn expose the fund to greater potential downside risks), lower returns have been built into our forward business planning.

- c. The Board and Management work with our investment adviser, Towers Watson, to continuously monitor performance of the portfolio, including our Strategic Asset Allocations, fund managers and trends in the broader market.

While these growth and cost control initiatives are important to safeguard our fund and to minimise the costs to members, we are very much aware that member experience is what truly differentiates us from our larger competitors. Winning the Roy Morgan Private Health Insurer of the year award

for 2014 was very gratifying but we know we should not rest on these laurels and so we remain committed to continuous improvement. To this end, the following initiatives were a focus for 2015 and will remain so during 2016:

- a. Increased self-service functionality allowing members to do more for themselves at times convenient to them.
- b. Ongoing staff training to ensure, wherever possible, first call resolution of member queries.
- c. We look for ways to pay a claim within the rules of our fund and the laws governing private health insurance. In doing so, we give particular attention to the individual circumstances of the member; this 'member-first' approach is, after all, the underlying principle of a mutual fund.
- d. CBHS is unique in being the only fund which is so closely tied to another single organisation; Commonwealth Bank. Having been born within the Bank, and having served it for so long, our staff feel a great affinity with the employees of the Bank. Indeed, many of our directors, and I, have experienced working at the Bank.

MESSAGE FROM THE CEO (CONT'D...)

Of course, without our staff we could not deliver the great service for which we have achieved considerable recognition. To keep up this level of service we need our staff to be healthy and engaged such that they provide the highest possible level of service to you. To this end, we take workplace health and safety obligations very seriously and actively work to encourage improved health through corporate participation in fitness programs and we commit to a wide range of staff engagement activities all designed to make CBHS a great place to work.

The chairman has already made reference to our long term strategy. If we are to continue to thrive the way we do now in a changing environment, then we must adapt with it. And of course adapting means change which can be risky as well as costly. Our challenge is to adapt to the changing environment, whether that be due to regulatory demands or societal expectations or technological influencers, in a way which belies our small size; doing it effectively, cost efficiently and with appropriate risk management.

I have already mentioned our current strategic initiatives including distribution diversification, product development, claims leakage and productivity which were agreed two years ago and

are bearing fruit. This year we have spent a lot of time looking at the long-term objectives of the company. In doing so we recognise the value of both our relationship with the Bank and our not-for-profit status allowing us to provide a compelling product and price proposition. Our affinity with, and focus on, our members also enables us to deliver great service. Looking to the future then we have decided to explore opportunities to work closer with the Bank, both in pursuit of greater staff engagement and health through the provision of health and wellbeing services and through provision of our services to eligible bank customers.

Any successful organisation owes its success to many things. In CBHS' case, I pay particular thanks to the loyal membership who are such great advocates of our fund and help us to continue making sales among the CBHS Family. I also thank the staff for their dedication through the year, especially at those very busy times when work can be particularly stressful. And finally I would like to thank the directors of CBHS for their enthusiastic support of the business.

Speaking of our directors, this year marks the retirement of two long-term directors; Mr Kevin Bourke and Ms Kerry Brinkley.

Kevin Bourke retired in February after a long career spanning 13 years. Kevin will be remembered for his passion for members, especially our younger members, his enthusiastic support for our use of technology and his extraordinary attention to detail.


Kerry Brinkley will retire with effect from the end of the 2015 AGM after almost 23 years on the board, the last 7 of which as Chair. Kerry has led the company with a commitment and passion and will be remembered for her focus on members and for her enthusiastic support for staff. I would like to thank Kerry for her personal support and for her dedication to this business over such a long period of time.

I look forward to working with the Board and my management team and I am confident that we will maintain the momentum we have created to date.



Paul Gladman

Chief Executive Officer



THIS YEAR WE HAVE SPENT A LOT OF TIME LOOKING AT THE LONG-TERM OBJECTIVES OF THE COMPANY. IN DOING SO WE RECOGNISE THE VALUE OF BOTH OUR RELATIONSHIP WITH THE BANK AND OUR NOT-FOR-PROFIT STATUS ALLOWING US TO PROVIDE A COMPELLING PRODUCT AND PRICE PROPOSITION.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2015

This Corporate Governance Statement for the CBHS Health Fund Limited ("CBHS") sets out details of CBHS' corporate governance practices for the year ending 30 June 2015.

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

The role and responsibilities of the Board of Directors (the Board) are set out in the Board Charter. As outlined in the Charter, the Board is accountable to Members for the activities and performance of CBHS in accordance with the Constitution. The Charter outlines a number of functions that have been reserved for 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) and his direct reports have been delegated various 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. As part of the Smaller Government – additional reductions in the number of Australian Government bodies initiative announced as part of the 2014/15 budget, the Private Health Insurance Administration Council (PHIAC), with effect from 1 July 2015, ceased as a separate body, and its prudential supervisory functions were transferred to the Australian Prudential Regulation Authority (APRA). The legislation to give effect to the transfer of PHIAC's prudential supervisory functions to APRA included changes to the Private Health Insurance Act 2007 and are specified in the Private Health Insurance (Prudential Supervision) (Consequential Amendments and Transitional Provisions) Act 2015. In the lead up to the transfer from PHIAC to APRA, relevant members of the Company's management team attended industry seminars and consultation briefings run by APRA to familiarise themselves with the proposed changes and what, if any, effect they would have on the Company, both in the short and long terms.

For the purpose of this Corporate Governance Statement, any reference to a prudential standard is a reference to the PHIAC prudential standards which were still in effect as at 30 June 2015.

The Governance Standard is a prudential standard and was developed 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 they are likely to 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.

BOARD OF DIRECTORS

The Board is currently comprised of seven non-executive independent Directors. Each Board member at the commencement of each

Board meeting is required to advise the other directors with respect to any changes which may impact on their independence as a director. The independence standard on which the directors were assessed is the Governance Standard which principally states that the Director is independent of management and free of any business or other relationship that could materially interfere with the exercise of unfettered and independent judgement. Details of each Director's experience, qualifications, special responsibilities and attendance at meetings are set out in the Directors' Report. The Constitution allows for up to two non-members of CBHS to be appointed to the Board. As at 30 June 2015, only one of the seven directors of CBHS was appointed as a non-member director.

The Board meets regularly in accordance with an agreed schedule which is finalised prior to the commencement 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 through involvement in discussions and decisions on strategy. In addition, scheduled meetings are supplemented by special purpose or adhoc meetings where required and at least one meeting annually has a detailed strategy review focus.

Directors are required to disclose any conflicts and material personal interests to the Board and these are recorded in a Standing Interests Register which is tabled to the Board when a new interest, conflict or potential conflict is disclosed 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 section 191 of 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 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.

CORPORATE GOVERNANCE STATEMENT (CONT'D...)

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.

RELATIONSHIP WITH MANAGEMENT

The Board has delegated to the CEO and his direct reports the authorities and powers necessary to run the day to day business 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 audit and risk processes, board composition, investment and capital management and remuneration and people matters. Each Committee operates under a Charter, approved by the Board, which is reviewed from time-to-time. Each Board Committee has a set of delegated authorities within its Charter of responsibilities and for those areas that require Board approval the relevant Committee provides appropriate recommendations to the Board. Activities of each Committee are reported to the Board at the next Board meeting following on from the Committee meeting.

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 fulfill 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 over 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 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 2015 financial year, the Audit and Risk Committee devoted a significant amount of time to reviewing the CBHS risk management framework; in particular, the company's risk appetite statement which serves to inform the Board's and Management's decision making. A new risk appetite statement was developed via detailed workshops and was ultimately approved by the Board in April 2015.

In 2013, 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 and on a regular basis with both the External and the Internal Auditors without Management. 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 from PwC Australia will not be required to rotate until the 2016 audit, in line with PwC policy on audit rotation.

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 appropriately skilled 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);

CORPORATE GOVERNANCE STATEMENT (CONT'D...)

- 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; and
- 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.

ASSET AND LIABILITY COMMITTEE

The Board has established an Investment Committee which was renamed the Asset and Liability Committee in November 2014 to reflect their responsibility for oversight of Capital Management at CBHS in addition to its specific investment activities. The Asset & Liability Committee reviews, develops and monitors all capital management-related activities.

Key responsibilities of the Asset and Liability Committee include making recommendations to the Board on;

- appropriate risk and return objectives;
- strategic benchmarks, investment structures;
- investment target allocations;
- investment delegations for CBHS' investment portfolio;
- investment managers; and
- a framework for the management of liquidity and capital.

The Asset and Liability Committee is supported in its Investment Management by its investment advisor, Towers Watson, and in its Capital Management work by its appointed actuary, Ernst & Young.

Given the changes to the prudential standards during 2013-14, during the course of 2014-15 the Asset and Liability Committee and the Board worked on the harmonisation of the Capital, Investment and Liquidity Policies. The objective of the exercise was to ensure these policies were aligned to each other and to the Risk Appetite Statement. As part of this exercise, the Asset and Liability Committee and Management, with the assistance of the appointed actuary Ernst & Young, commenced a review of the capital management framework developed in 2013-14. Discussions and changes are centered on further simplification. It is estimated that this work will be completed in the first half of 2015-16.

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;



- 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 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 per Board agreement. 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 19a).

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.

CORPORATE GOVERNANCE STATEMENT (CONT'D...)



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 2014. These payments related to the performance of each employee for the 2013/2014 financial year.

DEED OF INDEMNITY FOR DIRECTORS & OFFICERS

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 Deed provides 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. The current Deed of Indemnity for Directors was revised in February 2015 and Member approval will be sought at the 2015 AGM. A revised version of the Deed applicable to Officers of CBHS was approved in March 2015 and was entered into with each of the Chief Executive Officer, Chief Financial Officer, Company Secretary, Chief Operations Officer and the Chief Information Officer.

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. 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 appointed a Chief Risk Officer in September 2014 on secondment from Commonwealth Bank for a minimum period of 12 months. The Chief Risk Officer continues to work with the Board, the CEO and the Executive Management team to update CBHS' Risk Management Framework, including an updated Risk Appetite Statement approved by the Board in April 2015, and to promote a performance enhancing risk culture across CBHS.

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.

CORPORATE GOVERNANCE STATEMENT (CONT'D...)

A photograph of a man in a white t-shirt riding a bicycle on a beach at sunset. The man is smiling and looking towards the camera. The background shows a sandy beach, the ocean, and a bright sunset sky with some trees in the distance.

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 Code of Conduct ("Code"). The Code of Conduct is designed to help consumers by providing clear information and transparency and extends to staff training, product information/documentation, notifications to members, dispute resolution processes, and privacy obligations. The Code is based on a voluntary accreditation that is administered by PHA (Private Healthcare Australia). 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 and the health insurance industry.

Each year CBHS undertakes an internal review to ensure it remains compliant with the Code, and on a triennial basis conducts a more thorough internal self-audit process. The results are then presented to the Board in June for annual certification which is required to be completed by the CEO and the Chairman and is then submitted to the Code Compliance Committee. In June of 2015, CBHS conducted a full self-audit which identified a few minor exceptions which were subsequently rectified. The internal self-audit confirmed that CBHS remains compliant with the Code.

CBHS was also randomly selected as one of six funds to have an onsite audit from Private Healthcare Australia ("PHA") which was held in late June 2015. Whilst a final report had not been received by 30 June the draft report confirmed that subject to issues identified under general observations being addressed that CBHS remains compliant with the Code.

EACH YEAR CBHS UNDERTAKES AN INTERNAL REVIEW TO ENSURE IT REMAINS COMPLIANT WITH THE CODE, AND ON A TRIENNIAL BASIS CONDUCTS A MORE THOROUGH INTERNAL SELF-AUDIT PROCESS.

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 2015. 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)
- Terri Anne Benson (was appointed to the Board on 28th May 2015)
- Kevin Bourke (retired from the Board on 26th February 2015)
- 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 currently the Managing Director of Directioneering Queensland Pty Ltd. Following her employment with the Commonwealth Bank (20 years), 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 Asset and Liability 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.

Terri Anne Benson

Ms Benson was appointed to the CBHS Board in May 2015 and is a member of the People & Remuneration Committee. Ms Benson has significant experience in the utility sector in both executive and non-executive roles. She held a number of senior executive positions in the utility sector, including as Managing Director of Essential Energy in NSW and Chief Executive Officer of Seqwater in Queensland. Ms Benson has extensive experience in regulated businesses, possessing organisational strategy and business improvement expertise, and a deep understanding of customer expectations. Ms Benson holds a Bachelor of Business (Accounting) and has completed the Harvard Business School Advanced Management Program. She is a member of the Australian

Society of Certified Practising Accountants and a graduate of the Australian Institute of Company Directors. Ms Benson is currently an Independent Director of DUET Finance Limited (DFL) and former roles include director of the Energy Networks Association, chairperson of the Energy and Water Ombudsman of NSW and director of Gas Market Pty Ltd. Ms Benson is currently the Managing Director of Birdon Holdings Pty Ltd (a marine engineering company based in Port Macquarie).

Kevin Gerard Bourke

Mr Bourke retired from the Board on 26 February 2015. He was elected a Director of CBHS in November 2002 and since 2012 was a member of the People and Remuneration Committee. He has been a member of CBHS since August 1963 and 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.



DIRECTORS' REPORT (CONT'D...)

Micheline 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, as well as a member of the Asset and Liability and Nomination Committees.

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 Group an independent corporate advisory and private equity 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 has been a member of CBHS since 2010 and was appointed to the Board in May 2010. She is a member of the Audit and Risk and Asset and Liability Committees. Ms Latour has over 25 years' experience in financial services having worked for organisations including the Commonwealth Bank, Colonial Group and TAL. She is currently a Consultant with her professional experience 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 has been a member of CBHS since 2011. He was appointed to the CBHS Board in November 2012 and is a member of the Audit and Risk Committee. Mr Thornton has over 16 years' financial services experience. Mr Thornton's current role is Head of Strategy & Implementation for Colonial First State, the Commonwealth Bank's superannuation business. Mr Thornton was previously Head of Employee Superannuation for the Commonwealth Bank. Prior to joining CBA in 2011, he worked as a consulting actuary for Towers Watson and then 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 Graduate of the Australian Institute of Company Directors.



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
T. A. Benson	2	2	-	-	-	-
K. G. Bourke	6	6	-	1 ¹	1	1
K. M. Brinkley	10	10	-	1 ¹	2	2
M. Hart	10	10	4	4	-	-
M. D. Latour	10	10	4	4	-	-
J. E. Matthews	10	10	-	1 ¹	2	2
L. G. Moth	10	8	4	3	-	-
F. B. Thornton	10	10	4	4	-	-

Note: this does not include the Board's Annual Strategy Day held on 28 May.

¹ Attended for part of an Audit & Risk Committee meeting as an observer.

DIRECTORS' REPORT (CONT'D...)

Directors	Nomination		Asset and Liability	
	No. of meetings eligible to attend	No. of meetings attended	No. of meetings eligible to attend	No. of meetings attended
T. A. Benson	-	-	-	-
K. G. Bourke	-	-	-	-
K. M. Brinkley	3	3	-	-
M. Hart	3	3	4	3
M. D. Latour	-	1 ²	4	4
J. E. Matthews	3	3	-	-
L. G. Moth	3	2	4	3
F. B. Thornton	-	1 ²	-	1 ¹

¹ Attended two Asset & Liability Committee meetings as an observer.

² Attended for part of a Nominations Committee meeting as an observer.



COMPANY SECRETARY

Ms Belinda Flatters was appointed Company Secretary of CBHS Health Fund Limited on the 18th December 2014. Ms Flatters joined CBHS following a 16 year career as an in-house corporate counsel, 13 years of which she held the dual roles of company secretary and in-house counsel for a number of different listed entities. Her previous role before joining CBHS was with Pan Pacific Petroleum, a role she held for 7 years. Ms Flatters was admitted as a solicitor of the Supreme Court of New South Wales in 1998, was awarded the Graduate Diploma of Corporate Governance in 2005 and was admitted as a Fellow of the Governance Institute of Australia in 2011.

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 \$17,218,920 (2014: \$17,262,749). 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.

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 18 to the accounts.

DIRECTORS' REPORT (CONT'D...)



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 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 33 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 27th day of August 2015



Auditor's independence declaration

As lead auditor for the audit of CBHS Health Fund Limited for the year ended 30 June 2015, I declare that to the best of my knowledge and belief, there have been:

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

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

R Balding
Partner
PricewaterhouseCoopers

Sydney
27 August 2015

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Liability limited by a scheme approved under Professional Standards Legislation.*

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2015

	Notes	2015 \$'000	2014 \$'000
Direct premium revenue	(3)	324,147	293,044
Direct claims expense		(254,908)	(232,502)
Net movement in outstanding claims liability (claims & other component)		(2,766)	(485)
Net movement in outstanding claims liability (risk equalisation component)		(641)	(31)
Health benefits risk equalisation trust fund		(37,222)	(33,038)
Government levies	(5)	(4,064)	(3,790)
Net claims incurred	(2)	(299,601)	(269,846)
Net movement in unexpired risk liability	(15)b)	2,154	(2,154)
Salaries and employee benefit expense	(6)	(12,302)	(11,444)
Other underwriting expenses	(6)	(8,772)	(7,695)
Underwriting result		5,626	1,905

	Notes	2015 \$'000	2014 \$'000
Investment income	(3)	7,146	12,370
Fair value gains on financial assets at fair value through profit or loss	(4)	4,813	3,140
Other income	(3)	128	348
Depreciation and amortisation expense	(6)	(495)	(500)
Operating surplus attributable to members of CBHS		17,218	17,263
Other comprehensive income		-	-
Surplus for the period		17,218	17,263
Total comprehensive income for the year		17,218	17,263

STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

	Notes	2015 \$'000	2014 \$'000
CURRENT ASSETS			
Cash and cash equivalents	(7)	11,098	15,637
Trade and other receivables	(8)	13,183	12,560
Financial assets at fair value through profit or loss	(9)	80,300	60,000
Total current assets		104,581	88,197
NON-CURRENT ASSETS			
Financial assets at fair value through profit or loss	(9)	134,223	130,159
Fixture, fittings and equipment	(10)	1,214	1,611
Total non-current assets		135,437	131,770
Total assets		240,018	219,967
CURRENT LIABILITIES			
Trade and other payables	(11)	10,479	11,268
Outstanding claims liability	(13)	31,907	28,500
Unearned premium liability	(14)	28,443	26,376
Unexpired risk liability	(15)a)	-	2,154
Provisions	(12)	1,707	1,475
Total current liabilities		72,536	69,773

	Notes	2015 \$'000	2014 \$'000
NON-CURRENT LIABILITIES			
Provisions	(12)	606	537
Total non-current liabilities		606	537
Total liabilities		73,142	70,310
Net assets		166,876	149,657
RESERVES			
Retained surpluses		166,876	149,657
Total reserves	(16)	166,876	149,657

STATEMENT OF CASH FLOWS

For the year ended 30 June 2015



	2015 \$'000	2014 \$'000
Notes	Inflows (Outflows)	Inflows (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from members	325,658	294,561
Payments to members, employees and suppliers	(317,812)	(287,180)
Net cash flow provided by operating activities	7,846	7,381
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for fixture, fittings and equipment	(99)	(200)
Proceeds from sale of fixture, fittings and equipment	-	-
Interest and investment income received	7,266	13,060
Payments for investments	(19,552)	(46,792)
Net cash flow used in investing activities	(12,385)	(33,932)
Increase/(decrease) in cash and cash equivalents	(4,539)	(26,551)
Cash and cash equivalents at beginning of financial year	15,637	42,188
Cash and cash equivalents at the end of financial year	11,098	15,637

A young man with short, dark hair and a wide smile is the central focus. He is wearing a dark grey hoodie over a light-colored shirt, with a tan backpack strap visible over his right shoulder. He has a watch on his left wrist and is standing in front of a brick wall. The background is softly blurred, showing an indoor setting with a light fixture.

**ROY MORGAN RESEARCH
CBHS PRIVATE HEALTH INSURER
OF THE YEAR 2014**

NOTES TO THE FINANCIAL STATEMENTS



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CBHS Health Fund Limited is a public company, limited by guarantee, incorporated and domiciled in Australia. The nature of the operations and principal activity of CBHS is to provide health insurance services to current and former employees of the Commonwealth Bank of Australia Group, their partners and family members.

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 27 August 2015. 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 and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

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

New Accounting Standards and Interpretations

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.

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.

b. 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.

c. Critical accounting judgements and estimates

In the application of CBHS' accounting policies, 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 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 are found in the following notes:

Note number	Description	Page number
13	Outstanding claim liability	50
15	Unexpired risk liability	52

d. Other accounting policies

Significant and other accounting policies that summarise the measurement bases used and that are relevant to an understanding of the financial statements are provided in the notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D...)

2. NET CLAIMS INCURRED

	2015 Current Year		2015 Prior Years		2015 Total	
	Provision movement	Profit and loss	Provision movement	Profit and loss	Provision movement	Profit and loss
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross claims expense	-	235,184	19,725	-	19,725	235,184
Outstanding claims provided for	(26,676)	26,676	4,185	(4,185)	(22,491)	22,491
Risk equalisation and Govt. levies	-	37,499	3,786	-	3,786	37,499
Risk equalisation and Govt. levies provided for	(5,231)	5,231	804	(804)	(4,427)	4,427
Net claims incurred	(31,907)	304,590	28,500	(4,989)	(3,407)	299,601

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.

	2014 Current Year		2014 Prior Years		2014 Total	
	Provision movement	Profit and loss	Provision movement	Profit and loss	Provision movement	Profit and loss
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross claims expense	-	213,182	19,320	-	19,319	213,182
Outstanding claims provided for	(23,910)	23,910	4,105	(4,105)	(19,805)	19,805
Risk equalisation and Govt. levies	-	33,068	3,760	-	3,760	33,068
Risk equalisation and Govt. levies provided for	(4,590)	4,590	799	(799)	(3,791)	3,791
Net claims incurred	(28,500)	274,750	27,984	(4,904)	(516)	269,846



Outstanding claims liability movements are as follows:

	2015 \$'000	2014 \$'000
Opening balance	(28,500)	(27,984)
Prior year claims, risk equalisation and levies paid	23,511	23,080
Write back to profit and loss	(4,989)	4,904
Provision established for claims, risk equalisation and levies paid	(31,907)	(28,500)
Closing balance	(31,907)	(28,500)
Net movement	(3,407)	(516)

See note 13 for detail

Recognition and measurement

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.

3. REVENUE

	2015 \$'000	2014 \$'000
Direct premium revenue	324,147	293,044
Investment income		
Interest revenue:		
Cash and cash equivalents	369	650
Term deposits	3,226	2,924
Distributions	3,551	3,728
Futures contracts (a)	-	194
Realised gain on disposal of investments	-	4,874
Total investment income	7,146	12,370
Other income		
Gain/(loss) on fixed assets	-	-
Licence fee & other revenue	128	348
Total other income	128	348

- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D...)

Recognition and measurement

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.

4. FAIR VALUE GAINS ON FINANCIAL ASSETS

	2015 \$'000	2014 \$'000
Managed share funds gains (a)	4,899	1,688
Managed bond fund gains (a)	(299)	1,180
Managed multi assets fund gains (a)	213	272
Net gains	4,813	3,140

a. Fair value of managed funds is based on unit prices provided by fund managers at 30 June 2015.

Recognition and measurement

Refer to the note 9 for details on fair value gains/loss on financial assets.

5. GOVERNMENT LEVIES

	2015 \$'000	2014 \$'000
NSW, ACT ambulance levies	4,064	3,790
Total	4,064	3,790

6. EXPENSES

	2015 \$'000	2014 \$'000
SALARIES AND EMPLOYEE BENEFIT EXPENSES		
Salaries, bonuses and other costs	11,362	10,592
Superannuation expense	940	852
Total salaries and employee benefit expenses	12,302	11,444
OTHER UNDERWRITING EXPENSES		
Information technology	1,065	735
Financial charges and taxes	354	312
Mailing and communication costs	509	464
Printing and stationery	260	245
Property expense	751	724
Research, acquisition, advertising and publicity	2,019	1,240
Consultant, actuarial, audit and legal fees	1,488	1,786
Electronic claims processing fees	832	781
Subscriptions for industry and purchasing associations	542	555
Insurance	106	99

	2015 \$'000	2014 \$'000
Other expenses	846	754
Total other underwriting expenses	8,772	7,695
DEPRECIATION AND AMORTISATION EXPENSES		
Fixture, fittings and equipment	495	500
Total depreciation and amortisation expenses	495	500

Recognition and measurement

Employee benefits expense

The accounting policy for liabilities associated with employee benefits is set out in note 12.

Other underwriting expenses

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

Acquisition cost for health insurance contracts

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

Depreciation and amortisation

Refer to the note 10 for details on depreciation and amortisation.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D...)

7. CASH AND CASH EQUIVALENTS

	2015 \$'000	2014 \$'000
Cash at bank	2,467	2,537
Cash deposits – “24 hour At-Call”	8,630	13,099
Cash on hand	1	1
Total	11,098	15,637

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;

	2015 \$'000	2014 \$'000
Cash and cash equivalents	11,098	15,637
Total cash and cash equivalents	11,098	15,637

b. Reconciliation of operating surplus to net cash flows from operating activities

	2015 \$'000	2014 \$'000
Operating surplus	17,218	17,263
Interest and investment income received & receivable	(7,146)	(12,370)
Depreciation and amortisation	495	500
Net (increment) arising from the revaluation of current and non-current financial assets	(4,813)	(3,140)
(Gain) on sale of assets	-	-
(Increase)/decrease in current receivables	(740)	570
(Decrease)/Increase in amount payable for HBREE*	(972)	1,779
Increase/(decrease) in accounts payable and accruals	183	(1,017)
Increase in unearned premium liability	2,067	938
Increase in outstanding claim liability	3,407	516
(Decrease)/increase in unexpired risk liability	(2,154)	2,154
Increase in current provisions	232	272
Increase/(decrease) in non-current provisions	69	(84)
Net cash flow from operating activities	7,846	7,381

* HBREE – Health Benefits Risk Equalisation Expense

Recognition and measurement

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.

8. TRADE AND OTHER RECEIVABLES

	2015 \$'000	2014 \$'000
Premium receivable (a)	11,369	10,812
Investment income receivable	1,383	1,500
Prepayments	178	139
GST recoverable	89	80
Sundry debtors	164	29
Total	13,183	12,560

a. Premium receivable comprises two components, the Federal Government's Private Health Insurance Rebate Scheme (PHI Rebate Scheme) \$8,211,028 (2014: \$8,419,494) and members who pay for their contributions in arrears or who are non-financial \$3,158,655 (2014: \$2,392,224).

- 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. 11% of CBHS' members pay for their contributions in arrears while the other 89% 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 9,983 (2014: 11,885) 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 2015 the amount owing to CBHS from Medicare Australia was \$8,211,028. This amount is guaranteed by the Federal Government.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D...)

Recognition and measurement

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.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015 \$'000	2014 \$'000
CURRENT ASSETS		
Term deposits (a)	80,300	60,000
Total current assets	80,300	60,000
NON-CURRENT ASSETS		
Term deposits (b)	9,000	13,300
Managed multi assets fund at market value (c)	10,751	10,099
Managed bond funds at market value (d)	63,205	61,675

	2015 \$'000	2014 \$'000
Managed share funds at market value (e)	51,267	45,085
Total non-current assets	134,223	130,159
Total financial assets at fair value through profit or loss	214,523	190,159

- a. These term deposits have maturity dates ranging from 18 July 2015 to 25 May 2016. The weighted average interest rate on these term deposits is 3.35% (2014: 3.93%).
- b. These term deposits have maturity dates ranging from 5 August 2016 to 19 August 2016. The weighted average interest rate on these term deposits is 6.70% (2014: 6.81%).
- c. As at 30 June 2015 CBHS had \$10,751,495 (2014: \$10,099,039) invested in an externally managed multi asset fund. The funds are managed by a professional fund manager.
- d. As at 30 June 2015 CBHS had \$63,205,949 (2014: \$61,675,038) invested in three externally managed bond funds. The funds are managed by professional fund managers.
- e. As at 30 June 2015 CBHS had \$51,265,987 (2014: \$45,084,696) invested in externally managed share funds. This balance is comprised of one managed Australian share fund \$15,385,628 (2014: \$14,604,707) and three managed International share funds \$35,880,359 (2014: \$30,479,989). The funds are managed by professional fund managers.



10. FIXTURE, FITTINGS AND EQUIPMENT

	2015 \$'000	2014 \$'000
GROSS CARRYING AMOUNT		
Balance as at 1 July	3,220	3,106
Additions	99	200
Disposals	(274)	(86)
Balance as at 30 June	3,045	3,220
ACCUMULATED DEPRECIATION		
Balance as at 1 July	1,609	1,195
Disposals	(274)	(86)
Depreciation expense	496	500
Balance as at 30 June	1,831	1,609
NET BOOK VALUE		
Balance as at 30 June	1,214	1,611

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

Recognition and measurement

Investments

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. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D...)

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).

Recognition and measurement

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

11. TRADE & OTHER PAYABLES

	2015 \$'000	2014 \$'000
Amounts due to the Health Benefits Risk Equalisation Trust Fund (a)	8,871	9,843
Accruals (b)	1,169	1,062
Trade payables (b)	439	363
Total	10,479	11,268

- 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.

Recognition and measurement

Trade and other payable

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

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.

12. PROVISIONS

	2015 \$'000	2014 \$'000
CURRENT PROVISION		
Employee benefits (a)	727	655
Provision for employee performance payments (b)	980	820
Total	1,707	1,475
NON-CURRENT PROVISION		
Employee benefits (c)	606	537
Total non-current provision	606	537
Total provision	2,313	2,012

- 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.
 c. The non-current provision for employee benefits is long service leave accrued and expected to be paid after 12 months.

Recognition and measurement

Provision

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D...)

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.

13. OUTSTANDING CLAIMS PROVISION

a. Outstanding claims liability

	2015 \$'000	2014 \$'000
Outstanding claims – central estimate of the expected future payments for claims incurred (i)	24,249	21,732
Claims handling costs	764	692
Risk equalisation	5,231	4,590
Risk margin (ii)	1,663	1,486
Gross outstanding claims liability	31,907	28,500

- 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% (2014: 5.50%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 75% (2014: 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 0.90% 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 0.6% 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.

	2015	2014
Risk margin	5.50%	5.50%

c. Reconciliation of movement

	2015 \$'000	2014 \$'000
Changes in the gross outstanding claims liabilities can be analysed as follows:		
As at 1 July	28,500	27,984
Claims incurred during the year	299,600	269,846
Claims paid during the year	(296,193)	(269,330)
As at 30 June	31,907	28,500

Recognition and measurement

Outstanding claim liabilities

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.

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:

NOTES TO THE FINANCIAL STATEMENTS (CONT'D...)

- 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 23(a).

14. UNEARNED PREMIUM LIABILITY

	2015 \$'000	2014 \$'000
Unearned premium liability as at 1 July	26,376	25,438
Deferral of premiums on contracts written in the period	28,443	26,376
Earning of premiums written in previous periods	(26,376)	(25,438)
Unearned premium liability as at 30 June	28,443	26,376

15. 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 a reduction of \$2,154,262 in the unexpired risk liability as at 30 June 2015 (2014: increase of \$2,154,262).

a. Unexpired risk liability

	2015 \$'000	2014 \$'000
Unexpired risk liability as at 1 July	2,154	-
(Decrease)/increase recognition of additional risk liability in the period	(2,154)	2,154
Unexpired risk liability as at 30 June	-	2,154

Unexpired risk liability includes a risk margin of 2.75% on claims cost and 1.5% on management expenses (2014: 2.75%, 1.5% respectively)



b. Movement recognised in the statement of comprehensive income

	2015 \$'000	2014 \$'000
Gross movement in unexpired risk liability	(2,154)	2,154
Net movement in unexpired risk liability	(2,154)	2,154
Total movement recognised in the income statement	(2,154)	2,154

c. Calculation of deficiency

	2015 \$'000	2014 \$'000
(i) UNEARNED PREMIUM LIABILITY COMPONENT		
Unearned premium liability (A)	26,861	24,782
Central estimate of expected future cash flows arising from future claims on unearned premium liability (B)	25,811	24,329
Risk margin of 2.75% on claims cost and 1.5% on management expenses at 75% PoA* (C) (2014: 2.75%, 1.5% respectively)	697	654
Net deficiency (B+C-A)	-	(201)

	2015 \$'000	2014 \$'000
(ii) UNCLOSED BUSINESS LIABILITY COMPONENT		
Unclosed business liability (A)	1,582	1,593
Central estimate of expected future cash flows arising from future claims on unearned premium liability (B)	1,520	1,564
Risk margin of 2.75% on claims cost and 1.5% on management expenses at 75% PoA* (C)	41	42
Net deficiency (B+C-A)	-	(13)
(iii) INSURANCE CONTRACTS RENEWABLE BEFORE THE NEXT PRICING REVIEW		
Insurance contracts renewable before the next pricing review (A)	269,340	238,745
Central estimate of expected future cash flows arising from future claims on insurance contracts renewable, allowing for differences between classes (B)	258,810	234,381
Risk margin 2.75% on claims cost and 1.5% on management expenses at 75% PoA* (C)	6,995	6,304
Net deficiency (B+C-A)	-	(1,940)
Total deficiency (i)+(ii)+(iii)	-	(2,154)

* Probability of Adequacy

NOTES TO THE FINANCIAL STATEMENTS (CONT'D...)

Recognition and measurement

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. 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.

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.

Details of specific assumptions used in deriving the unexpired risk liability during the year are detailed in note 23(b).

16. TOTAL RESERVES

	2015 \$'000	2014 \$'000
RETAINED SURPLUS		
Balance at beginning of financial year	149,658	132,395
Operating surplus	17,218	17,263
Total retained surplus end of financial year	166,876	149,658
Balance at end of financial year	166,876	149,658

17. RELATED PARTIES

During the year all of the Directors of CBHS, except for Ms Terri Benson 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.

18. REMUNERATION OF AUDITORS

	2015 \$	2014 \$
Audit of the financial statements, statutory returns and regulatory requirements	142,290	131,500
Non-audit services (a)	11,660	70,840
Total	153,950	202,340

The auditor of CBHS is PricewaterhouseCoopers.

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

19. REMUNERATION OF DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

Key management personnel include:

- 7 Non-Executive Directors
 - John Matthews
 - Kerry Brinkley (Chairman)
 - Leslie Moth (Deputy Chairman)
 - Terri Benson (was appointed to the board on 28 May 2015)
 - Kevin Bourke (retired from the Board on 26 February 2015)
 - Michelene Hart
 - Marielle Latour
- 6 Executive Managers
 - Fintan Thornton
 - Paul Gladman
 - Dario Molina
 - Megan Coombs
 - Brendan See
 - Miles Thomas
 - Belinda Flatters

a. Directors remuneration

	2015 \$	2014 \$
Short-term employment benefits	249,315	257,209
Post-employment benefits (9.50% statutory superannuation guarantee)	20,239	23,792
Total directors remuneration	269,554	281,001

b. Other key management personnel remuneration

	2015 \$	2014 \$
Short-term employment benefits	1,404,489	1,255,220
Post-employment benefits (9.50% statutory superannuation guarantee)	120,950	111,760
Total key management personnel remuneration	1,525,439	1,366,980
Total directors and other key management personnel remuneration	1,794,993	1,647,981

20. 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).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D...)

21. CONTINGENT LIABILITY

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

22. LEASE COMMITMENTS

Non-cancellable operating leases

CBHS leases office space under a non-cancellable operating lease which expires in 7 years. The lease has varying terms, escalation clauses and renewal rights. On renewal, the terms of the lease are renegotiated.

	2015 \$'000	2014 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating lease are payable as follows:		
Within one year	459	459
Later than one year but not later than five years	1,837	1,837
Later than five years	919	1,378
Total	3,215	3,674

Recognition and measurement

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.

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.

23. 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 2015 \$'000	Key Variable 2014 \$'000
Estimated Medical and Ancillary Incurred Claims Cost	10,072	8,990
Estimated Hospital Incurred Claims Cost	12,295	10,954
Claims Handling Expense – Hospital	2.5%	2.5%
Claims Handling Expense – Medical and Ancillary	5.0%	5.0%
Risk equalisation (Outstanding Claims Component)	25.0%	25.0%
Risk Margin	5.5%	5.5%

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

	Changes in Outstanding Claims Component*		Changes in Outstanding Claims Component*	
	Key Variable Change 2015 %	2015 \$'000	Key Variable Change 2014 %	2014 \$'000
Incurred claims	+10	2,686	+10	2,420
	-10	(2,686)	-10	(2,420)
Expense rate	+10	76	+10	69
	-10	(76)	-10	(69)
Risk equalisation (OSC Component)	+10	515	+10	498
	-10	(515)	-10	(498)

* 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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D...)

Estimate	Key Variable	Key Variable
	2015 \$'000	2014 \$'000
Estimated Claims Cost	234,523	214,813
Risk equalisation (relating to above estimated claim)	15.2%	13.1%
Risk margin	2.75%	2.75%

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.

	2015	2014
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	Changes in	Key Variable	Changes in
	Change	unexpired Risk	Change	unexpired Risk
	2015	Component*	2014	Component*
	%	2015	%	2014
		\$'000		\$'000
Estimated Claims Cost	+10	20,218	+10	22,205
	-10	-	-10	2,154
Risk equalisation (relating to above estimated claim)	+10	-	+10	2,908
	-10	-	-10	2,154

* Excludes risk margin



NOTES TO THE FINANCIAL STATEMENTS (CONT'D...)

24. 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 following:

- Audit and Risk Committee's responsibility is to assist the Board to 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 team perform regular assessments and report 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 following:

- 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 26 (f)).

In terms of non financial assets, credit risk relates to Medicare Australia 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 26 (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 26.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D...)

25. SEGMENT INFORMATION

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

26. 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 the Private Health Insurance Health Benefits Fund Administration Rules 2007), which are designed to ensure that health funds adhere to prudent capital and investment policies.

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.

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 notes to the financial statements.

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 analyses 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.

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 variable interest rate investments. The risk is managed by maintaining a high proportion in fixed interest rate investments. As at 30 June 2015 the fair value of investments with a fixed interest rate was \$89,300,000 (2014: \$73,300,000).

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

	Weighted average effective interest rate %	2015 \$'000	2014 \$'000
Cash deposits – "24 hour at call"	1.96	8,630	13,099
Term deposits designated at fair value through profit or loss	3.68	89,300	73,300

Interest rate sensitivity analysis

The sensitivity analyses below has 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 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)	
	2015 \$'000	2014 \$'000
+0.25% (25 basis points) per annum	223	183
-0.25% (25 basis points) per annum	(223)	(183)

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)	
	2015 \$'000	2014 \$'000
+5% per annum	5,523	4,472
-5% per annum	(5,523)	(4,472)

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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D...)

Credit exposure by credit rating

	2015 \$'000	2014 \$'000
CASH AND CASH EQUIVALENTS		
A series rating	8,630	13,100
B series rating	-	-
Unrated	-	-
	8,630	13,100
FINANCIAL ASSETS AT FAIR VALUE THROUGH THE PROFIT OR LOSS		
A series rating	89,300	73,300
B series rating	-	-
Unrated	125,223	116,859
	214,523	190,159

Financial instruments designated as at "fair value through profit or loss"

	2015 \$'000	2014 \$'000
Carrying amount of financial instruments designated as at "fair value through profit or loss"	89,300	73,300
Principal amount of financial instruments designated as at "fair value through profit or loss"	89,300	73,300
Changes in fair value attributed to changes in credit risk as at 30 June 2015	(149)	(288)
Changes in fair value attributable to changes in credit risk recognised during the period	139	(75)

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 \$'000	1-3 months \$'000	3 months to 1 year \$'000	1-5 years \$'000	5+ years \$'000
2015					
Trade and other payables	1,243	9,236	-	-	-
2014					
Trade and other payables	1,425	9,843	-	-	-

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 2015, 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).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D...)

i. Fair value of financial instruments

As at 30 June 2015, the split of the financial assets at fair value through the profit and loss into the fair value hierarchy is as follows:

2015	Level 1 Quoted prices in active markets (i) \$'000	Level 2 Valuation techniques based on observable market data (ii) \$'000	Level 3 Valuation techniques incorporating information other than observable market data (iii) \$'000	Total \$'000
ASSETS				
FAIR VALUE THROUGH PROFIT OR LOSS				
Term deposits	89,300	-	-	89,300
Managed multi asset fund	10,751	-	-	10,751
Managed share funds	51,267	-	-	51,267
Managed bond funds	63,205	-	-	63,205
Total	214,523	-	-	214,523

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	Level 2	Level 3	Total
2014	Quoted prices in active markets (i) \$'000	Valuation techniques based on observable market data (ii) \$'000	Valuation techniques incorporating information other than observable market data (iii) \$'000	\$'000
ASSETS				
FAIR VALUE THROUGH PROFIT OR LOSS				
Term deposits	73,300	-	-	73,300
Managed multi asset fund	10,099	-	-	10,099
Managed share funds	45,085	-	-	45,085
Managed bond funds	61,675	-	-	61,675
Total	190,159	-	-	190,159

At 30 June 2015, 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 funds 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.

27. ADDITIONAL COMPANY INFORMATION

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

Level 5, 79 George Street
Parramatta NSW
Tel: (02) 9843-7603

DIRECTORS' DECLARATION

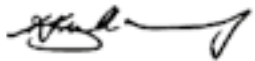
In the directors' opinion:

- i. the financial statements and notes set out between pages 34 and 67 are in accordance with the Corporations Act 2001, including:
 - ii. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
 - iii. giving a true and fair view of the company's financial position as at 30 June 2015 and of its performance for the financial year ended on that date, and
- a. 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.

- i. 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 a resolution of the directors.



K. M. Brinkley
Chairman



M. Hart
Director

Dated at Sydney 27th day of August 2015





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 Company"), which comprises the statement of financial position as at 30 June 2015, the statement of comprehensive income and 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 Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, 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 opinion.

Independence

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

Auditor's opinion

In our opinion:

- a. the financial report of 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 2015 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*
- b. the Company's financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

PricewaterhouseCoopers

R Balding
Partner

Sydney
27 August 2015

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